

**REPORT OF SERVICE DIRECTOR – FINANCE AND PROCUREMENT****INTERNAL AUDIT PROGRESS REPORT – 1<sup>ST</sup> APRIL 2012 TO 31<sup>ST</sup> DECEMBER 2012****Purpose of the Report**

1. To inform Members of the work carried out in the first nine months of the 2012/13 financial year and to comment on the progress made against the Internal Audit Plan.

**Information and Advice**

2. The Authority has a statutory responsibility to undertake an adequate and effective internal audit of the County Council's operations. This responsibility is discharged by the Internal Audit Service which has unrestricted access to all activities undertaken by the County Council.
3. The work carried out by Internal Audit involves reviewing and reporting on the control environment established by management to:-
  - a) determine and monitor the achievement of the Authority's objectives
  - b) identify, assess and appropriately manage the risks to achieving the Authority's objectives
  - c) facilitate policy and decision making
  - d) ensure the economical, effective and efficient use of resources
  - e) ensure compliance with established policies, procedures, laws and regulations
  - f) safeguard the Authority's assets and interests

4. Internal Audit's work is planned to cover these areas and to provide an independent assessment of whether the Authority's systems and procedures are working appropriately. The CIPFA Code of Practice for Internal Audit in Local Government recommends that an interim report on Internal Audit work should be presented to Authorities' Audit Committees and this report satisfies this expectation. In addition, a progress report to the end of September 2012 was prepared for the December meeting of the Audit Committee. The December meeting was cancelled due to a lack of any other business, and a copy of the report was sent to committee members for information.

#### Summary of Internal Audit Work 01/04/12 to 31/12/12

5. The audits completed to 31 December 2012 cover a broad range of the Authority's operations, with reviews carried out at establishment, divisional, departmental and corporate levels. The time spent on audit work compared to that planned is shown in Appendix 1. Overall, the number of days spent carrying out audits is slightly higher than planned. Good progress is being made on all departments.
6. In the first nine months of the year, a total of 104 County Council audits have been completed against a planned coverage of 147 audits for the year. For 74 of the completed audits, a formal report has been issued which includes an audit opinion on the level of internal control. A detailed analysis of the reports issued is shown in Appendix 2, setting out the area covered, the Audit Opinion, and the number of recommendations made and accepted. The other 30 audits covered a range of areas including auditing grant claims, provision of detailed written advice and responding to irregularities.
7. During the period there were 11 internal audit reports issued with an "Unsatisfactory" audit opinion. The details of these reports are set out below.

**ASC 1222 – Meals at Home Income follow up.** This was a follow up audit, following a previously unsatisfactory opinion. Insufficient progress had been made to implement the agreed recommendations. In particular, there were weaknesses in cash receipting, cash was not being banked promptly, and there was a growing long-term debt. The concerns were referred to the Audit Committee. Action has now been taken to address the weaknesses and Audit Committee have asked that a working group be established to eliminate cash income collection from the system.

**ASC 1220 – Direct Payments Monitoring.** Although significant progress has been made in setting out a framework for monitoring payments, a large number of service users (over 300) had not been asked for monitoring information since November 2010. There was a lack of compliance with the guidance for raising case note alerts on framework. Seven recommendations have been made, and agreed, to ensure that the requirements of the scheme are met.

**CFCS 1216 – Environmental Education Day Centres.** Concerns were identified over the control of purchase cards, imprest accounts and budget

monitoring. Whilst the sums involved are relatively low, the potential for abuse is high. Seventeen recommendations have been made and actions agreed to implement effective control. A follow up audit has now been completed and the audit opinion is that there is now satisfactory internal control.

**CFCS 1220 – National Water Sports Centre Stock Review.** During an investigation into concerns raised by an employee, a number of system weaknesses were identified. In particular, recommendations were made to improve recording of stock details, clarify policy on the provision of discounted rates, improve security, review stocktake information and investigate shortfalls and ensure that wastage is monitored effectively.

**E&R 1206 – Mobile Phones.** The key concerns identified were lack of clear criteria for providing phones, how personal use is reimbursed to the Authority, control and return of phones when they are no longer required and lack of any overview of total costs.

**E&R 1221 – Purchasing and Credit Cards.** The audit concluded that there was inadequate control over the use of purchase / credit cards. In particular there were cases where staff were not retaining receipts to confirm expenditure, no line-manager review of expenditure, cards being used by staff other than the nominated card holder, and cards not being returned when the card holder leaves the council.

**CFCS 1301 – National Water Sports Centre – follow up.** Although substantial progress has been made with the implementation of the recommendations made, a key weakness remains, in the lack of separation of duties for cash handling and reconciliation. A separate report identifying the concerns is on the Audit Committee agenda.

**E&R 1305 – Car Loans.** This audit was carried out at the request of the new manager of the service, as there were concerns over the effectiveness of the controls in place. These concerns were justified, and identified a number of areas of non-compliance with the schemes rules and criteria. Whilst these were relatively minor in nature, they were significant in number and demonstrated unsatisfactory control.

**Primary School reports.** Three primary schools had an unsatisfactory audit opinion. A range of weaknesses were identified. Some of the key areas of concern were over school meal income and monitoring, reporting and approving budgetary information.

8. There were four Internal Audit Reports with “Unsatisfactory” audit opinions that have been revisited during the period between 1<sup>st</sup> April 2012 and 30<sup>th</sup> September 2012 to ensure that the recommendations that were agreed for implementation have been acted upon. The details are set out in Table 1.

**Table 1: Follow up audits completed during period 1<sup>st</sup> April to 31<sup>st</sup> December 2012**

<b>Original report number</b>	<b>Area audited</b>	<b>Current Opinion</b>	<b>Audit</b>
E&R 1111	Desktop Management	Satisfactory	
ASC 1201	Meals at Home Income	Unsatisfactory	– reported to Audit Committee September 2012
CFCS 1216	Environmental Education Day Centres	Satisfactory	
COM 1120	National Water Sports Centre	Unsatisfactory	– a report is on the agenda for March 2013 Audit Committee

#### Internal Audit Performance Indicators

9. Progress against the Section's performance indicators, as at 31 December 2012, is detailed in the table below:-

#### Internal Audit Performance Indicators 2012/13

<b>Performance Measure/Criteria</b>	<b>Target</b>	<b>Outcome as at 31/12/12</b>
Comply with Audit Code of Practice	Compliance achieved	External Audit Review 2007 confirmed compliance
Completion of Audit Plan - Days - Jobs	90% 90%	101% 94%
Positive customer feedback	Feedback good or excellent	Achieved (average score is 1.5 where 1 is excellent and 2 is good)
Recommendations accepted	95%	98%
Productive time	70%	70%
External Audit Reliance on Internal Audit	Positive	Positive

10. Progress to date in completing the Audit Plan has been good and it is anticipated that the full number of Audit Days will be provided by the end of the financial year.

11. The responses to our audit reports continue to be positive. A total of 590 recommendations were made during the nine month period to the end of December 2012 and 577 have been agreed for implementation. Customer feedback from the Quality Control Questionnaires is also positive with an average score of 1.5.

### Conclusion

12. Internal Audit work completed to 31 December 2012 is on target. The work completed to date shows that the Authority's overall system of internal control continues to be satisfactory.

### **Other Options Considered**

13. This report is for information and noting. No alternative options have been considered.

### **Reason/s for Recommendation/s**

14. This report is for noting.

### **Statutory and Policy Implications**

15. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

## **RECOMMENDATION/S**

16. Members are asked to note the Internal Audit Progress Report and comment accordingly.

**Name of Report Author: John Bailey**

**Title of Report Author: Head of Internal Audit**

**For any enquiries about this report please contact: John Bailey (telephone 0115 977 2226)**

### **Constitutional Comments**

17. The report is for noting only.

## **Financial Comments (JMB 26/2/13)**

18. The net budgeted cost for Internal Audit for 2012/13 is £356k. The estimated cost in 2012/13 of internal audit for each £1m spent is £291 for Nottinghamshire, compared to an average of £433 for county councils.

## **Background Papers**

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

The reports set out in Appendix 2 are available as background papers.

## **Electoral Division(s) and Member(s) Affected**

All

# APPENDIX 1

## **INTERNAL AUDIT PLAN 2012/13** **Analysis of Audit Coverage 1 April 2012 to 31 December 2012**

	<b>Annual Plan 2012/13</b>	<b>Third Quarter 75% Plan</b>	<b>Third Quarter Actual</b>	<b>Variance</b>
	Days	Days	Days	Days
Children, Families and Cultural Services (includes schools)	602	452	544	+92
Adult Social Care, Health and Public Protection	273	205	133	-72
Environment and Resources	595	446	513	+67
Policy, Planning and Corporate Services	106	79	107	+28
Cross cutting work	247	185	87	-98
Contingency/Special Projects	100	75	75	-
Total County Council	1923	1442	1459	+17
External Contracts	219	164	162	-2
<b>OVERALL TOTAL</b>	<b>2142</b>	<b>1606</b>	<b>1621</b>	<b>+15</b>

## APPENDIX 2

### **INTERNAL AUDIT PLAN 2012/13** **Audits Completed 1 April 2012 to 31 December 2012**

Audit Report Department and Area audited	Audit Opinion	Recommendations made and Risk Rating			Recommendations Agreed		
		High	Medium	Low	High	Medium	Low
<b>Adult Social Care, Health and Public Protection</b>							
Risk Management	Satisfactory	-	2	3	-	2	3
Meal at Home Income – follow up	Unsatisfactory	2	3	1	2	3	1
Direct Payments monitoring	Unsatisfactory	2	4	1	2	4	1
Sub Total		4	9	5	4	9	5
<b>Children, Families and Cultural Services</b>							
Environmental Education Day Centres	Unsatisfactory	-	17	-	-	16	-
National Water Sports Centre – stock review	Unsatisfactory	8	6	-	8	6	-
Youth Club Funds	Satisfactory	-	3	5	-	3	5
National Water Sports Centre – follow up	Unsatisfactory	1	7	-	1	7	-
Redundancies in Schools	Sound	-	-	-	-	-	-
Targeted Support and Youth Justice	Satisfactory	-	2	4	-	2	4
Environmental Education Day Centres – follow up	Satisfactory	-	3	2	-	3	2
Sub Total		9	38	11	9	37	11
<b>School Audits</b>							
Secondary Schools (5 final reports issued)	Overall, three	1	36	5	0	34	5
Primary Schools (45 final reports issued)	unsatisfactory,	16	307	74	16	303	69



	30 satisfactory and 17 sound						
Department and Area audited	Audit Opinion	Recommendations made and Risk Rating			Recommendations Agreed		
		High	Medium	Low	High	Medium	Low
<b>Environment and Resources</b>							
Mobile Phones	Unsatisfactory	-	4	-	-	4	-
Desktop Management – follow up	Satisfactory	-	3	-	-	3	-
Purchasing and Credit Cards	Unsatisfactory	2	2	3	2	2	3
Geographic Information System	Satisfactory	-	2	1	-	2	1
Waste Management	Satisfactory	-	2	7	-	2	7
Concessionary Travel	Satisfactory	-	1	2	-	1	2
ICT Service Level Management	Sound	-	-	1	-	-	1
Car Parking Enforcement	Sound	-	-	-	-	-	-
ICT Environmental Controls	Sound	-	-	1	-	-	1
Car Loans	Unsatisfactory	-	13	4	-	13	4
Careworks system	Satisfactory	1	2	-	1	2	-
Cleaning Services allegations	N/A	-	7	-	-	7	-
Sub Total		3	36	19	3	36	19
<b>Policy, Planning and Corporate Services</b>							
Internet Content	Satisfactory	-	3	1	-	3	1
Improvement Programme	Satisfactory	-	7	6	-	7	6
Sub Total		-	10	7	-	10	7
<b><u>TOTAL</u></b>		33	436	121	32	429	116

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