

Internal Audit

Annual Report

2012/13

Purpose of the Report

1. To set out the work carried out by Internal Audit during 2012/13, and based on this work, to provide an opinion on the adequacy of the County Council's internal control environment.

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 ensure that the Authority's systems and procedures achieve their objectives. In order to identify the key areas to be audited, Internal Audit carries out a risk assessment of the Council's financial and other systems which, following consultation, forms the basis of the annual Audit Plan. Audits during 2012/13 were carried out in accordance with the CIPFA Code of Practice for Internal Audit, which defines the standards that should be followed to achieve best professional practice.

Summary of Internal Audit Work for 2012/13

4. The audits completed during 2012/13 covered a broad range of the Authority's services, systems and processes, 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. The total time delivered on Audit work (2167 days) is above the original plan (2142 days). This is due to there being no vacancies during the year and a below average level of sick leave. There were 144 audit jobs completed during the year on County Council systems and procedures.
5. Of the 144 County audit jobs, 46 were on areas where the usual audit opinion is not provided, for example on irregularities, grant claims, provision of detailed advice on changes in procedures and work requested by departments. This is high compared to recent years, and reflects an increase in the number of irregularities investigated, as well as the provision of detailed advice and assistance with the new Business Management System. The remainder (98 reports) were issued on the Authority's operations and contained an internal audit opinion on the financial controls and procedures in place, categorised as follows:-

Sound – there are no weaknesses or only minor weaknesses

Satisfactory – most of the arrangements for financial management are effective, but some weaknesses have been identified

Unsatisfactory – there is an unacceptable level of risk which requires the prompt implementation of the recommendations made to correct the weaknesses identified.

6. A detailed analysis of all the reports issued during 2012/13 is set out in Appendix 2. Table 1 below analyses the opinions given on the individual reports by department.

Table 1: Analysis of Audit Opinions during 2012/13

Department	Opinion			Total
	Sound	Satisfactory	Unsatisfactory	
Children Families and Cultural Services	2	5	3	10
Schools	24	36	5	65
Adult Social Care, Health and Public Protection	-	3	2	5
Environment and Resources	3	7	4	14
Policy, Planning and Corporate Services	-	3	1	4
TOTALS	29	54	15	98
Percentage	30%	55%	15%	100

7. There were 775 individual recommendations for change during the year. The managers of the service are required to formally respond to each recommendation and the vast majority of recommendations (98%) were agreed for implementation.
8. From the table, it can be seen 83 of the 98 areas reviewed during 2012/13 were found to be sound or satisfactory. This equates to 85% of the areas reviewed. There were 15% of areas audited which were categorised as unsatisfactory. The details of these reports are set out in Appendix 3. These audits revealed weaknesses requiring urgent action to strengthen the systems and procedures in place. The weaknesses identified covered a diverse range of issues including the need for:

- Training and compliance with Financial Regulations
 - Failure to monitor and control central systems
 - Failure to adhere to agreed procedures
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9. The trend in audit opinions over the last 5 years is shown in the table 2 below.

Table 2: Trend in Audit Opinions over the last 5 years

Year	Number of reports	Opinion Sound	Satisfactory	Unsatisfactory
2008/09	120	31 (26%)	79 (66%)	10 (8%)
2009/10	155	21 (13%)	116 (75%)	18 (12%)
2010/11	150	40 (27%)	100 (67%)	10 (7%)
2011/12	133	43 (32%)	76 (57%)	14 (11%)
2012/13	98	29 (30%)	54 (55%)	15 (15%)

10. As can be seen from the chart above, the number of unsatisfactory audit opinions during 2012/13 has increased compared to the previous year. The Authority has undertaken significant changes during 2011 and 2012, including the introduction of the new Business Management System (BMS), reorganisation of departments, services and organisational structures, with the loss of a number of experienced employees.
11. The 46 special projects during the year covered a range of issues including:-
- Attending workshops on the new Business Management System modules and providing advice and feedback on proposed control systems and systems documentation
 - Advice on the implementation of Lean plus reviews
 - Advice on the new Civica Income system
 - Provision of advice on cheque scams
 - Follow up of information arising from the National Fraud Initiative
 - Carrying out a number of grant audits
 - Work on an increased number of suspected irregularities and whistleblowing complaints

Annual Governance Statement

12. The Accounts and Audit Regulations 2011 require the Authority to publish an Annual Governance Statement with its Accounts. The Statement focuses on the Authority's system of governance and internal control which facilitates the effective exercise of its functions and the achievement of its objectives. Internal Audit's work contributes

to the assurance process detailed in the Annual Governance Statement.

13. The individual audit opinions set out in paragraph 6 combine to form the basis of the overall Internal Audit opinion on the adequacy of the Authority's internal control system. As 85% of the audits undertaken identified that appropriate controls were found to be in place, Internal Audit's overall opinion is that the Authority's system of internal control is adequate. However, the fact that 15% of systems or procedures were found to be unsatisfactory is a cause for concern, and it is essential that the control weaknesses in these areas are addressed. Follow up audits will be carried out to ensure that the recommendations made have been implemented.

Internal Audit Performance Indicators

14. A number of performance measures and indicators are monitored to assist in the delivery of the Section's objectives. Performance against these key indicators was as set out in Table 3 below.

Table 3: Analysis of Performance Indicators 2012/13

Indicator	Target	Outcome
Comply with Audit Code of Practice	Substantial compliance	Achieved
Completion of Audit Plan:- Number of days Audits completed	90% 90%	101% 98%
Customer Satisfaction score	Under 2	Average 1.4
Recommendations accepted	95% acceptance	98% accepted
Productive time	Over 70%	70% achieved
Net audit cost per £1m turnover for 2012/13	£650	£313
External audit review	Positive	Positive

15. Overall, performance during the year has been above target. The number of audit days provided exceeded the planned days. The number of audit jobs completed was slightly below plan due to the focus on more complex areas and irregularities. There are two main reasons for the good performance. Firstly, the Audit Section has maintained a full complement of staff throughout the year, with no vacant posts. Secondly, there has been a low incidence of sickness absence.
16. During the year, the section has continued to use a Customer Satisfaction questionnaire, and has maintained very positive results. The vast majority of recommendations made have been agreed for implementation (98%).

17. The net audit cost per £1m turnover for 2012/13 was £313, compared to a county council average of £433. The net cost in 2013/14 will be similar to 2012/13.

Quality Assurance Programme

18. The CIPFA Code of Practice requires Internal Audit Sections to carry out a Quality Assurance Programme to ensure that appropriate quality standards are being applied. The review for 2012/13 was positive for the files reviewed. A small number of issues were identified on the documentation of supervision and signing and dating working papers. These will be addressed.

Conclusion

19. The work undertaken by Internal Audit during 2012/13 has covered key systems in the Authority and has identified that the controls in the majority of systems and procedures continue to operate satisfactorily. However, the fact that 15% of systems or procedures were found to be unsatisfactory is a cause for concern, and it is essential that the control weaknesses in these areas are addressed.

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INTERNAL AUDIT ANNUAL PLAN REPORT 2012/13

PERFORMANCE AGAINST PLAN

	Annual Plan Days	Actual Days	Variance Days
Cross cutting work	247	248	+1
Children and Young People	602	686	+84
Adult Social Care and Health	273	216	-57
Environment and Resources	595	576	-19
Policy, Planning and Corporate Services	106	115	+9
Contingency	100	100	-
County Council Total	1923	1941	+18
External Contracts	219	226	+7
OVERALL TOTAL	2142	2167	+25

APPENDIX 2

INTERNAL AUDIT PLAN 2012/13 Audits Completed 1 April 2012 to 31 March 2013

Audit Report Department and Area audited	Audit Opinion	Recommendations made and Risk Rating			Recommendations Agreed		
		High	Medium	Low	High	Medium	Low
Adult Social Care, Health and Public Protection							
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
Meals at Home Income – 2 nd follow up	Satisfactory	-	2	-	-	2	-
i-Work follow up	Satisfactory	-	3	1	-	3	1
Sub Total		4	14	6	4	14	6
Children, Families and Cultural Services							
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
Nursery Education Funding	Satisfactory	-	3	1	-	3	1
PFI Monitoring	Sound	-	1	-	-	1	-
Libraries	Satisfactory	-	2	2	-	2	2
Sub Total		9	44	14	9	43	14

Department and Area audited	Audit Opinion	Recommendations made and Risk Rating			Recommendations Agreed		
		High	Medium	Low	High	Medium	Low
School Audits Secondary Schools (10 final reports issued) Primary Schools (55 final reports issued)	Overall, five unsatisfactory, 36 satisfactory and 24 sound	5 19	88 353	18 105	4 19	86 347	18 103
Environment and Resources Mobile Phones Desktop Management – follow up Purchasing and Credit Cards Geographic Information System Waste Management Concessionary Travel ICT Service Level Management Car Parking Enforcement ICT Environmental Controls Car Loans Careworks system Cleaning Services allegations Rechargeable Works Orders Flood Risk Management	Unsatisfactory Satisfactory Unsatisfactory Satisfactory Satisfactory Satisfactory Sound Sound Sound Unsatisfactory Satisfactory Unsatisfactory Satisfactory Satisfactory	- - 2 - - - - - - - - - - - -	4 3 2 2 2 1 - - - 13 2 7 5 2	- - 3 1 7 2 1 - - 4 - - - 1 -	- - 2 - - 1 - - - - 1 - - - -	4 3 2 2 2 1 - - - 13 2 7 5 2	- - 3 1 7 2 1 4 - - - - - - 1
Sub Total		3	43	20	3	43	20

Policy, Planning and Corporate Services							
Internet Content	Satisfactory	-	3	1	-	3	1
Improvement Programme	Satisfactory	-	7	6	-	7	6
Strategic Plan Performance Indicators	Unsatisfactory	3	2	4	2	2	4
Employees	Satisfactory	-	4	-	-	4	-
Sub Total		3	16	11	2	16	11
<u>TOTAL</u>		43	558	174	41	549	172

Audit Reports issued during 2012/13 which had an “Unsatisfactory” Audit Opinion

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 asked that a working group be established to eliminate cash income collection from the system. This has been implemented.

ASC 1220 – Direct Payments Monitoring. Although significant progress had 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 were 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 were relatively low, the potential for abuse was high. Seventeen recommendations were 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 had been made with the implementation of the recommendations made, a key weakness remained, in the lack of separation of duties for cash handling and reconciliation. Progress on this issue was reported to the Audit Committee in March 2013.

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 scheme's rules and criteria. Whilst these were relatively minor in nature, they were significant in number and demonstrated unsatisfactory control.

E&R 1308 - Cleaning Services Allegations. Although there was no evidence to substantiate the allegations, control weaknesses were identified in a number of areas, including confirming that contractual hours have been worked and records maintained for recruitment.

PPCS 1305 – Strategic Plan Performance Indicators. A number of the agreed Performance Indicators did not have a target set against them or information was not being collated. A revised performance management framework is being developed, following a peer review. The new framework will address the recommendations made.

School budget share reports. Five 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.
