



**Nottinghamshire
County Council**

**Internal Audit
Annual Report
2014/15**

Purpose of the Report

1. To set out the work carried out by Internal Audit during 2014/15, 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 2014/15 were carried out in accordance with the Public Sector Internal Audit Standards, which define the standards that should be followed to achieve best professional practice.

Summary of Internal Audit Work for 2014/15

4. The audits completed during 2014/15 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 (1828 days) is above the original plan (1727 days). Performance has been good during the year with a stable workforce and effective progress against the planned work. Audit work has continued to be prioritised by detailed discussions with managers across the Authority. There were 114 audit jobs completed during the year on County Council systems and procedures.
5. Of the 114 County audit jobs, 16 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. 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:-

Substantial Assurance – there are no weaknesses or only minor weaknesses

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

Limited Assurance – 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 2014/15 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 2014/15

Department	Opinion on Level of Assurance			Total
	Substantial	Reasonable	Limited	
Children Families and Cultural Services	3	3	1	7
Schools	15	41	3	59
Adult Social Care, Health and Public Protection	5	5	1	11
Environment and Resources	2	10	-	12
Policy, Planning and Corporate Services	2	-	-	2
Public Health	1	-	1	2
Cross Cutting	2	2	1	5
TOTALS	30	61	7	98
Percentage	31%	62%	7%	100%

7. There were 699 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 (99%) were agreed for implementation.
8. From the table, it can be seen 91 of the 98 areas reviewed during 2014/15 had an opinion that the level of internal control was sufficient (i.e. substantial assurance or reasonable assurance). This equates to 93% of the areas reviewed. There were 7% of areas audited which were categorised as limited assurance. 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

9. The trend in audit opinions over the last 6 years is shown in the table 2 below.

Table 2: Trend in Audit Opinions over the last 6 years

Year	Number of reports	Substantial Assurance	Reasonable Assurance	Limited Assurance
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%)
2013/14	105	28 (27%)	69 (65%)	8 (8%)
2014/15	98	30 (31%)	61 (62%)	7 (7%)

10. As can be seen from the chart above, the number of limited assurance audit opinions during 2014/15 has decreased 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. These changes have increasingly become “business as usual” as the new systems have bedded in and systems of internal control improved and enhanced.

11. The 16 special projects during the year covered a range of issues including:-

- Following up concerns over the operation of Imprest accounts where they have become overdrawn
- Advice on the implementation of Lean plus reviews
- Advice on the new pensions 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 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 93% 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 good. However, 7% of systems or procedures were found to provide limited assurance. Additional work is carried out on these areas to ensure that agreed improvements are realised, or continuing concerns are reported to the Audit Committee. Follow up audits will be carried out to ensure that agreed 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 2014/15

Indicator	Target	Outcome
Comply with Public Sector Internal Audit Standards	Substantial compliance	Internal review shows 96% compliance
Completion of Audit Plan:- Number of days Audits completed	90% 90%	106% 96%
Customer Satisfaction score	Under 2	Average 1.6
Recommendations accepted	95% acceptance	99% accepted
Productive time	Over 70%	67% achieved
Net audit cost per £1m turnover for 2014/15	£650	£333
External audit review	Positive	Positive

15. Overall, performance during the year has been in line with target. The number of audit days provided exceeded the planned days due to a stable staffing structure and assistance from a CIPFA trainee during the year. The number of audit jobs completed was slightly below plan.

Overall productivity was below the target of 70%. There are a number of contributing factors to this, including significant additional time spent on staff training for the CIPFA trainee and other staff on new systems and approaches (120 days), development of an automated working papers system to improve the efficiency and effectiveness of the audit process (30 days) and work on considering a shared audit service with other Nottinghamshire authorities (10 days).

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 (99%). A copy of detailed comments made on individual audits is included as appendix 4. Overall the comments are very positive, with appreciation expressed for the professional and approachable manner in which audits are completed. Where concerns are expressed, these are followed up individually with the client.
17. The net audit cost per £1m turnover for 2014/15 was £333, which is significantly below the county council average. The net cost of the audit service was £370k against a budgeted cost of £369k. The net cost in 2015/16 is anticipated to be similar to 2014/15.

Quality Assurance Programme

18. The Public Sector Internal Audit Standards require Internal Audit Sections to develop a Quality Assurance and Improvement Programme to ensure that appropriate quality standards are being applied. An internal review was carried out during the year and the results reported to the Audit Committee in March 2014, together with an Action Plan to address identified weaknesses.
19. An updated Quality Assurance and Improvement Programme has been developed and is attached as Appendix 5, setting out progress against the plan.
20. As a local authority, the County Council does not comply with some of the Standards. The requirement for the Chief Audit Executive (Head of Internal Audit at Nottinghamshire County Council) to report to an organisational level equal or higher than the corporate management team is not met. In practice, the Head of Internal Audit's line manager is the Service Director, Finance and Procurement. In addition, the requirement for the appointment and removal of the Chief Audit Executive to be approved by the Board is not met, as this is dealt with by delegated powers under the Constitution. Following discussions at Corporate Leadership Team, changes have been made to more fully comply, including regular (quarterly) reports to the Chief Executive and Corporate Leadership Team and review of the budget for internal audit by Audit Committee.

Conclusion

21. The work undertaken by Internal Audit during 2014/15 has covered key systems in the Authority and has identified that the controls in the majority of systems and procedures continue to operate satisfactorily. Of the systems reviewed, 7% of systems or procedures were found to provide LIMITED assurance. Action plans have been agreed to address these concerns and follow up audit work will be carried out to ensure that these areas are addressed.

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