



**Nottinghamshire
County Council**

Internal Audit Annual Report 2015/16

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Purpose of the Report

1. To set out the work carried out by Internal Audit during 2015/16 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:-
 - 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 work of Internal Audit is carried out in compliance with the Public Sector Internal Audit Standards. It is good practice to provide a progress reports on Internal Audit work to senior management (CLT) and the Board (Audit Committee) and this report satisfies this expectation.

Summary of Internal Audit Work for 2015/16

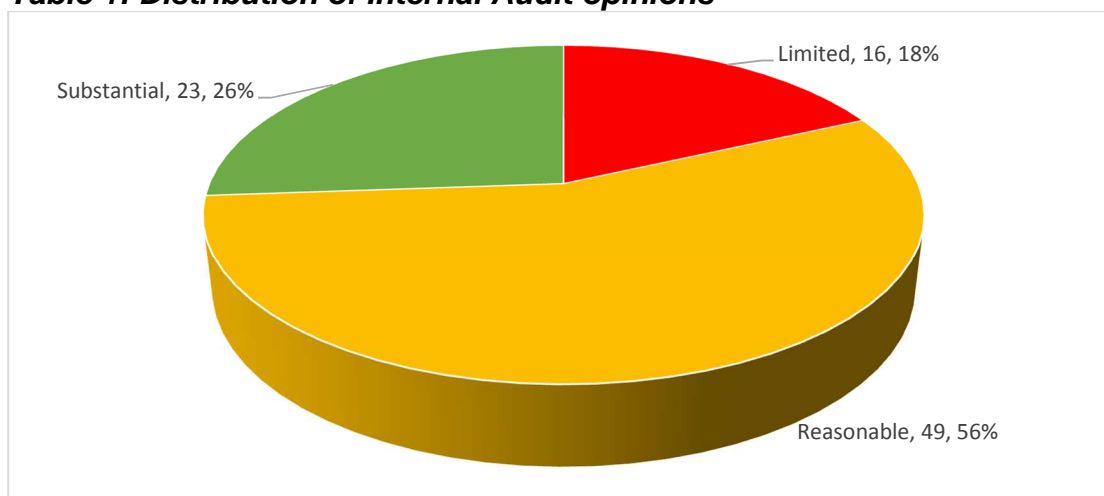
5. The graph in **Appendix 1** depicts achievements against the audit plan for 2015/16. Achievements are expressed in terms of the following:
 - Inputs – the number of audit days delivered against the plan
 - Outputs – the number of jobs completed against the plan
 - Productivity indicator – the target score is 1, indicating that all jobs have been completed on time and using the allocated number of days.
6. Productivity in 2015/16 was 0.81, meaning that fewer jobs than planned were completed within the days utilised. The key factors giving rise to the shortfall are summarised below:
 - sickness absence – two cases of long-term absence, both of which are now resolved
 - Implementation of an audit automation system – this has required more internal resource than anticipated, but it is expected that the system will deliver efficiency benefits from the new financial year

- Investigations – a number of irregularities and whistleblower reports have been investigated. These jobs generally need more time to carry out than routine audits, and this can impact the number of jobs completed.
- In the fourth quarter, the Section was also impacted by the start of the 12 month career break of the Head of Internal Audit.

As a result of these factors, it has not been possible to carry out all of the audits in the 2015/16 Plan. Deferred audits have been rescheduled as part of the annual audit needs assessment.

7. Despite the above, a wide range of audit work was completed during the year. **Appendix 2** sets out details of all final reports, draft reports and written advice, covering the following key types of Internal Audit input:
 - Assurance audits, for which an audit opinion is issued
 - Advice and consultancy – often relating to key developments and initiatives
 - Counter-fraud – including the investigation of suspected fraud and whistleblower reports
 - Certification audits – generally small jobs to sign off returns and accounts.
8. Most of Internal Audit's assurance work results in the issue of an 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.
9. Analysis of the opinion-based assurance work shows the following distribution of opinions issued during 2015/16. Based on this, we can conclude that **a satisfactory level of internal control is in operation in the Council.**

Table 1: Distribution of Internal Audit opinions



10. Table 2, below, analyses the opinions given on the individual reports by department.

Table 2: Analysis of Audit Opinions during 2015/16

Department	Opinion on Level of Assurance			Total
	Substantial	Reasonable	Limited	
Children Families and Cultural Services	1	3	3	7
Schools	13	26	8	47
Adult Social Care, Health and Public Protection	3	4	3	10
Resources	5	5	-	10
Place	-	7	-	7
Cross-cutting	1	1	2	4
TOTALS	23	46	16	85
Percentage	27%	54%	19%	

11. The work in 2015/16 has identified some areas in which internal controls need to be strengthened, most notably in the 16 areas for which a 'limited assurance' opinion was issued. Details of these reports are presented in **Appendix 3**. The weaknesses identified covered a diverse range of issues, including the need for:
- Consistent compliance across the Council with aspects of Financial Regulations and other key corporate policies
 - Stronger controls in the care services over the management of service user monies, to protect the interests of both service users and Council staff
 - Improved budget monitoring and management information in some areas of service
 - Ongoing maintenance of established agreements to support partnership working.
12. Over the past few years, the composition of the Internal Audit Annual Plan has been changing to assess risks on a more cross-cutting, Council-wide basis. These reviews are identifying inconsistent levels of compliance with the Council's governance framework. Service areas are also becoming more complex, as the Council's transformation agenda is driven through to tackle increasing demand for services at a time of significant reductions in resources. These are felt to be factors in explaining the trend in audit opinions over the last seven years, as shown in Table 3.

Table 3: Trend in Audit Opinions over the last 7 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%)
2015/16	85	23 (27%)	46 (54%)	16 (19%)

13. It is evident from the above that the incidence of 'limited assurance' opinions increased over the past year, with almost one in five reports identifying significant control issues to be addressed. As stated above at paragraph 9, Internal Audit's opinion remains that the overall level of internal control in the Council is satisfactory. Nonetheless, the Annual Governance Statement for 2015/16 draws attention to this downturn in the level of assurance provided by the reports over the past 12 months as a current area of significance for the Authority to manage.
14. Internal Audit provided advisory input to a number of key developments in the Council during the year; these are identified in Appendix 2 as 'Advisory and consultancy' input to each department. This type of input ensures that timely advice is delivered by the Section while new and changed systems are being designed and implemented, and it helps to maintain the influence the Section has to retain a proper focus on control issues. Informal feedback from senior officers indicates that this type of input is valued.
15. Internal Audit was involved with a number of irregularity investigations during the year. Details of this work are incorporated in the Annual Fraud Report for 2015/16, which is the subject of a separate report to the Audit Committee.

Annual Governance Statement

16. 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.
17. The individual audit opinions set out in paragraphs 9 and 10 combine to form the basis of the overall Internal Audit opinion on the adequacy of the Authority's internal control system. As shown in Table 1, 82% of the audits undertaken identified that appropriate controls were in place, therefore Internal Audit's overall opinion is that the Authority's system of internal control is satisfactory.

However, 18% of systems or procedures were found to provide limited assurance, and Appendix 2 shows that a total of 76 high priority recommendations were made. Additional work is carried out on these areas to ensure that agreed improvements are realised, or continuing concerns are reported to the Audit Committee.

18. A proposal to revamp Internal Audit’s follow-up processes has been made in a separate report to the Audit Committee. The objectives of the changes are to ensure an appropriate level of focus on the high priority issues and to help drive through planned actions promptly.

Internal Audit Performance Indicators

19. Progress against the Section’s performance indicators, as at 31 March 2016, is detailed in the following table:

Table 4: Internal Audit Performance Indicators 2015/16

Performance Measure/Criteria	Target	Outcome as at 31/3/16
Comply with Public Sector Internal Audit Standards	Compliance achieved	Substantial Compliance
Completion of Audit Plan - Days - Jobs	90% 90%	87% 71%
Positive customer feedback	Feedback good or excellent	Achieved (average score is 1.69 where 1 is excellent and 2 is good)
Recommendations agreed	95%	98%
External Audit Reliance on Internal Audit	Positive	Positive

20. Resourcing issues have been the most significant challenge for the section during the year, as described above at paragraph 6. A revised structure for the section was approved by the Finance and Property Committee at its February meeting. Once fully staffed and with responsibilities reassigned to build greater resilience, the revised structure will bolster the level of resources in the section at the Senior Auditor level. This will enable the Section to respond effectively to the demands placed on it. Use is also being made of temporary resources, and the possibility of establishing a partnership, either with another public sector provider or with a private sector provider, will be kept under active review. The key aim of such a partnership would also be to deliver greater resilience in the audit service.

21. Despite the challenges, the work completed continues to be carried out in compliance with the required standards, and clients continue to respond well to the recommendations made and to the audit approach.
22. During the year, the section 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%). 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.
23. The net audit cost per £1m turnover for 2015/16 was £279, which is significantly below the county council average. The net cost of the audit service was £364k against a budgeted cost of £396k. The net budget for 2015/16 is £327k, representing a reduction for the Section's contribution to the Council's savings target.

Quality Assurance and Improvement Programme (QAIP)

24. The Public Sector Internal Audit Standards require Internal Audit Sections to develop a QAIP to ensure that appropriate quality standards are being applied. An initial review was carried out and the results reported to the Audit Committee in March 2014, together with an Action Plan to address identified weaknesses. Progress against this action plan was reported to Committee in June 2015.
25. An updated QAIP has been developed and is attached as **Appendix 5**, setting out issues to be actioned over the coming year.
26. The QAIP has been informed by an internal assessment of the Internal Audit Section's compliance with the PSIAS, carried out by the Head of Internal Audit. In the following respects, the County Council does not comply with the standards, and compensatory arrangements are described
 - a) 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, Procurement and Improvement. This does not hinder the Head of Internal Audit's direct access to the Chair of the Audit Committee, the Chief Executive or other members of the Corporate Leadership Team. From 2016, the Head of Internal Audit will meet quarterly with the Chief Executive, the Monitoring Officer and the Section 151 Chief Financial Officer to discuss governance issues.
 - b) 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.
 - c) The Board is not responsible for approving the budget and resource plan of Internal Audit. However, the Audit Committee receives, and has the

opportunity to comment upon, information concerning the size of the annual budget for Internal Audit, its staffing structure and the overall cost of the service per £1m of the Council's budget.

27. Notwithstanding the above and the areas for improvement set out in the QAIP, the Head of Internal Audit's self-assessment against the required standards has confirmed the following in respect of the work carried out by the service in 2015/16:
- a) The service applied a systematic, risk-based approach to the assurance work it delivered
 - b) Internal Audit staff performed their duties with due regard to the code of ethics set out in the standards
 - c) There were no impairments to the independence and objectivity of the service during the year.

Conclusion

28. The work undertaken by Internal Audit during 2015/16 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 and procedures reviewed, 18% 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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