

**REPORT OF SERVICE DIRECTOR - FINANCE, PROCUREMENT AND  
IMPROVEMENT**

**INTERNAL AUDIT PROGRESS – APRIL 2016 TO SEPTEMBER 2016**

**Purpose of the Report**

1. To inform Members of the Head of Internal Audit's Progress Report on the work carried out by Internal Audit in first half of 2016/17, and to highlight any key issues arising.

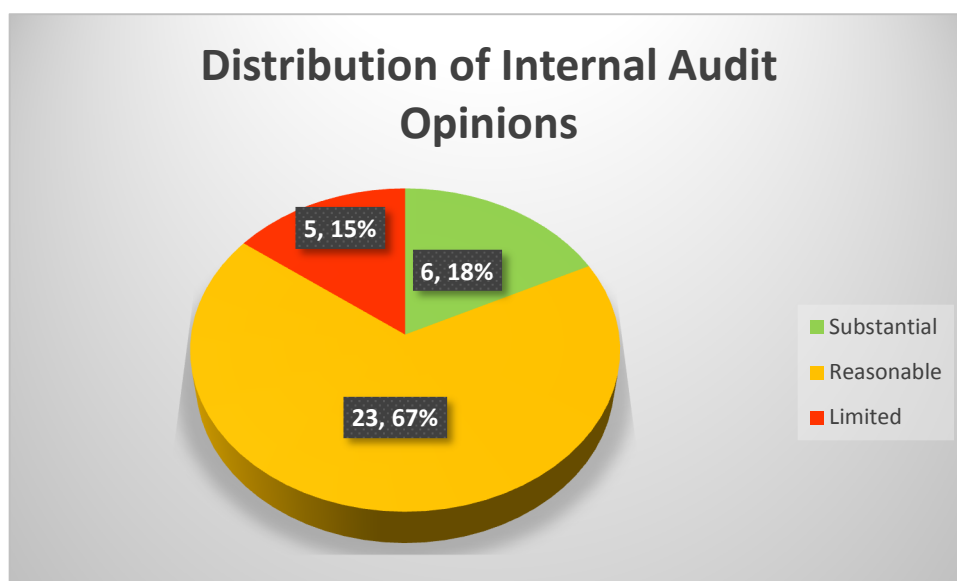
**Information and Advice**

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 an interim progress report on Internal Audit work to senior management (Corporate Leadership Team) and the Board (Audit Committee) and this report satisfies this expectation.

***Summary of Internal Audit Work in the first half of 2016/17***

5. The graph in **Appendix 1** depicts achievements so far against the audit plan for 2016/17. 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 are completed on time and using the allocated number of days.
6. Productivity in the first half of 2016/17 was 0.88, indicating a good level of output for the days utilised. However, Appendix 1 shows that fewer days than planned were delivered and fewer jobs than planned were completed. A long-term sickness case was resolved at the end of the first quarter, but the Section was unsuccessful during the second quarter in recruiting to its vacancies at the Senior Auditor level. These two factors reduced the level of resource available in the first half of the year. Short- and medium-term actions are being taken to address this:
    - Temporary auditors will be recruited through the Council's agency contract in order to boost the resources available in the second half of the year
    - In the longer term, consideration is being given to the establishment of an apprenticeship post within the section, to work towards a recognised internal audit qualification.
  7. Within the days delivered in the first half of the year, a wide range of audit work was completed. **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 so far during 2016/17. Based on this, the Head of Internal Audit concludes that **a satisfactory level of internal control is in operation in the Council.**



10. The table below analyses the opinions given on the individual reports by department.

**Analysis of Audit Opinions to date in 2016/17**

Department	Opinion on Level of Assurance			Total
	Substantial	Reasonable	Limited	
Children Families and Cultural Services	-	-	2	2
Schools	2	20	2	24
Adult Social Care, Health and Public Protection	1	-	1	2
Resources	2	-	-	2
Place	-	2	-	2
Cross-cutting	1	1	-	2
<b>TOTALS</b>	<b>6</b>	<b>23</b>	<b>5</b>	<b>34</b>
Percentage	18%	67%	15%	

11. The work to date has identified some areas in which internal controls need to be strengthened, most notably in the five areas for which a ‘limited assurance’ opinion was issued. Details of these reports are presented in **Appendix 3**. Many of the weaknesses identified can be traced back to failures to comply with some aspect of the Council’s Financial Regulations, notably concerning the procurement of goods and services and the management of subsidiary bank accounts. The risk of failing to secure government funding is also highlighted in one area of service.

12. Internal Audit continues to provide advisory input to a number of key developments in the Council; 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 continues to indicate that this type of input is valued.

13. Internal Audit was involved with a limited number of irregularity investigations in the first half of the year. Brief details are given below::

- a) Youth Service South Locality – whistleblower concerns were received regarding value-for-money in the use of resources (rather than allegations of fraud). Concerns focused on the level of funds held in a locality bank account, and on the nature of some expenditure. Our investigation identified that the bank balance was higher than it should have been because recharges of expenditure processed initially through the Council’s main bank account were not up to date. We have raised a number of recommendations to improve controls in this area.
- b) Failure to report a nursing home resident’s death – a Health Service return in April 2016 picked up that a nursing home failed to report the death of a resident in 2012, resulting in the overpayment of the free nursing care element by approximately £20,000. Free nursing

care payments are made by the Council and subsequently recovered through recharges to the Health Service. Following visits to the home by departmental officers, and subsequent liaison with Internal Audit and Legal Services, it was determined that this error arose due to poor administrative processes at the home rather than fraudulent intent. The overpayment is being recovered against ongoing payments for continuing care of residents. Internal Audit is seeking an explanation from the National Fraud Initiative as to why this case was not identified through the data-matching exercise.

- c) Education transport service provider – we received an intelligence report from Nottinghamshire Police, alleging that the Council may have been defrauded by up to £60,000 by one of our education transport service providers. No details of the nature of the alleged fraud were provided. Our investigations showed that, whilst the Council spends significant sums with the named company for the provision of home to school transport, Special Educational Needs transport and Adults’ Learning Disability transport, the procedures for booking and paying for journeys with the company were found to be robust. We found no indication that fraud is being committed.

**Internal Audit Performance Indicators**

14. Progress against the Section’s performance indicators, as at the end of September 2016, is detailed in the following table:

**Internal Audit Performance Indicators to date in 2016/17**

Performance Measure/Criteria	Target	Outcome as at 30/9/16
<b>A. Outcome measures</b>		
<b>1. Risk-aware Council</b>		
Completion of Audit Plan - Days	90%	84%
- Jobs	90%	74%
Regular progress reports to:		
- Departmental Leadership Teams	3 pa	1 <sup>st</sup> round completed & part-way through 2 <sup>nd</sup>
- Corporate Leadership Team	3 pa	2 to date
- Audit Committee	2 pa	2 completed
Publication of periodic fraud/control awareness updates	2 pa	1 <sup>st</sup> issue to be compiled
<b>2. Influential Audit Section</b>		
Recommendations agreed	95%	99%
Engagement with the Transformation agenda	Active in 5 key projects	Currently engaged with 5
<b>3. Improved internal control &amp; VFM</b>		
Percentage of high, medium & VFM priority recommendations implemented	75%	89%
<b>4. Quality measures</b>		
Compliance with the Public Sector Internal Audit Standards	Compliance achieved	Substantial Compliance

Reliance placed on Internal Audit work	External Audit place reliance	No concerns raised at 15/16 audit
Positive customer feedback through Quality Control Questionnaire (QCQ) scores	Feedback good or excellent (where a score of 1 is excellent and a score of 2 is good)	Average score 1.70

15. Resourcing issues have continued to be the most significant challenge for the section during the year, as described above at paragraph 6. The permanent Head of Audit's career break has now been extended by a further six months, up to the end of June 2017. Temporary back-filling arrangements have also been extended, but this will mean a continuing vacancy in the ICT Technical Auditor post, to add to the unfilled vacancies at Senior Auditor level. Temporary resources are being engaged through the Council's agency service provider for the second half of the year, along with the placement of a CIPFA trainee with the section. Output levels from these temporary resources will be kept under review, along with opportunities to recruit resources on a more permanent basis.

16. 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.

**Conclusion**

17. The work undertaken by Internal Audit during the first half of 2016/17 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, 15% 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.

**Other Options Considered**

18. The Audit Section is working to the Public Sector Internal Audit Standards during 2016/17. This report meets the requirement of the Standards to provide an interim Annual Report. No other option was considered.

**Reason/s for Recommendation/s**

19. To set out the Progress Report of the Head of Internal Audit for the first half of 2016/17.

**Statutory and Policy Implications**

20. The Local Government Act 1972 requires, in Section 151 that the Authority appoint an officer who is responsible for the proper administration of the Council's financial affairs. The Service

Director – Finance, Procurement and Improvement is the designated Section 151 officer within Nottinghamshire County Council. Section 6 of the Accounts and Audit Regulations 2011 requires Local Authorities to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The County Council has delegated the responsibility to maintain an internal audit function for the Authority to the Service Director – Finance, Procurement and Improvement.

21. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

## **RECOMMENDATION**

1) That Members note the Head of Internal Audit's Progress Report for the first half of 2016/17 and comment accordingly.

**Nigel Stevenson**  
**Service Director – Finance, Procurement and Improvement**

**For any enquiries about this report please contact:**

Rob Disney  
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### **Constitutional Comments (14/11/2016)**

22. The proposal in this report is within the remit of the Audit Committee.

### **Financial Comments (RWK 14/11/2016)**

23. There are no specific financial implications arising directly from this report.

### **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 Audit Reports set out in Appendix 2 of the Annual Report are available as background papers.

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

All