

REPORT OF DEPUTY CHIEF EXECUTIVE & CORPORATE DIRECTOR FOR  
RESOURCES

INTERNAL AUDIT QUARTERLY REPORT 2011/12 – 2<sup>ND</sup> QUARTER

1 PURPOSE OF THE REPORT

This report outlines the work of the Internal Audit service (IA) for the second quarter of 2011/12.

2 RECOMMENDATIONS

The Committee:-

2.1 Notes and gives its views on the performance of IA during the period.

2.2 Selects two audits from **Appendix 1** or **Appendix 2** (including schools) for examination at the February 2012 meeting.

3 REASONS FOR CONSIDERATION

The Audit Committee's terms of reference include responsibility for receiving reports on the work undertaken by IA and for monitoring its performance. This report is one of the quarterly updates on work undertaken by the service and the Audit Committee is invited to consider and comment on (for example):

- The performance of the IA service against the annual plan in terms of number of days and the balance and mix of the work.
- The nature, scope and quality of the work undertaken.
- The performance indicator results, including whether these indicators are appropriate and the targets sufficiently stretching.

4 OVERVIEW OF WORK UNDERTAKEN

- **Appendix 1** - Summary of related audit reports completed in the quarter with high risk recommendations and level of assurance
- **Appendix 2** - List of final audit reports issued in the quarter with analysis of recommendations
- **Appendix 3** - Overview of the work completed to date against the updated Audit Plan
- **Appendix 4** - Analysis of outstanding recommendations for reports issued 2009/10 to 30 September 2011.

4.1 Standards

All IA colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards. The service has internal quality procedures in place and is ISO9002 accredited. It has adopted the principles contained in the CIPFA Code of Practice 2006 and has fulfilled

the requirements of the Account & Audit Regulations 2011 and associated regulations in respect of the provision of an IA service.

#### 4.2 Local Performance Indicators (PIs)

Performance against all PIs is currently at or above target as illustrated in **Table 1**.

<b>Table 1 : Performance v PI Targets</b>				
<b>Indicator</b>	<b>Target</b>	<b>Quarter</b>	<b>Actual Year to Date</b>	<b>Comments</b>
% of all recommendations accepted	95%	100%	99%	On target
% of high recommendations accepted	100%	100%	100%	On Target
Average number of working days from draft agreed to the issue of the final report	8 days	2	3	Above Target
Number of key / high risk systems reviewed	15 systems	0	0	Work programmed to begin mainly in 3 <sup>rd</sup> quarter
% of colleagues receiving at least three days training per year	100%	8%	8%	Equated average is 66% of days planned - on schedule for year
% of customer feedback indicating good or excellent service	85%	92%	92%	Above target

#### 4.3 Activity

**Table 2** shows that actual days achieved are in line with planned days set out in the updated Audit Plan and **Appendix 3** shows progress against the individual audits. In summary, after allowance for seasonal work patterns, the plan is on target.

<b>TABLE 2: ACTUAL v PLANNED AUDIT DAYS</b>			
<b>Total Planned Days</b>	<b>Actual to date</b>	<b>Profiled Planned Days</b>	<b>Comments</b>
1604	764	799	More productive days are programmed in second half of year

**Table 3** shows that in the year to date, acceptance of recommendations is above the target of 95% for all recommendations and is within on target for high recommendations (100%).

<b>TABLE 3: RECOMMENDATIONS ACCEPTED DURING QUARTER</b>				
	<b>Year to Date</b>		<b>Quarter</b>	
	<b>All</b>	<b>High</b>	<b>All</b>	<b>High</b>
Total recommendations made	84	59	57	39
Rejected	1	0	0	0
Total recommendations accepted	83	59	57	39
Percentage accepted	99%	100%	100%	100%

### **Resources 2011/12**

The budget position at 30 September 2011 is summarised in **Table 4**. The predicted service outturn is in accordance with the budget.

<b>TABLE 4: BUDGET ANALYSIS</b>	
	<b>£</b>
External Income	(111,890)
Expenditure	532,869
Net	420,979

### **5. BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION**

None

### **6. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

CIPFA Code of Practice 2006  
Account & Audit Regulations 2011

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**APPENDIX 1**

**INTERNAL AUDIT REPORTS ISSUED DURING 2<sup>ND</sup> QUARTER (EXCLUDING SCHOOLS)**

Audit	Scope	Level of assurance provided	Recommendations			
			High	Med	Low	High Risk Recommendations
Self Directed Support – Direct Payments	<p>The scope of this review looked at the following aspects of direct payments:</p> <ul style="list-style-type: none"> <li>• The authorisation and payment process of Direct Payments.</li> <li>• Amendments to data and the authorisation process for changes in funding</li> <li>• The monitoring process to ensure that the funding has been appropriately utilised.</li> <li>• Reconciliation of the payments made through OneWorld to the City Council's ledger.</li> <li>• Access controls and the back-up process concerning the access database and spreadsheets.</li> </ul>	Limited	7	7	2	<p>R1 Terms of reference should be drawn up for panels and be formally approved by the Departmental Management Team as a means of formally acknowledging their role and level of responsibility.</p> <p>In addition, the role of panel to commit the City Council to expenditure should be reviewed and if considered appropriate formally endorsed.</p> <p>R2 Panel decisions must formally record the value of the commitment and be signed by an appropriate colleague as approving the commitment of expenditure on behalf of the City Council.</p> <p>These formal decisions should be stored within Care First with the signed authority being held within Castle as a means of supporting the audit trail.</p>

Audit	Scope	Level of assurance provided	Recommendations			
			High	Med	Low	High Risk Recommendations
						<p>R3 Panels should have knowledge as to the current level of commitment in order that they can make informed decisions.</p> <p>In addition, where budgets are coming under pressure, panel should be aware of those pressures at an early stage to provide for early discussions with Corporate Directors as to the impact of future decisions.</p> <p>R4 Approval limits for colleagues should be re-aligned to take account of the new delegated limits.</p> <p>R7 New agreements should be signed as and when funding arrangements change to re-enforce citizens' responsibilities and the rights of Nottingham City Council to recover the funds.</p> <p>R10 There should be routine reconciliations undertaken to ensure that the expected input has been achieved.</p> <p>If a new system is introduced this reconciliation could form part of the authorisation process as a</p>

Audit	Scope	Level of assurance provided	Recommendations			
			High	Med	Low	High Risk Recommendations
						<p>reconciliation will be required to ensure that the payments processed are accurate and complete.</p> <p>R14 In order to address recent developments within Self Directed Support and Direct Payments there is a need to invest in a suitable software application in order that the weaknesses identified can be addressed and the risks associated with SR22 mitigated.</p> <p>In the short-term the following should be considered:</p> <ul style="list-style-type: none"> <li>• Password controls be introduced on the excel spreadsheets and access database.</li> <li>• The use of excel spreadsheets be rationalised in order to increase efficiencies</li> </ul> <p>The end to end process be reviewed to evaluate and document the required processes and procedures and to draw up a</p>

Audit	Scope	Level of assurance provided	Recommendations			
			High	Med	Low	High Risk Recommendations
Vulnerable Children	<p>The scope in the Audit Brief was agreed with the Director of Safeguarding and covered the following aspects:</p> <ul style="list-style-type: none"> <li>• Risks have been fully assessed</li> <li>• Risks are adequately reviewed and reported</li> <li>• Identified mitigating factors are adequately controlled</li> </ul>	Limited	4	3	1	<p>specification of what is required.</p> <p>R1 The Munro Review, and other evolving risks and influencing factors, should be considered and any relevant risk incorporated into the Risk Management Action Plan</p> <p>R2 The Director of Safeguarding has agreed to consider inclusion at the next review date.</p> <p>R5 Urgent mitigating action should be taken to reduce the threat level of Constituent Risk 3</p> <p>R6 Urgent mitigating action should be taken to reduce the threat level of Constituent Risk 8</p>
Crime & Drugs Partnership	<p>The scope of this audit was set mainly to ensure that the Council is following its Corporate Financial Process Rule 2(CFPRS2), as it is one of the Accountable Bodies that oversees the operation of the Crime &amp; Drugs Partnership (CDP).</p> <p>In addition the audit has included a review of the following:</p> <ul style="list-style-type: none"> <li>• Individual project control and</li> </ul>	<b>Significant</b>	3	1	0	<p>R1 The need for an annual SLA should be reviewed and established to ensure compliance with CFPRS2.</p> <p>If the SLA is required this should be in place for the start of the financial year.</p> <p>R2 The level of detail passed by service providers to support their</p>

Audit	Scope	Level of assurance provided	Recommendations			
			High	Med	Low	High Risk Recommendations
	<p>monitoring processes are in place and are operated effectively.</p> <ul style="list-style-type: none"> <li>The process used to prioritise projects for inclusion into the programme.</li> <li>The adequacy of arrangements in place for exiting from projects where funding has been withdrawn.</li> </ul>				<p>charges should be reviewed by the CDP. The CDP should ensure sufficient detail is provided to allow them to ensure the charges are valid under the agreement.</p> <p>R3 Regular review of expenditure claimed by the service providers should be undertaken.</p> <p>Charges should be checked for reasonableness, their applicability to the project and compliance with costs set out in the project agreement.</p> <p>A record of the review process and any challenges made should be maintained.</p>	
Money Laundering	<p>A review of the current arrangements for complying with Money Laundering and related legislation has been undertaken. This follows on from some earlier work carried out in 2008 as part of the Treasury Management Audit. The status of the recommendations made in the earlier report have been reviewed and where required they have been updated and included in this report.</p>	Limited	6	0	0	<p>R1 The Council should use the CIPFA guidance as the basis for its policies and procedures on Money Laundering.</p> <p>R2 Current detection and reporting processes should be reviewed and restated by the Money Laundering Officer.</p> <p>The processes should also clarify the methods used for reporting</p>



Audit	Scope	Level of assurance provided	Recommendations			
			High	Med	Low	High Risk Recommendations
						<p>suspicious activity to the Cashier Supervisor and upwards to the Money Laundering Officer.</p> <p>As part of the process development IT should be consulted to see if Radius can be used to support the proposed detection and reporting process electronically.</p> <p>R3 The Money Laundering Officer should set out the recording and reporting requirements. Documents should be devised to record the various reporting stages. These should include a section to record the decision made by the Money Laundering Officer on any items reported to him in respect of onward reporting as a Suspicious Activity Report to the Serious Organised Crime Agency.</p> <p>R4 The Money Laundering Officer should establish the upper limit to be applied to the acceptance of cash and this should be included in all policies and guidance.</p> <p>IT should also be consulted to see if Radius can be amended to</p>

Audit	Scope	Level of assurance provided	Recommendations			
			High	Med	Low	High Risk Recommendations
						<p>warn the user when a cash receipt over the limit is entered.</p> <p>R5 The Money Laundering Officer should seek to align the processes applied at all cash receipt points.</p> <p>R6 An awareness training guide should be devised. All staff responsible for the receipt of cash should be regularly reminded of the existence of this guidance. The guidance should also form part of the induction process for new colleagues responsible for the receipt of cash.</p>

**APPENDIX 2**

**FINAL AUDIT REPORTS ISSUED DURING 2ND QUARTER**

<b>Department</b>	<b>Audit</b>	<b>Recommendations Accepted</b>		
		<b>High</b>	<b>Medium</b>	<b>Low</b>
Children and Families	Self Directed Support – Direct Payments Vulnerable Children	7 4	7 3	2 1
	Blessed Robert Widmerpool RC Primary Hadden Park High Oak Field School & Specialist Sports College	7 8 4	0 0 3	0 0 0
Communities	Crime & Drugs Partnership	3	1	0
Resources	Money Laundering	6	0	0
<b>Grand Total</b>		<b>39</b>	<b>14</b>	<b>3</b>

**SUMMARY OF PROGRESS ON THE UPDATED AUDIT PLAN TO 30<sup>TH</sup> SEPTEMBER 2011**

Audit Title	Annual Plan	Due to Sept	Actual Days
<b>1. Chief Executive</b>			
Strategic Risk 19 - Failure to deliver the Council Plan	10	0	0
Strategic Risk 16a - Failure of partners including the City Council to work effectively together to achieve vision and outcomes in the Nottingham Plan to 2020	5	0	0
Strategic Risk 26 - Failure to support Nottingham citizens and communities to cope with welfare reforms results in increased economic hardship and long term risks to the economy	13	0	0
Strategic Risk 3 - Failure to mitigate the impact of the economic climate on the Nottingham City and its citizens	15	0	0
Allocation for DMT High Risk Priorities			
Impact of Finance Changes	10	0	0
Partnerships	5	0	0

Audit Title	Annual Plan	Due to Sept	Actual Days
<b>2. Children &amp; Families</b>			
Strategic Risk 6 - Failure to safeguard vulnerable children	9	0	9
Strategic Risk 25 - Failure to develop a strong and well resourced commissioning programme	15	0	0
Supporting People	8	0	1
Foster Carers	22	22	2
Schools assessments	80	40	45
Schools Themed Audit - Payroll / Recruitment	6	6	3
Schools Themed Audit - Procurement	12	12	12
Allocation for DMT High Risk Priorities			
Disability Services	15	15	3
CAHMS Service	18	0	0
School Place Planning	10	0	7
e-Enabled Common Assessment Framework (eCAF)	1	1	1
Schools Financial Value Standard (SFVS)	5	0	2

Audit Title	Annual Plan	Due to Sept	Actual Days
<b>3. Communities</b>			
Strategic Risk 5a - Failure to safeguard vulnerable adults	15	0	0
Strategic Risk 22 - Failure to achieve national policy requirement and targets for "Putting People first"	20	20	19
Personal Budgets	20	20	0
Parking Services	5	0	0
Allocation for DMT High Risk Priorities			
Strategic Risk SR24 - Failure to prevent death, injury and/or ill health in the workplace, on site or visiting a client/service user	15	0	0
Carbon Reduction Commitment	5	0	2
Client Cash	23	23	21
Highways	5	0	0
<b>4. Development</b>			
Housing Rents	5	0	2

Audit Title	Annual Plan	Due to Sept	Actual Days
Workplace Parking Levy / Net Phase Two	15	0	0
Allocation for DMT High Risk Priorities			
Future Jobs Fund	80	70	78
Nottingham Job Fund	5	0	0
Building Control	17	17	16
Adaptations & Renewals Agency	21	21	24
<b>5. Resources</b>			
Strategic Risk SR11 - Failure to address medium term financial pressures in a sustainable way	5	0	0
Strategic Risk SR14 - Failure to deliver cultural change	5	5	0
Strategic Risk 1 - Failure to implement harmonised pay, grade & terms & conditions, fair to all colleagues & Equal Pay legislation compliant	10	0	0
Treasury Management	16	16	6
Budgetary Control	21	0	0

Audit Title	Annual Plan	Due to Sept	Actual Days
Main Accounting System / IFRS	23	0	0
Bank Reconciliation	5	5	4
Capital	20	0	0
Payroll / HR	25	0	6
Payroll Overpayments	20	20	24
Payroll - Confirmation of Establishment	12	0	0
Colleague Mileage Claims	10	10	11
Recruitment	15	15	14
Creditors	20	20	6
Sundry Income	16	0	2
Estate Rents	16	0	1
Cash Collection	14	0	1
Council Tax	22	0	1
Business Rates	21	0	10
Benefits	28	0	0



Audit Title	Annual Plan	Due to Sept	Actual Days
Adult Residential Services Finance	17	0	1
Pensions	25	25	22
Allocation for RLT Priorities			
Deputyship / Safeguarding	18	0	0
Early years single funding formula	9	9	8
Local Land Charges	20	20	17
<b>6. Corporate Audits</b>			
Governance Statement (SRR 10)	35	20	14
Risk Management	10	5	3
Contract Audit	10	5	5
IT Audit	50	20	7
Grants	20	20	8
Councillors / Colleagues Expenses	18	0	0
Introduction of new ERP system/Shared Services	20	10	7

Audit Title	Annual Plan	Due to Sept	Actual Days
Constitution / Financial Regulations	5	5	4
VFM Audit	12	0	12
<b>8. Counter Fraud</b>			
Responding to 'Protecting the Public Purse'			
Counter Fraud Strategy / Arrangements	15	10	6
Impact of the recession	5	0	0
Training / awareness	30	15	20
Recruitment Fraud / Safeguarding	15	0	1
Counter Fraud Activities	20	10	7
National Fraud Initiative (NFI)	25	25	24
Departmental Activities	10	10	3
Money Laundering	12	12	12
Whistleblowing	10	10	9
Procurement	21	0	0

Audit Title	Annual Plan	Due to Sept	Actual Days
<b>Other</b>			
Data Matching	20	10	11
Establishment Checks	18	10	7
<b>9. Companies / ALMO etc</b>			
Nottingham Ice Centre	20	0	10
Partnership Working	20	10	2
<b>10. Consultancy, Advice and Support</b>			
Contingency for adhoc work - General	200	150	181
Advice	20	10	15
<b>11. Other Work</b>			
Recommendations Monitoring	10	5	7
Audit of Charity and other Accounts	20	10	8

Audit Title	Annual Plan	Due to Sept	Actual Days
Development of the Internal Audit Service	10	5	0

1604

799

764

APPENDIX 4

OUTSTANDING RECOMMENDATIONS ANALYSIS - FOR REPORTS ISSUED 2009/10 TO 30<sup>TH</sup> SEPTEMBER 2011

Audit Topic	Department	Recommendations Accepted				Recommendations Outstanding				Commentary
		High	Medium	Low	Total	High	Medium	Low	Total	
Pensions	Resources	7	3		4	1	0	0	1	To be reviewed as part of 2011-12 audit
Client Cash.	ASH	17	7	1	25	1	0	1	2	One high and one low recommendations outstanding - target date for completion not yet due
Housing Benefits LHA & ESA	Resources	4	4	10	18	3	0	3	6	Three high and three medium recommendations outstanding - target date for completion not yet due
Ledger	Resources	2	1	0	3	1	1	0	2	One high and one medium recommendations outstanding - target date for completion not yet due
Blue Badges	Development	9	2	0	11	4	0	0	4	Four high recommendations outstanding - target date for completion not yet due
Budgets	Resources	2	2	0	3	0	1	0	1	One medium recommendation outstanding - target date for completion not yet due, too be followed as part of 2011-12 review
Housing Rents	Development	1	0	0	1	1	0	0	1	One high recommendation outstanding - target date for completion not yet due.
Adult Residential	Resources	2	5	0	7	0	1	0	1	One medium recommendations

Audit Topic	Department	Recommendations Accepted				Recommendations Outstanding				Commentary
		High	Medium	Low	Total	High	Medium	Low	Total	
Services										outstanding - target date for completion not yet due.
Fleet Management	Communities	4	4	2	10	4	3	0	7	Four high and three medium recommendations outstanding - target date for completion not yet due.
Creditors & Remittances	Resources	3	3	2	8	1	2	1	4	Two high, two medium and one low recommendation outstanding - target date for completion not yet due.
Members Allowances	Resources	0	11	2	13	0	10	2	12	Being reviewed as part of current Audit.
Payroll	Resources	1	3	5	9	0	0	3	3	Three low recommendations outstanding - target date for completion not yet due
Capital	Resources	3	5	0	8	0	1	0	1	One medium recommendation outstanding - target date for completion not yet due
<b>TOTAL</b>		<b>55</b>	<b>50</b>	<b>22</b>	<b>130</b>	<b>23</b>	<b>19</b>	<b>10</b>	<b>52</b>	