

**REPORT OF DEPUTY CHIEF EXECUTIVE & CORPORATE DIRECTOR FOR  
RESOURCES**

**INTERNAL AUDIT QUARTERLY REPORT 2011/12 – 3<sup>RD</sup> QUARTER**

**1 PURPOSE OF THE REPORT**

This report outlines the work of the Internal Audit service (IA) for the third 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 next 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

**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 except one 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>October to December</b>	<b>Actual Year to Date</b>	<b>Comments</b>
% of all recommendations accepted	95%	100%	99%	Above target
% of high recommendations accepted	100%	0%	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	10	12	On target
% of colleagues receiving at least three days training per year	100%	50%	50%	Cumulative
% of customer feedback indicating good or excellent service	85%	89%	84%	Slightly below target

## 4.3 Activity

**Table 2** shows that actual days achieved are 81 days less than planned days set out in the updated Audit Plan. This is because of colleagues' holiday and training commitments. **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>
1,588	1,216	1,297	Increased activity is planned for the final quarter

**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 01/10/11 TO 31/12/11</b>				
	<b>2011/12</b>		<b>October to December</b>	
	<b>All</b>	<b>High</b>	<b>All</b>	<b>High</b>
Total recommendations made	160	98	78	42
Rejected	2	0	1	0
Total recommendations accepted	158	98	77	42
Percentage accepted	99%	100%	99%	100%

### **Resources 2011/12**

A small underspend of approximately £10,000 is forecast for the year end arising from increased income.

#### **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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INTERNAL AUDIT REPORTS ISSUED DURING 3<sup>RD</sup> QUARTER (EXCLUDING SCHOOLS)

Internal Audit Reports issued during quarter three (excludes four schools reports and follow-up reports with no subsequent findings)

Audit	Scope	Level of assurance provided	Recommendations			
			High	Med	Low	
Earl Years Sp Formula	This audit reviewed the process used to calculate the funding provided to private nurseries through direct payments	Significant	1	0	0	<p>1 More care should be taken by the department to ensure they follow the correct process for adding staff to the authorisation lists.</p> <p>Creditors staff should rigidly apply the authorisation process, particularly for such large payments.</p>
Putting People First	<p>We have reviewed the following aspects of the initiative as part of the Annual Audit Plan:</p> <ul style="list-style-type: none"> <li>• Resource Allocation System (RAS)</li> <li>• The IT risks associated with the initiative.</li> </ul> <p>In addition, we have also reviewed National Indicator (NI) 130 which is used to report the take up of Direct Payments and Personal Budgets to the</p>	Significant	1	2	2	<p>R4 The RAS should be formally approved prior to being put live, in order that DMT have an awareness of the new level of indicative budget.</p>

Audit	Scope	Level of assurance provided	Recommendations			
			High	Med	Low	
Adaptations & Renewals	Department of Health. A review of the current processes in place for the approval and completion of works for disabled facilities grants to private properties and adaptations to Council homes for disabled people.	Significant	4	3	0	<p>1 If this approach is to be continued then a method for maintaining and updating the approved list must be devised.</p> <p>3 The Council should review its current procurement process for the adaptations work and should consider if this is an opportune time to adopt a framework approach to the commissioning of adaptations works. The annual value of these works, in respect of private properties, is in the order of £2.75m.</p> <p>Such an approach may secure better value for money by allowing additional adaptations to be completed for the same budget.</p> <p>4 Continue negotiations with NCH to simplify ordering and invoicing processes in order to reduce administrative costs and increase value for money.</p>

Audit	Scope	Level of assurance provided	Recommendations			
			High	Med	Low	
						6 We recommend that this area is reviewed in conjunction with NCH and suitable arrangements are negotiated where they are unable to directly carry out the works.
Property Management	<p>The scope of the review was limited to the following areas;</p> <ul style="list-style-type: none"> <li>To provide assurance that the asset disposal programme supports the capital programme.</li> <li>To confirm that value is obtained from disposals and how this is evidenced.</li> <li>To confirm that appropriately robust targets are set for properties held within the council's Property Trading Account and whether these targets are met.</li> </ul>	Limited	1	1	0	01 It is recognised that workforce reductions, reorganisations and the focus on the Workplace Strategy have all contributed to the lack of an AMP; however the need to have a strategic overview of the council's assets which is aligned with the Medium Term Financial Plan and which supports the Capital Programme should be addressed as soon as possible.
Land Charges	<p>The scope of this review was to ensure that:</p> <ul style="list-style-type: none"> <li>to ensure that there is compliance with regulations and council procedures</li> </ul>	Significant	1	3	0	01 A regular reconciliation should be performed to ensure that all monies due to Nottingham City Council are received.

Audit	Scope	Level of assurance provided	Recommendations			
			High	Med	Low	
Recruitment	<ul style="list-style-type: none"> <li>all the expected income was received</li> <li>all income received could be accounted for</li> </ul> <p>Internal Audit has been asked to review the Recruitment system because of concerns about the length of time it is taking for each recruitment</p>	Limited	11	7	0	<p>1 The Director of HROT should report to CLT with a suggested strategy for reducing time to fill posts by for example</p> <p>1a - moving from making decisions at post level on vacancy management to making those decisions at service or profession level whilst maintaining control over budget - this may involve for example prioritising posts within structures for recruitment when they become vacant, and setting principles to guide decisions allowing them to be taken at a lower level and reported regularly.</p> <p>1b - reducing time to fill posts whilst making best use of internal talent and avoiding unnecessary redundancy costs for example by</p>

Audit	Scope	Level of assurance provided	Recommendations		
			High	Med	Low
					<p>allowing redeployment list, apprentice and PATRA colleagues to express interest in posts prior to recruitment being authorised. this should not however be used to justify any delay in the authorisation process, but should mean that if authorised, the recruiting managers can consider appropriately qualified and interested colleagues from the redeployment list, apprentices and PATRA immediately.</p> <p>1c - risk assessing pre-employment checks and considering allowing some checks to be received after the candidate is in post, with safeguards operating on the duties undertaken, and with probation dependent on clearance.</p> <p>1d - recording progress through processes together with outcomes, and drawing the information recorded into metrics including time to fill.</p> <p>1e - forcing interview date to be set on</p>



Audit	Scope	Level of assurance provided	Recommendations			
			High	Med	Low	
						<p>job adverts.</p> <p>1f - enforcing timescales for deciding on appointable and preferred candidates post-interview.</p> <p>1 The whole cost of the recruitment and the value of the associated control benefits should be identified and broken down in order to determine which elements add value to the authority.</p> <p>2 The service is due to migrate to a new system under EMSS - the opportunity should be taken to capture the improvements to processes identified here into the new system and link it to indexed documentation which could</p> <ul style="list-style-type: none"> <li>•speed up the processes</li> <li>•reduce the bureaucratic burden</li> <li>•improve tracking and communication between recruitment, hiring managers and candidates</li> <li>•enable metrics to be obtained, evaluated and acted upon</li> <li>•maintain and improve control, approval processes and evidence</li> </ul>

Audit	Scope	Level of assurance provided	Recommendations			
			High	Med	Low	
						<p>over the whole recruitment process</p> <ul style="list-style-type: none"> <li>• reduce the recruitment process lifecycle costs</li> </ul> <p>6 The opportunities afforded by migration to Oracle should be used to enforce consistent application of necessary controls (see 2 above).</p> <p>7 Documents required should be electronically captured and indexed and linked to the relevant system information.</p> <p>11 The Director of HROT should contact Directors and Heads of Service reminding them to consult with Job Evaluation team when specifying the job or designing the service/ restructuring to improve the process outcomes and prevent later delays.</p>
Business Rates	<p>The scope of this review was to look at the following aspects of the system:</p> <ul style="list-style-type: none"> <li>• The 2010/11 final accounts process (including write-offs),</li> </ul>	Significant	0	0	1	

Audit	Scope	Level of assurance provided	Recommendations		
			High	Med	Low
	<ul style="list-style-type: none"> <li>• Transfer of balances between old &amp; new year</li> <li>• Opening debit for 2011/12.</li> <li>• Banding and Rateable value updates and reconciliation to Valuation Office lists,</li> <li>• Programmes for review of discounts and exemptions and review of reliefs</li> <li>• Reconciliations of income and operation of suspense accounts</li> <li>• Refunds</li> <li>• Debt recovery and in year write-offs</li> </ul>				
Council Tax 2011	<p>The scope of this review was to look at the following aspects of the system:</p> <ul style="list-style-type: none"> <li>• The 2010/11 close-down process (including write-offs),</li> <li>• Transfer of balances between old &amp; new year</li> <li>• Opening debit for 2011/12.</li> <li>• Banding and Rateable value updates and reconciliation to</li> </ul>	Significant	0	1	0

Audit	Scope	Level of assurance provided	Recommendations		
			High	Med	Low
	Valuation Office lists, <ul style="list-style-type: none"> <li>• Programmes for review of discounts and exemptions and review of reliefs</li> <li>• Reconciliations of income and operation of suspense accounts</li> <li>• Refunds</li> <li>• Debt recovery and in year write-offs</li> </ul>				
Treasury Management	The scope in the Audit Brief was agreed with the Head of Strategic Finance and covered the following aspects: <ul style="list-style-type: none"> <li>• The existence of an agreed Treasury Management strategy for 2011/12 that follows the CIPFA Treasury management code.</li> <li>• The review of current processes to ensure the Treasury Management strategy is complied with.</li> <li>• The review of debt management and restructure in accordance with declared strategy.</li> <li>• The review of controls in place to ensure that investment</li> </ul>	High	0	1	1

Audit	Scope	Level of assurance provided	Recommendations		
			High	Med	Low
	<p>opportunities are appropriately identified and a sound authorisation process is applied.</p> <ul style="list-style-type: none"> <li>• The existence and coverage of fidelity guarantees for all appropriate staff.</li> <li>• The follow-up of previous recommendations to ensure that they have been implemented (including the review of IT controls over the Logotech system).</li> <li>• Ensure that an effective process is operating to recover sums invested in Icelandic banks and progress is being reported appropriately.</li> </ul>				
Estate Rents	<p>The agreed scope for this audit covered:</p> <ul style="list-style-type: none"> <li>▪ The process for setting up new tenancies and the related lease/agreement.</li> <li>▪ The setting of accurate rental charges</li> <li>▪ The recording, posting and reconciling of income within the Rents system</li> <li>▪ Reconciliation of income to the</li> </ul>	Significant	0	0	0

Audit	Scope	Level of assurance provided	Recommendations		
			High	Med	Low
	<p>One World system</p> <ul style="list-style-type: none"> <li>▪ Recovery action in relation to all outstanding rents</li> <li>▪ The write-off process</li> </ul>				
Bank Reconciliation	The scope of this review was to concentrate on reviewing the reconciliation processes in place in respect of the Drawings and General Accounts.	Significant	0	0	0

## FINAL AUDIT REPORTS ISSUED 1ST OCTOBER TO 31ST DECEMBER 2011

Department	Audit	Level of Assurance	Recommendations Accepted		
			High	Medium	Low
Children and Families	Early Years Spending Formula	Significant	1	0	0
	Putting People First	Significant	1	2	2
<b>Children and Families Total</b>					
Children and Families - Schools	Berridge Junior	Limited	5	0	0
	Cantrell Prim. & Nursery	Limited	7	6	0
	South Wilford Endowed C of E Vol. Aided	Significant	4	0	0
	Stanstead Prim. and Nursery	Limited	7	5	1
<b>Children and Families - Schools Total</b>					
			<b>23</b>	<b>11</b>	<b>1</b>
Development	Adaptations & Renewals	Significant	4	3	0
	Property Management	Limited	1	1	1
<b>Development Total</b>					
			<b>5</b>	<b>4</b>	<b>1</b>
Resources	Business Rates	Significant	0	0	1
	Council Tax 2011	Significant	0	1	0
	Land Charges	Significant	1	3	0

Department	Audit	Level of Assurance	Recommendations Accepted		
			High	Medium	Low
	Recruitment	Limited	11	7	0
	Treasury Management	High	0	1	1
	Estate Rents	Significant	0	0	0
	Bank Reconciliation	Significant	0	0	0
<b>Resources Total</b>			<b>12</b>	<b>12</b>	<b>2</b>
<b>Grand Total</b>			<b>42</b>	<b>29</b>	<b>6</b>



SUMMARY OF PROGRESS ON THE UPDATED AUDIT PLAN TO 31<sup>ST</sup> DECEMBER 2011

Audit Title	Audit Outline	Annual Plan	Due to Dec	Actual Days
<b>1. Chief Executive</b>				
Strategic Risk 19 - Failure to deliver the Council Plan	Review of evidence in place to mitigate risks	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	Review of evidence in place to mitigate risks	10	0	2
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	Review of evidence in place to mitigate risks	13	0	0
Strategic Risk 3 - Failure to mitigate the impact of the economic climate on the Nottingham City and its citizens	Review of evidence in place to mitigate risks	15	5	2
Impact of Finance Changes	Scope to be determined	10	0	0
<b>2. Children &amp; Families</b>				
Strategic Risk 6 - Failure to safeguard vulnerable children	Review of evidence in place to mitigate risks	9	0	9
Strategic Risk 25 - Failure to develop a strong and well resourced commissioning programme	Review of evidence in place to mitigate risks	15	0	0
Supporting People	Assessment of high level controls supported by compliance testing to give assurance over the operation	8	8	7

Audit Title	Audit Outline	Annual Plan	Due to Dec	Actual Days
	of the control environment (Key System)			
Foster Carers	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment. Supports work undertaken by Audit Commission	22	22	19
Schools assessments	Rolling assessment of the financial arrangements within schools	80	50	56
Schools Themed Audit - Payroll / Recruitment	Assess recruitment practices across schools	6	6	3
Schools Themed Audit - Procurement	Assess procurement arrangements across a sample of schools	12	12	12
Disability Services	Audit of the disability service ahead of a life cycle of disability commissioning review which will take place later in the year	15	15	18
School Place Planning	Support in respect of supply 'v' demand of school place planning in the primary sector	10	0	13
e-Enabled Common Assessment Framework (eCAF)	Assessment NCC's arrangements against accreditation criteria.	1	1	1
Schools Financial Value Standard (SFVS)	Assistance with the implementation of the standard	5	5	2
<b>3. Communities</b>				
Strategic Risk 5a - Failure to safeguard vulnerable adults	Review of evidence in place to mitigate risks	15	0	0
Strategic Risk 22 - Failure to achieve national policy requirement and targets for "Putting People first"	Review of evidence in place to mitigate risks	20	20	19
Personal Budgets	Assess current financial arrangements against CIPFA guidance. Contributes to the City's response to "Protecting the public purse"	20	20	0

Audit Title	Audit Outline	Annual Plan	Due to Dec	Actual Days
Parking Services	Review of improvements to internal controls	10	0	0
Carbon Reduction Commitment	Assistance with the CRC Information Pack	5	5	2
Client Cash	Re-visit the arrangements in place to manage client accounts within residential establishments and day centres	23	23	22
Highways	Re-visit to consider how organisational changes have affected controls within the system. Test client/contractor arrangements	5	0	0
<b>4. Development</b>				
Housing Rents	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	12	12	13
Strategic Risk 13 - Workplace Parking Levy/ Net Phase Two	Re-visit the arrangements in place to collect the levy. Include assessment of the funding contribution towards NET Phase Two	15	15	0
Future Jobs Fund	Reconciliation of payments made to employers with available evidence	80	80	81
Nottingham Jobs Fund	Assessment of the processes for administering scheme	5	0	1
Building Control	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment	17	17	16
Adaptations & Renewals Agency	Review of arrangements for administering grant aid	21	21	25

<b>5. Resources</b>					
Strategic Risk SR14 -Failure to deliver cultural change	Review of evidence in place to mitigate risks	5	5	1	
Strategic Risk 1 - Failure to implement harmonised pay, grade & terms & conditions, fair to all colleagues & Equal Pay legislation compliant	Assistance with phase 2 implementation (schools)	10	10	0	
Treasury Management	Assessing high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	16	16	22	
Budgetary Control	Consider the budget set up process and budget monitoring arrangements. (Key System)	21	21	11	
Main Accounting System / IFRS	System reconciliation and posting to General Ledger (Key System)	23	23	14	
Bank Reconciliation	Review of accounts to ensure reconciliations are both complete and accurate	5	5	6	
Capital	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	20	20	16	
Payroll / HR	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System). To include use of COPS to record overtime / enhancements	25	25	26	
Payroll Overpayments	Review of arrangements for managing salary overpayments	20	20	24	
Payroll - Confirmation of Establishment	In preparation for EMSS, assessment of the arrangements in place to capture and confirm the establishment. This is a long-standing weakness.	12	12	0	
Colleague Mileage Claims	Request to assess the levels of mileage claims submitted by colleagues	10	10	11	
Recruitment	Assessment of the current recruitment process	15	15	16	

Creditors	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System). Allocation reflects concerns with impact of the changes to the system	20	20	24
Sundry Income	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	16	16	26
Estate Rents	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	16	16	20
Cash Collection	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	14	14	13
Council Tax	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	22	22	21
Business Rates	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	21	21	22
Benefits	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	28	28	1
Adult Residential Services Finance	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	17	17	13
Pensions	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment. To include the new arrangement for NCC to directly input to the County Council's Axise System	25	25	27
Deputyship / Safeguarding	Review of arrangements to manage client funds	18	0	0
Early years single funding formula	Review of data capture and formula	9	9	8

Local Land Charges	Assessment of the property charge process plus ring fenced account/compliance with new regulations	20	20	19
<b>6. Corporate Audits</b>				
Governance Statement (SRR 10)	AGS Process	35	25	14
Risk Management	Audit of arrangements in place	10	7	5
Contract Audit	Ongoing audit of final accounts	10	8	5
IT Audit	Ongoing audit of key IT risks	50	40	24
Grants	Ongoing work on a number of grant claims	20	20	9
Councillors / Colleagues Expenses	Sample testing of claims, including new staff travel arrangements	18	18	5
Introduction of new ERP system/Shared Services	Assessment of arrangements / work with colleagues	50	30	35
Constitution / Financial Regulations	Contribution to revision of documents	5	5	5
VFM Audit	Use of Consultants	12	12	12
<b>7. Counter Fraud</b>				
Responding to 'Protecting the Public Purse'				
Counter Fraud Strategy / Arrangements	Review of strategy / current arrangements	15	10	14
Impact of the recession	Assessment of areas that may be at risk of fraud	5	0	0

Training / awareness	Initiatives to increase awareness	30	25	30
Recruitment Fraud / Safeguarding	Assess vetting procedures for new employees against good practice and also assess vetting of current staff. (To include communication and literacy tests)	15	0	1
Counter Fraud Activities	Co-ordinate counter fraud activities, liaise with Audit Commission	20	20	18
National Fraud Initiative (NFI)	Co-ordinate the City's response to the next NFI exercise	25	25	32
Departmental Activities	Liaison with colleagues regarding anti-fraud activities	10	10	6
Money Laundering	Review of current arrangements and awareness	12	12	12
Whistleblowing	Development of current arrangements	10	10	9
Procurement	Assess the robustness of NCC arrangements for preventing fraud and obtaining VFM. Measure against recommended good practice	21	21	3
<b>Other</b>				
Data Matching	Pro-active data matching to identify potential fraud including scheduled duplicate payments (AP) run	20	15	14
Establishment Checks	Continue a programme of checks on cash, assets, hospitality registers etc in various locations	8	8	4
<b>8. Companies / ALMO etc</b>				
Nottingham Ice Centre	Provision Internal Audit for the NIC	20	20	10
Partnership Working	Working with other organisations (IA) for example Notts County Council	10	7	4
<b>9. Consultancy, Advice and Support</b>				

Contingency for adhoc work - General	To allow for requests from senior management or the need to undertake ad hoc assignments as they arise	200	175	240
Advice	Liaison with departments including general/contract advice including advice re capital projects	20	15	26
<b>10. Other Work</b>				
Recommendations Monitoring	Ongoing follow up and monitoring of implementation of recommendations	10	5	7
Audit of Charity and other Accounts	Lord Mayor's, Hanley & Gellesthrope, Highfields, Harvey Haddon, Staff Accounts	20	20	8
Development of the Internal Audit Service	Working towards Shared Services	10	7	0

**Total Days**

**1,588**

**1,297**

**1,216**