

REPORT OF THE DIRECTOR OF STRATEGIC FINANCE

INTERNAL AUDIT ANNUAL REPORT 2011/12 AND INTERNAL AUDIT CHARTER

1. PURPOSE OF THE REPORT

This report outlines the work of the Internal Audit (IA) service at the end of the fourth quarter 2011/12 and introduces the Internal Audit Charter (the Charter). The report includes the Head of Internal Audit's (HoIA) annual opinion on the effectiveness of the internal control systems operating within the City Council and its significant partnerships.

2. RECOMMENDATIONS

- 2.1 To note the audit work completed during the year.
- 2.2 To note the Head of Internal Audit's Annual Opinion.
- 2.3 To select two audits from **Appendix 1** for examination at the November meeting.
- 2.4 To endorse the Internal Audit Charter at **Appendix 5**.

3. REASONS FOR CONSIDERATION

- 3.1 The Audit Committee's Terms of Reference include receiving an annual report on the work of IA. The CIPFA Code of Practice for Internal Audit in Local Government 2006 requires that the HoIA provides a written report to those charged with governance, to support the Annual Governance Statement. This report should include an opinion on the overall adequacy and effectiveness of the organisation's control environment.
- 3.2 IA operates within professional standards as laid down in the CIPFA Code of Practice. The Charter is the embodiment of the Terms of Reference for the service, defining objectives and responsibilities. The Code of Practice states that the Charter should be produced and subject to regular review, and be approved and routinely reviewed by the organisation.
- 3.3 One of the Audit Committee's roles is to review and monitor the work of IA and the Charter is one of the key statements which it may use to judge the performance and effectiveness of the service.

4 OVERVIEW OF WORK UNDERTAKEN

- 4.1 The Accounts and Audit Regulations 2011 state that local authorities should maintain an adequate and effective system accounting for the resources it uses and an effective system of internal control.

- 4.2 The IA service impacts on corporate objectives by bringing a systematic disciplined approach to improve the effectiveness of risk management control and governance processes and is an important part of the Council's governance and control framework.
- 4.3 The coverage set out in the 2011/12 Audit Plan has been substantially achieved and the associated Performance Indicator targets have been met.
- 4.4 The assurance gained from this activity together with that gained from a review of other control and assurance mechanisms, has enabled the HoIA to give a reasonable assurance that the internal control systems are operating effectively within the Council and its significant partnerships.

5 REVIEW OF THE YEAR

Reports to the Audit Committee

An important part of the IA service is to inform the Audit Committee (the Committee) about the adequacy of the Council's governance and internal control systems and an important role of the Committee is to oversee the performance of the IA service. **Table 1** lists the reports the Committee has received from the HoIA during the last year.

| TABLE 1: REPORTS FROM HEAD OF INTERNAL AUDIT | |
|--|--|
| Report | Purpose |
| Annual Governance Statement 2010/11 | Informed councillors about the overall control environment. |
| Internal Audit Quarterly Reports 2011/12 | Allowed the Committee to review the performance of the service. |
| Internal Audit Reports Selected for Examination | Allowed councillors to gain a detailed view of some of the services reviewed and gain a clear insight into how and why work was undertaken. |
| Role of Audit Committee and Work Programme 2011/12 | Helped the Committee to determine a work programme aligned to its Terms of Reference. |
| Internal Audit Charter | Informed the Committee of the rationale underpinning the service, the standards it would meet, and the way it interfaced with the City Council and its partners. |
| Bribery Act 2010 and Counter Fraud Strategy 2011/12 | Informed councillors of the policies and procedures in place by the Council to address the risk of fraud. |
| Internal Audit Annual Plan 2011/12 & IA Strategic Plan 2009-2012 | Informed councillors of the impending work programmes and how this work impacted on the Council Plan. |
| Internal Audit Annual Report 2010/11 | Gave the Committee an overview of the work undertaken by IA and gave the HoIA's opinion in respect of the Council's overall control environment. |

5.1 IA Activity

The following outlines the IA work completed in 2011/12.

Local Performance Indicators

Table 2 illustrates how the service has met its key quality and output objectives as reflected in its Charter and agreed by the Committee.

| TABLE 2: PERFORMANCE OUTTURN | | | | |
|-------------------------------------|---|---------------|--|-----------------|
| Indicator | | Target | Actual Year to 31/03/12 | Comments |
| 1. | % of all recommendations accepted | 95 | 99 | Above target |
| 2. | % of high recommendations accepted | 100 | 100 | On target |
| 3. | Average number of working days from draft agreed to the issue of the final report | 8 | 3 | Above target |
| 4. | Number of key / high risk systems reviewed | 15 | 15 | On target |
| 5. | % of colleagues receiving at least three days training per year | 100 | 100 | On target |
| 6. | % of customer feedback indicating good or excellent service | 85 | 93 | Above target |

Resources Used

During 2011/12 the IA establishment operated with 11 FTE posts out of an approved establishment of 13. Colleagues in post were professionally qualified and/or had extensive practical experience in the public sector. All colleagues participated in personal development reviews and received at least three days training according to business needs.

The 2011/12 net budget for the service was £415,217. However the final outturn shows an under-spend of £6,000.

Service Quality and Compliance with CIPFA Code of Practice

The service works to a Charter (**Appendix 5**) approved by the Committee. This Charter governs the work undertaken by the service, the standards it adopts and the way it interfaces with the Council. 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. It has adopted the principles contained in the CIPFA Code of Practice 2006 and has fulfilled the requirements of the Account and Audit Regulations 2011 and associated regulations in respect of the provision of an IA service.

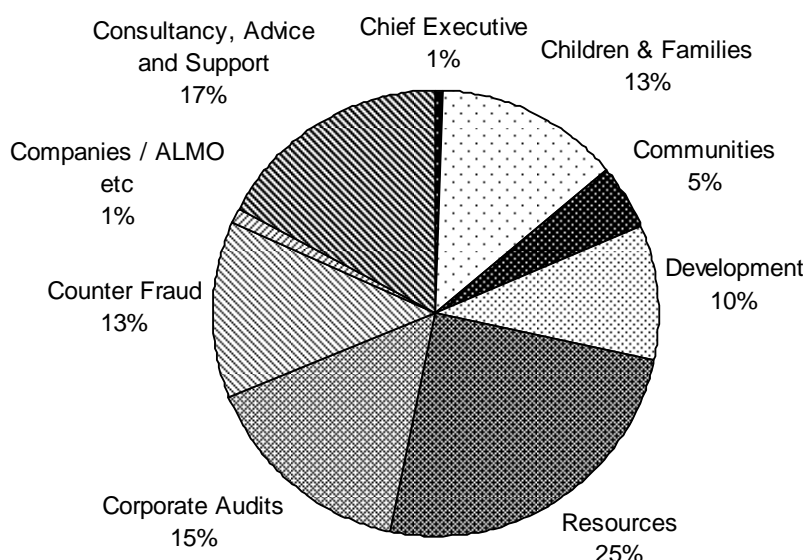
The service has internal quality procedures in place and has been ISO9002 reaccredited annually since 2000.

Audit Plan

The Audit Plan and quarterly monitoring reports were presented to the Committee throughout the year, detailing progress against the Plan. The final outturn for 2011/12 is shown in **Table 3** below and the audit coverage across departments and other service areas is shown in **diagram 1**.

| Table 3: Plan Outturn | | |
|-----------------------|--------------------|--|
| Total Planned Days | Actual End of Year | Comments |
| 1,588 | 1,524 | 96% Plan Achieved – within accepted practice |

Diagram 1 Internal Audit Coverage by Department



Excluding schools, eight audits were completed in the final quarter. **Appendices 1 and 2** give details of the findings of the non-school audits together with an outline of the recommendations and levels of assurance given. A list of the audits completed for the whole year, the level of assurance given and the number of recommendations made is given in **Appendix 3**.

Actual planned days have been sufficient to substantially complete the Audit Plan. **Appendix 4** contains the detailed Plan. In accordance with normal practice, the Plan was flexed during the year and changes were reported to the Committee.

Recommendations analysis by risk

Table 4 shows the total of all recommendations made in the period. Overall performance is within the IA target of 95% of all recommendations and within tolerance of 100% for high recommendations. **Appendix 3** shows the breakdown of recommendations made in audit reports.

| TABLE 4: RECOMMENDATIONS ACCEPTED | | |
|--|----------------|-------------|
| | 2011/12 | |
| | All | High |
| Total recommendations made | 228 | 129 |
| Rejected | 2 | 0 |
| Total accepted | 226 | 129 |
| Percentage accepted | 99 | 100 |

Head of Audit's Annual Opinion 2011/12

The HoIA is required to give an opinion on the overall adequacy by the CIPFA Code of Practice for Internal Audit in Local Government 2006. Corporate Directors are responsible for ensuring that proper standards of internal control operate within their directorates. IA reviews these controls and gives an opinion in respect of the systems and processes put in place. The IA service works a risk based Audit Plan agreed with Corporate Directors and agreed by the Committee.

The audit work concludes with a report detailing the findings and giving an overall level of assurance.

The 2011/12 Audit Plan has been completed in accordance with the professional standards set for the service. The IA service has undertaken reviews of the internal control procedures in respect of the key systems and processes of the Council and its partners, where appropriate. The service has operated within professional standards as laid down by the Chartered Institute of Public Finance and Accountancy (CIPFA) and in accordance with its Charter.

Planned work has been supplemented by ad hoc reviews in respect of irregularities and other work commissioned by Corporate Directors or the partners of the City Council and the work undertaken by external review agencies. Reports in respect of all reviews have been issued to the responsible colleagues, together with recommendations and agreed action plans. Further, each quarter a list of reports has been sent to the Committee for consideration.

Level of Assurance Given in Audit Reports

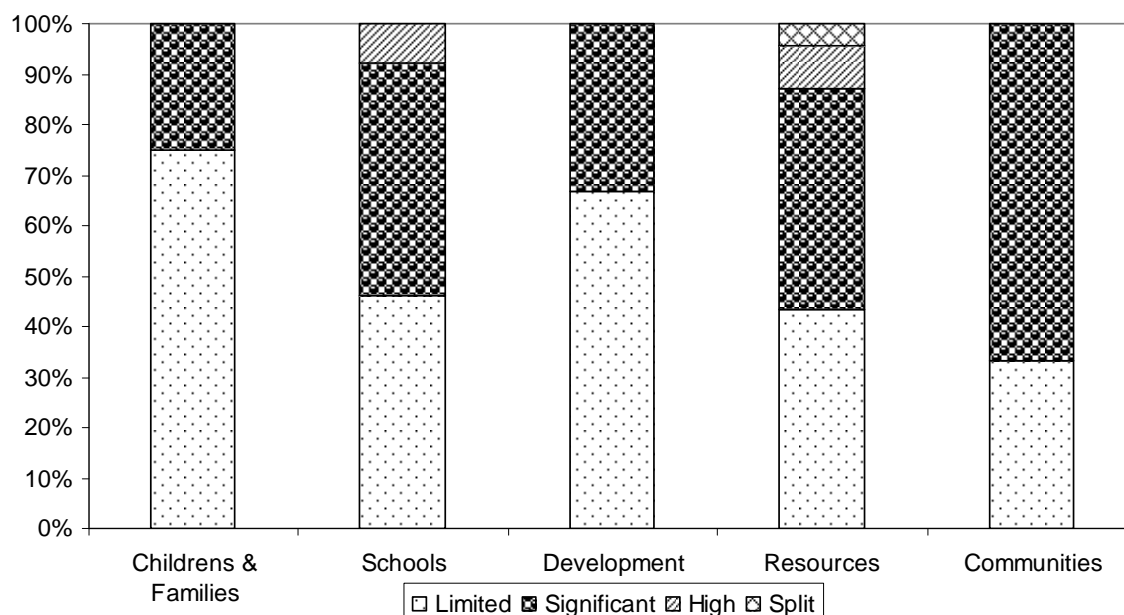
Work undertaken gives a level of assurance to be derived from the findings based on the following definitions:

| | |
|-----------------------|--|
| High Assurance | High assurance that the system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed. Our work found some low impact control weaknesses which, if addressed, would improve overall control. These weaknesses are unlikely to impair the achievement of the objectives of the system. |
|-----------------------|--|

| | |
|------------------------------|---|
| Significant Assurance | Significant assurance that there is a generally sound system of control designed to meet the organisation's objectives and that controls are generally being applied consistently in the areas reviewed. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk. |
| Limited Assurance | Limited assurance as weaknesses in the design or inconsistent application of controls put the achievement of the organisation's objectives at risk in the areas reviewed. |
| No Assurance | No assurance as weaknesses in control, or consistent non-compliance with key controls, could result in failure to achieve the organisation's objectives in the areas reviewed. |

Diagram 2 illustrates the assurance given to Corporate Directors during the year.

Diagram 2: IA assurances given by department 2011/12

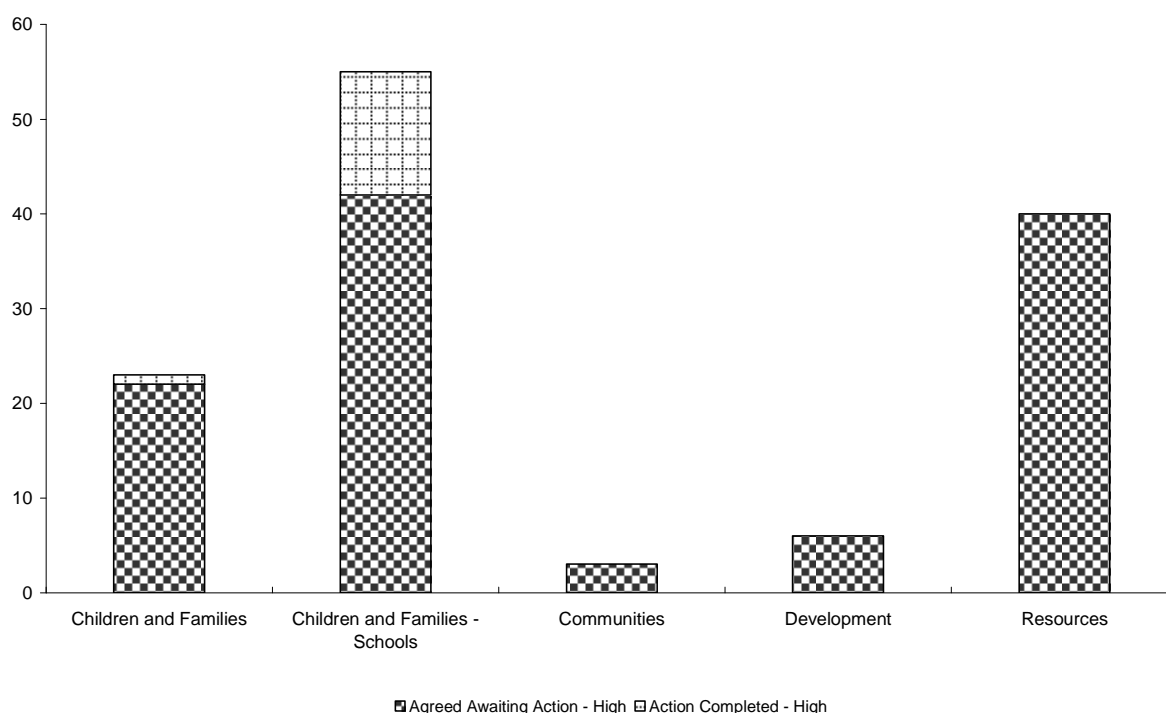


A level of assurance was given in all the reports issued and no service received a report giving no assurance. The diagram reveals a consistent picture of assurance across the directorates. The assurance given informs Corporate Directors' opinion of their corporate governance arrangements and ultimately helps them give assurance for the Annual Governance Statement. For those areas receiving significant and limited assurances, recommendations were made to address the issues and risks identified. The HoIA judges that the action taken to date to address these issues has been proportionate and timely enough to mitigate the risks involved.

High Risk Recommendations Made and Outstanding

High risk recommendations are monitored and those outstanding beyond their target date are reported to the Committee. The HoIA believes that Corporate Directors have acted appropriately to address the recommendations reported to them. **Diagram 3** illustrates the recommendations made and implemented by directorate, and those still in the process of implementation.

Diagram 3: High Risk Recommendations



Risk Themes

Recommendations made are categorised into themes to reflect the main element of the weaknesses they are trying to address. **Diagrams 4 and 5** show that the main areas of weaknesses found were in the operation of internal controls. The diagrams demonstrate that internal control is the main theme of the recommendations made, and that a similar pattern exists across departments. The recommendations made to address the issues underpinning the themes strengthen the control environment and help the Council use its resources in the most appropriate way to achieve its objectives.

Diagram 4: Risk Themes

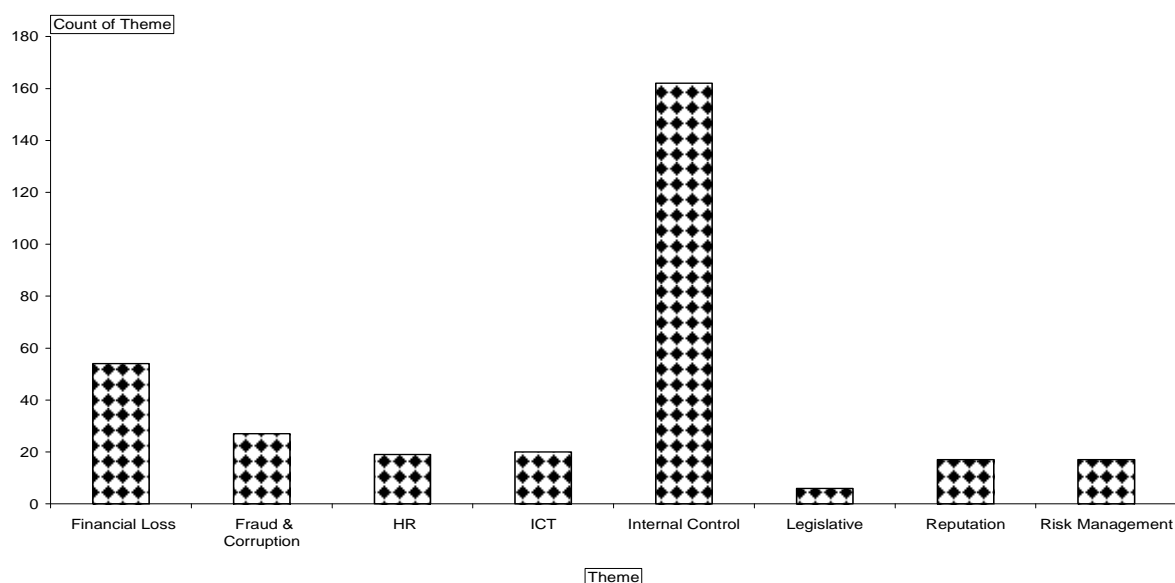
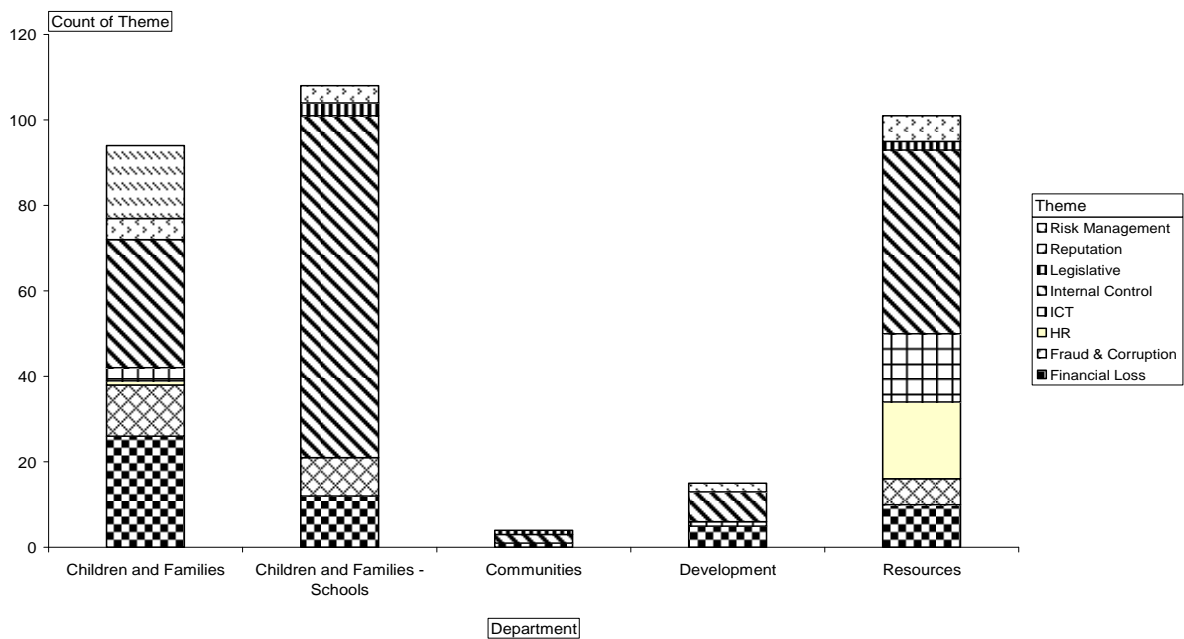


Diagram 5: Analysis of risk themes by department



Opinion

2011/12 again saw significant challenges and risks experienced by the Council. The HoIA has continuously reviewed these risks and allocated resources where necessary, in order to deliver the assurance embodied in the Audit Plan.

The HoIA has conducted a review of all IA reports issued in 2011/12, external sources of assurance given by independent review bodies and internal assurances from Corporate Directors and key colleagues in respect of measures in place to identify and control key risks to the Council’s objectives.

In conclusion, although no systems of control can provide absolute assurance, nor can IA give that assurance, on the basis of the audit work undertaken during the 2011/12 financial year, there have been no significant issues (as defined in the CIPFA Code of Practice) reported by IA. Furthermore, on the basis of the audit work undertaken during the 2011/12 financial year, covering financial systems, risk and governance, the HoIA is able to conclude that a reasonable level of assurance can be given that the internal control system is operating effectively within the Council, its significant partners and associated groups.

6 BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

None

7 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- Accounts and Audit Regulations 2011
- Audit Plan 2011/12
- CIPFA SOLACE Delivering Good Governance in Local Government
- CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006)

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| List of Appendices | |
|---------------------------|--|
| Appendix 1 | List of all reports issued during Q4 with analysis of recommendations by risk |
| Appendix 2 | List of final Audit reports issued 1 st October to 31 st December 2011 |
| Appendix 3 | List of all reports issued during 2011/12 with analysis of recommendations by risk |
| Appendix 4 | Internal audit Plan 2011/12 |
| Appendix 5 | Internal Audit Charter |

Appendix 1

All reports issued in Q4 with Analysis of Recommendations by risk

| Audit | Scope | Level of assurance provided | Recommendations | | | |
|------------------------|---|-----------------------------|-----------------|-----|-----|---|
| | | | High | Med | Low | |
| Client Cash | The scope of this review was to undertake unannounced spot checks of residential establishments operated by the City and perform checks on the client cash, client property and the petty cash accounts. | Limited | 1 | 5 | 0 | 5.02 Receipts for expenditure must be obtained for all transactions |
| Foster Care & Adoption | <p>The scope of the audit focussed primarily on the role of the Senior Creditors Officer which has been incorporated into the service this year, and the Foster Care/Adoption System which is a Microsoft Access based database system developed within the City Council around 10 years ago. The scope agreed was:</p> <ul style="list-style-type: none"> Access controls around the Foster Care/Adoption System Process of data back-up and retention Payments made to foster carers and adopters Debt recovery where overpayments have been generated The review did not cover the corporate accounts payable process | Limited | 9 | 3 | 3 | <p>01 The service should review its process for authorising payment runs, and agree a revised process with the portfolio holder.</p> <p>03 The service should design and commission additional reports from the Foster Care/Adoption System in order to better understand and profile expenditure, supporting more accurate budgeting and budget monitoring.</p> <p>04 The service may wish to consider whether there would be benefits in bringing together staff in similar roles dealing with Disabilities, High Cost Placements, and 18+, to provide a measure of</p> |

| Audit | Scope | Level of assurance provided | Recommendations | | |
|-------|---|-----------------------------|-----------------|-----|--|
| | | | High | Med | Low |
| | which has been covered as part of a review of the main financial systems. | | | | <p>cover for the roles, supervision and a consistent approach.</p> <p>06 As part of a wider programme of system amendments, reports to manage means tested allowance reviews should be commissioned from IT.</p> <p>Two reports might be necessary based on the same data.</p> <ul style="list-style-type: none"> The first would be a workload summary showing the number and type of allowances with review dates grouped by month including groups for blank dates and historic dates. The second would show the carer, child and allowances falling due for review within a particular selected month/period and might also show other children and allowances and date due for review for those carers. The reports would allow means tested allowance reviews workload to be assessed and managed enabling compliance with legislation. <p>A further report might show adjustments to non-reviewed</p> |

| Audit | Scope | Level of assurance provided | Recommendations | | | |
|-------|-------|-----------------------------|-----------------|-----|-----|---|
| | | | High | Med | Low | |
| | | | | | | <p>allowances such as fostering, which would help to assess workload.</p> <p>08 A full reconciliation of car loans repaid on the general ledger should be undertaken monthly showing individual balances owing and the amount available to lend. The increase in the amount repaid should also be compared to the amount repaid in the month on the Foster Care/Adoption System and any difference accounted for and corrections or annotations made if necessary on the relevant system.</p> <p>09 An arrangement to commence loan repayments on this loan should be made. Where loan repayments stop the circumstances should be identified and an appropriate arrangement for repayments to recommence should be made with the carer who has received the loan.</p> <p>13 A departmental solution is required in order that the common issues around recording and managing data across children's</p> |

| Audit | Scope | Level of assurance provided | Recommendations | | |
|-------|-------|-----------------------------|-----------------|-----|---|
| | | | High | Med | Low |
| | | | | | <p>social care can be improved. By investing in a common solution the department may be able to realise efficiency savings and should gain access to up to date management information that will support budget decisions concerning the care of young people.</p> <p>14 If a common solution is not provided in the short term then a range of reports and changes to the existing system are required to enable the service to identify and manage workflow effectively, to budget more effectively, to support the integrity of data within the system and to correctly make payments to carers. Some suggestions are set out in the Appendix to this report. These will have to be communicated, specified and developed with IT.</p> <p>15 Overpayments should be reconciled against deductions on the Foster Care/Adoption System and repayments on the general ledger.</p> |

| | | | | | | |
|---------------------------------------|---|-------------------------------------|---|---|---|---|
| Housing Rents 11/12 | The audit aims to provide assurance that the key controls within the Housing Rents system are operating effectively to ensure that the rent debit is raised accurately and the collection of rent is maximised. | Significant | 1 | 5 | 0 | 06 A plan should be set out and followed to achieve target rents over a limited number of years. This plan should consider options such as half-yearly rent increases to stagger the rent rise and lessen the headline percentage increase and moving new tenancies straight to the property target rent as tactics deployed to achieve the goal. |
| Creditors & Remittances | <p>The scope of the review was the key controls within the system covering the following areas:-</p> <ul style="list-style-type: none"> • The entry of invoices onto Oneworld • Authorisation of payments • Controls surrounding the payment runs • Completion of the VAT returns • Control over the cheques <p>In addition to the above a review was carried out of the previous recommendations made during last year's audit.</p> | Split Opinion - Limited/Significant | 2 | 1 | 0 | <p>01 All service areas within the Council should be instructed to adopt the corporate approach and procure goods and services via the Oneworld system.</p> <p>03 The Payee Control Report should be reviewed prior to every payment run.</p> |
| IT Controls – Password Administration | <p>The scope of the audit included:</p> <ul style="list-style-type: none"> • Reviewing the password policy; • Arrangements for provision of network access and access to applications; • Arrangements for ensuring that staff are allocated access to systems in line with need, and have been properly trained, cleared and | Limited | 3 | 5 | 2 | <p>01 Adopt the Security Policy.</p> <p>05 Steps should be taken to ensure that individuals responsible for any actions can be identified.</p> <p>08 Ensure the software planned to uniquely identify those using 'Admin' accounts and reduce the</p> |

| | | | | | | |
|-------------------------------------|--|---------|---|---|---|---|
| | <p>authorised to access sensitive records;</p> <ul style="list-style-type: none"> • Arrangements for dealing with changes in access to take account of issues such as change of role, maternity leave, long term sickness etc; • Treatment of leavers; • Issues arising from 'hot desk' approach; • Homeworking; • Complexity of passwords and monitoring their use; • Reporting breaches in password security; • Establishing what steps the Council is taking to ensure its reputation is not damaged if security is breached. | | | | | number of people with access to such accounts in introduced at an early date. |
| Logical Security - Penetration Test | <p>The scope of the audit included:</p> <ul style="list-style-type: none"> • Establishing what actions have been taken to address the constituent risks identified in the penetration test report. In particular: <ul style="list-style-type: none"> o software version control and the use of outdated software; o centralised administration of network services; o security monitoring; o access to privileged accounts; and o logging on domain controllers. • Assess whether the Council can take reassurance that the actions taken to address the risks identified by the penetration test, and the resultant | Limited | 3 | 0 | 0 | <p>01 Ensure that all the actions identified in the IT action plan, developed following the 2012 penetration test, are completed without delay.</p> <p>02 Develop a security monitoring regime that regularly:</p> <ul style="list-style-type: none"> • Reviews the versions of software in use to ensure that they provide the highest levels of assurance available; and <p>Ensures that strong passwords are used to protect all systems and equipment.</p> |

| | | | | | | |
|---------------|---|---------|---|---|---|--|
| | procedures put in place, will have minimised potential threats. | | | | | 03 Strengthen the arrangements for issuing temporary passes to Loxley House, particularly in relation to staff that have recently left Council employment and those that have 'forgotten' their passes. |
| Payroll 11/12 | <p>The scope of the audit was agreed with the Head of HR Shared Services and concentrated on the following aspects of the system:</p> <ul style="list-style-type: none"> • IT (access) controls • Authorisation and completeness of timesheets • Authorisation, accuracy and review of payroll changes • Payroll authorisation • Production, coverage and review of exception reports • Payroll reconciliation • Budgetary control and verification of staffing • BACS authorisation • Leavers are dealt with accurately • Variations to pay are authorised • Payroll suspense is monitored and cleared regularly • Accuracy of overtime and enhancement payments | Limited | 3 | 3 | 0 | <p>01 A contingency plan should be drawn up to ensure the required staff resources can be sourced.</p> <p>04 Correspondence with potential employees should clearly state that, if employed after the 15th of a month, their first payment will not be until the end of the following month.</p> <p>Payroll should report to the appropriate Director any manager who fails to notify HR/Payroll timeously of any change affecting the payment of salary to an employee. Directors should use this information when assessing the performance of managers.</p> <p>05 Reconciliation of payroll data should be a priority at the end of each pay period with an audit trail being maintained showing any adjustments necessary together with the reason for the imbalance. This should be signed by the Payroll and Technical Manager.</p> |

| | | | | | | |
|---------------|--|---------|---|---|---|---|
| Pensions 2011 | <p>The scope of the audit was set to cover the main risks associated with the administration of pension contributions through the payroll system and their payment over to the respective pension provider.</p> <p>The scope also included the controls and processes adopted and agreed between the Council and the Nottinghamshire Pension Scheme for the direct input of hours, remuneration and contact detail changes to the Axise pension system by the pension section of the City Council.</p> | Limited | 5 | 1 | 0 | <p>1 There needs to be a standard approach documented and adopted for the review process.</p> <p>These should set out the processes to be followed in each case.</p> <p>The processes need to be put in place before the review is extended to cover all currently employed colleagues who are members of the pension scheme</p> <p>2 Issues around COT3 and Single Status payments should be resolved and any changes arising from these that affect pension should be carried out as part of the review process.</p> <p>4 Arrangements should be made to ensure that Pensions colleagues have continued access to detailed historical payroll information.</p> <p>The information available to them should be sufficient to allow the exercise to review the pension data to be fully and accurately completed.</p> |
|---------------|--|---------|---|---|---|---|

| | | | | | | |
|--|--|--|--|--|--|--|
| | | | | | | <p>5 The EMSS project should look to ensure that the automatic updating of relevant employment contract and payroll information to the Axise pension system is included in the project scope.</p> <p>6 A clearly defined project plan needs to be developed, that includes an estimate of the required resources.</p> <p>The plan should detail the steps required to bring the pension data up to date and how this will lead to the issuing of pension statements.</p> <p>The plan should also deal with the demand for redundancy estimates as this will have a resource implication.</p> |
|--|--|--|--|--|--|--|

Final Audit reports issued 1st October to 31st December 2011

| Department | Audit | Level of Assurance | Recommendations Accepted | | |
|--------------------------|---------------------------------------|-------------------------------------|--------------------------|----------|----------|
| | | | High | Medium | Low |
| Children and Families | Client Cash | Limited Assurance | 1 | 5 | 0 |
| | Foster Care & Adoption | Limited Assurance | 9 | 3 | 3 |
| | Children and Families Total | | 10 | 8 | 3 |
| Development | Housing Rents 11/12 | Significant Assurance | 1 | 5 | 0 |
| Development Total | | | 1 | 5 | 0 |
| Resources | Budgetary Control | Significant Assurance | 0 | 4 | 0 |
| | Cash Collections | Significant Assurance | 0 | 3 | 1 |
| | Creditors & Remittances | Split Opinion - Limited/Significant | 2 | 1 | 0 |
| | IT Controls – Password Administration | Limited Assurance | 3 | 5 | 2 |
| | Logical Security - Penetration Test | Limited Assurance | 3 | 0 | 0 |
| | Main Accounting | High Assurance | 0 | 0 | 1 |
| | | | | | |

| | | | Recommendations Accepted | | |
|-------------|-----------------|-------------------|--------------------------|----|---|
| | | | | | |
| | | | | | |
| | Payroll 11/12 | Limited Assurance | 3 | 3 | 0 |
| | Pensions 2011 | Limited Assurance | 5 | 1 | 0 |
| | Resources Total | | 16 | 17 | 4 |
| Grand Total | | | 27 | 30 | 7 |

All Audit reports issued 2011/12 with analysis of recommendations by risk

| Department | Audit | Assurance Level | Recommendations Accepted | | | |
|--|--|-----------------|--------------------------|-----------|----------|-------------|
| | | | High | Medium | Low | Grand Total |
| Children & Families | Client Cash | Limited | 1 | 5 | 0 | 6 |
| | Earl Years Sp Formula | Significant | 1 | 0 | 0 | 1 |
| | Foster Care & Adoption | Limited | 9 | 3 | 3 | 15 |
| | Putting People First | Significant | 1 | 3 | 2 | 6 |
| | Self Directed Support | Limited | 7 | 6 | 2 | 15 |
| | Vulnerable Children | Limited | 4 | 3 | 1 | 8 |
| Children and Families Total | | | 23 | 20 | 8 | 51 |
| Children & Families - Schools | Berridge Junior | Limited | 5 | 0 | 0 | 5 |
| | Blessed Robert Widmerpool RC Primary | Significant | 7 | 0 | 0 | 7 |
| | Cantrell Primary & Nursery | Limited | 7 | 6 | 0 | 13 |
| | Glade Hill Primary & Nursery | Limited | 3 | 0 | 0 | 3 |
| | Glenbrook Primary & Nursery | Limited | 8 | 0 | 0 | 8 |
| | Hadden Park High | Limited | 8 | 0 | 0 | 8 |
| | Highwood Player Jnr. | Significant | 2 | 0 | 0 | 2 |
| | Oak Field School & Specialist Sports College | Significant | 4 | 3 | 0 | 7 |
| | South Wilford Endowed C of E Vol. Aided | Significant | 4 | 0 | 0 | 4 |
| | Stanstead Prim. and Nursery | Limited | 7 | 5 | 1 | 13 |
| | Young Peoples Learning | Limited | | 1 | 1 | 2 |
| Children and Families - Schools Total | | | 55 | 15 | 2 | 72 |

| Communities | Crime & Drugs Partnership | Significant | 3 | 1 | 0 | 4 |
|--------------------|---------------------------------------|---|------------|-----------|-----------|------------|
| | | Communities Total | 3 | 1 | 0 | 4 |
| Development | Adaptations & Renewals | Significant | 4 | 3 | 0 | 7 |
| | Future Jobs Fund | No opinion stated - substantive testing | 1 | 1 | 0 | 2 |
| | Housing Rents 11/12 | Significant | 1 | 5 | 0 | 6 |
| | NET Ph2 - WPL | Significant | 0 | 2 | 0 | 2 |
| | Property Management | Limited | 1 | 1 | 1 | 3 |
| | | Development Total | 7 | 12 | 1 | 20 |
| Resources | Budgetary Control | Significant | 0 | 4 | 0 | 4 |
| | Business Rates | Significant | 0 | 0 | 1 | 1 |
| | Cash Collections | Significant | 0 | 3 | 1 | 4 |
| | Council Tax 2011 | Significant | | 1 | 0 | 1 |
| | Creditors & Remittances | Split Opinion - Limited/Significant | 2 | 1 | 0 | 3 |
| | Land Charges | Significant | 1 | 3 | 0 | 4 |
| | Logical Security - Penetration Test | Limited | 3 | 0 | 0 | 3 |
| | Main Accounting | High | 0 | 0 | 0 | 0 |
| | Money Laundering | Limited | 6 | 0 | 0 | 6 |
| | Payroll 11/12 | Limited | 3 | 3 | 0 | 6 |
| | Pensions 2011 | Limited | 5 | 1 | 0 | 6 |
| | Recruitment | Limited | 11 | 7 | 0 | 18 |
| | Recruitment Fraud | Significant | 7 | 3 | 0 | 10 |
| | Treasury Management | High | 0 | 1 | 1 | 2 |
| | IT Controls - Password Administration | Limited | 3 | 5 | 2 | 10 |
| | | Resources Total | 41 | 32 | 6 | 79 |
| Grand Total | | | 129 | 80 | 17 | 226 |

Reports where no recommendations have been issued:

| Audit | Department | Reason |
|------------------------|------------------------------------|--|
| Housing benefits 2010 | Resources | No recommendations made as previous recommendations remained outstanding |
| Highways Follow-up | Development | Follow-up of previous recommendations |
| Growth Point Grant | Development | Review of expenditure against the grant conditions |
| LCFPP Grant | Resources | Review of expenditure against the grant conditions |
| Mileage Claims | Resources | Briefing note issued as result of investigation |
| Supporting People | Children and Families | High Assurance given |
| Fernwood Infant School | Children and Families - Schools | High Assurance given |
| Growth Point | Development | High Assurance given |

Internal Audit Plan 2012

| Audit Title | Audit Outline | Planned Days | Actual Days |
|---|---|---------------------|--------------------|
| 1. Chief Executive | | | |
| Strategic Risk 19 - Failure to deliver the Council Plan | Review of evidence in place to mitigate risks | 10 | 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 | 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 |
| 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 | 8 |
| Impact of Finance Changes | Scope to be determined | 10 | 0 |
| 2. Children & Families | | | |
| Strategic Risk 6 - Failure to safeguard vulnerable children | Review of evidence in place to mitigate risks | 9 | 9 |
| Strategic Risk 25 -Failure to develop a strong and well resourced commissioning programme | Review of evidence in place to mitigate risks | 15 | 21 |

| Audit Title | Audit Outline | Planned Days | Actual Days |
|--|---|---------------------|--------------------|
| Supporting People | Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System) | 8 | 9 |
| 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 | 20 |
| Schools assessments | Rolling assessment of the financial arrangements within schools | 80 | 88 |
| Schools Themed Audit - Payroll / Recruitment | Assess recruitment practices across schools | 6 | 3 |
| Schools Themed Audit - Procurement | Assess procurement arrangements across a sample of schools | 12 | 14 |
| 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 | 19 |
| School Place Planning | Support in respect of supply 'v' demand of school place planning in the primary sector | 10 | 13 |
| e-Enabled Common Assessment Framework (eCAF) | Assessment NCC's arrangements against accreditation criteria. | 1 | 1 |
| Schools Financial Value Standard (SFVS) | Assistance with the implementation of the standard | 5 | 2 |
| 3. Communities | | | |
| Strategic Risk 5a - Failure to safeguard vulnerable adults | Review of evidence in place to mitigate risks | 15 | 5 |

| Audit Title | Audit Outline | Planned Days | Actual Days |
|---|--|---------------------|--------------------|
| Strategic Risk 22 - Failure to achieve national policy requirement and targets for "Putting People first" | Review of evidence in place to mitigate risks | 20 | 19 |
| Personal Budgets | Assess current financial arrangements against CIPFA guidance. Contributes to the City's response to "Protecting the public purse" | 20 | 4 |
| Parking Services | Review of improvements to internal controls | 10 | 10 |
| Carbon Reduction Commitment | Assistance with the CRC Information Pack | 5 | 2 |
| Client Cash | Re-visit the arrangements in place to manage client accounts within residential establishments and day centres | 23 | 24 |
| Highways | Revisit to consider how organisational changes have affected controls within the system. Test client/contractor arrangements | 5 | 5 |
| 4. Development | | | |
| Housing Rents | Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System) | 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 | 13 |
| Future Jobs Fund | Reconciliation of payments made to employers with available evidence | 80 | 82 |

| Audit Title | Audit Outline | Planned Days | Actual Days |
|--|--|---------------------|--------------------|
| Nottingham Jobs Fund | Assessment of the processes for administering scheme | 5 | 1 |
| Building Control | Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment | 17 | 16 |
| Adaptations & Renewals Agency | Review of arrangements for administering grant aid | 21 | 25 |
| 5. Resources | | | |
| Strategic Risk SR14 -Failure to deliver cultural change | Review of evidence in place to mitigate risks | 5 | 7 |
| 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 | 0 |
| Treasury Management | Assessing high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System) | 16 | 18 |
| Budgetary Control | Consider the budget set up process and budget monitoring arrangements. (Key System) | 21 | 11 |
| Main Accounting System / IFRS | System reconciliation and posting to General Ledger (Key System) | 23 | 15 |
| Bank Reconciliation | Review of accounts to ensure reconciliations are both complete and accurate | 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 | 19 |

| Audit Title | Audit Outline | Planned Days | Actual Days |
|---|---|---------------------|--------------------|
| 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 | 27 |
| Payroll Overpayments | Review of arrangements for managing salary overpayments | 20 | 20 |
| 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 | 0 |
| Colleague Mileage Claims | Request to assess the levels of mileage claims submitted by colleagues | 10 | 11 |
| Recruitment | Assessment of the current recruitment process | 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 | 22 |
| Sundry Income | Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System) | 16 | 18 |
| Estate Rents | Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System) | 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 |

| Audit Title | Audit Outline | Planned Days | Actual Days |
|------------------------------------|--|---------------------|--------------------|
| Council Tax | Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System) | 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 | 22 |
| Benefits | Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System) | 28 | 24 |
| 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 | 18 |
| 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 | 26 |
| Deputyship / Safeguarding | Review of arrangements to manage client funds | 18 | 12 |
| Early years single funding formula | Review of data capture and formula | 9 | 8 |
| Local Land Charges | Assessment of the property charge process plus ring fenced account/compliance with new regulations | 20 | 19 |
| 6. Corporate Audits | | | |
| Governance Statement (SRR 10) | AGS Process | 35 | 23 |

| Audit Title | Audit Outline | Planned Days | Actual Days |
|--|---|---------------------|--------------------|
| Risk Management | Audit of arrangements in place | 10 | 7 |
| Contract Audit | Ongoing audit of final accounts | 10 | 5 |
| IT Audit | Ongoing audit of key IT risks | 50 | 53 |
| Grant Claims / Grants System | Ongoing work on a number of grant claims | 20 | 30 |
| Councillors / Colleagues Expenses | Sample testing of claims, including new staff travel arrangements | 18 | 12 |
| Introduction of new ERP system/Shared Services | Assessment of arrangements / work with colleagues | 50 | 85 |
| Constitution / Financial Regulations | Contribution to revision of documents | 5 | 5 |
| VFM Audit | Use of Consultants | 12 | 12 |
| 7. Counter Fraud | | | |
| Responding to 'Protecting the Public Purse' | | | |
| Counter Fraud Strategy / Arrangements | Review of strategy / current arrangements | 15 | 19 |
| Impact of the recession / Fraud Risks | Assessment of areas that may be at risk of fraud | 5 | 5 |
| Training / awareness | Initiatives to increase awareness | 30 | 41 |

| Audit Title | Audit Outline | Planned Days | Actual Days |
|----------------------------------|---|---------------------|--------------------|
| 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 | 2 |
| Counter Fraud Activities | Co-ordinate counter fraud activities, liaise with Audit Commission | 20 | 20 |
| National Fraud Initiative (NFI) | Co-ordinate the City's response to the next NFI exercise | 25 | 28 |
| Departmental Activities | Liaison with colleagues regarding anti-fraud activities | 10 | 15 |
| Money Laundering | Review of current arrangements and awareness | 12 | 12 |
| Whistleblowing | Development of current arrangements | 10 | 9 |
| Procurement | Assess the robustness of NCC arrangements for preventing fraud and obtaining VFM. Measure against recommended good practice | 21 | 20 |
| Other | | | |
| Data Matching | Pro-active data matching to identify potential fraud including scheduled duplicate payments (AP) run | 20 | 20 |
| Establishment Checks | Continue a programme of checks on cash, assets, hospitality registers etc in various locations | 8 | 4 |
| 8. Companies / ALMO etc | | | |
| Nottingham Ice Centre | Provision Internal Audit for the NIC | 20 | 11 |

| Audit Title | Audit Outline | Planned Days | Actual Days |
|---|--|---------------------|--------------------|
| Partnership Working | Working with other organisations (IA) for example Notts County Council | 10 | 4 |
| 9. Consultancy, Advice and Support | | | |
| Contingency for adhoc work - General | To allow for requests from senior management or the need to undertake ad hoc assignments as they arise | 200 | 230 |
| Advice | Liaison with departments including general/contract advice including advice re capital projects | 20 | 30 |
| 10. Other Work | | | |
| Recommendations Monitoring | Ongoing follow up and monitoring of implementation of recommendations | 10 | 8 |
| Audit of Charity and other Accounts | Lord Mayor's, Hanley & Gellesthrope, Highfields, Harvey Haddon, Staff Accounts | 20 | 12 |
| Development of the Internal Audit Service | Working towards Shared Services | 10 | 0 |
| Total Days | | 1588 | 1524 |

Nottingham City Council – Internal Audit Charter

Introduction

Internal Audit is defined as ‘an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.’¹ The service adds value by bringing a systematic disciplined approach to improve the effectiveness of risk management, control and governance processes.

Independence

A key factor in the effectiveness of Internal Audit is that it is seen to be independent. To ensure this independence, Internal Audit operates within a framework that allows:

- Unrestricted access to senior management
- Reporting in its own name
- Segregation from line operations.

Every effort will be made to preserve the objectivity of the service by ensuring that all audit colleagues are free from any conflicts of interest and do not undertake any non-audit related duties.

Objectives

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner. Internal Audit’s mission is:

“To provide a cost effective, independent, professional and high quality audit service which supports managerial objectives by promoting the highest levels of financial management and probity across the Authority”.

In so doing the service aims to support the effectiveness of the risk management, control and governance processes of the City Council.

Scope

Internal Audit will review and investigate the areas of key risk to the Council’s objectives across the entire range of its activities. In order to fulfil this role the service requires unrestricted access to all the colleagues, records and assets of the Council and/or its partners. In addition, the Head of Internal Audit has unrestricted access to the Chief Executive, Councillors, Corporate Directors and all employees of the City Council and its partners.

¹ CIPFA – Code of Practice for Internal Audit in Local Government in the UK 2006

Each audit or piece of work undertaken will have a clear scope and objectives. Any audit undertaken within the Council and its partners will be conducted under the framework of an agreed audit programme, service level agreement or a clearly defined letter of engagement. This is of particular importance in the management of consultancy where the respective roles, inputs and outputs will be clearly defined and the independence of auditors maintained. Internal Audit work will be co-ordinated with that of external review agencies to provide maximum audit coverage and to prevent duplication of effort where practical.

Responsibility

The main areas of Internal Audit responsibility within the Council will be to:

1. Review, appraise and report on:
 - the soundness, adequacy and application of internal controls as a contribution to the proper control of risk and the economic, efficient and effective use of resources
 - the suitability and reliability of financial and other management data, including aspects of performance measurement
 - the extent to which the assets and interests are accounted for and safeguarded from loss.
2. Aid Corporate Directors in the investigation of fraud and irregularity and develop and implement the Council's Counter Fraud Strategy. Managing the risk of fraud and corruption is the responsibility of management, but the Head of Internal Audit must be informed of any instances to inform his/her opinion on the control environment and to help determine the resources required to manage the associated risks.
3. Advise on the internal control implications of new systems.

Audit Style and Content

The Head of Internal Audit is required to manage the provision of a complete audit service to the Authority which includes risk based, schools, computer and procurement audits. In discharge of this duty, the Head of Internal Audit will prepare a rolling strategic risk-based Audit Plan.

Work Planning

The Head of Internal Audit will produce and maintain a Strategic Plan and an annual operational Audit Plan. These plans will be derived from a comprehensive risk model and after consultation with Corporate Directors. The plans will be presented annually to the Audit Committee and will aim to:

- Support the Responsible Officer in the discharge of the Section 151 duty.
- Contribute to and support the Council's objectives of providing sound financial systems and governance arrangements.

- Provide recommendations and findings designed to enhance the reliability and accuracy of the Annual Governance Statement, financial statements and other published information.

Location

Internal Audit is located within the Resources Department and based in Loxley House, but operates throughout the Council.

Standards

Internal Audit 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 and Audit Regulations 2011 and associated regulations in respect of the provision of an Internal Audit service.

Audit Resources

The Head of Internal Audit will ensure that there are adequate resources available to complete the Audit Plan including appropriate contingencies and to help deliver the opinions required of him/her. The Head of Internal Audit will assess the available resources for the audits to be undertaken, and where a gap is identified will take the necessary steps to procure the required resource.

The establishment comprises professionally qualified colleagues including accountants, technicians and other specialists necessary to resource the varied demands placed upon the service.

Audit Training

The Head of Internal Audit will carry out a continuous review of the development and training needs of all audit personnel and will arrange in-service training including: courses, work experience, coaching, mentoring and other relevant development opportunities.

Audit Reporting

Strategic Reporting

The Head of Internal Audit will:

- Meet regularly with the Council's Chief Finance Officer (CFO) (S151 Officer) who will continuously review the performance and effectiveness of the service.
- Normally report directly to the Council's Director of Strategic Finance. However, where actual or potential conflict of interests are present the Head of Internal Audit may choose to report to the CFO, Chief Executive, Monitoring Officer, Leader of the Council or external agency at his/her discretion.
- Present performance reports to the Audit Committee.
- Provide an annual opinion on the status of the Council's control environment.

Operational Reporting

In the normal course of an audit, a draft report will be sent to the manager(s) responsible for the area under review for agreement to the factual accuracy of the findings. After agreement, the report will be issued to the Head of Service, Corporate Director or client concerned with an appropriate agreed action plan included.

The responsibility for the implementation of agreed recommendations lies with the auditee. Recommendations will be followed up at the next review at the very least or before, depending on the level of associated risk. A copy of the report will also be sent to the Head of Service, Director, Corporate Director, CFO and if necessary the Director of Strategic Finance and Corporate Director for Resources. Currently the Director of Strategic Finance is also the acting CFO and S151 Officer.

On completion of audits a customer satisfaction survey will be undertaken to give feedback on performance and to facilitate continuous performance improvement. The results of these surveys will be included in the service's key performance indicators.

Shail Shah - Head of Internal Audit

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