

REPORT OF DIRECTOR OF STRATEGIC FINANCE

INTERNAL AUDIT PERFORMANCE REPORT – 1ST OCT TO 31ST DEC 2012

1 PURPOSE OF THE REPORT

This report outlines the work of the Internal Audit service (IA) for the third quarter of 2012/13.

2 RECOMMENDATIONS

The Committee:

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

2.2 Selects one audit using **Appendix 1** or **Appendix 2** for examination at the June 2013 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 regular 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** - List of final audit reports issued in the quarter with analysis of recommendations
- **Appendix 2** - Summary of related audit reports completed in the quarter with high risk recommendations and level of assurance
- **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 is currently at or above target as illustrated in **Table 1**.

Table 1 : Performance v PI Targets as at 31/12/2012					
Indicator		Target	Oct to Dec	Actual Year	Comments
1	% of all recommendations accepted	95	100	98	On target
2	% of high recommendations accepted	100	100	97	Within tolerance
3	Average number of working days from draft agreed to the issue of the final report	8	3	5	On target for year end
4	Number of key / high risk systems reviewed	15	9	11	On target for year end
5	% of staff receiving at least three days training per year	100	83	83	On target
6	% of customer feedback indicating good or excellent service	85	100	89	On 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.

TABLE 2: ACTUAL v PLANNED AUDIT DAYS			
Total Planned Days	Actual to date	Profiled Planned Days	Comments
1575	1127	1181	On target for year end

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%).

TABLE 3: RECOMMENDATIONS ACCEPTED 01/10/12 to 31/12/12				
	2012/13		Oct to Dec	
	All	High	All	High
Total recommendations made	228	118	44	21
Rejected	4	3	0	0
Total recommendations accepted	224	115	44	21
% accepted	98	97	100	100

Resources

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

TABLE 4: BUDGET ANALYSIS	
	£
External Income	(138,570)
Expenditure	481,594
Net	342,594

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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FINAL AUDIT REPORTS ISSUED 1ST OCT – 31ST DEC 2012

Department	Division	Audit Name	Assurance Level	Recommendations Accepted			
				High	Medium	Low	
Children & Families	Families/Schools & Learning	Henry Whipple Primary School	Significant	3	0	0	
		Riverside Primary School	Significant	1	3	0	
	Families/Schools & Learning Total			4	3	0	
	Children & Families Total						
Communities	Neighbourhoods & Communities	External Grants old year	Limited	0	6	2	
		Neighbourhoods & Communities Total		0	6	2	
	Communities Total						
Development	Property Services	Corporate Maintenance Framework	No Assurance	12	6	1	
	Property Services Total			12	6	1	
	Development Total						
Resources	HR & Organisational Transformation	Proactive CF - Creditors-Payroll	Counter fraud - No assurance level required	0	1	0	
		HR & Organisational Transformation Total		0	1	0	
	Strategic Finance	Bank Reconciliation	High	0	0	0	
		Cash Collection 2012	High	0	0	0	
		Estate Rents	High	0	0	0	
		Housing Benefits	Limited	2	0	2	
		Housing Benefits (System Set Up)	Limited	1	0	1	
	Strategic Finance Total	Sundry Income 2012	Limited	2	0	1	
		Resources Total					
					5	0	4
				5	1	4	
Grand Total				21	16	7	

APPENDIX 2

HIGH PRIORITY RECOMMENDATIONS ISSUED DURING THE PERIOD 1ST OCT- 31ST DEC 2012

Audit Name	Scope	Opinion	Action Ref (Report ref)	Agreed Action	Recommendations Accepted		
					High	Medium	Low
Corporate Maintenance Framework	<p>The scope of the audit included:</p> <ul style="list-style-type: none"> • Governance arrangements in place in relation to procurement; <ul style="list-style-type: none"> ○ The procurement process; ○ Business case; ○ Issue of tender; ○ Evaluation of tenders; ○ Placing of contract; • Operation of the service provided; • Contract monitoring and arrangements management information; • Assessing the use of the framework contracts and off contract spending; • Assessing the performance measures in place in relation to the contract; • Records management; • Value for money; • Exit arrangements. 	No Assurance	A0860 (3)	Contracts should only be entered into following all required signatures. The contract wording should form one of the evaluation criteria.	12	6	1

Audit Name	Scope	Opinion	Action Ref (Report ref)	Agreed Action	Recommendations Accepted		
					High	Medium	Low
			A0862 (5)	<p>The Council and Woodhead continue to work together to resolve the operational elements of the relationship and that resource from the Council's legal team is made available to ensure that a formal and accurate contract can be finalised and signed.</p> <p>This contract should provide all the checks, balances and safeguards required for arrangements of this nature and facilitate effective contract management by the Council. It should also ensure that mechanisms to assess value for money are in place and that the Council's input is at a level that the proposed savings are realised.</p>			
			A0863 (6)	<p>Ensure that steps are taken to update the register of property assets with a view to jobs only being accepted where they are known to Woodhead.</p> <p>As an interim measure, all jobs</p>			

Audit Name	Scope	Opinion	Action Ref (Report ref)	Agreed Action	Recommendations Accepted		
					High	Medium	Low
				where it has been necessary to enter the properties manually should be flagged up and the asset register amended accordingly.			
			A0864 (7)	Urgent steps should be taken to ensure that duties are segregated or suitable controls put in place to reduce the chance of fraud.			
			A0867 (10)	Urgent steps should be taken to ensure that access controls are fit for purpose and that only a small number of relevant individuals are allowed to change key data in line with their job profile. Activity costs should only be changed with dual authority. Only a small number of Council colleagues should be able to add jobs during office hours. Procedures should be put in place to enforce a change of password by the user every 30 days and steps taken to delete			

Audit Name	Scope	Opinion	Action Ref (Report ref)	Agreed Action	Recommendations Accepted		
					High	Medium	Low
				colleagues no longer in relevant employment. Review each data field and determine who and when it can be changed to ensure that both the Council and Woodhead can have confidence in the data content.			
			A0868 (11)	Data should be validated on entry and cross checks carried out to ensure as far as possible that it is reasonable. The range of job numbers allocated to Nottingham City should be consecutive with no breaks in the numbering sequence. Control totals should be introduced where possible to highlight where activity cost data, for example, has been altered.			
			A0869 (12)	Consider highlighting jobs that attract an uplift on data entry. Each working day all jobs			

Audit Name	Scope	Opinion	Action Ref (Report ref)	Agreed Action	Recommendations Accepted		
					High	Medium	Low
				initiated out-of-hours should be reported to allow council colleagues to ensure that they are in order and have been input properly.			
			A0870 (13)	Consider changing procedures such that only Council colleagues can enter new jobs during working hours.			
			A0871 (14)	Review operational practices to ensure that Woodhead are solely responsible for managing and completing jobs and that payment will only be authorised when jobs are complete in every aspect.			
			A0872 (15)	Enforce the terms of the Framework by asking that the share percentage is calculated for past months where possible and that it is run regularly thereafter. A field should be added to the portal to show the share amount for each job. Review the activity cost tables to ensure the share percentage			

Audit Name	Scope	Opinion	Action Ref (Report ref)	Agreed Action	Recommendations Accepted		
					High	Medium	Low
				can apply to most jobs.			
			A0874 (17)	Ensure that the contractual performance information is obtained from Woodhead and determine what other information is required to ensure that the framework is operating to the benefit of the Council and that value for money can be assessed in terms of cost, performance and customer satisfaction.			
			A0875 (18)	Take action to ensure that Woodhead accept their management role.			
Henry Whipple Primary School	The purpose of this review was to assess the standard of financial management operating within the school. The following areas were examined during the course of the audit: <ul style="list-style-type: none"> • Leadership & Governance • People Management • Policy & Strategy • Processes • Purchasing • Invoice Processing • Banking Arrangements 	Significant Assurance	A0767 (01)	The approval of policies and key decisions made by the Governors should be clearly recorded in the relevant meeting minutes. This should include: <ul style="list-style-type: none"> • Annual approval of the Finance Policy • Traded Services from the LA • Benchmarking results • Statement of Internal Control 	3	0	0

Audit Name	Scope	Opinion	Action Ref (Report ref)	Agreed Action	Recommendations Accepted		
					High	Medium	Low
	<ul style="list-style-type: none"> School Fund 			<ul style="list-style-type: none"> Audited School Fund accounts 			
			A0768 (02)	The School Development Plan should include costs of the initiatives.			
			A0778 (03)	The budget figures agreed by the Governors should be input into FMS6. Any subsequent changes made to the budget should be recorded on Virement forms which should be approved by the Governors.			
Housing Benefits (System Set Up)	<p>The agreed scope covered the following:</p> <ul style="list-style-type: none"> Parameter control ICT controls 	Limited Assurance	A0693 (01)	Training should be provided to remind colleagues about what triggers a change in status from dependant to non-dependant, the date from which it is effective, and about circumstances in which the Working Tax Credit with hours greater than 30 or 16 per week setting should be in place.	1	0	1
Riverside Primary	The purpose of this review was to assess the standard of financial management operating within the school. The following areas were examined during the course of the audit.	Significant Assurance	A0770 (02)	The school should ensure that detailed minutes are taken at committee meetings. The approval of policies and key decisions made by the Governors should be clearly	1	3	0

Audit Name	Scope	Opinion	Action Ref (Report ref)	Agreed Action	Recommendations Accepted		
					High	Medium	Low
	<ul style="list-style-type: none"> • Leadership & Governance • People Management • Policy & Strategy • Processes • Purchasing • Invoice Processing • Banking Arrangements • Voluntary Funds 			<p>recorded in the relevant meeting minutes.</p> <p>Declarations of interest should be prompted by including this as a separate agenda item and evidence of this item being raised and any resulting declaration of interest should be recorded in the minutes.</p> <p>The school may find it helpful to use the committee agenda templates provided on the Schools Extranet site.</p>			
Sundry Income 2012	<p>The agreed scope of the audit focused on the following aspects of the system.</p> <ul style="list-style-type: none"> • Raising of invoices is accurate and timely • Requests for credit notes are authorised • Suspense account is monitored and cleared appropriately • Debtors are reconciled • Debts are actively pursued 	Limited Assurance	A0799 (02)	<p>Financial Regulations state that effective action should be taken to pursue non-payment very promptly. Any delays make the likelihood of recovery much smaller; if staffing shortages are the explanation for delays in recovery action this should be addressed by management.</p>	2	0	1

Audit Name	Scope	Opinion	Action Ref (Report ref)	Agreed Action	Recommendations Accepted		
					High	Medium	Low
			A0800 (03)	It is understood that none of these receipts will be transferred to EMSS and will remain with the city council. There should be a thorough investigation of the receipts and they should either be applied to a relevant account or returned to the customer. Management should make a decision upon what to do with any sums that cannot be applied or returned.			
Housing Benefits	<p>The scope of this review is to look at the following areas of risk:</p> <ul style="list-style-type: none"> • Maximisation of subsidy • Calculation of payments • Entitlement of claimants paid • Recording of payments or other transactions • Timeliness of payments • Management of overpayments 	Limited Assurance	A0834 (03)	<p>The implemented process should be revised to include quality assurance in the form of</p> <ul style="list-style-type: none"> • random sample of claims checked by quality assessors as part of payment run acceptance test (sample size of around 35 for main runs and 25 for additional runs if determined statistically) • a programme of quality assurance testing to identify training and performance issues • housekeeping reports to 	2	0	2

Audit Name	Scope	Opinion	Action Ref (Report ref)	Agreed Action	Recommendations Accepted		
					High	Medium	Low
			A0835 (04)	<p>correct errors</p> <p>The policy and procedures around overpayments should be strengthened to improve accuracy of processing. In particular attention should be given to</p> <ul style="list-style-type: none"> • circumstances when claims should be suspended • reassessing a suspended claim • splitting an overpayment • dates when overpayment reasons are effective <p>A policy on when overpayments should be coded as administrative delay has been suggested to help clarify this issue for colleagues – this policy should be compliant with the subsidy manual's definition of administrative delay.</p>			

SUMMARY OF PROGRESS ON THE UPDATED AUDIT PLAN TO 31ST DECEMBER 2012

Audit Title	Audit Outline	Annual Plan	Actual Days
1. Strategic Risk Register			
Strategic Risks	Review of evidence in place to mitigate risks. Coverage of strategic risks will depend on the status of strategic risk in 2012	30	0
2. Resources			
Single Status (SR1)	Further assistance with phase 2 implementation (schools)	15	10
Treasury Management	Assessing high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	25	27
Budgetary Control	Consider the budget set up process and budget monitoring arrangements. (Key System)	10	7
Main Accounting System	System reconciliation and posting to General Ledger (Key System)	15	12
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)	10	5
Payroll / HR	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	25	15
Creditors	Assessment of high-level controls supported by compliance testing to give assurance over the operation of	18	13

Audit Title	Audit Outline	Annual Plan	Actual Days
	the control environment (Key System)		
Sundry Income	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	14	10
Estate Rents	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	16	14
Cash Collection	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	14	15
Council Tax	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	22	23
Business Rates	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	21	19
Benefits	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	40	10
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)	19	21
Pensions	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment	22	9
Right to Buy	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	26
Social and Local Welfare Assistance Payments	Liaison pre implementation	5	0

Audit Title	Audit Outline	Annual Plan	Actual Days
3. Chief Executive			
Partnerships	Scope to be determined	10	0
4. Children & Families			
Supporting People	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	8	8
Foster Care & Adoption	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment. Supports work undertaken by external auditors	26	22
Schools assessments	Rolling assessment of the financial arrangements within schools. To include visits (if requested) to schools due to self-assess for the Schools Financial Value Standard (SFVS)	90	76
Joint Funding of Care	Consider outcome of recent review of funding of care packages and NHS joint commissioning	15	0
School Bank Accounts	Review of the role of Schools Finance to support schools	5	2
Children's Residential Care	Review of budget management arrangements	18	1
ContRocc Project	Ongoing input and advice with the project as it develops	15	12
5. Communities			
Parking Services	Review of improvements to internal controls	8	9

Audit Title	Audit Outline	Annual Plan	Actual Days
Waste Management	Review of management arrangements	11	0
Local Authority Companies	Review of governance arrangements & VFM	9	0
Fuel / Fleet Management Follow Up	Review of management implementation of previous recommendations	5	0
Workplace Parking Levy (SR27)	Review the collection arrangements	8	0
Fines Processing System	Review of system, including treatment of bad debts	15	2
Community Buildings	Review of utilisation of buildings, room hire etc	15	0
Energy Strategy Review	Review of data for accuracy prior to publication	5	0
Enviro Energy	Provision of assistance to the company	40	60
6. 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	5
Nottingham Jobs Fund	Assessment of the processes for administering scheme	15	14
Jobs Plan Review	Monitor compliance against Audit Commission Action Plan	3	2
Royal Centre	Transformation Agenda / Systems upgrade / Marketing	18	0
Corporate Maintenance Framework	Assessment of the framework arrangements	25	28

Audit Title	Audit Outline	Annual Plan	Actual Days
Public Transport	Scope to include arrangement with Notts County Council, interface with bus companies	18	0
7. Corporate Audits			
Governance Statement (SR10)	AGS Process	34	26
Risk Management	Audit of arrangements in place	10	7
Organisational Restructuring	Review of the effect on risk/controls	5	5
Contract Audit	Ongoing audit of final accounts	10	0
IT Audit	Ongoing audit of key IT risks	30	17
Grants Audits	Ongoing work on a number of grant claims including Growing Places Fund and Troubled Families	20	12
Councillors Allowances	Assessment of compliance with the councillors allowance scheme	10	0
Colleagues Expenses	Sample testing of claims submitted by colleagues, including new staff travel arrangements	25	18
East Midlands Shared Services	See separate plan	130	98
East Midlands Shared Services (work for NCC)	Including data sharing, data cleansing	30	18
8. Counter Fraud			
Counter Fraud Strategy / Arrangements	Review of strategy / current arrangements	20	25

Audit Title	Audit Outline	Annual Plan	Actual Days
Assessment of fraud risks	Assessment of areas that may be at risk of fraud, including maintaining a corporate fraud risk register	6	4
Training / awareness	Initiatives to increase awareness including money laundering & bribery act	39	37
Recruitment Fraud / Safeguarding	Assess vetting procedures for new employees against good practice and also assess vetting of current staff	17	17
Counter Fraud Activities	Co-ordinate counter fraud activities, liaise with Audit Commission	18	22
National Fraud Initiative (NFI)	Co-ordinate the City's response to the next NFI exercise	30	40
Departmental Activities	Programme of pro-active testing of transactions with a view to identifying non-compliance / fraud / error	40	42
Money Laundering	Review of current arrangements and awareness	5	0
Whistle blowing	Development of current arrangements	5	1
Procurement	Assess the robustness of NCC arrangements for preventing fraud and obtaining VFM. Measure against recommended good practice	22	4
Personal Budgets (Direct Payments)	Assess current financial arrangements against CIPFA guidance. Contributes to the City's response to "Protecting the public purse"	22	16
Data Matching	Pro-active data matching to identify potential fraud including scheduled duplicate payments run (responds to NFA Report)	15	6
9. Companies / ALMO etc			
Nottingham Ice Centre	Provision Internal Audit for the NIC	20	0

Audit Title	Audit Outline	Annual Plan	Actual Days
10. Consultancy, Advice and Support			
General Contingency – ad hoc work	To allow for requests from senior management or the need to undertake ad hoc assignments as they arise	25	20
Fraud & Irregularity Contingency	Separate contingency to investigate non-Housing Benefit fraud	140	113
Advice	Liaison with departments including general/contract advice including advice re capital projects	30	42
Audit Committee	Support and development of Audit Committee	20	20
11. Other Work			
Recommendations Monitoring and S151 Assurance Reporting	Ongoing follow up and monitoring of implementation of recommendations	30	21
Audit of Charity and other Accounts	Lord Mayor's, Hanley & Gellesthrope, Highfields, Harvey Haddon, Staff Accounts	20	8
New Public Sector Internal Audit Standards (PSIAS)	Consideration of new standards which will be adopted in 2013	5	5
	Total Days	1575	1127