

AUDIT COMMITTEE – 28 NOVEMBER 2014

Title of paper:	INTERNAL AUDIT QUARTERLY REPORT 2014/15 - 2ND QUARTER	
Director(s)/ Corporate Director(s):	Geoff Walker Acting Director of Strategic Finance	Wards affected: All
Report author(s) and contact details:	Author and contact officer Shail Shah – Head of Internal Audit Tel: 0115 8764245 Email: shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	Note the performance of IA during the period.	
2	Select up to two audits from Appendix 2 for examination at the February 2015 meeting.	

1. REASONS FOR RECOMMENDATIONS

This report outlines the work of the Internal Audit service (IA) for the 2nd quarter of 2014/15.

- **Appendix 1** - List of final audit reports with high risk recommendations issued in the period with scope, analysis of recommendations, details of high risk recommendations and level of assurance
- **Appendix 2** - Analysis of findings in Final Audit Reports issued
- **Appendix 3** - Overview of the work completed to date against the updated Audit Plan

1.1 Standards

The service works to a Charter endorsed by the Audit 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, and substantially complied with the principles contained in the PSIAS, 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 and is ISO9001:2008 accredited.

1.2 Local Performance Indicators (PIs)

Performance against all PIs is illustrated in **Table 1**.

Table 1 : Performance v PI Targets					
Indicator		Target	Period	Actual Year	Comments
1	% of all recommendations accepted.	95%	100%	100%	Above Target
2	% of high recommendations accepted.	100%	100%	100%	On Target
3	Average number of working days from draft agreed to the issue of the final report	8 days	1	4	Above Target
4	Number of key / high risk systems reviewed.	15 systems	0	0	Work underway and on target
5	% of staff receiving at least three days training per year.	100%	22%	22%	On Target
6	% of customer feedback indicating good or excellent service.	85%	100%	100%	Above Target

1.3 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	Comments
1808	649	Variance due to vacancies, Easter and summer holidays. Audit Plan on track for year end completion.

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

TABLE 3: RECOMMENDATIONS ACCEPTED				
	To Date		Period	
	All	High	All	High
Total recommendations made	110	30	60	16
Rejected	0	0	0	0
Total recommendations accepted	110	30	60	16
% accepted	100%	100%	100%	100%

2. BACKGROUND

The Audit Committee's terms of reference include responsibility for receiving reports on the work undertaken by IA and for monitoring its performance. The Public Sector Internal Audit Standards (PSIAS) set the responsibility for the management of Internal Audit with the Board. In practical terms this Board responsibility is vested in the Audit Committee and Section 151 Officer who exercise their Board responsibility via the Constitution and the associated policies and procedures of the City Council. This report is one of the regular updates on work undertaken by the service.

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

None

4. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- Accounts and Audit Regulations 2011
- Audit Plan 2014/15
- Public Sector Internal Audit Standards 2012

FINAL AUDIT REPORTS WITH HIGH RISK RECOMMENDATIONS ISSUED IN PERIOD

Audit	Scope	Level of Assurance	Recommendations				
			High	Medium	Low	Report ref	
Cantrell Primary and Nursery	<p>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 :</p> <ul style="list-style-type: none"> • Leadership & Governance • People Management • Policy & Strategy • Processes • Purchasing • Invoice Processing • Banking Arrangements • School Fund • Income 	Significant	1	4	4	01	The school should ensure that detailed minutes are taken at each of the Governing Body's sub-committees. The approval of policies and key decisions made by the Governors should be clearly recorded in the relevant meeting minutes.

Audit	Scope	Level of Assurance	Recommendations				
			High	Medium	Low	Report ref	
Ellis Guilford Comprehensive	<p>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 :</p> <ul style="list-style-type: none"> • Leadership & Governance • People Management • Policy & Strategy • Processes • Purchasing • Invoice Processing • Banking Arrangements • School Fund • Petty Cash • Income 	Limited Assurance	8	8	3	01	<p>The Financial Administration and Control Policy should be presented to Governors to be reaffirmed on an annual basis and this should be recorded in the minutes of the Governors' meeting.</p>
						03	<p>The Governing Body should review the SFVS after receipt of this report and satisfy itself that the responses are adequate or put in place remedial actions as required.</p>

Audit	Scope	Level of Assurance	Recommendations				
			High	Medium	Low	Report ref	
						06	<p>The school should retain evidence that the benchmarking website has been used to:</p> <ul style="list-style-type: none"> • Compare its performance to other schools • Identify areas for improvement and set targets where needed. <p>The findings of the benchmarking activities should be discussed with Governors and this should be recorded in the minutes of the Governors' meeting.</p>
						09	<p>There should be a segregation of duties between the person preparing the staff payroll returns and the person authorising them.</p>
						10	<p>For all purchases over £10,000, the school should obtain at least 3</p>

Audit	Scope	Level of Assurance	Recommendations				
			High	Medium	Low	Report ref	
							<p>alternative quotations or in the case of purchases or contracts with a value greater than £50,000 there should be a tender exercise. These should be considered by the Resources and General Purposes Committee before deciding which supplier to award the contract to. This should be documented in the minutes of the Governors' meeting.</p>
						<p>11</p> <p>14</p>	<p>The school should ensure that it has robust purchasing procedures to ensure that authorised requisitions are passed to the school's finance assistant for an order to be raised to the supplier and then subsequently authorised by the School Business Manager.</p> <p>All invoices should be checked to ensure that the goods or services</p>

Audit	Scope	Level of Assurance	Recommendations				
			High	Medium	Low	Report ref	
							have been received and that they are arithmetically correct; once this has been confirmed the invoice should be authorised for payment by an appropriate person, ie, the School Business Manager.
						19	The school should ensure that income is entered correctly into the school's accounting software and it should work with the Local Authority's Schools Finance Team to determine the tax implications of the failure to declare output VAT accurately over a period of time.
South Wilford Endowed CE 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	1	2	1	01	The school should ensure that termly meetings are held of the F&GP Committee and other sub-committees of the Governing Body. The minutes of any such

Audit	Scope	Level of Assurance	Recommendations				
			High	Medium	Low	Report ref	
	<ul style="list-style-type: none"> • Leadership & Governance • People Management • Policy & Strategy • Processes • Purchasing • Invoice Processing • Banking Arrangements • School Fund • Income 						meetings should be reported to the full Governing Body for ratification. The Governing Body of the school may also wish to consider widening the membership of the F&GP to allow for a wider range of experiences to be brought to bear on the school's financial matters.
Personal Budgets – follow-up	<p>As part of this year's plan, we have reviewed the implementation of 11 recommendations from two reports relating to Direct Payment Monitoring and a supplementary – "lessons learned" report resulting from several Direct Payment Frauds.</p> <p><u>Note:</u></p> <p>9 of the 11 recommendations were found to have been implemented.</p> <p>One High Priority recommendation remains outstanding and has been listed.</p>	Significant Assurance	5	6	0	05	<p>Both Direct Payment teams should immediately institute systems to record and report cases of misuse of funds. The systems should record the value of any potential misuse, the actions taken to investigate the misuse and how much has been recovered, if applicable.</p> <p>The reported cases should be notified to internal audit on a monthly basis together</p>

Audit	Scope	Level of Assurance	Recommendations				
			High	Medium	Low	Report ref	
							with their outcomes.
Bank Reconciliation	The review covered the City Councils Main Bank Accounts and aimed to provide assurance that each account was subject to regular review and that there was a clear management trail to the supporting documentation.	Limited Assurance	1	0	0	01	Bank reconciliations are prepared on at least a monthly basis & reviewed & agreed by a senior finance manager

This table excludes any reports concerning irregularities

FINAL AUDIT REPORTS ISSUED 1ST JULY TO 30TH SEPTEMBER 2014 – ANALYSIS OF FINDINGS

Department	Division	Activity Title	Audit Assurance	Accepted Recommendations		
				High	Medium	Low
Children and Adults	Children and Adults - Schools	Cantrell Primary and Nursery	Significant Assurance	1	4	4
		Ellis Guilford Comprehensive	Limited Assurance	8	8	3
		South Wilford Endowed CE Primary	Significant Assurance	1	2	1
		Walter Halls Primary and Early Years	Significant Assurance	0	3	3
	Children and Adults - Schools Total			10	17	11
	Adults Assessment	Personal Budgets – follow-up	Significant Assurance	5	6	0
	Adults Assessment Total			5	6	0
Children and Adults Total			15	23	11	
Development	Planning and Transport	Green Bus Funding	Grant	0	0	0
	Planning and Transport total			0	0	0
	Economic Development	Woodfield Industries	Significant Assurance	0	6	0
		Economic Funding Streams	Significant Assurance	0	2	2
	Economic Development			0	8	0
Development Total			0	8	2	
Resources	Strategic Finance	Bank Reconciliation	Limited Assurance	1	0	0
		Troubled Families Grant 2014 15 Qtr 1	Grant	0	0	0
	Strategic Finance Total			1	0	0
	Resources Total			1	0	0
Grand Total			16	31	13	

SUMMARY OF THE INTERNAL AUDIT PLAN TO SEPTEMBER 2014

Audit Outline / Management Direction	Days	Actuals
1. Strategic Risk Register	20	0
2. Corporate Services	195	44
3. Chief Executive	113	22
4. Children & Families	149	65
5. Communities	105	63
6. Development	184	83
7. Corporate Audits	220	83
8. Counter Fraud	141	56
9. Companies / Other Bodies	231	88
10. Consultancy, Advice and Support	410	125
11. Other Work	40	20
Total Days	1808	649