

AUDIT COMMITTEE - 26 June 2015

Title of paper:	<u>INTERNAL AUDIT ANNUAL REPORT 2014/15</u>	
Director(s)/ Corporate Director(s):	Geoff Walker Director of Strategic Finance	Wards affected: All
Report author(s) and contact details:	Shail Shah Head of Internal Audit 0115 8764245 shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	Note the audit work completed during the year.	
2	Note the Head of Internal Audit's Annual Opinion.	
3	Select up to two audits from Appendix 2 for examination at the November meeting	

1 REASON FOR RECOMMENDATIONS

- 1.1 This report outlines the work of the Internal Audit (IA) service at the end of the fourth quarter 2014/15. 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.
- 1.2 The Accounts and Audit Regulations 2015 state that local authorities must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 1.3 The Audit Committee's Terms of Reference include receiving an annual report on the work of IA.
- 1.4 The Public Sector Internal Audit Standards (PSIAS) require the responsibility for the management of Internal Audit to be set 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.
- 1.5 The PSIAS require the HoIA to deliver an annual audit opinion and report which can be used to inform the Annual Governance Statement. The annual report should include a summary of the work supporting the opinion.

2 BACKGROUND

- 2.1 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.

2.2 The coverage set out in the 2014/15 Audit Plan has been substantially achieved and the associated Performance Indicator targets have been met.

2.3 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.

2.4 **REVIEW OF THE YEAR**

2.4.1 **Reports to the Audit Committee**

An important part of the IA service is to inform the Audit 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** summarises the information the Committee has received from the HoIA during the last year.

TABLE 1: REPORTS FROM HEAD OF INTERNAL AUDIT	
Report	Purpose
Annual Governance Statement	Informed councillors about the overall control environment.
Internal Audit Quarterly Reports	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	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.
Counter Fraud Strategy	Informed councillors of national trends and of policies and procedures put in place by the I to address the risks of fraud.
Internal Audit Annual Plan & Strategic Plan	Informed councillors of the impending work programmes and how this and future work impacted on the Council Plan.
Internal Audit Annual Report	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.
Updates on internal audit plans and work for East Midlands Shared Services (EMSS)	Informed councillors of the work done on behalf of East Midlands Shared Services (EMSS) operations
Committee Member training	Overview for the Committees regarding the committee governance framework in place and the Council's associated assurance arrangements

2.5 IA Activity

The following outlines the IA work completed in 2014/15.

2.5.1 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	Comments
1.	% of all recommendations accepted	95%	98%	Above Target
2.	% of high recommendations accepted	100%	100%	Target Achieved
3.	Average number of working days from draft agreed to the issue of the final report	8 days	4 days	Above Target
4.	Number of key / high risk systems reviewed	15	15	Target Achieved
5.	% of colleagues receiving at least three days training per year	100%	100%	Target Achieved
6.	% of customer feedback indicating good or excellent service	85%	89%	Above Target

2.5.2 Resources Used

Colleagues in post are professionally qualified and/or have 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 predicted outturn after adjustments for 2014/15 is in accordance with the budget.

2.5.3 Service Quality and Compliance with PSIAS

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 2015 and associated regulations in respect of the provision of an IA service. During its deliberations the Audit Committee discussed the extent and quality of service being provided against alternative service delivery models and concluded that it was satisfied with the current arrangements.

The service has internal quality procedures and is ISO9001:2008 accredited.

2.5.4 Audit Plan

The Audit Plan and quarterly monitoring reports were presented to the Committee throughout the year, detailing progress against the Plan.

Table 3: Plan Outturn		
Total Planned Days	Actual End of Year	Comments
1734	1685	97% Plan Days Achieved – within accepted practice

The final outturn for 2014/15 is given in **Table 3** above and the audit coverage across departments and other service areas is shown in **Diagram 1** and **Appendix 3** gives a summary of the outturn against planned resources. This diagram illustrates that there was no significant variation from plans endorsed by the Committee.

Diagram 1 Internal Audit Plan Against Actual 2014/15



Appendix 1 and Appendix 2 give details of the reports issued in the final quarter of the year. These appendices are the final reports in the quarterly IA performance monitoring cycle undertaken by the committee. They contain details of the recommendations made and levels of assurance given.

Actual planned days have been sufficient to substantially complete the Audit Plan. **Appendix 3** contains the summarised plan and outturn. In accordance with normal practice, the plan was flexed during the year and changes were reported to the Committee.

2.5.5 Recommendations analysis by risk

Table 4 shows the total of all recommendations made in the period. Overall recommendations performance is above the IA target of 95%.

TABLE 4: RECOMMENDATIONS ACCEPTED DURING 01/01/2015 TO 31/03/2015				
	2014/15		January to March	
	All	High	All	High
Total recommendations made	219	65	56	14
Rejected	4	0	0	0
Total recommendations accepted	215	65	56	14
Percentage accepted	98%	100%	100%	100%

2.5.6 Level of Assurance Given in Audit Reports

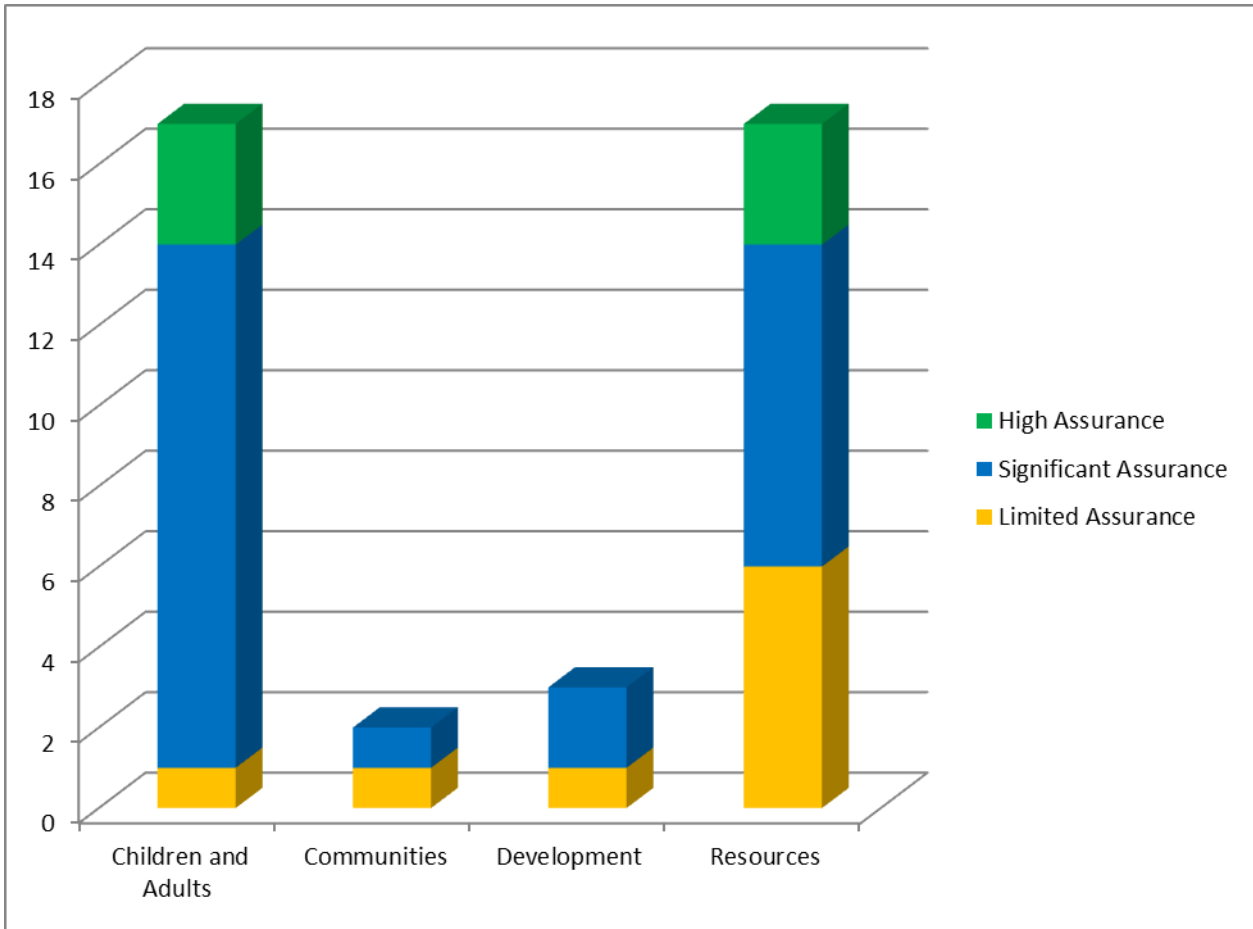
The committee sees a list of all audit reports, level of assurance and the associated high risk recommendations as part of its annual work programme. Below is a summary of the work reported in the year.

The level of assurance given is derived from the findings based on the following definitions:

TABLE 5 : DEFINITIONS OF ASSURANCES GIVEN IN IA REPORTS	
Level of Assurance	Definition
High	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	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	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	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 2014/15



A level of assurance was given in all the reports issued and no report was issued with “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.

2.5.7 Recommendations made

Recommendations are prioritised according to their risk rating in accordance with the definitions in the table below.

TABLE 5 : DEFINITIONS OF RISK PRIOTIES USED IN IA REPORTS	
Priority	Definition
High	A fundamental weakness which presents material risk to the audited body and requires urgent attention by management.
Medium	A significant weakness whose impact or frequency presents an unacceptable risk to the audited body that should be addressed by management.
Low	The audited body is not exposed to any significant risk, but the recommendation merits attention.

IA monitors the progress made by clients in implementing the recommendations and the position for the year is summarised in **Diagram 3**.

Diagram 3: Progress on All Recommendations

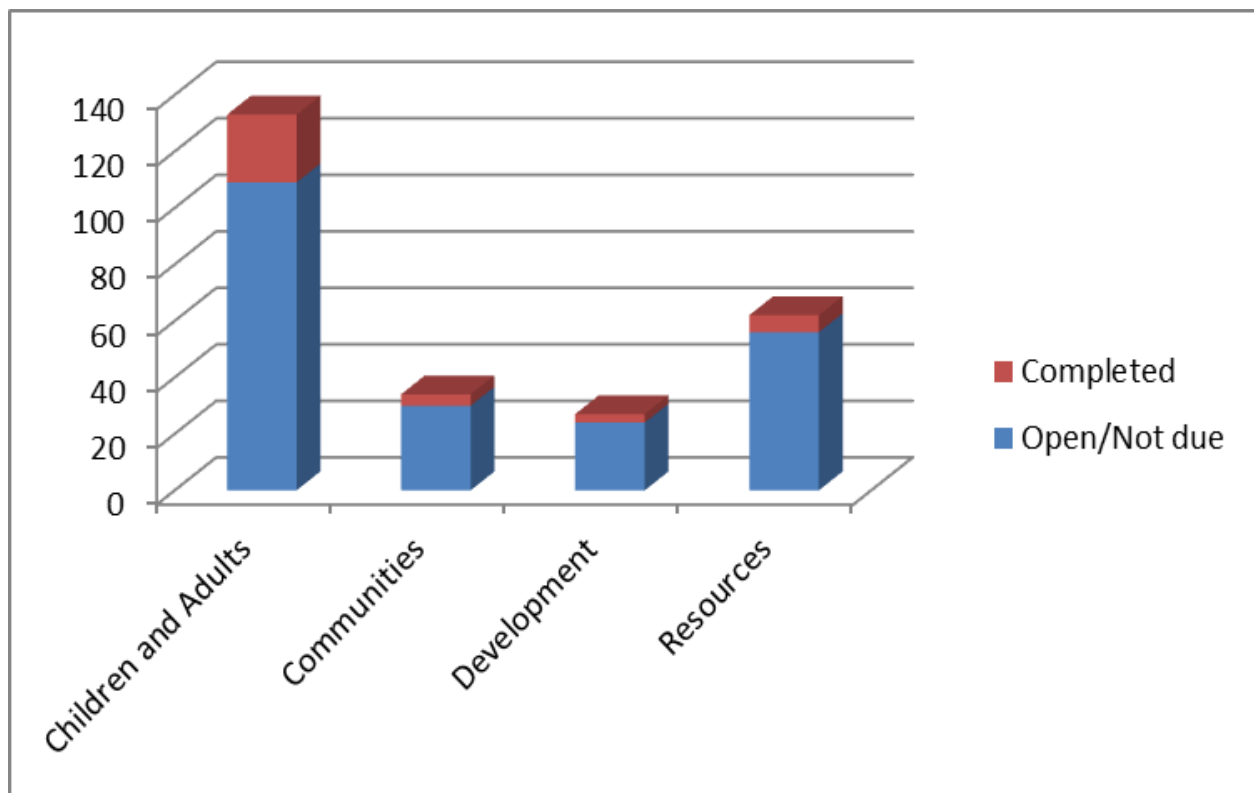
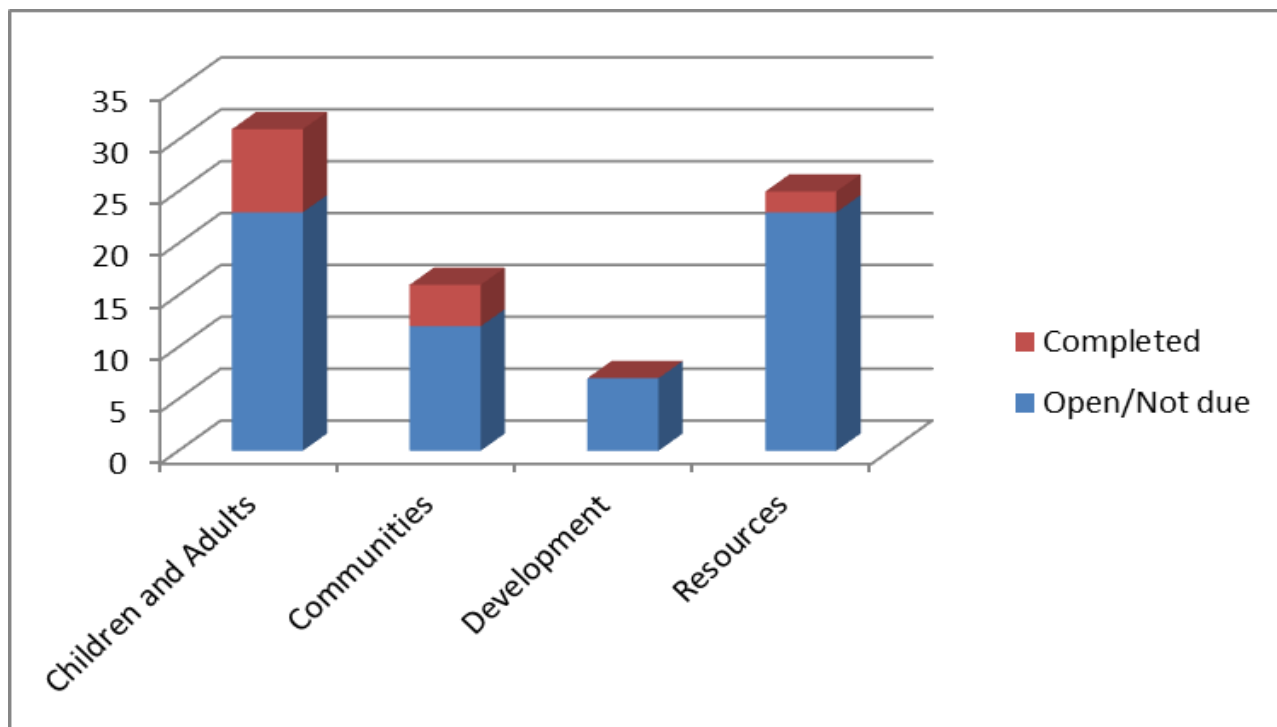


Diagram 4 illustrates the position on high risk recommendations made, analysed by client directorate. The Committee sees all reports issued and the associated high risk recommendations as part of its quarterly review of IA performance. Systems are in place to monitor these recommendations, and those outstanding beyond their target date are reported to the responsible colleague nominated in the agreed action plans for their follow up.

Diagram 4: Progress on High Risk Recommendations



The HoIA has constantly reviewed the progress made on these high risk recommendations and has concluded that Corporate Directors have acted appropriately to address the recommendations reported to them

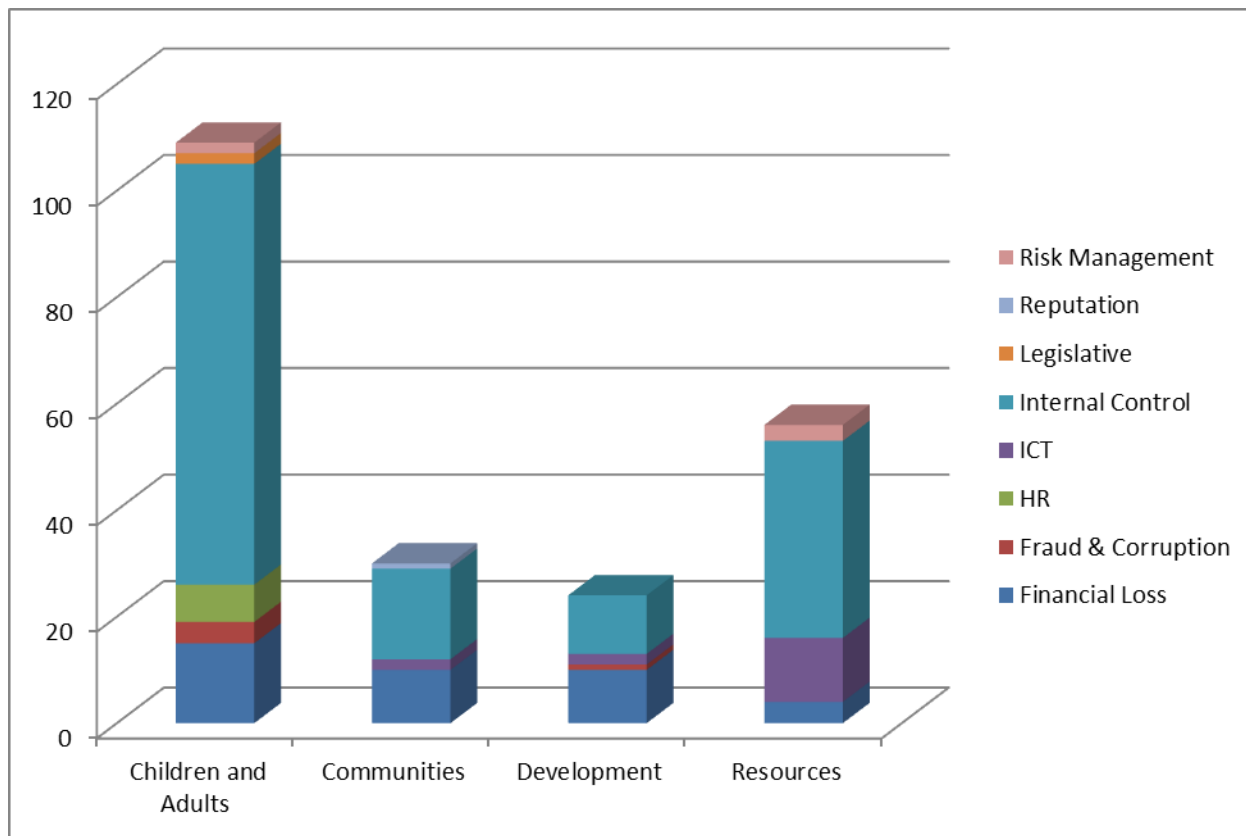
2.5.8 Risk Themes

IA recommendations are categorised into themes to reflect the main element of the weaknesses they are trying to address.

Diagram 5 illustrates that the distribution of the main themes of the recommendations made. The diagram shows that a similar pattern exists across departments the main theme being the issues pertaining to the operation of internal controls.

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 5: Risk Themes



2.6 Head of Audit's Annual Opinion 2014/15

The PSIAS require the HoIA to give an opinion and report to support the City Council's Annual Governance Statement. 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 audit work concludes with a report detailing the findings and giving an overall level of assurance.

The IA service works to a risk based Audit Plan agreed with Corporate Directors and agreed by the Committee. The 2014/15 Audit Plan has been completed in accordance with the PSIAS and other professional standards applicable to 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 PSIAS

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.

Throughout 2014/15 the HoIA has continuously reviewed the significant challenges and risks associated with the Council's operations and has allocated the necessary resources, via the audit plan, to form his opinion on the Council's governance arrangements. In forming his opinion the HoIA has reviewed all the IA reports issued in 2014/15 and drawn upon available

external sources of assurance from independent review bodies and internal assurance mechanisms to help him identify and assess the key control risks to the Council's objectives.

The HoIA has concluded that although no systems of control can provide absolute assurance, nor can IA give that assurance, he is satisfied that, on the basis of the audit work undertaken during the 2014/15 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 2014/15 financial year, covering financial systems, risk and governance, the HoIA is able to conclude that a reasonable level of assurance can be given that internal control systems are operating effectively within the Council, its significant partners and associated groups.

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 2015
- Audit Plan 2014/15
- CIPFA SOLACE Delivering Good Governance in Local Government
- Public Sector Internal Audit Standards 2012

List of Appendices

Appendix 1 List of all reports issued during 1st January 2015 to 31 March 2015 with High Priority Recommendations



Appendix 2 List of final Audit reports issued 1st January 2015 to 31 March 2015

Appendix 3 Summary Internal Audit Plan / Outturn 2014/15

Summary of Reports with High Priority Recommendations

Audit Report – Berridge Primary School

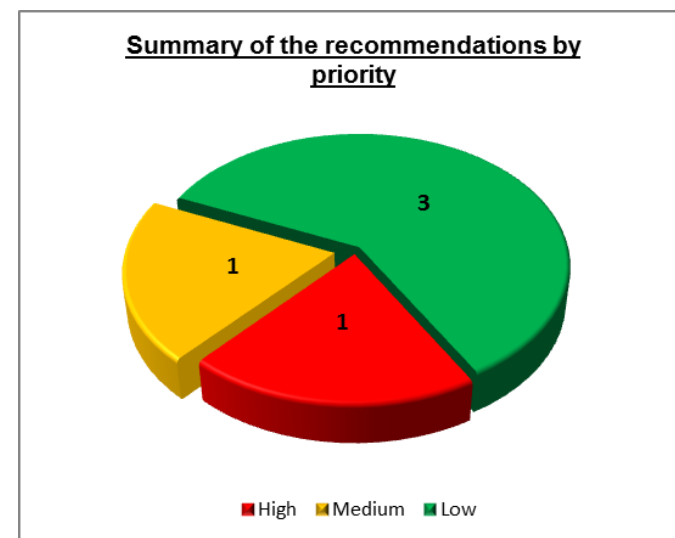
Executive Summary

<p>Organisation: Berridge Primary School</p>	<p>Overall Opinion Significant Assurance</p>		<p>Direction of Travel This area has not been subject to any recent review.</p> 
<p><u>Scope and Approach:</u> 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 : Leadership & Governance, People Management, Policy & Strategy, Processes Purchasing, Invoice Processing, Banking Arrangements, School Fund, Income, Implementation of Single Status. Review of the arrangements for administering and invoicing customers and debt recovery.</p>			

High Priority Recommendations



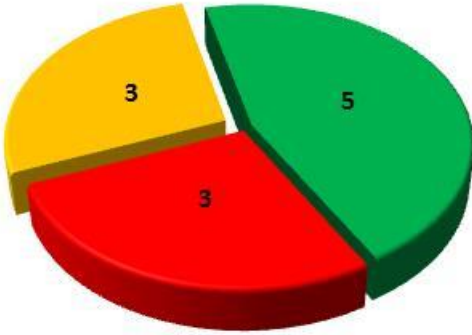
05 The school should implement improved procedures for recording of income for out of school clubs. This should include:-

- payments received
- amount sent for banking
- date sent for banking
- amount retained as float
- name of person recording the details





Audit Report – Carrington Primary & Nursery School

Executive Summary

<p>Organisation: Carrington Primary & Nursery School</p>	<p>Overall Opinion Significant Assurance</p>		<p>Direction of Travel This area has not been subject to any recent review.</p> 								
	<p><u>Scope and Approach:</u> 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 : Leadership & Governance, People Management, Policy & Strategy, Processes Purchasing, Invoice Processing, Banking Arrangements, School Fund, Income, Implementation of Single Status.</p>										
<p>High Priority Recommendations</p> <p>09 A running record of income received including Book, trip and Photo money should be kept and include:</p> <ul style="list-style-type: none"> • Date received • Name of person paying • Amount • Purpose • Name of person receiving money <p>10 Annual Entitlement should be calculated for the staff member and monitored via an Annual Leave Card</p> <p>11 All Teaching Assistants working 37 hours should complete monthly time sheets.</p> <div data-bbox="1386 730 2089 1295" style="border: 1px solid black; padding: 10px; margin-top: 20px;"> <p style="text-align: center;"><u>Summary of the recommendations by priority</u></p>  <table border="1" style="margin: 10px auto; border-collapse: collapse;"> <thead> <tr> <th>Priority</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>High</td> <td>3</td> </tr> <tr> <td>Medium</td> <td>3</td> </tr> <tr> <td>Low</td> <td>5</td> </tr> </tbody> </table> </div>				Priority	Count	High	3	Medium	3	Low	5
Priority	Count										
High	3										
Medium	3										
Low	5										

Audit Report – Springfield Primary & Nursery School

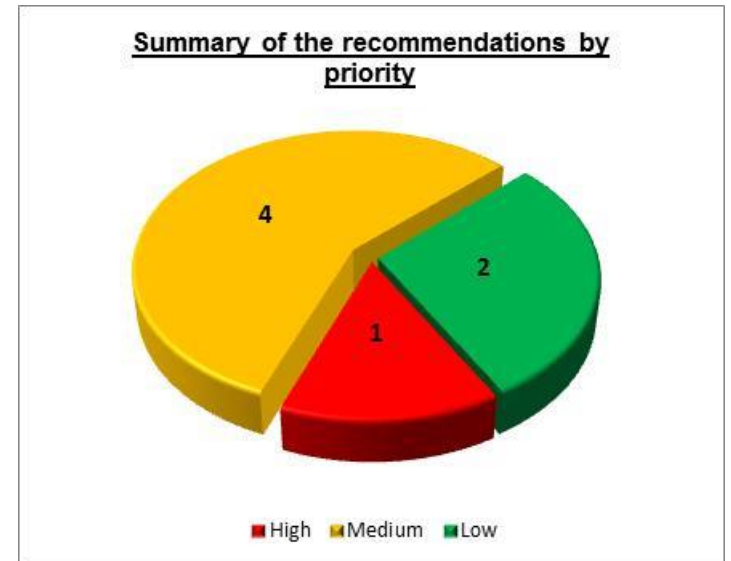
Executive Summary

<p>Organisation: Springfield Primary & Nursery School</p>	<p>Overall Opinion Significant Assurance</p>		<p>Direction of Travel This area has not been subject to any recent review.</p> 
<p><u>Scope and Approach:</u> 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 : Leadership & Governance, People Management, Policy & Strategy, Processes Purchasing, Invoice Processing, Banking Arrangements, School Fund, Income, Implementation of Single Status.</p>			

High Priority Recommendations



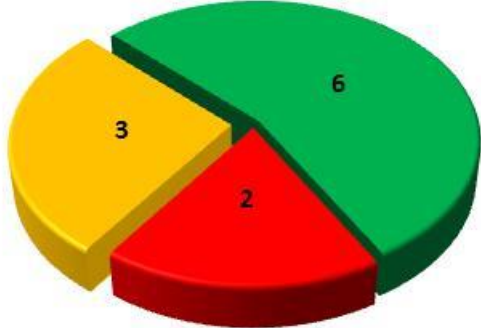
07 Daily records should be taken of all income received at the school office. Separate records should be maintained for each type of income such as trips and book bags. Each record should record;

- Date
- Amount
- Description
- Person paying
- Person receiving
- Use identifiable ledger codes for regular Income





Audit Report – Environmental Health (HMO)

Executive Summary

<p>Organisation: Nottingham City Council</p> <p>Directorate: Communities – Community Protection.</p>	<p>Overall Opinion Significant Assurance</p>		<p>Direction of Travel This area has not been subject to any recent review.</p> 
<p><u>Scope and Approach:</u></p> <ul style="list-style-type: none"> •The arrangements for identifying all HMO properties (including the Additional Licensing HMOs) •The arrangements in place for the inspection of HMO properties and ensuring Landlords have complied to the conditions of the Licence. •All income is collected according to the scale of charges. 			
<p>High Priority Recommendations</p> <p>2 An independent senior officer should be required to check and approve each application when it has been assessed to ensure that the assessment is correct and the correct fee requested (and to complete documentation to evidence the approval).</p> <p>We are aware that the Flare system does not have the capability to enforce a separation of duties/ level of authorisation for this type of action.</p> <p>We suggest that completion of the critical stages in the application process should be recorded on a checklist with appropriate authorised signatures</p> <p>7 A reconciliation of income received by the team to that banked should be introduced. This should be carried out by a colleague independent of the application process & should be reported to HMO management</p> <div data-bbox="1397 775 2101 1337" style="border: 1px solid black; padding: 10px;"> <p style="text-align: center;"><u>Summary of the recommendations by priority</u></p>  <p style="text-align: center;"> ■ High ■ Medium ■ Low </p> </div>			

Audit Report – IT NCC Access Controls

Executive Summary

<p>Organisation: Nottingham City Council Directorate: Resources – I.T.</p>	<p>Overall Opinion Significant Assurance</p>		<p>Direction of Travel Improvements have been made since the last review and in particular the reduction in the number of leavers still with access to the network.</p> 
<p><u>Scope and Approach:</u> To provide assurance that user access administration is managed and monitored according to policies, standards and procedures, including controls over privileged access and will look at: Progress made to address the actions agreed as part of the 2013/14 review</p> <ul style="list-style-type: none"> • Actions taken to synchronise access controls for the Council network with those for EMSS • Management of employees joining/re-joining the Council • Management of employees leaving the Council 			

High Priority Recommendations

New recommendation

2014/2 Report each month on the instances where access to Internet sites has been blocked to the Head of HR to instigate any necessary action.

One previous High priority recommendations still outstanding is:

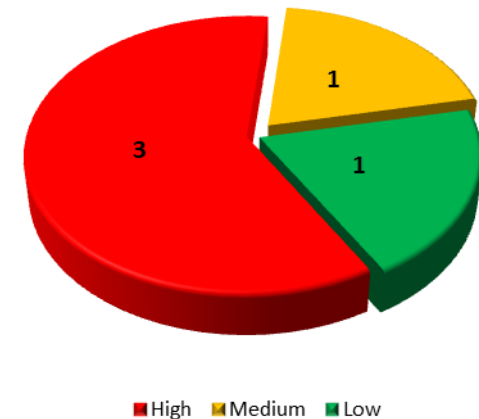
2012/6 Managers that do not follow the checklist and notify IT on the day a member of staff leaves should be identified and reported to their Director to allow disciplinary action to be taken.

HR should also notify IT of the leaving date for a colleague as soon as they are aware they are leaving.

One previous High priority recommendations followed-up – complete:



2013/3 All managers should be advised that ensuring all their staff have taken the Information Security training should be part of the PDR process and a report of all those who have not undertaken the training should be made to Heads of Service and Corporate Directors.

Summary of the recommendations by priority





Audit Report – Treasury Management

Executive Summary

<p>Organisation: Nottingham City Council</p> <p>Directorate: Resources – Treasury Management</p>	<p>Overall Opinion</p> <p>High Assurance</p>		<p>Direction of Travel</p> <p>This assessment is based on the controls being maintained at a broadly similar level and previous recommendations being addressed.</p> 
	<p><u>Scope and Approach:</u> The scope of this review was limited to:</p> <ul style="list-style-type: none"> • The existence of an agreed Treasury Management strategy for 2014/15 that follows the CIPFA Treasury management code. • The review of current processes to ensure the Treasury Management strategy is complied with. • The review of debt management and restructure in accordance with declared strategy. • The review of controls in place to ensure that investment opportunities are appropriately identified and a sound authorisation process is applied. • The existence and coverage of fidelity guarantees for all appropriate staff. • The follow-up of previous recommendations to ensure that they have been implemented. • Ensure that an effective process is operating to recover sums invested in Icelandic banks and progress is being reported appropriately. 		
<p>High Priority Recommendations No new recommendations were made</p> <p>Follow-up of 2013/14 high priority recommendation – Recommendation Complete.- The Fidelity Guarantee cover should be re-assessed.</p> <p>We are aware that our banking contract is about to change and that, consequently, the user limits may be revised.</p>			



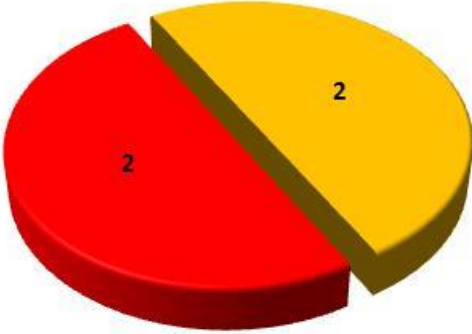
Audit Report – Bank Reconciliation

Executive Summary

Organisation: Nottingham City Council Directorate: Resources – Strategic Finance	Overall Opinion High Assurance		Direction of Travel This assessment is based on the controls being maintained at a broadly similar level and previous recommendations being addressed. 
<u>Scope and Approach:</u> To review the reconciliation of the General and Drawing accounts			
<p>High Priority Recommendations</p> <p>No new recommendations were made</p> <p>Follow-up of 2013/14 high priority recommendation – recommendation complete.</p> <ul style="list-style-type: none">1 Bank reconciliations are prepared on at least a monthly basis & reviewed & agreed by a senior finance manager			

Audit Report – Main Accounting

Executive Summary

<p>Organisation: Nottingham City Council</p> <p>Directorate: Resources – Strategic Finance</p>	<p>Overall Opinion Limited Assurance</p>		<p>Direction of Travel This assessment is based on the controls being maintained at a broadly similar level and previous recommendations being addressed.</p> 
<p><u>Scope and Approach:</u> The agreed scope covered the following:</p> <ul style="list-style-type: none"> • A review of the work carried out by the Central Finance Team, including the supporting processes in respect of ledger and interface integrity monitoring • The processes operated by departmental finance staff in respect of journal input. • The expectations of NCC external auditors in terms of expected key controls 			
<p>High Priority Recommendations</p> <p>No new recommendations were made</p> <p>Follow-up of 2013/14 high priority recommendation – complete</p> <p>R1 Responsibilities for reviewing and correcting exception reports should be agreed between EMSS, LCC and NCC to ensure that a consistent approach is applied to all partners. This would also allow for clear lines of responsibility to be established.</p> <p>R3 All Journals should be subject to periodic review to ensure that the transactions are valid.</p> <p>All other recommendations are complete</p>		<p><u>Summary of the recommendations by priority</u></p>  <p>Legend: High (red), Medium (yellow), Low (green)</p>	

Appendix 2

Final Audit Reports issued 1st January to 31st March 2015

Department	Division	Activity Title	Assurance	Accepted Recommendations		
				High	Medium	Low
Children and Adults	Safeguarding	Foster Care & Adoption 2014-15	Significant	0	5	3
	Safeguarding Total			0	5	3
	Schools	Berridge Primary 2015	Significant	1	1	3
		Carrington Primary and Nursery	Significant	3	3	5
		Springfield Primary and Nursery	Significant	1	4	2
Schools Total			5	8	10	
Children and Adults Total				5	13	13
Communities	Community Protection	Environmental Health (HMO)	Significant	2	3	6
	Community Protection Total			2	3	6
Communities Total				2	3	6
Resources	Information Technology	IT Penetration Testing	Significant	0	0	0
		IT NCC Access Controls	Significant	3	1	1
	Information Technology Total			3	1	1
	Legal & Democratic Services	Councillors Allowances 2014-15	High	0	0	1
	Legal & Democratic Services Total			0	0	1
	Strategic Finance	Treasury Management 2014-15	High	*1	0	2
		Bank Reconciliation 2014-15	High	*1	0	0
		Budgetary Control 2014-15	Significant	0	0	0
		Main Accounting 2014-15	Significant	2	2	0
Strategic Finance Total			4	2	2	
Resources Total				7	3	4
			Grand Total	14	19	23
* Actions now complete						

2014/15 INTERNAL AUDIT PLAN VERSUS OUTTURN

Audited Area	Planned Days	Actual Days
Corporate Services	173	138
Chief Executive	144	124
Children and Families	124	102
Communities	90	87
Development	131	130
Corporate Audits	195	189
Counter Fraud	126	140
Companies and Other Bodies	231	240
Consultancy / Advice	480	499
Other Work	40	36
Total	1734	1685