

## AUDIT COMMITTEE – 26 FEBRUARY 2016

<b>Title of paper:</b>	<b>INTERNAL AUDIT QUARTERLY REPORT 2015/16 (THIRD QUARTER)</b>	
<b>Director(s)/ Corporate Director(s):</b>	Geoff Walker Director of Strategic Finance	<b>Wards affected:</b>
<b>Report author(s) and contact details:</b>	<b>Author and contact officer</b> Shail Shah – Head of Internal Audit Tel: 0115 8764245 Email: <a href="mailto:shail.shah@nottinghamcity.gov.uk">shail.shah@nottinghamcity.gov.uk</a>	
<b>Other colleagues who have provided input:</b>		
<b>Recommendation(s):</b>		
<b>1</b>	To note and give views on the performance of Internal Audit during the period.	

### **1. REASONS FOR RECOMMENDATIONS**

This report outlines the work of the Internal Audit service (IA) for the third quarter of 2015/16.

- **Appendix 1** - Analysis of High Risk findings in Final Audit Reports issued in the period
- **Appendix 2** - List of final audit reports issued in the period with analysis of recommendations and level of assurance
- **Appendix 3** - Summary of position against updated Internal Audit Plan 2015/16.

#### **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 2015, 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 PIs is illustrated in **Table 1**.

<b>Table 1 : Performance v PI Targets</b>					
<b>Indicator</b>		<b>Target</b>	<b>Period</b>	<b>Actual Year</b>	<b>Comments</b>
1	% of all recommendations accepted.	95%	98%	98%	Above Target
2	% of high recommendations accepted.	100%	97%	99%	Reasons known, in tolerance
3	Average number of working days from draft agreed to the issue of the final report	8	7	7	Above Target
4	Number of key / high risk systems reviewed.	11	11	11	Work underway and on target
5	% of staff receiving at least three days training per year.	100%	60%	60%	On Target
6	% of customer feedback indicating good or excellent service.	85%	95%	95%	Above Target

## 1.3 Activity

**Appendix 3** summarises the internal audit plan for 2015/16. The IA Plan is produced annually and allocates audit resources throughout the year to review risks to the Council's vision, values and strategic priorities. The construction of the plan is informed by consideration of a range of factors including the Council Plan, the Council's Risk Register, previous internal and external audit activity, emerging themes and priorities, professional networks, the Council's transformation and improvement activity, and changes to national, local and regional policy. The Plan is regularly reviewed and adapted as risks and priorities change and develop through the year.

**Table 2** shows that actual days achieved are in line with planned days set out in the updated Audit Plan. In summary, after allowance for seasonal work patterns, the plan is on target.

<b>TABLE 2: ACTUAL v PLANNED AUDIT DAYS</b>		
<b>Total Planned Days</b>	<b>Actual to date</b>	<b>Comments</b>
2363	1641	Audit Plan on track for yearend completion.

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

<b>TABLE 3: RECOMMENDATIONS ACCEPTED</b>				
	<b>To Date</b>		<b>Period</b>	
	<b>All</b>	<b>High</b>	<b>All</b>	<b>High</b>
Total recommendations made	238	101	59	38
Rejected	5	1	1	1
Total recommendations accepted	233	100	58	37
% accepted	98%	99%	98%	97%

## **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 planned and 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 2015
- Internal Audit Plan 2015/16
- Public Sector Internal Audit Standards 2012

**Reports issued in Q3 with High Risk Recommendations**

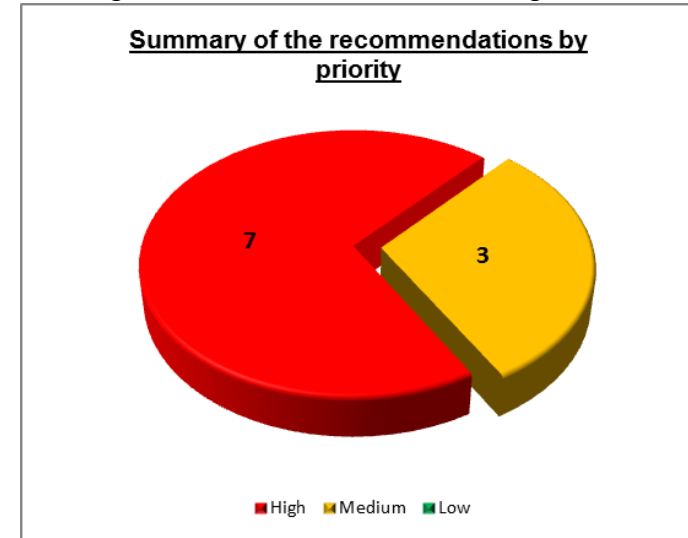
**Direct Payments 2014-15**

**Executive Summary**

<p>Organisation: Nottingham City Council                  Directorate: Children and Adults</p> <p>Previous reviews:</p> <p>Direct Payments 2010-11 – Adult Assessment                  Children and Disability Team 2011-12                  Direct Payment Monitoring 2012-13 – Adult                  Assessment and Family and Community Team                  Direct Payment Monitoring 2014 – Follow-up Adults                  Social Care only</p>	<p>Overall Opinion:  <b>Limited Assurance</b></p>		<p>Direction of Travel:                  Overall, there has been no change to the level of controls that are in operation.</p> 
<p><u>Scope and Approach:</u> This review will consider the following aspects of the system:</p> <ul style="list-style-type: none"> <li>❖ The authorisation and payment process of the direct payments.</li> <li>❖ Amendments to data and the authorisation process for changes in funding.</li> <li>❖ The monitoring process to ensure that the funding has been appropriately utilised.</li> <li>❖ Reconciliation of the payments made through Oracle to the City Council’s ledger.</li> <li>❖ Access controls and the back-up process concerning the access database.</li> <li>❖ Ascertain actions taken, from the National Fraud Initiative, to recover overpayments.</li> <li>❖ It is worth noting, that nationally there has been a marked increase in Direct Payment frauds, therefore as part of this review, consideration will be given to the operation of counter fraud measures currently employed.</li> </ul>			



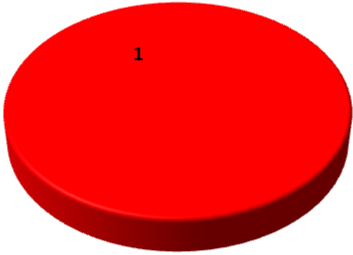
## High Priority Recommendations

- R3 Social Care colleagues should be reminded of the necessity of getting citizens to sign and understand the DP2 agreement. In addition, all agreements should be scanned and stored on Castle as a permanent record.
- R4 The pathway approval levels should be discussed with the Corporate Director of Children and Families in order that there is a unified and consistent approach.
- R5 Consideration should be given to moving Children's Direct Payments to ContrOCC as part of the planned change programme.
- R7 Appropriate arrangements should be put into place, which meet ASC business requirements; in order that the work of the contractor can be appropriately managed.
- R8 An operating model should be defined that establishes roles and responsibilities in order that the business needs of ASC and its customers are met.
- R9 Specific KPI's for Direct Payments should be established in order to assist with contract management arrangements.
- R10 Data quality issues need to be monitored and issues addressed on a regular basis to provide assurance that reporting is both accurate and complete.





## Establishment Visits – Sports and Leisure

### Executive Summary

<p>Organisation: Nottingham City Council Directorate: Commercial and Operations</p> <p>Previous reviews:</p>	<p>Overall Opinion: <b>Significant Assurance</b></p>		<p>Direction of Travel: This area has not been subject to any recent reviews.</p> 
		<p><u>Scope and Approach:</u> A number of unannounced audit checks have been carried out across a number of Council establishments. In respect of Sport and Leisure Centres the following establishments were visited: Tennis Centre, Clifton Leisure Centre, Djanogly Leisure Centre, and Victoria Leisure Centre.</p> <p>Our work at each centre covered the following :-</p> <ul style="list-style-type: none"> <li>• Till checks to ensure takings agree to till readings.</li> <li>• Use of the safe to ensure all contents can be accounted for and to ensure restricted access.</li> <li>• Awareness of Financial Regulations and financial procedures.</li> <li>• Inventory checks to ensure an inventory is completed and checked periodically and that items on the inventory can be physically verified.</li> </ul>	
<p>High Priority Recommendations</p> <p>03 All income returns should be reviewed and signed by the Centre Manager.</p>		<p><u>Summary of the recommendations by priority</u></p>  <p>1</p> <p>■ High ■ Medium ■ Low</p>	

## Establishment Visits – Children and Adults

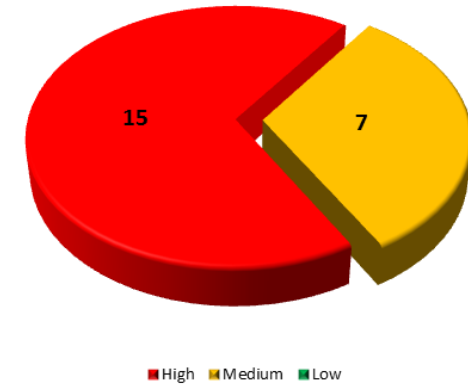
### Executive Summary

<p>Organisation: Nottingham City Council Directorate: Resilience (Business Support and Strategy provide administrative support for these areas)</p> <p>Previous reviews:</p>	<p>Overall Opinion: <b>Limited Assurance</b></p>		<p>Direction of Travel: This area has not been subject to any recent reviews.</p> 
<p><u>Scope and Approach:</u> A number of unannounced audit checks have been carried out across a number of Council establishments. The following establishments were visited: Clifton Children’s Centre, Dunkirk Children’s Centre, Bulwell Forest Children’s Centre, Bulwell Children’s Centre, Bilborough Children’s Centre, Broxtowe Children’s Centre, Sneinton Children’s Centre, Laura Chambers Lodge, Crocus Fields, The Oaks, Oakdene, Woodview Mary Potter Centre</p> <p>Our work at each establishment focused on the following areas:-</p> <ul style="list-style-type: none"><li>• Procedures for income collection/recording</li><li>• Petty cash</li><li>• Use of the safe</li><li>• Inventory</li><li>• Kangaroo tickets</li><li>• Written procedures for finance administration</li><li>• Awareness of Financial Regulations</li></ul>			

## High Priority Recommendations

- 01 (a) All items of expenditure should be recorded within the expenditure record.  
(b) A comprehensive record should be drawn up to show the full details of all income collected.
- 02 (a) There should be a comprehensive record in place for the social fund that should record all income and expenditure in respect of the fund.  
(b) All receipts for expenditure should be retained.
- 03 Bankings should be carried out weekly.
- 04 There should be a periodic review of the income collection procedures.
- 06 (a) All expenditure from petty cash should be authorised by an appropriate senior officer.  
(b) Recipients should sign for any cash received from petty cash.
- 07 Loans should not be made from the petty cash float to clients.
- 08 (a) The petty cash records should be kept up to date with all transactions recorded.  
(b) Procedures should be put in place for the operating of the petty cash float.
- 11 The signatories to the bank account should be sorted out as soon as possible and the cash held should be banked immediately.
- 13 A stock record should be drawn up for the kangaroo tickets.
- 14 Written procedures should be drawn up for all financial areas of work.
- 15 Colleagues with responsibility for finance should receive training in Financial Regulations.



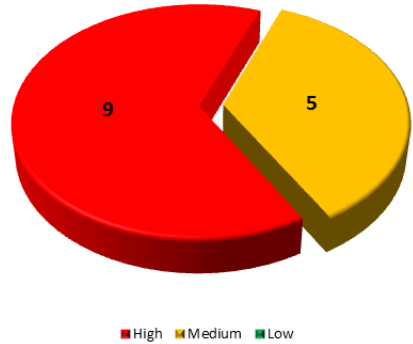
**Summary of the recommendations by priority**





## Establishment Visits – Children’s Centres



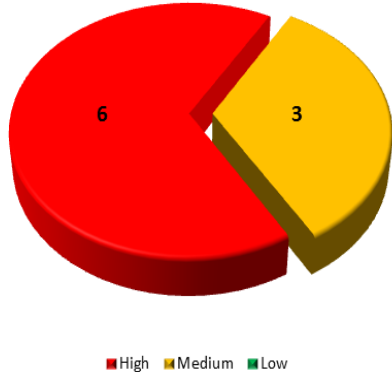
### Executive Summary

<p>Organisation: Nottingham City Council          Directorate: Resilience          (Business Support and Strategy provide administrative support for these areas)</p> <p>Previous reviews:</p>	<p>Overall Opinion:  <b>Limited Assurance</b></p>		<p>Direction of Travel:          This area has not been subject to any recent reviews.</p> 								
<p><u>Scope and Approach:</u> A number of unannounced audit checks have been carried out across a number of Council establishments. The following Children’s Centres were visited: Clifton Children’s Centre, Dunkirk Children’s Centre, Bulwell Forest, Children’s Centre, Bulwell Children’s Centre, Bilborough Children’s Centre, Broxtowe Children’s Centre, Sneinton Children’s Centre, and Hyson Green Children’s Centre.</p> <p>Our work at each establishment focused on the following areas:-</p> <ul style="list-style-type: none"> <li>• Procedures for income collection/recording</li> <li>• Use of the safe</li> <li>• Inventory</li> <li>• Kangaroo tickets</li> <li>• Written procedures for finance administration</li> <li>• Awareness of Financial Regulations</li> </ul>											
<p>High Priority Recommendations</p> <p>01 (a) Income should be banked on a weekly basis.          (b) More care should be taken when using carbon paper so that all entries in the receipt book are readable.</p> <p>02 (a) Responsibilities should be assigned so all staff are clear who has responsibility for income collection.          (b) The above procedures in 1 should be followed so at any time it is clear how much income is held and what it relates to.</p> <p>04 All cash should be held securely within the safe.</p>			<p><u>Summary of the recommendations by priority</u></p>  <table border="1"> <caption>Summary of the recommendations by priority</caption> <thead> <tr> <th>Priority</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>High</td> <td>9</td> </tr> <tr> <td>Medium</td> <td>5</td> </tr> <tr> <td>Low</td> <td>0</td> </tr> </tbody> </table>	Priority	Count	High	9	Medium	5	Low	0
Priority	Count										
High	9										
Medium	5										
Low	0										

- 06 All cheques should be banked promptly.
- 07 The key to the safe should be held securely.
- 10 Written procedures should be drawn up for all financial areas of work.
- 11 All staff responsible for financial areas of work should receive training in Financial Regulations.

# Income Collection

## Executive Summary

<p>Organisation: Nottingham City Council          Directorate: Resources &amp; Development &amp; Growth</p> <p>Previous reviews:          Cash Collection 2012          Cash Collection 2013</p>	<p>Overall Opinion:  <b>Limited Assurance</b></p>		<p>Direction of Travel:          Overall, the level of control has deteriorated from previous reviews.</p> 								
<p><u>Scope and Approach:</u> This review will consider the following aspects of the system:</p> <ul style="list-style-type: none"> <li>❖ Receipt and recording of income into Loxley House Mail Room</li> <li>❖ Role of departments in income receipt and reconciliation</li> <li>❖ Receipt and processing of income by Cashiers</li> <li>❖ Storage and transport of income</li> <li>❖ Outstanding banking of income</li> </ul>											
<p>High Priority Recommendations:</p> <p>R1 All income received by the Mail Room should be delivered to Cashiers. If cheques need to be banked by departments separately, they should be delivered by Cashiers.</p> <p>R2 A suspense account should be created for items with insufficient budget information. Details and a photocopy of the cheques should be provided to departments by Cashiers in order for the correct codes to be ascertained.</p> <p>R3 All income received by the mail room or departments should be presented directly to Cashiers on a daily basis.</p> <p>R4 The G4S twice weekly collection from Loxley House should be used by Cashiers for cash as well as cheques.</p> <p>R5 The on-going resourcing of the Cashier Team should be considered.(Rejected)</p> <p>R7 Full written procedures for Cashiers and the Mail Room should be created.</p>		<p><u>Summary of the recommendations by priority</u></p>  <table border="1"> <caption>Summary of the recommendations by priority</caption> <thead> <tr> <th>Priority</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>High</td> <td>6</td> </tr> <tr> <td>Medium</td> <td>3</td> </tr> <tr> <td>Low</td> <td>0</td> </tr> </tbody> </table>		Priority	Count	High	6	Medium	3	Low	0
Priority	Count										
High	6										
Medium	3										
Low	0										

**APPENDIX 2**

**Final Audit Reports issued Q3**

Department	Division	Activity Title	Audit Assurance	Recommendations Accepted		
				High	Medium	Low
Children and Adults	Adult Social Care	Direct Payments 2014-15	Limited Assurance	7	3	0
	Adult Social Care Total			7	3	0
<b>Children and Adults Total</b>				<b>7</b>	<b>3</b>	<b>0</b>
Commercial and Operations	Sports and Culture	Establishment Visits - (A) - Nottingham Castle	Limited Assurance	0	1	0
		Establishment Visits - (D) Sport & Leisure Centres	Limited Assurance	1	2	0
	Sports and Culture Total			1	3	0
<b>Commercial and Operations Total</b>				<b>1</b>	<b>3</b>	<b>0</b>
Resilience	Business Strategy and Support	Establishment Visits - (C) - Adults and Children	Limited Assurance	15	7	0
		Establishment Visits - (B) - Children's Centres	Limited Assurance	9	5	0
		Income Collection	Limited Assurance	5	3	0
	Business Strategy and Support Total			29	15	0
	Strategic Finance	Main Accounting 2015	Significant Assurance	0	0	0
Strategic Finance Total			0	0	0	
<b>Resilience Total</b>				<b>29</b>	<b>15</b>	<b>0</b>
<b>Grand Total</b>				<b>37</b>	<b>21</b>	<b>0</b>

**SUMMARY OF POSITION AGAINST UPDATED INTERNAL AUDIT PLAN 2015/16**

<b><u>Audit Area</u></b>	<b><u>Planned Days</u></b>	<b><u>Days to Date</u></b>
<b>Strategic Risk</b>	20	0
<b>Fraud / Counter Fraud</b>	954	706
<b>Consultancy, Advice and Support</b>	170	105
<b>Companies / Other Bodies</b>	288	253
<b>Corporate Audits</b>	307	146
<b>Development</b>	70	12
<b>Communities</b>	90	75
<b>Children &amp; Families</b>	250	252
<b>Chief Executive</b>	85	43
<b>Resources</b>	119	49
<b>Developments / Other</b>	10	0
<b>Total Days</b>	2363	1641