

AUDIT COMMITTEE – 1 July 2016

Title of paper:	<u>INTERNAL AUDIT ANNUAL REPORT 2015/16</u>	
Director(s)/ Corporate Director(s):	Geoff Walker Director of Strategic Finance	Wards affected:
Report author(s) and contact details:	Shail Shah Head of Audit and Risk 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 Audit and Risk's Annual Opinion.	
3	Select up to two audits from Appendix 2 for examination at the November meeting	

1 REASONS FOR RECOMMENDATIONS

- 1.1 This report outlines the work of the Internal Audit (IA) service at the end of the fourth quarter 2015/16. The report includes the Head of Audit and Risk'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 2015/16 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 AUDIT AND RISK	
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 to address the risks of fraud.
Internal Audit Annual 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.
East Midlands Shared Services (EMSS) Annual Report and HoIA Assurance	Informed councillors of the work East Midlands Shared Services (EMSS) operations and the associated governance arrangements.
Committee Member training	Overview for the Committees regarding the committee governance framework in place performance and the Council's associated assurance arrangements

2.5 IA Activity

The following outlines the IA work completed in 2015/16.

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%	99%	Above Target
2.	% of high recommendations accepted	100%	98%	Reasons known, in tolerance
3.	Average number of working days from draft agreed to the issue of the final report assurance	8 days	3 days	Above Target
4.	Number of key / high risk systems reviewed	11	11	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%	96%	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 2015/16 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. An independent review found the service has substantially complied with the principles contained in the PSIAS. Furthermore the service has met the requirements of the Accounts 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.

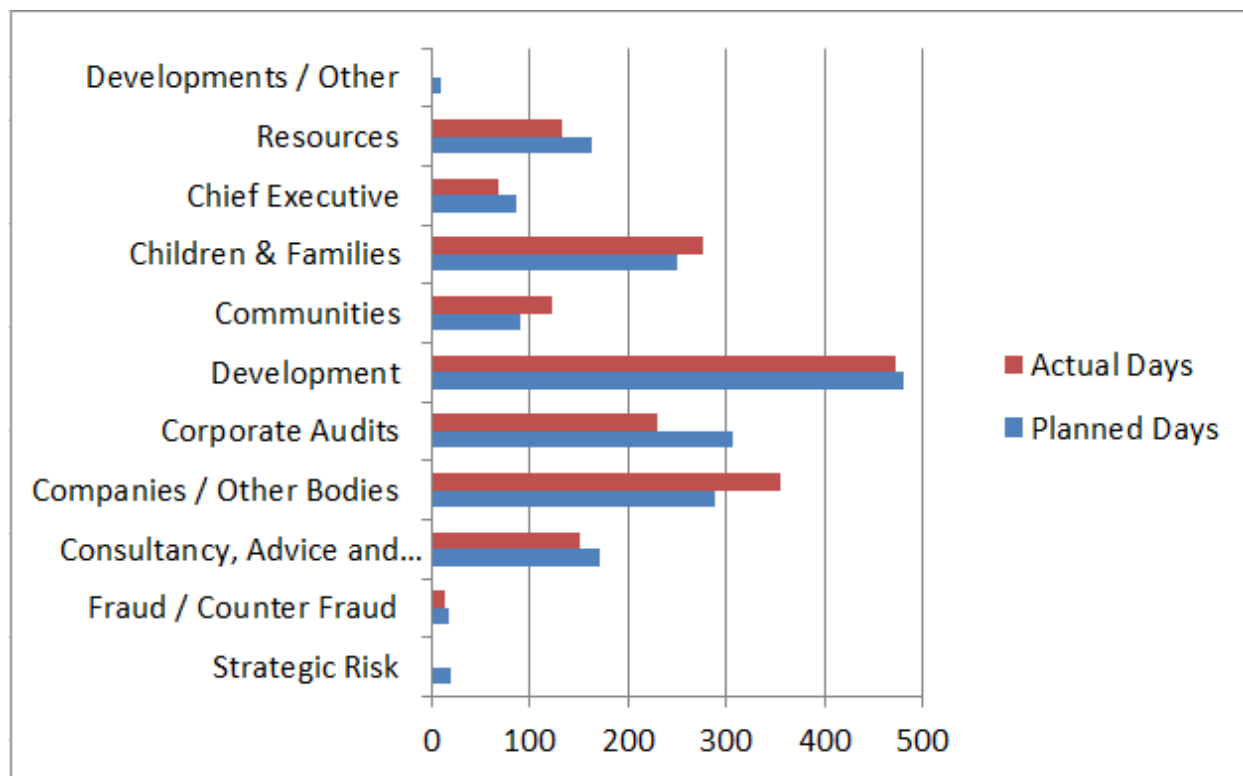
2.5.4 Audit Plan

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
2363	2249	95% Plan Days Achieved – within accepted practice

The final outturn for 2015/16 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 2015/16



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 01/01/2016 TO 31/03/2016				
	2015/16		January to March	
	All	High	All	High
Total recommendations made	305	125	67	23
Rejected	6	2	1	1
Total recommendations accepted	299	123	66	22
Percentage accepted	98%	98%	99%	96%

2.5.6 Level of Assurance Given in Audit Reports

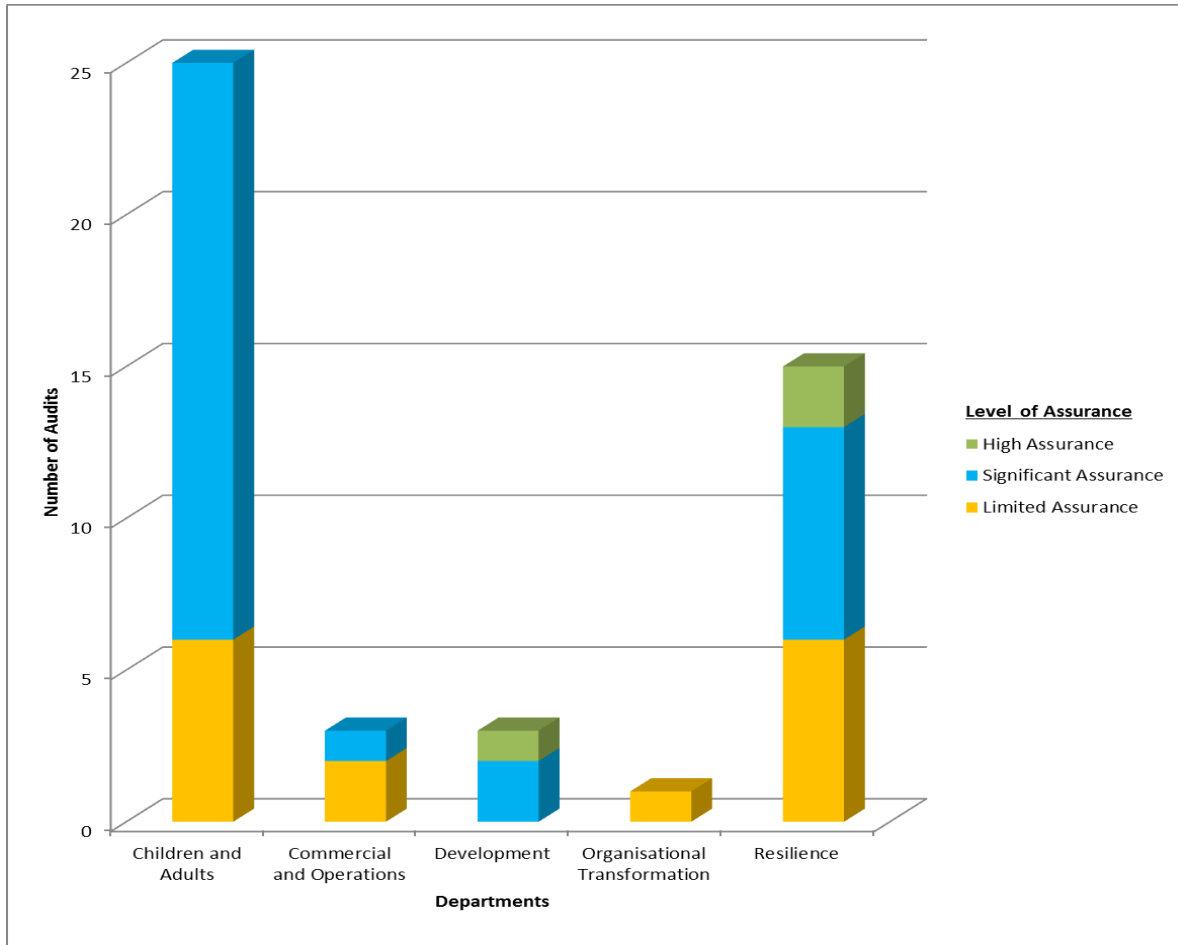
The committee sees a list of all audit reports, level of assurance and the associated high risk recommendations as part of its annual work programme. Below is a summary of the work reported in the year.

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 2015/16



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

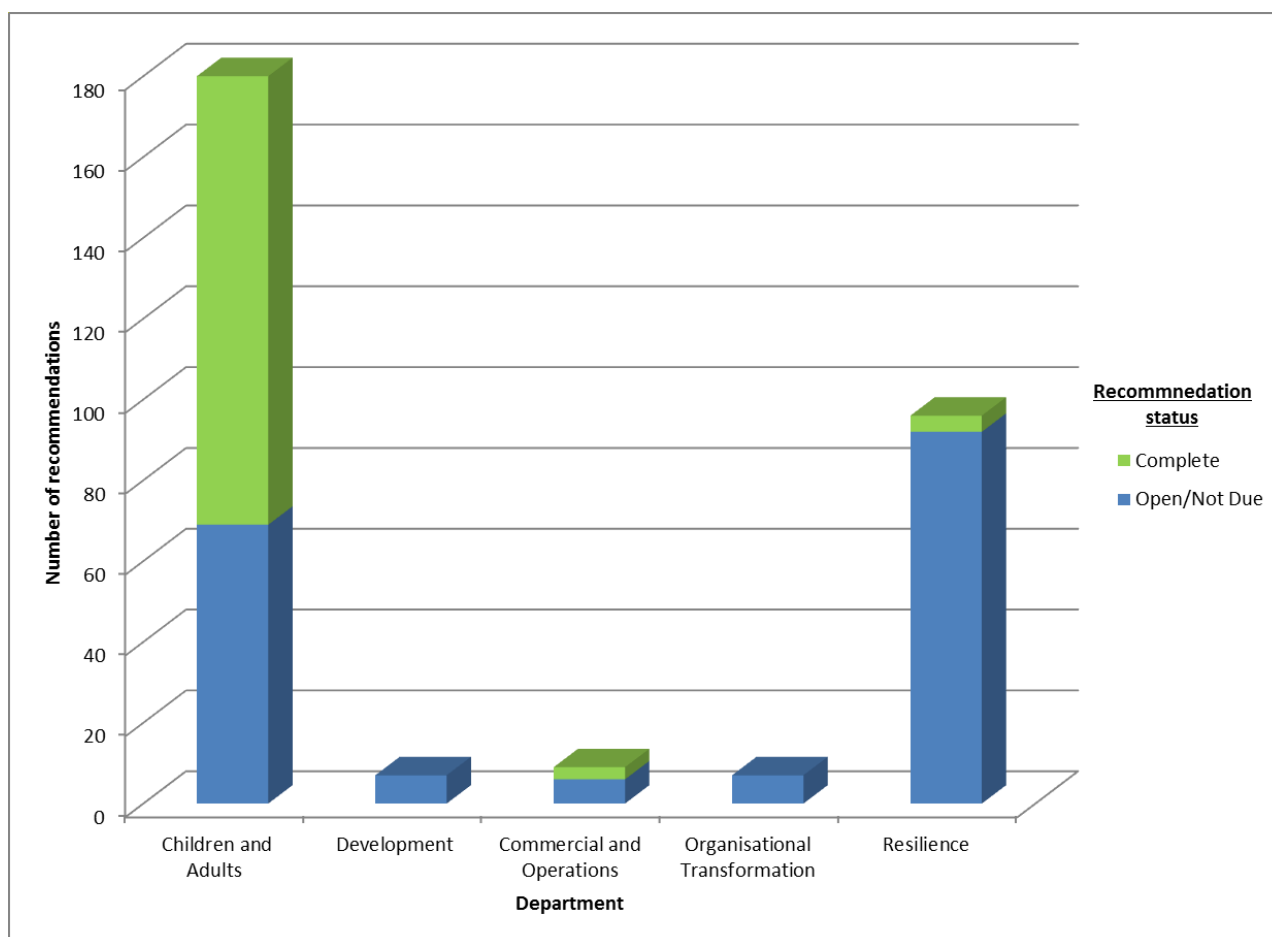
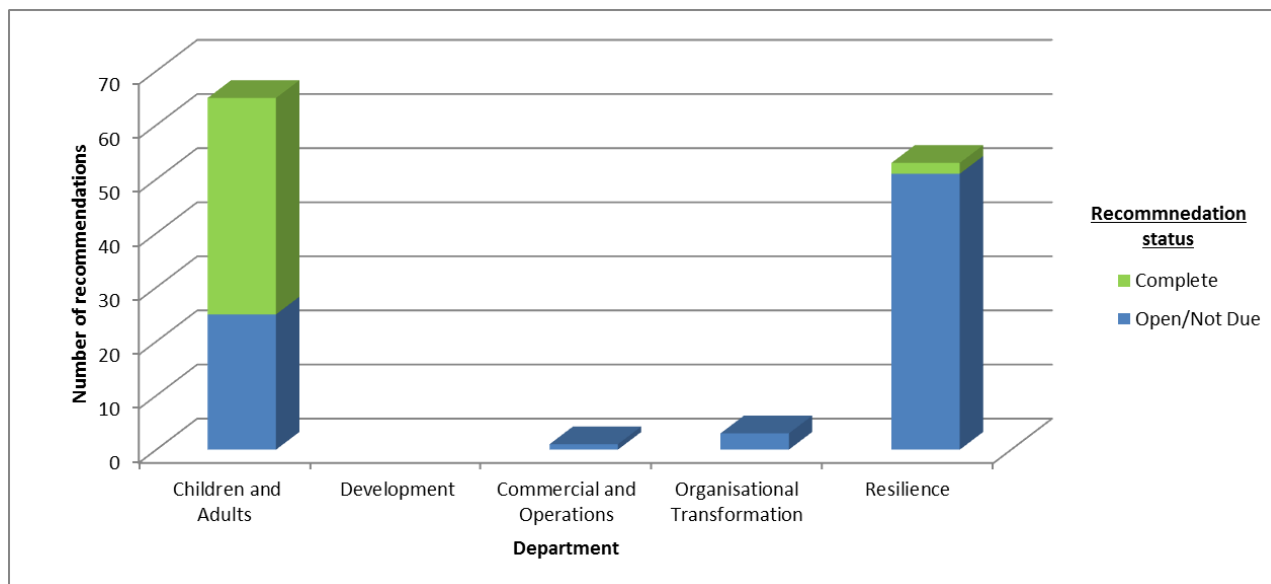


Diagram 4 illustrates the position on high risk recommendations made, analysed by client directorate. The Committee sees all reports issued and the associated high risk recommendations as part of its quarterly review of IA performance. Systems are in place to monitor these recommendations, and those 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

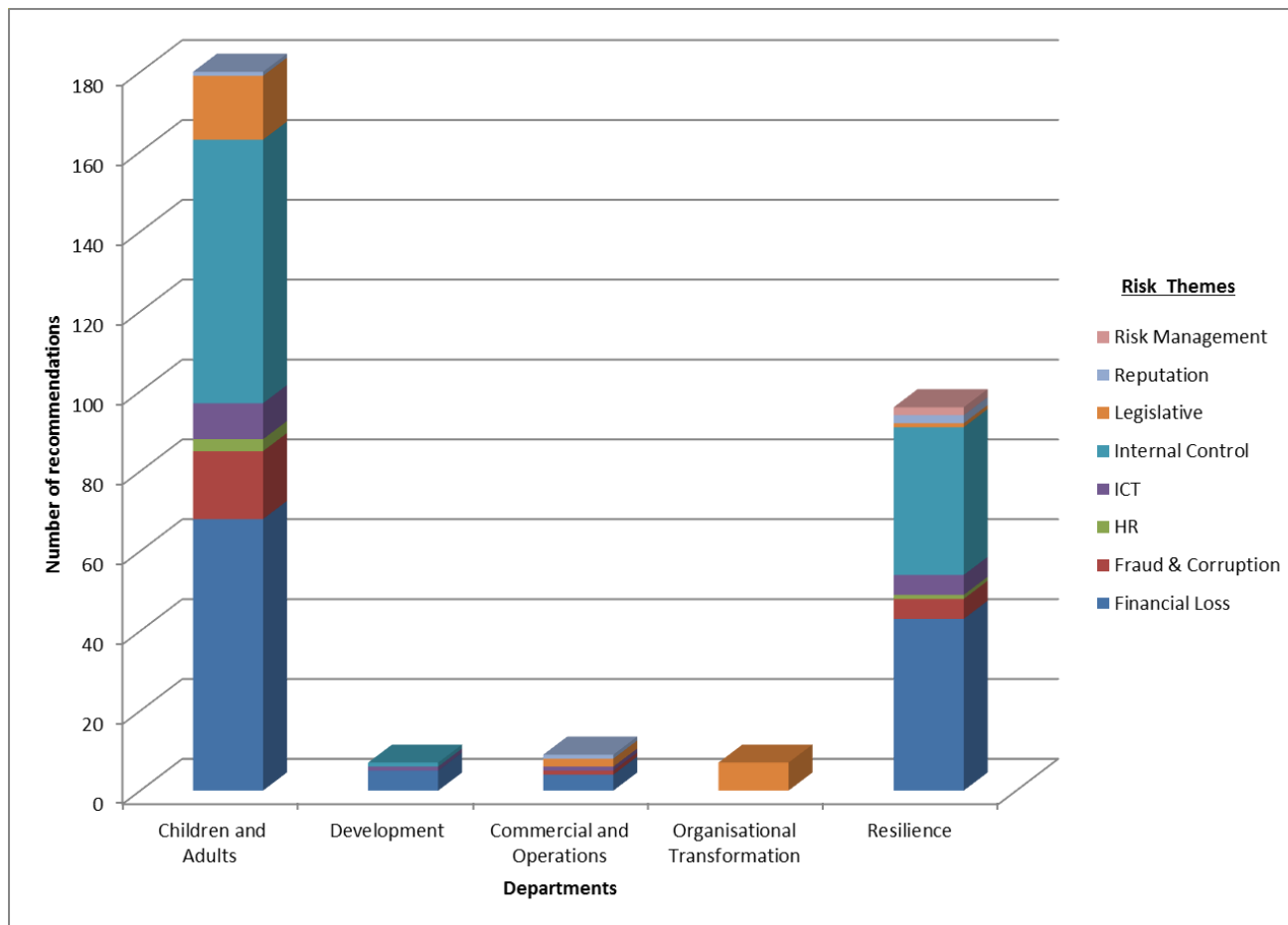
2.5.8 Risk Themes

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

Diagram 5 illustrates the distribution of the main themes of the recommendations made. The diagram shows that a similar pattern exists across departments, the main themes pertaining to the financial loss and 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 2015/16

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 2015/16 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 2015/16 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 2015/16 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 2015/16 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 2015/16 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

3.1 None.

4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- Accounts and Audit Regulations 2015
- Audit Plan 2015/16
- 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 2016 to 31 March 2016 with High Priority Recommendations



Appendix 2 List of final Audit reports issued 1st January 2016 to 31 March 2016

Appendix 3 Summary Internal Audit Plan / Outturn 2015/16

Summary of Reports with High Priority Recommendations

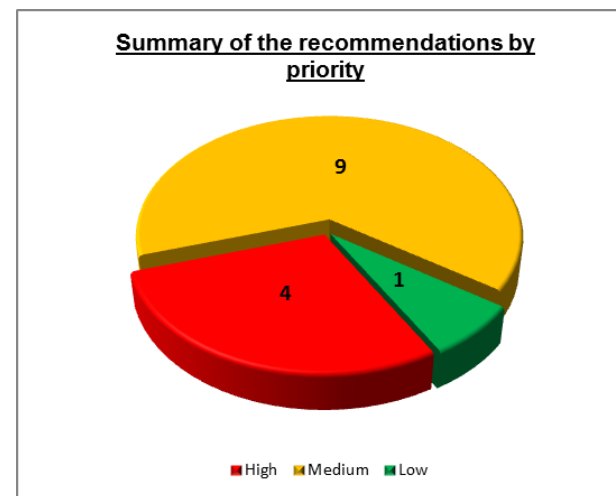
Deputyship 2015

Executive Summary

<p>Organisation: Nottingham City Council Directorate: Children and Adults</p>	<p>Overall Opinion: Limited Assurance</p>		<p>Direction of Travel: Overall, there has been no change to the level of controls that are in operation.</p> 
<p>Previous reviews: Deputyship 2009-2010 Deputyship 2011-2012</p>	<p><u>Scope and Approach:</u> The scope of this review considered the following:</p> <ul style="list-style-type: none"> ❖ The process by which deputyship is obtained and the recording mechanisms surrounding this process, ❖ The process by which income and expenditure is recorded, ❖ The reconciliation of income and expenditure ❖ The process by which property is sold (refer to the sale of houses / flats etc, the proceeds of which are used to help finance the needs of the individual client) ❖ IT security arrangements and access controls, ❖ The charging mechanism to clients, for providing the deputyship service. 		



High Priority Recommendations

- R3 Key tasks should be clearly documented and where appropriate other colleagues trained to take over should the need arise.
- R6 (a) Undertake an exercise to identify the total number of cases that exist, review each case and clear as many deceased client accounts as possible.
(b) Regular reviews of these accounts should be undertaken to ensure that there is no unauthorised movement of funds thus safeguarding the estate of the deceased.
- R7 There should be regular reviews of all relinquished cases where balances are held to ensure that funds are returned to either the citizen or an individual who is acting on the citizens behalf.
- R8 Whilst we appreciate that the team is small in number, management should consider the potential for introducing an independent reconciliation process.



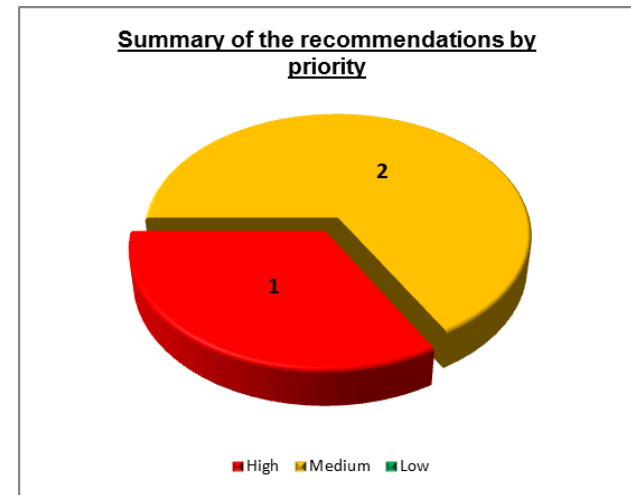
Fostering & Adoption 2015-16

Executive Summary

Organisation: Nottingham City Council Directorate: Children and Families Previous review: Fostering and Adoption 2014-15 (Payments).	Overall Opinion: Limited Assurance		Direction of Travel: This area of Fostering and Adoption has not been subject to any prior review by internal Audit 
	<u>Scope and Approach:</u> This review considered the following aspects of the service: <ul style="list-style-type: none">• Assessment of placements• Changes in circumstance• Timeliness for reviews• Application and review of temporary placements		


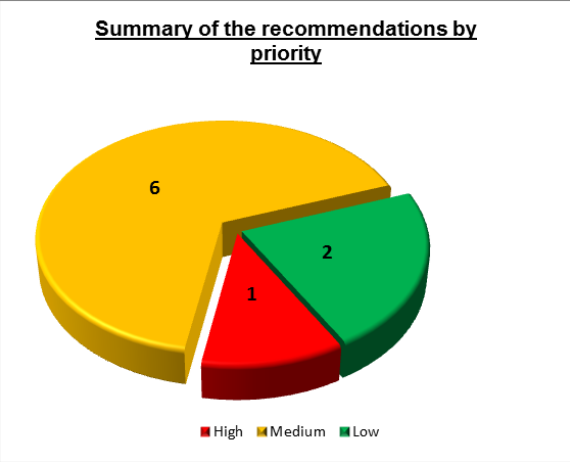
High Priority Recommendations

R3 Training needs exist for Social Workers in respect of both Connected Persons criteria and processes and the input of SGO records onto CareFirst.



Burford Primary and Nursery

Executive Summary

<p>School: Burford Primary & Nursery</p> <p>Date of Review: 1st February 2016</p> <p>Summary: We consider that most of the arrangements in place within the school are satisfactory and provide sound systems of control. Our review identified one particular area where improvement could be made; inputting the budget to FMS.</p>	<p>Overall Opinion</p> <p>Significant Assurance</p> <p>Direction of Travel:</p> <p>Date of last report 4 July 2012</p>									
<p>Scope and Approach: The scope of this review was limited to;</p> <p>Leadership & Governance, People Management, Policy & Strategy, Processes, Purchasing, Invoice Processing, Banking Arrangements, School Fund, Single Status, Income</p>										
<p>High Priority Recommendations:</p> <p>03 The budget figures agreed by the Governors should be input into FMS6.</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>1</td></tr><tr><td>Medium</td><td>6</td></tr><tr><td>Low</td><td>2</td></tr></tbody></table>		Priority	Count	High	1	Medium	6	Low	2
Priority	Count									
High	1									
Medium	6									
Low	2									

Forest Fields Primary and Nursery

Executive Summary

School : Forest Fields

Date of Review: 11 January 2016

Summary: We consider that the financial procedures in place at the school represent good practice and provide sound systems of internal control. Only one recommendation relating to the minuting of financial matters has been classed as a high priority and the number of recommendations and degree of importance is low in comparison to other schools audited.

Overall Opinion

Significant Assurance

Direction of Travel:

This is a new piece of work therefore no judgements can be made.



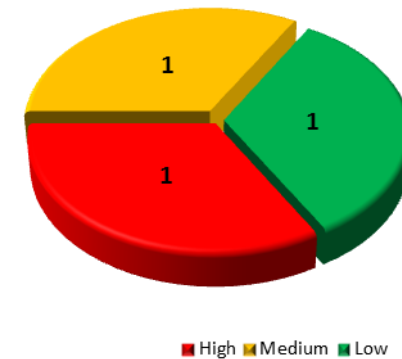
Scope and Approach: The scope of this review was limited to;

Leadership & Governance, People Management, Policy & Strategy, Processes, Purchasing, Invoice Processing, Banking Arrangements, School Fund, Income & Single Status

High Priority Recommendations:


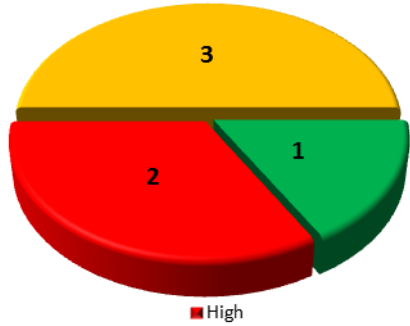
01 Draft minutes should be checked to ensure discussions and decisions relating to financial matters are recorded effectively in minutes.

**Summary of the recommendations
by priority**



Southwold Primary School and Early Years Centre

Executive Summary

<p>Company : Southwold Primary and Early Years Centre</p> <p>Date of Review: 18th January 2016</p> <p>Summary: We consider that most of the arrangements in place within the school are satisfactory and provide sound systems of control. Our review identified two particular areas where improvements could be made. These include the certification of bank reconciliations and the recording of breakfast Club income.</p>	<p>Overall Opinion</p> <p>Significant Assurance</p> <p>Direction of Travel:</p> <p>This is a new piece of work therefore no judgements can be made.</p>									
<p>Scope and Approach: The scope of this review was limited to;</p> <p>Leadership & Governance, People Management, Policy & Strategy, Processes, Purchasing, Invoice Processing, Banking Arrangements, School Fund, Income, Single Status</p>										
<p>High Priority Recommendations</p> <p>R3. The Head should sign to certify Rec1s once prepared by the SBM.</p> <p>R6. A new system for recording and reconciling breakfast club payments should be created. Monies received by the office should be reconciled to a register recording attendance and payment. When staff present income to the office they, and the person receiving the monies should sign to record the amount.</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>3</td></tr><tr><td>Medium</td><td>2</td></tr><tr><td>Low</td><td>1</td></tr></tbody></table>		Priority	Count	High	3	Medium	2	Low	1
Priority	Count									
High	3									
Medium	2									
Low	1									

William Booth Primary and Nursery School

Executive Summary

School : William Booth Primary & Nursery

Date of Review: 26 February 2016

Summary: We consider that most of the arrangements in place within the school are satisfactory and provide sound systems of control. Improvements in the overall administration of the school can be seen, since the new Office Manager has taken up post.

Our review identified some areas where improvements could be made in particular to Single Status and the reconciliation of cash. Due to these recommendations being classed as a high priority, it is important that these are implemented within the next 3 months.

Overall Opinion

Significant Assurance

Direction of Travel:

Date of last report 11 September 2012.



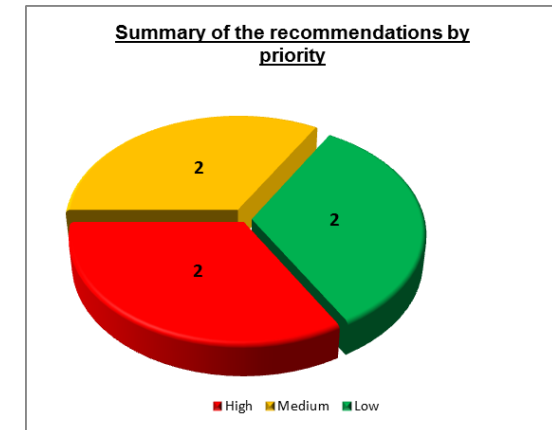
Scope and Approach: The scope of this review was limited to;

Leadership & Governance, People Management, Policy & Strategy, Processes, Purchasing, Invoice Processing, Banking Arrangements, School Fund, Income, Single Status

High Priority Recommendations:



R5. Annual Entitlement should be calculated for staff and monitored via an Annual Leave Card.

R6. Cash for banking should be reconciled then checked by an independent person.



PCI Compliance 2015

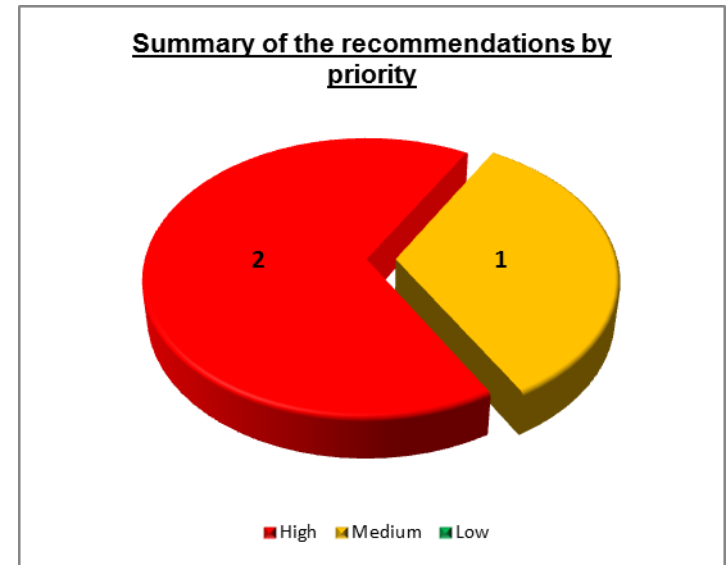
Executive Summary

Organisation: Nottingham City Council Directorate: Resilience Previous reviews: None	Overall Opinion: Limited Assurance		Direction of Travel: This area has not been subject to previous review. 
	Scope and Approach: To review the process by which PCI compliance is achieved		

High Priority Recommendations



- R2 A firm proposal and business case should be developed to replace the existing arrangements with a more secure means of accepting payments over the telephone.
- R3 A formal policy should be communicated to all customer-facing colleagues who may receive payments via the telephone.

In addition, where this function is undertaken by external organisations, who currently use NCC's facilities, then clauses should be included within the contracts specifying the penalties for breaching the policy



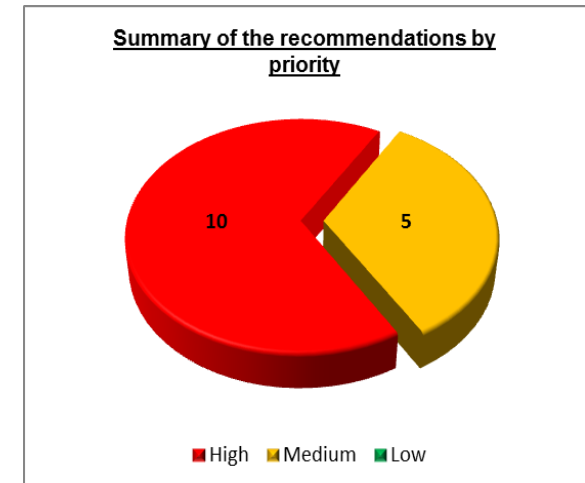
NCC - AR Testing & Reporting 2014-15

Executive Summary

<p>Organisation: Nottingham City Council Department: Resources – Strategic Finance</p> <p>Previous review: NCC AR Report – May 2014</p>	<p>Overall Opinion</p> <p>Limited Assurance</p>		<p>Direction of Travel</p> <p>Aspects of this have been reviewed and reported previously, but there has been no improvements made.</p> 
<p>Scope and Approach: The agreed scope covered the processes for: Raising Income Debit, Receiving Income (including suspense items), Recovery of Income, Writing off debts, Reporting</p>			

High Priority Recommendations

- R1 Financial Regulations should be re-drafted to take account of third parties being involved within the debt collection process.
- R2 The City Council should nominate an internal process expert to act as a liaison between NCC and EMSS to monitor performance and to control systems development and changes in this area.
- R3 NCC should develop in conjunction with EMSS a Service Level Agreement that sets out roles, responsibilities, and NCC expectations as to performance.
- R4 Consideration should be given to adapting Debt Management Strategy, based upon LCC best practice, as a starting point for developing a strategy to manage all debt due to the Council.
- R5 Clarity is required for both EMSS and Heads of Service to ensure that all the debt is effectively collected; this should then be built into any SLA with EMSS.
- R7 New management reports need to be developed to provide Heads of Service detailed information about their level of debt and the recovery stages achieved.
- R8 All data should be passed to the consolidated debt system. (Compliance with the 2005 Debt Management Policy)
- R9 All debt over 6 years old should be formally reviewed in conjunction with EMSS and Nottingham Revenues and Benefits Ltd to decide which debts are no longer cost effective to collect and need to be written off.
- R14 Those areas raising bulk invoices should be reviewed in order that the process may be streamlined and become more efficient with the possibility of introducing feeder systems from source records.
- R15 An urgent review is required to clear these items to ensure that customer accounts are accurate and complete.



Appendix 2

Final Audit Reports issued 1st January to 31st March 2016

Department	Division	Activity Title	Audit Assurance	Recommendations Accepted		
				High	Medium	Low
Children and Adults	Adult Social Care	Deputyship 2015	Limited Assurance	4	9	1
	Adult Social Care Total			4	9	1
	Children's Integrated Services	Children's Placements 2015-16	Limited Assurance	0	6	1
		Fostering & Adoption 2015-16	Limited Assurance	1	2	0
		Troubled Families	Grant	0	0	0
	Children's Integrated Services Total			1	8	1
	Schools	Burford Primary and Nursery	Significant Assurance	1	6	2
		Forest Fields Primary and Nursery	Significant Assurance	1	1	1
		Southwold Primary School and Early Years Centre	Significant Assurance	2	3	1
		William Booth Primary and Nursery School	Significant Assurance	2	2	2
	Schools Total			6	12	6
	Children and Adults Total			11	29	8
Resilience	Strategic Finance	PCI Compliance 2015	Significant Assurance	2	1	0
		NCC - AR Testing & Reporting 2014-15	Limited Assurance	10	5	0
	Strategic Finance Total			10	5	0
Resilience Total			12	6	0	
Grand Total				23	35	8

*

2015/16 INTERNAL AUDIT PLAN VERSUS OUTTURN

Audited Area	Planned Days	Actual Days
Strategic Risk	20	0
Fraud / Counter Fraud	18	14
Consultancy, Advice and Support	170	151
Companies / Other Bodies	288	355
Corporate Audits	307	229
Development	480	473
Communities	90	122
Children & Families	250	277
Chief Executive	85	67
Resources	162	133
Developments / Other	10	0
Total	2363	2249