

AUDIT COMMITTEE - 25 April 2014

Title of paper:	<u>INTERNAL AUDIT ANNUAL REPORT 2013/14</u>	
Director(s)/ Corporate Director(s):	Acting 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 1 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 2013/14. 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 2011 state that local authorities should maintain an adequate and effective system accounting for the resources it uses and an effective system of internal control.
- 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 2013/14 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 and Protecting the Public Purse	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 IA work being done during the implementation of the project and also that planned for the first year 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 2013/14.

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%	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 2013/14 net budget for the service was £319,799. The predicted outturn after adjustments for 2013/14 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 2011 and associated regulations in respect of the provision of an IA service.

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

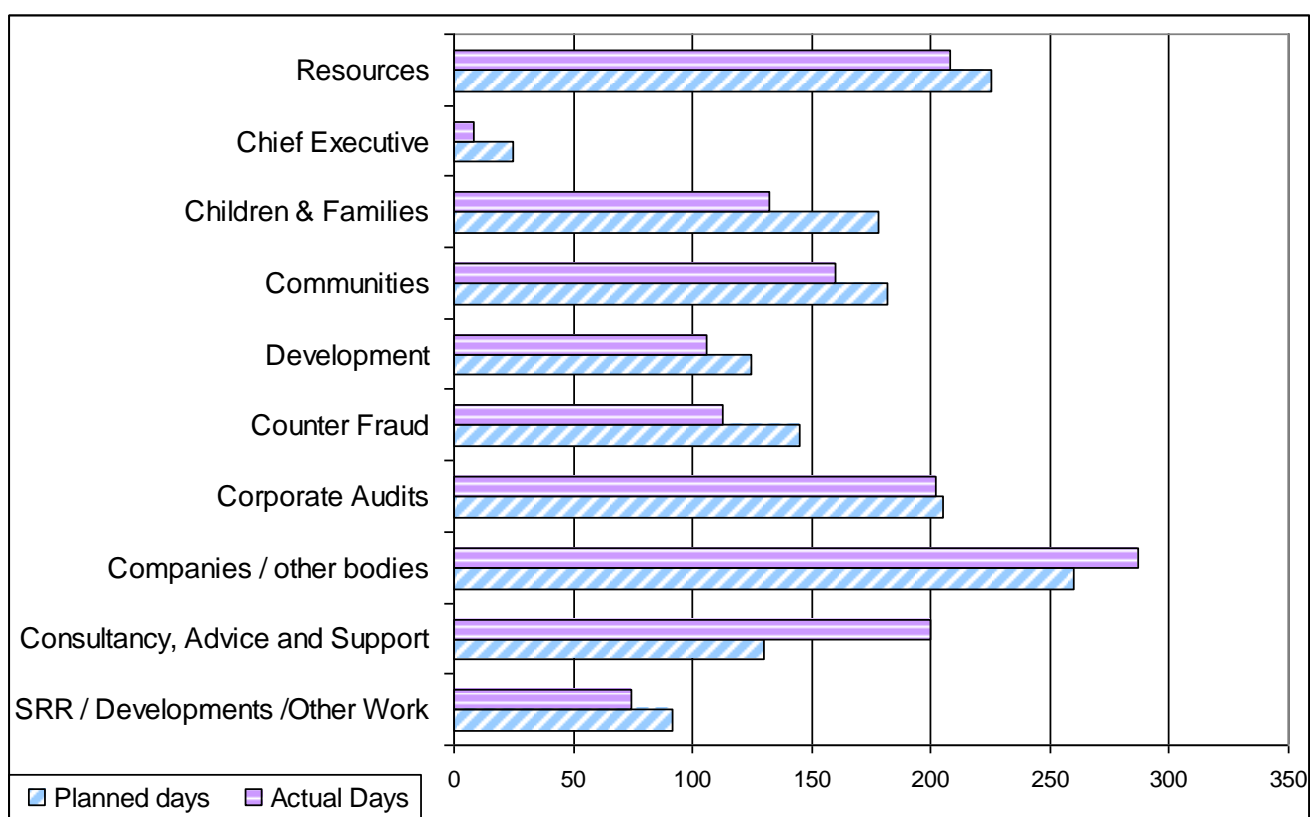
2.5.4 Audit Plan

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
1567	1490	95% Plan Days Achieved – within accepted practice

The final outturn for 2013/14 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 2013/14



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 YEAR		
	2013/14	
	All	High
Total recommendations made	306	116
Rejected	4	0
Total recommendations accepted	302	116
Percentage accepted	99%	100%

2.6 Head of Audit's Annual Opinion 2013/14

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 IA service works to a risk based Audit Plan agreed with Corporate Directors and agreed by the Committee.

The audit work concludes with a report detailing the findings and giving an overall level of assurance.

The 2013/14 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.

2.6.1 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.

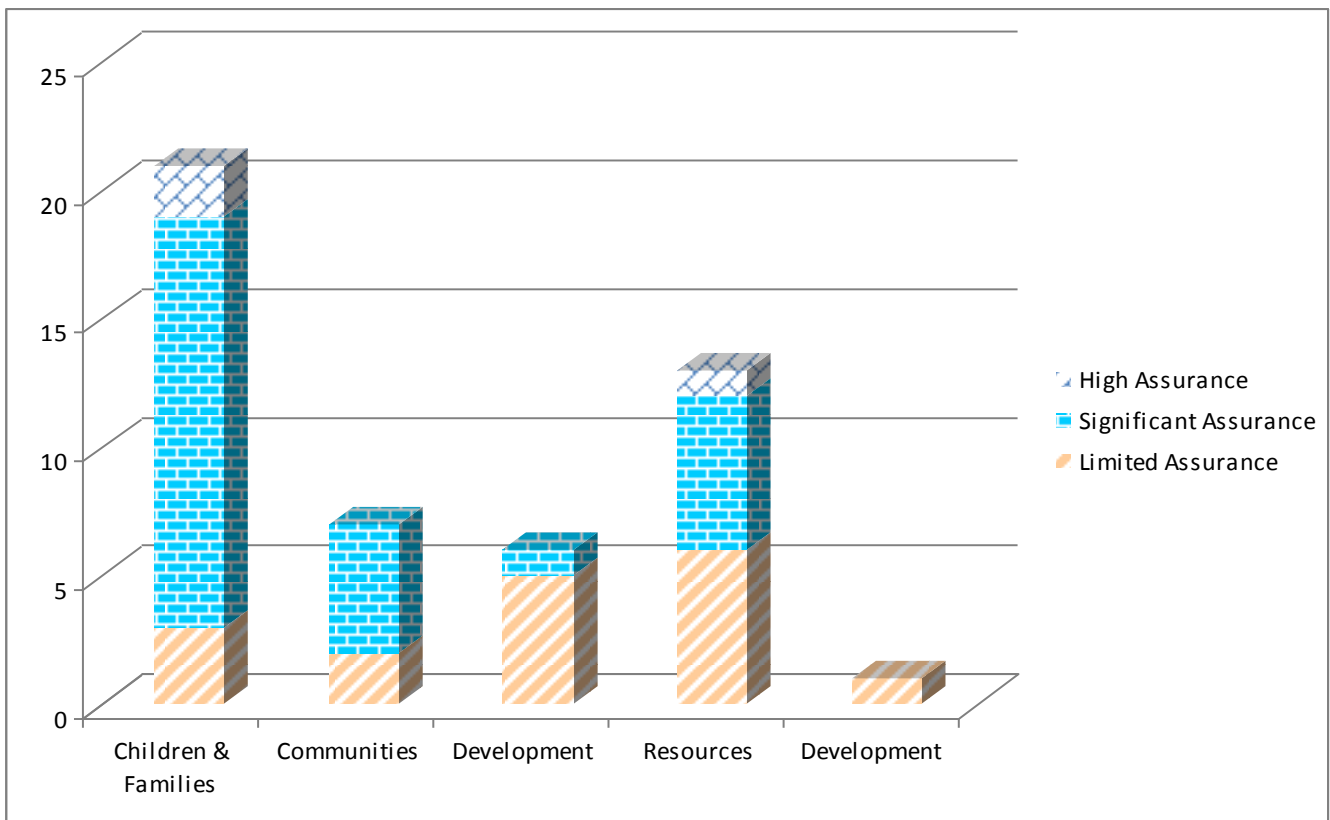
The level of assurance given is derived from the findings based on the following definitions:

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 2013/14



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.

2.6.2 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

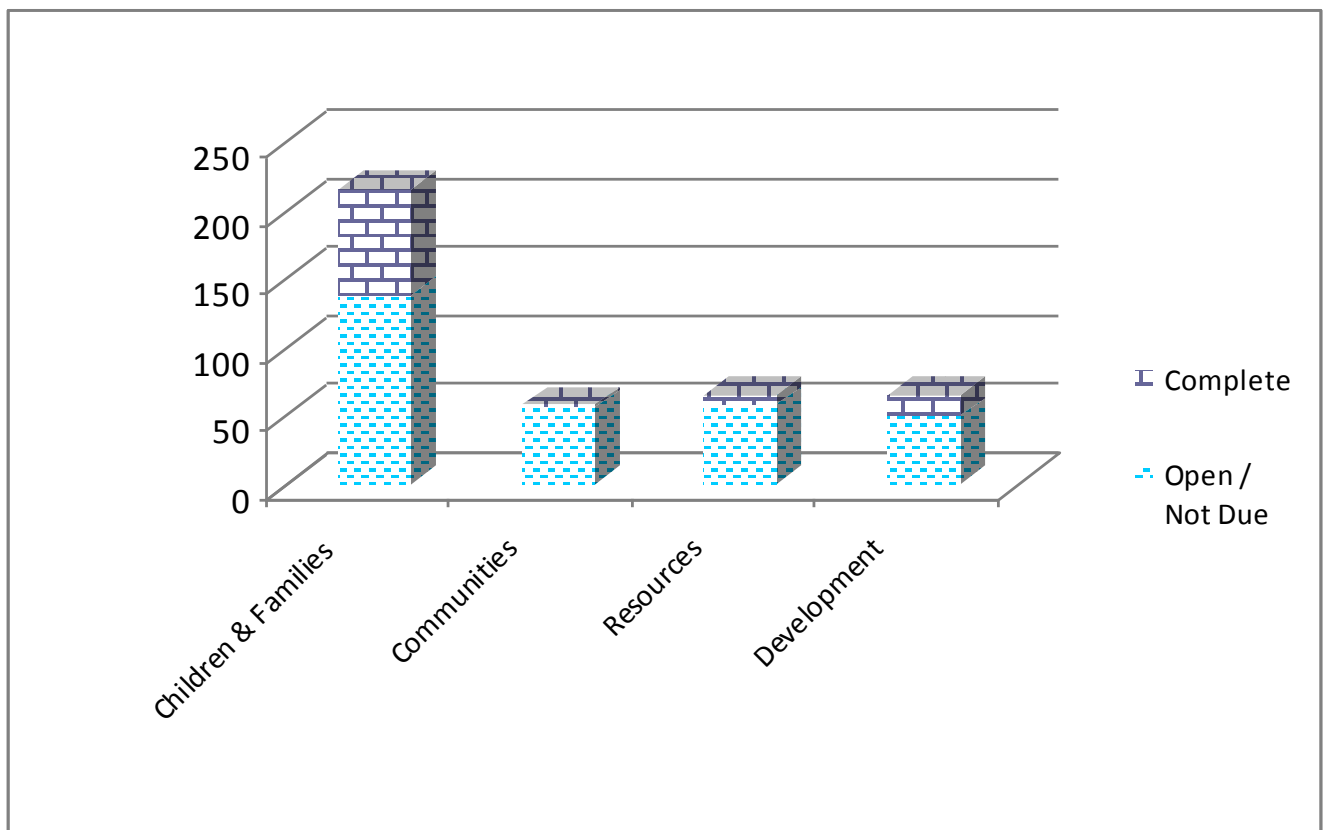
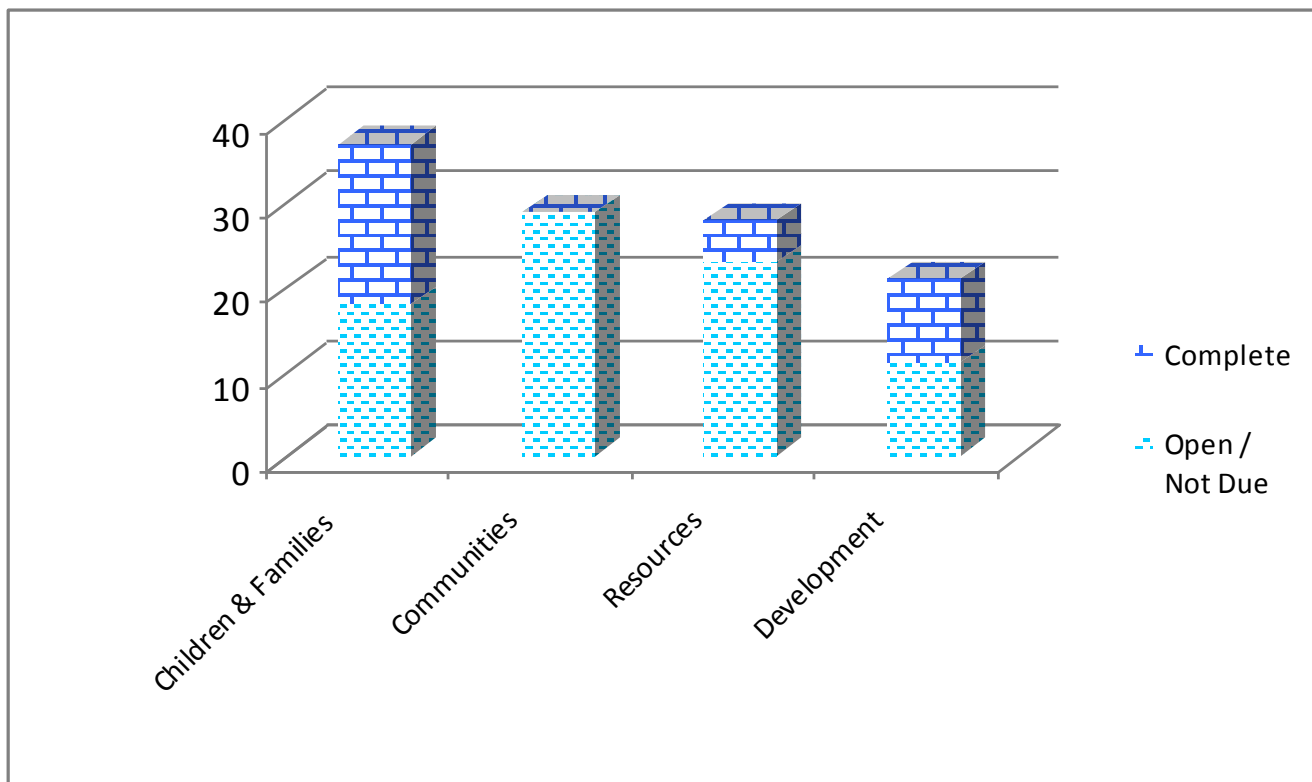


Diagram 4 illustrates the position on high risk recommendations made, analysed by client directorate. The Committee sees all reports issued and the associated high risk recommendations as part of its quarterly review of IA performance. Systems are in place to monitor these recommendations, and those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

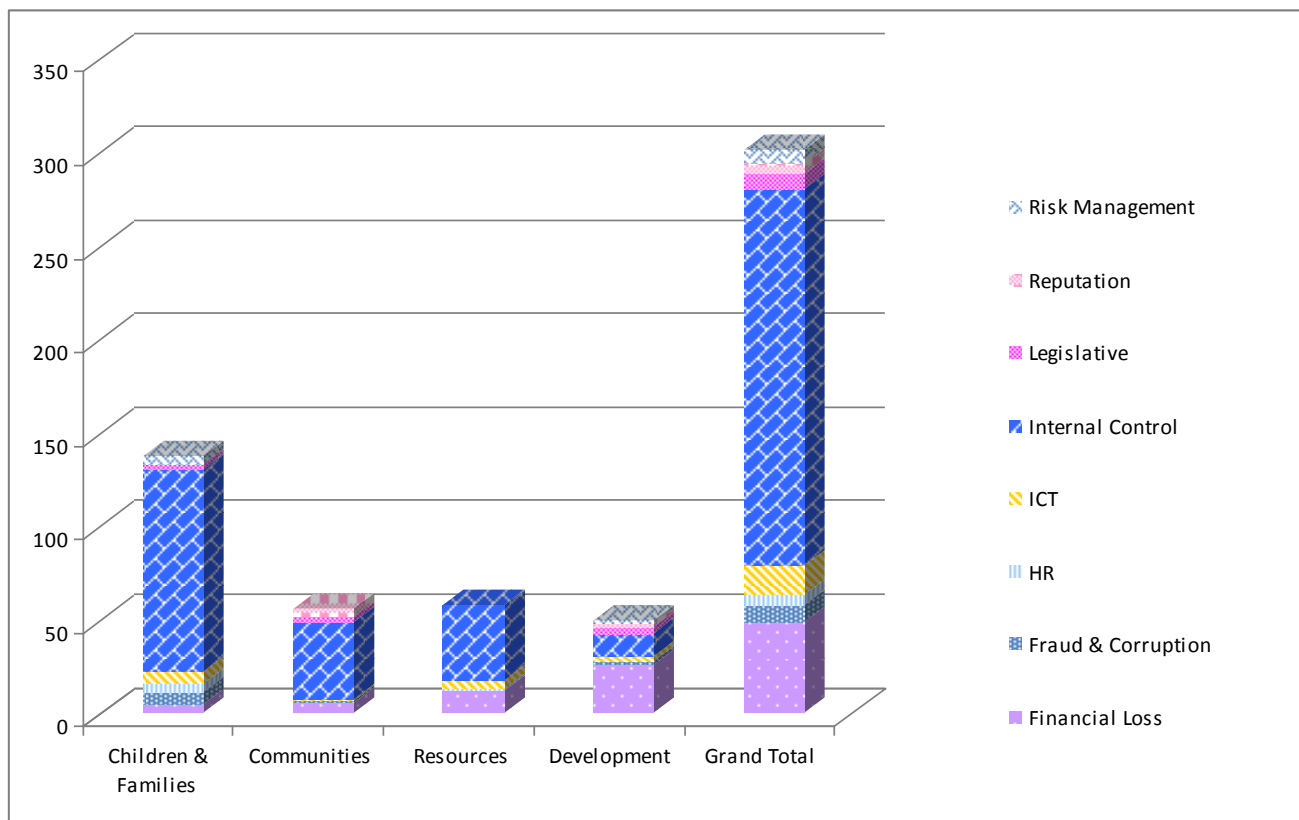
2.6.3 Risk Themes

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



2.7 Opinion

2013/14 saw significant change, challenges and risks experienced by the Council, including the operational commencement of its significant partnership for the delivery of HR and financial services with Leicestershire County Council (EMSS). The HoIA has continuously reviewed the 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 2013/14 and drawn upon external sources of assurance from independent review bodies and internal assurance mechanisms to 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 2013/14 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 2013/14 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 2011
- Audit Plan 2013/14
- 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 2014 to 31 March 2014 with analysis of recommendations by risk
- Appendix 2** List of final Audit reports issued 1st January 2014 to 31 March 2014
- Appendix 3** Summary Internal Audit Plan / Outturn 2013/14

Appendix 1

All reports issued in Q4 with Analysis of Recommendations by risk

Audit	Scope	Level of Assurance	Recommendation				
			High	Medium	Low	Action Ref (Report ref)	High Risk Recommendations
Joint Funding of Care	<p>The agreed scope covered the following:</p> <ul style="list-style-type: none"> • The process for identifying the need for joint funding and continuing care arrangements • The approval process • The system by which income is collected and expenditure is approved 	Significant	0	7	0		
Hempshill Hall School	<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 	Significant	2	1	0	A1308 (02)	For all purchases over £1,000, the school should ensure that reasonable steps have been taken to obtain value for money. The most straightforward method is by obtaining at least 3 alternative quotations.

Audit	Scope	Level of Assurance	Recommendation				
			High	Medium	Low	Action Ref (Report ref)	High Risk Recommendations
	<ul style="list-style-type: none"> • Invoice Processing • Banking Arrangements • Voluntary Funds • Asset Register • Implementation of Single Status 						
						A1311 (03)	For all purchases over £10,000, the school should obtain at least 3 alternative quotations. These should be considered by the Finance and General Purposes Committee before deciding which supplier to award the contract to. This should be documented in the Governors minutes.
Waste Collection 2014	<p>The scope of this review was limited to;</p> <ul style="list-style-type: none"> • Identifying the procedures and controls in place for dealing with overtime. • Establishing the systems that are in place for performance management. 	Significant	3	4	0	A1291 (05)	An investigation should be carried out into the excessive driving hours and explanations sought.
						A1292 (06)	An investigation should be carried out into the time anomalies highlighted in

Audit	Scope	Level of Assurance	Recommendation				
			High	Medium	Low	Action Ref (Report ref)	High Risk Recommendations
							Appendix C.
						A1309 (07)	Written procedures should be put in place for all areas of work covered by the audit
Council Tax 2014	<p>The agreed scope covered the following:</p> <ul style="list-style-type: none"> • The review of the annual billing processes. • Identification, notification and updating of amendments to property bandings and rateable values of non domestic properties. This included the processes for updating changes to the systems and the reconciliation of property numbers, bandings and rateable values between the Council Tax and Business Rate systems with those reported by the Valuation Officer. • The application of reliefs, in accordance with legislation, and the review programmes in place for ensuring continued eligibility. • The procedures and processes for the follow up of accounts with arrears together with an overall review of the collection position. This aspect included review of the control and authorisation processes applied to write-offs. • Review of the controls over receipts and their reconciliation with Radius and the 	Significant	0	3	0		

Audit	Scope	Level of Assurance	Recommendation					
			High	Medium	Low	Action Ref (Report ref)	High Risk Recommendations	
	direct debit bank statement. This included review of suspense operation and also the control processes operated over refund transactions.							
Capital 2014	<p>The scope of this review was limited to;</p> <p>(1) A walkthrough of the processes for capital additions and disposals.</p> <p>(2) A review of the process to arrive at the capital programme for 2013/14 to ensure transparency, that approvals have been obtained, and that the programme supports corporate aims.</p> <p>(3) A review of the process for reporting on capital spend against the programme. This to include both reporting at project level financial status and scheme progress and at overall capital programme level to the Executive Board on a quarterly basis.</p> <p>(4) A review of the development of monitoring and control through the Oracle system.</p> <p>(5) A review of the programme of reporting to Project Health Board and Corporate Delivery Board on capital projects.</p> <p>(6) Confirmation that major capital projects' funding has been risk assessed and that where the project leads to future revenue expenditure, its funding has also been</p>	Limited	4	0	0	A1294 (2013/14 01)	<p>The council should consider using an alternative model for contracting with agents concerning acquisition and letting of property or ensuring that if agents are used they add value to the process.</p> <p>In addition, the council should consider preparing and obtaining approval for a land acquisition and disposal policy which could form part of a wider Capital or Investment Strategy</p>	

Audit	Scope	Level of Assurance	Recommendation				
			High	Medium	Low	Action Ref (Report ref)	High Risk Recommendations
	<p>risk assessed.</p> <p>(7) Reconciliation of the fixed asset register to the general ledger.</p> <p>(8) Reconciliation of the fixed asset register to the corporate property database.</p> <p>(9) A review of the process for verification and valuation of assets.</p> <p>(10) Review of the process for updating the central contracts register and for identifying service concessions or embedded leases within significant new contracts.</p>						
						A1296 (2013/14 02)	The preparation of advice and an estimation of the market value of land and buildings either designated for disposal or identified for acquisition should be undertaken by professionally qualified (i.e. RICS) valuers or the work undertaken should be supervised and signed off by a professionally qualified valuer.
						A1297 (2012/13 01)	In line with Financial Regulations (Paragraph A.11) a Capital Strategy should be put in place and should be linked with other key documents such as an Asset

Audit	Scope	Level of Assurance	Recommendation				
			High	Medium	Low	Action Ref (Report ref)	High Risk Recommendations
							<p>Management Plan. Along with the Strategic Choices process this should ensure that the Council's Capital Programme is developed in line with current plans and available resources.</p> <p>The new Capital Strategy should require reporting of approvals to the capital accounting team and would ensure that projects are entered onto the Programme in a timely fashion.</p>
						A 1298 (2010/11 01)	<p>It is recognised that workforce reductions, reorganisations and the focus on the Workplace Strategy have all contributed to the lack of an AMP; however the need to have a strategic overview of the council's assets which is aligned with the Medium Term Financial Plan and which supports the Capital Programme should be addressed as soon as possible.</p>
Cash Collection 2014	<p>The areas covered by our work were as follows:-</p> <ul style="list-style-type: none"> The procedures for cashing up and 	Limited	4	5	3	A1212 (03)	In order to ensure compliance with Corporate Financial Rules, Cashiers should be

Audit	Scope	Level of Assurance	Recommendation				
			High	Medium	Low	Action Ref (Report ref)	High Risk Recommendations
	<p>banking. This included the collection and handover of bankings under the security contract.</p> <ul style="list-style-type: none"> • Reconciliation procedures • Refunds • Floats held on site • Access controls over Radius • Insurance arrangements • The arrangements for receiving cash and cheques by hand and by post in the Mailroom at Loxley House. This also included the arrangements for transporting these to the Central Library. 						<p>instructed to:</p> <ul style="list-style-type: none"> • Regularly work on unidentified cheques <p>Bank all cheques at least weekly as the payment types become apparent.</p>
						A1216 (04)	<p>There should be a regular supervisory review of the work of the Cashiers (at least weekly) The review should include cashing up and banking, reversals, operation of the floats, any unders and overs and any other areas where there is potential for theft and loss. The Supervisor should sign and date any records as evidence of the review.</p>

Audit	Scope	Level of Assurance	Recommendation				
			High	Medium	Low	Action Ref (Report ref)	High Risk Recommendations
						A1218 (08)	A supervisor should require Cashiers to record the reasons for reversals in full and the supervisor should complete a weekly review of these reversals.
						A1228 (11)	The reconciliation of Radius to the Council's bank account should be brought up to date as soon as possible.
Kangaroo Ticket Sales (1413OT)	This review looked at the management arrangements for the sale of Kangaroo tickets.	Limited	2	4	0	A1248 (1)	The new tills allowing Kangaroo scratch card transactions to be receipted through them should be installed as soon as possible.
						A1252 (5)	<p>The Public Transport Team should devise a process for monitoring the numbers of scratch card issued to operators with those returned as sold. This should include the Broadmarsh Travel Centre.</p> <p>Discrepancies should be queried when new stocks are requested by the operator but the sales returned by them do not support this.</p>

Appendix 2

Final Audit Reports issued 1st January to 31st March 2014

Department	Division	Audit	Assurance level	Recommendations Accepted		
				High	Medium	Low
Children & Families	Adult Assessment	Joint Funding of Care	Significant	0	7	0
	Adult Assessment Total			0	7	0
	School	Hempshill Hall School	Significant	2	1	0
	School Total			2	1	0
Children & Families Total				2	8	0
Communities	Neighbourhood Services	Waste Collection 2014	Significant	3	4	0
	Neighbourhood Services Total			3	4	0
Communities Total				3	4	0
Corporate Services	Strategic Finance	Council Tax 2014	Significant	0	3	0
		Capital 2014	Limited	4	0	0
		Cash Collection 2014	Limited	4	5	3
	Strategic Finance Total			8	8	3
Corporate Services Total				8	8	3
Development	City Planning & Transport	Kangaroo Ticket Sales (1413OT)	Limited	2	4	0
	City Planning & Transport Total			2	4	0
Development Total				2	4	0
Grand Total				15	24	3

2013/14 INTERNAL AUDIT PLAN VERSUS OUTTURN

Function/ Client	Planned days	Actual Days
Corporate Services	225	208
Chief Executive	25	8
Children & Families	178	132
Communities	182	160
Development	125	106
Corporate Audits	205	202
Counter Fraud	145	113
Companies / other bodies	260	287
Consultancy, Advice and Support	130	200
SRR / Developments /Other Work	92	74
Total Days	1567	1490