

## AUDIT COMMITTEE – 24 February 2017

<b>Title of paper:</b>	<b>INTERNAL AUDIT QUARTERLY REPORT (3<sup>rd</sup> QUARTER 2016/17)</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>	Shail Shah – Head of Audit and Risk 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 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 2016/17.

- **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 2016/17

#### **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 at the last assessment in 2015 was found to substantially comply with the principles contained in the Public Sector Internal Audit Standards (PSIAS), which is a requirement 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%	100%	100%	On Target
3	Average number of working days from draft agreed to the issue of the final report	8 days	3	2	Above Target
4	% of staff receiving at least three days training per year.	100%	cumulative	73%	On Target
5	% of customer feedback indicating good or excellent service.	85%	cumulative	99%	Above Target
6	Number of key / high risk systems reviewed	11	9	9	Ongoing see below

1.3 **Activity**

Appendix 3 summarises the internal audit plan for 2016/17. NCC Internal Audit also provides an internal audit service for other organisations. 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, by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. 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. It is also informed by consultation with stakeholders. The Plan is regularly reviewed and adapted as risks and priorities change and develop through the year.

1.4 The Internal Audit section incorporated the Corporate Counter Fraud Team during 2015/16 with a view to identifying additional income and savings for the Council. This new approach has been successful to date with the agreed income target for 2016/17 of £400,000 being exceeded in the first six months, and totalling £648,000 at the end of quarter 3. The team also helps the council to make savings which total £390,000 at the end of quarter 3.

1.5 **Summary of Activity**

A summary of reports issued within the last 3 months is included in Appendix 2. The following sections highlight any key issues and outcomes.

- **Key Financial Systems:** Work on the 2016/17 systems has been taking place during quarter 3 and will continue during this last quarter. We currently have 9 Audits at the reporting or fieldwork stage. We continue to assist East Midlands Shared Services with data analysis of payments to suppliers with a view to highlighting and reclaiming any duplicated payments.
- **Schools:** Our schools audits are planned to coincide with the school terms with the majority taking place in spring and summer terms. We have completed the audits programmed for summer 2016 and we have scheduled in the remainder for quarter 4. We will perform the responsible officer role at 3 academies during this last quarter
- **Compliance and Risk-Based Audits:** We have completed compliance and risk based audits across all departments in the first part of the year, including a review of Performance Indicators which will support the Human resources and Organisational Transformation division in ensuring the existence of effective organisational performance management and accountability. We intend to provide further support in this area during within the 2017/18 Annual Audit Plan. We have completed the majority of programmed grants audits in the first part of the year. These are generally necessary because government departments require the Head of Internal Audit to confirm compliance with grant conditions and that claimed expenditure is eligible for grant
- **Governance and Ethics:** During quarter 4 we have undertaken a process to update the Annual Governance Statement for 2016/17. We provide advice to departmental colleagues which supports them in making good decisions and setting up procedures which comply with the organisation's values, policies and processes. Included in the work plan is an audit of Councillors allowances which provided a high level of assurance. We have undertaken a review of colleague expenses which we will be reporting on in quarter 4. We plan to expand our work in this area to include organisational culture and behavioural insights in 2017/18.
- **Fraud and Investigations:** We have implemented a Corporate Counter Fraud plan that projects the scope of our activities over the next 2 years. This year we have concentrated efforts on Council Tax and Non-Domestic Rates. We continue to assist in identifying and investigating fraud in Right To Buy and tenancies, and work with colleagues in Nottingham City Homes. We support the Monitoring Officer in respect of Whistleblowing reports, most of which are received by Internal Audit. We advise on or carry out investigations in relation to suspected fraud and irregularities up to and including attendance in court as witness. We have continued to provide an e-learning tool on fraud awareness – which is available to departmental and school-based colleagues, and councillors, and have highlighted current fraud risks to colleagues through the council intranet. During this final quarter, we are coordinating and supporting investigation of returned data matches from National Fraud Initiative (NFI). We coordinated the provision of data for the NFI to use in this matching exercise during quarters 1 and 2.
- **Information and Technology:** We carry out a range of information and technology audits during the year which support management in understanding and addressing the related governance, risk and control issues. As part of audits completed earlier in the year, recommendations have been made to bring an annual IT Governance report to this committee. We are currently working on Change Control and finalising IT Asset Management. Following recruitment of a specialist we continue to develop our offer in this area.
- **Other / Consultancy:** No significant consultancy work has been carried out in this period

- 1.6 **Table 2** shows that actual days achieved are slightly less than expected at this point in the year. During the first two quarters we have been affected by restructure, which has taken up substantial amount of time. Some recruitment has taken place, effective from September, October and November which has allowed us to increase the productive days during the 3<sup>rd</sup> quarter. An additional vacancy has arisen during quarter 4 due to a colleague being recruited by another large authority. In mitigation of these vacancies, we have retained the services of an experienced contractor until March 2017 and we will investigate further recruitment and temporary measures during the quarter.

<b>TABLE 2: ACTUAL v PLANNED AUDIT DAYS</b>		
<b>Total Planned Days</b>	<b>Actual to date</b>	<b>Comments</b>
1990	1431	As predicted, additional resources has allowed us to increase productive days during quarter 3

- 1.7 **Table 3** shows that in the year to date, acceptance of recommendations is above the target of 95% for all recommendations and is meeting 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	282	92	84	33
Rejected	6	0	2	0
Total recommendations accepted	276	92	82	33
% accepted	98%	100%	98%	100%

## **2 BACKGROUND**

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

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

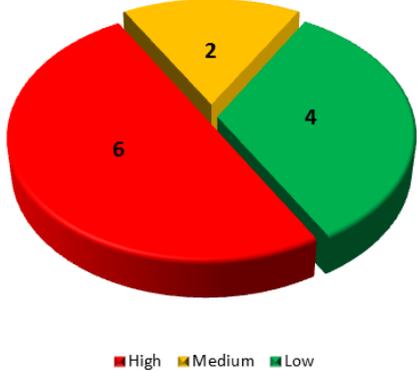
None

## **4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

- Accounts and Audit Regulations 2015
- Internal Audit Plan 2016/17
- Public Sector Internal Audit Standards (2016 update)

**Rosehill Special School**

**Executive Summary**

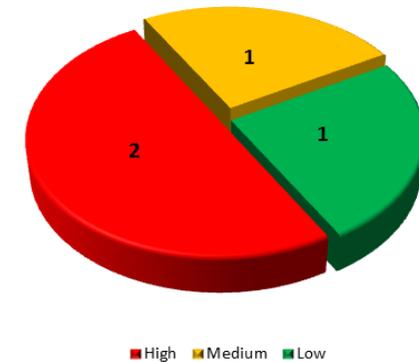
<p>Company : Rosehill School          Date of Review: 22 July 2016          Summary: Although certain procedures were found to meet the standards of good practice, our review identified a number of significant weaknesses in the school's financial management procedures where improvements need to be made. Due to these recommendations being classed as a high priority, it is important that it is implemented within the next three months.</p>	<p>Overall Opinion  <b>Limited Assurance</b>          Direction of Travel:          Previous Audit Report 25<sup>th</sup> July 2013 Significant Assurance</p>									
<p>Scope and Approach: The scope of this review was limited to;          Leadership &amp; Governance, People Management, Policy &amp; Strategy, Processes, Purchasing, Invoice Processing, Banking Arrangements, School Fund, Income, Single Status, Website</p>										
<p>High Priority Recommendations</p> <p><b>R1</b> The Financial Administration and Control Policy should be presented to Governors annually to be reaffirmed and this should be recorded in the minutes of the Governors meeting.</p> <p><b>R2</b> Outturn reports should be taken to Governor meetings each term.</p> <p><b>R3</b> Pecuniary interest forms should be completed annually for all Governors and staff with financial responsibilities including Support staff and the Site Manager.</p> <p><b>R4</b> The school should look towards resolving the concerns and ensure an agreed 3 year Financial Plan and Deficit Recovery Plan is submitted to the LA.</p> <p><b>R10</b> The electronic signing in system should be updated to include all staff and their contracted working hours. A formal monitoring procedure should be implemented that allows the school to ensure staff are working to their contracted hours.</p> <p><b>R11</b> Lease agreements should not be entered into by the school.</p>	<p>A summary of the recommendation priority is shown below:</p> <div data-bbox="1451 879 2085 1385" style="border: 1px solid black; padding: 10px;"> <p style="text-align: center;"><u>Summary of the recommendations by priority</u></p>  <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Priority</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>High</td> <td>6</td> </tr> <tr> <td>Medium</td> <td>2</td> </tr> <tr> <td>Low</td> <td>4</td> </tr> </tbody> </table> </div>		Priority	Count	High	6	Medium	2	Low	4
Priority	Count									
High	6									
Medium	2									
Low	4									

## Commercial Waste Follow-up

### Executive Summary

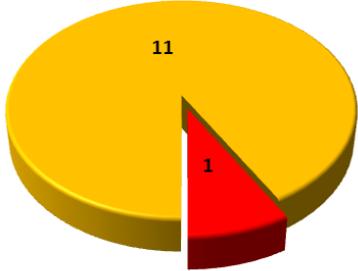
<p>Organisation: Nottingham City Council Directorate: Commercial &amp; Operations</p>	<p>Overall Opinion: Significant Assurance</p>		<p>Direction of Travel: </p>
<p>Previous reviews: Commercial Waste 2010/11 Issued August 2012</p>	<p><u>Scope and Approach:</u> The scope was limited to a review of outstanding recommendations from the 2010/11 report</p>		
<p>High Priority Recommendations:</p> <p>R1 2010/11 An attempt should be made to establish a level of stock control over the skips in accordance with Financial Regulations.</p> <p>R6 2010/2011 An attempt should be made to establish a level of stock control over the bins in accordance with Financial Regulations.</p>			

**Summary of the recommendations by priority**



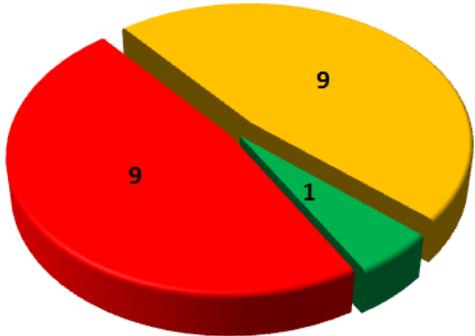
## Repairs and Maintenance 2016/17

### Executive Summary

<p>Organisation: Nottingham City Council Directorate: Neighbourhood Services</p> <p>Previous review: November 2013</p>	<p>Overall Opinion:</p> <p>Significant Assurance </p>	<p>Direction of Travel:</p> <p>The previous review gave limited assurance but there have been significant improvements resulting in significant assurance. </p>								
<p><u>Scope and Approach:</u> The scope of this audit covered the following :-</p> <ul style="list-style-type: none"><li>• Testing and inspection regimes</li><li>• Reactive works</li><li>• Minor works</li><li>• Payment of suppliers</li><li>• Condition surveys</li></ul>										
<p><b>High Priority Recommendations</b></p> <p>There is 1 high priority recommendation.</p> <p>5b Those suppliers failing to achieve the required response and completion times should be contacted and the necessary action taken.</p>		<p><u>Summary of the recommendations by priority</u></p>  <table border="1"><thead><tr><th>Priority</th><th>Count</th></tr></thead><tbody><tr><td>High</td><td>1</td></tr><tr><td>Medium</td><td>11</td></tr><tr><td>Low</td><td>0</td></tr></tbody></table>	Priority	Count	High	1	Medium	11	Low	0
Priority	Count									
High	1									
Medium	11									
Low	0									

# IT Security 2015/16

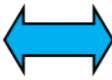
## Executive Summary

<p>Organisation: Nottingham City Council Directorate: Resilience Previous reviews: IT Access Controls 2014-15</p>	<p>Overall Opinion: <b>Limited Assurance</b></p>		<p>Direction of Travel: This review has identified a slight reduction in the level of controls from previously reported.</p> 								
<p><u>Scope and Approach:</u> The scope of this review will look at:</p> <ul style="list-style-type: none"><li>• Review IT security processes and changes since the last review</li><li>• Review IT awareness training provided to colleagues</li><li>• Management of employees joining/re-joining the Council, including those employed on a temporary contracts</li><li>• Management of employees leaving the Council, including those employed on temporary contracts</li><li>• The process of reporting IT Security incidents and actions taken by senior management in response to the issues raised.</li></ul>											
<p>High Priority Recommendations</p> <p>R1 The Information Security Policy should be reviewed and submitted to the Audit Committee as part of the City Council's Governance and Risk Management arrangements</p> <p>R2 All users should be set up following the appropriate process in order that there is full management trail of who is allowed and authorised to access the network.</p> <p>R3 All colleagues, including contractors, temporary staff and casuals, should undergo the Information Security and Data Protection training in line with the requirements of the Financial Regulations.</p> <p>In addition, Corporate Directors should establish monitoring and reporting arrangements to ensure that the training is successfully completed.</p> <p>R4 All colleagues should be required to undergo the Information Security Awareness Training and Data Protection Training prior to having formal access to the IT network.</p>		<p><b><u>Summary of the recommendations by priority</u></b></p>  <table border="1"><thead><tr><th>Priority</th><th>Count</th></tr></thead><tbody><tr><td>High</td><td>9</td></tr><tr><td>Medium</td><td>9</td></tr><tr><td>Low</td><td>1</td></tr></tbody></table>		Priority	Count	High	9	Medium	9	Low	1
Priority	Count										
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Low	1										

In addition, Managers should be informed where either colleagues fail to complete the course or fail to achieve a pass in order that they may be offered additional support and training to ensure that appropriate standards may be achieved and maintained.

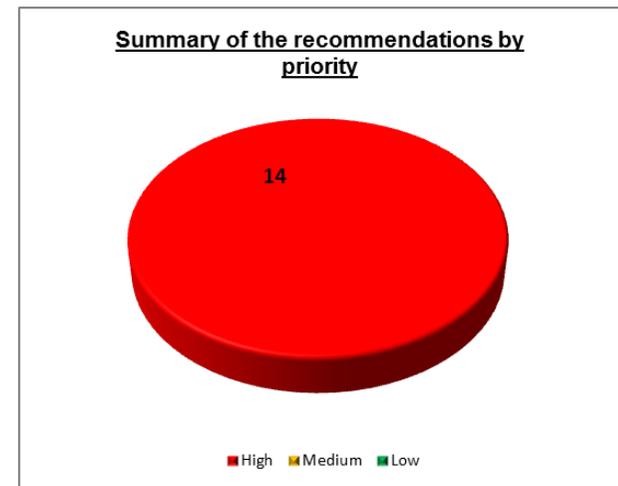
- R7 The password domain setting should be reset to 6 failed access attempts
- R8 Users should be forced to set more complex passwords, preferably by means of a software solution and be aligned to the recommendations made by the Penetration testers suggestions.
- R9 We would suggest that the period between forced password resets should be reviewed to take account of the risks to the network.
- R10 All PCs and mobile working devices should have a default time out period set in order to protect sensitive data and access to the City Councils Network and this should be stated in the Information Security Policy and password standards.
- R17 Admin Accounts should be deleted within 30 days of the user leaving or moving from the post in order there is less opportunity for systems or data to be compromised.

**Health and Safety 2016  
Executive Summary**

<p>Organisation: Nottingham City Council Directorate: Legal &amp; Democratic</p>	<p>Overall Opinion: <b>Limited Assurance</b></p>	<p>Direction of Travel: This area of Health &amp; Safety has not been subject to any prior review by Internal Audit </p>
<p>Previous review: None</p>	<p><u>Scope and Approach:</u> This review considered the following aspects of the service:</p> <ul style="list-style-type: none"> <li>• Recording of accidents/violent incidents</li> <li>• Risk assessments</li> <li>• Training and awareness of staff</li> <li>• CSAT audits</li> <li>• HSE involvement</li> <li>• Reporting arrangements</li> </ul>	

**High Priority Recommendations**

01. All accidents and violent incidents should be investigated fully and promptly with all associated paperwork uploaded to the Incident Reporting Database.
02. Directors should be informed of all incidents that have not been investigated and properly dealt with after a set amount of time.
03. Managers should be reminded of their responsibility to ensure that they undertake the appropriate health and safety training.
04. If the limitation of Oracle reporting continues, the CSA Team should undertake a manual sweep of managerial grades on a periodic basis and confirm completion of the necessary modules and refresher courses.
05. Managers should be reminded of their responsibility to ensure that their staff have all received the appropriate health and safety training.
06. The CSA Team should consider carrying out more comprehensive audits.
07. The CSA Team should also consider the adoption of a risk based approach in how audit locations are chosen with more time allocated to the highest risk areas.
08. The CSAT should make Corporate Directors/Directors aware of any concerns that are highlighted during an audit.



09. An annual report should be prepared on the current status of health and safety across the Council, by the CSA Team. The report could include areas such as :- number of HSE notices and fines in a year, number of non-investigated accidents and violent incidents in the year by department, numbers of Managers trained and not trained, CSA Team audit points outstanding after X months by department, cost of health and safety related insurance claims.
10. The Domestic Waste Manager should ensure that all new starters are adequately trained with comprehensive training records maintained.
11. The Domestic Waste Manager should ensure that all staff sign for their personal protective equipment and that complete records of issue are maintained.
12. The Head of Parks & Open Spaces should ensure that the risk assessments are brought up to the required standard.
13. The Head of Parks & Open Spaces should ensure that all new starters are adequately trained with comprehensive training records maintained.
14. The Head of Parks & Open Spaces should ensure that exposure time on vibrating equipment should be monitored in accordance with a recommendation from Earlsmere who carry out the departmental HAV and WBV training.

**APPENDIX 2**

**Final Audit Reports issued 1st October to 31<sup>st</sup> December 2016**

Department	Division	Activity	Level of assurance	No of Recommendations accepted		
				High	Medium	Low
Children and Adults	Education	Heathfield Primary & Nursery School	Significant Assurance	0	5	2
		Rosehill Special School	Limited Assurance	6	2	4
	Education Total			6	7	6
<b>Children and Adults Total</b>				<b>6</b>	<b>7</b>	<b>6</b>
Commercial and Operations	Neighbourhood Services	Commercial Waste Follow Up 2015-16	Significant Assurance	2	1	1
	Neighbourhood Services Total			2	1	1
<b>Commercial and Operations Total</b>				<b>2</b>	<b>1</b>	<b>1</b>
Development & Growth	Economic Development	Nottingham Jobs Fund	Significant Assurance	0	5	0
	Economic Development Total			0	5	0
	Strategic Asset & Property Management	Repairs and Maintenance 2016/17	Significant Assurance	1	11	0
	Strategic Asset & Property Management Total			1	11	0
<b>Development &amp; Growth Total</b>				<b>1</b>	<b>16</b>	<b>0</b>
Strategy and Resources	Information Technology	IT Security 2015/16	Limited Assurance	10	6	1
	Information Technology Total			10	6	1
	Legal & Democratic Services	Councillors Allowances	High Assurance	0	0	0
	Legal & Democratic Services	Health & Safety 2016	Limited Assurance	14	0	0
	Legal & Democratic Services Total			14	0	0
	Organisational Transformation	Recruitment 2017	Significant Assurance	0	3	0
	Organisational Transformation Total			0	3	0
	Strategic Finance	NCC - AP Duplicate Payments Testing	Limited Assurance	0	5	0
		Capital Fees	Short Report	0	1	2
Strategic Finance Total			0	6	2	
<b>Strategy and Resources Total</b>				<b>24</b>	<b>15</b>	<b>3</b>
<b>Grand Total</b>				<b>33</b>	<b>39</b>	<b>10</b>

**APPENDIX 3**

**SUMMARY OF POSITION AGAINST UPDATED INTERNAL AUDIT PLAN 2016/17**

<b>Audit Title</b>	<b>Planned Days</b>	<b>Actual Days</b>
Strategic Risk Register	30	0
Resources	124	58
Chief Executive/Transformation	70	62
Children & Families	140	89
Commercial & Operations	70	28
Development	108	58
Corporate Audits	346	217
Fraud / Counter Fraud	500	386
Corporate Fraud Strategy	48	8
Companies / Other Bodies	354	326
Consultancy, Advice and Support	120	92
Developments / Other Work	80	107
<b>Total Days</b>	<b>1990</b>	<b>1431</b>