

REPORT OF DEPUTY CHIEF EXECUTIVE & CORPORATE DIRECTOR FOR
RESOURCES

INTERNAL AUDIT QUARTERLY REPORT 2010/11 – 3RD QUARTER

1 PURPOSE OF THE REPORT

This report outlines the work of the Internal Audit service for the third quarter of 2010/11.

2 RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Notes the performance of Internal Audit during the period.
- 2.2 Selects up to two audits from **Appendix 2** for further discussion at the June 2011 meeting.

3 REASONS FOR CONSIDERATION

3.1 The Audit Committee's terms of reference include responsibility for receiving reports on the work undertaken by Internal Audit and for monitoring its performance. This report is one of the quarterly updates on work undertaken by the service and the Audit Committee is invited to consider and comment on (for example):

- The performance of the Internal Audit service against the annual plan in terms of number of days and the balance and mix of the work.
- The nature, scope and quality of the work undertaken.
- The performance indicator results, including whether these indicators are appropriate and the targets sufficiently stretching.

4 OVERVIEW OF WORK UNDERTAKEN

4.1 Appendices 1 and 3 provide further details of work undertaken in the third quarter.

- **Appendix 1** - list of final audit reports issued in the quarter.
- **Appendix 2** - Summary of related audit findings and recommendations completed in the quarter.
- **Appendix 3** - gives an overview of the work completed to date against the Audit Plan.

4.2 Standards

All Internal Audit colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards. The service has internal quality procedures in place is ISO9002 accredited. It has adopted the principles contained in the CIPFA Code of Practice 2006 and has fulfilled the requirements of the Account & Audit Regulations 2003 (amended 2006) and associated regulations in respect of the provision of an Internal Audit service.

4.3 Local Performance Indicators (PIs)

Performance against all PIs is currently at or above target as illustrated in **Table 1**.

Table 1 : Performance v PI Targets as at 31/12/2010				
Indicator	Target	Third Quarter	Actual Year to 31/12/2010	Comments
% of all recommendations accepted	95%	100%	99%	On target
% of high recommendations accepted	100%	100%	99%	Within tolerance
Average number of working days from draft agreed to the issue of the final report	8 days	2	3	Above target
Number of key / high risk systems reviewed	15 systems	1	5*	All on target for completion by end of quarter 4
% of colleagues receiving at least three days training per year	100%	84%	92%	On schedule to meet annual target of 3 days (1 days training still required)
% of customer feedback indicating good or excellent service	85%	93%	88%	Above Target

*By the date if the Audit Committee, draft or final reports will have been issued for all key systems.

4.4 Activity

Table 2 shows that actual days achieved are in line with planned days set out in the revised Audit Plan and **Appendix 3** shows progress against the individual audits. In summary the plan, after revision, remains on target.

TABLE 2: ACTUAL v PLANNED AUDIT DAYS - QUARTER 3			
Total Revised Planned Days	Actual to date	Planned Days	Comments
1,396	986	1,104	Within parameters after annual work programme adjustment. More productive days are available in the final quarter.

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

TABLE 3: RECOMMENDATIONS ACCEPTED DURING 01/04/10 TO 31/12/10				
	2010/11		3rd quarter 2010	
	All	High	All	High
Total recommendations made	136	84	14	1
Rejected	1	1	0	0
Total recommendations accepted	135	83	14	1
Percentage accepted	99%	99%	100%	100%

Resources 2010/11

The net budget is analysed in **Table 4**.

TABLE 4: BUDGET ANALYSIS	
	£
Income	(60,730)
Expenditure	576,190
Net	515,460

The latest projections are for an under-spend in excess of £90,000 as a result of increased income, mainly from schools, controlling expenditure by maintaining vacancies, and other saving measures.

5. BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

None

6. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

CIPFA Code of Practice 2006
Account & Audit Regulations 2003 (amended 2006)

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Internal Audit Reports Issued during quarter 3 (excludes 5 schools reports and follow-up reports with no subsequent findings)

Audit	Scope	Level of assurance provided	Recommendations			
			High	Med	Low	Detail of High Risk Recommendations
Supporting People	<p>Our reviewed the following aspects of supporting people:</p> <ul style="list-style-type: none"> • Variations of contracts • Properly completed applications for support • Verification of service provision. • Notification of changes • Review of Exception Reports • Reconciliation of payments. • Budget Monitoring 	Significant	0	0	0	
Vulnerable Adults	<p>Our audit considered all 34 constituent risks but concentrated on the following three high scoring risks:</p> <ul style="list-style-type: none"> • Failure to identify vulnerable adults in need of support due to inadequate level of communication and information sharing resulting in injury, serious harm or death. 	Significant	2	0	0	5.1 The Information Sharing Protocol should be reviewed at least every three years. If the Nottingham Caldicott Guardian Forum have not yet commenced the review of their protocol, NCASPB should satisfy themselves that the protocol is still appropriate

Audit	Scope	Level of assurance provided	Recommendations			
			High	Med	Low	Detail of High Risk Recommendations
	<ul style="list-style-type: none"> Failure to identify vulnerable adults in need of support due to inadequate level of communication and information sharing leading to a lack of community awareness of adult safeguarding issues resulting in injury, serious harm or death. Failure to act on learning points and recommendations following previous incidents leading to reputational damage. 					5.2 A review of the Caldicott Guardian position within NCC as a whole needs to be reviewed as a matter of urgency.
Fuel	<p>The scope in the Audit Brief agreed with the Acting Head of Highway Services, covered:</p> <ul style="list-style-type: none"> Security Issue of fuel Performance monitoring Health and Safety 	Significant	0	5	1	

<p>Section 106 Obligations</p>	<p>The scope in the Audit Brief agreed with the Head of Planning Services, covered:</p> <ul style="list-style-type: none"> • The assessment of planning applications in order to identify potential S106 obligations. • The adequacy of project management and monitoring arrangements to ensure compliance with original agreements. 	<p>Significant</p>	<p>0</p>	<p>7</p>	<p>5</p>	
<p>Budgetary Control</p>	<p>The scope of the audit was set to cover the following risks associated with the budget process:</p> <ul style="list-style-type: none"> • Sound guidance on budget formulation is provided and this extends to the provision of information in respect of inflation and other centrally projected variance factors. • The final budget receives approval from full council prior to the commencement of the financial year. • The approved budget is loaded onto the OneWorld financial system and is used for monitoring against the actual spend as the financial year progresses. 	<p>Significant</p>	<p>1</p>	<p>0</p>	<p>0</p>	<p>1. Resources should be applied to enable the cost drivers within the Adult Health & Disability and Children's External Placements services to be identified and controlled. Any developing issues, demographic considerations etc. should then be identified and applied in order to produce a more accurate budget forecast for 2011-12.</p>

	<ul style="list-style-type: none">• There are clear budget monitoring procedures and responsibilities in place. Budget holders are made aware of these and the monitoring procedures are operated in accordance with a set timetable.• Budget variances are monitored and reported upon in a timely manner. Actions to mitigate overspends are identified by the applicable department and reported to the Corporate Leadership Team who ensure corrective action is initiated as required. The budget position is reported to the Executive Board as the financial year progresses.• Budget responsibility is allocated to named colleagues and they are made aware of these responsibilities at the start of the financial year.• Budget virements are appropriately authorised and comply with the requirements of Financial Regulations. The overall budget is not altered by the processing of virements as the financial year progresses.					
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<p>Treasury Management (TM)</p>	<p>The objective of this review is to identify and assess the controls in place within the system and to provide management with an independent opinion of the effectiveness of these controls. The scope of this review will look at the following aspects of the system:</p> <ul style="list-style-type: none"> • The existence of an agreed TM strategy for 2010/11 that follows the CIPFA TM code. • The review of current processes to ensure the TM strategy is complied with. • The review of controls in place to ensure that investment opportunities are appropriately identified and a sound authorisation process is applied. • The existence and coverage of fidelity guarantees for all appropriate staff. • The follow-up of previous recommendations to ensure that they have been implemented. • The review of debt management and restructure in accordance with declared strategy. • The review of IT controls over the Logotech system. 	<p>High</p>	<p>0</p>	<p>0</p>	<p>1</p>	
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Final Audit Reports Issued During the Period 1 October to 31 December 2010

Department	Audit	Recommendations Made			Level of Assurance Provided
		High	Medium	Low	
Communities	Vulnerable Adults	2	0	0	Significant
Communities Total		2	0	0	
Children and Families	Supporting People	0	0	0	Significant
Children and Families Total		0	0	0	
Children and Families - Schools	Seely Infant & Nursery	1	1	0	Significant
	Ambleside Primary & Nursery	5	1	0	Significant
	St Augustine's RC Primary	2	0	0	Significant
	Windmill Primary & Nursery	2	0	0	Significant
	Walter Halls Primary	4	0	0	Significant
Children and Families – Schools Total		14	2	0	
Development	Fuel	0	5	1	Significant
	Section 106 Obligations	0	7	5	Significant
Development Total		0	12	6	

Resources	Budgetary Control	1	0	0	Significant
	Treasury Management	0	0	1	High
Resources Total		1	0	1	
Grand Total		17	14	7	

SUMMARY OF PROGRESS AGAINST THE REVISED AUDIT PLAN – 3RD QUARTER 2010/11

Audit Title	Comment	Annual Plan Days	Planned Days to Dec	Actual Days
1. Chief Executive				
Failure to deliver the Council Plan	Strategic Risk 19 - Review of evidence in place to mitigate risks	15	15	0
Failure of partners, including the City Council, to work effectively together to achieve vision and outcomes in the Nottingham Plan to 2020.	Strategic Risk 16 - Work on LAA statement of grant expenditure	10	10	0
2. Children and Families				
Failure to safeguard vulnerable children	Strategic Risk 6 - Review of evidence in place to mitigate risks.	20	0	0
Failure to make educational attainment progress (in key stages and ultimately GCSE results)	Strategic Risk 12 - Review of evidence in place to mitigate risks.	20	20	5
Supporting People	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System).	8	8	5
Foster Carers	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment. Supports work undertaken by Audit Commission.	25	25	26
Funding of pre 19 education / training (LSC role)	Assessment of the arrangements in place.	20	20	3
Schools assessments	Routine visits to schools to assess the financial, management and governance controls.	100	75	67
Schools Themed Audit - Income (School Funds)	Assessment of use of school funds.	10	10	8

Audit Title	Comment	Annual Plan Days	Planned Days to Dec	Actual Days
Schools Themed Audit - Expenditure	Review of the appropriateness of spend by schools, based upon recent concerns raised by Audit Commission and Internal Audit, including purchase card.	10	10	12
Contact Point	Performance of assurance role that IA is required to undertake.	12	12	12
Early years single funding formula	Review of formula as requested by DMT.	5	5	0
Placement of children in care / 15+ Service / Commissioning	Review of payment arrangements.	15	15	21
3. Communities				
Failure to care for vulnerable adults	Strategic Risk 5a - Further review of evidence in place to mitigate risks	20	0	20
Failure of NCC's contribution to the reduction of crime and the fear of crime	Strategic Risk 7 - Further review of evidence in place to mitigate risks.	5	0	0
Failure to achieve national policy requirement and targets for "Putting People first"	Strategic Risk 22 - Review of evidence in place to mitigate risks	5	5	4
Self-Directed Support	Assess current arrangements against CIPFA guidance. Contributes to the City's response to "Protecting the public purse"	20	20	4
High cost placements / Commissioning	Review of arrangements in place	15	20	7
Residential Care Payments	Assessment of high level controls over payments made in respect of external residential care, supported by compliance testing to give assurance over the operation of the control environment.	8	0	6
Parking Services	Review of improvements to internal controls implemented in 2009	10	8	11
Crime & Drugs Partnership	Assessment of high level controls supported by compliance testing in relation to commissioning and procurement	19	10	0

Audit Title	Comment	Annual Plan Days	Planned Days to Dec	Actual Days
Concessionary Fares	Assessment of financial arrangements.	0	0	3
Establishment Checks	Continue a programme of checks on cash, assets in various locations	10	10	12
4. Development				
Failure to secure additional funding for Decent Homes	Strategic Risk 13 - Review of NCC management arrangements	20	20	2
Net Phase 2	Support Projects Team with spreadsheet audit for funding model	10	0	0
Housing Rents	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	5	5	1
Meadows PFI	Assessment of the management arrangements	20	0	0
Future Jobs Funds	Review of the system of controls in place	5	5	2
Section 106 obligations	Review of the system of controls in place	23	23	23
Property	Review of the management of City-owned assets	20	0	1
Public Interest Report	Further assistance with the NCH Allocations project	15	11	11
5. Resources				
Failure to deliver Single Status	Strategic Risk 1 - Assistance with the project Work	35	30	24
Failure to address medium term financial pressures In a sustainable way	Strategic Risk 11 - Review of evidence in place to mitigate risks	10	10	0

Audit Title	Comment	Annual Plan Days	Planned Days to Dec	Actual Days
Failure to protect the Council's investments	Strategic Risk 17 - Treasury Management Audit, assessing high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	15	15	16
Budgetary Control	Consider the budget set up process and budget monitoring arrangements. (Key System)	21	21	23
Main Accounting System	System reconciliation and posting to General Ledger (Key System)	23	23	27
Bank Reconciliation	Review of accounts to ensure reconciliations are both complete and accurate.	5	5	4
Capital	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	16	16	17
Payroll / HR	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	20	20	23
Creditors	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System). Allocation reflects concerns with impact of the changes to the system	20	20	22
Sundry Income	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	13	13	16
Estate Rents	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	14	14	16
Cash Collection	Assessment of high level controls supported	14	14	9

Audit Title	Comment	Annual Plan Days	Planned Days to Dec	Actual Days
	by compliance testing to give assurance over the operation of the control environment (Key System)			
Council Tax	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	22	22	26
Business Rates	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	21	21	23
Benefits	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	28	28	13
Adult Residential Services Finance	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	17	17	15
Pensions	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment	13	13	14
Care First	Assessment of the application	15	0	18
6. Corporate Audits				
Governance Statement	AGS Process	35	30	24
Risk Management	Consideration of the arrangements in place	15	15	9
Contract Audit	Ongoing audit of final accounts	30	23	27
Procurement	Allowance for further assistance and follow up of previous report	2	2	2

Audit Title	Comment	Annual Plan Days	Planned Days to Dec	Actual Days
IT Audit	Ongoing audit of key IT risks	40	30	37
Access controls	Review of controls in place	15	12	7
Grants	Ongoing work on a number of grant claims	20	15	20
Councillors / Colleagues Expenses	Sample testing of claims	15	15	13
7. Counter Fraud				
Responding to 'Protecting the Public Purse'				
Counter Fraud Strategy / Arrangements / Financial Regs	Review of strategy / current arrangements	20	20	15
Impact of the recession	Assessment of areas that may be at risk of fraud	5	5	1
Training / Awareness	Initiatives to increase awareness including money laundering	20	15	28
Whistleblowing	Revision of current arrangements	10	10	0
Recruitment Fraud / Safeguarding	Assess vetting procedures for new employees against good practice and also assess vetting of current staff	15	15	1
Counter Fraud Partnerships	Develop joint working arrangements. Include arrangements with NCH to cover tenancy fraud	10	5	0
Counter Fraud Activities	Co-ordinate counter fraud activities, liaise with Audit Commission	20	15	15
National Fraud Initiative (NFI)	Co-ordinate the City's response to the next NFI exercise	17	12	14
Departmental Activities	Liaison with colleagues regarding anti-fraud activities	20	15	0
Other				
NFI Data Matching	Pro-active data matching / interrogation to identify potential fraud	20	15	6

Audit Title	Comment	Annual Plan Days	Planned Days to Dec	Actual Days
Establishment Checks	Continue a programme of checks on cash, assets, hospitality registers etc in various locations	15	15	18
8. Companies / ALMO's etc				
Nottingham City Homes Assistance	Assistance with implementation of Audit Commission Recommendations	10	7	3
Nottingham Ice Centre	Provision of Internal Audit to Ice Centre.	20	20	16
Other	Allowance for the provision of IA Services for other organisations	20	0	0
9. Consultancy, Advice and Support				
Contingency for ad hoc work - General	To allow for requests from senior management or the need to undertake ad hoc assignments as they arise	120	90	105
Advice	Liaison with colleagues, inc. general/contract advice	20	15	28
10. Other Work				
Recommendations Monitoring	Ongoing follow up and monitoring of implementation of recommendations	20	15	19
Audit of Charity and other Accounts	Lord Mayor's, Hanley & Gellesthrope, Highfields, Harvey Hadden, Staff Accounts.	20	10	6
		1396	1104*	986

* Cumulative