

**REPORT OF DEPUTY CHIEF EXECUTIVE & CORPORATE DIRECTOR FOR
RESOURCES**

INTERNAL AUDIT ANNUAL REPORT 2010/11 AND INTERNAL AUDIT CHARTER

1. PURPOSE OF THE REPORT

This report outlines the work of the Internal Audit (IA) service at the end of the fourth quarter 2010/11 and introduces the Internal Audit Charter. 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.

2. RECOMMENDATIONS

- 2.1 To note the audit work completed during the year.
- 2.2 To note the Head of internal Audit's Annual Opinion.
- 2.3 To select two audits from **Appendix 1** for examination at the September meeting.
- 2.4 To endorse the Audit Charter at **Appendix 5**.

3. REASONS FOR CONSIDERATION

- 3.1 The Audit Committee's Terms of Reference include receiving an annual report on the work of IA. The CIPFA Code of Practice for Internal Audit in Local Government 2006 requires that the HoIA provides a written report to those charged with governance, to support the Annual Governance Statement. This report should include an opinion on the overall adequacy and effectiveness of the organisation's control environment.
- 3.2 IA operates within professional standards as laid down in the CIPFA Code of Practice. The Audit Charter is the embodiment of the Terms of Reference for the service, defining objectives and responsibilities. The Code of Practice states that the Audit Charter should be produced and subject to regular review, and be approved and routinely reviewed by the organisation.
- 3.3 One of the Audit Committee's roles is to review and monitor the work of IA and the Audit Charter is one of the key statements which it may use to judge the performance and effectiveness of the service.

4 OVERVIEW OF WORK UNDERTAKEN

- 4.1 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.

- 4.2 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.
- 4.3 The coverage set out in the 2010/11 Audit Plan has been substantially achieved and the associated Performance Indicator targets have been met.
- 4.4 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.

5 REVIEW OF THE YEAR

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. An important role of the Committee is to oversee the performance of the Internal Audit service. **Table 1** lists the reports the Committee has received from the HoIA during the last year.

| TABLE 1: REPORTS FROM HEAD OF INTERNAL AUDIT | |
|--|--|
| Report | Purpose |
| Annual governance statement 2009/10 | Informed councillors about the overall control environment. |
| IA quarterly report 2010/11 | Allowed the Committee to review the performance of the service. |
| The Accounts and Audit Regulations 2011 – consultation | Enabled the Committee to understand and give its views in respect of changes to the regulations. |
| IA report 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. |
| ICT Security Issues | Reviewed the progress of ICT in developing its security policies and procedures. |
| Role of Audit Committee and work programme 2010/11 | Helped the Committee to determine a work programme aligned to its Terms of Reference. |
| IA 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 2010/11 | Informed councillors of the policies and procedures in place by the Council to address the risk of fraud. |

| | |
|--|--|
| IA Annual Plan 2010/11 and IA Strategic Plan 2009-2012 | Informed councillors of the impending work programmes and how this work impacted on the Council Plan. |
| IA annual report 2009/10 | 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. |

5.1 IA Activity

The following outlines the IA work completed in 2010/11.

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 Audit Committee.

| TABLE 2: PERFORMANCE OUTTURN | | | | |
|-------------------------------------|---|---------------|--------------------------------|-----------------|
| Indicator | | Target | Actual Year to 31/03/11 | Comments |
| 1. | % of all recommendations accepted | 95% | 99% | Above target |
| 2. | % of high recommendations accepted | 100% | 99% | Just short |
| 3. | Average number of working days from draft agreed to the issue of the final report | 8 | 4 | Above target |
| 4. | Number of key / high risk systems reviewed | 15 | 15 | On target |
| 5. | % of colleagues receiving at least three days training per year | 100% | 100% | On target |
| 6. | % of customer feedback indicating good or excellent service | 85% | 93% | Above target |

Resources Used

During 2010/11 the IA establishment operated with 12 FTE posts out of an approved establishment of 13. Colleagues in post were professionally qualified and/or had 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 2010/11 net budget for the service was £527,420. However the final outturn shows an under-spend of £56,000

Service Quality and Compliance with CIPFA Code of Practice

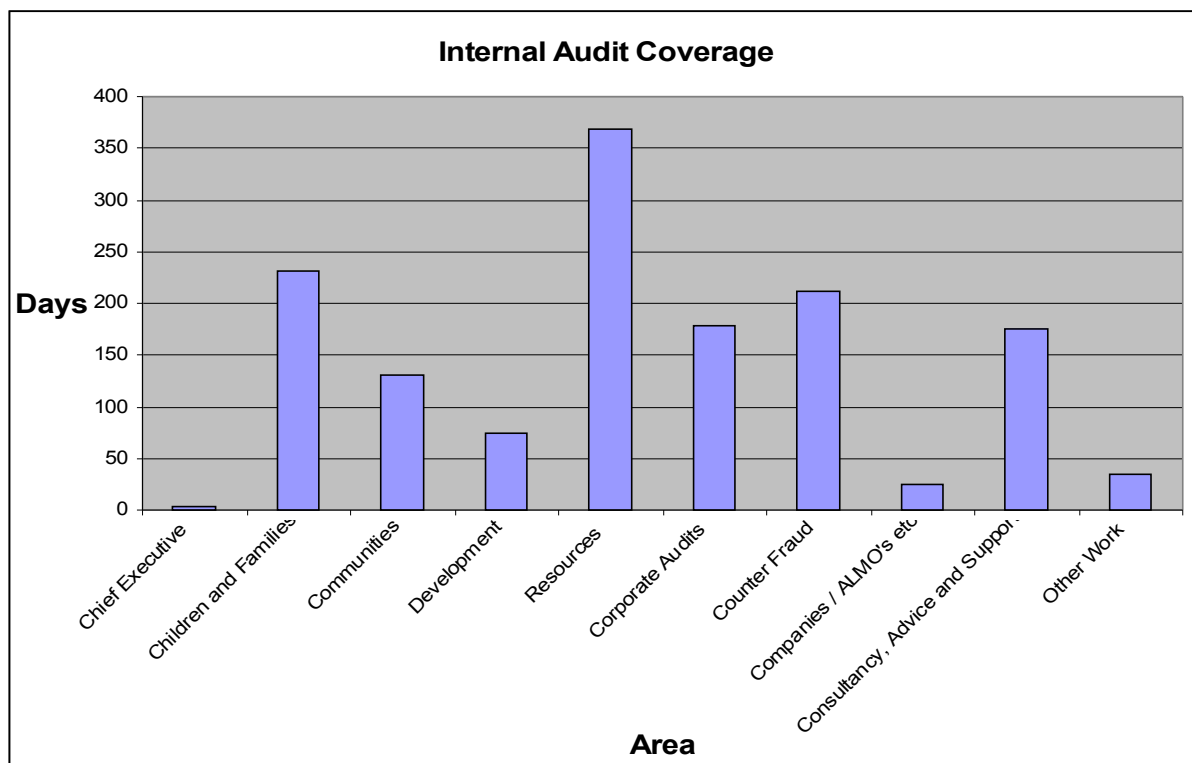
The Service works to a Charter (**Appendix 5**) approved by the Audit Committee. This Charter governs the work undertaken by the service, the standards it adopts and the way it interfaces with the Council. IA colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards. It has adopted the principles contained in the CIPFA Code of Practice 2006 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 in place and has been ISO9002 reaccredited annually since 2000.

Audit Plan

The Audit Plan and quarterly monitoring reports were presented to the Committee throughout the year, detailing progress against the plan. The final outturn for 2010/11 is shown below:

| Total Planned Days | Actual End of Year | Comments |
|--------------------|--------------------|-------------------|
| 1,523 | 1,432 | 94% Plan Achieved |



Excluding schools, eight audits were completed in the final quarter. **Appendices 1 and 2** give details of the findings of the non-school audits together with an outline of the recommendations and levels of assurance given. A list of the audits completed for the whole year, the level of assurance given and the number of recommendations made is given in **Appendix 3**.

Actual planned days have been sufficient to substantially complete the Audit Plan. **Appendix 4** contains the detailed Plan. In accordance with normal practice, the Plan was flexed during the year and changes were reported to the Audit Committee.

Recommendations analysis by risk

Table 4 shows the total of all recommendations made in the period. Overall performance is within the IA target of 95% of all recommendations and within tolerance of 100% for high recommendations. **Appendix 3** shows the breakdown of recommendations made in audit reports.

| TABLE 4: RECOMMENDATIONS ACCEPTED | | |
|--|----------------|-------------|
| | 2010/11 | |
| | All | High |
| Total recommendations made | 295 | 177 |
| Rejected | 2 | 1 |
| Total accepted | 293 | 176 |
| Percentage accepted | 99% | 99% |

Head of Audit’s Annual Opinion 2010/11

The HoIA is required to give an opinion on the overall adequacy by the CIPFA Code of Practice for Internal Audit in Local Government 2006. 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 a risk based Audit Plan agreed with Corporate Directors and agreed by the Audit Committee.

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

The 2010/11 Audit Plan has been completed in accordance with the professional standards set for 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 laid down by the Chartered Institute of Public Finance and Accountancy (CIPFA) and in accordance with its Charter.

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 Audit Committee for consideration.

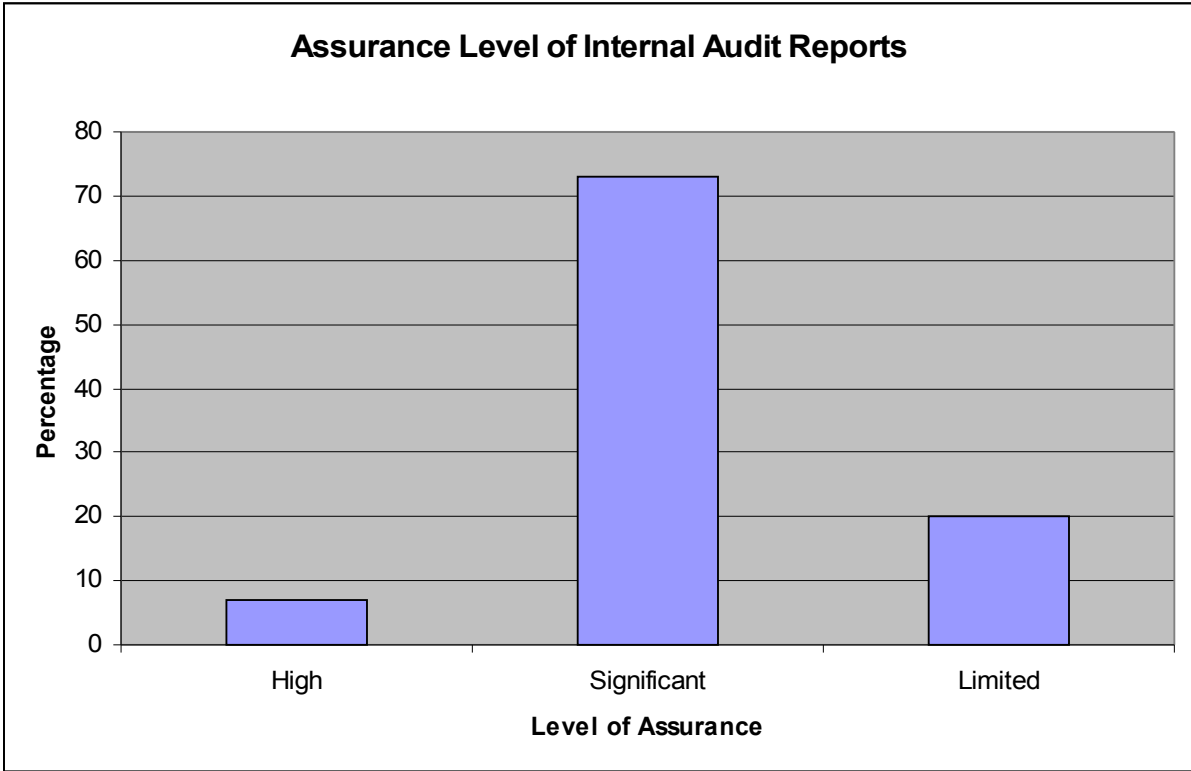
Level of Assurance Given in Audit Reports

Work undertaken gives a level of assurance to be derived from the findings based on the following definitions

| | |
|------------------------------|--|
| High Assurance | 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 Assurance | 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 Assurance | 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 Assurance | 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. |

The following diagram illustrates the assurance given to Corporate Directors during the year.

Diagram 1: IA assurances given 2010/11

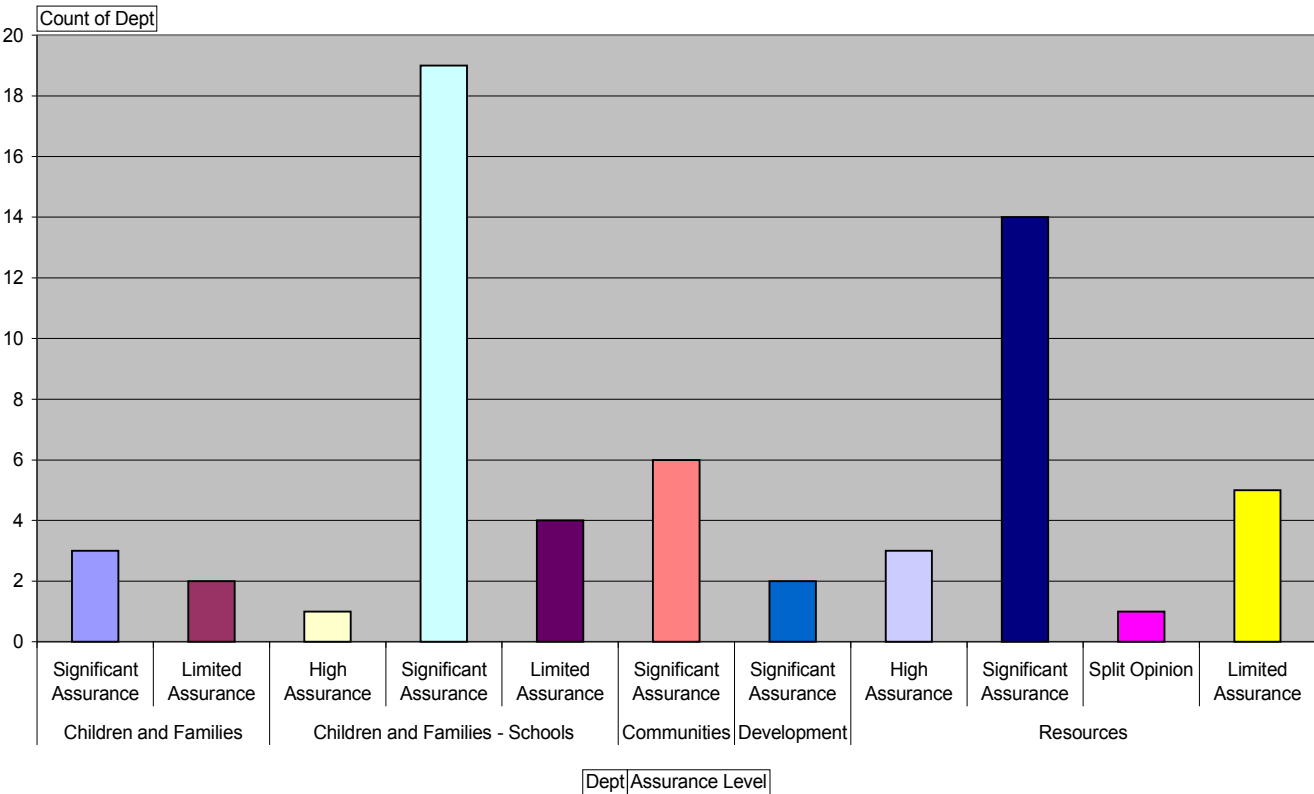


The level of assurance was high or significant in 80% of reports issued. Limited assurance was given on nine reports. The HoIA judges that the actions taken to address the issues identified have been proportionate and timely enough to mitigate the risks involved.

Assurance for Corporate Directors

Diagram 2 shows the level of assurance given to Corporate Directors and shows 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.

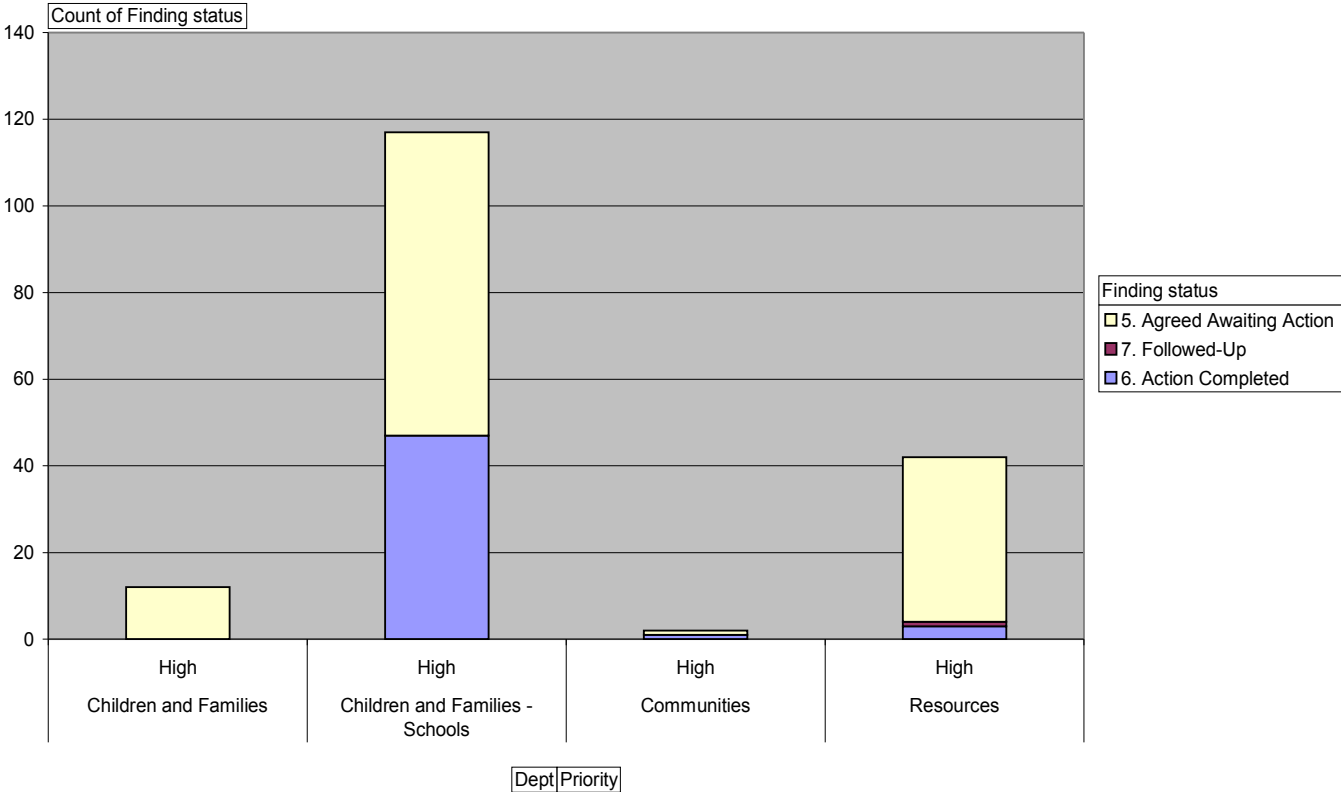
Diagram 2: Assurance by Department 2010/11



High Risk Recommendations Made and Outstanding

High risk recommendations are monitored and those outstanding beyond their target date are reported to the Audit Committee. The HoIA believes that Corporate Directors have acted appropriately to address the recommendations reported to them. **Diagram 3** illustrates the recommendations made and implemented by directorate, and those still in the process of implementation.

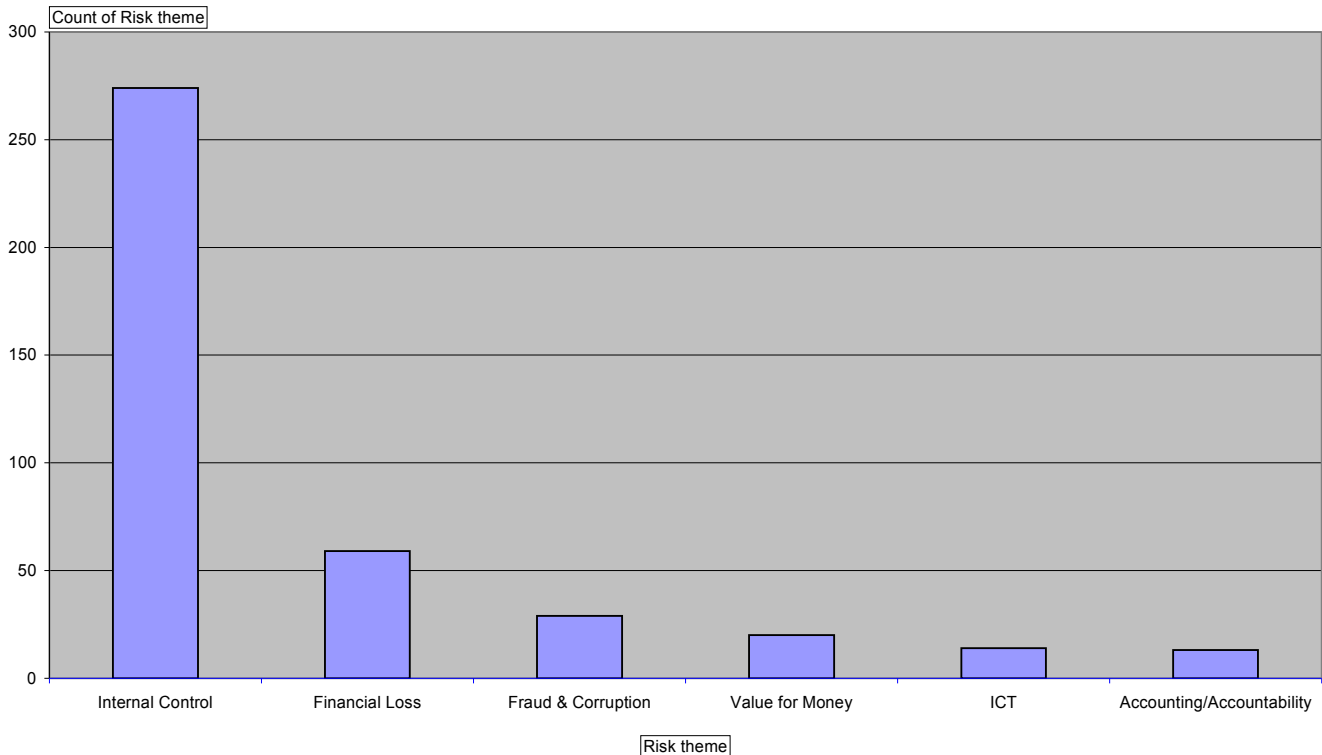
Diagram 3: High Risk Recommendations



Risk Themes

Recommendations made are categorised into themes to reflect the main element of the weaknesses they are trying to address. **Diagram 4** shows the main areas of weaknesses found were in the operation of internal controls. The recommendations made to address the weaknesses strengthen the control environment and help the Council use its resources in the most appropriate way to achieve its objectives.

Diagram 4: Risk Themes



Opinion

2010/11 again saw significant challenges and risks experienced by the Council. The HoIA has continuously reviewed these risks and allocated resources where necessary in order to deliver the assurance embodied in the Audit Plan.

The HoIA has conducted a review of all IA reports issued in 2010/11, external sources of assurance given by independent review bodies and internal assurances from Corporate Directors and key colleagues in respect of measures in place to identify and control key risks to the Council's objectives. In conclusion, although no systems of control can provide absolute assurance, nor can IA give that assurance, on the basis of the audit work undertaken during the 2010/11 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 2010/11 financial year, covering financial systems, risk and governance, the HoIA is able to conclude that a reasonable level of assurance can be given that the internal control system is operating effectively within the Council and within its significant partners and associated groups.

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

None

7 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- Accounts and Audit Regulations 2011
- Audit Plan 2010/11
- CIPFA SOLACE Delivering Good Governance in Local Government
- CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006)

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Appendix 1

Final Audit Reports Issued From 1 January to 31 March 2011

Internal Audit Reports Issued during quarter 4 (excludes 5 schools reports and follow-up reports with no subsequent findings)

| Audit | Scope | Assurance Level | Recommendations | | | |
|--------------|---|-------------------|-----------------|--------|-----|--|
| | | | High | Medium | Low | Detail of High Risk Recommendations |
| 15 Plus Team | The Head of Children in Care requested Internal Audit to undertake a review of the 15 Plus Service in order to ensure that it was complying with Financial Regulations and statutory and best practice. | Limited Assurance | 8 | 2 | 2 | <p>R1 Formal tenders for the provision of accommodation should be drawn up and contracts placed in order to comply with the Contract Procedure Rules</p> <p>R2 Orders must be raised to ensure compliance with Financial Regulations and to assist with the speedy processing of invoices</p> <p>R3 To comply with CFPRS 15, management should ensure that Petty Cash is only used for the purpose of reimbursing approved, minor expenditure of less than £50 in value.</p> <p>R5 A fixed fee should be</p> |

determined for short term accommodation, payable to a Foster Carer and paid through the Foster Care system to ensure that any tax liability is covered and reported.

R6 Clear explanations should be recorded on the petty cash vouchers to ensure that there are no ambiguities as to the nature of the payment and who the payee is.

R7 Full details of the items expended should be added to the existing records and in the interim the worksheets should be password protected.

In the longer term, a suitable software solution should be sought which makes this process more efficient and effective

| | | | | | | |
|----------------------|--|-----------------------|---|---|---|--|
| CRC Information Pack | At the request of the Energy Manager, Internal Audit reviewed the requirements of the Carbon Reduction Commitment Energy Efficiency Scheme to assess the adequacy of the City Council's response to date. | Significant Assurance | 0 | 2 | 1 | |
| Adult Res. Services | <p>The scope of our audit was agreed with the Head of Revenues, Benefits and Welfare Rights and concentrated on the following aspects of the system.</p> <ul style="list-style-type: none"> • The process for setting up new users (client or care home) • Assessment of fees • Implementation of changes to the fee structure • The accuracy and promptness of the invoicing system • Recording, posting and reconciling fee income to the relevant systems • Recovery action on accounts • Write outs | Significant Assurance | 2 | 2 | 1 | <p>R1 The debt recovery instructions should be updated and revised to give structured details of the recovery action required.</p> <p>R2 An action plan should be agreed which sets out the prioritisation of the outstanding debts, in order that the maximum amount of income can be achieved.</p> |

| | | | | | | |
|------------------|--|-----------------------|---|---|---|---|
| | <ul style="list-style-type: none"> The security of the IT system, specifically access, back up, exception reporting and housekeeping | | | | | |
| Capital 2010 | <p>The scope of the audit was set to cover the following controls associated with the capital programme.</p> <ul style="list-style-type: none"> Processes used to produce the capital programme. Approval process for the capital programme. Processes in place to report on in year spend on the capital programme. Gateway review programme. | Significant Assurance | 1 | 0 | 0 | R1 Management should consider if it wishes to continue applying the Gateway process to projects. It should then set out how this is to be achieved and consider if this is to be included in the scope of the PHB. Financial regulations should then be amended to reflect any changes made to the Gateway process and associated controls. |
| Cash Collections | <p>The scope of the review has focused on the following aspects of the system:</p> <ul style="list-style-type: none"> Physical security of the system Postal remittances Transaction processing Reconciliation IT procedures | Significant Assurance | 0 | 5 | 1 | |

| | | | | | | |
|-------------------------|---|-----------------------|---|---|---|---|
| Councillors' Allowances | The scope of the audit was to provide assurance that the key controls in operation within the Councillors Allowances system are operating effectively to ensure accurate and valid payments are made at the correct time and any queries are addressed promptly. | Significant Assurance | 0 | 2 | 0 | |
| Main Accounting | <p>The scope of the audit was set with the Head of Strategic Financial Planning and Management and included the review of the processes and controls in place over the following aspects of Main Accounting operation:</p> <ul style="list-style-type: none"> • The process to bring forward ledger balances at the start of the year. • The maintenance of ledger integrity throughout the year. • The processing of financial transactions input to the main accounting system through interfaces from supporting systems. | High Assurance | 1 | 0 | 0 | <p>R1 A review of all interfaces should be carried out. The review should establish the accounting entries associated with each interface.</p> <p>The review should also ensure that the originating system produces reports that support the agreement of interfaced transactions.</p> |

| | | | | | | |
|---------------|--|-------------------|---|---|---|---|
| | <ul style="list-style-type: none"> The arrangements for the operation of suspense accounts, their review and clearance arrangements. | | | | | |
| Sundry Income | <p>The agreed scope for this audit covered:</p> <ul style="list-style-type: none"> Recording of sundry works and services Raising of accurate and timely invoices Appropriate monitoring and clearing of suspense account Reconciliation of debtors The effectiveness of processes in place for actively pursuing debts | Limited Assurance | 6 | 5 | 0 | <p>R3 Regular meetings should be held between Legal Services and the Sundry Income Section to discuss the best course of action regarding outstanding debts or where there is little chance of recovery.</p> <p>R6 Write offs should only be undertaken when all possible recovery action has been instigated. This includes effective communication with departmental colleagues.</p> <p>R7 All write offs should be properly authorised as stated in CFPR20.</p> <p>R8 The Events Section should raise an invoice for the agreed electricity costs for the December 2008 skating rink.</p> <p>R9 The dispute regarding the service charge should be resolved with the tenant. Invoices should then be raised and backdated to April 2009.</p> |

| | | | | | | |
|--|--|--|--|--|--|--|
| | | | | | | R10Highways should actively pursue the debt of £30,000 from National Grid. |
|--|--|--|--|--|--|--|

Final Audit Reports Issued During the Period 1 January to 31 March 2011

| Department | Audit | Assurance Level | Recommendations Made | | |
|--|----------------------------|-----------------------|----------------------|----------|----------|
| | | | High | Medium | Low |
| Children and Families | 15 Plus Team | Limited Assurance | 8 | 2 | 2 |
| Children and Families Total | | | 8 | 2 | 2 |
| Children and Families - Schools | Ellis Guilford (875) | Significant Assurance | 2 | 2 | 0 |
| | Hogarth Prim & Nsy (767) | Significant Assurance | 1 | 0 | 0 |
| | Scotholme Prim & Nsy (799) | Significant Assurance | 7 | 0 | 0 |
| | Top Valley School (890) | Limited Assurance | 23 | 1 | 0 |
| | Whitemoor Prmy & Nsy (823) | Significant Assurance | 6 | 0 | 0 |
| Children and Families - Schools Total | | | 39 | 3 | 0 |

| | | | | | |
|--------------------------|------------------------|-----------------------|-----------|-----------|----------|
| Communities | CRC Information Pack | Significant Assurance | 0 | 2 | 1 |
| Communities Total | | | 0 | 2 | 1 |
| Resources | Adult Res. Services | Significant Assurance | 2 | 2 | 1 |
| | Capital 2010 | Significant Assurance | 1 | 0 | 0 |
| | Cash Collections | Significant Assurance | 0 | 5 | 1 |
| | Councillors Allowances | Significant Assurance | 0 | 2 | 0 |
| | Main Accounting | High Assurance | 1 | 0 | 0 |
| | Sundry Income | Limited Assurance | 6 | 5 | 0 |
| Resources Total | | | 10 | 14 | 2 |
| Grand Total | | | 57 | 21 | 5 |

Data excludes special investigations

**All Reports Issued With Analysis of Recommendations by Risk
Listing of all reports issued and number of recommendations made**

| Department | Name | Assurance Level | High | Medium | Low | Grand Total |
|--|----------------------------|------------------------|-------------|---------------|------------|--------------------|
| Children and Families | 15 Plus Team | Limited | 8 | 2 | 2 | 12 |
| | Foster Carers | Significant | 1 | 5 | 0 | 6 |
| | High Cost Placements | Limited | 3 | 2 | 0 | 5 |
| Children and Families Total | | | 12 | 9 | 2 | 23 |
| Children and Families - Schools | Ambleside Prim & Nsy (895) | Significant | 5 | 1 | 0 | 6 |
| | Crabtree Farm Prim (905) | Significant | 0 | 1 | 0 | 1 |
| | Ellis Guilford (875) | Significant | 2 | 2 | 0 | 4 |
| | Fernwood Comp. (878) | High | 2 | 0 | 0 | 2 |
| | Fernwood Junior (747) | Significant | 0 | 0 | 1 | 1 |
| | Hogarth Prim & Nsy (767) | Significant | 1 | 0 | 0 | 1 |
| | Mellers Prim & Nsy (776) | Significant | 0 | 2 | 0 | 2 |
| | Nottingham Nursery | Significant | 7 | 0 | 0 | 7 |
| | Portland Prim & Nsy (787) | Significant | 1 | 0 | 0 | 1 |

| Department | Name | Assurance Level | High | Medium | Low | Grand Total |
|--|------------------------------|-----------------|-----------|-----------|----------|-------------|
| | Scotholme Prim & Nsy (799) | Significant | 7 | 0 | 0 | 7 |
| | Seely Inf. & Nursery (802) | Significant | 1 | 1 | 0 | 2 |
| | St Augustine's RC Prim (845) | Significant | 2 | 0 | 0 | 2 |
| | St Augustine's RC Primary | Significant | 0 | 2 | 0 | 2 |
| | St Margaret Clitherow | Limited | 16 | 2 | 0 | 18 |
| | St Mary's RC Prim HG (842) | Significant | 1 | 0 | 0 | 1 |
| | St. Ann's Well Primary | Significant | 3 | 0 | 0 | 3 |
| | Sycamore Primary | Limited | 11 | 3 | 1 | 15 |
| | Top Valley School (890) | Limited | 23 | 1 | 0 | 24 |
| | Walter Halls Primary (817) | Significant | 4 | 0 | 0 | 4 |
| | Whitemoor Prmy & Nsy (823) | Significant | 6 | 0 | 0 | 6 |
| | Windmill Prim & Nsy (906) | Significant | 2 | 0 | 0 | 2 |
| Children and Families - Schools Total | | | 94 | 15 | 2 | 111 |

| | | | | | | |
|--------------------------|---------------------------|-------------|----------|-----------|----------|-----------|
| Communities | CRC Information Pack | Significant | 0 | 2 | 1 | 3 |
| | Crime | Significant | 1 | 1 | 1 | 3 |
| | Fuel | Significant | 0 | 5 | 1 | 6 |
| | Highways | Significant | 0 | 5 | 1 | 6 |
| | Vulnerable Adults | Significant | 2 | 0 | 0 | 2 |
| Communities Total | | | 3 | 13 | 4 | 20 |
| Development | Section 106 Obligations | Significant | 0 | 7 | 5 | 12 |
| Development Total | | | 0 | 7 | 5 | 12 |
| Resources | Adult Res. Services | Significant | 2 | 2 | 1 | 5 |
| | Allow. for Contract Audit | Limited | 18 | 0 | 0 | 18 |
| | Bank Reconciliations | Significant | 0 | 1 | 0 | 1 |
| | Budgetary Control | Significant | 1 | 0 | 0 | 1 |
| | Business Rates 2010 | Significant | 0 | 1 | 0 | 1 |
| | Capital 2010 | Significant | 1 | 0 | 0 | 1 |
| | Cash Collections | Significant | 0 | 5 | 1 | 6 |
| | Council Tax 2010 | Significant | 0 | 1 | 3 | 4 |

| | | | | | | |
|------------------------|-------------------------|------------------|------------|-----------|-----------|------------|
| | Councillors Allowances | Significant | 0 | 2 | 0 | 2 |
| | Creditors & Remittances | Limited | 4 | 2 | 2 | 8 |
| | Estate Rents | Significant | 0 | 1 | 0 | 1 |
| | Main Accounting | High | 1 | 0 | 0 | 1 |
| | Payroll | Limited | 3 | 5 | 2 | 10 |
| | Pensions | Split Opinion | 1 | 0 | 0 | 1 |
| | Sundry Income | Limited | 6 | 5 | 0 | 11 |
| | Treasury Management | High | 0 | 0 | 1 | 1 |
| Resources Total | | | 37 | 25 | 10 | 72 |
| Grand Total | | | 146 | 69 | 23 | 238 |

INTERNAL AUDIT PLAN TO 2010/11

| Audit Title | Comment | Audit Days | |
|--|--|-------------|-------------|
| | | Annual Plan | Actual Days |
| 1. Chief Executive | | | |
| Failure to deliver the Council Plan | Strategic Risk 19 - Review of evidence in place to mitigate risks | 15 | 9 |
| 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 | 7 |
| 2. Children and Families | | | |
| Failure to safeguard vulnerable children | Strategic Risk 6 - Review of evidence in place to mitigate risks. | 20 | 10 |
| 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 | 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 | 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 | 27 |
| Funding of pre 19 education / training (LSC role) | Assessment of the arrangements in place. | 20 | 16 |

| | | | |
|---|--|-----|-----|
| Schools assessments | Routine visits to schools to assess the financial, management and governance controls. | 100 | 109 |
| Schools Themed Audit - Income (School Funds) | Assessment of use of school funds. | 10 | 8 |
| 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 | 13 |
| Contact Point | Performance of assurance role that IA is required to undertake. | 12 | 12 |
| Early years single funding formula | Review of formula as requested by DMT. | 5 | 3 |
| Placement of children in care / 15+ Service / Commissioning | Review of payment arrangements. | 15 | 24 |
| 3. Communities | | | |
| Failure to care for vulnerable adults | Strategic Risk 5a - Further review of evidence in place to mitigate risks | 20 | 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 |
| Failure to achieve national policy requirement and targets for "Putting People first" | Strategic Risk 22 - Review of evidence in place to mitigate risks | 20 | 11 |

| | | | |
|---|--|----|----|
| Self-Directed Support | Assess current arrangements against CIPFA guidance. Contributes to the City's response to "Protecting the public purse" | 20 | 22 |
| High cost placements / Commissioning | Review of arrangements in place | 15 | 8 |
| 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 | 6 |
| Parking Services | Review of improvements to internal controls implemented in 2009 | 10 | 11 |
| Crime & Drugs Partnership | Assessment of high level controls supported by compliance testing in relation to commissioning and procurement | 19 | 27 |
| Concessionary Fares | Assessment of financial arrangements. | 0 | 3 |
| Carbon Reduction Commitment | Provision of support re production of CRC Information Pack. | 5 | 11 |
| Establishment Checks | Continue a programme of checks on cash, assets in various locations | 10 | 12 |
| 4. Development | | | |
| Failure to secure additional funding for Decent Homes | Strategic Risk 13 - Review of NCC management arrangements | 20 | 4 |
| Net Phase 2 / WPL | Review of arrangements for collecting the parking levy | 10 | 7 |
| Housing Rents | Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System) | 5 | 11 |
| Meadows PFI | Assessment of the management arrangements | 20 | 0 |

| | | | |
|---|---|----|----|
| Future Jobs Funds | Review of the system of controls in place | 5 | 2 |
| Section 106 obligations | Review of the system of controls in place | 23 | 23 |
| Property | Review of the management of City-owned assets | 20 | 13 |
| Public Interest Report | Further assistance with the NCH Allocations project | 15 | 15 |
| 5. Resources | | | |
| Failure to deliver Single Status | Strategic Risk 1 - Assistance with the project Work | 35 | 24 |
| Failure to address medium term financial pressures In a sustainable way | Strategic Risk 11 - Review of evidence in place to mitigate risks | 10 | 0 |
| 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 | 16 |
| Budgetary Control | Consider the budget setting process and budget monitoring arrangements. (Key System) | 21 | 23 |
| Main Accounting System | System reconciliation and posting to General Ledger (Key System) | 23 | 29 |
| Bank Reconciliation | Review of accounts to ensure reconciliations are both complete and accurate. | 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 | 20 |
| Payroll / HR | Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System) | 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 | 26 |
| Sundry Income | Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System) | 13 | 23 |
| Estate Rents | Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System) | 14 | 17 |
| Cash Collection | Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System) | 14 | 18 |
| Council Tax | Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System) | 22 | 28 |
| Business Rates | Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System) | 21 | 26 |

| | | | |
|------------------------------------|--|----|----|
| Benefits | Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System) | 28 | 29 |
| 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 | 22 |
| Pensions | Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment | 13 | 14 |
| Care First | Assessment of the application | 15 | 19 |
| 6. Corporate Audits | | | |
| Governance Statement | AGS Process | 35 | 37 |
| Risk Management | Consideration of the arrangements in place | 15 | 12 |
| Contract Audit | Ongoing audit of final accounts | 30 | 30 |
| Procurement | Allowance for further assistance and follow up of previous report | 2 | 2 |
| IT Audit | Ongoing audit of key IT risks | 40 | 49 |
| Access controls | Review of controls in place | 15 | 9 |
| Grants | Ongoing work on a number of grant claims | 20 | 20 |
| Councillors / Colleagues Expenses | Sample testing of claims | 15 | 14 |

| | | | |
|--|--|-----------|-----------|
| 7. Counter Fraud | | | |
| Responding to 'Protecting the Public Purse' | | | |
| Counter Fraud Strategy / Arrangements / Financial Regs | Review of strategy / current arrangements | 20 | 23 |
| Impact of the recession | Assessment of areas that may be at risk of fraud | 5 | 7 |
| Training / Awareness | Initiatives to increase awareness including money laundering | 27 | 39 |
| Whistle blowing | Revision of current arrangements. | 10 | 9 |
| Recruitment Fraud / Safeguarding | Assess vetting procedures for new employees against good practice and also assess vetting of current staff | 15 | 24 |
| Counter Fraud Partnerships | Develop joint working arrangements. Include arrangements with NCH to cover tenancy fraud | 10 | 2 |
| Counter Fraud Activities | Co-ordinate counter fraud activities, liaise with Audit Commission | 20 | 17 |
| National Fraud Initiative (NFI) | Co-ordinate the City's response to the next NFI exercise | 17 | 27 |
| Departmental Activities | Liaison with colleagues regarding anti-fraud activities | 20 | 23 |
| Data Matching | Pro-active data matching / interrogation to identify potential fraud | 20 | 21 |
| Establishment Checks | Continue a programme of checks on cash, assets, hospitality registers etc in various locations | 15 | 19 |

| | | | |
|---|--|-------------|-------------|
| 8. Companies / ALMOs etc | | | |
| Nottingham City Homes Assistance | Assistance with implementation of Audit Commission Recommendations. | 10 | 4 |
| Nottingham Ice Centre | Provision of Internal Audit to Ice Centre. | 20 | 20 |
| Other | Allowance for the provision of IA Services for other organisations | 20 | 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 | 200 | 136 |
| Advice | Liaison with colleagues, inc. general/contract advice. | 40 | 39 |
| 10. Other Work | | | |
| Recommendations Monitoring | Ongoing follow up and monitoring of implementation of recommendations. | 20 | 24 |
| Audit of Charity and other Accounts | Lord Mayor's, Hanley & Gellesthrope, Highfields, Harvey Hadden, Staff Accounts. | 20 | 10 |
| | | 1523 | 1432 |
| | | | 94% |

Nottingham City Council – Internal Audit Charter

Introduction

Internal Audit is defined as ‘an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.’¹ The service adds value by bringing a systematic disciplined approach to improve the effectiveness of risk management, control and governance processes.

Independence

A key factor in the effectiveness of Internal Audit is that it is seen to be independent. To ensure this independence, Internal Audit operates within a framework that allows:

- Unrestricted access to senior management
- Reporting in its own name
- Segregation from line operations.

Every effort will be made to preserve the objectivity of the service by ensuring that all audit colleagues are free from any conflicts of interest and do not undertake any non-audit related duties.

Objectives

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner. Internal Audit’s mission is:

“To provide a cost effective, independent, professional and high quality audit service which supports managerial objectives by promoting the highest levels of financial management and probity across the Authority”.

In so doing the service aims to support the effectiveness of the risk management, control and governance processes of the City Council.

Scope

Internal Audit will review and investigate the areas of key risk to the Council’s objectives across the entire range of its activities. In order to fulfil this role the service requires unrestricted access to all the colleagues, records and assets of the Council and/or its partners. In addition, the Head of Internal Audit has unrestricted access to the Chief Executive, Councillors, Corporate Directors and all employees of the City Council and its partners.

¹ CIPFA – Code of Practice for Internal Audit in Local Government in the UK 2006

Each audit or piece of work undertaken will have a clear scope and objectives. Any audit undertaken within the Council and its partners will be conducted under the framework of an agreed audit programme, service level agreement or a clearly defined letter of engagement. This is of particular importance in the management of consultancy where the respective roles, inputs and outputs will be clearly defined and the independence of auditors maintained. Internal Audit work will be co-ordinated with that of external review agencies to provide maximum audit coverage and to prevent duplication of effort where practical.

Responsibility

The main areas of Internal Audit responsibility within the Council will be to:

1. Review, appraise and report on:
 - the soundness, adequacy and application of internal controls as a contribution to the proper control of risk and the economic, efficient and effective use of resources
 - the suitability and reliability of financial and other management data, including aspects of performance measurement
 - the extent to which the assets and interests are accounted for and safeguarded from loss.

2. Aid Corporate Directors in the investigation of fraud and irregularity and develop and implement the Council's Counter Fraud Strategy as defined in its Financial Regulations. Managing the risk of fraud and corruption is the responsibility of management, but the Head of Internal Audit must be informed of any instances to inform his/her opinion on the control environment and to help determine the resources required to manage the associated risks.

3. Advise on the internal control implications of new systems.

Audit Style and Content

The Head of Internal Audit is required to manage the provision of a complete audit service to the Authority which includes risk based, schools, computer and contract audits. In discharge of this duty, the Head of Internal Audit will prepare a rolling strategic risk-based Audit Plan.

Work Planning

The Head of Internal Audit will produce and maintain a Strategic Plan and an annual operational Audit Plan. These plans will be derived from a comprehensive risk model and after consultation with Corporate Directors. The plans will be presented annually to Councillors and will aim to:

- Support the Responsible Officer in the discharge of the Section 151 duty.
- Contribute to and support the Council's objectives of providing sound financial systems and governance arrangements.

- Provide recommendations and findings designed to enhance the reliability and accuracy of the Annual Governance Statement, financial statements and other published information.

Location

Internal Audit is located within the Resources Department and based in Loxley House, but operates throughout the Council.

Standards

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 and is ISO (9001-2000) accredited. It has adopted the principles contained in the CIPFA Code of Practice 2006 and has fulfilled the requirements of the Account and Audit Regulations 2011 and associated regulations in respect of the provision of an Internal Audit service.

Audit Resources

The Head of Internal Audit will ensure that there are adequate resources available to complete the Audit Plan including appropriate contingencies and to help deliver the opinions required of him/her. The Head of Internal Audit will assess the available resources for the audits to be undertaken, and where a gap is identified will take the necessary steps to procure the required resource.

The establishment comprises professionally qualified colleagues including accountants, technicians and other specialists necessary to resource the varied demands placed upon the service.

Audit Training

The Head of Internal Audit will carry out a continuous review of the development and training needs of all audit personnel and will procure in-service training including: courses, experience, coaching, mentoring and other development.

Audit Reporting

Strategic Reporting

The Head of Internal Audit will:

- Meet regularly with the Council's Chief Finance Officer (CFO) (S151 Officer) who will continuously review the performance and effectiveness of the service.
- Normally report directly to the Council's Director of Strategic Finance. However, where actual or potential conflict of interests are present the Head of Internal Audit may choose to report to the CFO, Chief Executive, Monitoring Officer, Leader of the Council or external agency at his/her discretion.
- Present performance reports to the Audit Committee.
- The Head of Internal Audit will provide an annual opinion on the status of the Council's control environment.

Operational Reporting

In the normal course of an audit, a draft report will be sent to the manager(s) responsible for the area under review for agreement to the factual accuracy of the findings. After agreement, the report will be issued to the Corporate Director concerned with an appropriate agreed action plan included.

The responsibility for the implementation of agreed recommendations lies with the auditee. Recommendations will be followed up at the next review at the very least or before, depending on the level of associated risk. A copy of the report will also be sent to the Head of Service, Director of Strategic Finance and, if necessary, the Deputy Chief Executive & Corporate Director for Resources, who holds the CFO designation.

On completion of every audit a customer satisfaction survey will be undertaken to give feedback on performance and to facilitate continuous performance improvement. The results of these surveys will be included in the service's key performance indicators.

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