

AUDIT COMMITTEE - 28 February 2014

Title of paper:	INTERNAL AUDIT QUARTERLY REPORT 2013/14 – 3 RD QUARTER	
Director(s)/ Corporate Director(s):	DIRECTOR OF STRATEGIC FINANCE	Wards affected: All
Report author(s) and contact details:	Author and contact officer Shail Shah – Head of Internal Audit ☎ 0115 8764245 ✉ shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	Note and gives views on the performance of IA during the period.	
2	Select up to two audits from Appendix 1 for examination at the June 2014 meeting.	

1. REASONS FOR RECOMMENDATIONS

This report outlines the work of the Internal Audit service (IA) for the 3rd quarter of 2013/14.

- **Appendix 1** - List of final audit reports issued in the period with analysis of recommendations and level of assurance
- **Appendix 2** - Summary of related audit reports completed in the period with high risk recommendations and level of assurance
- **Appendix 3** - Overview of the work completed to date against the updated Audit Plan

4.1 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 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.

4.2 Local Performance Indicators (PIs)

Performance against all PIs is illustrated in **Table 1**.

Table 1 : Performance v PI Targets					
Indicator		Target	Period	Actual Year	Comments
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	6 days	5 days	Above target
4	Number of key / high risk systems reviewed.	15 Systems	13 Systems	13 Systems	On target for year end
5	% of staff receiving at least three days training per year.	100%	54%	54%	On target for year end
6	% of customer feedback indicating good or excellent service.	85%	95%	89%	Above target

4.3 Activity

Table 2 shows that actual days achieved are in line with planned days set out in the updated Audit Plan and **Appendix 3** shows progress against the individual audits. In summary, after allowance for seasonal work patterns, the plan is on target.

TABLE 2: ACTUAL v PLANNED AUDIT DAYS			
Total Planned Days	Planned Days	Actual to date	Comments
1567	1158	1106	On track for year end.

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

TABLE 3: RECOMMENDATIONS ACCEPTED				
	2013/14		Period	
	All	High	All	High
Total recommendations made	249	97	59	29
Rejected	4	0	0	0
Total recommendations accepted	245	97	59	29
% accepted	98%	100%	98%	100%

Resources

The net budget for the service is £319,799. The predicted service outturn is in accordance with the budget.

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 undertaken by the service and the Audit Committee is invited to consider and comment on:

- The performance of the IA 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.

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
- Public Sector Internal Audit Standards 2012

Final Audit Reports Issued in Period

This list excludes any reports concerning irregularities

Department	Division	Activity Title	Assurance Level	Recommendations Accepted		
				High	Medium	Low
Children & Families	School	Dunkirk Primary School 2014	Significant Assurance	1	0	0
		Farnborough School Technology College 2014	Significant Assurance	3	2	4
	School Total			4	2	4
	Quality & Commissioning	Caldicott Review	Limited Assurance	3	6	0
	Quality & Commissioning Total			3	6	0
Children & Families Total				7	8	4
Communities	Community Protection	Fines Processing	Limited Assurance	8	6	0
	Community Protection Total			8	6	0
	Sports, Culture & Parks	Wollaton Park 2014	Significant Assurance	3	0	0
	Sports, Culture & Parks Total			3	0	
Communities Total				11	6	0
Development	Strategic Asset & Property Management	Building Compliance	Limited Assurance	2	2	0
	Strategic Asset & Property Management Total			2	2	0
	Housing Strategy & Partnerships	Housing Strategy 2014	Significant Assurance	1	2	0
	Housing Strategy & Partnerships Total			1	2	0
Development Total				3	4	0
Resources	Strategic Finance	Troubled Families Grant	Limited Assurance	2	3	1
		Housing Benefits	Limited Assurance	2	0	0
		Housing Benefits 2014	Limited Assurance	4	1	3
	Strategic Finance Total			8	4	4
Resources Total				8	4	4
Grand Total				29	22	8

APPENDIX 2

High Priority recommendations issued in Period

Audit Name	Scope	Opinion	Action Ref (Report Ref)	Agreed Action	Recommendations Accepted		
					High	Medium	Low
Dunkirk Primary School 2014	<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 • Invoice Processing • Banking Arrangements • School Fund • Inventory 	Significant Assurance	A1159 (02)	<p>The school should submit a balanced Rec1 to the Local Authority; any imbalances should be fully explained.</p> <p>Payroll costs should be allocated in the correct month.</p>	1	0	0
Farnborough School Technology College 2014	<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> <p>Leadership & Governance</p>	Significant Assurance	A1074 (03)	<p>The school should ensure that detailed minutes are taken at each of the Governors sub-committee. The approval of policies and key decisions made by the Governors should be clearly recorded in the relevant meeting minutes.</p>	3	2	4

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					High	Medium	Low
	People Management <ul style="list-style-type: none"> • Policy & Strategy • Processes • Purchasing • Invoice Processing • Banking Arrangements • School Fund • Petty Cash • Inventory 						
			A1059 (04)	For all purchases over £5,000, the school should obtain at least 3 alternative quotations. These should be considered by the Finance Committee before deciding which supplier to award the contract to. This should be documented in the minutes of the meeting.			
			A1087 (09)	An up to date inventory should be completed to include all portable, desirable items within the school. The inventory should be independently checked at least annually. All discrepancies should be investigated to the satisfaction of the Head Teacher or nominated staff member who should sign the inventory as evidence of the			

Audit Name	Scope	Opinion	Action Ref (Report Ref)	Agreed Action	Recommendations Accepted		
					High	Medium	Low
				annual check. Written authority should be obtained from the Governors prior to the disposal of any assets, or the deletion of items from the inventory.			
Fines Processing	.1 The objective of the audit was to ensure that there are sufficient controls within the procedures to ensure that fraud is minimised and income is maximised.	Limited Assurance	A1229 (01)	The Fixed Penalty Notice books should be issued in sequential number order.	8	6	0
			A1230 (02)	An investigation should be carried out into the missing fine books.			
			A1233 (04)	All paperwork should be forwarded to the Processing and Enforcement Team without delay.			
			A1232 (04)	An investigation should be carried out into why fine paperwork is not being sent to the Processing and Enforcement Team.			

Audit Name	Scope	Opinion	Action Ref (Report Ref)	Agreed Action	Recommendations Accepted		
					High	Medium	Low
			A1235 (06)	When a fine is cancelled the reason for cancellation should be recorded in the book with all copies retained in the book. - Rejected			
			A1236 (07)	There should be regular reporting and review of FPN cancellations.			
			A1238 – A1240 (08)	<p>There should be a quarterly review carried out to ensure that all fine numbers can be accounted for.</p> <p>The Processing and Enforcement Team should be notified of any fines that are cancelled at the time of issue to enable the above review to be carried out.</p> <p>An investigation should be carried out into any fine numbers that cannot be accounted for.</p>			
			A1241 (09)	A periodic review should be carried out of fines that have been written off following bailiff referral.			

Audit Name	Scope	Opinion	Action Ref (Report Ref)	Agreed Action	Recommendations Accepted		
					High	Medium	Low
Wollaton Park 2014	A review has been carried out of the income collection arrangements in place for the car parking at Wollaton Park.	Significant Assurance	A1277 & A1278 (01)	<p>The old pay and display machines should be replaced.</p> <p>Once the machines have been replaced there should be regular monitoring of discrepancies with appropriate action taken where necessary.</p>	3	0	0
			A1279 (02)	G4S should be requested to forward the pay and display readings so these can be verified to actual income collected from each machine.			
Building Compliance	<p>The scope of this audit was set to cover the following aspects of operation:</p> <ul style="list-style-type: none"> • The process for ensuring all investment properties are identified and included in a program of statutory and servicing works. • Arrangements for identifying properties with multiple tenants and the identification of landlord responsibilities for such properties. • Reviewing lease content for various types of investment properties and clarification of responsibilities for the 	Limited Assurance	A1190 (1)	<p>The project to implement a new asset register should ensure that the information required for the identification of investment properties and the installed utilities is included.</p> <p>The information on the asset register for investment properties should then drive the ordering of inspections required as part of the Councils statutory duties.</p>	2	2	0

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					High	Medium	Low
	arrangement and payment for the statutory inspection of utilities.						
			A1191 (2)	Responsibility for carrying out fire risk assessments at multi occupied properties should be established. The legal or good practise frequency of carrying out fire risk assessments should be determined and applied.			
Housing Strategy 2014	<p>The scope of this audit was set to look at the Housing Strategy section's role in commissioning services from NCH under its partnering arrangement with the Council. The audit reviewed the following aspects of operation:</p> <ul style="list-style-type: none"> Establishing that there are effective governance arrangements within NCH. Ensuring continuing relevance of the partnering agreement to the strategic and economic circumstances of the Council and its tenants. NCH sets objectives that align with the Council's priorities and these are subject to review through partnership meetings and 	Significant Assurance	A1181 (1)	<p>A review of the NCH Annual Performance Report should be included in the work undertaken by the NCC/NCH Housing Partnership Forum meeting.</p> <p>The outcome of the review should be recorded in the minutes.</p>	1	2	0

Audit Name	Scope	Opinion	Action Ref (Report Ref)	Agreed Action	Recommendations Accepted		
					High	Medium	Low
	<p>forums.</p> <ul style="list-style-type: none"> • Performance of NCH is measured against a set of indicators that are aligned to Council and NCH plans. • NCH performance is reported and benchmarked and is subject to review with the Council. If necessary, plans are set in place for improvements and the Council obtains sufficient information about the problems and progress with improvements to be able to understand, support and take action itself. 						
Caldicott Review	<p>The agreed scope covered the following:</p> <ul style="list-style-type: none"> • Policies and responsibility of the Caldicott Guardian • Requirements of Caldicott 2 • Reporting of breaches of IT security relating to social care systems • Reporting of misuse of manual information • Reviews of data sharing agreements 	Limited Assurance	A1186 (R1)	Risks identified at a corporate level should be incorporated into and linked to strategic risk registers and departmental risk registers to ensure that there is action within all areas to mitigate the risks that have been identified and to ensure that positive steps are taken at a local level in line with relevant policies.	3	6	0

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					High	Medium	Low
	<ul style="list-style-type: none"> Communication of and training in the Caldicott Principles and the Data Protection Act 						
			A1188 (R3)	The IT Password policy should be enforced in CareFirst in order to increase the level of security over sensitive data.			
			A1200 (R9)	Access to CareFirst and Castle should be reviewed to ensure that it remains relevant to roles being performed.			
Troubled Families Grant	<p>The agreed scope covered the following:</p> <ul style="list-style-type: none"> Identification of families that meet the criteria Reporting and validity of outcomes Receipt of funding Performance management 	Limited Assurance	A1201 (02)	Each PBR claim should be reviewed at management level to approve the principals involved in the identification of eligible families and to carry out sample checking of the results, prior to making the claim	2	3	1
			A1204 (05)	Management should consider whether to review all of the 318 claims in the return involving school attendance data and the implications regarding the			

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					High	Medium	Low
				adjustment to future claims			
Housing Benefits	<p>The agreed scope covered the following:</p> <ul style="list-style-type: none"> • Subsidy Monitoring (this looks at managing financial risk) • Reconciliations • Interventions • Overpayments • Quality Control and payments <p>A report was issued in 2 October 2012 concerning the Housing Benefit System Set-up for 2012/13.</p>	Limited Assurance	(2013-01)	For a limited period colleagues completing input of intervention results should confirm with colleagues from Training & Support that the input is correct.	2	0	0
			(2013-02)	Further additional training in assessing benefit and creating overpayments should be provided including correctly entering information received dates. This should be followed by a period when the colleagues concerned are required to confirm the input to create an overpayment with colleagues from the Training & Support team. Consideration should be given to post checking			

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					High	Medium	Low
				overpayments given the level of error found.			
Housing Benefits 2014	Please refer to Above	Limited Assurance	2013-04	The service should identify and implement ways to ensure greater use of Support by colleagues to confirm processing.	4	1	3
			2013-05	The service should consider deploying additional resources to reduce the level of overpayments and increase the gross recovery rate for overpayments both of which would save the Council money.			
			1213-06	Whilst processing remains relatively inaccurate a much higher level of payment run check should take place.			
			1213-07	The service should optimise resources so as to minimise losses due to backlogs and workload prioritisation, error and fraud. This optimisation should include: <ul style="list-style-type: none"> modelling of what additional variable resource can be shown to be cost effective in optimising losses of subsidy, recovered overpayments 			

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				<p>and cost of resource in order to support preapproval of timely access to the optimal level of variable resources.</p> <ul style="list-style-type: none"> identifying the subsidy savings attributable to check in order to optimise level and focus of check. using continuous computerised analysis of workload against cases to identify cases where there is significant risk of accumulating error, so as to prioritise these cases within workload. 			

SUMMARY OF PROGRESS ON THE UPDATED AUDIT PLAN TO 31ST DECEMBER 2013

Audit Title	Audit Outline / Management Direction	Days	Expected Days	Actuals
1. Strategic Risk Register				
Strategic Risks	Review of evidence in place to mitigate risks. Specific strategic risks are listed under departmental headings	10	0	0
Caldicott Review (SR6, SR5a, SR8a)	Review requested by management	20	20	21
2. Resources				
Single Status / Equal Pay	Further assistance with next phase	35	25	36
Treasury Management	Assessing high level controls supported by compliance testing to give assurance over the operation of the control environment	25	10	3
Capital	Assessment of high level controls supported by compliance testing to give assurance over the operation of the control environment (Key System) To include Additions and Disposals	25	20	12
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	18
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	21
Benefits	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment (Key System)	28	5	2
Pensions	Assessment of high-level controls supported by compliance testing to give assurance over the operation of the control environment.	22	22	16
Cash Collection	Assessment of new system / control environment.	18	18	19

Audit Title	Audit Outline / Management Direction	Days	Expected Days	Actuals
Bank Reconciliation	Review of accounts to ensure reconciliations are both complete and accurate. Requirement for external auditors	6	6	2
Fairer Charging	To ensure service users are being charged in line with corporate policy and national guidance	22	0	1
Social and Local Welfare Assistance (SR26)	Liaison with colleagues regarding new systems/fraud risks	1	1	1
3. Chief Executive				
Partnerships (SR16a)	Review of Partnership Health Checks and Framework	15	15	7
Public Health (SR29)	Ensure governance arrangements are in place for the transfer of contracts, staff and funding.	10	10	0
4. Children & Families				
Schools assessments	Rolling assessment of the financial arrangements within schools.	90	70	80
Commissioning (SR25a)	Assessment of arrangements in place for strategic commissioning and market management. Include the role of the continuing care panel	25	0	0
Case Management (SR28)	Assessment of the arrangements in place to manage and report on the client review process	18	5	0
Children's Placements (SR6)	Review of budget management arrangements	20	20	20
Joint Funding of Care	Assessment of processes for identifying the need for joint funding; approval arrangements and income collection	18	18	21
ContrOCC Project	Ongoing input and advice with the project as it develops	2	2	2
Care First	Review of adoption data modelling proposal	5	5	0

Audit Title	Audit Outline / Management Direction	Days	Expected Days	Actuals
5. Communities				
Local Authority Companies	Review of governance arrangements & VFM	25	15	12
Parking Services	Follow up and testing on implementation of recommendations	5	0	0
Workplace Parking Levy (SR27)	Management Request - Review the collection arrangements	15	0	0
Waste Management	Management Request - Assessment of management arrangements	30	30	31
Catering and Cleaning	Management Request - Assessment of management arrangements	22	22	23
Events Management	Cyclical review to cover management arrangements including H&S risks/income collection/market testing	15	15	15
Markets / Car Boot Sales	Scope to be agreed with management but to include management arrangements including H&S risks/income collection	10	10	9
Neighbourhood Enforcement	Management Request - Review of recovery and allocation of costs	15	0	0
Environmental Health	Management Request - Assessment of management arrangements	15	15	0
Community Buildings	Management of buildings / H&S risks / Usage of buildings	20	20	21
Carbon Reduction Commitment	Review to ensure the scheme is managed properly and effectively.	10	10	12
6. Development				
Housing Rents	Assessment of high level controls within Rents System (Key System)	20	0	15

Audit Title	Audit Outline / Management Direction	Days	Expected Days	Actuals
Housing Revenue Account	Management Request - Review of the commissioning role in respect of NCH	10	10	12
Economic Development Funding Streams	Management Request - Assessment of management arrangements in respect of significant funding streams City Deal, etc. To include further review of Nottingham Jobs Fund	25	25	16
Building Compliance (SR24)	Assessment of the arrangements in place to ensure NCC complies with its statutory obligations, re corporate and investment buildings	25	25	28
Procurement / Major Programmes	Management Request - Review of financial arrangements including assessment robustness of NCC processes for preventing fraud and obtaining VFM.	20	0	0
Woodfield Industries	Management Request - Assessment of management arrangements / scope to be agreed	15	15	0
Corporate Maintenance Framework	Follow up on previous work	10	10	10
7. Corporate Audits				
Governance Statement (SR10)	AGS preparation and publication	30	25	30
Risk Management	Audit of arrangements in place / ongoing liaison with risk champions	10	7	0
IT Audit (SR8a)	Ongoing audit of key IT risks including systems access/security	40	30	19
Contracts Audit	Testing of a sample of final accounts	20	5	3
Grants Audits	Review of management arrangements over grant claims and returns as well as ongoing work on a number of specific grant claims	40	40	41
Councillors Allowances	Assessment of compliance with the councillors allowance scheme	10	0	0
Colleagues Expenses	Sample testing of claims submitted by colleagues, including new staff travel arrangements	15	0	19

Audit Title	Audit Outline / Management Direction	Days	Expected Days	Actuals
NCC Authorisation Processes	Testing of NCC authorisation processes (Oracle Payroll/AP etc)	40	40	8
8. Counter Fraud				
Counter Fraud Strategy / Arrangements	Review of strategy / current arrangements and compliance with best practice (FFL/PPP)	20	20	17
Training / awareness	Initiatives to increase awareness amongst colleagues	10	7	6
Counter Fraud Monitoring / Liaison	Co-ordinate counter fraud activities and liaison with KPMG and partners regarding annual fraud reporting requirements	35	25	28
National Fraud Initiative (NFI)	Co-ordinate the City's response to the next NFI exercise	30	25	20
Departmental Activities	Programme of pro-active testing of transactions with a view to identifying non-compliance / fraud / error, including emerging risks as identified by PPP	20	15	11
Income Collection (Wollaton Parking / Woodthorpe Grange)	Management Request – Income Collection arrangements	10	10	11
Personal Budgets - Adults (SR28)	Assess current financial arrangements against CIPFA guidance. Contributes to the City's response to "Protecting the Public Purse"	20	0	1
9. Companies etc				
East Midlands Shared Services	See separate plan (includes work on key financial systems)	200	167	166
Responsible Officer	To assist academies with the Responsible Officer role	10	10	12
Other Bodies	Provision of Internal Audit services	50	40	39
10. Consultancy, Advice and Support				

Audit Title	Audit Outline / Management Direction	Days	Expected Days	Actuals
General Contingency – ad hoc work	To allow for requests from senior management or the need to undertake ad hoc assignments as they arise	40	30	47
Fraud & Irregularity Contingency	Separate contingency to investigate non-Housing Benefit fraud	25	20	17
Advice	Liaison with departments including advice re capital projects	35	26	37
Audit Committee	Support and development of Audit Committee	30	23	34
11. Other Work				
Recommendations Monitoring / s151 Assurance Reporting	Ongoing follow up and monitoring of implementation of recommendations	40	30	35
Audit of Charity and other Accounts	Lord Mayor's, Hanley & Gellesthrope, Highfields, Harvey Haddon	10	10	9
Bridge Estate	Management Request - Assessment of how current risks are managed	10	10	7
Public Sector Internal Audit Standards	Further work to ensure compliance with new standards	2	2	3
	Total Days	1567	1158	1106