

4 March 2020

Agenda Item: 8

REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

INTERNAL AUDIT 2019-20 TERM 2 REPORT & 2020-21 TERM 1 PLAN

Purpose of the Report

1. To inform Members of the Head of Internal Audit's report on the work carried out by Internal Audit in Term 2 of 2019/20, to allow Members to consider whether they wish to receive any further follow-up reports.
2. To consult with Members on the Internal Audit Plan for Term 1 of 2020/21.

Information

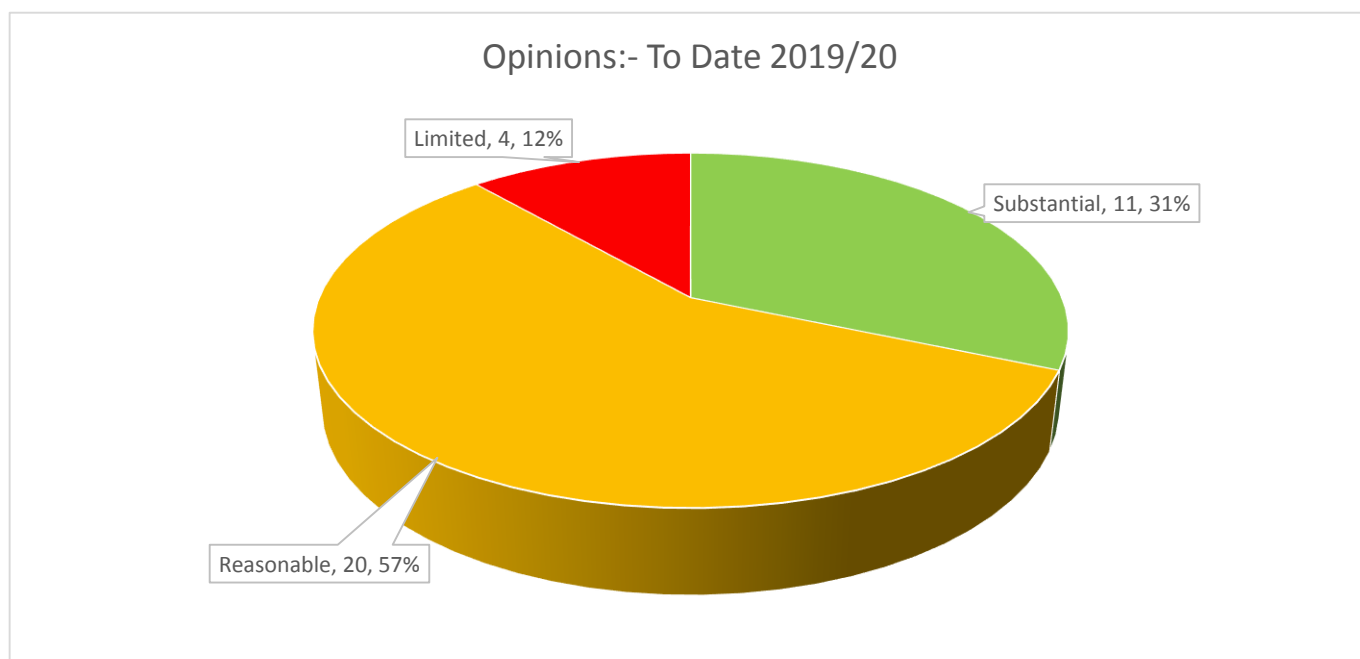
Internal Audit's work in Term 2 2019/20 – August 2019 to November 2019

3. In Term 2, a range of work was completed across the Council, covering the following key types of Internal Audit input:
 - Assurance audits, for which an audit opinion is issued
 - Advice and consultancy – often relating to key developments and initiatives
 - Counter-fraud – including the investigation of suspected fraud and whistle-blower reports
 - Certification audits – generally small jobs to sign off grant returns and accounts.

Audit assurance

4. The opinion-based assurance work is a key contributor to the Head of Internal Audit's year-end opinion on the adequacy of the Council's system of internal control. **Chart 1** shows the distribution of opinions issued in 2019/20 so far.

Chart 1- Opinions to Date



5. In terms of the work completed on the County Council's services and systems, **Chart 2** analyses the opinions issued in this term by service area and level of assurance.

Chart 2- Opinions in this Term

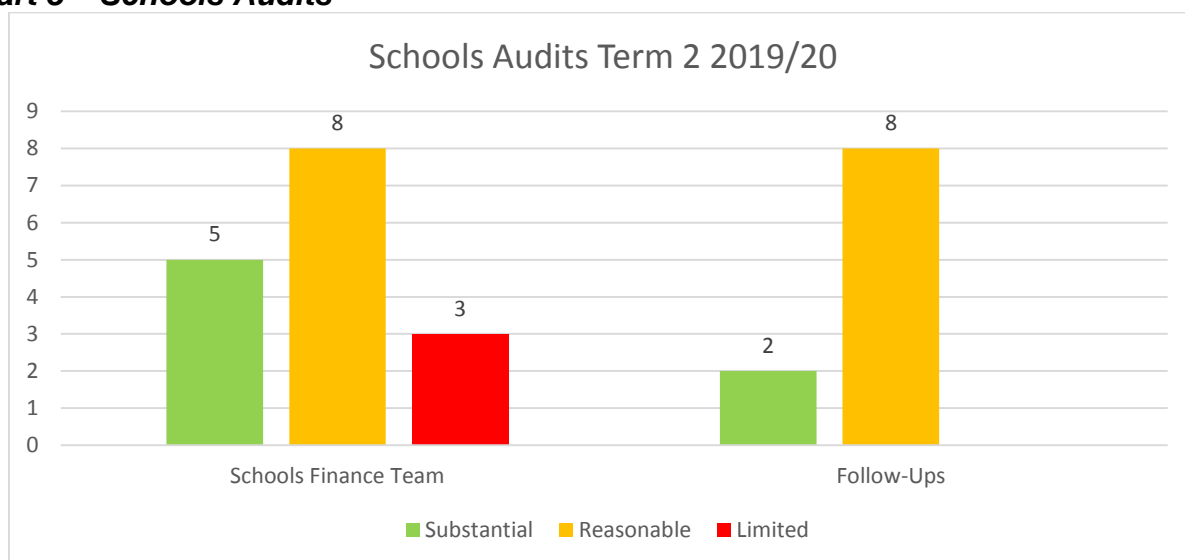
	LIMITED ASSURANCE	REASONABLE ASSURANCE	SUBSTANTIAL ASSURANCE
COUNCIL-WIDE		Strategic Commissioning	Pensions Investments Accounting Clearing House
ASCH		External Day Care Provision	
C&F			
PLACE		Central Processing Unit - Car Parking	
CHIEF EXEC'S			Networks

6. Internal Audit have undertaken significant pieces of assurance work during Term 2 and these have provided positive levels of assurance, particularly in relation to council wide strategic commissioning and key financial systems.
7. The most recent report to the Governance & Ethics Committee in January 2020 on the follow-up of agreed audit recommendations presented a positive picture overall. However, the report noted a decline in implementation rates for Priority 1 actions when compared to the previous

two years. Several officers attended the meeting to update the Committee on progress in specific areas. The next update to Committee is scheduled for July 2020.

8. **Chart 1** incorporates opinions relating to school visits. Since April 2019, these are now undertaken by the Children's & Families' Finance Team, with Internal Audit completing follow-up work required from the visits in 2018/19. **Chart 3**, below, summarises the spread of assurance and follow-up opinions for reviews completed in Term 2.

Chart 3 – Schools Audits



Advisory input

9. Internal Audit continues to provide advisory input to developments in the Council. In Term 2, the following summarises the key areas of activity:
 - Cloud project – ongoing input to the project in relation to contracting and contract monitoring arrangements, and around the design of controls for continued service delivery and security
 - Mosaic system review – ongoing input to the review to ensure an appropriate focus on control and audit trails
 - My Notts App – review of procurement processes for development work.
 - Floods Hardship Fund – provided an overview of the internal controls implemented to control emergency payments following recent flooding across the county.
 - Homebased Care Solutions – advice on interim solutions for payment of providers.
 - LGPS – Pensions Advisory – advice has been provided over the governance arrangements and audit requirements following the formation of the pool.
 - Via EM Financial Control Advice – advice on internal controls within the Finance Policy and Procedure Manual.
10. Internal Audit's advisory input ensures that timely advice is delivered by the Section while new and changed systems are being designed and implemented, and it helps to maintain the influence the Section has to retain a proper focus on control issues. Informal feedback from senior officers continues to indicate that this type of input is valued.

Counter-Fraud

11. Internal Audit was active in the following aspects of its pro-active counter-fraud programme in Term 2:

- Counter Fraud Progress Report 2018/19 – the report was presented to the Governance & Ethics Committee in December 2019
 - National Fraud Initiative 2018/20 – Internal Audit co-ordinates the cross-Council effort to investigate matches flagged up by the Cabinet Office initiative
 - National fraud alerts – screening and distributing to relevant sections alerts publicised by national fraud agencies.
12. The Counter Fraud Progress Report identified other activities that Internal Audit were engaged with during Term 2:
- Attempted Fraud case – awareness of bank and mandate fraud prevented payments of £1.9m being made from Via East Midlands Ltd
 - National Fraud Initiative – Mortality Re-check exercise undertaken to compare mortality data to pension records
 - International Fraud Awareness Week – dissemination of counter fraud awareness materials to raise awareness
 - Government Agency Intelligence Network (GAIN) – completion of ‘data washing’ exercise to share intelligence in relation to serious and organised crime risks.
13. In addition, Internal Audit continue to be involved in fraud investigation activities involving nine live cases.

Certification audits

14. Internal Audit have completed the certification of grant returns and accounts in Term 2 that were in relation to Bus Services Operators Grant, Beeston Youth Centre and Platt Lane Playing Fields accounts.

Internal Audit Performance

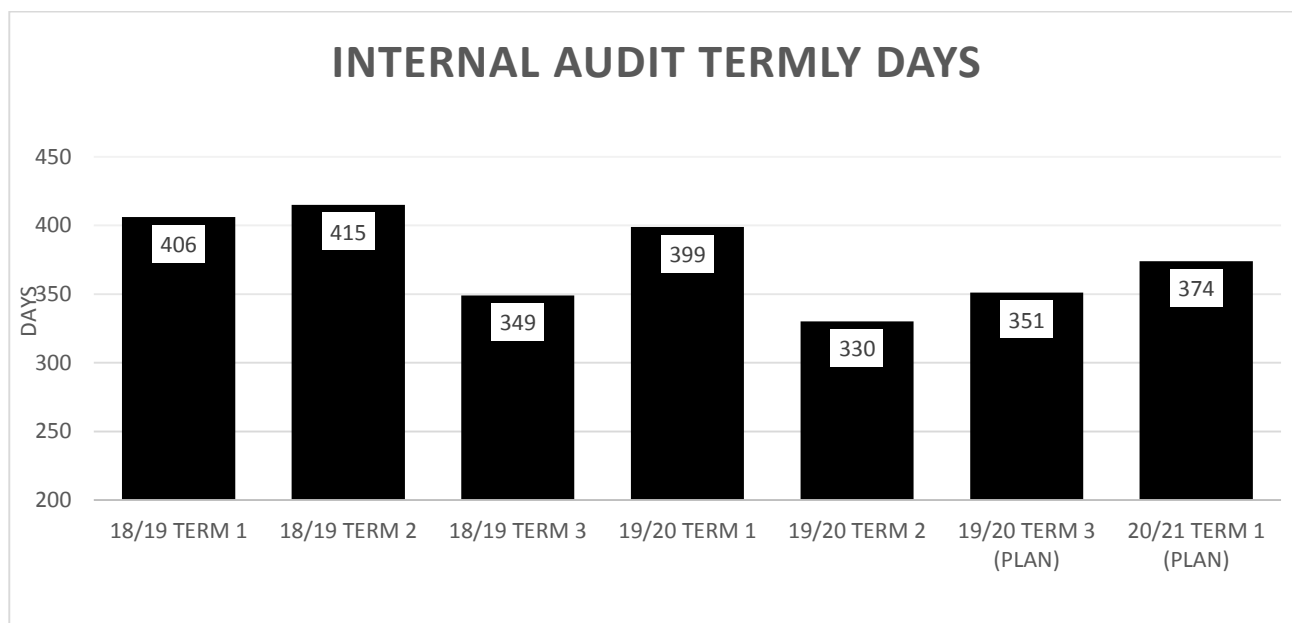
15. **Appendix 1** sets out the following charts to depict progress against the Term 2 Plan, expressed in terms of the following:
- Inputs – the number of audit days delivered against the Term 2 plan. Each segment in the chart represents ¼ of the Termly Plan.
 - Outputs – the number of jobs completed against the plan. Each segment in the chart represents ¼ of the Termly Plan.
 - Productivity indicator – the target score is 1, indicating that all planned jobs have been completed on time and using the planned allocation of days.
16. The planned input days for Term 2 was impacted by the transition from the previous staffing structure to the new staffing structure. It is anticipated that this transition will also have a bearing on productive days in Term 3. Appendix 1 provides an update on the Section’s performance in Term 2 against its key indicators. A reasonable level of performance is presented despite the reduced number of days mentioned above.

Proposed Internal Audit Plan for Term 1 2020-2021

17. Internal Audit has carried out updated consultations with senior managers (through the Corporate Leadership Team and the Departmental Senior Leadership Teams). Regular slots at these meetings are booked in on a rolling basis to coincide with the schedule agreed for the termly plans.
18. Audit plans are determined on a risk basis, as required by the Public Sector Internal Audit Standards (PSIAS). As part of the planning process, account is taken of external sources of assurance, including the work of external inspectorates. Where audits are planned, pre-audit work will also include discussion with managers over sources of assurance that can be relied upon, to prevent duplication. The assurance mapping process is also now providing an important flow of intelligence to inform Internal Audit's planning.
19. Plans are compiled in accordance with PSIAS and they represent the Section's assessment of the key areas that need to be audited in order to satisfy the Authority's statutory responsibility to undertake an adequate and effective internal audit of its accounting records and its system of internal control. The Section's aim is to complete sufficient work to express an overall, annual opinion on the adequacy and effectiveness of the Authority's internal control systems. The annual opinion for 2019/20 will be expressed in the scheduled update report in July 2020 and will take account of assurance delivered from all of Internal Audit's work over the three Terms in 2019/20, along with assurances available from other sources.
20. The Termly Plan is based on an Audit Risk Assessment to identify the priorities for audit coverage. Each area of activity in the Council is assessed in terms of the following factors:
- Value and volume of transactions involved with the activity
 - The known level of internal control in place (from previous audits)
 - The exposure to fraud risk
 - The relative complexity of the activity
 - Whether the activity is stable or subject to change
 - How sensitive the activity is for the Council among its key stakeholders
 - The number of sites where the activity is carried out.
- Using an established system of scoring and weighting the above factors, the Needs Assessment arrives at a high/medium/low risk-rating for each area of activity.
21. **Appendix 2** sets out details of the draft coverage by Internal Audit for Term 1, and it is summarised in the following table.

Department	Days	Number of Audits			
		High Priority	Med Priority	Other	Total
Council-wide	131	3	3	3	9
Children & Families	58	0	3	0	3
Adult Social Care & Health	48	1	0	0	1
Place	32	0	1	1	2
Chief Executive's	105	1	4	4	9
Total	374	5	11	8	24
External Clients (Notts Fire & Rescue Service)	30				
Grand Total	404				

22. The chart below shows the trend in the number of actual days delivered in recent terms, excluding the External Clients.



23. Term 1 will continue to be a period of transition as it embeds the appointments made in November 2019 to the new staffing structure approved by Committee. It will also be a period in which the recruitment of its first apprentices will be completed following the appointment of approved providers. Time is being built in to the plan for the design and delivery of a training and development programme for the new entrants, and it is expected that this will necessarily be resource-heavy in the early months.

24. In the current Term our agency resource has resigned to take up an alternative engagement earlier than planned. Strategically it has been decided not to recruit a short-term agency replacement because this would not provide value for money when considering the associated overheads of engaging such a short-term solution. Our efforts will be focused on the recruitment of apprentices. This will have an impact on the number of individual jobs completed but with the work undertaken on Assurance Mapping and corporate systems the Head of Internal Audit will still be able to complete the Annual Opinion.

Other Options Considered

25. The Audit Section is working to the Public Sector Internal Audit Standards during 2019/20. This report meets the requirement of the Standards to produce a risk-based plan and to report the outcomes of Internal Audit's work. No other option was considered.

Reason/s for Recommendation/s

26. To set out the Report of the Group Manager – Assurance for Term 2 of 2019/20, and to propose the planned coverage of Internal Audit's work in Term 1 of 2020/21, providing Members with the opportunity to make suggestions for its content.

Statutory and Policy Implications

27. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Individual audits completed and in the proposed Termly Plan may potentially have a positive impact on many of the above considerations.

Financial Implications

The Local Government Act 1972 requires, in Section 151 that the Authority appoint an officer who is responsible for the proper administration of the Council's financial affairs. The Service Director for Finance, Infrastructure & Improvement is the designated Section 151 officer within Nottinghamshire County Council. Section 6 of the Accounts and Audit Regulations 2011 requires Local Authorities to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The County Council has delegated the responsibility to maintain an internal audit function for the Authority to the Service Director for Finance, Infrastructure & Improvement and Section 151 Officer.

RECOMMENDATION/S

- 1) Arising from the content of this report, Members determine whether they wish to see any actions put in place or follow-up reports brought to a future meeting.
- 2) That Members consider whether the planned coverage of Internal Audit's work in Term 1 of 2020/2021 will deliver assurance to the Committee in priority areas.

Nigel Stevenson

Service Director for Finance, Infrastructure & Improvement and Section 151 Officer

For any enquiries about this report please contact:

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Constitutional Comments (KK 12/02/2020)

28. The proposals in this report are within the remit of the Governance and Ethics Committee.

Financial Comments (RWK 12/02/2020)

29. There are no specific financial implications arising from the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All