

**8 November 2017****Agenda Item: 6****REPORT OF SERVICE DIRECTOR - FINANCE, PROCUREMENT AND  
IMPROVEMENT****INTERNAL AUDIT PROGRESS REPORT – 2017/18****Purpose of the Report**

1. To inform Members of the Head of Internal Audit's Progress Report on the work carried out by Internal Audit in the first half of 2017/18, and to highlight any key issues arising.

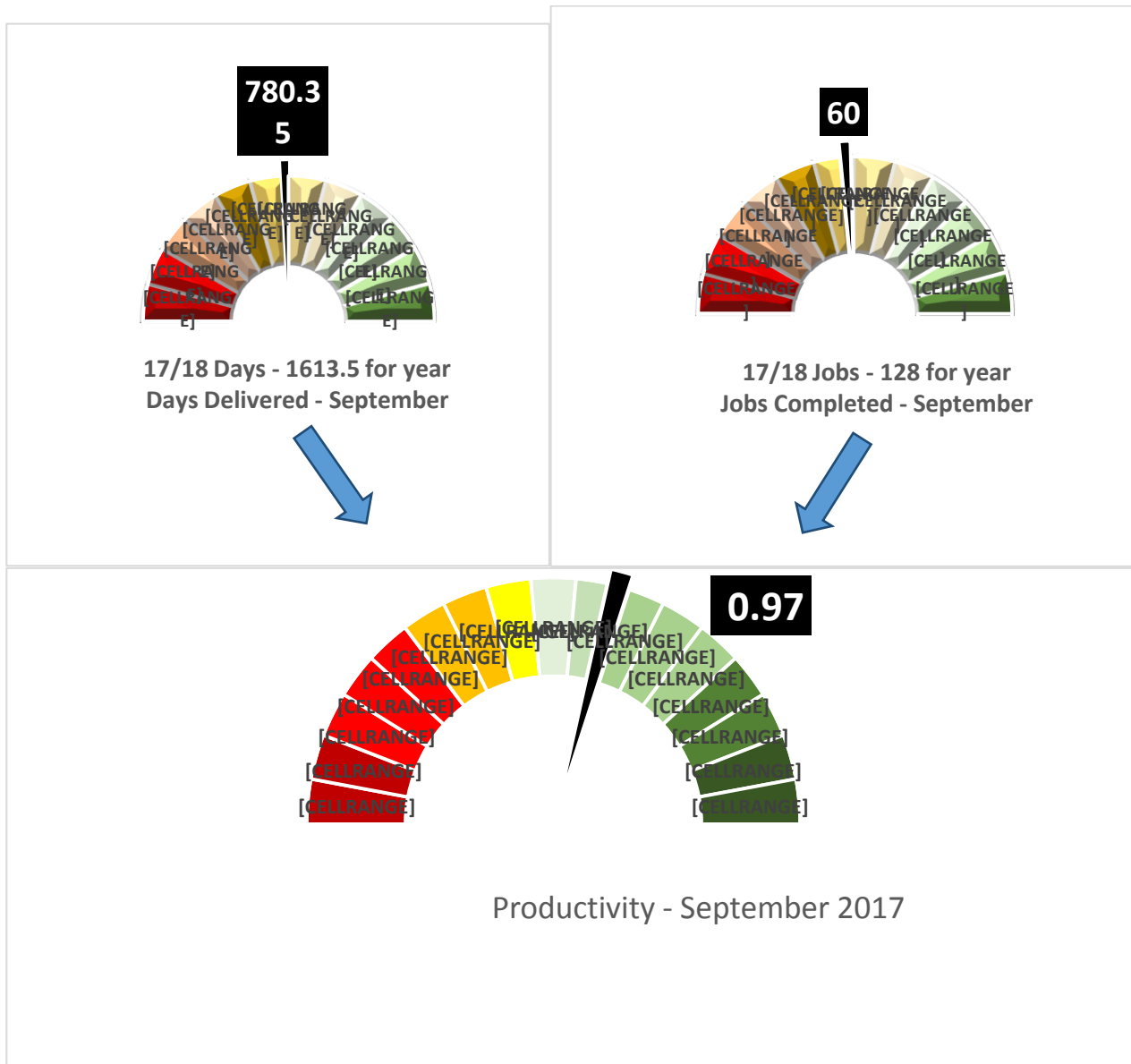
**Information and Advice**

2. The Authority has a statutory responsibility to undertake an adequate and effective internal audit of the County Council's operations. This responsibility is discharged by the Internal Audit Service which has unrestricted access to all activities undertaken by the County Council.
3. The work carried out by Internal Audit involves reviewing and reporting on the control environment established by management to:-
  - a) determine and monitor the achievement of the Authority's objectives
  - b) identify, assess and appropriately manage the risks to achieving the Authority's objectives
  - c) facilitate policy and decision making
  - d) ensure the economical, effective and efficient use of resources
  - e) ensure compliance with established policies, procedures, laws and regulations
  - f) safeguard the Authority's assets and interests.
4. Internal Audit's work is planned to cover these areas and to provide an independent assessment of whether the Authority's systems and procedures are working appropriately. The work of Internal Audit is carried out in compliance with the Public Sector Internal Audit Standards (PSIAS). It is good practice to provide progress reports on Internal Audit work to senior management (Corporate Leadership Team) and the Board (Governance & Ethics Committee) and this report satisfies this expectation.

***Progress against the Audit Plan 2017/18***

5. The following charts depict progress against the audit plan for the first half of 2017/18. Progress is expressed in terms of the following:
  - Inputs – the number of audit days delivered against the plan. Each segment in the chart represents 1/12<sup>th</sup> of the annual plan.
  - Outputs – the number of jobs completed against the plan. Each segment in the chart represents 1/12<sup>th</sup> of the annual plan.

- Productivity indicator – the target score is 1, indicating that all jobs have been completed on time and using the planned allocation of days.

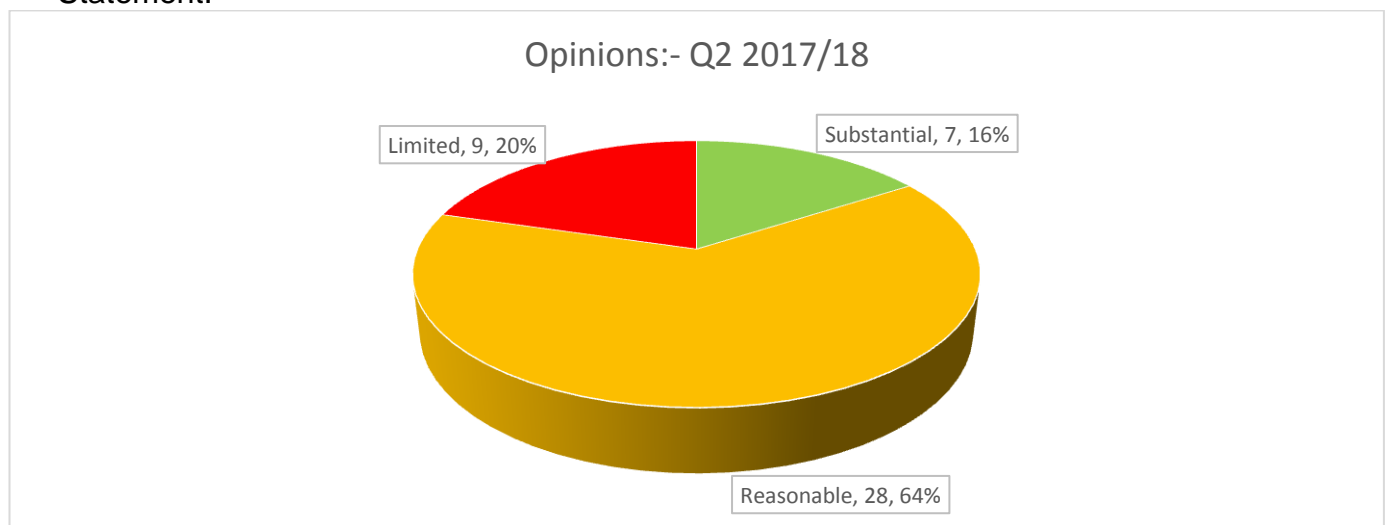


6. The charts show that the Section is on track at this stage of the year in terms of the number of days delivered, and slightly behind schedule as regards the number of jobs completed. The Plan is being implemented flexibly in order to respond to emerging issues and developments. Internal Audit has developed an approach to assessing requests to become involved in unplanned work, to ensure such work will not compromise the Section's responsibilities to deliver its annual assurance to the Council. The following are the key engagements that Internal Audit has accepted in the first half of the year, and the time requirements for these pieces of work have been more significant than the standard time allocation for a more routine audit:
- Combined assurance reviews of the Council's Alternative Service Delivery Models (ASDMs) – these required more time than anticipated in Internal Audit's planned coverage of these developments (see paragraph 10 for further details).
  - Rolleston Drive/Grove Leisure Centre fire incidents – work is currently in progress to assess two aspects: the process followed to progress disposal of the vacant sites; and the measures put in place to secure the vacant sites.

- c) Irregularity investigations - a number of irregularity enquiries have arisen in the first half of the year. Internal Audit is providing appropriate levels of input, both to advise and support management in progressing the investigations and to consider any implications for internal controls arising from the cases. Further details of current counter-fraud work is presented at paragraph 11.

### **Audit assurance**

7. In the first half of the year, a range of work has been completed across the Council. **Appendix 1** sets out details of all final reports, draft reports and written advice, 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 whistleblower reports
  - Certification audits – generally small jobs to sign off returns and accounts.
8. Analysis of the opinion-based assurance work shows the following distribution of opinions issued so far in the current year (**see chart below**). Based on this, and adding it to the rolling outcomes of Internal Audit's assurance work over the past 12 months, the Head of Internal Audit is able to report that **a satisfactory level of internal control continues to be in operation in the council**, although the incidence of 'limited assurance' opinions is something to be kept under review and has been recognised by the Council in its Annual Governance Statement.



9. The work to date has identified some areas in which internal controls need to be strengthened, most notably in the 9 areas for which a 'limited assurance' opinion was issued. Brief details of these audits are presented in **Appendix 2**. Some of the issues identified can be traced back to compliance with some aspect of the Council's Financial Regulations or, in the case of schools, with the Local Authority Scheme for Financing Schools. The need for strengthened arrangements for budgetary control was the key issue in one area.

### **Advisory input to developments**

10. Internal Audit continues to provide advisory input to a number of key developments in the Council. In the first half of the year, this effort has focussed on the following:
- a) Place Dept: Alternative Service Delivery Models (ASDMs) – the Council is reviewing its three operational ASDMs (Arc, Via & Inspire) and Internal Audit is making a significant

contribution to this work. The review has been undertaken in two phases: Internal Audit conducted the first phase in conjunction with the Project Management Office (PMO), and this resulted in the production of four interim reports (one for each of the ASDMs, plus a composite report). The second phase is an externally-led assurance review, comprising a review team of two external consultants and two internal officers (the Head of the PMO and the Head of Internal Audit). Internal Audit's findings from the first phase of the review are feeding in to the second phase, and this will culminate in a single report covering both phases for each of the ASDMs, plus again a composite report.

- b) CFCS Dept: Special Educational Needs & Disabilities (SEND) – Internal Audit's work in this area contributed dually to the assurance work of the section and to a wider change programme the Council is progressing. Further details are presented in Appendix 2.
- c) ASCHPP Dept: advisory input to two developmental projects relating to the re-procurement of the homebased care service and the cutover arrangements to the Mosaic case management system.

This type of 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. Progress is being made with the Section's pro-active counter-fraud programme. Notable developments are in train with the following:

- Fraud Health Check Audit
- Trial of more timely prevention and detection facilities provided by the National Fraud Initiative (NFI), targeted at those areas of the Council's services vulnerable to fraudulent activity
- Follow up of the Serious & Organised Crime (SOC) assessment and completion of the full SOC Audit which includes working protocols with Trading Standards and Nottinghamshire Police
- Development of a new e-learning package to promote counter-fraud awareness among the Council's staff.

12. A number of issues have been reported to Internal Audit in the first half of the year. Brief details, and the extent of Internal Audit's involvement in their investigation, are set out below:

<b>Area of service and nature of irregularity</b>	<b>Extent of Internal Audit's input</b>
Public Health service provider – allegations of bogus claims for payment	Work alongside management to evaluate the validity of the claims and to identify actions needed to ensure effective contract management going forward.
Direct Payments – suspicions of the inappropriate use of funds, or ineligibility for funding.	In addition to the dedicated audit review of this area, Internal Audit is now meeting periodically with relevant managers to discuss current cases and the actions being taken to investigate.
Direct Payment Support Service provider – suspicions of a shortfall on the service user accounts a service provider is managing on	Advice and support to management currently investigating. An assessment of controls by Internal Audit will follow.

Area of service and nature of irregularity	Extent of Internal Audit's input
behalf of service users who opt to have their accounts managed in this way.	
Children's unit – suspicion of duplicated and inaccurate timesheet claims.	Advice and support to management currently investigating. An assessment of controls by Internal Audit will follow.

13. In all cases, Internal Audit assesses whether the weaknesses in internal controls are a contributory factor to the issues arising and makes recommendations to management. The Fraud Risk Assessment will be updated in light of both the pro-active and reactive fraud work.

### Key Performance Indicators

14. Progress against the Section's performance indicators, as at the end of September 2017, is detailed in the following table:

Performance Measure/Criteria	Target	Outcome as at 30/9/2017
<b>A. Outcome measures</b>		
<b>1. Risk-aware Council</b>		
Completion of Audit Plan - Days - Jobs	90% 90%	✓ 97% ✓ 92%
Regular progress reports to: - Departmental Leadership Teams - Corporate Leadership Team - Governance & Ethics Committee	3 pa  3 pa 2 pa	✓ 1 <sup>st</sup> round completed & part-way through 2 <sup>nd</sup> ✓ 2 to date ✓ 1 completed
Publication of periodic fraud/control awareness updates	2 pa	✗ Yet to be actioned. E-learning module is under development (see para 11 above)
<b>2. Influential Audit Section</b>		
Recommendations agreed	95%	✓ 100%
Engagement with the Transformation agenda	Active in 5 key projects	✓ Currently engaged with 4
<b>3. Improved internal control &amp; VFM</b>		
Percentage of Priority 1 & Priority 2 recommendations implemented	75%	✓ 88% (from latest update to Committee in September 2017)
<b>4. Quality measures</b>		
Compliance with the Public Sector Internal Audit Standards: - Head of Internal Audit's annual Quality Assurance and Improvement Programme - External Quality Assurance Assessment of Internal Audit	Compliance achieved  Compliance achieved	✓ Substantial Compliance  ✗ (EQA to be completed by end March 2018)
Positive customer feedback through	Feedback good or	✓ Average score

Performance Measure/Criteria	Target	Outcome as at 30/9/2017
Quality Control Questionnaire (QCQ) scores	excellent (where a score of 1 is excellent and a score of 2 is good)	1.51

15. The Section is currently on target to meet its targets for the year.

### ***Benchmarking data***

16. Nottinghamshire participates in the CIPFA Benchmarking Club for Internal Audit and the report for 2016/17 has recently been received. There are now few participants (22) in the Club relative to the number of council internal audit sections in the country, and the number of participants from two-tier county councils is fewer still, at just three. The remaining participants are unitary authorities. This necessitates some degree of caution when assessing the outcomes, nonetheless some of the key benchmarks are presented in **Appendix 4**. The key messages that may be drawn from these are:

- The Nottinghamshire service continues to be low cost compared to others.
- The extent of coverage has remained low by comparison with other participants, but the current year's plans are likely to see more of a convergence with the levels at other authorities.
- The number of chargeable days per auditor delivered in 2016/17 was low compared with others, and this can in part be explained by the relatively high level of sickness last year. This issue was reported to the former Audit Committee during the year along with the progress made in addressing it.

17. The relative worth of remaining a member of the CIPFA club will be kept under review. Nottinghamshire's Internal Audit Section is also an active member of the County Chief Auditors' Network (CCAN), a national group comprising the chief internal auditors of the English county, city and metropolitan council areas. The group's current work plan includes the development of benchmarking, and the relative merits of any future exercise will be considered in comparison to the service offered by CIPFA.

### ***Conclusion***

18. The work undertaken by Internal Audit during the first half of 2017/18 has covered some key systems in the Authority. The incidence of limited assurance opinions has increased, but controls in the majority of systems and procedures continue to operate satisfactorily. Management continue to respond positively to Internal Audit's work, and there is a good level of assurance that agreed actions are being implemented.

### **Other Options Considered**

19. The Audit Section is working to the Public Sector Internal Audit Standards during 2017/18. This report meets the requirement of the Standards to provide an Interim Progress Report. No other option was considered.

### **Reason/s for Recommendation/s**

20. To set out the Progress Report of the Head of Internal Audit for the first half of 2017/18.

### **Statutory and Policy Implications**

21. 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.

### **Finance implications**

22. 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 – Finance, Procurement and 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 – Finance, Procurement and Improvement.

## **RECOMMENDATION**

- 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.

**Nigel Stevenson**

**Service Director – Finance, Procurement and Improvement**

**For any enquiries about this report please contact:**

Rob Disney

Head of Internal Audit

### **Constitutional Comments (SLB 23/10/2017)**

Governance and Ethics Committee is the appropriate body to consider the content of this report. If Committee resolves that any actions are required it must be satisfied that such actions are within the Committee's terms of reference.

### **Financial Comments (RWK 23/10/2017)**

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

### **Background Papers.**

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:

### **Electoral Division(s) and Member(s) Affected**

All