Internal Audit Annual Report 2019/20

SUMMARY OF INTERNAL AUDIT'S WORK IN 2019/20

1) 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.

2) The work carried out by Internal Audit involves reviewing and reporting on the governance, risk management and control environment established by management to:

- determine and monitor the achievement of the Authority's objectives
- identify, assess and appropriately manage the risks to achieving the Authority's objectives
- facilitate policy and decision making
- ensure the economical, effective and efficient use of resources
- ensure compliance with established policies, procedures, laws and regulations
- safeguard the Authority's assets and interests.

3) 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). The essential roles set out in the standards for effective internal audit are delivered at this Council as follows:

PSIAS Role	Delivered at NCC by:
Chief Audit Executive (CAE)	Group Manager - Assurance
Senior Management	Corporate Leadership Team
Board	Governance & Ethics Committee

4) Throughout 2019/20, Internal Audit continued to operate independently within the organisation. No impairments to its independence arose during the year.

5) The Covid-19 pandemic had a significant impact on the work of the Team during March 2020, an this is continuing into 2020/21. The Team shifted its focus away from its agreed Termly Plans, towards advisory input to assist the Council in its response to the emergency.

6) Internal Audit is positioned within the Assurance Group of the Chief Executive's Department. The Group Manager – Assurance reports directly to the Service Director – Finance, Infrastructure & Improvement, a member of the Corporate Leadership Team.
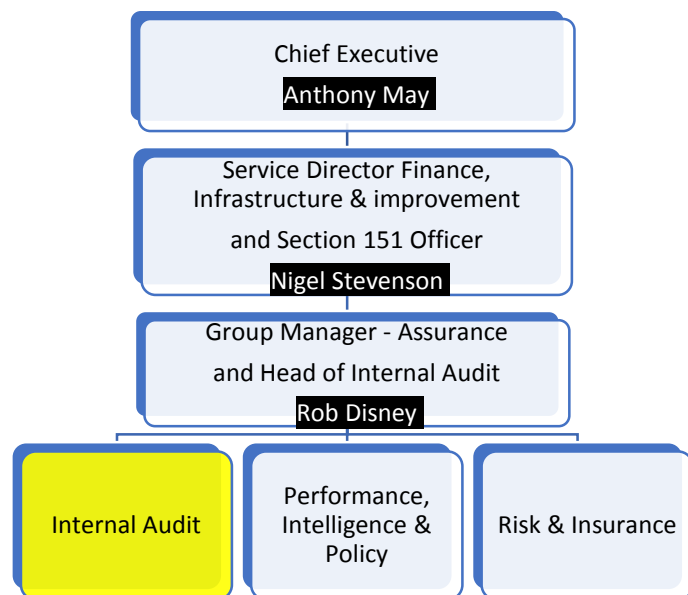
7) The Group Manager – Assurance formally recognises that this structure presents a potential impairment to his independence in respect of internal audit reviews of the Risk & Insurance and Performance services. To address this, fully independent and external providers of internal audit services are engaged to carry out such reviews, when they become due. From 2020/21, this arrangement

will also apply to audits of corporate risk management, as responsibility for this activity has now transferred to the Assurance Group.

8) The arrangements for the Section's organisational independence remained unchanged and are depicted in the diagram below. The Group Manager – Assurance has continued to have available direct reporting lines open to the principal officers and members with responsibility for governance, risk management and control in the Council.

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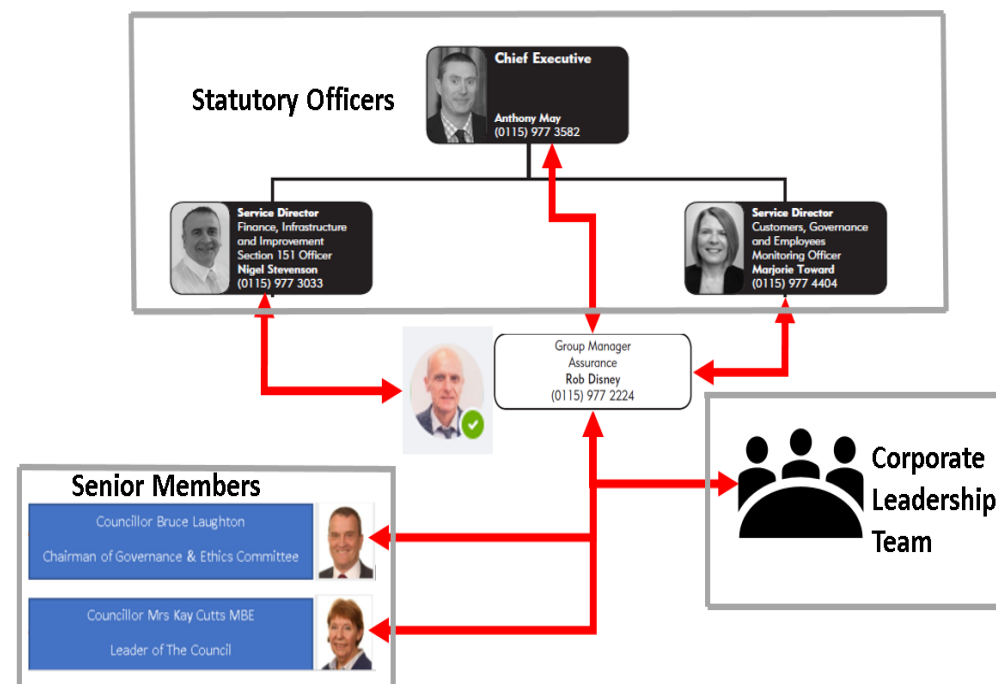
SUMMARY OF INTERNAL AUDIT'S WORK IN 2019/20

9) A wide range of audit work was completed during the year, comprising formal 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.

10) Most of Internal Audit's assurance work results in the issue of an opinion on the internal controls and procedures in place, categorised as follows:
    - *Substantial Assurance* – there are no weaknesses or only minor weaknesses
    - *Reasonable Assurance* – most of the arrangements for financial management are effective, but some weaknesses have been identified
    - *Limited Assurance* – there is an unacceptable level of risk which requires the prompt implementation of the recommendations made to correct the weaknesses identified.

11) Internal Audit provided advisory input to some key developments in the Council during the year, although fewer than in previous years due to reduced capacity. 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. Advisory work relating to the impact of the Covid-19 pandemic became the primary focus of the Team during March 2020 and is continuing into 2020/21.

12) Internal Audit was involved with a number of irregularity investigations during the year. Details of this work will be incorporated in the Annual Fraud Report for 2019/20, which will be the subject of a separate report to the Governance & Ethics Committee in September 2020.

13) The outcomes from the work in each of three Termly Plans during the year have been reported to the Governance & Ethics Committee, as follows:
    - Term 1   November 2019
    - Term 2   March 2020
    - Term 3   July 2020 (as part of this report)

    The key issues arising in these reports are summarised below in the 'annual opinion' section.

14) Internal Audit's ultimate objective is to bring beneficial impacts from its work for the citizens of Nottinghamshire and the direct users of the County Council's services. Arising from its work in 2019/20, the service can point to a number of positive impacts:

For Council Tax payers, helping the organisation to strengthen its stewardship of public funds. Audits of a number of the Council's core systems and procedures have identified opportunities to strengthen further the organisation's grip on its finances, as well as its wider approach to governance. Similarly, the service's key contribution towards promoting a counter-fraud culture in the Council plays an important role in helping minimise losses to fraud.

For children and families, audit follow-up work has helped to drive through agreed improvements in how scarce resources are put to best use by the services reviewed, for example in specialist education provision.

For adults, there has been a similar focus on the use of scarce resources, such as in the reviews of external day care, care home providers and continuing healthcare. Follow-up of agreed recommendations has also seen improved service provision with direct payments. The protection of vulnerable service users' interests was a primary focus for the review of the Council's use of deputyship and appointeeship powers.

Governance

- Limited assurance
- **REASONABLE ASSURANCE**   **Risk levels are acceptable**
- Substantial assurance

Basis for opinion in 2018/19

15) The Annual Governance Statement (AGS) for 2019/20 assesses compliance with the Council's Local Code of Corporate Governance, which is based on the seven core principles of good governance as recommended in the CIPFA/SOLACE Framework for 'Delivering good governance in Local Government' (2016 Edition).

Compliance rated 'substantial' for 4 of 7 principles

Reasonable, 3
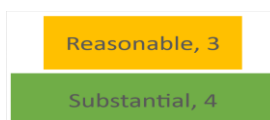
Substantial, 4

16) In support of the AGS, Corporate Directors provided their annual assurance statements for 2019/20, concerning the application of key governance issues in their areas of service. Corporate Directors report, overall, a substantial level of compliance with the Council's procedures.

17) Assurance mapping for five aspects of corporate governance was under completion at the time of preparing this report. The areas covered by the map in 2019/20 are the following:

- Financial management
- Performance management
- Risk management
- Asset management
- People management

18) Completion of assurance mapping has been hampered by the pandemic outbreak. Although the evidence for some areas had been fully gathered, others were at various stages of completion when progress had to be paused. The work completed was used to inform the Annual Governance Statement and, for the most part, this delivered positive assurance. However, partial completion of the mapping has not been used for this Annual Opinion.

19) Progress with the assurance map is now recommencing, and a full report will be submitted to the Governance & Ethics Committee in September 2020. This will include consideration of how the map should develop in the current year, as a result of the pandemic and the Council's recovery from it.

20) Other, important sources of assurance were delivered from external inspections during the year, as set out in the following extracts.

21) The Local Government Association Peer Challenge in June 2019 included a review stream around organisational leadership and governance. This concluded that, '*There is effective organisational leadership and governance in Nottinghamshire County Council, with respected and visible leadership from the Chief Executive.*'

22) The Ofsted inspection of Children's services in October 2019, which resulted in a 'Good' overall rating, delivered assurance that the Council's governance arrangements had already identified most of the areas for improvement identified by the inspection.

23) The Council's Legal Services Team retained the Law Society's legal practice quality mark for practice management and client care

24) Self-assessments against best practice have been considered by the Governance & Ethics Committee, providing an opportunity to critically review the Council's arrangements in some important aspects of governance. Authority Governance.

Statement on the Role of the Head of Internal Audit

> Cyber Security
> Cloud Services

These identified good levels of compliance, and action plans are in place to follow through on those areas in which improvements may be made.

Coronavirus (COVID-19)

25) The holding of Committee meetings in person was suspended in March 2020, to ensure compliance with the national and local response to the pandemic. Once legislation was passed allowing meetings to be held virtually and government guidance received, a number of virtual meetings were scheduled and took place. This included an extraordinary meeting of Full Council which approved the governance and committee structure for the year ahead.

26) The governance framework provides for the use of both urgency and emergency powers during such periods, and these provisions have been applied to enable the Council to respond to the emergency at the pace demanded. Policy Committee has received a report on

decisions taken under these provisions in the last six months.

27) At the time of compiling this report, Internal Audit was engaged in a review of the Council's overall response to the pandemic. However, it has not yet been possible for Internal Audit to conduct a review of the use of the urgency and emergency powers, in order to deliver assurance of their effective and appropriate use.

Risk Management

Limited assurance

REASONABLE ASSURANCE   Risk levels are acceptable

Substantial assurance

Basis for opinion in 2019/20

28) Internal Audit's risk-based audit approach did not identify any high-level risks in 2019/20 which were either not recognised by the organisation or for which the mitigating actions in place were fundamentally inadequate.

29) In support of the Annual Governance Statement, Corporate Directors provided strong levels of assurance that the actions detailed in the Corporate Risk Register to mitigate the identified risks continue to be taken by designated officers. However, there is no routine process in place to evidence that these actions are taken.

➤ Corporate risk register mitigations carried out

Dept	Assurance Level
ASCPH	Substantial
C&F	Substantial
Place	Substantial
Chief Exec's	Substantial

30) The Group Manager – Assurance attends meetings of the Council's Risk, Safety & Emergency Management Board during the year. This provides ongoing assurance that the Council's over-arching framework for risk management continued to be applied, but it also confirmed the need for the Corporate Risk Register to be brought up to date.

31) The incidence of emergencies in the community necessitated a rapid and prolonged response from the Emergency Management Team, meaning it was unable to deliver risk management updates to the Governance & Ethics Committee. The planned training on this topic for Committee Members is also outstanding, as was the development of a formal approach to establishing the Council's risk appetite.

32) As indicated above, assurance mapping for risk management was under completion at the time of
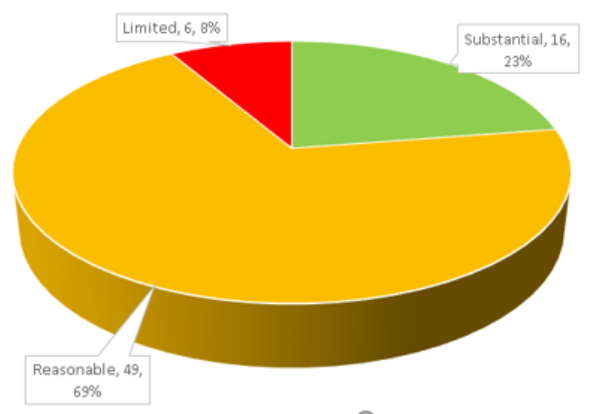
compiling this report and will be reported to the Governance & Ethics Committee in September 2020.

Control

Limited assurance

REASONABLE ASSURANCE   **Risk levels are acceptable**

Substantial assurance

Basis for opinion in 19/20

33) Analysis of the opinion-based assurance work shows the following distribution of opinions issued during 2019/20.

34) The trend in the incidence of audit opinions over the past few years is illustrated in the graph below. This shows the positive picture that, in percentage terms, 2019/20 saw a reduction in the incidence of limited assurance opinions, alongside an increase in the percentage of substantial assurance opinions.
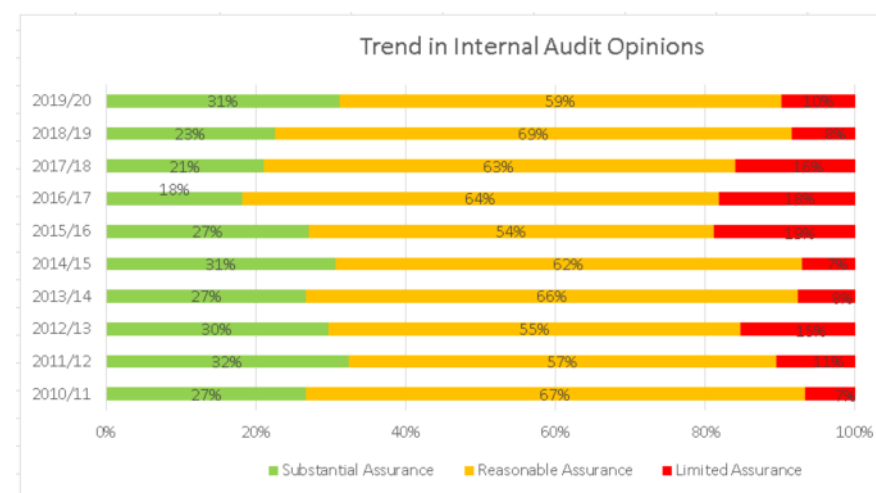
35) Nonetheless, the Annual Governance Statement for 2019/20 recognises continued pressure on core systems of internal control. This was manifested during the year through the slowing implementation rate for some Priority 1 actions agreed as a result of Internal Audit's work. The Governance & Ethics Committee continued to play a leading role in helping to drive progress in these specific areas of service, by continuing to receive implementation updates from service managers until the agreed improvements are put in place.
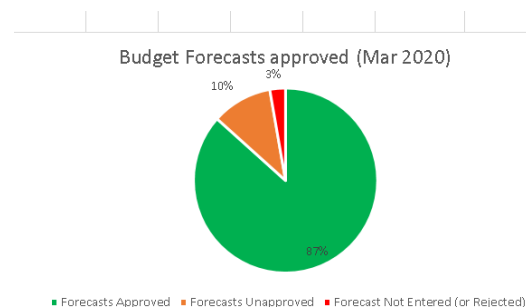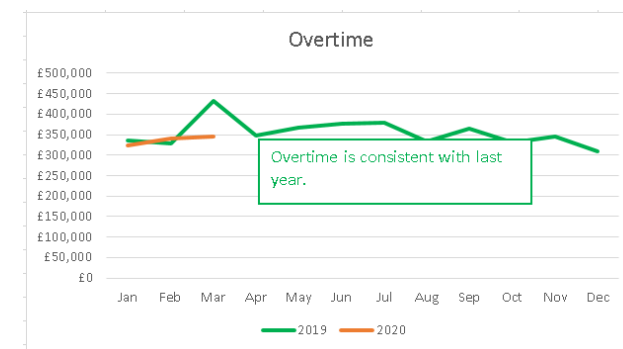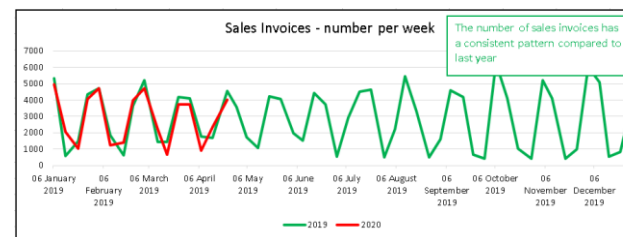
HM Revenue & Customs

36) HMRC conducted a business risk review of the Council's tax arrangements, and its report concluded that: '*Nottinghamshire County Council has been designated a low risk rating*.

37) As part of Internal Audit's contribution to the response to Covid-19, it is developing a feed of continuous assurance about the effectiveness of many of the Council's key, corporate processes, embracing:
   ➢ Accounting & Budgetary Control
   ➢ Procurement
   ➢ Income and Debtors
   ➢ Purchasing
   ➢ Payments
   ➢ Payroll
   ➢ Pensions
   ➢ Health and Safety
   ➢ Constitutional decisions
   ➢ Information Governance

38) Although under development still in the 2020/21 financial year, early deliverables from the initiative are providing relevant assurance for the fourth quarter of the 2019/20 year. The following sets an extract of charts and metrics to illustrate the type of assurance that this approach will deliver.

Sales Invoices - number per week

The number of sales invoices has a consistent pattern compared to last year

Overtime

Overtime is consistent with last year.

Budget Forecasts approved (Mar 2020)

- Forecasts Approved
- Forecasts Unapproved
- Forecast Not Entered (or Rejected)

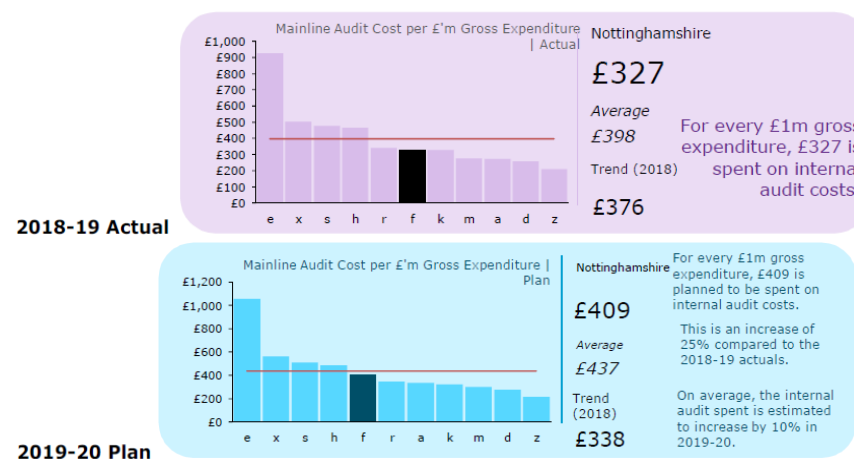| Bank Reconciliation	
Latest Month:	**April 2020**
Bank rec done:	✓

Key Performance Indicators

39) Progress against the Section's performance indicators is reported on a termly basis to the Governance & Ethics Committee. A summary of what has been achieved, and what has fallen short, is provided below.

Risk-aware Council	
Completion of Termly Plans	✓ with reduced level of input, pending establishment of the apprenticeship scheme
Regular progress reporting	✓ Termly reporting in place
Fraud awareness updates	✓ E-learning & annual fraud report
Influential Audit Section	
Recommendations agreed	✓ 100% agreement
Engagement with the Transformation agenda	✗ Fewer projects engaged with, due to reduced level of resource
Improved internal control & VFM	
Implementation of agreed actions	✗ Delays with Priority 1 actions highlighted
Quality measures	
Compliance with standards	✓ High degree of compliance
Customer feedback	✓ High levels of satisfaction

Benchmarking

40) The Team participates in the CIPFA benchmarking club for internal audit. The report from the 2019 exercise covers 2018/19 actual and 2019/20 planned outcomes. The report also identifies that only 11 councils took part, just one of which was another county council. This continues a decline in participation in this club over recent years.

41) Whilst this means the value of the data is very limited. the following headline figures are picked out. These underline the known challenges for the service over the past couple of years, regarding its inability to recruit suitable staff. This makes for a low-cost audit service, but restricts its coverage of Council activities.

Cost of the service

Coverage of Council activities

For every £1m spent by Nottinghamshire, 1.03 days are dedicated on internal mainline audit days.

Mainline Audit Days per £'m Gross Expenditure | Actual

Nottinghamshire **1.03**

Average **1.51**

Trend (2018) **1.35**

2018-19 Actual

For every £1m spent by Nottinghamshire, 1.24 days are dedicated on internal mainline audit days.
This is an increase of 20% compared to the 2018-19 actuals.

On average, the internal audit days are estimated to increase by 6% in 2019-20.

Mainline Audit Days per £'m Gross Expenditure | Plan

Nottinghamshire **1.24**

Average **1.60**

Trend (2018) **1.34**

2019-20 Plan

42) For the coming year, it is proposed that this Council does not take part in the CIPFA exercise, focussing efforts instead on emerging benchmarking approaches being developed by other regional and national groups, such as:
  ➢ the national Chief Auditors' Network
  ➢ the Midland Counties Heads of Internal Audit Group cost of the service and level of audit coverage are in line with the comparator average.

Public Sector Internal Audit Standards (PSIAS)

43) The Group Manager – Assurance carries out an annual self-assessment of compliance against the PSIAS. This incorporates the requirements of the Local Government Application Note (LGAN), which provides additional advice and guidance to providers of internal audit services in a local government setting.

44) In addition to the self-assessment, the service is subject to an External Quality Assessment (EQA) once every five years. The most recent EQA was carried out in March 2018.

45) For 2019/20, the self-assessment has been updated and has been used to form the basis of the annual Quality Assurance and Improvement Programme (QAIP) for the service (see ***Annex 1*** below). The outcome of the assessment provides significant assurance to the Council that the Internal Audit service conducts its work with due professional care. It confirmed the following in respect of the work carried out by the service in 2019/20:
  a) The service applied a systematic, risk-based approach to the assurance work it delivered

  b) Internal Audit staff performed their duties with due regard to the code of ethics set out in the standards

  c) The only impairment to the independence and objectivity of the service during the year.

46) Nonetheless, the QAIP has identified some scope for improved compliance, with an action plan to provide a focus for continuous improvement in 2020/21.

47) In November 2019, Governance & Ethics Committee approved a Strategic Audit Plan for the period 2019 to 2021, along with a commitment to keep this under review on an annual basis.

Purpose of the Strategic Internal Audit Plan

➢ The purpose of the Strategy remains valid and unchanged.

Delivery model

➢ The Strategy remains to deliver the service through the in-house team, and to continue its outward-looking approach, notably through its collaboration with Assurance Lincolnshire.

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Understanding the Council's assurance needs

➢ The termly, 4-monthly audit plans will continue, and should prove of particular benefit to maintain the relevance of Internal Audit's work in the recovery from the pandemic.

➢ The balance of Internal Audit's work between advisory input and risk-based assurance reviews tipped significantly towards advice during the pandemic response, and this should continue through recovery and renewal to support the Council's transformation agenda. At the same time, opinion-based assurance work will increase through this period, embracing the possibilities offered by a 'continuous assurance' approach.

➢ The service's pro-active counter-fraud programme is heightening awareness of potential fraud vulnerabilities. Assurance work during the pandemic recovery period will be carried out with a sharpened focus on fraud detection, to provide assurance that the Council has not been the target for attacks.

Deploying Internal Audit resources

➢ The service will welcome on board its first internal audit apprentices, and begin their training with the Council for a rewarding career in the profession. It will also continue to exploit opportunities to bring in graduate and other developmental placements to the service, which provides a mutually beneficial opportunity for both the Team and the learner.

➢ 'Continuous auditing' will be progressed further, building on the impetus given to this approach by the assurance needs of the emergency response.
➢ The service will review its 'data-enabled audit strategy', to ensure it continues to upgrade and upskill its approach.

Maintaining quality and VFM

➢ The service remains committed to progressing its Quality Assurance & Improvement Programme.
➢ The experience of delivering the internal audit service through home-based staff during the pandemic emergency will be formally reviewed to inform the Team's approach going forward.

Reviewing and reporting progress

➢ Internal Audit's reporting schedule to the Corporate Leadership Team and to the Governance & Ethics Committee remains appropriate and timely.

ANNEX 1: QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

Update on progress against the 2019/20 QAIP

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at July 2020
18-19 7	Impairment to independence and objectivity – Rotation of lead responsibilities for managing the audit service to each department of the Council	Responsibilities have not been rotated for some time	To further embed conformance, departments managed at the Audit Manager level be considered for rotation to other team members	Head of Internal Audit	With implementation of a revised structure for Internal Audit	**Implemented** The revised structure for the service addressed this issue.
19-20 1	Internal Audit's activity is aligned with the strategies, objectives and risks of the organisation	Scope to make this more explicit in the format and structure of audit plans	Alignment with the Council's strategies, objectives and risks to be made explicit Develop a Strategic Audit Plan to set the overall framework within which the termly plans are positioned	Group Manager - Assurance	From Term 3 Plan 2019/20	**Implemented** The Strategic Internal Audit Plan was approved by the Governance & Ethics Committee in November 2019.
19-20 2	Internal Audit is adequately resourced	Difficulties in recruitment	Short-term cover through the use of our partnership with Assurance Lincolnshire and the engagement of agency auditors.	Group Manager - Assurance	Throughout 2019/20	**Implemented** The input of Assurance Lincolnshire colleagues was commissioned during the year, helping to limit reliance on agency cover.

ANNEX 1: QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at July 2020
			Restructure of the Internal Audit Service, building in apprentice posts	Group Manager – Assurance	Restructure proposal to Governance & Ethics Committee in September 2019	**Implemented** The revised structure for Internal Audit was approved by the Governance & Ethics Committee in September 2019. Existing staff have been enabled into it, and two new apprentices have been appointed.
			Identify how the resources required to deliver the risk-based audit plan have been assessed	Group Manager - Assurance	From the Term 3 Plan for 2019/20	==**Not yet implemented**== To be progressed in 2020/21
19-20 3	Internal Audit Charter	The Charter could more fully describe the scope and wide remit of Internal Audit's activities Charter needs to address the wider, non-audit remit of the Group	Annual refresh of the Internal Audit Charter to address these points	Group Manager - Assurance	September 2019	**Implemented** The updated Charter was approved by the Governance & Ethics Committee in September 2019

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at July 2020
		Manager – Assurance role				
19-20 4	Organisational independence	The annual report does not explicitly confirm that the Internal Audit Section is organisationally independent	Include this confirmation in the annual report	Group Manager - Assurance	July 2019	**Implemented** July 2019
19-20 5	The remuneration and performance assessment of the Head of Internal Audit should not be inappropriately influenced by those subject to audit	Scope to further widen the span of senior Members and Officers who contribute to the performance assessment of the Group Manager - Assurance	Widen contributors to the performance assessment of the Group Manager – Assurance to include: Chief Executive, Monitoring Officer, Governance & Ethics Committee Chairman, Vice-Chairman and Lead Opposition Member	Service Director – Finance, Infrastructure & Improvement	June 2019	**Implemented** The Head of Internal Audit's assessment in 2019/20
19-20 6	Co-ordination of assurance	Identify where assurance can be taken from work undertaken by other assurance providers	Identify in the risk-based assurance plan where reliance is to be placed on other assurance providers	Group Manager - Assurance	From Term 3 Plan for 2019/20	**Not yet implemented** To be progressed in 2020/21

ANNEX 1: QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at July 2020
19-20 7	Review of Risk Management in the organisation	The assurance mapping process for risk management may be strengthened through the application of Institute of Internal Auditors' (IIA) guidance for the assessment of risk management	Build in the IIA guidance to the assurance mapping process for 2019/20	Group Manager - Assurance	Annual assurance mapping report for 2019/20	<mark>Not yet implemented</mark> To be progressed in 2020/21
19-20 8	Overall opinion	The overall opinion of the Head of Internal Audit does not separate out the three linked strands of governance, risk management and control. The opinion could set out the sources of assurance supporting the assessment	Implement separate opinions for each of these elements Specify the sources of assurance on which the opinion is based, including sources other than that directly delivered by Internal Audit	Group Manager – Assurance Group Manager - Assurance	July 2019 – annual opinion for 2018/19 July 2019 – annual opinion for 2018/19	**Implemented** From the 2018/19 Annual Opinion **Implemented** From the 2018/19 Annual Opinion

ANNEX 1: QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at July 2020
19-20 9	Follow-up of agreed actions	Not explicit how failure to implement agreed actions impacts on the annual opinion and risk-based planning of future audit work	Feature the outcome of follow-up testing in the annual report and in risk-based planning	Group Manager - Assurance	July 2018/19 for annual report for 2018/19 Term 3 Plan for 2019/20	**Implemented** Referred to in the annual opinion for 2019/20

New actions for 2020/21 – arising from the Head of Internal Audit's annual self-assessment

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	(Progress – to be updated for 2020/21)
20-21 1	Bringing insight from Internal Audit's work	Continuing to embed a data analytic approach	Refresh of the Team's 'Data-enabled audit strategy'	Team Manager – Internal Audit	September 2020	
20-21 2	ICT specialist audit	Availability of in-house resource	Keep under active review the need to bring in specialist ICT audit capability, as and when required to meet needs identified in termly plans.	Group Manager - Assurance	Throughout 2020/21	
20-21 3	Contribution to transformation	Reduced allocation of resources to Council change programmes	Following the revision of the Council's transformation model in 2020/21, a greater portion of resources to be	Team Manager Internal Audit	From Term 3, 2020/21	

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	(Progress – to be updated for 2020/21)
			allocated to internal audit input to the Council's major transformation programmes.			
20/21 4	Timely assurance	Scope to deliver more audit assignments to planned timescales	Continued focus on identifying barriers to timely delivery and implementing corrective actions	Team Manager Internal Audit	Improved performance outcomes in 2020/21	