

25 July 2018**Agenda Item: 7****REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE &
IMPROVEMENT AND SECTION 151 OFFICER****INTERNAL AUDIT PLAN - TERM 2****Purpose of the Report**

1. To consult with Members on the Internal Audit Plan for Term 2 of the 2018/19 financial year

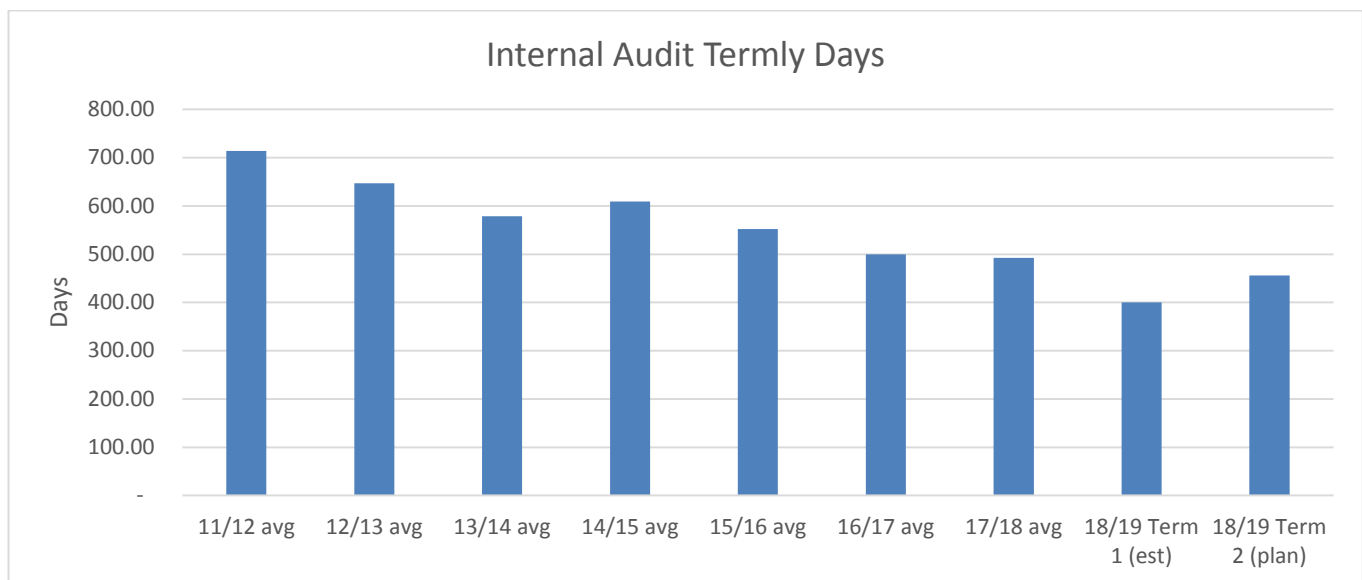
Information

2. An Annual Internal Audit Plan for 2018/19 was agreed by the Governance & Ethics Committee at its meeting in March 2018, but it was also agreed to consider alternatives to the annual approach. At the previous meeting in June 2018, Committee agreed to implement a rolling, 4-monthly plan, to be known as a Termly Plan.
3. There will be three Termly Plans in each financial year, covering the following periods:
 - Term 1: April to July
 - Term 2: August to November
 - Term 3: December to March
4. Since April 2018, and pending approval of the revised approach, the Internal Audit service has been working on the audits in the Annual Plan agreed in March 2018. Term 1 of 2018/19 will need to be viewed as a period of transition, with the revised approach commencing formally from August 2018 for Term 2. The outcomes from the work carried out in Term 1 (April to July 2018) will be included in the next scheduled Internal Audit update in November 2018.
5. As the revised approach becomes embedded, Members should see a settled approach to the update reports brought through to Committee. These will be presented three times a year (July, November and March), in accordance with the schedule agreed at the previous meeting. The format of future reports will be split between the following elements:
 - The outcomes from the work carried out in the preceding Term
 - The coverage planned for the forthcoming Term.
6. 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 arrangement.

7. 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. Members are also aware of the pilot approach to assurance mapping in 2018/19, and an update on progress with this is included on today's agenda. This will be an important source of information for future Internal Audit plans. As this pilot progresses, any significant implications for Internal Audit's planned coverage in future Terms will be identified.
8. 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 2018/19 will be expressed in the scheduled update report in July 2019 and will take account of assurance delivered from all of Internal Audit's work over the three Terms in 2018/19, along with assurances available from other sources.
9. The Annual 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 value of cash and bank transactions
 - 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.
10. The **Appendix 1** sets out details of the proposed coverage by Internal Audit for Term 2, and it is summarised in the following table.

Department	Days	Number of Audits			
		High Priority	Med Priority	Other	Total
Council-wide	175	14	-	1	15
Children & Families	36	1	1	2	4
Adult Social Care & Health	71	5	-	2	7
Place	50	2	-	3	5
Chief Executive's	61	5	2	-	7
Total County Council (excl. schools)	393	27	3	8	38
Schools	63	-	-	18	18
Total County Council	456	27	3	26	56
External Clients (Notts Fire & Rescue Service)	50				
Grand Total	506				

11. As can be seen from the table, a total of 506 days are planned for Term 2 of which 456 (90%) will be spent on the Authority's systems and procedures. The remaining 50 days will be spent on external contracts, providing an internal audit service to Nottinghamshire Fire and Rescue Service. The costs incurred in delivering external contracts are fully recovered.
12. With regard to schools, Nottinghamshire's Scheme for Financing Schools requires all local authority maintained schools to have an internal audit once every five years. The Council's Internal Audit Service offers to deliver these audits on a buy-back basis; at the time of compiling this report, a total of 36 schools had bought back the service. This includes a small number for which an alternative audit approach will be trialled in 2018/19, designed to focus on the most significant areas of risk at each school and thereby reduce the time inputs needed.
13. The chart below shows the trend in the number of actual days delivered in recent years. The figures for past years are expressed as the average coverage per termly period in those years, in order to provide a meaningful comparison with the plan for Term 2 in 2018/19. This shows that:
- the number of planned days for Term 2 in 2018/19 is similar to the average number of days delivered per term in the previous two financial years. Internal Audit's staffing resources were reduced from April 2016, which explains the higher number of days delivered prior to that time.
 - The estimated number of days to be delivered in Term 1 of 2018/19 (the current term) is low due to issues with sickness absence and vacancies. A recruitment process has commenced and the Term 2 Plan is based on fresh resources being secured part-way through the term.



14. The latest benchmarking data for internal audit was presented in the report in March 2018. In addition to the Chartered Institute of Public Finance and Accountancy (CIPFA) benchmarking club for internal audit services, the Head of Internal Audit intends to work with members of a regional network, the Midland Counties' Heads of Internal Audit Group (MCHIAG), to progress benchmarking in 2018/19. This will hopefully address a concern that the number of participants in the CIPFA club has declined and there are now few comparable authorities taking part. Further benchmarking updates will be reported as they become available.

Other Options Considered

15. The Council is required under statute to maintain an adequate and effective internal audit service. The production of a risk-based plan is an important element of PSIAS. The standards and statutes are not prescriptive in terms of the content of the plan. The proposal in this report represents the Head of Internal Audit's assessment of the required coverage for the Council in Term 2 of 2018/19.

Reason/s for Recommendation/s

16. To propose the planned coverage of Internal Audit's work in Term 2 of 2018/19 and to provide Members with the opportunity to make suggestions for its content.

Statutory and Policy Implications

17. 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 in the proposed Audit Plan may potentially have a positive impact on many of the above considerations.

RECOMMENDATION/S

1) That Members consider whether the planned coverage of Internal Audit's work in Term 2 will deliver assurance to the Committee in priority areas.

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For any enquiries about this report please contact:

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Constitutional Comments (SLB 12/07/18)

18. Governance and Ethics Committee is the appropriate body to consider the content of this report.

Financial Comments (SES 13/07/18)

19. There are no specific financial implications arising directly from this 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