Nottinghamshire County Council

REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

INTERNAL AUDIT 2018-19 TERM 2 REPORT & 2019-20 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 2018/19, and to highlight any key issues arising.

2. To consult with Members on the Internal Audit Plan for Term 1 of 2019/20.

Information

3. Internal Audit is now operating on the basis of 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. As previously agreed with the Committee, Internal Audit reports its updates three times per year. The reports comprise the outcomes from the work carried out in the preceding Term, followed by proposals for the coverage in the forthcoming Term.

    Progress against the Term 2 Audit Plan 2018/19
5. The following charts 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.

Planned days for Term 2: 456 — 415

Planned jobs for Term 2: 56 — 40

Term 2 Productivity — 0.79
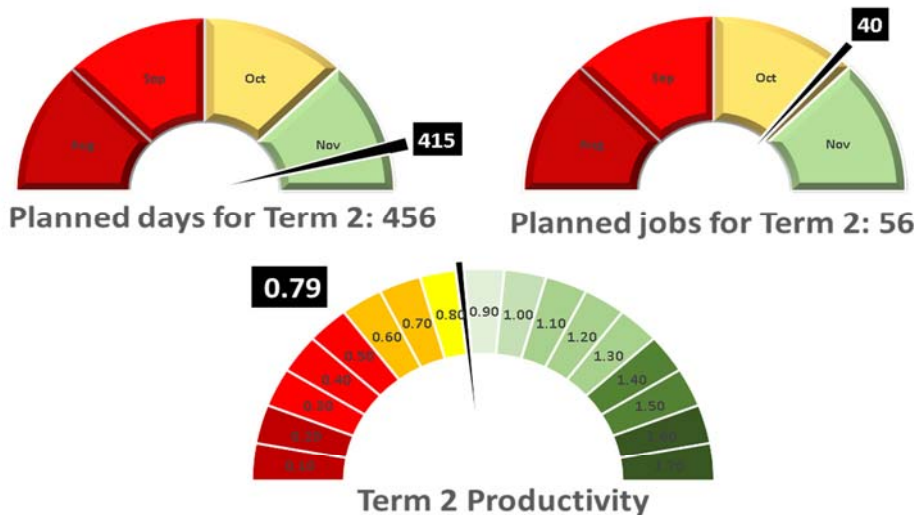
6. Recurrent resourcing difficulties have been hampering the service's ability to deliver its Audit Plans. These issues have been the subject of more detailed discussion in the routine meetings between the Chairman of the Governance & Ethics Committee and the Group Manager – Assurance, who heads up the Internal Audit service. The Committee's Chairman requested that the actions being taken to tackle the issues are brought to the Committee's attention. The issues fall into three categories: recruitment; sickness absence; and delivering work to planned timescales.

   a) Recruitment: A recent period of staff turnover has coincided with a period of difficulty in recruiting replacement staff. This impact has been felt particularly at the Senior Auditor level. Following two unsuccessful recruitment exercises at this level, a full-time Senior Auditor has now been recruited and joined the Council in mid-February 2019. The gap in resources has been plugged using the County Council's arrangements for recruiting agency workers. This has met with partial success, and reliance on this source is not a sustainable option.

   b) Collaboration: Members are aware that the Internal Audit service has entered into a collaboration arrangement with Audit Lincolnshire, and this partnership is now gathering momentum. A member of the Lincolnshire County Council Internal Audit team is currently delivering one audit in our own Term 3 Plan, and discussion with partners has identified scope for further joint working over coming planning periods. This may take the shape of forming small, joint-partner teams to devise and deliver audit approaches in areas of mutual significance. There is also likely to be the opportunity to join with our Assurance Lincolnshire partners to commission specialist audit input from the external market to supplement our in-house resource.

   c) Restructure: For the longer term, the Group Manager – Assurance is currently formulating proposals for a revised structure of the in-house Internal Audit team. Once finalised, the Group Manager's proposals will be presented for consultation with staff and the trade unions, before being brought to this Committee for approval in late spring or early summer. The Group Manager intends to address the recruitment difficulties at the Senior Auditor level in part by building in provision for an apprenticeship scheme in the team. Once up

and running, it is hoped that this will deliver an on-going supply of newly qualified internal auditors into the service, to complement future recruitment from the external market.

d) Sickness absence: Internal Audit staff have unfortunately suffered some long-term instances of sickness in recent years. The issues have not been work-related and all cases have either been resolved satisfactorily or are progressing well at the present time. The challenge for the service has been to design in improved resilience to the delivery arrangements.

e) Meeting planned timescales: The Internal Audit service's current Quality Assurance and Improvement Plan identifies a need to improve its delivery of planned audits to the scheduled timescales. The Group Manager – Assurance continues to work with the team to identify and implement approaches to improve performance in this regard. The team recognises that, whilst resourcing difficulties may mean that fewer audits than planned can be delivered, those that are delivered need to progress as promptly as possible. It should be stressed that the quality of the service delivered is not in doubt. This was evidenced by the extremely positive outcome of the service's External; Quality Assessment in March 2018. On-going assurance is evident from the service's performance indicators demonstrating strong engagement between the team and service managers across the Council.

Audit assurance

7. In Term 2, a range of work was 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.

   With regard to school audits completed in Term 2, the following summarises the spread of assurance opinions for the 15 completed reports:

   Substantial Assurance (3 items)

   Reasonable Assurance (10 items)

   Limited Assurance (2 items)

8. The opinion-based assurance work is a key contributor to the Group Manager – Assurance's year-end opinion on the adequacy of the Council's system of internal control. The ***chart below*** shows the distribution of opinions issued in 2018/19 so far. Based on this, and adding it to the rolling outcomes of Internal Audit's assurance work over the past 12 months, the Group Manager - Assurance is able to report that **a satisfactory level of internal control continues to be in operation in the Council.**
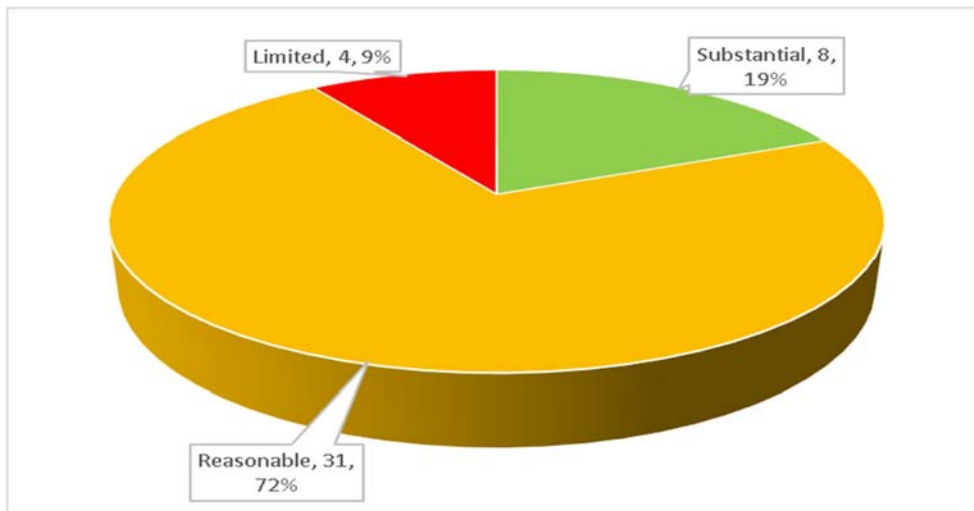
9. The limited assurance opinions issued to date include three relating to schools visited. The audits in schools cover a broad range of areas including: governance; expenditure; income; assets; and information. Weaknesses were noted in a number of these areas at the schools in question.

10. The other limited assurance opinion concerns a draft report on the arrangements in the County Council for complying with the payment card industry standards. A fuller summary of the weaknesses identified will be presented in the next update once the report has been finalised.

Advisory input to developments

11. Internal Audit continues to provide advisory input to developments in the Council. In Term 2, the service engaged with the Cloud programme and this input will continue as the programme progresses. Internal Audit has also responded to a number of smaller-scale, ad hoc requests for advice. Particular areas of focus in Term 2 were in the ASCH Department on the Resource Allocation System for care packages and on controls over unallocated cases in the Mosaic system.

12. 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

13. Internal Audit was active in the following aspects of its pro-active counter-fraud programme in Term 2, the outcomes of which were reported to Committee in December 2018 as part of the counter-fraud update report:
   - National Fraud Initiative – the outcomes of the 2016-18 exercise
   - National Fraud Initiative – Recheck facility –facilitation of updated matching of pension records to mortality data.
   - Serious and organised crime – follow-up of agreed management actions and continuing to progress the 'data-washing' exercise with Nottinghamshire police.

- Fraud Response Plan and Annual Governance Statement Action Plan – review of progress against all agreed actions, including a refresh of the Counter Fraud and Counter Corruption Policy and Strategy.
- Criminal Finances Act 2017 – Preventing Tax Evasion – development and seeking approval of a Policy Statement.
- Counter-fraud e-learning – re-launch of an e-learning package for all staff in November 2018 to coincide with International Fraud Awareness Week.
- Insurance Counter Fraud - following work with the Council's Risk & Insurance team and the Council's insurers, new avenues have been identified to share intelligence and counter fraud techniques. Further work is envisaged to promote counter-fraud jointly between Internal Audit and Risk & Insurance.

14. In addition, Internal Audit was engaged to varying degrees in the following enquiries to investigate potential fraud cases. The cases referred to remain in progress, therefore fuller details will be reported to Committee once the outcomes are finalised:

Area of service and nature of irregularity	Extent of Internal Audit's input
Direct Payment Support Service provider - shortfall on service user account balances maintained by an external provider	Ongoing support and advice to the departmental staff working with the provider to confirm balances and to monitor the ongoing recovery of the shortfall.
Direct Payments and deprivation of assets cases - irregularities identified by the Adult Care Financial Services (ACFS) Team through its monitoring and review procedure.	Regular liaison with ACFS to discuss Direct Payment cases and to further develop suspected fraud response maps. Action Fraud and Police action is ongoing in the more significant cases relating to: the suspected misuse of a direct payment; and suspected theft by carers from service user bank accounts.
Overpayment to a care home in respect of a service user couple	Advice on recovery action to correct a commissioning error which had not been brought to the Council's attention by the provider. ACFS has issued recovery invoices to the provider and Internal Audit has issued a draft report making various recommendations.
Employee claims for additional hours in a Children's & Families establishment	An analytical contribution to the investigation of claims for additional hours and subsequent submission of evidence to the formal stage of the investigation. Co-ordination of advice from Nottinghamshire Police and subsequent revision of the Council's Fraud Response Plan. An investigation panel has convened, and the monies are to be recovered.

15. 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 is updated in light of both the pro-active and reactive fraud work.

Key Performance Indicators

16. The Section's performance in Term 2 against its key indicators is detailed in the following table:

Performance Measure/Criteria	Target	Outcome in Term 2
1. Risk-aware Council		
Completion of Termly Plan - Days - Jobs	90% 90%	✓91% ✗75%
Regular progress reports to: - Departmental Leadership Teams - Corporate Leadership Team - Governance & Ethics Committee	1 per term 1 per term 1 per term	✓Completed ✓Completed ✓Completed
Publication of periodic fraud/control awareness updates	2 per annum	✓E-learning package & Annual Fraud Report
2. Influential Audit Section		
Recommendations agreed	95%	✓100%
Engagement with the Transformation agenda	Active in 5 key projects during the year	✗Active in 2 so far in 2018/19
3. Improved internal control & VFM		
Percentage of Priority 1 & Priority 2 recommendations implemented (as at January 2019 update for 2017/18 actions)	75%	✗58% Priority 1 ✓83% Priority 2
4. Quality measures		
Compliance with the Public Sector Internal Audit Standards	Compliance achieved	✓Action is in progress to address the few issues identified by the External Quality Assessment of Internal Audit
Positive customer feedback through Quality Control Questionnaire (QCQ) scores	Feedback good or excellent (where a score of 1 is excellent and a score of 2 is good)	✓1.89

17. The table shows a good level of performance by the service in Term 1, although the quantum of work carried out was less than anticipated due to the issues set out above at paragraph 6.

Proposed Internal Audit Plan for Term 1 2019-20

18. 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.

19. 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. Account will also be taken in future Terms of any significant implications arising from the pilot work on assurance mapping, which continues to progress.

20. 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.

21. 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 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.

22. *Appendix 2* sets out details of the proposed coverage by Internal Audit for Term 3, and it is summarised in the following table.

Department	Days	Number of Audits			
		High Priority	Med Priority	Other	Total
Council-wide	114	5	1	-	6
Children & Families	53	1	2	-	3
Adult Social Care & Health	75	3	2	-	5
Place	107	2	2	1	5
Chief Executive's	62	-	3	-	3
Total	411	11	10	1	22
External Clients (Notts Fire & Rescue Service)	35				
Grand Total	446				

23. As can be seen from the table, a total of 411 days are planned for Term 1 of which 446 (92%) will be spent on the Authority's systems and procedures. The remaining 35 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.

24. 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.

25. 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 3 in 2018/19. Internal Audit's staffing resources were reduced from April 2016, which explains the higher number of days delivered prior to that time.

Internal Audit Termly Days
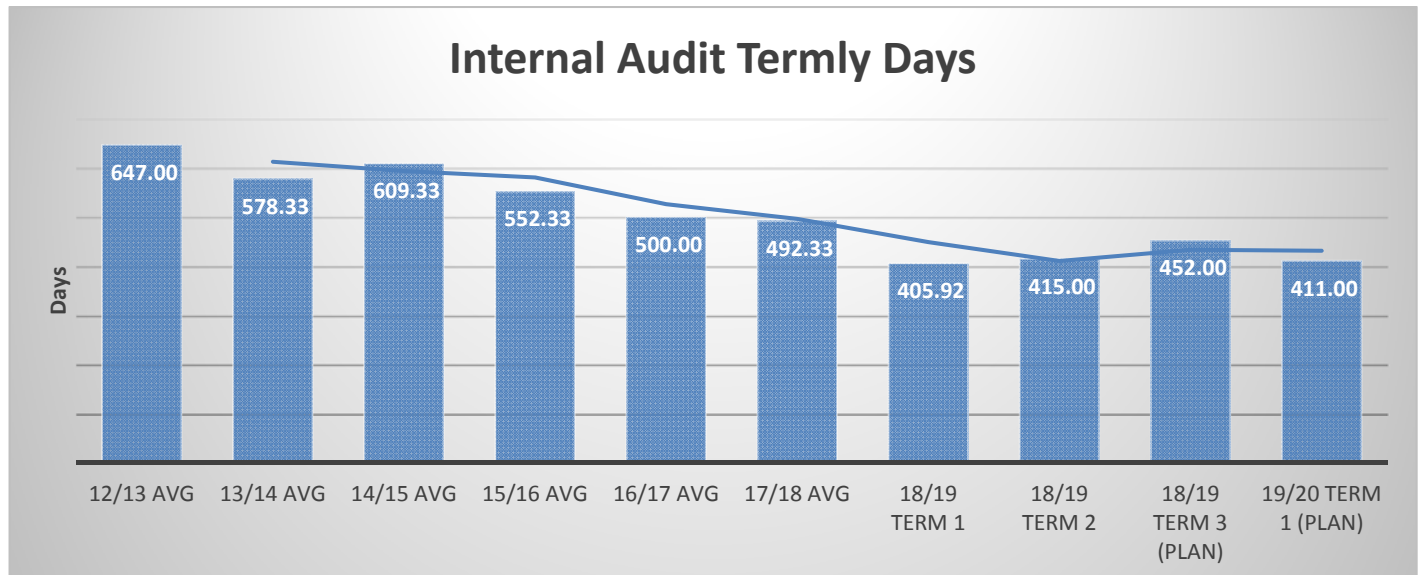
26. The number of days delivered in Terms 1 and 2 of 2018/19 was impacted by the issues set out above at paragraph 6. It is anticipated that the short and longer-term actions identified in paragraph 6 will enable an increased level of input for Term 1 in 2019/20. It should also be noted that, from April 2019, responsibility for delivering audits in schools will transfer to the Children & Families Finance Team. One member of the Internal Audit team will transfer into the Finance Team, to integrate with a larger cohort of Accounting Technician staff who will deliver a combined range of financial assurance services to schools. Consequently, the level of direct Internal Audit resource is reduced. However, the assurance delivered by the new team will continue to feature in these updates, in terms of the outcomes of the audit visits.

Benchmarking data
27. The Section participates in the Chartered Institute of Public Finance and Accountancy (CIPFA) benchmarking club for internal audit services. Extracts from the latest benchmarking report received in August 2018 were included in the previous update, along with comments expressing that the outcomes from this exercise are of limited value, due to the declining total number of participants and the fact that very few County Councils are members. It was also noted in the previous update report that the Group Manager - Assurance initiated a separate benchmarking exercise with his counterparts in the Midland Counties' Heads of Internal Audit Group (MCHIAG). This exercise was carried out in the summer of 2018, and the outcomes are presented below. These show the following for NCC and nine other county internal audit teams in the midlands region:
   a) The x-axis identifies the average number of days in annual plans in the period 2016/17 to 2018/19.
   b) The y-axis identifies the average number of jobs in the annual plans over the same period.
   c) The trend line provides for a simple productivity comparison of inputs (plan days) against outputs (plan jobs).

The data used for NCC Internal Audit included the initial version of the annual plan for 2018/19, which was subsequently replaced by the Termly Plans. These plan figures do not take account of the resourcing issues which have persisted for much of 2018/19. Nonetheless, the exercise provides an indication of the comparative context of the NCC service, being positioned around the average mark in terms of inputs and outputs.

average days v average jobs

* based only on days and jobs for assurance work

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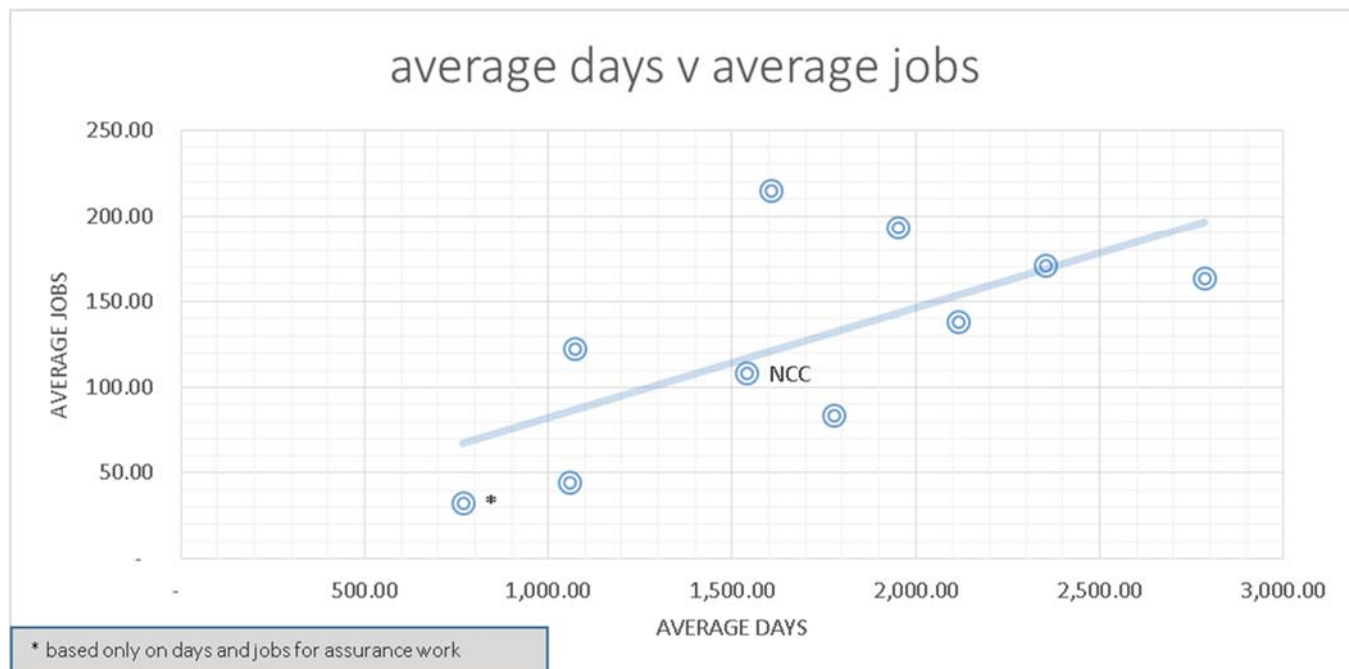
Other Options Considered

28. The Audit Section is working to the Public Sector Internal Audit Standards during 2018/19. 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

29. To set out the Report of the Group Manager – Assurance for Term 2 of 2018/19, and to propose the planned coverage of Internal Audit's work in Term 1 of 2019/20, providing Members with the opportunity to make suggestions for its content.

Statutory and Policy Implications

30. 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 2019/20 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 (GR 04/03/19)

31. Pursuant to the County Council's constitution the recommendations contained within this report are within the scheme of delegation to this committee.

Financial Comments (RWK 28/02/2019)

32. There are no specific financial implications arising directly 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