

## **REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT**

### **INTERNAL AUDIT TERM 2 (2024-25) PROGRESS AND TERM 1 (2025-26) PLAN**

#### **Purpose of the Report**

1. To inform Members of the work carried out by Internal Audit in Term 2 of 2024-25.
2. To consult with Members on the Internal Audit Plan for Term 1 of 2025-26.

#### **Information**

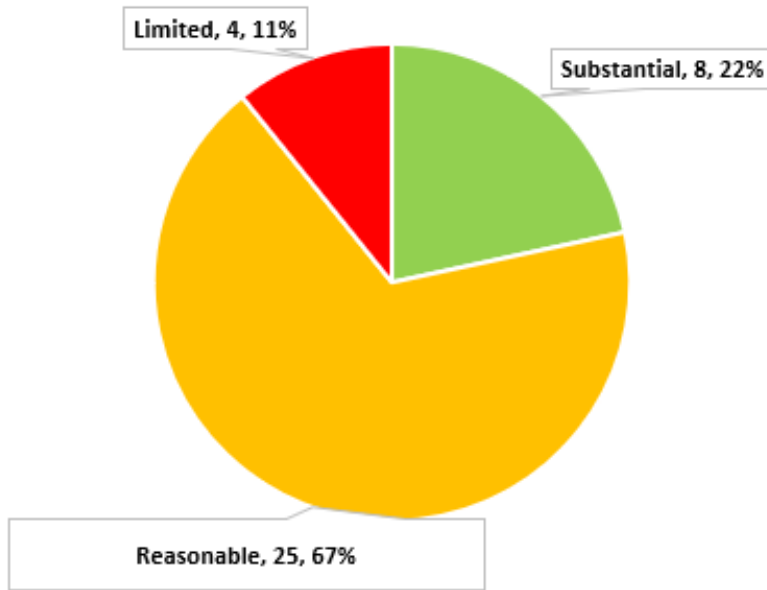
##### **Internal Audit's work in Term 2 – 2024-25 – August to November 2024**

3. Internal Audit continued to deliver its service through a flexible and agile approach. 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, initiatives and changes to the internal control framework
  - Counter-fraud – primarily focussed on pro-active work to raise awareness of emerging fraud issues.

##### ***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 arrangements for governance, risk management and control. This was last reported to the Committee in June 2024. **Chart 1** shows the cumulative distribution of opinions issued to the end of Term 2. This chart includes schools audits undertaken by the Children & Families Finance Team.

**Chart 1- Opinions to end of Term 2 2024-25**



5. The above opinions are just one of the sources of assurance that internal audit provides. The other main sources of assurance that we provide are:
- Our action tracking provides assurance that the findings of our audits, which as shown above led mostly to Reasonable Assurance opinions, are being addressed. A report on this was last presented to the November 2024 committee.
  - Our assurance mapping, which includes sources of internal and external assurance, is carried out annually and was last reported to the June 2024 committee.
  - We have developed a series of continuous assurance indicators, monitored on a monthly basis, and reported to the Council’s statutory officers. The year-end position was summarised in the Internal Audit Annual Report to the June 2024 committee, and its headline was that 28 of the 31 areas (90%) provided positive assurance.
6. In terms of the work completed on the County Council’s services and systems, **Chart 2** analyses the opinions issued in Term 2 by service area and level of assurance.

**Chart 2 - Opinions for Term 2 2024-25**

	OPINION (ASSURANCE LEVEL)		
	SUBSTANTIAL	REASONABLE	LIMITED
Council-Wide	Continuous Assurance Off-Payroll Working (IR35)	Action Tracking Accounts Receivable (Invoicing and Debtors) Governance Update	
Chief Exec’s			
Adults		Short Breaks Service - Shift Payments and Purchase Cards	
Childrens			
Place			
School Audits	0 Visits	8 Visits	2 Visits*

\* The main reason for Limited Assurance on school audits in the above table is the breakdown of internal controls in relation to separation of duties and authorisation, over overtime, payroll, payments and purchase orders, etc. However small the number of office staff at a school, there is always a solution to this, even if it means checks by the headteacher and/or a Finance Governor. This problem arises at schools regardless of the number of office staff, and can be due to high turnover, lack of knowledge, or lack of organisation. The School Finance Team provides training, on request, to schools' office staff undertaking such functions.

7. The significant pieces of assurance work during Term 2 were the following:

- Action Tracking – our 6-monthly report on the implementation of audit recommendations, which went to the November 2024 committee.
- Governance Update which went to the November 2024 committee.
- Continuous Assurance – a monthly report to the Council's statutory officers on the application of internal control in key Council processes.
- The above audits on Off-Payroll Working (IR35), Accounts Receivable (Invoicing and Debtors), and Short Breaks Service - Shift Payments and Purchase Cards.

#### ***Advisory input***

8. Internal Audit continued to provide advisory input to developments across the Council. In term 2 advice included to the Children's department for recording travel and purchase card transactions by Youth, Parent and Family Workers; and to the Registration Service on handling a wedding gift.
9. Internal Audit's advisory input ensures that timely advice is delivered and can influence subsequent actions. It helps to maintain our focus on control issues and provides intelligence for subsequent planned assurance activity.

#### ***Counter-Fraud***

10. Internal Audit pursued its pro-active programme, disseminating fraud awareness materials to alert departments and staff of fraud risks and scams that emerged. The following summarises the key areas of activity:
- Publicity for the International Fraud Week
  - National Fraud Initiative (NFI) – coordination and review of matches with departments.
  - National and Local Fraud Alerts – screening and distributing to relevant sections, of alerts publicised by national fraud agencies.
  - Three fraud cases which we are tracking.
11. In addition, Internal Audit advises in fraud investigation activities involving live cases. Further information is provided in the Annual Fraud Report presented to each July committee, and the progress report to each January committee (postponed to February in 2025).

### ***Certification***

12. Internal Audit provides a certification function for a variety of grants received and distributed by the Council, and financial accounts in which the Council has an interest. During Term 2 the following were audited:
- Bus Subsidy (Revenue) Grant (as required by the Department for Transport)
  - Beeston Youth & Community Centre

### ***Internal Audit Performance***

13. **Appendix 1** provides an update on the Section's performance in Term 2 against its key indicators. It includes 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 plan. Each segment in the chart represents one month -  $\frac{1}{4}$  of the Termly Plan.
  - Outputs – the number of jobs completed against the plan. Each segment in the chart represents one month -  $\frac{1}{4}$  of the Termly Plan.
  - Productivity indicator – the target score is 1.
14. A good level of performance has been achieved and members' attention is drawn particularly to the following:
- Staffing resources – a new Senior Auditor was appointed in March 2024 and has fully contributed to the term 2 work, as reflected in the performance charts in appendix 1. A vacancy remains for an Internal Audit Apprentice. During Term 2 we had to re-procure both our internal audit software provider, and our specialist ICT audit provider. Now that this has been completed we can turn our attention to the recruitment process for an Internal Audit Apprentice. The training provider that we previously used for new apprentices discontinued the Internal Audit Apprentice course from November 2024, and so we are looking at the alternative options, which will also involve a re-procurement exercise.
  - Assurance and Advisory activities – the completion of internal audit activity reflects the impact of staffing changes and is reflected in the agile approach adopted. The team continues to flex plans and provide advisory activities to support the immediate risks facing the Council. This can have an impact on delivery of the planned assurance reviews, but these are kept under review for ongoing priority in subsequent plans.
  - Action tracking implementation rates, for actions arising from audits, exceeded the target of 75% in our latest report which went to the November 2024 committee. There was an implementation rate of 90% for 2022/23 actions and 81% for 2023/24 actions. The next update on this is scheduled for the July 2025 committee.

## Proposed Internal Audit Plan for Term 1 - 2025-26

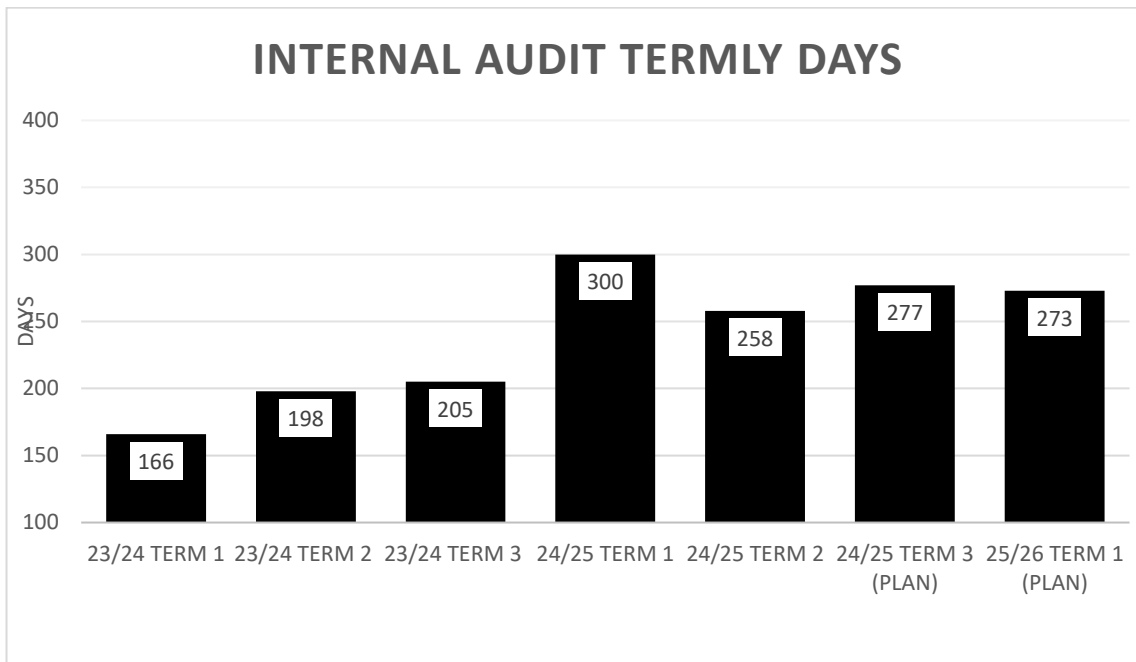
15. Internal Audit termly plans continue to be determined on a risk basis, as required by the Public Sector Internal Audit Standards, and using the methodology previously reported to Members.
16. As mentioned in the previous termly report to members of the Governance & Ethics Committee, the current Public Sector Internal Audit Standards are being amended through the adoption of Global Internal Audit Standards. The Public Sector Internal Audit Standards will be replaced by 'Global Internal Audit Standards in the UK Public Sector' Application Note. The changes will be implemented from 1<sup>st</sup> April 2025. The Internal Audit team have undertaken a gap analysis and are implementing an action plan to introduce the changes required to ensure continued compliance with the appropriate Standards used in the development of the risk-based methodology for planning purposes. The Internal Audit team has developed the Internal Audit Charter, which is on the agenda of the same committee meeting as this report, in order to scope the future direction of the Internal Audit Service in compliance with the new Standards.
17. In addition to undertaking an assessment of audit risks, the termly plan also needs to consider the assurance it provides that the Council's Core Processes remain robust. The termly plan includes coverage of core processes on a cyclical basis to ensure that this assurance can be provided to support the Chief Internal Auditor's Annual Report. A reminder of the Core Processes was provided in the November 2023 progress report.
18. The Term 1 plan represents 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 system of internal control. The Section's aim is to complete enough work to express an overall, annual opinion on the adequacy and effectiveness of the Authority's internal control arrangements.
19. Termly planning continues to be developed in an agile way allowing the precise scope and objectives for each audit assignment to be agreed at the time the audit is to commence. Detailed discussions prior to an audit commencing should identify other sources of assurance already available for the area in question, thereby clarifying the risks on which Internal Audit's focus should most impactfully be applied. At this planning stage, therefore, proposed topics for audit are expressed in terms of the broad rationale for their inclusion.
20. Similarly, the termly plan contains a forward plan of areas to be considered for inclusion in subsequent terms, which again will be subject to more precise scoping at the time the audit is to commence.
21. **Appendix 2** sets out details of the draft coverage by Internal Audit for Term 1, and it is summarised in the following table.

22.

<b>Assurance from Audit Coverage</b>	<b>Days</b>	<b>Outputs</b>
Second Line Assurance work	45	5
Opinion Assurance	112	5
Advice / Consultancy Assurance, and Client Management	66	1
Counter Fraud Assurance	20	4

Certification Assurance	30	3
<b>Total</b>	<b>273</b>	<b>18</b>
External Client (Notts Fire & Rescue Service)	27	
<b>Grand Total</b>	<b>300</b>	

23. The chart below shows the trend in the number of actual days available in recent terms, excluding the external client. The last two bars reflect planned days, as these terms had not ended at the time of this report. The increase from term 1 of 2024/25 reflects the recruitment of the new Senior Auditor in March 2024.



24. The next Internal Audit update to Committee will cover details of the outcome of Internal Audit's work in Term 3 of 2024-25 (December 2024 to March 2025).

### Other Options Considered

25. The Internal Audit Team is working to the Public Sector Internal Audit Standards. 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 Chief Internal Auditor to propose the planned coverage of Internal Audit's work in Term 1 of 2025-26, 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**

28. 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 5 of the Accounts and Audit Regulations 2015 requires Local Authorities to undertake an adequate and effective internal audit to evaluate the effectiveness of its risk management, control and governance processes. 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**

- 1) That the Committee notes the outcome of the Internal Audit work carried out in Term 2 of 2024-25, and the planned coverage of Internal Audit's work in Term 1 of 2025-26 to be progressed to help deliver assurance to the Committee in priority areas.

**Nigel Stevenson**

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

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## **Constitutional Comments (GR 10/02/2025)**

29. Pursuant to the Nottinghamshire County Council constitution this committee has the delegated authority to receive this report.

## **Financial Comments (SES 04/02/2025)**

30. 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