

31 March 2021

Agenda Item: 7

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

### **INTERNAL AUDIT 2020-21 TERM 2 REPORT & 2021-22 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 2020/21, to allow Members to consider whether they wish to receive any further follow-up reports.
2. To consult with Members on the Internal Audit Plan for Term 1 of 2021/22.

#### **Information**

##### **Internal Audit's work in Term 2 2020/21 – August 2020 to November 2020**

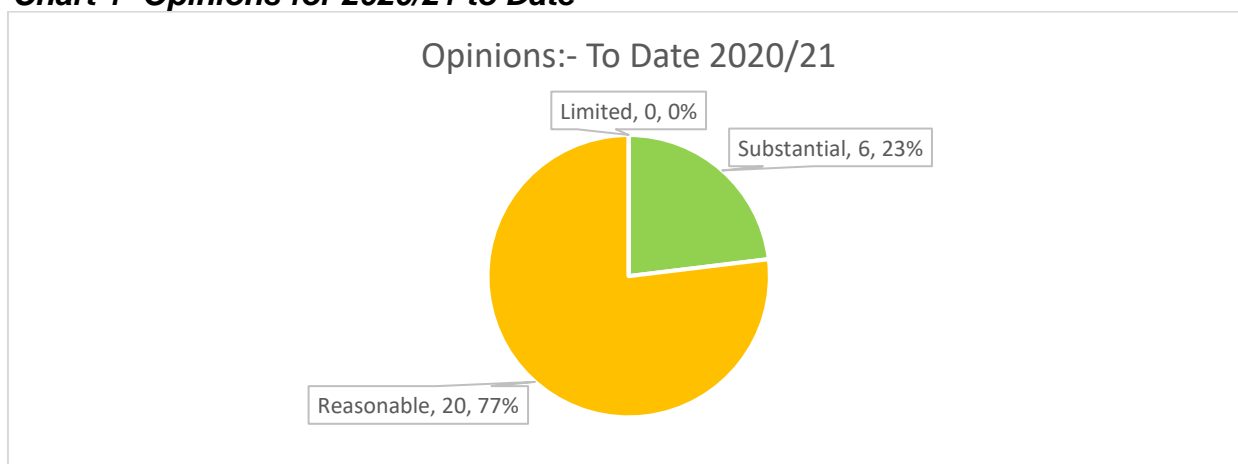
3. Internal Audit continued to implement its plan in an agile way to provide timely assurance to support the Council's ongoing response to the pandemic. This approach was especially important for assurance to front-line services, with efforts focussed on helping managers maintain an appropriate balance between speed of response and proportionate control. Such inputs continue to be complemented with the more established approach for assurance that the Council's core processes have remained resilient through the pandemic.

##### ***Audit Assurance work***

4. The opinion-based assurance work continues to be a key contributor to the Head of Internal Audit's year-end opinion on the adequacy of the Council's system of internal control. Internal Audit have undertaken significant pieces of opinion-based work during Term 2, notably:
  - Assurance Mapping – annual report completed with reasonable assurance across the five areas of governance in the map for 2019/20.
  - Action tracking – a mixed picture was presented, due to the impact of Covid19 on teams' capacity to make progress, in some areas, to schedules agreed pre-pandemic.
  - Financial resilience – 'reasonable assurance' opinion issued
  - Continuous assurance – substantial progress made with establishing continuous feeds of assurance over core systems.

5. In terms of the agile approach for frontline services, Internal Audit's input provides assurance over new and changing procedures relating to the ongoing Council response to the pandemic. Wherever appropriate, assurance opinions are included, to provide an assessment over the suitability of the controls being designed and implemented. If assessed to be a priority, the intention then is that subsequent Internal Audit Plans may see further coverage of these areas, to review the application of the proposed controls in practice.
6. **Chart 1** shows the positive outcome of opinions issued during 2020/21 to date. The chart usually includes schools' audits undertaken by the Children's & Families' Finance Team, but these were suspended due to the pandemic. Recommencement is planned during Term 3 and progress will be subsequently reported.

**Chart 1- Opinions for 2020/21 to Date**



7. In terms of the work completed on the County Council's services and systems, **Chart 2** analyses the assurance opinions issued in Term 2 2020/21 by service area and level of assurance.

**Chart 2- Opinions for Term 2**

	LIMITED ASSURANCE	REASONABLE ASSURANCE	SUBSTANTIAL ASSURANCE
COUNCIL-WIDE		Assurance Mapping Action Tracking	
PLACE			Post Payment - Food and Essentials Fund
CHIEF EXEC'S		Financial Resilience	
COUNTER FRAUD		Fighting Fraud and Corruption Checklist	
ADVISORY		Children's Relief Suppliers Adults Emergency Cash Place Community Hub Place Transport Operators Adults Provider Claims Place Food & Essentials Fund Adults Disabled Adaptions Children's Supported Living Adults Direct Payments	

## **Counter-Fraud**

8. Internal Audit have continued to be pro-active with the counter fraud agenda, as reported in the counter fraud progress report at the Committee's meeting on the 6 January 2021. The key areas of activity included:
- Fighting Fraud and Corruption Locally – completion of a corporate assessment against the good practice guidance.
  - International Fraud Awareness Week 15-21 November 2020 – dissemination of fraud awareness material via Team Talk and the internet.
  - National and Local Fraud Alerts – screening and distributing to relevant sections alerts publicised by national fraud agencies.
  - National Fraud Initiative – compilation of data matches and submission of data for the 2020-21 national exercise.
9. Where appropriate, Internal Audit continues to be involved in fraud investigation activities involving live cases outlined in the Annual Fraud Report.

## **Internal Audit Performance**

10. **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 Term 2 plan. Each segment in the chart represents  $\frac{1}{4}$  of the Termly Plan.
  - Outputs – the number of jobs completed against the plan. Each segment in the chart represents  $\frac{1}{4}$  of the Termly Plan.
  - Productivity indicator – the target score is 1.
11. A very good level of performance is presented which reflects the agility the team has demonstrated during the term to refocus activities to provide the most appropriate assurance during the pandemic. Members' attention is drawn particularly to the following:
- a) Staffing resources – the Team benefitted from the temporary recruitment of a student through the Change 100 Programme created by the Leonard Cheshire charity. The Team's graduate trainee produced excellent work and has now secured a permanent position within the Council. A replacement graduate trainee has subsequently been appointed. The two dedicated internal auditor apprentices have now been inducted and are undertaking productive audit work alongside their professional studies.
  - b) Collaboration – despite stalling during the first wave of the pandemic, to enable all partners in the collaboration to focus their efforts on the emergency response needs of their respective councils, this has now been reinvigorated and outputs are on track for delivery in Term 3.
  - c) Quality Control Questionnaires (QCQ) – where a score of 4 is 'excellent' and 3 is 'good'. Appendix 1 has been updated accordingly, with the current average score being 3.975.

## **Review of Guidance for the Head of Internal Audit's Year-End Opinion 2020/21**











12. The pandemic presented a challenge of adjustment for all internal audit teams, potentially putting the delivery of planned internal audit work at risk. Should any disruption prove significant, the ability of the Head of Internal Audit to deliver the statutory, year-end opinion on the adequacy of the arrangements for governance, risk management and control might become impaired.
13. In recognition that the planned body of evidence might not be available from internal audit work in 2020/21, the Chartered Institute of Public Finance & Accountancy (CIPFA) issued guidance at the end of November 2020 for Heads of Internal Audit to assess the impact locally, and to determine whether a 'limitation of scope' should be applied to the year-end opinion. The guidance also incorporates advice on how internal audit teams might adapt its usual approach in the emergency response circumstances, in order to maximise its coverage. The importance of drawing on appropriate 2<sup>nd</sup> line assurance and other 3<sup>rd</sup> line assurance providers is also highlighted.
14. The County Council's Head of Internal Audit carried out a self-assessment against the CIPFA guidance towards the end of December 2020, using it to project the expected year-end position in terms of the sources of assurance that will be available to him in determining his opinion. He also self-assessed against the recommended approaches for internal audit teams in the pandemic.
15. The outcome of the assessment is that **a 'limitation of scope' opinion will not be required**, as the Head of Internal Audit expects to have sufficient evidence available to express his opinion on governance, risk management and control. Chart 3 sets out the rationale.


**Chart 3 – Expected sources of assurance for Head of Internal Audit's year-end opinion**

Governance	Risk Management	Control
Governance Action Plan	Assurance mapping	<b>Internal Audit assurance</b>
1 <sup>st</sup> Line assurance for Annual Governance Statement	Zurich Municipal Health Check	Assurance mapping
2 <sup>nd</sup> Line assurance for Annual Governance Statement	Attendance at RSEMB/RSEMGs	Continuous assurance
Assurance mapping	Risk management updates to Governance & Ethics Committee	External inspections
External assessments (BSI, Lexcel)		
Ombudsman Annual Review		
Whistleblower review		
RIPA annual report		
Review of urgency/emergency powers (CV19 response audit)		

16. With regard to the assurance expected from Internal Audit's work, highlighted above in Chart 3, the assessment shows that a good range of timely and relevant evidence will be available. This has been possible due to the self-assessment showing a good degree of compliance with

CIPFA's recommended approaches for internal audit during the pandemic period. Chart 4, below, summarises how well the Council's services matches against the guidance, highlighting the aspects in which further development is in progress to strengthen further.

CIPFA recommendation		Self-assessment
<b>Planning for adequate resource</b>		
Assess extent of changes in Internal Audit resource levels		No issues arose, the revised structure is currently bedding in.
Assess extent of demands for work not relevant to the year-end opinion		No significant demands came through. A member of the team was allocated to support corporate risk management, but this has proven to be more of a positive development.
Assess extent of disruption to Internal Audit access		Manageable disruption arose. Some planned audits of frontline services were deferred, but this was warranted by their replacement audits in the flexed plan. School audits only recommenced in the final third of the year.
Revise audit plans		A four-monthly planning approach has been in place for a number of years now, and this has proved its worth especially during the pandemic period.
Rely on other assurance providers, where appropriate, and an assurance mapping framework		Assurance mapping is well established and will feed in to the Annual Opinion, as will a number of other sources of 2 <sup>nd</sup> and 3 <sup>rd</sup> line assurance.
Engage with changes to governance, risk management and internal control		Good input provided on a range of changed and new procedures. The review of the Council's CV19 response is relevant here, along with the further development of continuous assurance.
Avoid significant change in audit resource levels		No changes were noted. The service has benefited from the input of resource through the Graduate Trainee Scheme and the Change 100 Programme.
<b>Making effective use of Internal Audit resources – streamline to increase capacity</b>		
Fill vacant posts		No vacancies to fill.
Consider secondments into Internal Audit		The service continued to benefit from its collaboration with Assurance Lincolnshire, with an ICT audit having been undertaken by a partner auditor.
Maintain communications with clients to secure co-operation		Appropriate contacts have been maintained with clients, as evidenced by departments' willingness to engage with the service for advice with changing procedures.
Devise approach to 'agile audit'		The development of an approach is progressing, centring on the timeliness and relevance of assurance delivered, and the effective engagement of clients during audit fieldwork.
Narrow audit focus to cover the most significant risks through to year-end		This was emphasised to the team and applied for work carried out in Term 3.

CIPFA recommendation		Self-assessment
Prioritise requests for advisory work		Requests were considered carefully for their relevance to the year-end opinion.
Avoid diversion to reactive counter-fraud		Few requests have been received. The service offered advisory inputs.
Check for compliance with Public Sector Internal Audit Standards (PSIAS)		This will be carried out as part of the Head of Internal Audit's year-end review. No issues are anticipated.
<b>Engagement between the Leadership Team, Audit Committee and Head of Internal Audit</b>		
Maintain effective engagement		Reporting planning and progress to the Corporate Leadership Team and to the Governance & Ethics Committee has been maintained. Regular update meetings with the Committee Chairman and Opposition Group Lead have also been held.

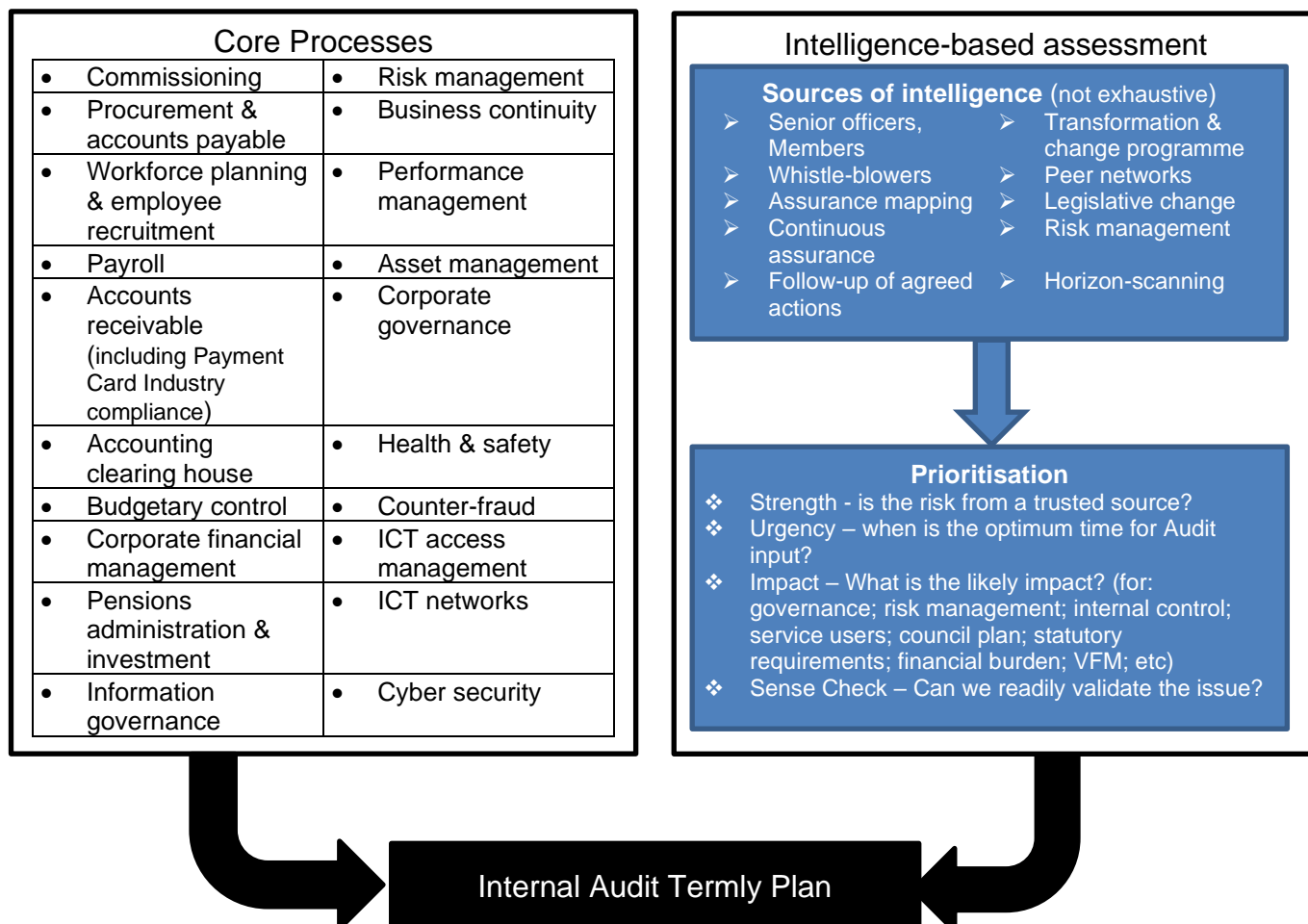
## **Proposed Internal Audit Plan for Term 1 2021-22**

17. Internal Audit termly plans continue to be determined on a risk basis, as required by the Public Sector Internal Audit Standards. Improvements are being made to the way in which priorities for Internal Audit input are identified and assessed, building on incremental developments in the service's intelligence framework over recent years.
18. To date, the bedrock of Internal Audit's prioritisation approach has been its long-established Audit Needs Assessment. Under this approach, 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 exposure to fraud risk
  - 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. This approach is commonly known as maintaining an 'audit universe'.

19. Whilst this approach has served well for many years, it is increasingly the case that its outputs are becoming static and largely predictable. The approach is effective in identifying the Council's core processes, which the Head of Internal Audit needs to review on a rotational basis over a period of 2-3 years as a key element of his annual opinion. However, being grounded in large part on a retrospective assessment of risk, the approach is less effective in identifying which areas, or topics, the service should audit next to deliver timely assurance to the Council. This has been thrown into sharp relief during the pandemic and, whilst the service is able to flex its plans to accommodate new and emerging risks, it is opportune to build greater foresight into the service's planning.

20. It is proposed, therefore, to replace the audit universe with a complementary approach based around the Council's known core processes and an intelligence-based priority assessment. This is depicted below.



21. Termly planning has begun to operate in this agile way, especially over the past year, therefore the proposal serves to formalise, and add structure to, the emerging approach. A further feature to design in to the process is that the precise scope and objectives for each audit assignment should be agreed at the time the audit is to commence. Detailed discussions just prior to an audit commencing should identify other sources of assurance already available for the area in question, thereby clarifying the objectives 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.

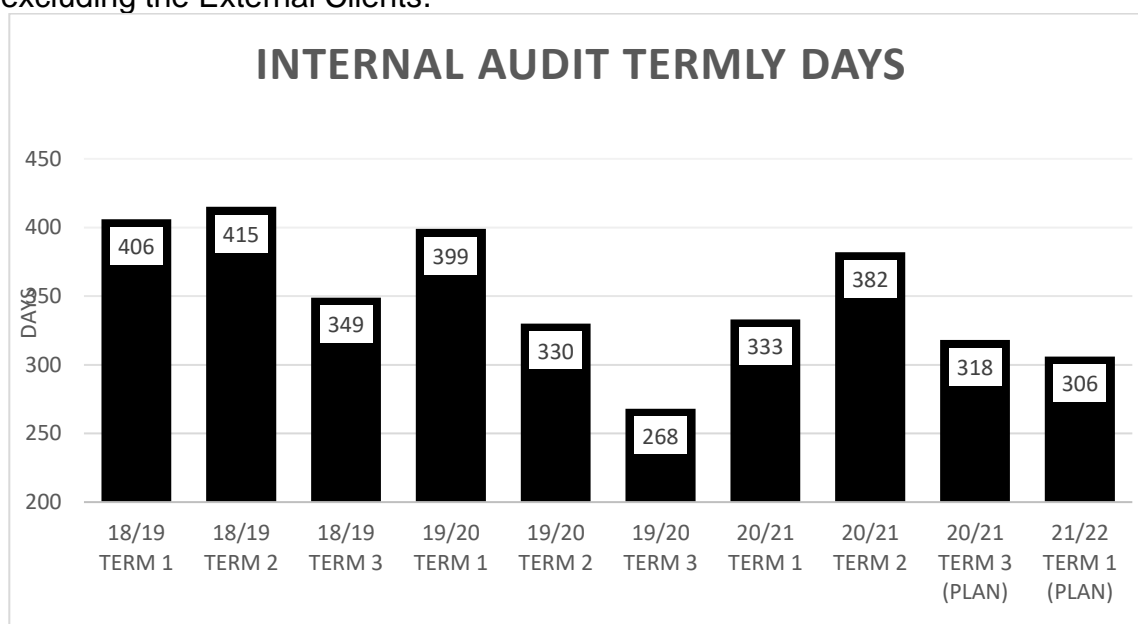
22. The Term 1 plan represents the Section's assessment of the key areas that need to be audited in order to satisfy the Authority's statutory responsibility to undertake an adequate and effective internal audit of its accounting records and its system of internal control. The Section's aim is to complete enough work to express an overall, annual opinion on the adequacy and effectiveness of the Authority's internal control systems.

23. The Term 1 plan has also been compiled in recognition that front-line services continue to prioritise the delivery of response and recovery activities and may have limited capacity to accommodate a full range of assurance input from Internal Audit.

24. **Appendix 2** sets out details of the draft coverage by Internal Audit for Term 1, and it is summarised in the following table.

Assurance from Audit Coverage	Days	Outputs
Second Line Assurance	80	5
Opinion Assurance	154	13
Advice / Consultancy Assurance	45	0
Counter Fraud Assurance	12	4
Certification Assurance	15	1
<b>Total</b>	<b>306</b>	<b>23</b>
External Clients (Notts Fire & Rescue Service)	57	
<b>Grand Total</b>	<b>363</b>	

25. The chart below shows the trend in the number of actual days delivered in recent terms, excluding the External Clients.



### Other Options Considered

26. The Audit Section will work to the Public Sector Internal Audit Standards during 2021/22. 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

27. To set out the report of the Group Manager – Assurance for Term 2 of 2020/21, and to propose the planned coverage of Internal Audit's work in Term 1 of 2021/22, providing Members with the opportunity to make suggestions for its content.

### Statutory and Policy Implications

28. 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.

## **RECOMMENDATIONS**

- 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 2021/22 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:**

Rob Disney

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### **Constitutional Comments (KK – 11/03/2021)**

29. The proposals in this report are within the remit of the Governance & Ethics Committee.

### **Financial Comments (RWK - 10/03/2021)**

30. 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