

24 July 2019

Agenda Item: 9

REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

INTERNAL AUDIT 2018-19 TERM 3 REPORT 2019-20 TERM 2 INTERNAL AUDIT PLAN

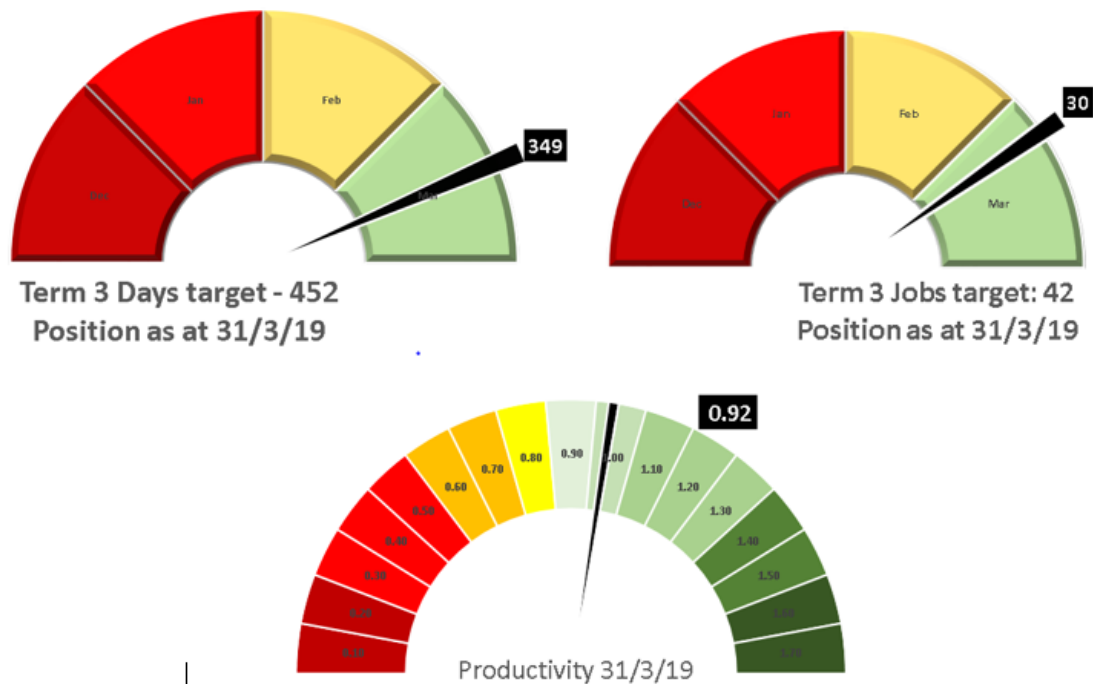
Purpose of the Report

1. To inform Members of the work carried out by Internal Audit in Term 3 of 2018/19, and to highlight any key issues arising.
2. To consult with Members on the Internal Audit Plan for Term 2 of 2019/20.

Information

Summary of Internal Audit's work in Term 3 of 2018/19

3. Internal Audit operates 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. 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.
5. The following charts depict progress against the Term 3 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.



6. The update report for Term 2 brought several resourcing difficulties to the Committee's attention, foremost of which was recruitment to the Senior Auditor posts in the team's current structure. Temporary resources were secured part-way through Term 3 via the Council's agency worker contract, and this boosted the number of planned days and jobs the team was able to deliver. The delay in securing these resources is reflected in the charts above, in that both the number of days and the number of jobs completed fell a little short of the planned mark.
7. In Term 3, 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 3, the following summarises the spread of assurance opinions for the 20 completed jobs:

Substantial Assurance (4 items)

Reasonable Assurance (15 items)

Limited Assurance (1 item)

8. The opinion-based assurance work from Term 3 feeds in to the Head of Internal Audit's year-end opinion on the adequacy of the Council's arrangements for governance, risk management and control. The Annual Report section, below, pulls together a summary of all Internal Audit's work in 2018/19 as part of that assessment.

9. In Term 3, there was one limited assurance opinion issued. This concerned a review of the arrangements the ASCH Department has with direct payment support services (DPSS's) and the service users who engage them. The department responded positively to the recommendations raised in the report, which focus on key aspects of control: accreditation; contract monitoring; financial management. The agreed actions will be followed up as part of the established follow-up procedure.
10. At the previous update in March 2019, it was flagged up that a limited assurance opinion had been issued as a draft report on the arrangements in the County Council for complying with the payment card industry standards. The report remains in draft; a fuller summary of the weaknesses identified will be provided following finalisation of the report.
11. Internal Audit continues to provide advisory input to developments in the Council. In Term 3, the service was engaged most notably with the arrangements being established around pension pooling. Nottinghamshire has partnered with the LGPS pension funds of Cheshire, Leicestershire, Derbyshire, Shropshire, Staffordshire, Worcestershire and West Midlands to form a collective investment pool, known as LGPS Central Pool, in accordance with government requirements for the pooling of LGPS investment assets. The Internal Audit service is working with the internal auditors at each of the partner councils to co-ordinate the collective audit effort to deliver co-ordinated assurance over governance, risk management and control of the pool.
12. The Annual Fraud Report for 2018/19 was presented to Committee at the June 2019 meeting, and this incorporated the reactive and pro-active work with which Internal Audit was engaged during Term 3.
13. The Section's performance in Term 3 against its key indicators is detailed in the following table:

Performance Measure/Criteria	Target	Outcome in Term 3
1. Risk-aware Council		
Completion of Termly Plan - Days - Jobs	90% 90%	✗77% ✗71%
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 5 in 2018/19
3. Improved internal control & VFM		
Percentage of Priority 1 & Priority 2 recommendations implemented (as at June 2019 update for 2017/18 actions)	75%	✗57% Priority 1 ✓81% Priority 2
4. Quality measures		

Performance Measure/Criteria	Target	Outcome in Term 3
Compliance with the Public Sector Internal Audit Standards	Compliance achieved	✓ The Quality Assurance & Improvement Programme (QAIP) in the Annual Report identifies actions for further improvement
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)	✓ 1.65

14. 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 delay in securing additional resources part-way through the term.

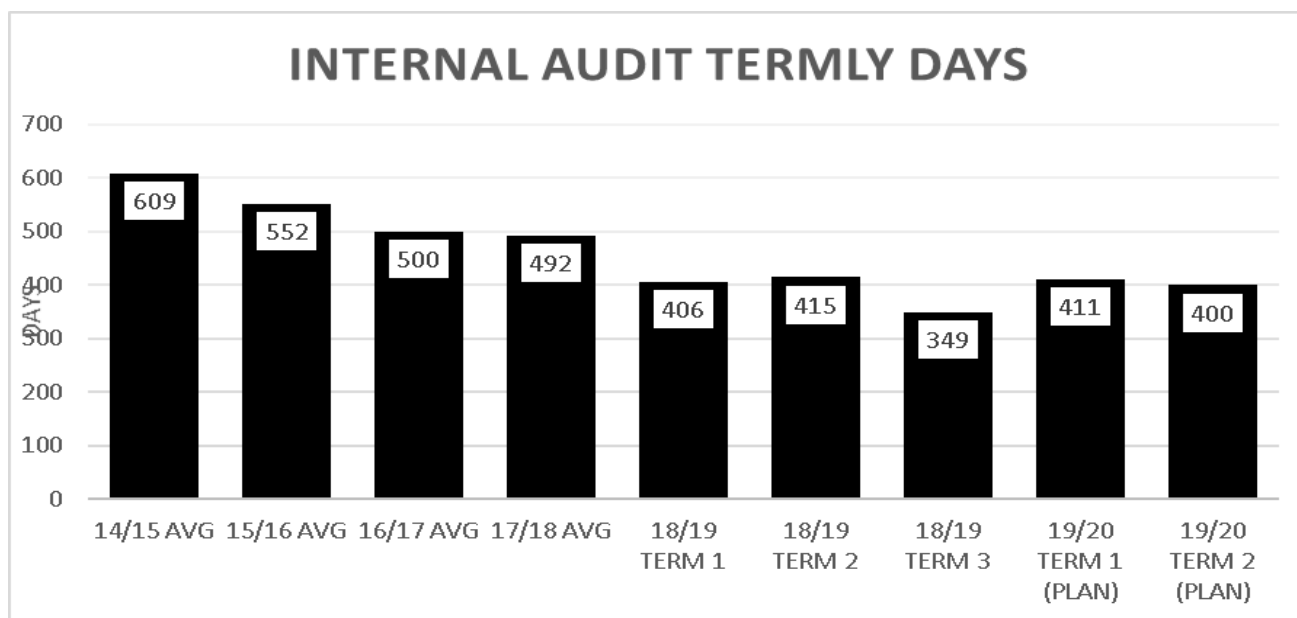
Proposed Internal Audit Plan for Term 2 2019-20

15. 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.
16. Audit plans are determined on a risk basis, as required by PSIAS. As part of the planning process, account is taken of the outcomes of the Council's assurance map, which incorporates the work of external providers of assurance. For each planned review, pre-audit work also includes discussion with managers over sources of assurance that can be relied upon, to prevent duplication.
17. 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 arrangements for governance, risk management and control.
18. 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 risk of fraud
 - 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.

19. **Appendix 2** 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	98	8	-	-	8
Children & Families	59	-	3	5	8
Adult Social Care & Health	73	2	3	-	5
Place	122	3	3	1	7
Chief Executive's	48	1	2	-	3
Total	400	14	11	6	31
External Clients (Notts Fire & Rescue Service)	42				
Grand Total	442				

20. As can be seen from the table, a total of 442 days are planned for Term 2 of which 400 (90%) will be spent on the Authority's systems and procedures. The remaining 42 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.
21. 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 2019/20. Internal Audit's staffing resources were reduced from April 2016, which explains the higher number of days delivered prior to that time.



22. The number of days delivered across the terms in 2018/19 was impacted by the recruitment difficulties for the team. From April 2019 the level of direct Internal Audit resource reduced following the transfer of responsibility for delivering audits in schools to the Children & Families Finance Team.

23. The Plan for Term 2 contains a number of audits designated as carry-overs from the Term 1 Plan. Whilst some degree of carry-over is planned for, the extent of this in Term 2 is higher than expected and the causes have been identified. In planning for the next term, estimates are made regarding the projected end-of-term position of jobs currently in progress; the assumptions made around this for the jobs in progress during Term 3 of 2018/19 proved overly optimistic. Furthermore, some jobs that needed to be carried out in Term 1 were omitted in error. A smaller number of jobs in Term 1 have taken longer to complete and required more resources than planned for. The shortcomings in planning and prompt delivery of work are recognised by the Team as areas for improvement. The transition from an Annual Plan to Termly Plans has helped to highlight these issues.

Other Options Considered

24. The Audit Section 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

25. To set out the report of the Head of Internal Audit for Term 3 of 2018/19, and to propose the planned coverage of Internal Audit's work in Term 2 of 2019/20, providing Members with the opportunity to make suggestions for its content.

Statutory and Policy Implications

26. 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.

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 2 of 2019/20 will 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 (KK 01/07/2019)

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

Financial Comments (RWK 01/07/2019)

28. 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