

6 November 2019

Agenda Item: 8

REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

INTERNAL AUDIT 2019-20 TERM 1 REPORT & 2019-20 TERM 3 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 1 of 2019/20, 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 3 of 2019/20.

Information

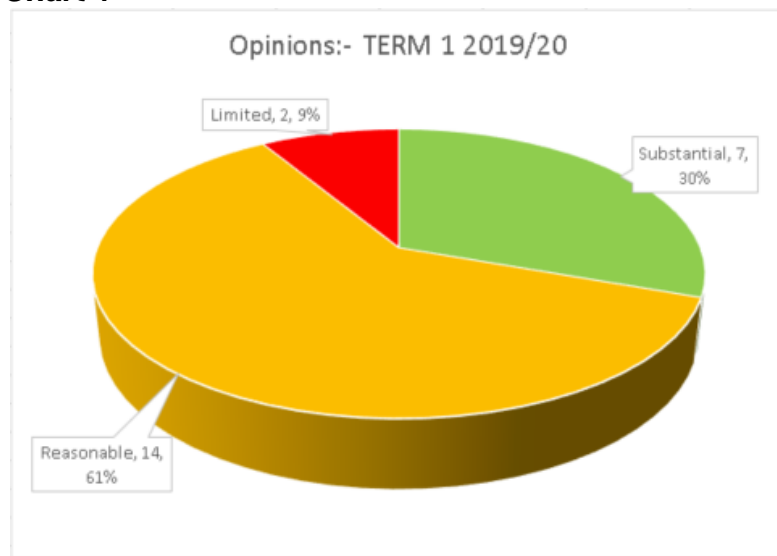
Internal Audit's work in Term 1 2019/20 – April 2019 to July 2019

3. In Term 1, 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 and initiatives
 - Counter-fraud – including the investigation of suspected fraud and whistleblower reports
 - Certification audits – generally small jobs to sign off returns and accounts

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 system of internal control. **Chart 1** shows the distribution of opinions issued in 2019/20 so far.

Chart 1



5. In terms of the work completed on the County Council's services and systems, **Chart 2** analyses the opinions by service area and level of assurance.

Chart 2

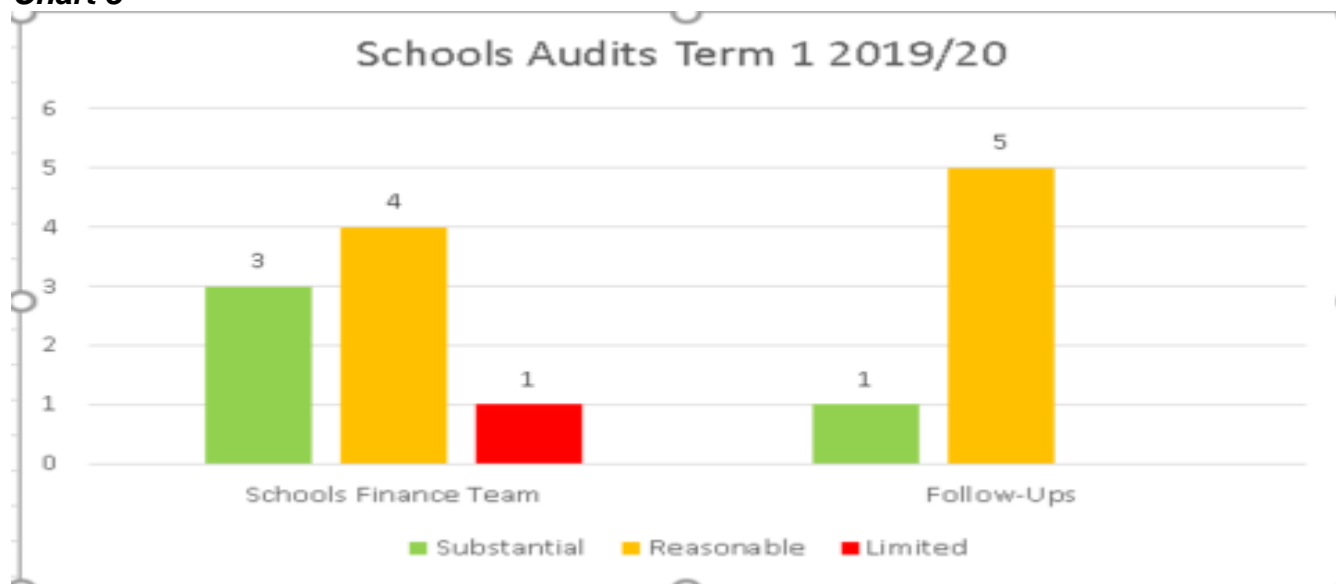
| | LIMITED ASSURANCE | REASONABLE ASSURANCE | SUBSTANTIAL ASSURANCE |
|--------------|---------------------|--|--|
| COUNCIL-WIDE | Contract Management | Sickness Management Business Continuity Action Tracking – follow-up of Audit recommendations | Assurance Mapping 2018/19 annual report Annual Governance Statement 2018/19 |
| ASCH | | Care Home Providers | |
| C&F | | | School Swimming |
| PLACE | | Property Compliance | |
| CHIEF EXEC'S | | | |

6. Internal Audit took the lead in compiling the Council's 2018/19 year-end assurance reports, and these delivered strong assurance of the effectiveness of the Council's overall arrangements for governance, risk management and control. Positive levels of assurance are also provided by most of the other audits reported in the term.
7. The 'Limited Assurance' opinion for contract management was both timely and complementary to developments initiated by the Group Manager – Procurement to strengthen the Council's framework and best practice approach in this important area for service delivery

and financial control. Internal Audit's recommendations were very well received and responded to, and they have helped shape the direction the Council is now taking.

8. The most recent report to the Governance & Ethics Committee in June 2019 on the follow-up of agreed audit recommendations presented a positive picture overall (categorised as 'Reasonable Assurance' above in **Chart 2**), but a decline in implementation rates was noted when compared with previous updates. This was particularly evident for Priority 1 actions, and a number of officers attended to update the Committee on progress in specific areas. The next update to Committee is scheduled for January 2020.
9. **Chart 1** incorporates opinions relating to school visits. Since April 2019, these are now undertaken by the Children's & Families' Finance Team, with Internal Audit completing follow-up work required from the visits in 2018/19. **Chart 3**, below, summarises the spread of assurance and follow-up opinions for reviews completed in Term 1.

Chart 3



Advisory input

10. Internal Audit continues to provide advisory input to developments in the Council. In Term 1, the following summarises the key areas of activity:
 - Cloud project – ongoing input to the project in relation to contracting and contract monitoring arrangements, and around the design of controls for continued service delivery and security
 - Mosaic system review – ongoing input to the review to ensure an appropriate focus on control and audit trails
 - Mosaic unallocated cases – report issued to assist in addressing concern over the level of unallocated cases in the system
 - HMRC pre-inspection review – a wide-ranging pre-inspection review to assist teams in Finance and the Business Services Centre understand likely areas of relative strength and weakness
 - 'Profile Tailor Dynamics' payroll monitoring software– work alongside the Business Services Centre as it develops the implementation and application of this continuous auditing software

- Councillors' Divisional Funds – advice to Democratic Services on the design and implementation of its routine audit regime to provide 2nd line assurance over the use of the funds.

11. 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

12. Internal Audit was active in the following aspects of its pro-active counter-fraud programme in Term 1:

- Annual Fraud Report 2018/19 – the report was presented to the Governance & Ethics Committee in June 2019
- National Fraud Initiative 2018/20 – Internal Audit co-ordinates the cross-Council effort to investigate matches flagged up by the Cabinet Office initiative
- National fraud alerts – screening and distributing to relevant sections alerts publicised by national fraud agencies.

13. In addition, Internal Audit was engaged to varying degrees in the following enquiries to investigate irregularity 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 |
|---|---|
| Adults, Social Care & Health | |
| Direct Payment Support Service Provider (Workwise) – shortfalls on service users' direct payment bank accounts and balances owed to NCC | Advice and support to service managers dealing directly with the provider |
| Direct Payments – 3 cases involving suspected misuse of funds | These are the subject of regular liaison meetings between Internal Audit and Adult Care Financial Services managers |
| Appointeeships – 2 cases of suspected theft of service user funds by carers. Both cases have been investigated by Nottinghamshire Police; one has been successfully prosecuted and the prosecution is proceeding in the other case. | Advisory input, working with service managers. |
| Deprivation of assets – suspected theft from a service user's personal bank account identified when conducting a financial assessment for long-term care. Under investigation by Northumbria police. | Advisory input, working with service managers. |
| Residential care – failure to notify NCC of a resident's death, resulting in overpayment | Advisory input to service managers who are investigating directly with the home concerned |
| Children's & Families | |
| Payment for work hours - unsupported claims by a member of staff for additional hours. Disciplinary hearing held – amount to be repaid. | Analytical input to support management's investigation and subsequent attendance at the hearing as a witness. Follow-up review and report to advise on improved controls. |

| Area of service and nature of irregularity | Extent of Internal Audit's input |
|---|--|
| Purchase cards – fraudulent use following external hack. Suspicious transactions identified and amounts recovered. | Advice on actions to be taken and confirmation of no suspicion of internal vulnerability |
| Chief Executive's Dept. | |
| Specialist equipment procurement – concern centred on the procurement route followed rather than evidence of fraud | Investigation and issue of report making recommendations to improve controls |

14. 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.

Internal Audit Performance

15. **Appendix 1** sets out the following charts to depict progress against the Term 1 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.
16. The Section was fully staffed throughout Term 1 and was able to deliver very well against the planned number of days. This also enabled the Section to complete work carried over from the previous term and to make good progress with new audits.
17. The appendix also provides an update on the Section's performance in Term 1 against its key indicators. A good level of performance is presented.

Proposed Internal Audit Plan for Term 3 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 plans.
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 2019/20 will be expressed in the scheduled update report in July 2020 and will take account of assurance delivered from all of Internal Audit's work over the three Terms in 2019/20, 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:

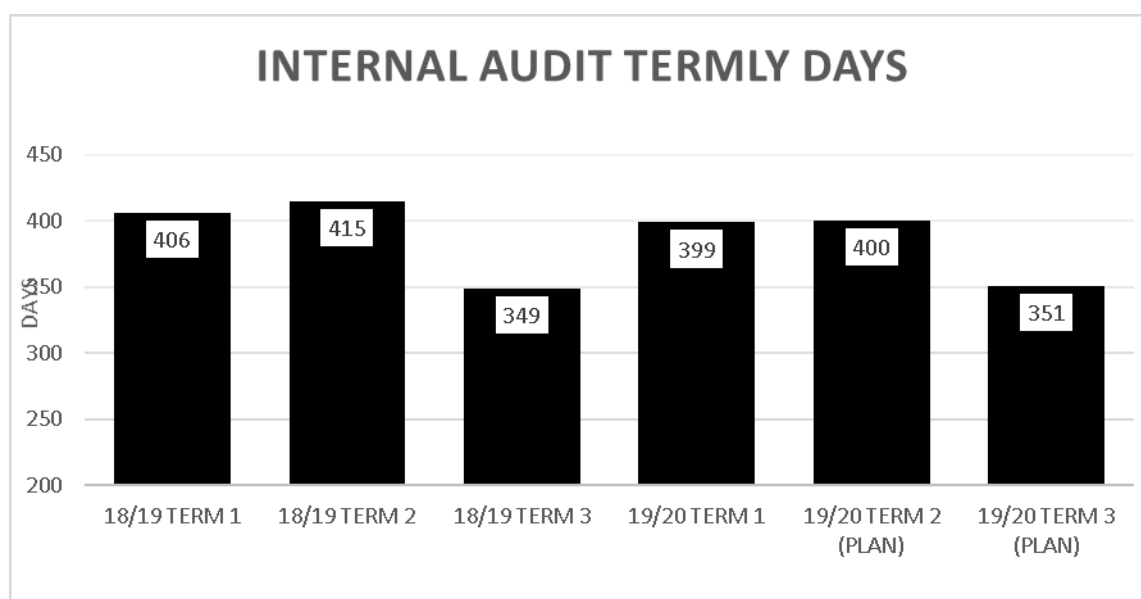
- Value and volume of transactions involved with the activity
- The known level of internal control in place (from previous audits)
- The value of cash and bank transactions
- The relative complexity of the activity
- Whether the activity is stable or subject to change
- How sensitive the activity is 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 draft 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 | 177 | 5 | 1 | 6 | 12 |
| Children & Families | 51 | - | 4 | - | 4 |
| Adult Social Care & Health | 48 | - | 2 | - | 2 |
| Place | 35 | 2 | 2 | - | 4 |
| Chief Executive's | 40 | 1 | 1 | - | 2 |
| Total | 351 | 8 | 10 | 7 | 24 |
| External Clients (Notts Fire & Rescue Service) | 34 | | | | |
| Grand Total | 385 | | | | |

23. The chart below shows the trend in the number of actual days delivered in recent terms.



24. Term 3 will be a period of transition for the Internal Audit Team, as it implements and beds in the revised structure approved by Committee in September 2019. It will also be a period in which it anticipates recruiting its first apprentices. Time is being built in to the plan for the design and delivery of a training and development programme for the new entrants, and it is expected that this will necessarily be resource-heavy in the early months. The service will again benefit from its collaboration with Assurance Lincolnshire, with two audits being scheduled for delivery by our partners.

Other Options Considered

25. The Audit Section is working to the Public Sector Internal Audit Standards during 2019/20. 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 Group Manager – Assurance for Term 1 of 2019/20, 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

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

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 3 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 (LW 09/10/2019)

28. Governance & Ethics Committee is the appropriate body to consider the content of the report.

Financial Comments (SES 04/10/19)

29. 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