

**28 February 2024****Agenda Item: 9****REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE &  
IMPROVEMENT****INTERNAL AUDIT TERM 2 2023-24 PROGRESS AND TERM 1 2024-25 PLAN****Purpose of the Report**

1. To inform Members of the work carried out by Internal Audit in Term 2 of 2023-24.
2. To consult with Members on the Internal Audit Plan for Term 1 of 2024-25.

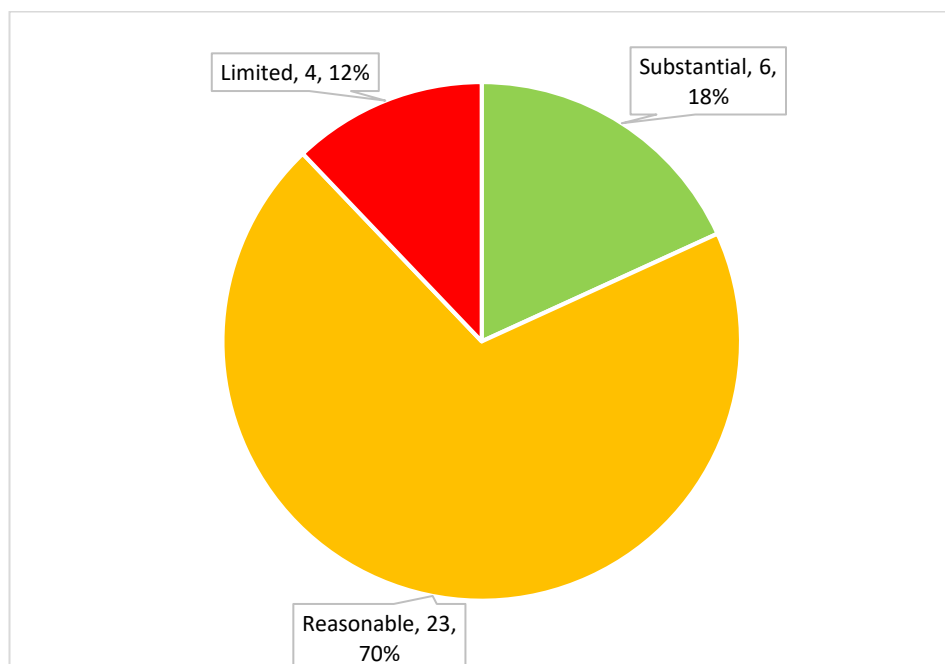
**Information****Internal Audit's work in Term 2 – 2023-24 – August to November 2023**

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. **Chart 1** shows the cumulative distribution of opinions issued in 2023-24, 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 2023-24**



5. 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 2023-24**

	LIMITED ASSURANCE	REASONABLE ASSURANCE	SUBSTANTIAL ASSURANCE
Council-Wide		Action Tracking	
Childrens Place			
Adults	Under/Over Payments of Enhanced Pay in the Short Breaks Service		
Chief Exec's		ICT Legacy Systems	ICT Cloud Services Use of Financial Waivers
School Audits	2 Visits*	9 Visits	0 Visits

\*The main reason for Limited Assurance on school audits is the breakdown of the internal controls in relation to separation of duties and authorisation. This is due to the small number of staff involved, often only one office manager, who is able to generate and process transactions in relation to payroll, payments and expenses etc. Guidance and training is available to staff undertaking such functions from the Schools Finance Team.

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

- Continuous Assurance – to provide a monthly report to the Council’s statutory officers on the application of internal control in key Council processes.
- Action Tracking – our 6-monthly report on the implementation of recommendations which went to the Nov 2023 committee.
- The above audits on the Use of Financial Waivers, ICT Cloud Services, ICT Legacy Systems, and a review of Under/Over Payments of Enhanced Pay in the Short Breaks Service.

### ***Advisory input***

7. Internal Audit continued to provide advisory input to developments across the Council. In term 2 we provided advice related to plans to strengthen controls over the Councillors Divisional Fund, including an analysis of payments made by the Fund in recent years.
8. 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***

9. Internal Audit pursued its pro-active programme, disseminating fraud awareness materials to alert departments and staff of fraud risks and scams that emerged during Term 2. The following summarises the key areas of activity:
- Fraud awareness week, during November 2023. Dissemination of fraud awareness and fraud prevention materials across the Council, and schools, to support the counter fraud agenda.
  - 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.
10. In addition, Internal Audit advises in fraud investigation activities involving live cases, and these will be summarised in the Annual Fraud Report, which is planned for the July committee.

### ***Certification***

11. 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
  - Home Upgrade Grant (phase 1) closure
  - Arts Council Grant – Libraries Improvement Fund – Village Hubs
  - In addition to the Trading Standards grants over £100k that we had to certify in the previous term, this term we certified an additional grant as required by the funding body.

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

12. **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 - ¼ of the Termly Plan.
- Outputs – the number of jobs completed against the plan. Each segment in the chart represents one month - ¼ of the Termly Plan.
- Productivity indicator – the target score is 1.

13. A good level of performance has been achieved and members' attention is drawn particularly to the following:

- Staffing resources – in Term 2 two Senior Auditors were recruited, resulting in an increase in the number of productive days delivered (as shown in appendix 1). Unfortunately one of these recruitments left in January 2024, which has had a negative impact on the productive days available for term 3 and term 1, resulting in a reduction of the number of planned days in term 1 (further described in para 20 below). This will result in a number of planned activities from term 3 needing to be concluded in term 1. The post has been readvertised and an offer has been made. A vacancy remains for an Internal Audit Apprentice, and this will be recruited to after the Senior Auditor post is filled. Time has been set aside from the planned audit work for the Team Manager's involvement in the recruitment and induction of new staff.
- Assurance and Advisory activities – the completion of internal audit activity reflects the impact of staffing changes and is reflected in the agile approach adopted. Term 2 again demonstrates that the Team have continued to flex plans and provide advisory activities to support the immediate risks facing the Council. This has an impact on delivery of the planned assurance reviews, but these are kept under review for ongoing priority in subsequent plans, as identified in the Term 1 plan for 2024-25.
- Action tracking implementation rates, for actions arising from audits, have now met or exceeded the target of 75% on the last three 6-monthly reviews. Our latest report on this to the Committee in November 2023 showed an implementation rate of 77% for 2021-22 actions and 87% for 2022-23 actions. The next update on this is scheduled for June 2024.

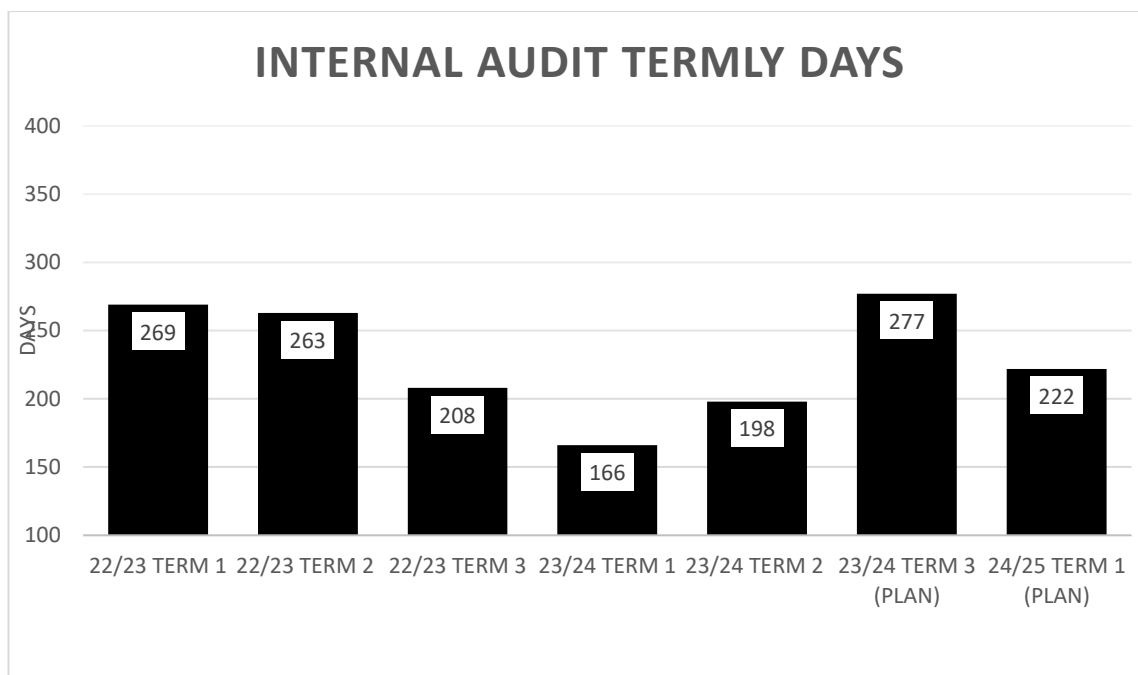
### **Proposed Internal Audit Plan for Term 1 - 2024-25**

14. 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.
15. 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 Head of Internal Audit Annual Report. A reminder of the Core Processes was provided in the previous progress report.
16. 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.

17. 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.
18. 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.
19. **Appendix 2** sets out details of the draft coverage by Internal Audit for Term 1, and it is summarised in the following table.

<b>Assurance from Audit Coverage</b>	<b>Days</b>	<b>Outputs</b>
Second Line Assurance work	35	3
Opinion Assurance	93	5
Advice / Consultancy Assurance	46	0
Counter Fraud Assurance	18	4
Certification Assurance	30	3
<b>Total</b>	<b>222</b>	<b>15</b>
External Client (Notts Fire & Rescue Service)	13	
<b>Grand Total</b>	<b>235</b>	

20. 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 planned in term 3 (277 days) will not be fully achieved because of one Senior Auditor leaving (see para 13 above). Term 1 shows a reduction (to 222 days) to reflect this reduced capacity.



21. The next Internal Audit update to Committee will cover details of the outcome of Internal Audit's work in Term 3 2023-24 (December 2023 to March 2024).

### Other Options Considered

22. 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

23. To set out the report of the Interim Chief Internal Auditor to propose the planned coverage of Internal Audit's work in Term 1 of 2024-25, providing Members with the opportunity to make suggestions for its content.

### Statutory and Policy Implications

24. 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

25. 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**

- 1) That the Committee notes the outcome of the Internal Audit work carried out in Term 2 of 2023/24, and the planned coverage of Internal Audit's work in Term 1 of 2024/25 to be progressed to help 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 - 07/02/2024)**

26. Pursuant to the Nottinghamshire County Council Constitution this committee has the delegated authority to receive this report.

## **Financial Comments (SES - 06/02/2024)**

27. 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