

# Internal Audit Annual Report 2018/19

## PURPOSE AND SCOPE OF INTERNAL AUDIT'S WORK

1) The Authority has a statutory responsibility to undertake an adequate and effective internal audit of the County Council's operations. This responsibility is discharged by the Internal Audit Service which has unrestricted access to all activities undertaken by the County Council.

2) The work carried out by Internal Audit involves reviewing and reporting on the governance, risk management and control environment established by management to:

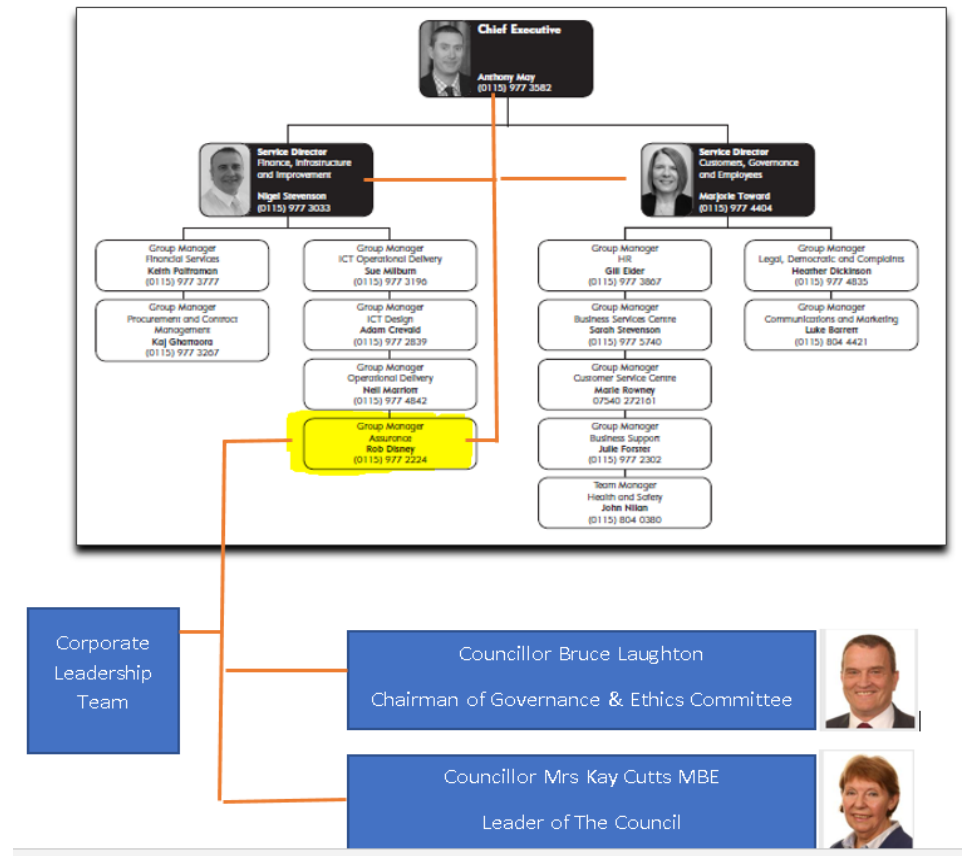
- determine and monitor the achievement of the Authority's objectives
- identify, assess and appropriately manage the risks to achieving the Authority's objectives
- facilitate policy and decision making
- ensure the economical, effective and efficient use of resources
- ensure compliance with established policies, procedures, laws and regulations
- safeguard the Authority's assets and interests.

3) Internal Audit's work is planned to cover these areas and to provide an independent assessment of whether the Authority's systems and procedures are working appropriately. The work of Internal Audit is carried out in compliance with the Public Sector Internal Audit Standards (PSIAS). The essential roles set out in the standards for effective internal audit are delivered at this Council as follows:

PSIAS Role	Delivered at NCC by:
<b>Chief Audit Executive (CAE)</b>	Group Manager - Assurance
<b>Senior Management</b>	Corporate Leadership Team
<b>Board</b>	Governance & Ethics Committee

4) Throughout 2018/19, Internal Audit continued to operate independently within the organisation. No impairments to its independence arose during the year. The Section transitioned from the former Resources Department to the newly established Chief Executive's Department in 2018, and its organisational independence was maintained under the new structure.

- 5) The arrangements for the Section's organisational independence are depicted in the diagram opposite. The Group Manager – Assurance reports directly to the Service Director – Finance, Infrastructure & Improvement, a member of the Corporate Leadership Team. Separate to this, the Group Manager – Assurance has continued to have available additional and direct reporting lines open to the principal officers and members with responsibility for governance, risk management and control in the Council. These key reporting lines are highlighted in the diagram.



## SUMMARY OF INTERNAL AUDIT'S WORK IN 2018/19

- 6) A wide range of audit work was completed during the year, comprising formal 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.
- 7) Most of Internal Audit's assurance work results in the issue of an opinion on the internal controls and procedures in place, categorised as follows:
- *Substantial Assurance* – there are no weaknesses or only minor weaknesses
  - *Reasonable Assurance* – most of the arrangements for financial management are effective, but some weaknesses have been identified
  - *Limited Assurance* – there is an unacceptable level of risk which requires the prompt implementation of the recommendations made to correct the weaknesses identified.
- 8) Internal Audit provided advisory input to a number of key developments in the Council during the year. This type of 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 indicates that this type of input is valued.
- 9) Internal Audit was involved with a number of irregularity investigations during the year. Details of this work are incorporated in the Annual Fraud Report for 2018/19, which was the subject of a separate report to the Governance & Ethics Committee in June 2019.
- 10) The outcomes from the work in each of three Termly Plans during the year have been reported to the Governance & Ethics Committee, as follows:
- Term 1            November 2018
  - Term 2            March 2019
  - Term 3            July 2019
- The key issues arising in these reports are summarised below in the 'annual opinion' section.

## SUMMARY OF INTERNAL AUDIT'S WORK IN 2018/19

- 11) Internal Audit's ultimate objective is to bring beneficial impacts from its work for the citizens of Nottinghamshire and the direct users of the County Council's services. Arising from its work in 2018/19, the service can point to a number of positive impacts:

£ For Council Tax payers, helping the organisation to strengthen its stewardship of public funds. Audits of a number of the Council's core systems and procedures have identified opportunities to strengthen further the organisation's grip on its finances, as well as its wider approach to governance. Similarly, the service's key contribution towards promoting a counter-fraud culture in the Council plays an important role in helping minimise losses to fraud.



For children and families, audit work has helped to ensure scarce resources are put to best use by the services reviewed, for example in children's residential homes and specialist education provision.



For adults, there has been a similar focus on the use of scarce resources, such as in the reviews of homecare commissioning and services to self-funders. Internal Audit's work has also assisted in protecting the safety of service users and their finances through its work on safeguarding arrangements and the Council's engagement with direct payment support service providers.

- 12) Progress against the Section's performance indicators has been reported on a termly basis to the Governance & Ethics Committee. A summary of what has been achieved, and what has fallen short, is provided below.

Risk-aware Council	
Completion of Termly Plans	✗ Inability to recruit
Regular progress reporting	✓ Termly reporting in place
Fraud awareness updates	✓ E-learning & annual fraud report
Influential Audit Section	
Recommendations agreed	✓ 100% agreement
Engagement with the Transformation agenda	✓ Met, but re-focus needed
Improved internal control & VFM	
Implementation of agreed actions	✗ Delays with Priority 1 actions
Quality measures	
Compliance with standards	✓ High degree of compliance
Customer feedback	✓ High levels of satisfaction

- 13) Benchmarking outcomes through CIPFA and the Midland Counties Heads of internal Audit Group have been reported to the Governance & Ethics Committee during the year:
- the cost of the service and level of audit coverage are in line with the comparator average

## SUMMARY OF INTERNAL AUDIT'S WORK IN 2018/19

- the service is positioned around the average mark in terms of inputs and outputs.
- 14) The Group Manager – Assurance carries out an annual self-assessment of compliance against the PSIAS. This incorporates the requirements of the Local Government Application Note (LGAN), which provides additional advice and guidance to providers of internal audit services in a local government setting.
- 15) In addition to the self-assessment, the service is subject to an External Quality Assessment (EQA) once every five years. The most recent EQA was carried out in March 2018.
- 16) For 2018/19, the self-assessment has been updated and has been used to form the basis of the annual Quality Assurance and Improvement Programme (QAIP) for the service (see **Annex 1** below). The outcome of the assessment provides significant assurance to the Council that the Internal Audit service conducts its work with due professional care. It confirmed the following in respect of the work carried out by the service in 2018/19:
- a) The service applied a systematic, risk-based approach to the assurance work it delivered
  - b) Internal Audit staff performed their duties with due regard to the code of ethics set out in the standards
  - c) There were no impairments to the independence and objectivity of the service during the year.
- 17) Nonetheless, the QAIP has identified some scope for improved compliance, with an action plan to provide a focus for continuous improvement in 2019/20.

# ANNUAL OPINION OF THE GROUP MANAGER - ASSURANCE

## Governance



Limited assurance



Reasonable assurance



**SUBSTANTIAL ASSURANCE**

**Risk levels are low**

### ***Basis for opinion in 2018/19***

- 18) The Annual Governance Statement (AGS) for 2018/19 assesses compliance with the Council's Local Code of Corporate Governance, which is based on the seven core principles of good governance as recommended in the CIPFA/SOLACE Framework for 'Delivering good governance in Local Government' (2016 Edition).

**Assessed assurance level for compliance with the Code of Corporate Governance: **Substantial****

- 19) In support of the AGS, Corporate Directors provided their annual assurance statements for 2018/19 concerning the application of key governance issues in their areas of service. Corporate Directors report, overall, a substantial level of compliance with the Council's procedures.
- 20) Assurance mapping for performance management and financial management was reported to the Governance

& Ethics Committee in May 2019. This sets out the assurance levels available from the three lines of defence operating in the Council. The outcomes were positive.

### ***Financial Management – Budgetary Control***



Significant budget challenge facing the Council  
Budgetary control procedures are strong

### ***Financial Management – Financial Compliance***



Strong assurance available from all three lines of defence

### ***Financial Management – Financial Prudence***



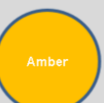
Prudent approach to addressing known financial challenges

### ***Financial Management – Value for Money***



Strong progress against transformation programme  
Is driving improvements in VFM

### ***Performance Management***



Strong framework in place  
Clearer reporting will strengthen assurance

## ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

- 21) Internal Audit completed the first phase of a review of the Council's ethical framework during the year, which returned a positive outcome:



REASONABLE ASSURANCE Risk levels are acceptable

- 22) Self-assessments against best practice have been considered by the Governance & Ethics Committee, featuring a review against the National Audit Office report on Local Authority Governance. This concluded that there were no matters of significance identified by the self-assessment on which additional actions were required.

### Risk Management



Limited assurance

Reasonable assurance

**SUBSTANTIAL ASSURANCE**

**Risk levels are low**

### ***Basis for opinion in 2018/19***

- 23) Internal Audit's risk-based audit approach did not identify any high-level risks in 2018/19 which were either not recognised by the organisation or for which the mitigating actions in place were fundamentally inadequate.
- 24) The Governance & Ethics Committee received assurance on the operation of the Council's approach to risk management during 2018/19. This was further confirmed through the Group Manager – Assurance's attendance at meetings of the Risk, Safety & Emergency Management Board during the year.
- 25) Assurance mapping for risk management was reported to the Governance & Ethics Committee in May 2019. This sets out the assurance levels available from the three lines of defence operating in the Council. The outcomes were positive.



Strong framework in place and complied with  
Strong assurance from internal and external reviews

- 26) Follow-up of agreed actions from the most recent internal audit review of risk management identifies that some actions remain in progress.

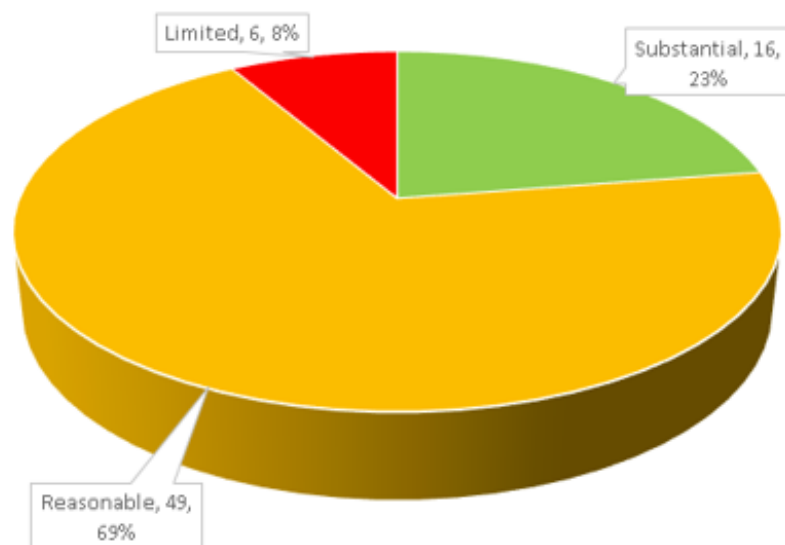
# ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

## Control

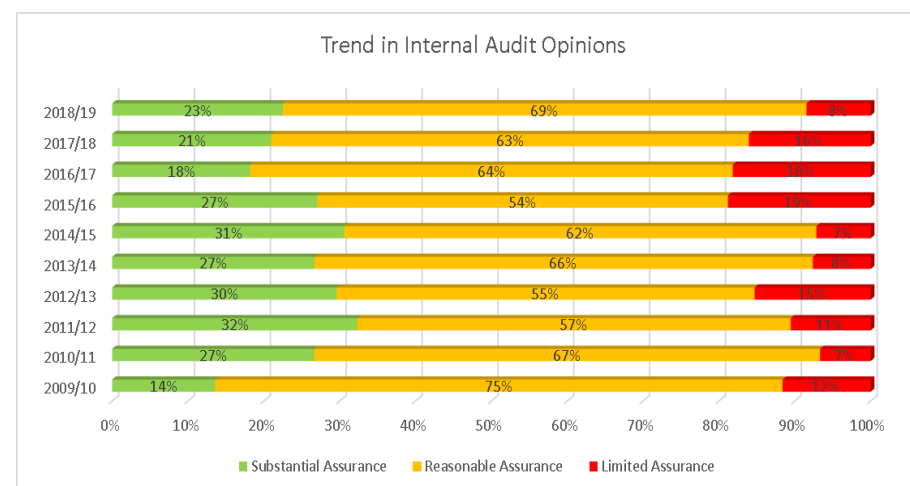


### *Basis for opinion in 2018/19*

- 27) Analysis of the opinion-based assurance work shows the following distribution of opinions issued during 2018/19.



- 28) The trend in the incidence of audit opinions over the past few years is illustrated in the graph below. This shows that, in percentage terms, the incidence of limited assurance opinions increased reduced in 2018/19. The Annual Governance Statement for 2018/19 recognises the pressure on core systems of internal control.



- 29) Reports to the Governance & Ethics Committee over the past year to update progress made by management in implementing agreed actions arising from audits has provided strong assurance that the agreed improvements are being put in place. This is good evidence that the Council remains responsive to the work of Internal Audit and the contribution it makes towards the authority's overall governance, risk and control arrangements.

# ANNEX 1: QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

## Update on progress against the 2018/19 QAIP

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2019
16-17 11	Identifying opportunities to improve the efficiency and effectiveness of the service	Actions to improve some aspects of the service	Implement revised time-recording and performance management module	Head of Internal Audit	Second quarter of 2017/18	<b>Implemented</b>  Revised time recording module is now in place and this is key to the standard range of performance reports now utilised.
1718 1	Auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques	There is scope to make the use of these techniques more routine and embedded in the section's day-to-day work	Provision of training and refresher training on the tools currently available.  Instil a data-analysis approach wherever it is relevant and appropriate for the work planned in 2017/18.	Head of Internal Audit	For all audits in the 2017/18 audit plan	<b>Implemented</b>  Team meetings feature regular items on data analytic tools and approaches, which individual team members feed back following learning from internal and external training. Although marked as 'implemented', this will remain a focus for continuous improvement.
17-18 2	The application of assurance mapping in relation to the following: <ul style="list-style-type: none"> <li>The risk-based plan takes into account the organisation's assurance framework</li> </ul>	There is scope to strengthen the current approach to assurance mapping at a number of levels:	Design and implement an assurance mapping process for the work of the Governance & Ethics Committee and for	Head of Internal Audit	Initial proposals targeted for September 2017  Mid-year review of the Internal	<b>Implemented</b>  The assurance mapping trial was successful and has been retained and extended for 2019/20.

# ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2019
	<ul style="list-style-type: none"> <li>The CAE shares information and coordinates activities with other internal and external providers of assurance and consulting services</li> <li>The CAE's annual opinion takes account of the risk or control framework or other criteria used as a basis for the overall opinion</li> </ul>	<ul style="list-style-type: none"> <li>Corporately in relation to the work of the Governance &amp; Ethics Committee</li> <li>Relating to Internal Audit's planning process</li> <li>Delivery of internal audit engagements</li> </ul>	<p>corporate governance processes.</p> <p>Carry out a mid-year review of the 2017/18 Audit Plan to assess any required changes in light of the assurance map.</p> <p>Future opinions of the CAE on the overall effectiveness of the control framework to be based on all available sources of assurance.</p>		<p>Audit plan for 2017/18</p> <p>Annual opinion of the CAE in 2017/18</p>	
<b>External Quality Assessment actions</b>						
1819-1	Ensure that the internal audit activity is Independent.	Internal Audit Charter does not specify that the HoIA has direct access and reports in their own name to the Governance and Ethics	Charter to be refreshed and incorporate statement that the HoIA has unrestricted access to Senior Management and Members particularly the Leader of the Council, the Chair of the Governance and Ethics Committee/ Chief Executive, Directors and Heads of Service, and maintains segregation from operations. Further the	Head of Internal Audit	July 2018	<p><b>Implemented</b></p> <p>Refreshed Charter approved by Governance &amp; Ethics Committee in July 2018</p>

## ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2019
			Head of Internal Audit reports in own name.			
18-19 2	Ensure that the internal audit activity is Objective	The Head of Internal Audit's annual report does not confirm no impairments to independence during the year.	<p>Each auditor completes a declaration of interest and objectivity statement contained in the Audit Working Papers for each audit review undertaken and to be reviewed by the Audit Manager.</p> <p>Include a statement to confirm that independence has not been impaired in the past year in the Internal Audit Annual Report</p>	<p>Head of Internal Audit</p> <p>Head of Internal Audit</p>	<p>July 2018</p> <p>June 2018</p>	<p><b>Implemented</b></p> <p>A statement to this effect is incorporated in the engagement record for each assignment.</p> <p><b>Implemented</b></p>
18-19 3	Code of Ethics- Integrity		Annual Declaration to be refreshed and include cross ref to Standard 1000 Purpose, Authority and Responsibility and specifically with PSIAS 1120 – Individual Activity and 1130 – Impairment to Independence and Objectivity	Head of Internal Audit	June 2018	<b>Implemented</b>

## ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2019
18-19 4	Code of Ethics- Competency Do internal auditors have regard to the Nolan Committee's Standards of Public Life's, Seven Principles of Public Life?	Although not explicitly stated, reference is included in the Audit Charter, Section 6 Proficiency and Due Professional Care.	Audit Charter to be refreshed to incorporate, "Internal Auditors will also have due regard to the Seven Principles of Public Life – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership."	Head of Internal Audit	July 2018	<b>Implemented</b>
18-19 5	Reference to up to date legislation	Audit Charter refers to guidance; "The Accounts and Audit (England) Regulations 2011	Audit Charter to be refreshed and reflective of The Accounts and Audit Regulations (2015) and not 2011.	Head of Internal Audit	July 2018	<b>Implemented</b>
18-19 6	Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities	Limited recognition in the Audit Charter of Internal Audit's offer of consultancy services to the Authority	Include a section in the Charter on Consultancy which recognises Internal Audit is well placed to provide advice and support due to its detailed knowledge of County Council's systems and processes. Consideration also to provide PSIAS definition of Consulting	Head of Internal Audit	July 2018	<b>Implemented</b>
18-19 7	Impairment to independence and objectivity – Rotation of lead	Responsibilities have not been	To further embed conformance, departments	Head of Internal Audit	The transition of services from	<b>Partially implemented</b>

## ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2019
	responsibilities for managing the audit service to each department of the Council	rotated for some time	managed at the Audit Manager level be considered for rotation to other team members		the Resources Department to a new Chief Executive's Department may have implications for the structure of Internal Audit. Lead responsibilities will be rotated at this time, potentially in the second half of 2018/19.	Staff turnover has provided an opportunity to refresh duties for two departments. A restructure of the Internal Audit service is currently in progress and this will provide the opportunity for a further rotation.
18-19 8	Timely reporting	Scope to improve the timeliness with which audits are completed	To further embed conformance and timely reporting staff be required to arrange exit meeting dates at the opening meeting, noting detail of any potential delays.	Head of Internal Audit	This was introduced in 2017/18 and compliance will continue to be monitored throughout 2018/19 to ensure this becomes the established practice.	<b>Implemented</b>  This has had some impact but a strong focus on driving audits through to prompt completion remains a priority area for continuous improvement.

# ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

## New actions for 2019/20 – arising from the Head of Internal Audit's annual self-assessment

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	(Progress – to be updated for 2019/20)
19-20 1	Internal Audit's activity is aligned with the strategies, objectives and risks of the organisation	Scope to make this more explicit in the format and structure of audit plans	Alignment with the Council's strategies, objectives and risks to be made explicit  Develop a Strategic Audit Plan to set the overall framework within which the termly plans are positioned	Group Manager - Assurance	From Term 3 Plan 2019/20	
19-20 2	Internal Audit is adequately resourced	Difficulties in recruitment	Short-term cover through the use of our partnership with Assurance Lincolnshire and the engagement of agency auditors.  Restructure of the Internal Audit Service, building in apprentice posts	Group Manager - Assurance  Group Manager – Assurance	Throughout 2019/20  Restructure proposal to Governance & Ethics Committee in September 2019	

## ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	(Progress – to be updated for 2019/20)
			Identify how the resources required to deliver the risk-based audit plan have been assessed	Group Manager - Assurance	From the Term 3 Plan for 2019/20	
19-20 3	Internal Audit Charter	<p>The Charter could more fully describe the scope and wide remit of Internal Audit's activities</p> <p>Charter needs to address the wider, non-audit remit of the Group Manager – Assurance role</p>	Annual refresh of the Internal Audit Charter to address these points	Group Manager - Assurance	September 2019	
19-20 4	Organisational independence	The annual report does not explicitly confirm that the Internal Audit Section is organisationally independent	Include this confirmation in the annual report	Group Manager - Assurance	July 2019	
19-20 5	The remuneration and performance assessment of the Head of Internal	Scope to further widen the span of senior Members and	Widen contributors to the performance assessment of the	Service Director – Finance,	June 2018	

## ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	(Progress – to be updated for 2019/20)
	Audit should not be inappropriately influenced by those subject to audit	Officers who contribute to the performance assessment of the Group Manager - Assurance	Group Manager – Assurance to include: Chief Executive, Monitoring Officer, Governance & Ethics Committee Chairman, Vice-Chairman and Lead Opposition Member	Infrastructure & Improvement		
19-20 6	Co-ordination of assurance	Identify where assurance can be taken from work undertaken by other assurance providers	Identify in the risk-based assurance plan where reliance is to be placed on other assurance providers	Group Manager - Assurance	From Term 3 Plan for 2019/20	
19-20 7	Review of Risk Management in the organisation	The assurance mapping process for risk management may be strengthened through the application of Institute of Internal Auditors' (IIA) guidance for the assessment of risk management	Build in the IIA guidance to the assurance mapping process for 2019/20	Group Manager - Assurance	Annual assurance mapping report for 2019/20	
19-20 8	Overall opinion	The overall opinion of the Head of Internal Audit does not	Implement separate opinions for each of these elements	Group Manager – Assurance	July 2019 – annual opinion for 2018/19	

## ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	(Progress – to be updated for 2019/20)
		<p>separate out the three linked strands of governance, risk management and control.</p> <p>The opinion could set out the sources of assurance supporting the assessment</p>	Specify the sources of assurance on which the opinion is based, including sources other than that directly delivered by Internal Audit	Group Manager - Assurance	July 2019 – annual opinion for 2018/19	
19-209	Follow-up of agreed actions	Not explicit how failure to implement agreed actions impacts on the annual opinion and risk-based planning of future audit work	Feature the outcome of follow-up testing in the annual report and in risk-based planning	Group Manager - Assurance	<p>July 2018/19 for annual report for 2018/19</p> <p>Term 3 Plan for 2019/20</p>	