

# Internal Audit Annual Report 2022/23

Simon Lacey – Chief Internal Auditor

## SUMMARY OF INTERNAL AUDIT'S WORK IN 2022/23

- 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>	Chief Internal Auditor
<b>Senior Management</b>	Corporate Leadership Team
<b>Board</b>	Governance & Ethics Committee

- 4) Throughout 2022/23, Internal Audit continued to operate independently within the organisation. No impairments to its independence arose during the year.
- 5) The pandemic presented a challenge of adjustment for all internal audit teams, potentially putting the delivery of planned internal audit work at risk. In recognition of this, the Chartered Institute of Public Finance & Accountancy (CIPFA) issued guidance 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. My self-assessment against this guidance confirmed that a limitation of scope is not required, as I have sufficient sources of evidence available to me to determine my opinion.

# SUMMARY OF INTERNAL AUDIT'S WORK IN 2022/23

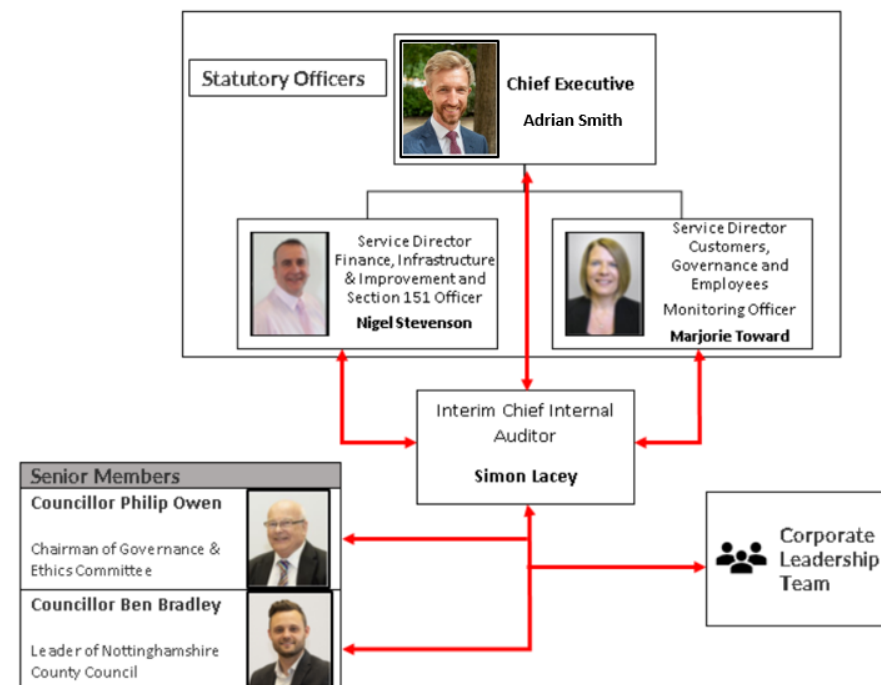
- 6) Internal Audit is positioned within the Internal Audit & Risk Management Group of the Chief Executive's Department. In my role as Chief Internal Auditor, I report directly to the Service Director – Finance, Infrastructure & Improvement, a member of the Corporate Leadership Team.



- 7) My role initially provided cover for only the Internal Audit Service, however since November 2022 I have undertaken the management of the Risk and Insurance Service. I must recognise that this structure presents a potential impairment to my independence in respect of internal audit reviews of the Risk and Insurance Service. To address this, fully independent, external providers of

internal audit services are engaged to carry out such reviews, when they become due.

- 8) The arrangements for the Internal Audit Team's organisational independence remained unchanged, with the exception of a newly appointed Chief Executive, and are depicted in the diagram below. I have continued to have direct reporting lines open to me with the principal officers and members of the Council responsible for governance, risk management and control. These lines of access to senior members remained unchanged following the local elections in May 2021.



## SUMMARY OF INTERNAL AUDIT'S WORK IN 2022/23

- 9) 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
  - Certification audits – generally small jobs to sign off returns and accounts.
- 10) 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.
- 11) Internal Audit continued to operate in an agile way to respond to changing demands during 2022/23. Its termly planning approach proved well suited to the need for audit priorities to be kept under timely review. As the

Council developed its organisational objectives to respond to challenges, Internal Audit flexed its plans to provide timely assurance in support. 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.

- 12) Those inputs were complemented with the more established approach for assurance that the Council's core processes have remained resilient through the pandemic.
- 13) 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 2022
  - Term 2            March 2023
  - Term 3            June 2023 (as part of this report)

The key issues arising in these reports are summarised below in the 'annual opinion' section.

- 14) Internal Audit was involved with a limited number of irregularity investigations during the year. Details of this work is incorporated in the Annual Fraud Report for 2022/23, which is the subject of a separate report to the Governance & Ethics Committee in July 2023.

## SUMMARY OF INTERNAL AUDIT'S WORK IN 2022/23

- 15) Internal Audit's ultimate objective is to bring beneficial impacts and add value from its work for the citizens of Nottinghamshire and the direct users of the County Council's services. Arising from its work in 2022/23, the service can point to several positive impacts:



Comprehensive phased reviews have been carried out of the Council's response to National pressures. These have delivered positive assurance for the people of Nottinghamshire that the Council has mounted an effective response, having due regard to the speed of delivery and proportionate control. Achieving this balance was also the focus of Internal Audit's input to the roll-out of the Council's Homes for Ukraine Fund, UK Community Fund and Household Support Fund.



For Council Taxpayers, helping the organisation to strengthen its stewardship of public funds. Audits of several 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 the protection of the Nottinghamshire public, our audit of Trading Standards activity and work with Public Health assessed how resources are put to best use to ensure effective deterrent and protection is delivered.



For adults and children's, there has been a similar focus on the use of resources, especially in relation to delivering workforce planning, ombudsman complaints, direct payments and routine school & establishment visits. Such work places the best interests of vulnerable residents at the heart of the review.

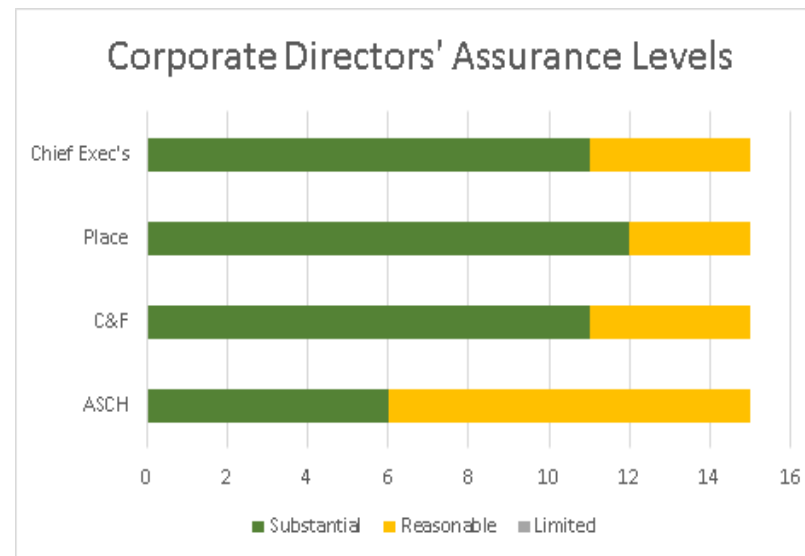
# ANNUAL OPINION OF THE CHIEF INTERNAL AUDITOR

## Governance



### **Basis for opinion in 2022/23**

- 16) The Annual Governance Statement (AGS) for 2022/23 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).
- 17) In support of the AGS, Corporate Directors provided their annual assurance statements for 2022/23, concerning the application of key governance controls in their areas of service. Directors' assurance levels for 15 aspects of the Local Code of Corporate Governance is set out in the following chart, analysed by department.
- 18) The AGS generates an annual Governance Action Plan, progress against which is tracked throughout the year. Updates to the Corporate Leadership Team and to the Governance & Ethics Committee have shown progress.



- 19) Assurance mapping for eight aspects of corporate governance has been reported to the Governance & Ethics Committee on 14 June 2023. The areas covered by the mapping and ratings in 2022/23, are the following:

Aspect	Rating	Aspect	Rating
Financial management	Green	People management	Green
	Green		Amber
	Green		Green
	Amber	Information governance	Amber
Performance management	Amber	Transformation	Amber
Risk management	Amber	Commissioning and procurement	Amber
Asset management	Green		Amber

- 20) The Governance and Ethics Committee received an annual Whistle-blower report in February 2023. Few complaints have been received through the policy in the

# ANNUAL OPINION OF THE CHIEF INTERNAL AUDITOR

past few years, and a full review of it will be carried out to understand the reasons for that more closely.

- 21) Other, important sources of assurance were delivered from external inspections during the year, as set out in the following extracts.

Local Government &  
Social Care  
**OMBUDSMAN**

- 22) The Ombudsman's annual report for the year ending March 2022 provided assurance that the outcomes of complaints received by this Council had the lowest uphold rate of all the statistically significant Councils.



- 23) The Council's Legal Services Team retained the Law Society's legal practice quality mark for practice management and client care.

**bsi.**

Certificate of Registration

- 24) Following continual assessment by the British Standards Institute the Council continues to receive accreditation to ISO45001 for its Health and Safety Management System.

## Risk Management



### ***Basis for opinion in 2022/23***

- 25) In support of the Annual Governance Statement, Corporate Directors provided positive levels of assurance that the actions detailed in the Corporate Risk Register to mitigate the identified risks continue to be taken by designated officers. However, there is no routine process in place to evidence that these actions are taken.

**Corporate risk register:**

**Mitigations carried out**

Dept	Assurance Level
ASCPH	Green
C&F	Green
Place	Green
Chief Exec's	Amber

## ANNUAL OPINION OF THE CHIEF INTERNAL AUDITOR

- 26) Since the outcome of the Zurich Municipal Healthcheck external review in 2021 progress has been made with delivering actions in the plan, but further embedding work is required.
- 27) Zurich Municipal have been working with the Council, through the Risk, Safety & Emergency Management Board (RSEMB) to develop a new approach to Risk Management.
- 28) A forward-looking strategic risk register is being developed using a PESTLE analysis and insight from workshops held with all four departments to identify future threats and opportunities across the Council.
- 29) A new approach to the risk reporting regime is being developed through RSEMB that will enable routine reporting to CLT to provide a concise view of current risk levels and the movements in those risk levels.
- 30) The Chief Internal Auditor attends meetings of the Council's Risk, Safety & Emergency Management Board during the year. This provides ongoing assurance that the Council's over-arching framework for risk management continued to be applied. The Board met frequently in 2022/23, to provide a strong focus on operational risks.
- 31) Given the development of the new risk management approach routine reports have not been provide to the

Governance & Ethics Committee. The most recent report in March 2022 identified the current risk levels and progress with the implementation of the action plan and it is intended that routine reporting will be restored once the new approach has been completed.



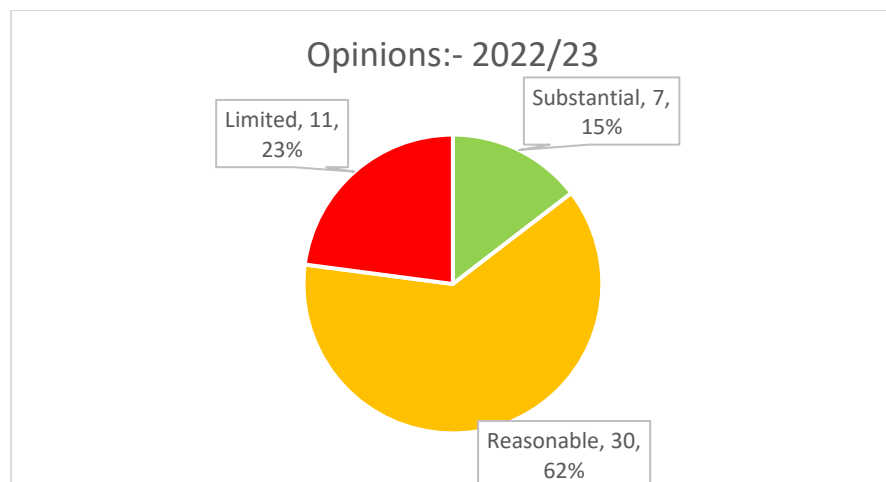
# ANNUAL OPINION OF THE CHIEF INTERNAL AUDITOR

## Control



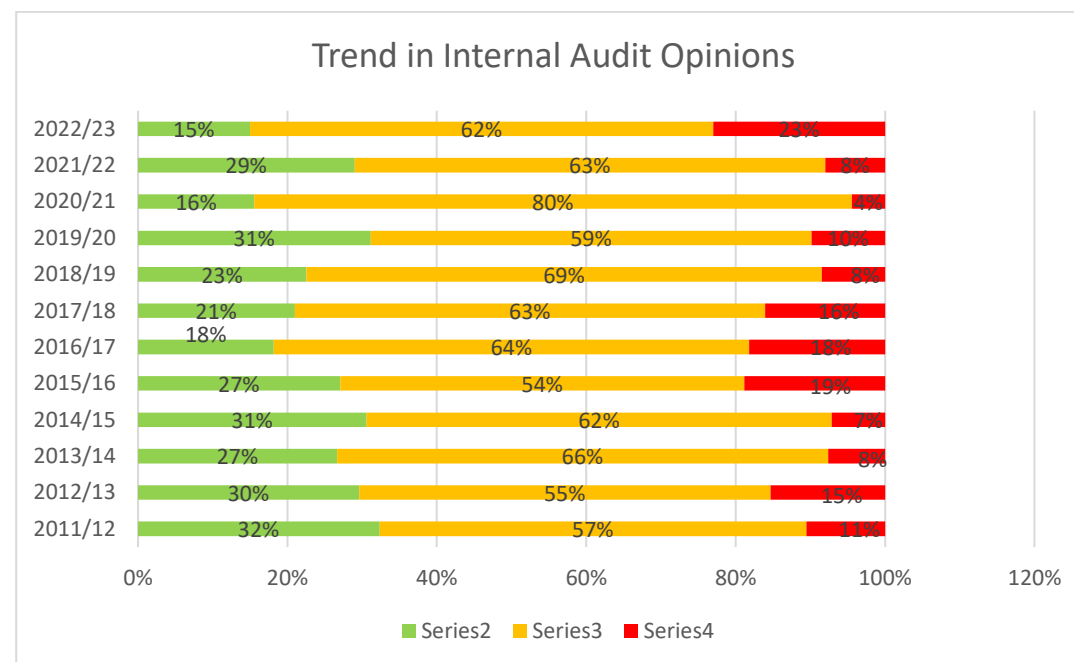
### Basis for opinion in 2022/23

- 32) Analysis of the opinion-based assurance work shows the following distribution of opinions issued during 2022/23.



- 33) The trend in the incidence of audit opinions over the past few years is illustrated in the graph below. This shows a

significant increase limited opinions in 2022/23, returning to 2015/16 levels which is due to findings from school audit visits. The main reason for the Limited Assurance on school audits is the breakdown of the internal controls in relation to separation of duties and authorisation. Guidance and training is available to staff undertaking such functions from the Schools Finance Team.



## ANNUAL OPINION OF THE CHIEF INTERNAL AUDITOR

34) The Annual Governance Statement for 2021/22 recognised continued pressure on core systems of internal control and, in particular, the impact the pandemic had on capacity to implement agreed recommendations. Pro-active work by the Internal Audit Team during the year has focused on the implementation of such actions and the rates for Priority 1 actions is now at target levels.


35) The Information Governance Board, and the relevant teams in the Chief Executive's Department, have a continuing focus on the challenge that cyber security poses to all organisations, across all sectors.

36) The outcome of the annual assurance mapping process (see paragraph 19, above) is also relevant to the assessment of the control framework. In addition to this, Internal Audit continued the development of a feed of continuous assurance about the effectiveness of many of the Council's key, corporate processes, embracing:

- Accounting & budgetary control
- Procurement
- Income and debtors
- Purchasing
- Payments
- Payroll
- Pensions
- Health and safety
- Constitutional decisions
- Information governance

37) The following sets out an extract of metrics and charts to illustrate some key assurance indicators for 2022/23 that are reported to statutory officers monthly to provide high level assurance. These metrics have been used to identify where subsequent deep dive activity is required to ensure the desired level of assurance is maintained.


### Headlines



**20 of the areas (80%) provide positive assurance**

5 of the areas (20%) provide generally positive assurance, with some potential areas for further review:

- Two Data Protection actions are to be completed – down from the original three in the June 2022 Data Security & Protection Toolkit assessment. These two are being addressed and progress is being made.
- The intercompany reconciliation had a variance, for which the cause has been identified, and it is to be corrected before the 2022/23 accounts are closed, and we will obtain an update in April and confirm this happens.
- There are a small number of overtime claims over 99 hours at locations other than the short breaks service, where we have found them to be satisfactorily explained.
- Large travel claims (over £500) peaked in July and September 2022. This is not a significant concern, but we continue to monitor it.
- There are occasional payroll overpayments.



0 of the areas (0%) provide negative assurance.

0 areas for which updated data awaited.

The latest financial control statement used was for Jan 2023, which was issued on 21 March 2023.

# PERFORMANCE OF THE INTERNAL AUDIT TEAM

## Key Performance Indicators

- 38) Progress against the Section's performance indicators is 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	✓ Termly plans are flexed to provide an agile respond to the changing assurance requirements
Regular progress reporting	✓ Termly reporting in place
Fraud awareness updates	✓ 6-monthly reporting to the Governance & Ethics Committee
Influential Audit Section	
Recommendations agreed	✓ 100% agreement
Improved internal control & VFM	
Implementation of agreed actions	✓ Priority 1 actions achieving target levels
Quality measures	
Compliance with standards	✓ High degree of compliance
Customer feedback	✓ High levels of satisfaction

## Benchmarking

- 39) The anticipated progress with the emerging, alternative benchmarking approaches through the following regional and national groups was restricted by capacity issues:
- the National Chief Auditors' Network
  - the Midland Counties Heads of Internal Audit Group.
- 40) However, it is hoped that developments will resume in the current year.

## Public Sector Internal Audit Standards (PSIAS)

- 41) The Chief Internal Auditor 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.
- 42) 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 2023 to inform this report.
- 43) The EQA is a robust evidence-based review of the whole Internal Audit Service comprising
- PSIAS review of the accuracy of the HOIA self-assessment and supporting evidence
  - Interviews with Members and Senior Officers regarding the service provision

## PERFORMANCE OF THE INTERNAL AUDIT TEAM

- A survey of service recipients capturing view on professionalism and quality of services
  - A review of the professional standards applied to the individual engagements undertaken by the staff within the service
- 44) The EQA confirmed the accuracy of the self-assessment and concluded that the Internal Audit Service fully conforms to the requirements of the PSIAS and LGAN.
- 45) The EQA contained no statutory recommendations and only included five advisory issues for the Chief Internal Audit to consider for the development of the service. For 2022/23, the self-assessment and outcomes from the EQA have been used to enhance the basis of the annual Quality Assurance and Improvement Programme (QAIP) for the service.
- 46) The outcome from the self-assessment and EQA provides significant assurance to the Council that the Internal Audit service conducts its work with due professional care and confirms the following in respect of the work carried out by the service in 2022/23:
- 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
- 47) The QAIP continues to capture scope for improvements in service compliance, with an action plan to provide a focus for continuous improvement in 2023/24 (see **Annex 1** below). Key themes for further improvement centre around the following:
- A review of the Team's resources against its foreseeable workloads and capabilities in the deployment of specialist ICT audit resources.
  - Continuous update of our Audit Manual, to keep pace with professional changes and ensure compliance with the application of core audit quality processes.

## REVIEW OF THE STRATEGIC AUDIT PLAN 2022-2025

- 48) In December 2021, Governance & Ethics Committee approved a Strategic Audit Plan for the period 2022 to 2025, along with a commitment to keep this under review on an annual basis.



### Purpose of the Strategic Internal Audit Plan

- The purpose of the Strategy remains valid and unchanged.



### Delivery model

- The Strategy remains to deliver the service through the in-house team, and to continue its outward-looking approach, notably through its collaboration with Assurance Lincolnshire.



### Understanding the Council's assurance needs

- The termly, 4-monthly audit plans will continue, and should prove of particular benefit to maintain the

relevance of Internal Audit's work in the recovery from the pandemic.

- The balance of Internal Audit's work between advisory input and risk-based assurance reviews tipped significantly towards advice during the pandemic. Opinion-based assurance work will increase through this period, embracing the possibilities offered by a 'continuous assurance' approach and to facilitate the conduct of 'value for money' type reviews.
- The service's pro-active counter-fraud programme is key to heightening awareness of potential fraud vulnerabilities. Pro-active assurance work will be carried out with a sharpened focus on fraud detection, to provide assurance that the Council has not been the target for attacks.



### Deploying Internal Audit resources

- The internal audit apprentices are now established members of the Team and making productive contributions to the delivery of the service's Plans alongside progress with their professional audit studies. Internal Audit will also continue to exploit opportunities to bring in graduate and other developmental placements to the service, which provides a mutually beneficial opportunity for both the Team and the learner.

## REVIEW OF THE STRATEGIC AUDIT PLAN 2022-2025

- 'Continuous auditing' will be progressed further, building on the impetus given to this approach to support statutory officers.
- The service will review options for bringing in the specialist resources needed, for example more technical ICT risk



### Maintaining quality and VFM

- The service remains committed to progressing its Quality Assurance & Improvement Programme.
- The experience of delivering the internal audit service through the hybrid working approach continues to be reviewed to inform the Team's approach going forward.



### Reviewing and reporting progress

- Internal Audit's reporting schedule to the Corporate Leadership Team and to the Governance & Ethics Committee remains appropriate and timely.

# ANNEX 1: QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

## Update on progress for 2022/23 – arising from the Head of Internal Audit's annual self-assessment

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	(Progress – updated for 2022/23)
22/23 1	Adequate resources for the Team	The extent of non-audit duties for the Team increased in 2021/22	Progress options for more permanently resourcing the delivery of: - Corporate risk management - Assurance mapping - Continuous assurance  Quarterly governance updates	Chief Internal Auditor	September 2022	<b>Under development</b>  To be finalised in 2023/24 as part of the latest restructure of the Group roles
22/23 2	Effective communication	Potential scope to make audit reports more concise and engaging	Review the format of the standard audit report	Chief Internal Auditor	September 2022	<b>Implemented</b>  New reporting formats have been adopted during 2022/23
22/23 3	Skills, knowledge and competence of audit resource	Competence to carry out some ICT audits	Procurement of external provider to carry out the more complex ICT assignments in the Termly Plans	Chief Internal Auditor	From Term 1 2022/23	<b>Under development</b>  Current termly plans include an assessment of the appropriate ICT resource from the in-house team or external specialist which has developed during 2022/23

## ANNEX 1: QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	(Progress – updated for 2022/23)
22/23 4	Maintain audit procedures	Audit Manual needs to be continually updated	Update the Audit Manual for developments auditing approach during 2022/23	Team Manager – Internal Audit	March 2023	<b>Continuous</b>  The contents have been reviewed and updated but this will continue to be an ongoing item for the QAIP
22/23 5	Documentation of findings and supervision	Some inconsistent use of audit automation system	Scope to ensure the consistent use of the audit automation system for all types of assignment, especially for the more agile, advisory pieces of work.	Team Manager – Internal Audit	Immediate	<b>Continuous</b>  The use of the automated system for all work has been review and agile approaches identified. Compliance will remain an ongoing item for the QAIP through quality assurance reviews.



# ANNEX 1: QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

## New actions for 2023/24 – arising from the External Quality Assessment and Head of Internal Audit's annual self-assessment

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	(Progress – to be updated for 2023/24)
23/24 1	Adequate resources for the Team	The extent of capacity within the team to continue to provide assurance, advice and consultancy work in 2023/24	Progress options for more permanently resourcing the delivery of: - Assurance mapping - Continuous assurance  Quarterly governance updates  Provision of advice and consultancy work	Chief Internal Auditor	September 2023	<b>Under development</b>  To be finalised in 2023/24 as part of the latest restructure of the Group Roles
23/24 2	Effective communication	Potential scope to make audit reports more concise and engaging	Review the format of the standard audit report and explore the potential for automation within the Pentana system	Chief Internal Auditor	September 2023	<b>Under development</b>  New reporting formats have been adopted and will continue to be developed in 2023/24
23/24 3	Skills, knowledge and competence of audit resource	Skills and competence to continue to deliver assurance and complex ICT audits	Continual professional development of staff. Recruitment of experienced internal audit staff. Continuation of external procurement for complex ICT assignments	Chief Internal Auditor	From Term 1 2023/24	<b>Under development</b>  Current termly plans include an assessment of the appropriate audit resource, including ICT requirements.

## ANNEX 1: QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	(Progress – to be updated for 2023/24)
23/24 4	Maintain audit procedures	Audit Manual and Charter need to be continually updated	Routine updates to the Audit Manual and Charter for developments in audit approach and roles and responsibilities.	Chief Internal Auditor	September 2023	<b>Continuous</b>  The contents will continue to be reviewed and updated.
23/24 5	Documentation of supervision within the automated system	Some inconsistent use of the automated audit system	Scope to ensure the consistent use of the audit automation system for all types of assignment, especially for the more agile, advisory pieces of work.	Team Manager – Internal Audit	Immediate	<b>Continuous</b>  The use of the automated system for all work has been review and agile approaches identified. Compliance will remain an ongoing item for the QAIP through quality assurance reviews.
23/24 6	Development of the International Professional Practice Framework and PSIAS	Skills and competence to continue to deliver the service	Active engagement with the development of new standard and the application within the public sector. Continual professional development of staff.	Chief Internal Auditor	September 2023	<b>Under development</b>  The Chief Internal Auditor has been actively engaged with CIPFA and other Internal Audit Networks to be engaged in the consultation.