

Internal Audit Annual Report 2020/21

Rob Disney – Group Manager, Assurance

SUMMARY OF INTERNAL AUDIT'S WORK IN 2020/21

- 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:

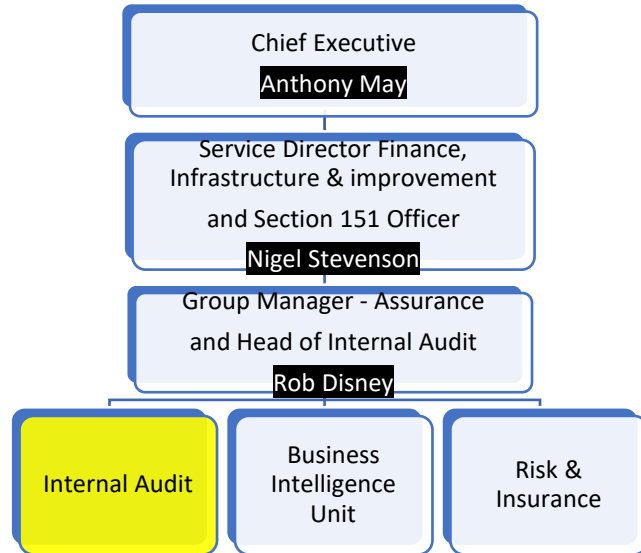
PSIAS Role	Delivered at NCC by:
Chief Audit Executive (CAE)	Group Manager - Assurance
Senior Management	Corporate Leadership Team
Board	Governance & Ethics Committee

- 4) Throughout 2020/21, 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 2020/21

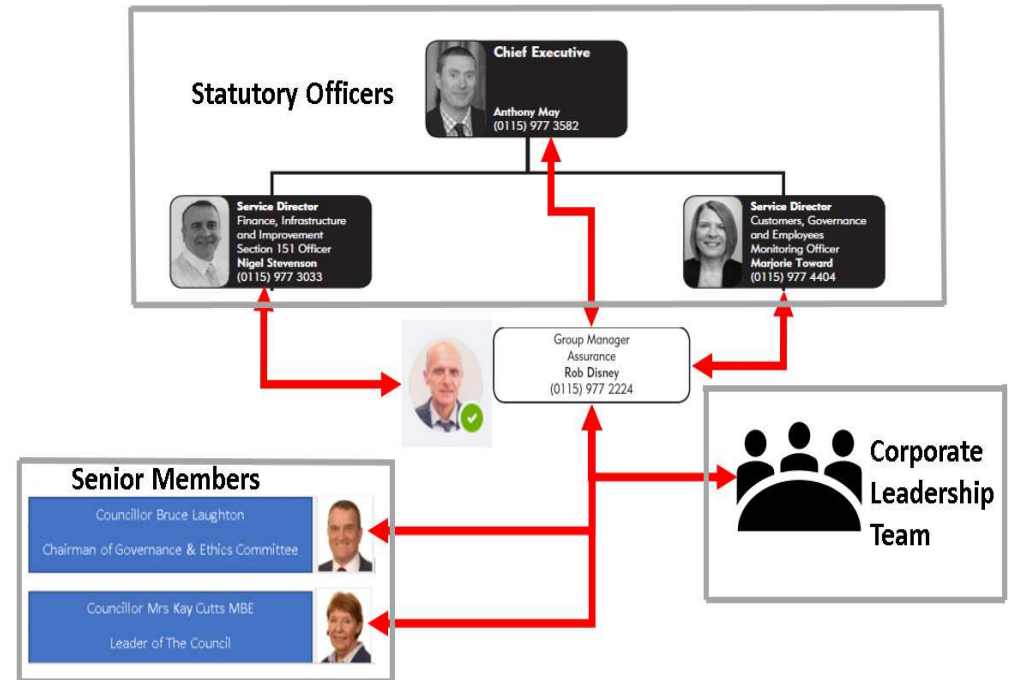
- 6) Internal Audit is positioned within the Assurance Group of the Chief Executive's Department. In my role as Group Manager – Assurance, I report directly to the Service Director – Finance, Infrastructure & Improvement, a member of the Corporate Leadership Team.



- 7) I must recognise that this structure presents a potential impairment to my independence in respect of internal audit reviews of the Risk & Insurance and Business Intelligence services. To address this, fully independent, external providers of internal audit services are engaged to carry out such reviews, when they become due. From 2020/21, this arrangement also applies to audits of corporate risk management, as responsibility for this

activity transferred to my Assurance Group in the summer of 2020.

- 8) The arrangements for the Internal Audit Team's organisational independence remained unchanged 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. I anticipate unchanged lines of access to senior members following the local elections in May 2021.



SUMMARY OF INTERNAL AUDIT'S WORK IN 2020/21

- 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 responded flexibly to the impact of the pandemic in 2020/21. Its termly planning approach proved well suited to the need for audit priorities to be kept under timely review. As the Council re-set its organisational objectives to respond to the emergency, 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 September 2020
 - Term 2 March 2021
 - Term 3 June 2021 (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 2020/21, which is the subject of a separate report to the Governance & Ethics Committee in June 2021.

SUMMARY OF INTERNAL AUDIT'S WORK IN 2020/21

- 15) 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 2020/21, the service can point to several positive impacts:



Comprehensive reviews have been carried out of the Council's response to the pandemic. 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 Covid Community Fund, the Emergency Assistance Fund and transport operator payments.



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 (such as budgetary control and financial resilience) 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 enforcement activity assessed how scarce resources are put to best use

to ensure effective enforcement is carried through and publicised to deter others.



For adults, there has been a similar focus on the use of scarce resources, such as in the reviews of kinships and hospital discharges. Both placed the best interests of vulnerable residents at the heart of the review, helping to assure the arrangements to enable residents to remain living at home and independently for as long as possible.

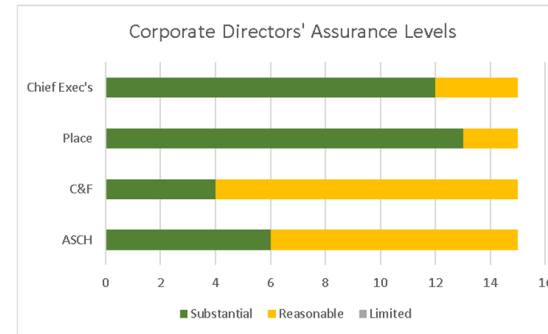
ANNUAL OPINION OF THE GROUP MANAGER - ASSURANCE

Governance



Basis for opinion in 2020/21

- 16) The Annual Governance Statement (AGS) for 2020/21 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 2020/21, 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 quarterly through the year. Updates to the Corporate Leadership Team and to the Governance & Ethics Committee have shown steady progress, despite the challenge of the pandemic response.
- 19) Assurance mapping for eight aspects of corporate governance has been reported to the Governance & Ethics Committee in June 2021. The areas covered by the map in 2020/21, along with the overall rating for each, are the following:

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

ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

20) The Governance and Ethics Committee received an annual Whistleblower report in March 2021. Few complaints have been received through the policy in the 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 2020 provided assurance that the outcomes of complaints received by this Council are closely aligned with what the Ombudsman sees in similar authorities.



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 an external health and safety audit by the British Standards Institute in January 2021, the Council

received accreditation to ISO45001 for its Health and Safety Management System.

Risk Management



Basis for opinion in 2020/21

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	Amber
Place	Green
Chief Exec's	Amber

ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

26) As included above at paragraph 18, assurance mapping in 2020/21 provides an amber rating for risk management, meaning that assurance levels are reasonable.

27) Key to assurance mapping in 2020/21 was the Zurich Municipal Healthcheck of the Council's risk management approach. This identified scope for improvements to be made, which will help the organisation become more risk mature. The Healthcheck set out ratings for each of six aspects of corporate risk management.



28) Internal Audit's risk-based audit approach did not identify any high-level risks in 2020/21 which were either not recognised by the organisation or for which the

mitigating actions in place were fundamentally inadequate.

29) The Group Manager – Assurance 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 much more frequently than usual in 2020/21, as demanded by the national emergency, and it provided a strong focus on operational risks arising from the pandemic.

30) Routine update reports on risk management to the Governance & Ethics Committee were restored in 2020/21. The most recent report in February 2021 identified that risk levels had mostly remained steady and had reduced in two areas.

ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

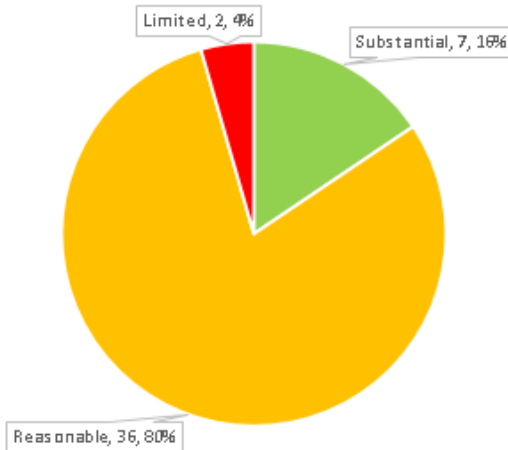
Control



Basis for opinion in 2020/21

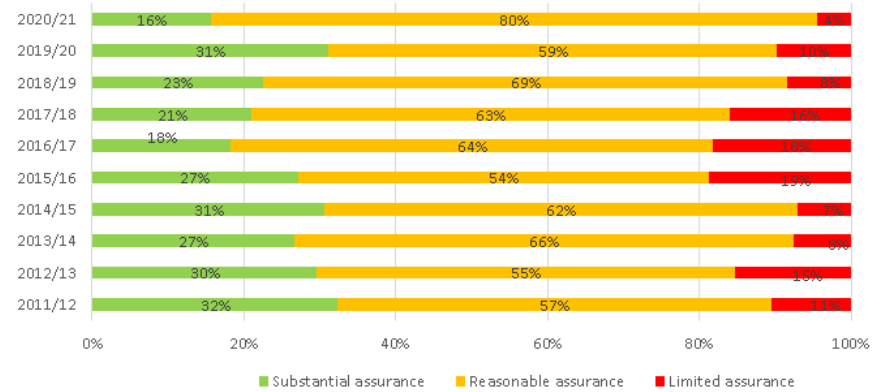
31) Analysis of the opinion-based assurance work shows the following distribution of opinions issued during 2020/21.

Opinions:- 2020/21



32) The trend in the incidence of audit opinions over the past few years is illustrated in the graph below. This shows the positive picture that, in 2020/21, there were few limited assurance opinions issued on Council systems and processes.

Trend in Internal Audit Opinions



33) The Annual Governance Statement for 2020/21 recognises continued pressure on core systems of internal control and, in particular, the impact the pandemic had on capacity to implement agreed recommendations. Implementation rates for Priority 1 actions remained below target.



34) The Council underwent an inspection of its Bacs approved bureau scheme in 2020/21. This confirmed

ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

that the organisation meets the standard required to maintain its Bacs Approved Bureau status, and an action plan is in place to address the recommendations raised in the report.

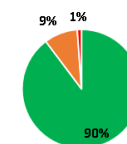
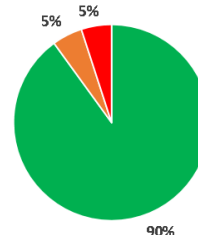
- 35) The Information Governance Board, and the relevant teams in the Chief Executive's Department, have a continuing focus on the challenge that cyber security poses to all organisations, across all sectors.
- 36) The outcome of the annual assurance mapping process (see paragraph 19, above) is also 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 charts and metrics to illustrate some key assurance indicators for 2020/21.

Budget Forecasts approved

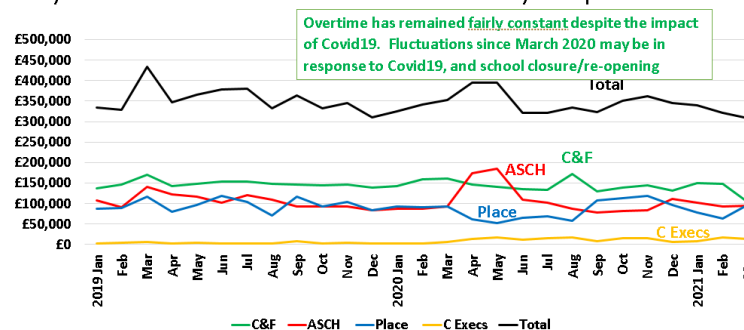
Latest month: Feb 2021

Feb 2020 (for comparison)



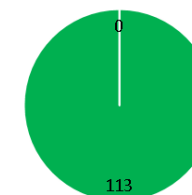
■ Forecasts Approved
 ■ Forecasts Unapproved
 ■ Forecast Not Entered (or Rejected)

Payroll – Overtime – in Total and by Department



No combinations of duties have been violated since full investigations began in July 2020.

- Segregated Duties with no Violations
- Segregated Duties with Violations



Mar 2021

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 were flexed to respond to the changing assurance requirements through the pandemic
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
Engagement with the Transformation agenda	✗ Review of the Council's approach is in progress.
Improved internal control & VFM	
Implementation of agreed actions	✗ Delays with Priority 1 actions highlighted
Quality measures	
Compliance with standards	✓ High degree of compliance
Customer feedback	✓ High levels of satisfaction

Benchmarking

- 39) As reported last year, the Council no longer takes part in the CIPFA benchmarking club for internal audit, due to the reducing numbers of comparable participants.
- 40) The anticipated progress with the emerging, alternative benchmarking approaches through the following regional and national groups was restricted by the pandemic:
- the national Chief Auditors' Network
 - the Midland Counties Heads of Internal Audit Group.
- 41) It is hoped that developments will resume in the current year.

Public Sector Internal Audit Standards (PSIAS)

- 42) 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.
- 43) 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.
- 44) For 2020/21, the self-assessment has been updated and has been used to form the basis of the annual Quality

PERFORMANCE OF THE INTERNAL AUDIT TEAM

Assurance and Improvement Programme (QAIP) for the service. 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 2020/21:

- 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) The only impairments to the independence and objectivity of the service during the year are as set out above at paragraph 7.

- 45) Nonetheless, the QAIP has identified some scope for improved compliance, with an action plan to provide a focus for continuous improvement in 2021/22 (see **Annex 1** below). Key themes for further improvement centre around the following:
- Implementing an approach to agile auditing – this embraces several actions to improve the timeliness of assurance delivery, its relevance and the approach to engaging with stakeholders during fieldwork and reporting findings.
 - A review of the Team’s resources against its foreseeable workloads, now that the revised structure for the Team has been in operation for more than 18 months. This will incorporate a review

of approaches and capabilities in the deployment of data analytics and specialist ICT audit.

- Updating our Audit Manual, to keep pace with changes implemented through the pandemic period, and ensuring staff understand and consistently comply with core audit processes.

REVIEW OF THE STRATEGIC AUDIT PLAN 2019-2021

- 46) In November 2019, Governance & Ethics Committee approved a Strategic Audit Plan for the period 2019 to 2021, 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 response, and this should continue through recovery and renewal to support the Council's transformation agenda. At the same time, opinion-based assurance work will increase through this period, embracing the possibilities offered by a 'continuous assurance' approach.
- The service's pro-active counter-fraud programme is heightening awareness of potential fraud vulnerabilities. Assurance work during the pandemic recovery period 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 service's first internal audit apprentices are now established members of the Team, making valued 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 2019-2021

- 'Continuous auditing' will be progressed further, building on the impetus given to this approach by the assurance needs of the emergency response.
- The service will review its 'data-enabled audit strategy', to ensure it continues to upgrade and upskill its approach.



Maintaining quality and VFM

- The service remains committed to progressing its Quality Assurance & Improvement Programme.
- The experience of delivering the internal audit service through home-based staff during the pandemic emergency 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 against the 2020/21 QAIP

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2021
19-20 2	Internal Audit is adequately resourced	Difficulties in recruitment	Identify how the resources required to deliver the risk-based audit plan have been assessed	Group Manager - Assurance	From the Term 2 Plan for 2021/22	Under development To be finalised in 2021/22
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 1 Plan for 2021/22	Implemented
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	Implemented for 2020/21 The Council's insurers, ZM Municipal, carried out a Healthcheck of the Council's risk management arrangements

ANNEX 1: QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2021
20-21 1	Bringing insight from Internal Audit's work	Continuing to embed a data analytic approach	Refresh of the Team's 'Data-enabled audit strategy'	Team Manager – Internal Audit	September 2020	In progress - strategy to be reviewed by September 2021
20-21 2	ICT specialist audit	Availability of in-house resource	Keep under active review the need to bring in specialist ICT audit capability, as and when required to meet needs identified in termly plans.	Group Manager - Assurance	Throughout 2020/21	Implemented – but see updated action below (21/22 5)
20-21 3	Contribution to transformation	Reduced allocation of resources to Council change programmes	Following the revision of the Council's transformation model in 2020/21, a greater portion of resources to be allocated to internal audit input to the Council's major transformation programmes.	Team Manager Internal Audit	From Term 3, 2020/21	In progress – being implemented in alignment with the Council's progress with establishing its revised model for transformation and change. Anticipated to see Internal Audit engagement with the new programmes from Term 2, 2021/22.
20/21 4	Timely assurance	Scope to deliver more audit assignments to	Continued focus on identifying barriers to timely delivery and	Team Manager Internal Audit	Improved performance outcomes in 2020/21	In progress – the Team is developing its approach to agile audit, learning from the experience of auditing

ANNEX 1: QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2021
		planned timescales	implementing corrective actions			through the pandemic. A number of the new actions below are a feature of this and should help to achieve improvements in the issue of timely assurance.

New actions for 2021/22 – 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 2021/22)
21/22 1	Alignment with strategies, objectives and risks of the organisation	Audit strategy will expire in 2021	Refresh the Audit Strategy to align with the new Council Plan	Group Manager - Assurance	December 2021	
21/22 2	Adequate resources for the Team	The extent of non-audit duties for the Team increased in 2020/21	Progress options for more permanently resourcing the delivery of: <ul style="list-style-type: none"> - Corporate risk management - Assurance mapping - Continuous assurance - Quarterly governance updates 	Group Manager - Assurance	September 2021	
21/22 3	Effective communication	Potential scope to make audit reports more	Review the format of the standard audit report	Group Manager - Assurance	September 2021	

ANNEX 1: QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	(Progress – to be updated for 2021/22)
		concise and engaging				
21/22 4	Risk-based assurance and risk assessments	Scope to update the risk assessment process	Embed development in 2020/21 of intelligence-based priority assessments for Termly Plans.	Group Manager - Assurance	From Term 2 2021/22	
21/22 5	Skills, knowledge and competence of audit resource	Competence to carry out some ICT audits	Procurement of external provider to carry out an ICT audit risk assessment and to deliver the more complex ICT assignments in the Termly Plans	Group Manager - Assurance	From Term 2 2021/22	
21/22 6	Maintain audit procedures	Audit Manual needs to be updated	Update the Audit Manual for developments in agile auditing approach during 2020/21	Team Manager – Internal Audit	November 2021	
21/22 7	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 that were a feature of 2020/21.	Team Manager – Internal Audit	Immediate	