

6 November 2018**Agenda Item: 6****REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE &
IMPROVEMENT AND SECTION 151 OFFICER****INTERNAL AUDIT 2018-19 TERM 1 REPORT & 2018-19 TERM 3 PLAN****Purpose of the Report**

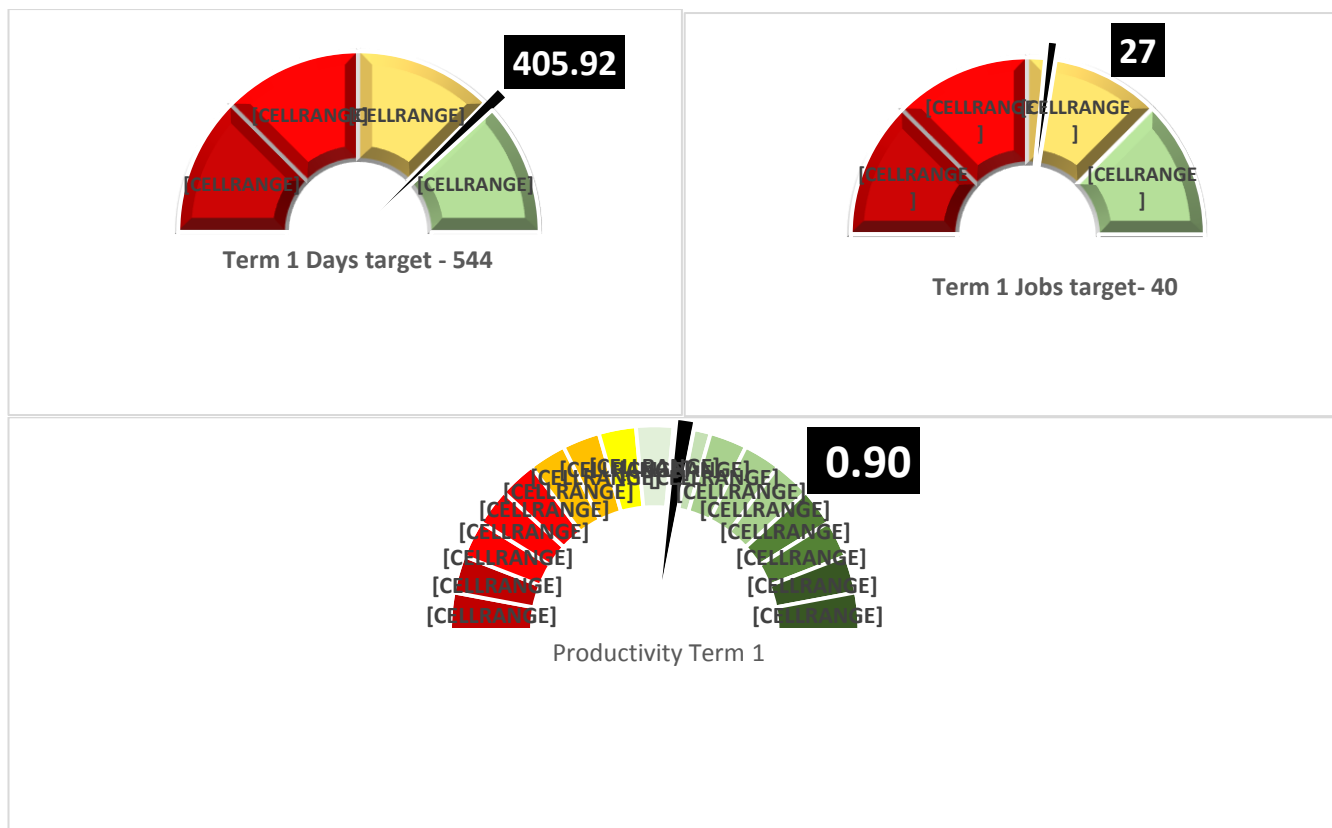
1. To inform Members of the Head of Internal Audit's report on the work carried out by Internal Audit in Term 1 of 2018/19, and to highlight any key issues arising.
2. To consult with Members on the Internal Audit Plan for Term 3 of 2018/19.

Information

3. Internal Audit is now operating on the basis of three Termly Plans in each financial year, covering the following periods:
 - Term 1: April to July
 - Term 2: August to November
 - Term 3: December to March
4. As previously agreed with the Committee, Internal Audit reports its updates three times per year. The reports comprise the outcomes from the work carried out in the preceding Term, followed by proposals for the coverage in the forthcoming Term.

Progress against the Term 1 Audit Plan 2018/19

5. The change from an annual plan to a termly plan was considered and agreed during the first few months of 2018/19, consequently a Term 1 Plan was not formally and separately established. Internal Audit staff commenced work in this period on the audits agreed in the formerly approved Annual Plan for 2018/19. Nonetheless, it is considered relevant to assess the days and jobs delivered by the service against a notional Term 1 Plan. The following charts depict progress against one-third of the totals for days and jobs agreed in the formerly agreed 2018/19 Annual Plan. The progress is expressed in terms of the following:
 - Inputs – the number of audit days delivered against the notional Term 1 plan. Each segment in the chart represents $\frac{1}{4}$ of the Termly Plan.
 - Outputs – the number of jobs completed against the plan. Each segment in the chart represents $\frac{1}{4}$ of the Termly Plan.
 - Productivity indicator – the target score is 1, indicating that all planned jobs have been completed on time and using the planned allocation of days.



6. Term 1 represented a transitional period from the former annual approach to audit planning to the current termly basis. As a result, a separate plan with separate targets for days and jobs was not identified for Term 1, pending approval of the amended approach by Committee. An annual plan for 2018/19 had been approved by the Governance & Ethics Committee in March 2018, containing a planned number of days and jobs to be delivered during the full year. For the purpose of providing an indicator of performance in Term 1, 1/3rd of these annual targets has been used in the above charts.
7. Fewer resources than planned for at the start of the year were available to the service in the first third of the year. This was largely due to a lengthy period of sickness absence in Term 1, the impact of which reduced the service's capacity to deliver the expected number of school audits in the period.

Audit assurance

8. In Term 1, a range of work was completed across the Council. **Appendix 1** sets out details of all final reports, draft 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.

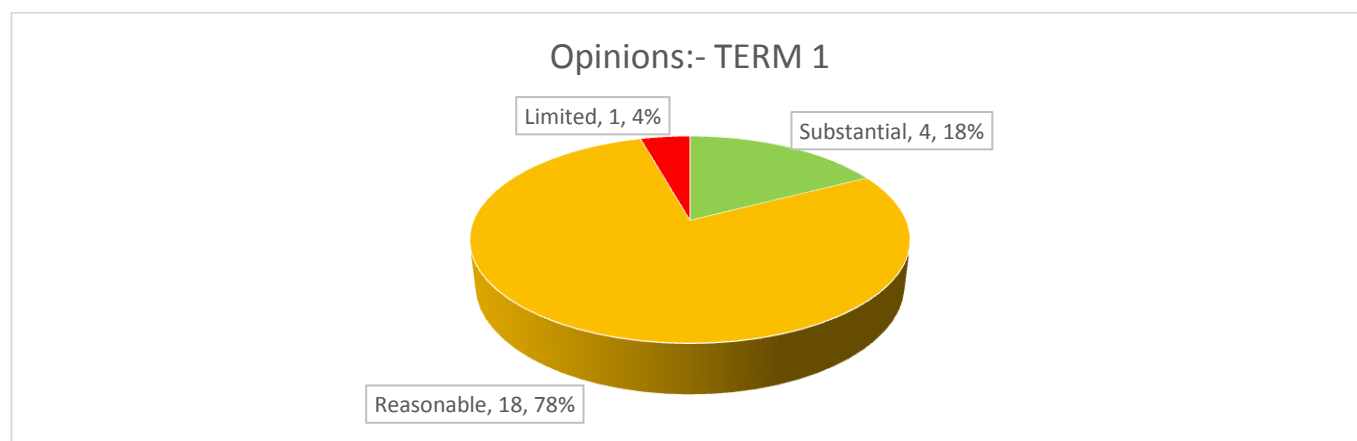
With regard to school audits completed in Term 1, the following summarises the spread of assurance opinions for the 11 completed reports:

+ **Substantial Assurance (1 item)**

+ **Reasonable Assurance (9 items)**

+ **Limited Assurance (1 item)**

9. Analysis of the opinion-based assurance work shows the following distribution of opinions issued in Term 1 (**see chart below**). Based on this, and adding it to the rolling outcomes of Internal Audit's assurance work over the past 12 months, the Head of Internal Audit is able to report that **a satisfactory level of internal control continues to be in operation in the council.**



10. The single limited assurance opinion issued in Term 1 relates to one of the schools visited. The audits in schools cover a broad range of areas including: governance; expenditure; income; assets; and information. Weaknesses were noted in a number of these areas at the school in question.

Advisory input to developments

11. Internal Audit continues to provide advisory input to key developments in the Council. In Term 1, this effort focussed on the Information Governance Improvement Programme (IGIP), with the Head of Internal Audit attending meetings of the IGIP Board. Additionally, follow-up work to assess progress with implementing the actions agreed from last year's Internal Audit review of information governance is currently in progress. This will provide independent assurance to the Board, and to the Council as a whole, regarding the extent of the progress being made.
12. Internal Audit has also responded to a number of smaller-scale, ad hoc requests for advice from a range of service areas across the Council.
13. Internal Audit's advisory input ensures that timely advice is delivered by the Section while new and changed systems are being designed and implemented, and it helps to maintain the influence the Section has to retain a proper focus on control issues. Informal feedback from senior officers continues to indicate that this type of input is valued

Counter-Fraud

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

- Serious and organised crime – a data-washing exercise with Nottinghamshire Police is in progress to match the Council's supplier file against the Police's records of criminal groups.
- Data-matching hub – a pilot exercise to carry out re-checks of pensions data against up-to-date mortality data has been carried out and the latest matches are under investigation by the Pensions Section. Mortality data will also be shared with other key service areas in which mortality data may identify potential cases of fraud, for example with social care and Blue Badge parking permits.
- Fraud Response Plan – this was refreshed and approved by the Governance & Ethics Committee in July 2018.
- Counter-fraud e-learning – an e-learning package for all staff was finalised and launched in July 2018, following approval of the refreshed Fraud Response Plan.

15. In addition, Internal Audit was engaged to varying degrees in the following enquiries to investigate potential fraud cases. The cases referred to remain in progress, therefore fuller details will be reported to Committee once the outcomes are finalised:

Area of service and nature of irregularity	Extent of Internal Audit's input
Direct Payment Support Service provider - shortfall on service user account balances maintained by an external provider	Support and advice to the departmental staff working with the provider to confirm balances and to monitor the ongoing recovery of the shortfall. Discussion of the case with Nottinghamshire Police - no further Police action is being taken.
Direct Payments - irregularities identified by the Adult Care Financial Services (ACFS) Team through its monitoring and review procedure.	Regular liaison with ACFS to discuss Direct Payment cases. Early discussion of the more significant cases with Nottinghamshire Police. Police action is being taken currently in respect of an alleged theft of a service user's funds by a carer.
Overpayment to a care home in respect of a service user couple	Advice on recovery action to correct a commissioning error which had not been brought to the Council's attention by the provider.
Employee claims for additional hours in a Children's & Families establishment	Analytical contribution to the investigation of claims for additional hours and subsequent submission of evidence to the formal stage of the investigation. Co-ordination of advice from Nottinghamshire Police and subsequent revision of the Council's Fraud Response Plan.
Employee claims for additional hours in a school	Analysis and subsequent report to the Headteacher, along with advice on recovery action
Objection to the financial accounts relating to the sale of land	Assistance with the collection of evidence requested by Nottinghamshire Police. The Police case has been closed, but the final report of the External Auditor is still awaited.

16. In all cases, Internal Audit assesses whether the weaknesses in internal controls are a contributory factor to the issues arising and makes recommendations to management. The Fraud Risk Assessment is updated in light of both the pro-active and reactive fraud work.

Key Performance Indicators

17. The Section's performance in Term 1 against its key indicators is detailed in the following table:

Performance Measure/Criteria	Target	Outcome in Term 1
1. Risk-aware Council		
Completion of Termly Plan - Days - Jobs	90% 90%	✗75% ✗70%
Regular progress reports to: - Departmental Leadership Teams - Corporate Leadership Team - Governance & Ethics Committee	1 per term 1 per term 1 per term	✓ Completed ✓ Completed ✓ Completed
Publication of periodic fraud/control awareness updates	2 per annum	✓ E-learning package & Annual Fraud Report
2. Influential Audit Section		
Recommendations agreed	95%	✓ 100%
Engagement with the Transformation agenda	Active in 5 key projects during the year	✗ Active in 1 so far in 2018/19
3. Improved internal control & VFM		
Percentage of Priority 1 & Priority 2 recommendations implemented	75%	✓ 81% Priority 1 ✓ 90% Priority 2 (as at May 2018 update)
4. Quality measures		
Compliance with the Public Sector Internal Audit Standards	Compliance achieved	✓ Action is in progress to address the few issues identified by the External Quality Assessment of Internal Audit
Positive customer feedback through Quality Control Questionnaire (QCQ) scores	Feedback good or excellent (where a score of 1 is excellent and a score of 2 is good)	✓ 1.91

18. The table shows a good level of performance by the service in Term 1, although the quantum of work carried out was less than anticipated due to the issues set out above at paragraphs 6 & 7.

Proposed Internal Audit Plan for Term 3 2018-19

19. Internal Audit has carried out updated consultations with senior managers (through the Corporate Leadership Team and the Departmental Senior Leadership Teams). Regular slots at these meetings are booked in on a rolling basis to coincide with the schedule agreed for the termly arrangement.

20. Audit plans are determined on a risk basis, as required by the Public Sector Internal Audit Standards (PSIAS). As part of the planning process, account is taken of external sources of assurance, including the work of external inspectorates. Where audits are planned, pre-audit work will also include discussion with managers over sources of assurance that can be relied upon, to prevent duplication. Account will also be taken in future Terms of any

significant implications arising from the pilot work on assurance mapping, which continues to progress.

21. Plans are compiled in accordance with PSIAS and they represent the Section's assessment of the key areas that need to be audited in order to satisfy the Authority's statutory responsibility to undertake an adequate and effective internal audit of its accounting records and its system of internal control. The Section's aim is to complete sufficient work to express an overall, annual opinion on the adequacy and effectiveness of the Authority's internal control systems. The annual opinion for 2018/19 will be expressed in the scheduled update report in July 2019 and will take account of assurance delivered from all of Internal Audit's work over the three Terms in 2018/19, along with assurances available from other sources.

22. The Termly Plan is based on an Audit Risk Assessment to identify the priorities for audit coverage. Each area of activity in the Council is assessed in terms of the following factors:

- Value and volume of transactions involved with the activity
- The known level of internal control in place (from previous audits)
- The value of cash and bank transactions
- The relative complexity of the activity
- Whether the activity is stable or subject to change
- How sensitive the activity is for the Council among its key stakeholders
- The number of sites where the activity is carried out.

Using an established system of scoring and weighting the above factors, the Needs Assessment arrives at a high/medium/low risk-rating for each area of activity.

23. **Appendix 2** sets out details of the proposed coverage by Internal Audit for Term 3, and it is summarised in the following table.

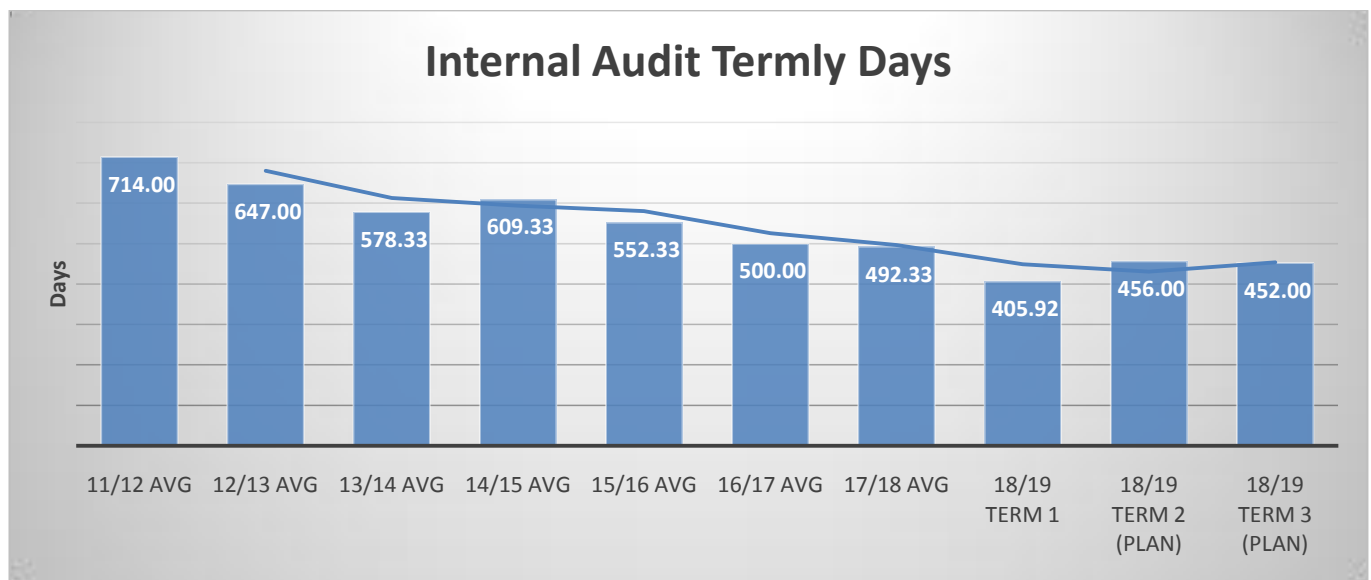
Department	Days	Number of Audits			
		High Priority	Med Priority	Other	Total
Council-wide	132	8	1		9
Children & Families	34		1	1	2
Adult Social Care & Health	77	4	1	1	6
Place	87	1	2	1	4
Chief Executive's	42	3			3
Total County Council (excl. schools)	372	16	5	3	24
Schools	80			18	18
Total County Council	452	16	5	21	42
External Clients (Notts Fire & Rescue Service)	50				
Grand Total	502				

24. As can be seen from the table, a total of 502 days are planned for Term 3 of which 452 (90%) will be spent on the Authority's systems and procedures. The remaining 50 days will be spent on external contracts, providing an internal audit service to Nottinghamshire Fire and Rescue Service. The costs incurred in delivering external contracts are fully recovered.

25. With regard to schools, Nottinghamshire's Scheme for Financing Schools requires all local authority maintained schools to have an internal audit once every five years. The Council's

Internal Audit Service offers to deliver these audits on a buy-back basis; at the time of compiling this report, a total of 41 schools had bought back the service.

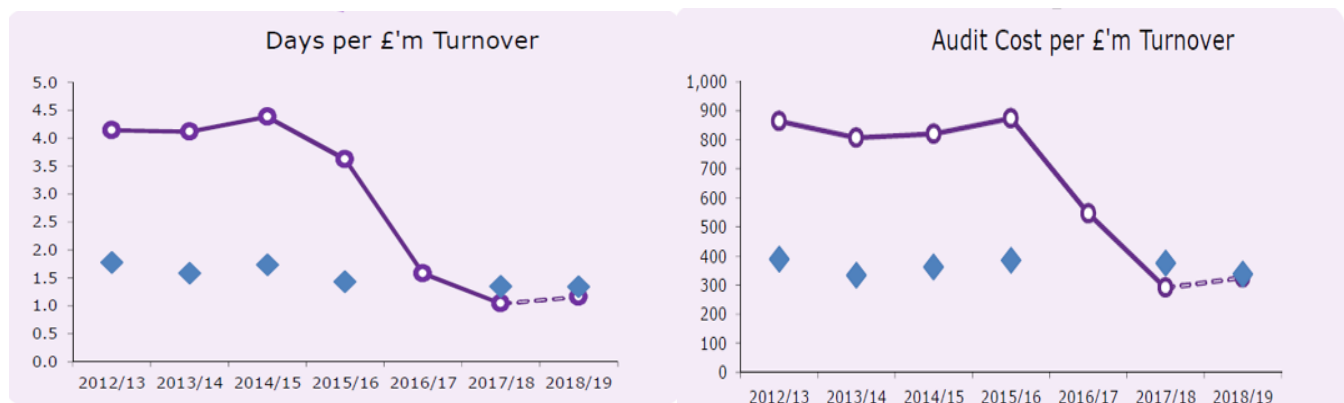
26. The chart below shows the trend in the number of actual days delivered in recent years. The figures for past years are expressed as the average coverage per termly period in those years, in order to provide a meaningful comparison with the plan for Term 3 in 2018/19. Internal Audit's staffing resources were reduced from April 2016, which explains the higher number of days delivered prior to that time.



27. The number of days delivered in Term 1 of 2018/19 was low due to issues with sickness absence and vacancies. A recruitment process has commenced and the Term 2 Plan is based on fresh resources being secured part-way through the term.

Benchmarking data

28. The Section participates in the Chartered Institute of Public Finance and Accountancy (CIPFA) benchmarking club for internal audit services. Extracts from the latest benchmarking report received in August 2018 show that the comparator average (trend line) has now converged downwards towards the level of cost and audit coverage of the Council's Internal Audit Section (plotted 'X's'). The net budget for 2018/19 is £392k.



29. The CIPFA benchmarking exercise is comprised of the following types of participant:

Member Profile

There were 18 respondents to the 2018 Internal Audit Benchmarking Club.

Authority Type	Total
Unitary Authority	12
County Council	4
District Council	1
Other	1

The outcomes from the CIPFA exercise are of limited value, due to the declining total number of participants and the fact that very few County Councils are members. The Head of Internal Audit has initiated a separate benchmarking exercise with his counterparts in the Midland Counties' Heads of Internal Audit Group (MCHIAG). The outcomes from this will be presented in a future update report and should provide for closer comparisons with internal audit services at other two-tier councils in the region.

Other Options Considered

30. The Audit Section is working to the Public Sector Internal Audit Standards during 2018/19. 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

31. To set out the Report of the Head of Internal Audit for Term 1 of 2018/19, and to propose the planned coverage of Internal Audit's work in Term 3 of 2018/19, providing Members with the opportunity to make suggestions for its content.

Statutory and Policy Implications

32. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Individual audits completed and in the proposed Termly Plan may potentially have a positive impact on many of the above considerations.

Financial Implications

The Local Government Act 1972 requires, in Section 151 that the Authority appoint an officer who is responsible for the proper administration of the Council's financial affairs. The Service Director for Finance, Infrastructure & Improvement is the designated Section 151 officer within Nottinghamshire County Council. Section 6 of the Accounts and Audit Regulations 2011 requires Local Authorities to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The County Council has delegated the

responsibility to maintain an internal audit function for the Authority to the Service Director for Finance, Infrastructure & Improvement and Section 151 Officer.

RECOMMENDATION/S

- 1) Arising from the content of this report, Members determine whether they wish to see any actions put in place or follow-up reports brought to a future meeting.
- 2) That Members consider whether the planned coverage of Internal Audit's work in Term 3 will deliver assurance to the Committee in priority areas.

Nigel Stevenson

Service Director for Finance, Infrastructure & Improvement and Section 151 Officer

For any enquiries about this report please contact:

Rob Disney

Head of Internal Audit

Constitutional Comments (KK 29/10/2018)

33. The proposals in this report are within the remit of the Governance & Ethics Committee.

Financial Comments (RWK 29/10/2018)

34. There are no specific financial implications arising directly from the 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