

29 November 2023

Agenda Item: 5

REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

INTERNAL AUDIT TERM 1 PROGRESS AND TERM 3 PLAN 2023-24

Purpose of the Report

1. To inform Members of the work carried out by Internal Audit in Term 1 of 2023/24.
2. To consult with Members on the Internal Audit Plan for Term 3 of 2023/24.

Information

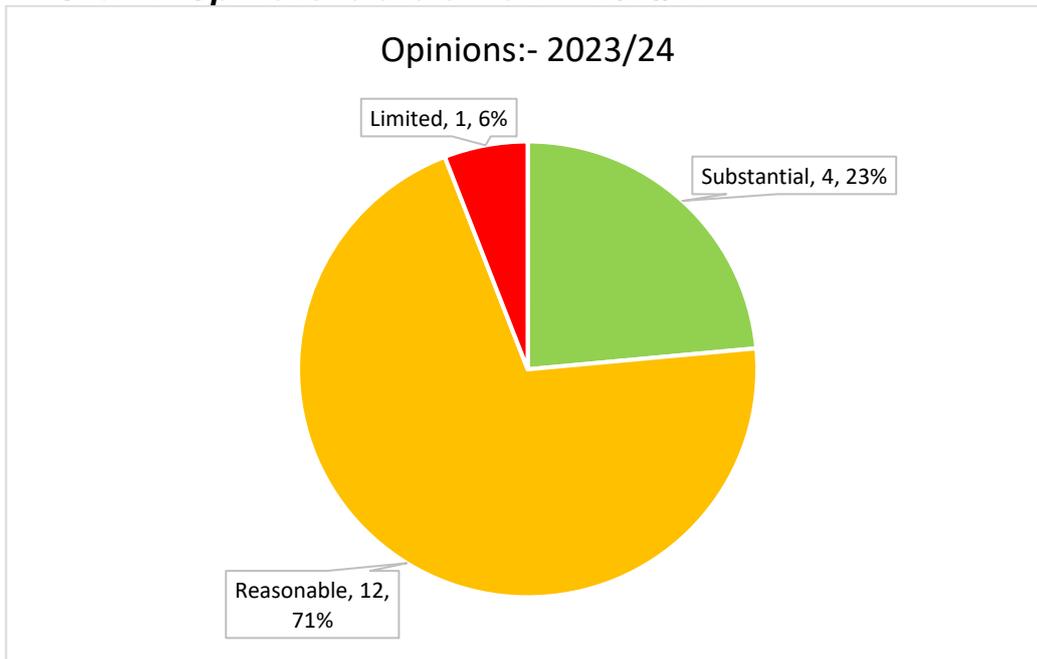
Internal Audit's work in Term 1 - 2023/24 – April to July 2023

3. Internal Audit continued to deliver its service through a flexible and agile approach, maintaining efforts to ensure the Team's coverage was complementary to the ongoing, cross-Council pandemic response. A range of work was completed across the Council, covering the following key types of Internal Audit input:
 - Assurance audits - for which an audit opinion is issued
 - Advice and consultancy – often relating to key developments, initiatives and changes to the internal control framework
 - Counter-fraud – primarily focussed on pro-active work to raise awareness of emerging fraud issues.

Audit assurance

4. The opinion-based assurance work is a key contributor to the Head of Internal Audit's year-end opinion on the adequacy of the Council's arrangements for governance, risk management and control. **Chart 1** shows the cumulative distribution of opinions issued in 2023/24, to the end of Term 1.

Chart 1- Opinions to end of Term 1 2023/24



- Chart 1** includes schools audits undertaken by the Children’s & Families’ Finance Team.
- In terms of the work completed on the County Council’s services and systems, **Chart 2** analyses the opinions issued in Term 1 by service area and level of assurance.

Chart 2 - Opinions for Term 1 2023/24

	LIMITED ASSURANCE	REASONABLE ASSURANCE	SUBSTANTIAL ASSURANCE
COUNCIL-WIDE		Action Tracking Assurance Mapping	
CHILDRENS			Holiday Activities Fund Grant
PLACE		Homes for Ukraine Grant – Payments to Hosts	
ADULTS			
CHIEF EXEC’S		ICT Laptop Stocks	
School Audits	1 Visit*	8 Visits	3 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. This is due to the small number of staff involved, often only one office manager, who is able to generate and process transactions in relation to payroll, payments and expenses etc. Guidance and training is available to staff undertaking such functions from the Schools Finance Team.

- The significant pieces of assurance work during Term 1 were the following:

- Continuous Assurance – to provide a monthly report to the Council’s statutory officers on the application of internal control in key Council processes.
- Action Tracking – our 6-monthly report on the implementation of recommendations which went to the June 2023 committee
- Assurance Mapping – our annual report which went to the June 2023 committee
- The Annual Governance Statement and G&E Committee Annual Report which went to the May 2023 Committee.

Advisory input

8. Internal Audit continued to provide advisory input to developments across the Council. The following summarises the key areas of activity:
- Homes for Ukraine – a review of the systems for payments to hosts providing accommodation to guests from Ukraine.
 - Holiday Activities Fund – a review of payments of this grant to service providers.
9. Internal Audit’s advisory input ensures that timely advice is delivered and can influence subsequent actions. The engagements in advisory work help to maintain the influence the Section has to retain a proper focus on control issues and provides intelligence for subsequent planned assurance activity.

Counter-Fraud

10. Internal Audit pursued its pro-active programme, disseminating fraud awareness materials to alert departments and staff of fraud risks and scams that emerged during Term 3. The following summarises the key areas of activity:
- Annual Counter Fraud Report to the G&E Committee in July 2023.
 - National Fraud Initiative (NFI) – coordination and review of matches with departments.
 - National and Local Fraud Alerts – screening and distributing to relevant sections alerts publicised by national fraud agencies.
 - Advice relating to the prevention of fraud and theft was included in the reports on ICT Laptop Stocks (para 6 above), and Household Support Grant (para 8 above).
11. In addition, Internal Audit advised in fraud investigation activities involving live cases outlined in the Annual Fraud Report.

Certification

12. Internal Audit provides a certification function for a variety of grants received and distributed by the Council, and financial accounts in which the Council has an interest. During Term 1 the Trading Standards Grants were audited (for those over £100,000 an audit is a requirement of the grant conditions), and the Home Upgrade Grant (phase 2) mobilisation expenditure was certified.

Internal Audit Performance

13. **Appendix 1** provides an update on the Section’s performance in Term 1 against its key indicators. It includes the following charts to depict progress against the Term 1 Plan, expressed in terms of the following:
- Inputs – the number of audit days delivered against the Term 1 plan. Each segment in the chart represents one month - ¼ of the Termly Plan.
 - Outputs – the number of jobs completed against the plan. Each segment in the chart represents one month - ¼ of the Termly Plan.

- Productivity indicator – the target score is 1.

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

- Staffing resources – in Term 1 the team continued to be impacted by the Team Manager and a Senior Auditor providing interim cover for vacant positions. This was addressed during Term 1 with the Group Manager and Team Manager positions being filled. This reduced the number of audit days input (see Appendix 1) with the Audit Supervisor moving into the Audit Manager role. Two vacancies existed at Senior Auditor level, which have been recruited into in Term 2, with the staff starting in September and October 2023. Available staffing productive days therefore have risen for Term 3 and this is reflected in the next termly plan (below). Vacancies remain at the Internal Audit Apprentices level, impacted by one of the two Apprentices leaving in March 2023. Plans are now in progress for these to be recruited to. Time has been set aside from the planned audit work for the Team Manager's involvement in the recruitment and induction of new staff.
- Assurance and Advisory activities – the completion of internal audit activity reflects the impact of staffing changes and is reflected in the agile approach adopted. Term 1 again demonstrates that the Team have continued to flex plans and provide advisory activities to support the immediate risks facing the Council. This has an impact on delivery of the planned assurance reviews, but these are kept under review for ongoing priority in subsequent plans, as identified in the Term 3 plan for 2023-24.
- Action tracking Implementation rates, for actions arising from audits, have now met or exceeded the target of 75% on the last three 6-monthly reviews. Our latest report on this to the Committee in November 2023 showed an implementation rate of 77% for 2021/22 actions and 87% for 2022/23 actions. The next update on this is scheduled for June 2024.

Proposed Internal Audit Plan for Term 3 - 2023-2024

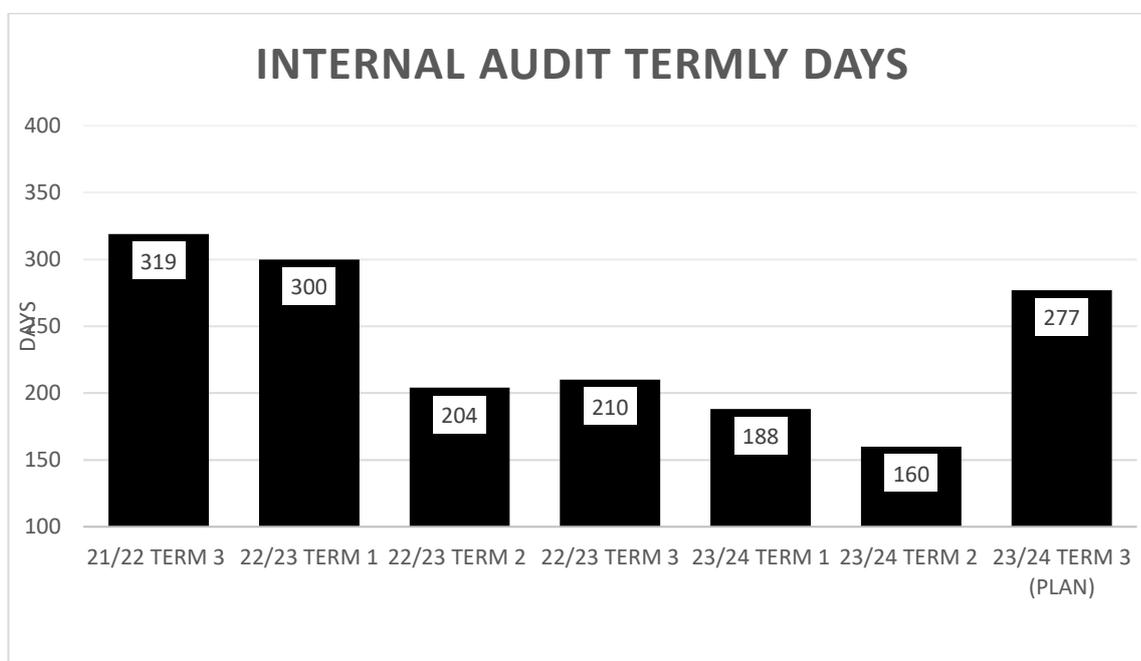
15. Internal Audit termly plans continue to be determined on a risk basis, as required by the Public Sector Internal Audit Standards, and using the methodology previously reported to Members.
16. In addition to undertaking an assessment of audit risks the termly plan also needs to consider the assurance it provides that the Council's Core Processes remain robust. The termly plan includes coverage of core processes on a cyclical basis to ensure that this assurance can be provided to support the Head of Internal Audit Annual Report. As a reminder the Core Processes established through the Internal Audit Strategy are:-

Core Processes	
• Commissioning	• Risk management
• Procurement & accounts payable	• Business continuity
• Workforce planning & employee recruitment	• Performance management
• Payroll	• Asset management
• Accounts receivable (including Payment Card Industry compliance)	• Corporate governance
• Accounting clearing house	• Health & safety
• Budgetary control	• Counter-fraud
• Corporate financial management	• ICT access management
• Pensions administration & investment	• ICT networks
• Information governance	• Cyber security

17. The Term 3 plan represents the Section's assessment of the key areas that need to be audited in order to satisfy the Authority's statutory responsibility to undertake an adequate and effective internal audit of its system of internal control. The Section's aim is to complete enough work to express an overall, annual opinion on the adequacy and effectiveness of the Authority's internal control arrangements.
18. Termly planning continues to be developed in an agile way allowing the precise scope and objectives for each audit assignment to be agreed at the time the audit is to commence. Detailed discussions prior to an audit commencing should identify other sources of assurance already available for the area in question, thereby clarifying the risks on which Internal Audit's focus should most impactfully be applied. At this planning stage, therefore, proposed topics for audit are expressed in terms of the broad rationale for their inclusion.
19. Similarly, the termly plan contains a forward plan of areas to be considered for inclusion in subsequent terms, which again will be subject to more precise scoping at the time the audit is to commence.
20. **Appendix 2** sets out details of the draft coverage by Internal Audit for Term 3, and it is summarised in the following table.

Assurance from Audit Coverage	Days	Outputs
Second Line Assurance work	65	4
Opinion Assurance	148	9
Advice / Consultancy Assurance	46	0
Counter Fraud Assurance	18	4
Certification Assurance	0	0
Total	277	17
External Client (Notts Fire & Rescue Service)	33	
Grand Total	310	

21. The chart below shows the trend in the number of actual days available in recent terms, excluding the external client. The increase in term 3 mainly reflects the recruitment of two Senior Auditors during Term 2.



22. The next Internal Audit update to Committee will cover details of the outcome of Internal Audit's work in Term 2 2023-24 (August to November 2023).

Other Options Considered

23. The Internal Audit Team is working to the Public Sector Internal Audit Standards during 2023/24. 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

24. To set out the report of the Interim Chief Internal Auditor to propose the planned coverage of Internal Audit's work in Term 3 of 2023/24, providing Members with the opportunity to make suggestions for its content.

Statutory and Policy Implications

25. 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

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

RECOMMENDATION

- 1) That the Committee notes the outcome of the Internal Audit work carried out in Term 1 – 2023/24 and the planned coverage of Internal Audit's work in Term 3 of 2023/24 be progressed to help deliver assurance to the Committee in priority areas.

Nigel Stevenson

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

For any enquiries about this report please contact:

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Constitutional Comments (GR - 01/11/2023)

27. Pursuant to the Nottinghamshire County Council constitution the Governance and Ethics Committee has the authority to receive this report.

Financial Comments (CSS - 01/11/2023)

28. There are no specific financial implications arising directly from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All