

Internal Audit Annual Report 2021/22

Simon Lacey – Interim Chief Internal Auditor

SUMMARY OF INTERNAL AUDIT'S WORK IN 2021/22

- 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

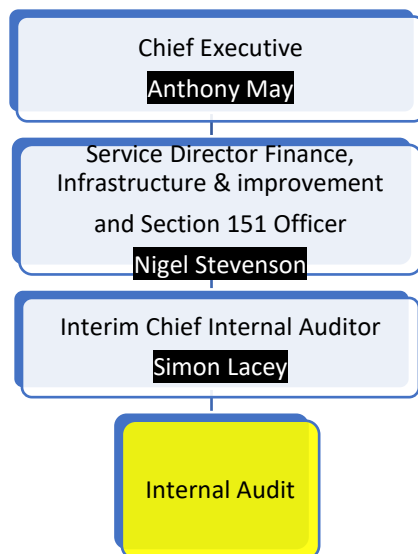
standards for effective internal audit are delivered at this Council as follows:

PSIAS Role	Delivered at NCC by:
Chief Audit Executive (CAE)	Interim Chief Internal Auditor
Senior Management	Corporate Leadership Team
Board	Governance & Ethics Committee

- 4) Throughout 2021/22, 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.

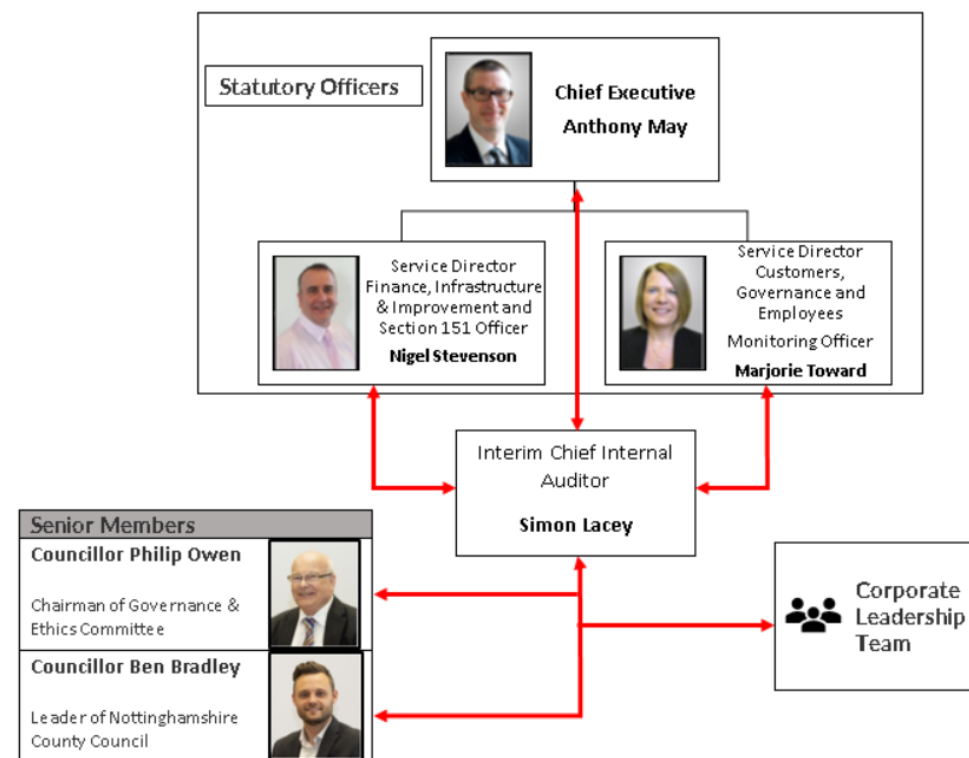
SUMMARY OF INTERNAL AUDIT'S WORK IN 2021/22

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



- 7) My interim role is providing long term sickness cover for the Group Manager – Governance. I am providing cover for only the Internal Audit service and therefore have no impairment in relation to other roles undertaken by the Group Manager as reported in previous years. In forming my opinion, I have drawn on the shared knowledge and understanding of the Internal Audit service over the last 12 months and reviewed the assessment previously undertaken by the Group Manager.

- 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. These lines of access to senior members remained unchanged following the local elections in May 2021.



SUMMARY OF INTERNAL AUDIT'S WORK IN 2021/22

- 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 2021/22. 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 pandemic, 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 2021
 - Term 2 March 2022
 - Term 3 June 2022 (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 2021/22, which is the subject of a separate report to the Governance & Ethics Committee in July 2022.

SUMMARY OF INTERNAL AUDIT'S WORK IN 2021/22

- 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 2021/22, the service can point to several positive impacts:



Comprehensive phased 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 UK Community Fund, Household support Fund and transport operator payments.



For Council Tax payers, helping the organisation to strengthen its stewardship of public funds. Audits of several the Council's core systems and procedures (such as post payment assurance, procurement cards and CIPFA code) 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, there has been a similar focus on the use of resources, especially in relation to delivering mental health services. Within children's, work has reviewed arrangements for the regional adoption agency and contributed to the Member led expenditure review. Such work places the best interests of vulnerable residents at the heart of the review.

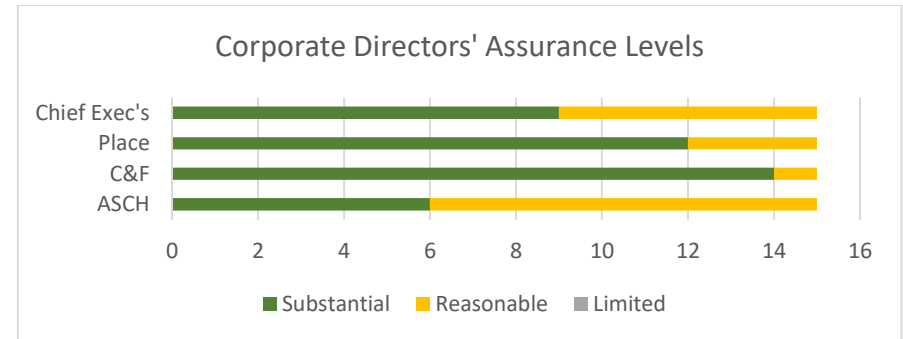
ANNUAL OPINION OF THE INTERIM CHIEF INTERNAL AUDITOR

Governance



Basis for opinion in 2021/22

- 16) The Annual Governance Statement (AGS) for 2021/22 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 2022. The areas covered by the map and rating in 2021/22, are the following:

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

ANNUAL OPINION OF THE INTERIM CHIEF INTERNAL AUDITOR

20) The Governance and Ethics Committee received an annual Whistle-blower report in March 2022. 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 2021 provided assurance that the outcomes of complaints received by this Council had the lowest uphold rate of all the statistically significant Councils.

 The Law Society
Lexcel
Legal Practice Quality Mark

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 2021/22

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:

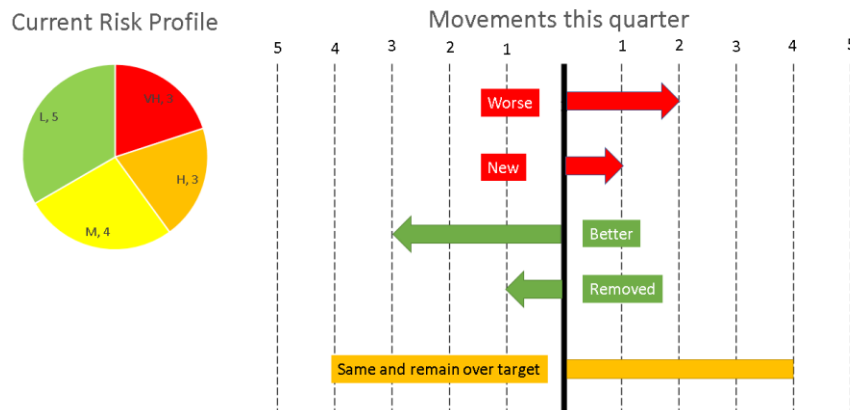
Mitigations carried out

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

ANNUAL OPINION OF THE INTERIM CHIEF INTERNAL AUDITOR

- 26) Since the outcome of the Zurich Municipal Healthcheck external review progress has been made against the action plan. A forward-looking strategic risk register has been developed using a PESTLE analysis to identify future threats and opportunities across the Council.
- 27) A further significant development has been the implementation of a risk reporting regime to provide a concise view of current risk levels and the movements in those risk levels.

Risk profile and movement



- 28) Internal Audit's risk-based audit approach did not identify any high-level risks in 2021/22 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 frequently in 2021/22, to provide 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 March 2022 identified the current risk levels and progress with the implementation of the action plan.

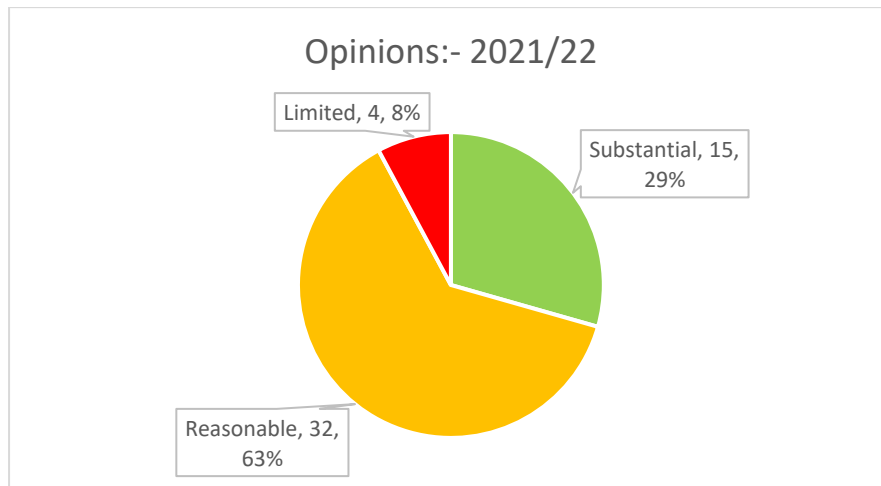
ANNUAL OPINION OF THE INTERIM CHIEF INTERNAL AUDITOR

Control



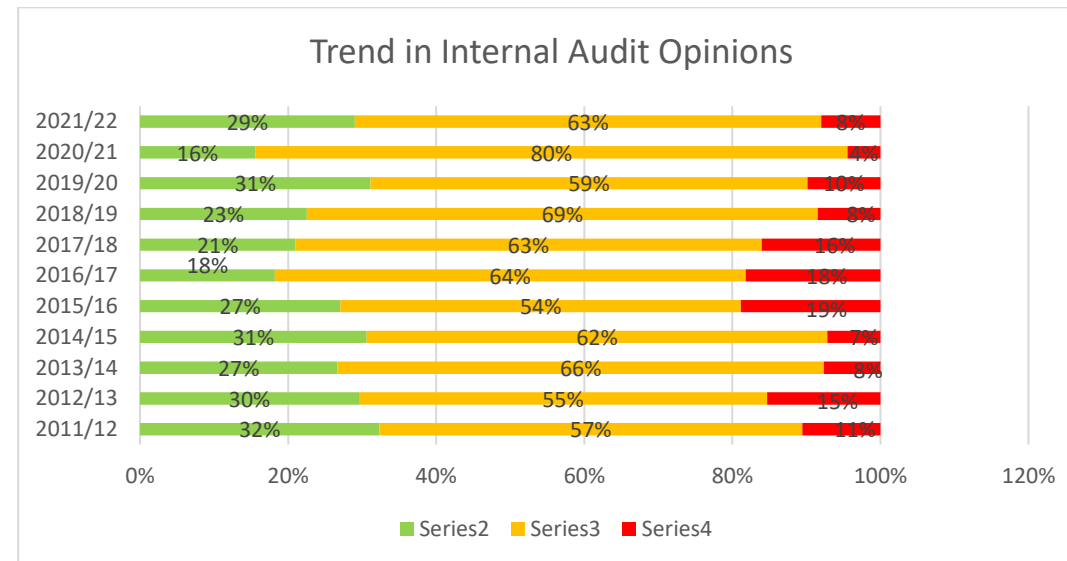
Basis for opinion in 2021/22

- 31) Analysis of the opinion-based assurance work shows the following distribution of opinions issued during 2021/22.



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

continues to show a positive picture that, in 2021/22, there were few limited assurance opinions issued on Council systems and processes. The increase from 2020/21 is due to the recommencement of school audit visits.



- 33) The Annual Governance Statement for 2021/22 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.

ANNUAL OPINION OF THE INTERIM CHIEF INTERNAL AUDITOR

- 34) 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.
- 35) 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
- 36) The following sets out an extract of metrics and charts to illustrate some key assurance indicators for 2021/22 that are reported to statutory officers monthly to provide high level assurance.

Headlines



19 of the areas (76%) provide positive assurance



6 of the areas (24%) provide generally positive assurance, with some potential areas for further review:

- Data Protection training to be completed
- A few overtime claims over 99 hours
- Occasional payroll overpayments
- Higher value Purchase Card transactions
- Higher cash float usage at some locations
- Debt write-offs in late 2021 higher than previous year



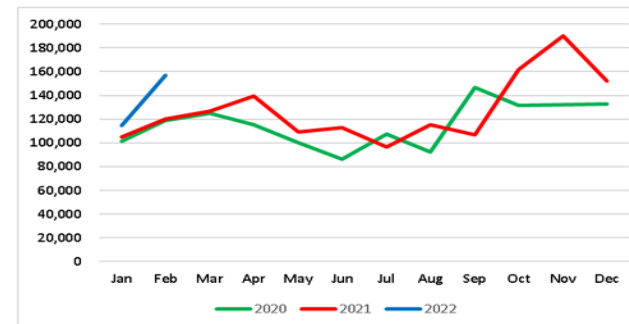
0 of the areas (0%) provide negative assurance



0 areas for which updated data awaited

Purchase Card Expenditure

Risk: Large payments that avoid controls over approval and competitive procurement



PERFORMANCE OF THE INTERNAL AUDIT TEAM

Key Performance Indicators

- 37) 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 transformation projects 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

- 38) 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.
- 39) However, it is hoped that developments will resume in the current year.

Public Sector Internal Audit Standards (PSIAS)

- 40) 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.
- 41) 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.
- 42) For 2021/22, 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. The outcome of the assessment provides significant assurance to the Council that the Internal Audit service conducts its work with due professional

PERFORMANCE OF THE INTERNAL AUDIT TEAM

care. It confirmed the following in respect of the work carried out by the service in 2021/22:

- 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

43) Nonetheless, the QAIP has identified some scope for improved compliance, with an action plan to provide a focus for continuous improvement in 2022/23 (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 operation of previous restructure. This will incorporate a review of approaches and capabilities in the deployment of specialist ICT audit resources.
- Continuous update of our Audit Manual, to keep pace with professional changes ensuring staff understand and consistently comply with core audit quality processes.

REVIEW OF THE STRATEGIC AUDIT PLAN 2022-2025

- 44) 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 against the 2021/22 QAIP

	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	Implemented – New Audit Strategy reported in 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: - Corporate risk management - Assurance mapping - Continuous assurance - Quarterly governance updates	Group Manager - Assurance	September 2021	Under development To be finalised in 2022/23
21/22 3	Effective communication	Potential scope to make audit reports more concise and engaging	Review the format of the standard audit report	Group Manager - Assurance	September 2021	Under development To be finalised in 2022/23
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	Implemented – termly plans are now reported to G&E routinely.
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	Group Manager - Assurance	From Term 2 2021/22	Implemented – risk assessment completed and action now in place for 2022/23 to deliver within plans.

ANNEX 1: QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	(Progress – to be updated for 2021/22)
			complex ICT assignments in the Termly Plans			
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	Implemented in relation to agile audit approach – maintain as an on-going issue to review and update.
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	Implemented in relation to advisory work - maintain a risk in relation to ensuring continued use.

New actions 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 – to be 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	Group Manager - Assurance	September 2022	

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	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	(Progress – to be updated for 2022/23)
			- Continuous assurance Quarterly governance updates			
22/23 2	Effective communication	Potential scope to make audit reports more concise and engaging	Review the format of the standard audit report	Group Manager - Assurance	September 2022	
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	Group Manager - Assurance	From Term 1 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	
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	