

21 July 2022

Agenda Item: 6

REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

INTERNAL AUDIT PROGRESS TERM 3 2021-22 AND TERM 2 PLAN 2022-23

Purpose of the Report

1. To inform Members of the work carried out by Internal Audit in Term 3 of 2021/22.
2. To consult with Members on the Internal Audit Plan for Term 2 of 2022/23.

Information

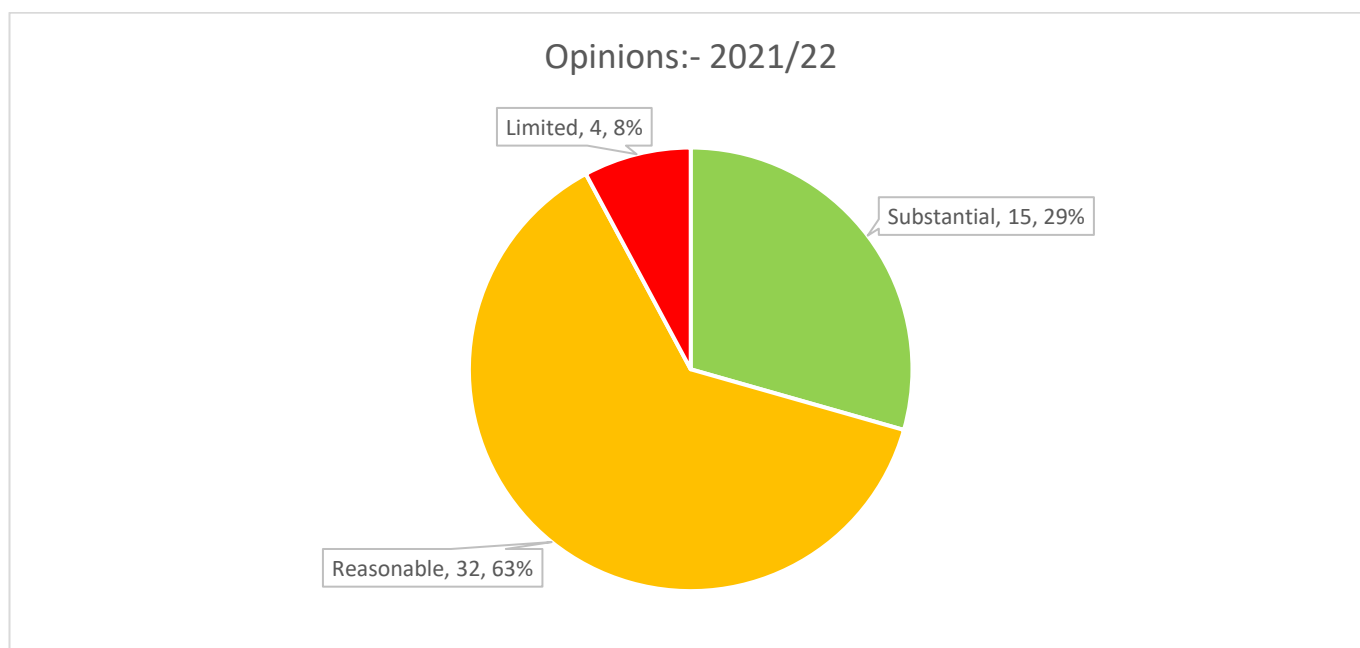
Internal Audit's work in Term 3 2021/22 – December 2021 to March 2022

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 2021/22, to the end of Term 3.

Chart 1- Opinions to Term 3 2021/22



5. In terms of the work completed on the County Council's services and systems, **Chart 2** analyses the opinions issued in Term 3 2021/22 by service area and level of assurance.

Chart 2- Opinions for Term 3 2021/22

	LIMITED ASSURANCE	REASONABLE ASSURANCE	SUBSTANTIAL ASSURANCE
COUNCIL-WIDE		Purchase Cards	
CHILDRENS PLACE			Regional Adoption
ADULTS		Mental Health	
CHIEF EXEC'S			LGPS Investments
			CIPFA Code
School Audits	3 Visit *	19 Visits	7 Visits
<p>*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.</p>			

6. The significant pieces of assurance work during Term 3 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.
 - Annual Governance Statement – to provide assurance over governance arrangements across the Council to support the financial statements.

- Regional Adoption Agency – provided assurance over existing arrangement for the agency and charging methodology.
7. **Chart 1** includes schools audits undertaken by the Children's & Families' Finance Team.
- Advisory input**
8. Internal Audit continued to provide advisory input to developments in response to the Covid19 pandemic. The following summarises the key areas of activity:
- Children's Member Review – work with Member and Officer Groups to review expenditure within Children's Services.
 - Household Support Grant – advice on internal controls and monitoring arrangements to disseminate the grant.
 - Regional Adoption Agency – advice on options for revisions to the charging methodology across the agency.
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:
- Fraud Training Materials – dissemination of revised fraud awareness training and awareness material.
 - 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.
11. In addition, Internal Audit advised in fraud investigation activities involving live cases outlined in the Annual Fraud Report.

Certification

12. Internal Audit also provides a certification function for a variety of grants received and distributed by the Council. During Term 3 the following grant claims were certified:
- Beeston Youth Accounts &
 - Green Home Grant.

Internal Audit Performance

13. **Appendix 1** provides an update on the Section's performance in Term 3 against its key indicators. It includes the following charts to depict progress against the Term 3 Plan, expressed in terms of the following:
- Inputs – the number of audit days delivered against the Term 3 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.

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

- Staffing resources – the team resources have been hit hard by the sudden death of the Head of Internal Audit and the impact of staff moving to interim roles to provide cover. On a more positive note, the team's two Internal Audit Apprentices have recently passed external examinations. This success will enable them to continue with the next apprentice level and professional training. The time contingency required for the apprentices' training and development continues to be a limiting factor in the extent of audit coverage that may be planned for but increases in productivity are being seen. The latest Graduate has taken up a placement with the Team and has progressed through induction and training and has started to undertake productive planned activities. Staffing productive days are on track but are expected to reduce in Term 2 reflecting the absence of the Head of Internal Audit, retirement of the Audit Supervisor and current staff providing interim cover on a temporary basis until permanent recruitments have been completed.
- Assurance and Advisory activities – the completion of internal audit activity reflects the impact of the pandemic on services and the agile approach adopted. Term 3 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 2 plan for 2022-23.
- Implementation rates for actions arising from audits remain below target but have improved for Priority 1 actions, as highlighted in the report to Committee in June 2022. The next update on this is scheduled for December 2022.

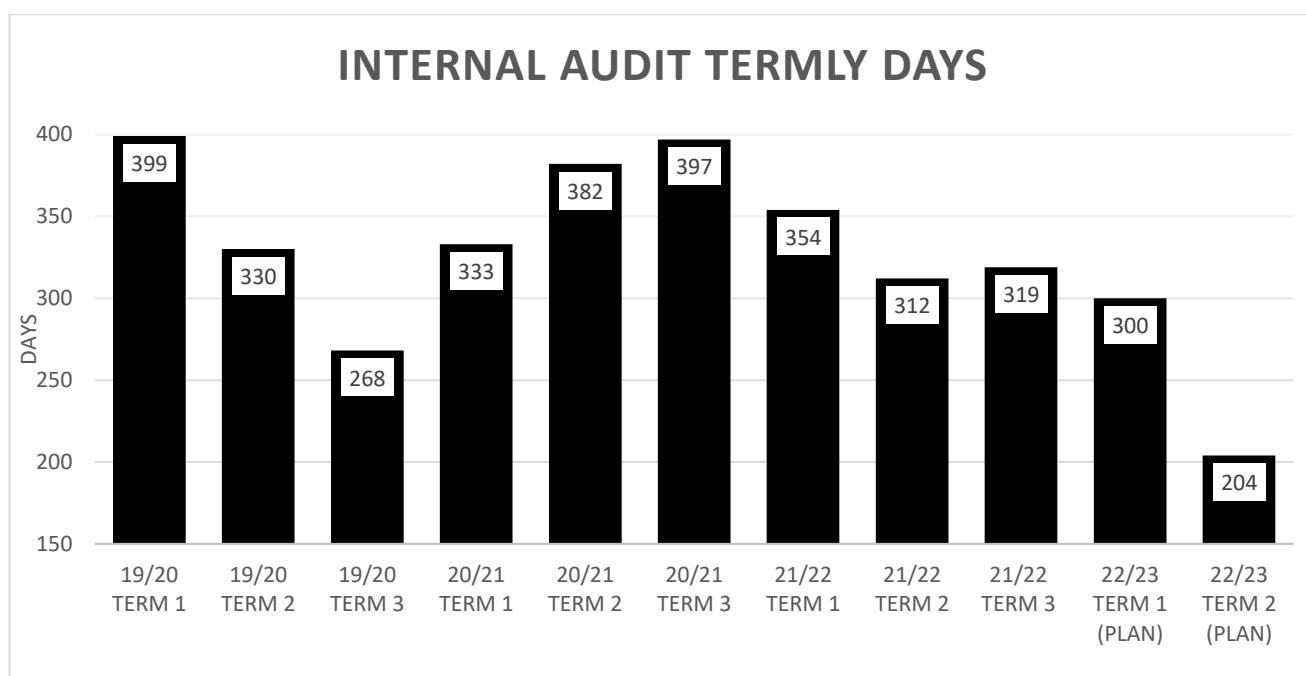
Proposed Internal Audit Plan for Term 2 2022-2023

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. 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.
17. The Term 2 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. **Appendix 2** sets out details of the draft coverage by Internal Audit for Term 2, and it is summarised in the following table.

Assurance from Audit Coverage	Days	Outputs
Second Line Assurance work	25	1
Opinion Assurance	79	5
Advice / Consultancy Assurance	59	1
Counter Fraud Assurance	21	4
Certification Assurance	20	4
Total	204	15
External Clients (Notts Fire & Rescue Service)	45	
Grand Total	249	

19. The chart below shows the trend in the number of actual days delivered in recent terms, excluding the external clients.



20. The next Internal Audit update to Committee will cover details of the outcome of Internal Audit's work in Term 1 (April 2022 – July 2022).

Other Options Considered

21. The Internal Audit Team is working to the Public Sector Internal Audit Standards during 2022/23. 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

22. To set out the report of the Interim Chief Internal Auditor to propose the planned coverage of Internal Audit's work in Term 2 of 2022/23, providing Members with the opportunity to make suggestions for its content.

Statutory and Policy Implications

23. 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

24. 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 3 and the planned coverage of Internal Audit's work in Term 2 of 2022/23 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:

Simon Lacey

Interim Chief Internal Auditor

Constitutional Comments (GR 10/06/2022)

25. No decision is required to be made in respect of this report.

Financial Comments (RWK 13/06/2022)

26. 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