

7 September 2020

Agenda Item: 7

## **REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT**

### **INTERNAL AUDIT 2020-21 TERM 1 REPORT & 2020-21 TERM 2 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 2020/21, to allow Members to consider whether they wish to receive any further follow-up reports.
2. To consult with Members on the Internal Audit Plan for Term 2 of 2020/21.

#### **Information**

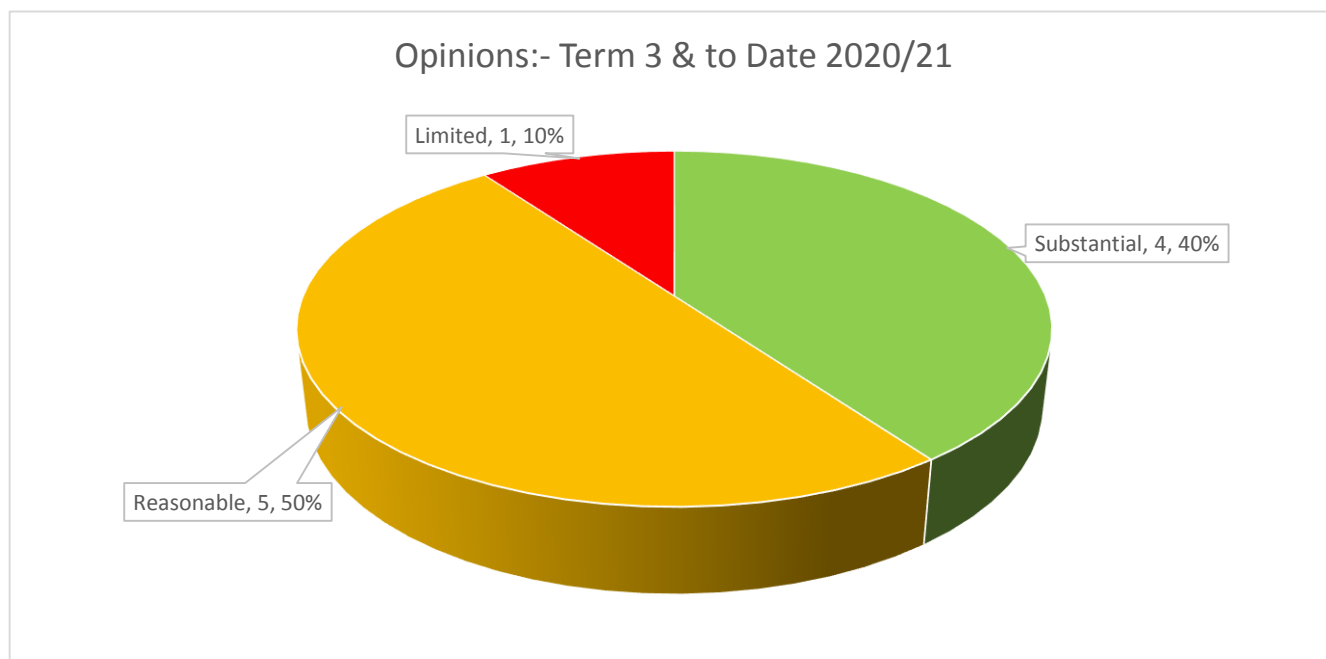
##### **Internal Audit's work in Term 1 2020/21 – April 2020 to July 2020**

3. The Term 1 Internal Audit plan has been significantly impacted by the Covid19 Pandemic. In response to the outbreak the audit focus has moved from assurance audits to a range of advisory, consultancy and counter-fraud activities in line with national focuses and away from front-line service such as Adults' and Children's. The pandemic also delayed reporting of Internal Audit activity in Term 3 - 2019/20 for which the key messages have been combined within this report. Despite the impact of Covid19 in Term 1, 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 and initiatives
  - Counter-fraud – including the investigation of suspected fraud and whistle-blower reports

##### ***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 system of internal control despite the focus on other activities in Term 1. **Chart 1** shows the distribution of opinions issued during Term 3 2019/20 and Term 1 2020/21.

**Chart 1- Opinions for Term 3 2019/20 and 2020/21 to Date**



5. In terms of the work completed on the County Council's services and systems, **Chart 2** analyses the opinions issued in term 3 2019/20 and term 1 by service area and level of assurance.

**Chart 2- Opinions for Term 3 and to date**

	LIMITED ASSURANCE	REASONABLE ASSURANCE	SUBSTANTIAL ASSURANCE
COUNCIL- WIDE	Action Tracking	Budgetary Control	Covid19 IIA Response – Phase 1
ASCH		Deputyships & Appointeeships  Continuing Healthcare	
PLACE		Transport & Travel Strategic Property - Disposals	Trading Standards – Enforcement  Emergency Community Fund
CHIEF EXEC'S			Internet Controls

6. Internal Audit have undertaken significant pieces of assurance work during Term 1, notably:
- Council response to Covid19 – this compared the actions taken to those recommended by the Institute of Internal Auditors.
  - Emergency Community Fund - following up on advice and counter fraud measures recommended during our initial advisory work.

7. **Chart 1** would usually include schools audits undertaken by the Children's & Families' Finance Team, but these were suspended due to the pandemic and are still to resume.

### ***Advisory input***

8. Internal Audit have focused on advisory input to developments during Term 1 in response to the Covid19 Pandemic, with over 20 engagements being completed. The following summarises the key areas of activity:
- Emergency Community Fund – advice on the expected controls for the consideration of applications;
  - Care Provider Costs – advice on controls and checks to complete for additional cost claims from care providers;
  - Transport and Travel Operators – advice on controls and validation checks in relation to additional operator costs;
  - Volunteer Hub – advice on DBS checks, medication handling, cash handling and payment controls; and
  - Relief Suppliers – advice on expected controls and use of alternative suppliers.
9. Internal Audit's advisory input ensures that timely advice is delivered and has the opportunity to influence subsequent actions. This has been particularly important with the development of the Emergency Community Fund, payments to care providers and transport operators. The engagements in advisory work help 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***

10. Internal Audit have been pro-active in the dissemination of fraud awareness materials during the Covid19 Pandemic, warning departments and staff of fraud risks and scams that have emerged during Term 1. The following summarises the key areas of activity:
- Fraud Alert (NCC) – Circulation of key fraud risks impacting on the Council
  - Fraud Alert (Schools) – Completion of specific fraud risks impacting on schools
  - Emergency Cash Procedures – advice on controls for the issue of emergency cash payments
  - Spotlight Vetting System – advice on the national system for vetting grant claim applications
  - National and Local Fraud Alerts – screening and distributing to relevant sections alerts publicised by national fraud agencies.
11. In addition, Internal Audit continue to be involved in fraud investigation activities involving live cases outlined in the Annual Fraud Report.

### ***Internal Audit Performance***

12. **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 ¼ of the Termly Plan.
  - Outputs – the number of jobs completed against the plan. Each segment in the chart represents ¼ of the Termly Plan.
  - Productivity indicator – the target score is 1.
13. A good level of performance is presented, albeit against a much-amended composition of the Plan; a number of planned assignments had to be suspended, but these were replaced by input from the Team that was largely advisory in nature. Members attention is drawn particularly to the following:
- a) Staffing resources – the Team benefitted significantly from the placement of one of the Council's Graduate Trainees from April 2020. The Team was also successful in recruiting its first two dedicated internal auditor apprentices during the first Term; one apprentice has begun work with the Team already, and the other will begin towards the end of August 2020. This will boost resources close to capacity, with all staff now operating based on the Team's revised structure.
  - b) Corporate risk management – CLT previously approved the re-allocation of responsibility for corporate risk management from the Emergency Planning Team in the Place Department to the Risk & Insurance Team in the Chief Executive's Department. This transfer was due to take place sometime during 2020/21 but was accelerated due to the pressures of the pandemic on the Emergency Planning Team. In the event, the Internal Audit Team was best placed to take on the initial task of updating the risk register for the impacts of Covid-19, and responsibility for the corporate risk management function will remain with the Team for the short-term. The impact of this on the independence of Internal Audit is recognised in the Head of Internal Audit's Annual Opinion for 2019/20, along with arrangements for dealing with it.
  - c) Quality Control Questionnaires (QCQ) – the scoring methodology used by the Team was revised in Term 2 2019/20, where a score of 4 is now 'excellent' and 3 is 'good'. Appendix 1 has been updated accordingly, with the current average score being 3.44.

### **Proposed Internal Audit Plan for Term 2 2020-2021**

14. 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 plans. These consultations have focused on emerging risks from the Covid19 pandemic and how the Internal Audit Term 2 plan can be flexed to accommodate new risk and to follow up on advisory work undertaken in Term 1.
15. 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. The assurance mapping process is also now providing an important flow of intelligence to inform Internal Audit's planning.

16. 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 2019/20 has been completed and reflects on all Internal Audit's work over the three Terms in 2019/20, along with assurances available from other sources.

17. 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:

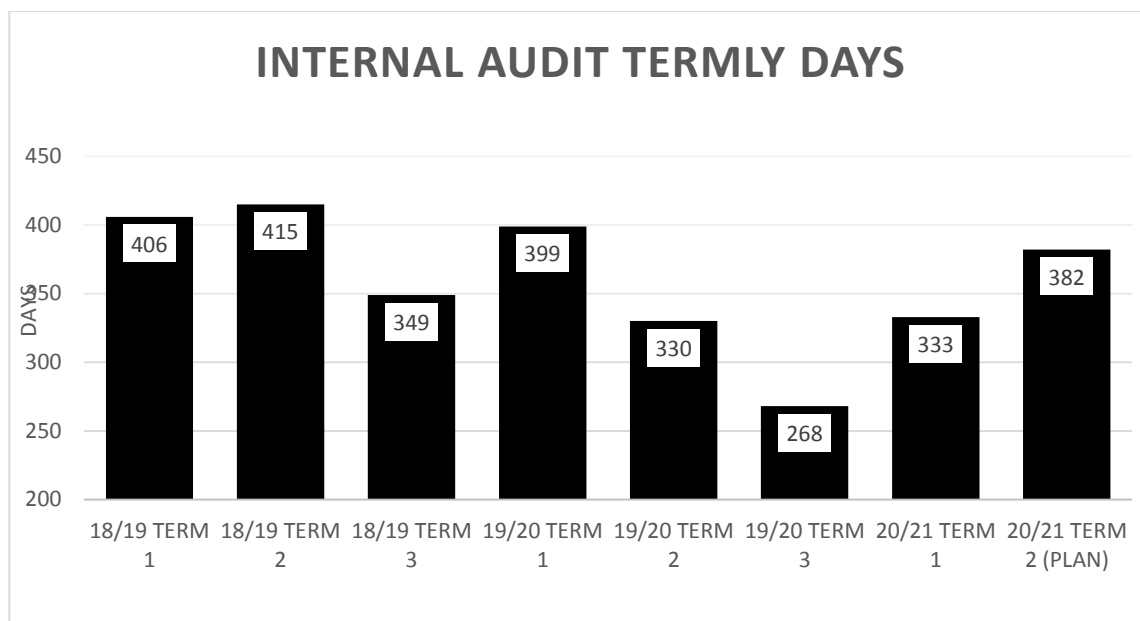
- Value and volume of transactions involved with the activity
- The known level of internal control in place (from previous audits)
- The exposure to fraud risk
- The relative complexity of the activity
- Whether the activity is stable or subject to change
- How sensitive the activity is for the Council 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.

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

Department	Days	Number of Audits			
		High Priority	Med Priority	Other	Total
Council-wide	191	2	2	3	7
Children & Families	40	0	1	1	2
Adult Social Care & Health	41	2	0	0	2
Place	45	0	1	3	4
Chief Executive's	65	2	2	0	4
Total	382	6	6	7	19
External Clients (Notts Fire & Rescue Service)	44				
Grand Total	426				

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



20. Term 2 will continue to be a period of transition as it embeds the appointments made in July 2020 to the two audit apprentice posts within the new staffing structure approved by Committee. Time is being built in to the plan for the delivery of the training and development programme for the new entrants.

### Other Options Considered

21. The Audit Section is working to the Public Sector Internal Audit Standards during 2020/21. 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 Group Manager – Assurance for Term 1 of 2020/21, and to propose the planned coverage of Internal Audit's work in Term 2 of 2020/21, 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**

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 2 of 2020/2021 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

Group Manager - Assurance

### **Constitutional Comments (KK – 19-08-2020)**

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

### **Financial Comments (SES - 19-08-2020)**

25. 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