

## Audit Committee – 28 February 2020

<b>Title of paper:</b>	Internal Audit Progress Report Q1-Q3 2019/20	
<b>Director(s)/ Corporate Director(s):</b>	Laura Pattman, Strategic Director of Finance	<b>Wards affected:</b> All
<b>Report author(s) and contact details:</b>	Shail Shah Head of Audit and Risk 0115 8764245 <a href="mailto:shail.shah@nottinghamcity.gov.uk">shail.shah@nottinghamcity.gov.uk</a>	
<b>Other colleagues who have provided input:</b>		
<b>Recommendation(s):</b>		
<b>1</b>	To note the performance of Internal Audit during the period.	

### 1 Reasons for recommendations

- 1.1 This report outlines the work of the Internal Audit service (IA) for quarters 1 to 3 of 2019/20.
- Appendix 1 – Executive Summaries from all Final Audit Reports issued in the period
  - Appendix 2 - List of Final Audit Reports and Follow Up Reports issued in the period with analysis of recommendations and level of assurance
  - Appendix 3 - Summary of position against updated Internal Audit Plan 2019/20
  - Appendix 4 – Summary of position against local performance indicators

### 2 Background

- 2.1 The report supports the Audit Committee in fulfilling purpose and function elements of its terms of reference including Public Sector Internal Audit Standard (PSIAS).

#### Standards

- 2.2 The Internal Audit service works to a Charter endorsed by the Audit Committee. This Charter governs the work undertaken by the service, the standards it adopts and the way it interfaces with the Council. IA colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards.
- 2.3 In the last external assessment of NCC Internal Audit in March 2017, the service was found to substantially comply with the principles contained in the Public Sector Internal Audit Standards (PSIAS), which is a requirement of the Account and Audit Regulations 2015, and associated regulations, in respect of the provision of an IA service. The service continues to ensure that it adheres to the requirements of the PSIAS.
- 2.4 It is envisaged that the resources available to the Internal Audit Section for 20/21 onwards will be reduced due to members of the team retiring and the continuing freeze on recruitment. This will affect our ability to provide the same level of coverage as has been experienced over the last few years. We will be reporting to a

future meeting of this committee with details of our audit plan for 20/21 and our view on the resources available to us.

## Activity

- 2.5 The Internal Audit Plan is produced annually and allocates audit resources throughout the year to review risks to the Council's vision, values and strategic priorities, by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The construction of the plan is informed by consideration of a range of factors including the Council Plan, the Council's Risk Register, previous internal and external audit activity, emerging themes and priorities, professional networks, the Council's transformation and improvement activity, and changes to national, local and regional policy. It is also informed by consultation with stakeholders. The Plan is regularly reviewed and adapted as risks and priorities change and develop through the year. Minor adjustments to the plan have been made which do not require further approval.
- 2.6 Appendix 3 summarises the progress made against the overall internal audit plan for 2019/20, which includes all time spent on audits for NCC and other organisations.
- 2.7 Appendix 4 indicates the performance of the section against its local performance indicators. We would expect these all to be achieved by the end of the fourth quarter.
- 2.8 Table 1 shows that actual days achieved to date are on track and we would expect to be close to achieving the planned days at the end of the financial year.

<b>Table 1: Actual V Planned Audit Days</b>		
<b>Total Planned Days</b>	<b>Actual to date</b>	<b>Comments</b>
2529	2012	On track

- 2.9 Table 2 shows that in the year to date, acceptance of audit recommendations is above the target of 95% for all recommendations and is meeting the 100% target for high recommendations.

<b>Table 2: Recommendations Accepted</b>				
	<b>To Date</b>		<b>Period</b>	
	<b>All</b>	<b>High</b>	<b>All</b>	<b>High</b>
Total new recommendations made	197	69	197	69
Rejected	1	0	1	0
Total recommendations accepted	196	69	196	69
% accepted	99%	100%	99%	100%

## Summary of Activity

- 2.10 The executive summaries from all Final Audit Reports issued in the year are included in Appendix 1. A summary of recommendations within the reports issued to NCC within the last 9 months is included in Appendix 2. The following sections highlight any key issues and outcomes from these audits:

## Key Financial Systems

- 2.11 Work on the 2019/20 key financial systems commenced during quarter 2 and will continue through to the end of quarter 4. Typically this work is planned to commence at a point in the year where there is sufficient data available to test. External auditors typically consider the reports IA have issued in planning the annual audit of the statement of accounts. To date, the work that has been completed on the key systems has not provided any significant areas of concern that need to be reported to this committee.

## Schools

- 2.12 This year we are undertaking themed audits across City schools as an alternative to individual schools audits. The themes include procurement and the Schools Financial Value Standard. We have been requested to undertake audits at 4 City schools, the results of which are included in our report to this committee. We also perform the responsible officer role at two academies.

## Compliance and Risk-Based Audits

- 2.13 We complete compliance and risk based audits across the organisation and have completed a series of grants audits during the early part of the year. Our comments on those audits completed during 2019-20, that feature significant findings are as follows:

### Fleet Management

- 2.14 This review covered the management of employees, jobs and stores and highlighted the need for improved controls over staff time-keeping, monitoring of productivity, overtime claims, the recording and monitoring of stock usage, training records, staff appraisals plus improvement to the workshop management systems in place.

### Foster Care, Adoption and Placements

- 2.15 This audit covered the process for making payments plus a follow-up of actions raised in previous reports. This audit raised a number of issues around record keeping / completeness of data

### Royal Centre

- 2.16 This review covered payroll, overtime and expenses, box office / income and procurement. We highlighted concerns regarding adherence to corporate purchasing rules, segregation of duties within the procurement process, systems access control, existence of Business Continuity Plan, control of complementary tickets and oversight of promoter settlements and advanced payments.

### Traffic & Safety Follow Up

- 2.17 We have reported upon the implementation of a high number of recommendations previously made in respect of the management of capital projects. We reported some positive progress made but there are still further improvements in respect of planning, monitoring and reporting.

### Investment Property and Land Disposals

- 2.18 Our review identified the need to standardise the recording of valuations, the need for a Disposals Policy and the requirement to demonstrate that valuations are clearly compliant with the Council's existing asset valuation guidelines.

## Governance and Ethics

- 2.19 We have undertaken a process to update the Annual Governance Statement for 2018/19. We provide advice to departmental colleagues, which supports them in making good decisions and setting up procedures, which comply with the organisation's values, policies and processes.
- 2.20 Over the last year we have been identifying best practice in governance of companies and supporting the Section 151 Officer and Monitoring Officer in bringing forward proposals for improvements in the Council's company oversight and shareholder activities.
- 2.21 Over the last year we have been supporting the Section 151 Officer in regards to assurance obligations for accountable bodies.
- 2.22 We have undertaken work across a number of audits in the last 2 years to ensure that appropriate assurance reporting exists, and as a result assurance reports have and will continue to be brought to Audit Committee, including new areas of assurance.
- 2.23 We have also fed comments into the Council's response to the independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England (Redmond Review).
- 2.24 We have provided support to Policy & Performance for Partnership Health Checks. We intend to review Councillor Allowances and Colleague Expenses during quarter 4.
- 2.25 We were requested to undertake a review of the Nottingham Schools Trust, including governance arrangements and assurance frameworks. This highlighted findings in respect of the grant agreement/funding, governance structure, frequency of schools SIA visits and evaluation of performance.
- 2.26 Our follow up review of the council's risk management arrangements indicated an improved direction of travel which includes all departmental risk registers in place with scheduled monitoring and continuing work within departments to embed risk management at all levels of the organisation.
- 2.27 Where necessary we will update the committee in respect of any legislative and other changes to the Council's Counter Fraud Strategy in a later report.

## Organisation

- 2.28 Our Audit Plan provides for a number of reviews across the City Council or allocations of time to provide support.
- 2.29 We have undertaken a follow up to a previous review that consider the City's response to the Casey Report. This review showed continued improvement in implementing recommendations made during our initial review.

## Health and Safety

- 2.30 Over the last few years we have reviewed the Council's arrangements with regard to Health and Safety risks. This year we have reported on the arrangements in place to manage the risks associated with Council's commercial property portfolios. We have highlighted the need for an assurance reporting framework, greater clarity with regards to responsibilities for managing these risks, consistency/improvement of the content of leases, resourcing of properties inspections and utilisation of expert advice.

## Supreme Court Ruling – Increments

- 2.31 During 2019 we have continued to work with colleagues within HR to discuss and agree the methodology used to identify and calculate all relevant pay elements in respect of employees affected by this ruling.

## Procurement

- 2.32 This review raised a number of concerns including off-contract spending, unapproved spending, non-compliance with UK Public Contract Regulations and failure to comply with the Local Government Transparency Code.
- 2.33 Our review also provided an opportunity to conduct some data analytics to allow us to review the potential for internal fraud. This review provided one case that required further investigation and action by management. We have just completed a review of contract compliance, the results of which will be included within the next update report.

## Fraud and Investigations

- 2.34 The Internal Audit Section includes the Corporate Counter Fraud Team (CCFT) which is currently tasked with identifying additional income and savings for the Council.
- 2.35 The CCFT are the Council's key contact for the National Fraud Initiative (NFI) data match which involves organising and submitting the required datasets from numerous service areas and coordinating the review and reporting to the NFI of the matching data. Where necessary we will pursue any concerns raised by this exercise.
- 2.36 During 2019-20, CCFT have been carrying out proactive and reactive work to support the teams in Local Taxation, Right to Buy and also Nottingham City Homes, with a view to increasing income or identifying savings. The results from their work includes:
- NNDR v GIS Matching - £100k
  - NNDR Listed Buildings Review - £63k
  - NNDR – Reactive / Proactive - £1.2m
  - CTax – SPD vs Electoral Roll - £78k
  - CTax – SPD Referrals - £57k
  - RTB Vetting / Investigation - £75k

The annual income target of £400,000 for the team has been exceeded and currently stands at in excess of £1.5m.

- 2.37 The team assists with or investigates reported instances of fraud including identifying and investigating fraud within Right to Buy applications and tenancies and working with colleagues within Nottingham City Homes.

#### Whistleblowing

- 2.38 We support the Monitoring Officer in respect of whistleblowing allegations, most of which are received by Internal Audit. We advise on, monitor or carry out investigations as agreed with the Monitoring Officer. During 2019/20 we have so far recorded 3 instances of whistle blowing, which is somewhat lower than would normally be expected. These investigations have not evidenced any instances of fraud against the council but we have made procedural recommendations in respect of these complaints where appropriate.

#### Other / Consultancy

- 2.39 We have responded to management requests to conduct specific pieces of work throughout the year.

#### Information and Technology

- 2.40 We carry out a range of information and technology audits during the year that supports management in understanding and addressing the related governance, risk and control issues. In this period we have reported, on PCI Compliance, the ContrOCC Provider Portal, which allows care providers to record the actual amount of care delivered to each citizen, Business Continuity and Disaster Recovery and Data Protection. We continue to review and provide assurance regarding the Fit for the Future project.

#### Waste Manager

- 2.41 We undertook a review of the waste management application, the scope of which included software and hardware asset management, access control, backup and system restoration, disaster recovery, change control and cyber security. This review highlighted some concerns in respect of procurement, contract management and access for this cloud-based system. We have shared our concerns around cloud-based systems with key officer groups.

#### Reporting

- 2.42 With effect from January 2020, we have introduced revised levels of assurance; which feature as a measure of assessment in our audit reports. We now have 4 levels of assurance, the change being the addition of Moderate Assurance. Examples of our reports with this change will be contained within our next quarterly report and Annual Report, along with some analysis of the opinions attached to all reports issued in the year.

### **3 Background**

- 3.1 The Audit Committee's terms of reference include responsibility for receiving reports on the work undertaken by IA and for monitoring its performance. The Public Sector Internal Audit Standards (PSIAS) set the responsibility for the management of Internal Audit with the Board. In practical terms, this Board responsibility is vested in the Audit Committee and Section 151 Officer who exercise their Board responsibility

via the Constitution and the associated policies and procedures of the City Council. This report is one of the regular updates on work planned and undertaken by the service.

**4 Background papers other than published works or those disclosing exempt or confidential information**

4.1 None

**5 Published documents referred to in compiling this report**

5.1 Accounts and Audit Regulations 2015

5.2 Audit Plan 2019/20

5.3 Public Sector Internal Audit Standards (2017 update)