

Audit Committee – 26 February 2021

Title of paper:	Internal Audit Progress Report Q1-Q3 2020/21	
Director(s)/ Corporate Director(s):	Clive Heaphy, Strategic Director of Finance	Wards affected: All
Report author(s) and contact details:	Shail Shah Head of Audit and Risk 0115 8764245 shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	To note the performance of Internal Audit during the period and the effect of Covid-19	
2	To note the proposed approach to the Public Sector Internal Audit Standards compliance review, i.e. a Core Cities peer review	

1 Reasons for recommendations

- 1.1 This report outlines the work of the Internal Audit service (IA) for quarters 1 to 3 of 2020/21.
- 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 2020/21
 - Appendix 4 Summary of position against local performance indicators
- 1.2 The report sets out the approach to the planned external compliance review of Internal Audit.
- Appendix 5 – Terms of Reference for External Assessment

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 Internal Audit is required to undergo an external assessment every 5 years to ensure compliance with the PSIAS. To this end there have been discussions between core cities and an agreement that, in a similar approach to 2017, there will be a peer review to achieve these assessments. It is hoped that this committee is in agreement with this proposal. The Terms of Reference for this process is attached as Appendix 5.
- 2.5 The factors impacting on the availability of assurance from internal audit and other sources of assurance include:
- the changing risks and impacts on the organisation itself
 - whether key governance, risk management and internal control arrangements have deteriorated or been maintained
 - changes to the resource base of internal audit, whether staff or budget related
 - demands on internal audit for any advisory or non-audit support that will not directly support the HIA opinion
 - operational disruptions that impact on the access of internal auditors to key staff, information or systems resulting in greater inefficiency and reduced outputs.
- 2.6 Whilst all of these factors have been present in 2020/21 to a greater or lesser extent it is still envisaged that the work completed by Internal Audit together with reliance which the Head of Audit & Risk is able to place on work by other assurance providers, will allow an internal audit opinion to be given for 2020/21.
- 2.7 It is envisaged that the resources available to the Internal Audit Section for 21/22 onwards may be reduced due to a member of the team being eligible for retirement 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 21/22 and our view on the resources available to us.

Activity

- 2.8 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.
- 2.9 Appendix 3 summarises the progress made against the overall internal audit plan for 2020/20, which includes all time spent on audits for NCC and other organisations.
- 2.10 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.
- 2.11 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.

TABLE 1: ACTUAL v PLANNED AUDIT DAYS		
Total Planned Days	Actual to date	Comments
2384	1816	On track

2.12 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.

TABLE 2: RECOMMENDATIONS ACCEPTED				
	To Date		Period	
	All	High	All	High
Total new recommendations made	87	28	87	28
Rejected	0	0	0	0
Total recommendations accepted	87	28	87	28
% accepted	100%	100%	100%	100%

Summary of Activity

- 2.13 COVID-19 has had an impact on the team's ability to complete the Audit Plan as initially intended. In particular the ability of managers to respond to our draft reports from March onwards has delayed finalisation because managers were otherwise occupied in responding at short-notice to emerging issues, often at the behest of Government, for example, adapting our processes to allow grants to be processed. We note that within Appendix 1, there are 6 Executive Summaries which record Interim Final Reports; these do not feature management responses.
- 2.14 This pressure has also impacted on our ability to obtain time with the relevant colleagues to complete our fieldwork. We have limited our travel within the City to meet colleagues or to visit business owners or citizens to pursue certain parts of our work. Our team is working at home which has largely required us to obtain evidence in digital form.
- 2.15 Since March 2020 Internal Audit has provided resources to assist the Council's response to COVID-19, namely:
- Seconding team members to assist with the Shielding Service
 - Seconding team members to assist with the processing of business grants
 - Providing advice to colleagues on proposed changes to procedures
 - Undertaking pre and post payment checks

This is consistent with our aim to add value to the organisation. Where this has fallen outside the internal audit role, team members have been given advice on maintaining objectivity and close monitoring of auditor independence and allocation of audits has taken place. We have considered the guidance issued by the IASAB (Internal Audit Standards Advisory Board) as we have worked through the pandemic.

- 2.16 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

- 2.17 Work on the 2020/21 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 with the exception of the following. We note as part of preliminary work for this year's Housing Benefits audit that a significant amount of subsidy previously withheld by DWP has now been received.
- 2.18 **Business Rates**
Our annual review continues to highlight the need for management to review the level of resources along with the inspection arrangement to assist with maximising collection.
- 2.19 **Capital Programme**
Areas of concern highlighted within our report included lack of assurance with regard to linkage to strategic objectives and priorities and delivery of objectives/budget. We have reported a number of outstanding recommendations that include transparency over funding allocation, project assessment and scrutiny, monitoring, reporting and decision making. As we re-visit these issues, we will take into account the relevant information within the Council's Recovery Plan.
- 2.20 **Housing Benefits**
We note as part of preliminary work for this year's Housing Benefits audit that a significant amount of subsidy previously withheld by DWP has now been received.

Compliance and Risk-Based Audits

- 2.21 We complete compliance and risk based audits across the organisation, undertake follow up reviews and have completed a series of grants audits during the early part of the year. Our comments on those audits completed during 2020-21, that feature significant findings are as follows:

Transforming Cities

- 2.22 We have undertaken the first of a two-part review of the Transforming Cities Fund to consider the governance and administration arrangements in place. The funding is the result of a joint funding bid by Nottingham and Derby cities and with a total scheme cost of £186m. Our work on the first part of this review has provided positive results in respect of reporting, reviews and governance arrangements.

Grants

- 2.23 We have undertaken work to certify grants to the Council totalling £11.4m so far in 2020-21, where such certification is a condition of funding.

Selective Licensing Follow Up

- 2.24 We have followed up on previous recommendations that relate to performance and budget monitoring which has identified a positive response from management. We will be undertaking further work in this area.

Traffic Capital Projects Follow Up

- 2.25 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 to be made in respect of planning, monitoring and reporting.

Public Transport Follow Up

- 2.26 We have highlighted that there are still a number of high rated recommendations outstanding in this area that relate to tendering of services, reporting, management of risk, operator agreements and team guidance.

Governance and Ethics

- 2.27 We have undertaken a process to update the Annual Governance Statement (AGS) for 2019/20, and an interim AGS has been brought to committee. We anticipate that this will be finalised in March. 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.
- 2.28 Over the last year we have been supporting the Section 151 Officer and Monitoring Officer in respect of our companies and assurance obligations for accountable bodies.
- 2.29 We have undertaken work across a number of audits in the last 3 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.
- 2.30 We have also considered the outcome of 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), and have fed its recommendations into the review of the Audit Committee terms of reference.
- 2.31 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.
- 2.32 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.

Decision Making

- 2.33 Prompted by some previous work that commented upon decisions, we have considered the decision making process, colleague guidance and commented upon the advice provided by colleagues in a sample of decisions. Our review suggests a wider assessment of the decision making process should be carried out as part of the Constitution work stream; a quality check within the decision making process and training for colleagues.

Gifts, Hospitality and Declarations

- 2.34 We undertake annual reviews of colleague's awareness and compliance with the Code of Conduct and supporting guidance in respect of gifts, hospitality and

declarations. In our opinion, there remains a need for clearer guidance for colleagues and more thorough management review.

Organisation

- 2.35 Our Audit Plan provides for a number of reviews across the City Council or allocations of time to provide advice and support.

Sickness Management

- 2.36 Our review of sickness management highlighted the need for improved reporting and monitoring of sickness data.

Disciplinary Process

- 2.37 Our review encompassed the whole process including the role of HR colleagues and identified a need to improve the standard of documentation and a need for HR to assist colleagues in improving the quality of case investigation.

Supreme Court Ruling – Increments

- 2.38 During 2020 we have continued to work with colleagues within HR to discuss and provide assurance for consistent methodology and complex calculations, to identify relevant pay elements, and control over settlements in respect of employees affected by this ruling. This work is now nearing completion but has required a significant resource on our part.

Fraud and Investigations

- 2.39 The Internal Audit Section includes the Corporate Counter Fraud Team (CCFT) which is currently tasked with identifying additional income and savings for the Council.
- 2.40 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.
- 2.41 As mentioned earlier in this report, Internal Audit has been providing support to assist with the Council's response to Covid-19. This has impacted greatly on the Counter Fraud Team's ability to undertake their proactive role which has typically been focused on identifying income. As a consequence the annual income target will not be achieved this year. The team has continued to undertake 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.

Whistleblowing

- 2.42 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 2020/21 we have so far recorded 2 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.

Other / Consultancy

- 2.43 We have responded to management requests to conduct specific pieces of work throughout the year, to support assurance for the following.
- Working with partners to distribute Covid-19 related aid to community
 - Programme governance
 - Decision making process
 - Safety at events
 - Disposal of asset
 - Company governance

Information and Technology

- 2.44 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. We continue to work on a number of ICT governance audits which will support the Head of Internal Audit opinion and we consult closely with ICT Management in respect of any observations or issues identified. We continue to review and provide assurance regarding the Fit for the Future project.

Empowering Communities Inclusion Neighbourhood System (ECINS)

- 2.45 E-CINS is a cloud-based case management system which allows for closer partnership working and information sharing between different partners, the aim of which is to improve the level of support for citizens. We have undertaken a review of this application and have highlighted a number of concerns regarding ownership of the system, the agreement for using the system and user management.

Cloud-Based Applications

- 2.46 Our review has been prompted by ongoing concerns highlighted during a previous applications review. Our use of cloud-based applications will continue to increase and in our opinion, the City should introduce clear policies and processes to govern our investment and management of such applications.

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

- 3.1 None

4 Published documents referred to in compiling this report

- 4.1 Accounts and Audit Regulations 2015
- 4.2 Audit Plan 2020/21
- 4.3 Public Sector Internal Audit Standards (2017 update)
- 4.4 Internal Audit Standards Advisory Board (IASAB) - Conformance with the PSIAS during the coronavirus pandemic
- 4.5 CIPFA Guidance to Internal Auditors and the Leadership Team and Audit Committee of Local Government Bodies (November 2020)