

Audit Committee – 30 September 2022

Title Of Paper:	Internal Audit Annual Report and Opinion	
Director(s)/ Corporate Director(s):	Clive Heaphy Corporate Director Finance and Resources	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	<p>Note the following as detailed in Appendix 1</p> <ul style="list-style-type: none"> • The audit work completed during the year, including the use of other sources of assurance and reliance upon those other sources. • The Head of Audit and Risk’s Annual Opinion • The parameters for the proposed Audit Plan for 2022/23 • The results of the recent external assessment of Internal Audit by Sheffield City Council • The progress reported in respect of high priority recommendations. 	
2	Approve the Internal Audit Charter in Appendix 2	
3	Endorse the Counter Fraud Strategy in Appendix 3	

1 Reasons for recommendations

1.1 This report outlines the work of the Internal Audit (IA) service for the year 2021/22. The report includes the Head of Audit & Risk’s annual opinion on the effectiveness of the internal control systems operating within the City Council and its significant partnerships and the Audit Charter.

1.2 The Accounts and Audit Regulations 2015 state that local authorities must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards (PSIAS) or guidance.

1.3 The Audit Committee’s Terms of Reference include the following Public Sector Internal Audit Standards (PSIAS) requirements for the “Board” (see 1.4):

- Approve the risk-based internal audit plan
- Approve the Internal Audit Charter
- Receive an annual confirmation from the Head of Audit and Risk with regard to the organisational independence of the internal audit activity
- Making appropriate enquiries of the management and the Chief Audit Executive to determine whether there are inappropriate scope or resource limitations

- Receive communications from the Chief Audit Executive on internal audit's audit plan and resource requirements including the approach to using other sources of assurance, the impact of any resource limitations and other matters
- Receive communications from the Chief Audit Executive on the internal audit activity's purpose, authority, responsibility and performance relative to its plan.
- Receiving the results of the Quality Assurance and Improvement Programme from the Head of Audit and Risk

1.4 The PSIAS require the responsibility for the management of Internal Audit to be set 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. Internal Audit assists the Corporate Director of Finance & Resources in fulfilling his duties under Section 151 of the Local Government Act 1972 which requires each local authority to make arrangements for the proper administration of their financial affairs.

1.5 The PSIAS require the Head of Audit & Risk to deliver an annual audit opinion and report that can be used to inform the Annual Governance Statement. The annual report should include a summary of the work supporting the opinion.

1.6 This report seeks endorsement of the City Council's Counter Fraud Strategy (CFS).

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

2 Background

2.1 The Internal Audit service impacts on corporate objectives by bringing a systematic disciplined approach to improve the effectiveness of risk management control and governance processes and is an important part of the Council's governance and control framework.

2.2 The coverage set out in the 2021/22 Internal Audit Plan has been substantially achieved and key performance indicator targets have been met.

2.3 The assurance gained from this activity together with that gained from a review of other control and assurance mechanisms, has enabled the Head of Audit & Risk to give limited assurance that the internal control systems are operating effectively within the Council and its significant partnerships.

2.4 We are experiencing staff turnover and recruitment to vacant positions has so far proven unsuccessful and will limit the resources we are able to apply to provide assurances during 2022/23. We have established that the existing Internal Audit pay grades are uncompetitive with respect to the local government sector and other sectors. During the forthcoming year the section intends to restructure and whilst the team have many skills and significant levels of experience we have identified areas for development as we move forward and we will need to agree competitive grades for all roles to ensure resilience.

2.5 Good governance policies and procedures are essential when allocating and controlling Council resources and supporting effective delivery of the Council's strategic and operational objectives.

- 2.6 A cornerstone of the Council's governance policies is the CFS, which brings together the key strands of governance into an overarching strategy document. The maintenance and embedding of a counter fraud culture is essential if the Council is to maximise the use of its resources and minimise waste through inefficiency and/or fraudulent activity.
- 2.7 An effective CFS provides the basis for developing a counter fraud culture in the Council and, as part of the Council's control system, the elements of the CFS contribute positively to the assurance received by the Committee in respect of the effectiveness of the control environment.
- 2.8 The CFS is the main strategy statement geared towards protecting public funds and assets by requiring compliance with regulations, rules, procedures and guidelines designed to promote the highest standards of conduct and behaviour.
- 2.9 The changes to the strategy and response plans include a general update and clarifications in terms of roles and responsibilities.
- 2.10 The CFS will continue to evolve and develop to reflect changes in legislation and best governance practice.

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

None

List of Appendices

Appendix 1 Internal Audit Annual Report And Opinion 2021-22

Appendix 2 Internal Audit Charter

Appendix 3 Counter Fraud Strategy

4 Published documents referred to in compiling this report

- Accounts and Audit Regulations 2015
- Internal Audit Plan 2020/21
- CIPFA SOLACE Delivering Good Governance in Local Government
- Public Sector Internal Audit Standards 2017
- Local Government Act 1972 Section 151