

Audit Committee – 29 September 2023

Title of paper:	Internal Audit Progress Update Q2 2023/24	
Director(s)/ Corporate Director(s):	Ross Brown, Corporate Director of Finance & Resources	Wards affected: All
Report author(s) and contact details:	Simon Parsons John Slater Audit Manager Group Assurance & Audit Governance Manager	
Other colleagues who have provided input:	None	
Does this report contain any information that is exempt from publication?		
No		
Recommendation(s):		
1.	Note the outturn in respect of the 2022/23 Internal Audit Plan	
2.	To note the progress reported in respect of high priority recommendations and determine any focus for intervention if considered necessary.	
3.	To note the areas marked as Limited Assurance and determine, if necessary, any intervention required.	
4.	To approve the 2023/24 Internal Audit Plan and note the progress to date	

1 Reasons for recommendations

- 1.1 This report provides objective assurance that Nottingham City Council (NCC) activities meet their objectives. It brings together:
- a summary of final Internal Audit reports issued since the last update and all reports in the period from 2021/22 to date
 - the final position with regards to the 2022/23 Internal Audit Plan
 - tracking of completion of high priority recommendations by the service areas concerned
 - a review of external assurance activity and progress against resulting action plans during 2022/23
 - sets out the 2023/24 Internal Audit Plan and the current position
- 1.2 The report enables Audit Committee to gain assurances and determine the focus for any interventions necessary.

2 Background

- 2.1 Internal Audit carries out a programme of audits each year including key financial systems, IT, and governance. This can include project or service audits or themed audits across the Council. In reporting its conclusions for these audits Internal Audit will recommend any actions it considers necessary to meet key objectives for the system, and aims to agree an action plan with the audit client

2022/23 Audit Plan

The submission of the Internal Audit Annual Report for 2022/23 has been delayed due to the absence of the Head of Audit & Risk, who is required to provide an opinion for

the year. The following provides an update in summary form of the work undertaken during the period:

- 2.2 Annex A provides a summary of the final position with the 2022/23 Internal Audit Plan.
- 2.3 The section has experienced some long-term sickness plus staff turnover and recruitment to vacant positions, when approved, has so far proven unsuccessful. The service remains understrength whilst approval to recruit is awaited, this has limited the resources we have been 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. This year the section hopes 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.
- 2.4 During the year we have undertaken work in respect of the key financial systems, which includes work undertaken as auditors for East Midlands Shared Services, which NCC can draw some assurances from. The results of these audits are summarised in the table below:

System	Level of Assurance	DoT
Main Accounting	Moderate	↓
Payroll / HR (EMSS)	Limited	↔
Payroll (NCC)	No Assurance	↓
Accounts Payable (EMSS)	Significant	↑
Accounts Payable (NCC)	Limited	↓
Accounts Receivable (EMSS)	Moderate	↓
Accounts Receivable (NCC)	Limited	↓
Bank Reconciliation	Moderate	↓
Council Tax	Moderate	↔
Business Rates	Limited	↔
Housing Benefits	Moderate	↑
Treasury Management	Moderate	↓

The results of our work in 2022/23 do not indicate significant improvement when compared with the previous year.

- 2.5 This year Payroll/HR remains an area of particular concern. Our previous assessment of the arrangements within EMSS as 'Limited' is again repeated this year but along with a 'No Assurance' assessment in respect of NCC's operation of the controls.
- 2.6 Annex B is a summary of the audits concluded since our last update report to the Audit Committee. Annex B2 summarises audits concluded since 2021/22 with the most recent outcome shown where there have been multiple reviews.
- 2.7 Annex C is executive summaries for audits identified in Annex B.
- 2.8 Annex D is tracked high priority recommendations reported in 2020/21, 2021/22 and Quarter 1- 3 2022/23 to 27 January 2023
- 2.10 Audit Committee's attention is required to ensure that improvement is achieved in a timely manner, and to identify where further support or direction is needed. In many

instances the areas identified for improvement will underpin the ability to improve across the Council.

- 2.11 Included within the summary in Annex B are two 'No Assurance' reports; the NCC HR/Payroll report as mentioned in 2.5 above along with a report on Appointeeship. These two reports are included on the agenda for the September meeting which will include an update from the responsible senior managers in each case.

External and Other Assurance Providers

- 2.12 In the early part of 2023, EY (Ernst & Young) commenced a Financial Controls Assessment for Nottingham City Council with a focus on reviewing the extent and effectiveness of financial controls within six designated areas of financial activity. This work identified significant weaknesses with NCC's control environment specific to the six areas in scope. Common themes across this sample included an ineffective audit trail and limited preventative and detective controls, culminating in a materially weakened control environment with limited means of NCC being able to enact the financial stewardship that it is obligated to. This was further compounded through issues identified across NCC's culture and its engagement with the need for effective compliance. A programme of work is underway to address the identified weaknesses/non-compliance.
- 2.13 We have reviewed information from external providers of assurance during 2022/23 and identified further requirements in order to be able to assess the assurance concerns identified. These are found within Annex E
- 2.14 We rely upon the assurance provided by external audit and where appropriate follow up any issues identified. We continue to rely on the external assurance commissioned by the Chief Executive and Chief Finance Officer.
- 2.15 Internal Audit helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The Public Sector Internal Audit Standards sets out the role of the Audit Committee in relation to Internal Audit and includes to receive reports from Internal Audit on significant risk exposures and control issues.
- 2.16 The Accounts & Audit Regulations 2015 Part 2 sets out that:
- 5.— (1) A relevant authority 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 or guidance.

Progress on 2023/24 Internal Audit Plan

- 2.17 Annex F is a summary of the position against the Internal Audit Plan for 2023/24.
- 2.18 Table 1 shows that actual days achieved but we note that the available days will be impacted by some long-term sickness and an inability to recruit to vacant posts.

TABLE 1: ACTUAL v PLANNED AUDIT DAYS		
Total Planned Days	Actual to date	Comments
2464	536	Final outturn at Q4 will be impacted by staff shortages and sickness

2.19 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	
	All	High
Total new recommendations made	73	41
Rejected	0	0
Total recommendations accepted	73	41
% accepted	100%	100%

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 2022/23

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)