

Audit Committee – 28 June 2024

Title of paper:	Internal Audit Report – No Assurance Reports	
Director(s)/ Corporate Director(s):	Ross Brown, Corporate Director of Finance & Resources	Wards affected: All
Report author(s) and contact details:	John Slater Group Assurance & Audit Governance Manager	
Other colleagues who have provided input:	None	
Does this report contain any information that is exempt from publication?		
Yes An appendix to this report is exempt under paragraph 3 Information relating to the financial or business affairs of any particular person (including the authority holding that information). It is not in the public interest to disclose this information because it highlights a weakness in the Council's systems that potentially poses a risk to the security of the council's buildings and assets contained within them		
Brief Summary		
This report has been submitted to make the Committee aware of the 'No Assurance' classification (which is the lowest level of assurance in use) attached to a further two Internal Audit reports. The report also introduces current Internal Audit evaluations of assurance level in relation to all No Assurance reports issued in 2023/24 and provides an opportunity for the services concerned to present their responses and updates on actions to the Committee		
Recommendation(s):		
1.	To note that Internal Audit have given No Assurance to the activities in the Internal Audit Reports, and to consider the level of assurance provided by Internal Audit follow-up summaries in this report together with the relevant findings.	
2.	To consider the Action Plans / actions identified in the service responses and in each case determine whether they provide assurance that the issue considered is being adequately managed	

1 Reasons for recommendations

- 1.1 The Public Sector Internal Audit Standards set out the role of the Audit Committee in relation to Internal Audit and the standards include the requirement to receive reports from Internal Audit on significant risk exposures and control issues. This continues to be a requirement in the Global Internal Audit Standards issued in January 2024.

2 Background – Colleague Expenses

- 2.1 This audit was included within our Audit Plan for 2023/24 as part of our response to the issue of management override identified in the Council, and a summary included in our February update to committee.
- 2.2 The planned review by Internal Audit followed a data analytics approach to review business expense claims using new techniques including unsupervised machine learning, the scope included various data analytic tests to identify anomalous, duplicate, or potentially fraudulent claims and non-compliance with policy.

- 2.3 We found a weak system of internal controls with consistent non-compliance with key controls. Issues included: -
- Out of date policy with widespread, consistent non-compliance with policy.
 - Concerns about compliance with regulations such as the Income Tax (Earnings & Pensions) Act 2003.
 - Concerns that first line controls i.e. line management scrutiny and authorisation could not be seen to be operating effectively.
 - An absence of second line controls carried out by HR & EDI and/or Finance i.e. no monitoring of organisational compliance with policy or with financial controls (such as accounting regulations).
- 2.4 We have recently reviewed the status of action against recommendations and still consider that a No Assurance opinion is appropriate.
- 2.5 The service will provide an update on progress.

3 Background – Business Continuity

- 3.1 This audit was included within our audit plan as part of our response to the increased prevalence of service disruption events within the public sector and other changes within the threats landscape. Examples recently have led to local authorities having to recover services and data with a significant impact on vulnerable citizens and priority services.
- 3.2 The scope was the Business Continuity (BC) controls environment across council directorates. The Council has a statutory responsibility under the Civil Contingencies Act 2004 to ensure that it has management processes in place to ensure that the council can continue to operate effectively in the face of a disruption to services.
- 3.3 The Executive Summary reported to this meeting sets out the key recommendations within the report. There was a significant decline in the level of control from that observed during the 2018/19 review. Our particular concerns include:
- Lack of engagement of senior management and management
 - Lack of BC assurance reporting mechanisms for CLT and Councillors.
 - Colleagues are not regularly briefed/trained on their service area's business continuity plan
 - No testing policy or strategy to ensure that BC plans are tested
 - Out of date, partial or missing BC plans not sufficiently tested or informed by LA lessons learned reviews
 - BC Management System and the Emergency Planning incident management systems development/maintenance a single point of failure.
 - No corporate BC testing of the Council's response to a cyber related event despite corporate level risk
 - BC requirements for the Council's financial systems and process not covered by Financial Regulations
- 3.4 No response been received from the Director of Finance or the Head of IT to recommendations raised within the report, despite reminders being issued. This is breach of the Accounts & Audit Regulations 2015 requirements and a limitation of scope.
- 3.5 The service will provide an update on progress.

4 Background – Appointeeship

- 4.1 The following concerns arose from our report
- System used to manage the finances of citizens not fit for purpose.
 - Lack of transparency over balances held, true position for each citizen not apparent. This impacts on the Council's ability to demonstrate that it is acting in the best interests of each client.
 - No effective monitoring of appointeeship accounts, with the risk that inaccurate information is passed to the DWP
 - Inadequate separation between citizen's monies and NCC funds.
 - Council holding in excess of £1m in respect of deceased persons accounts
- 4.2 As requested by the committee we have again followed up the concerns and found that progress is being made to address the recommendations.
- 4.3 We continue to assess No Assurance as a large number of accounts have not yet been raised on the Deputyship system. We acknowledge that speed of transfer is highly dependent on external factors.
- 4.4 The service will provide an update on progress.

5 Background – HR/Payroll

- 5.1 The following particular areas of concern arose from our 2022/23 report:
- An absence of ownership & accountability within HR & EDI for ensuring organisational compliance with internal controls and critical processes, i.e. no monitoring of compliance and no challenge to non-compliance.
 - The Pay and Governance Board had not met since the Covid Pandemic.
 - Inability to demonstrate compliance with legislation in relation to Right to Work Checks for employees under Transfer of Undertakings (Protection of Employment).
 - Overpaying and underpaying employees in a number of different ways.
 - HR & EDI not applying the Special Payments Guidance consistently, creating an equal pay liability risk. Scrutiny, review and monitoring set forth within the policy had not been undertaken.
 - HR & EDI assert line managers are responsible for ensuring pay is correct but Line Managers were often unable to explain why pay decisions have been taken for employees under their responsibility and storage of documentation to explain decisions about pay is inadequate
 - A number of data quality / integrity issues affecting the Oracle Fusion HCM system in its use and outcome.
- 5.2 As requested by the committee we have recently followed up the concerns and found that the original concerns remain current, therefore our opinion at this stage remains as No Assurance.
- 5.3 The 2022/23 review included specific testing in respect of NCC's management of the process but reflected upon other external reviews and our previously reported concerns. The review highlighted a poor system of internal control and consistent non-compliance with key controls resulting in monetary impact to the organisation, affecting its ability to achieve its objectives.

6 Background – Exempt Appendix

- 6.1 An exempt appendix details an update on a further No Assurance audit report previously highlighted to the Committee in February.

7 Responses to the Audit Reports

- 7.1 Responsible Directors will discuss summarise actions taken since the reports were issued and future proposed action, and respond to questions during the meeting.

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

- 8.1 None

9 Published documents referred to in compiling this report

- 9.1 Public Sector Internal Audit Standards (2017 update)
- 9.2 Global Internal Audit Standards January 2024
- 9.3 Internal Audit Progress Update Q3 2023/24 – Item 9, Audit Committee 23 February 2024
- 9.4 Internal Audit Report – No Assurance Reports - Item 8, Audit Committee 23 February 2024