

## Update from NCC interim Head of Internal Audit, including 2023/24 opinion

1. EMSS is constituted under Joint Committee arrangements, to process payroll/HR, accounts payable and accounts receivable transactions for Leicestershire County Council (LCC) and Nottingham City Council (NCC).
2. Nottingham City Council Internal Audit (NCCIA) is the designated Internal Audit provider for EMSS. During 2023/24, NCC has not been able to ensure that the adopted principles contained in the Public Sector Internal Audit Standards (PSIAS) have been consistently adhered to; this is due to resource constraints within NCC more broadly which has impacted the Internal Audit function too. This situation is being addressed with interim senior resources in the near term, and a review and restructure of the NCCIA function is currently ongoing to identify and initiate longer term improvements.
3. The above situation led to a reduced level of scope for EMSS Internal Audit in 2023/24 and proposed levels for 2024/25. EMSS Joint Committee and Leicestershire Corporate Governance Committee raised concerns and NCC's Chief Financial Officer has committed that for 2024/25, NCC will continue to support delivery of the EMSS audit plan alongside the NCC audit plan and external resources will be brought in to support this, if required.
4. The following actions have been taken to alleviate resource shortages; it is expected that this will enable NCCIA to provide a mutually satisfactory Internal Audit service for EMSS in 2024/25.
  - Interim senior resources have been onboarded from September 2024 to ensure that the Internal Audit work performed by NCCIA becomes consistently compliant with core principles of the PSIAS.
  - Engagement with external PSIAS-compliant vendors has been started to assess and secure staff capacity augmentation options to deliver the 2024/25 EMSS audit plan in a satisfactory and timely manner.
5. EMSS managers are responsible for ensuring that proper standards of internal control operate within their organisation, whilst partners are responsible for internal control in their operations. Good cooperation between partners and EMSS is expected. The NCC Internal Audit service undertakes reviews of the internal control procedures in respect of the key systems and processes run by EMSS on behalf of itself and its clients. The NCCIA 2024/25 audit plan for EMSS (hereinafter referred to as the "Audit Plan") continues to focus on these areas.
6. The Audit Plan is agreed annually and reported to LCC and NCC governance committees. Reports in respect of all reviews are issued to the responsible colleagues within EMSS and final agreed versions of reports are shared with LCC colleagues. These reports include agreed recommendations within attached action plans and a level of assurance that is drawn from the findings. The NCCIA team meets periodically with the EMSS Management Team to discuss progress.

### EMSS Audit Outturn for 2023/24

7. During 2023 and 2024, partners have been made aware of the increasing challenges experienced by NCCIA, with broader NCC priorities and staffing shortages impacting on our ability to complete full audits across EMSS. All 2023/24 audits have now been completed.
8. A summary of the work completed for 2023/24 and the associated level of assurance is as follows:

Audit	Focus Areas	2022/23 Outcome	2023/24 Outcome
Payroll	Starters, leavers, exceptions, reconciliations and overpayments, BACS authorisation, Improvement	Limited Assurance	Limited Assurance

<b>Audit</b>	<b>Focus Areas</b>	<b>2022/23 Outcome</b>	<b>2023/24 Outcome</b>
	Plan and NAMOS recommendations		
<b>Accounts Receivable</b>	Follow-up including retest of collection strategy compliance, KPIs, dispute, banking, write-offs and third-party data access	Moderate Assurance	Moderate Assurance
<b>Accounts Payable</b>	New suppliers, change to bank accounts, audit trail – progress, performance monitoring and Experian reports (changes to system implemented in 2023/24)	Significant Assurance	Significant Assurance
<b>System Admin and access controls</b>	Follow-up including business continuity planning and configuration management	Limited Assurance	Moderate Assurance

#### **NCC Interim Head of Internal Audit Opinion for EMSS Audits performed in 2023/24**

9. This opinion is being provided by NCC's interim Head of Internal Audit. It must be noted that this opinion is based on the EMSS audit work performed before the interim Head of Internal Audit was appointed and is additionally subject to the matters already mentioned in point 2 above.
10. Based on the audit work undertaken for EMSS for 2023/24, NCC's interim Head of Internal Audit is of the opinion that a "moderate" level of assurance can be given regarding the operating effectiveness of the internal control systems reviewed at EMSS, and that no significant issues have come to light through the audit procedures performed. Whilst there remains scope for substantial improvements to be made, especially in Payroll, the overall direction of travel from 2022/23 to 2023/24 across the four audits completed is sufficient to warrant a "moderate" level of assurance conclusion.
11. This opinion takes into consideration key areas of concern that continue to exist within the areas audited, including the following (note: this is not an exhaustive list):

##### **Payroll 2023/24 (Limited Assurance)**

- The outstanding work required to transform the service to ensure that it is fit for purpose e.g. completion of monthly reconciliations of control accounts, approach to the recovery of salary overpayments and treatment of exception reporting. These have been previously highlighted by NCCIA as weaknesses that require partners to take action in order to obtain the full benefit of the joint arrangements.
- Weaknesses noted in the Leavers process.

##### **Accounts Receivable 2023/24 (Moderate Assurance)**

- Failure to consistently apply the Debt Recovery Strategy to the issuing of Reminder/Dunning Letters to clients.
- Partners are accountable for their own processes and Internal Audit have previously highlighted weaknesses in existing Accounts Receivable processes and controls that require partners to take action in order to obtain the full benefit of the joint arrangements.

##### **Accounts Payable 2023/24 (Significant Assurance)**

- No significant concerns noted.

**System Admin and Access Controls 2023/24 (Moderate Assurance)**

- There is a need to perform an Oracle Health Check on a regular basis to ensure system vulnerabilities have not been created through patching and configuration changes. Whilst some progress has been made in 2024 and intentions for further progress has been communicated, NCCIA were unable to confirm the existence of a reliable and regular arrangement for future Health Checks.
- Improvements to business continuity arrangements have been made but much of this improvement resides within the skills training and knowledge of the current Head of EMSS, who is due to move to a different role elsewhere in LCC. Sustainability of the improvements made are dependent on the Head of EMSS and other EMSS managers acquiring the necessary training and familiarising themselves with business continuity arrangements through testing at an early stage in their tenure (during 2024). EMSS should also look to influence partners to improve their related business continuity function, to the same standard.

**Internal Audit Plan 2024/25**

12. The intended EMSS audit plan and schedule for 2024/25 is given below.

<b>Audit</b>	<b>Scope</b>	<b>Fieldwork</b>	<b>Draft Report</b>	<b>Final Report</b>
<b>Accounts Payable</b>	<ul style="list-style-type: none"> <li>• Systems Audit / Finance Service Centre</li> <li>• New suppliers</li> <li>• Accuracy and input of RFP's and invoices into Oracle</li> <li>• Payments</li> <li>• BACS process</li> <li>• Cheque processing</li> <li>• Exception reporting (Duplicate Payments and Credit Balances)</li> <li>• Follow up of previous recommendations</li> </ul>	November to December 2024	December 2024	January 2025
<b>Accounts Receivable</b>	<ul style="list-style-type: none"> <li>• Systems Audit / Finance Service Centre</li> <li>• Process for raising invoices</li> <li>• Compliance with debt collection strategies and reporting</li> <li>• Writing out debt</li> <li>• Query management</li> <li>• Treatment of credit balances</li> <li>• Suspense accounts</li> <li>• Follow up of previous recommendations</li> </ul>	November to December 2024	December 2024	January 2025
<b>HR/Payroll</b>	<ul style="list-style-type: none"> <li>• Systems Audit / Employee Service Centre</li> <li>• Starters</li> <li>• Leavers</li> <li>• Permanent amendments</li> <li>• Amendments to standing data</li> <li>• Exception reporting</li> <li>• BACS process</li> </ul>	January to February 2025	February 2025	March 2025

Audit	Scope	Fieldwork	Draft Report	Final Report
	<ul style="list-style-type: none"> <li>• Reconciliation of key accounts</li> <li>• Follow up of previous recommendations</li> </ul>			
<b>IT Systems</b>	<ul style="list-style-type: none"> <li>• IT Systems audit</li> <li>• User creation and management including but not limited to starters and leavers controls</li> <li>• Privileged account access and Monitoring</li> <li>• Change management: system config settings as applied to user accounts</li> <li>• Roles and responsibilities: separation of duties</li> <li>• Audit trails</li> <li>• Generic account creation and monitoring</li> <li>• Monitoring security issues and exception reports</li> <li>• Assurance reporting (Partnership Board)</li> <li>• Business continuity management / incident management</li> <li>• Follow up of previous recommendations</li> </ul>	January to February 2025	February 2025	March 2025

13. As mentioned in point 4 above, NCC has started engagement with external PSIAS-compliant vendors to assess and secure capacity augmentation options to deliver the 2024/25 audit plan for EMSS in a satisfactory and timely manner. The delivery schedule above is dependent on NCC's ability to secure satisfactory capacity augmentation by October 2024; NCCIA will keep their EMSS and LCC counterparts updated in case of any foreseeable delays.