

AUDIT COMMITTEE – 22 February 2019

Title of paper:	INTERNAL AUDIT PROGRESS REPORT Q3 2018/19 AND PROPOSED INTERNAL AUDIT PLAN 2019-20	
Director(s)/ Corporate Director(s):	Laura Pattman 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.	
2	To approve the proposed Internal Audit Plan for 2019-20.	

1 REASONS FOR RECOMMENDATIONS

- 1.1 This report outlines the work of the Internal Audit service (IA) for the 3rd quarter of 2018/19.
- Appendix 1 – Executive Summaries from all Final Audit Reports issued in the period
 - Appendix 2 - List of Final Audit Reports issued in the period with analysis of recommendations and level of assurance
 - Appendix 3 - Summary of position against updated Internal Audit Plan 2018/19
 - Appendix 4 – Proposed Internal Audit Plan 2019/20.
- 1.2 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 as follows:
- Purpose*
5. *Oversee internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.*
- Functions*
8. *Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.*
25. *Undertake the duties of the Board mandated by PSIAS as identified in PSIAS Duties*
26. *Consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services.*
28. *Consider summaries of specific internal audit reports as requested.*
- PSIAS Duties*
2. *Approve the risk-based internal audit plan, including internal audit's resource requirements, including any significant changes, the approach to using other sources of assurance and any work required to place reliance upon those other sources.*
12. *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*
13. *Receive communications from the Chief Audit Executive on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.*

1.3 **Standards**

The 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. In the last assessment 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.

1.4 **Local Performance Indicators (PIs)**

Performance against PIs is illustrated in Table 1.

Table 1 : Performance v PI Targets					
Indicator		Target	Period	Actual Year	Comments
1	% of all recommendations accepted.	95%	100%	100%	On Target
2	% of high recommendations accepted.	100%	100%	100%	On Target
3	Average number of working days from draft agreed to the issue of the final report	8 days	2	2	Above Target
4	% of staff receiving at least three days training per year.	100%	50%	cumulative	On Target
5	% of customer feedback indicating good or excellent service.	85%	cumulative	100%	Above Target
6	Number of key / high risk systems reviewed	12	-	Complete in Qtr4	See Below

1.5 **Activity**

Appendix 3 summarises the internal audit plan for 2018/19. NCC Internal Audit also provides an internal audit service for other organisations. The IA 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.

1.6 **Summary of Activity**

A summary of reports issued within the last 3 months is included in Appendix 2. The following sections highlight any key issues and outcomes.

1.6.1 Key Financial Systems

Work on the 2018/19 key financial systems commenced during quarter 2 and will continue through 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.

1.6.2 Schools

This year we are undertaking themed audits across City schools as an alternative to individual schools audits. The themes include procurement and the Schools Financial Value Standard. We perform the responsible officer role at two academies.

1.6.3 Compliance and Risk-Based Audits

We complete compliance and risk based audits across the organisation and have completed several income focussed audits and a series of grants audits during the early part of the year. During 2018-19 we have reported twice on Property Acquisitions – the second of these reports followed up the issues identified in our original report. Whilst we have not changed the overall opinion as a number of actions related to governance and risk management are not complete, we note an improving direction of travel and continued constructive approach by the service.

1.6.4 Governance and Ethics

We have undertaken a process to update the Annual Governance Statement for 2017/18. 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.

Over the last year we have been identifying best practice in governance of companies and supporting the Section 151 Officer in bringing forward proposals for improvements in the Council's company oversight and shareholder activities.

We have undertaken work across a number of audits in the last 2 years to ensure that appropriate assurance reporting exists, and as a result new assurance reports have been brought to Audit Committee during 2018-19.

We have provided support to Policy & Performance for Partnership Health Checks. Councillor Allowances and Colleague Expenses audits will be completed during quarter 4.

Our update for legislative and other changes to the Council's Counter Fraud Strategy and Whistleblowing Process is reported to this meeting and update.

1.6.5 Fraud and Investigations

The Internal Audit section established the Corporate Counter Fraud Team (CCFT) during 2015/16 with a view to identifying additional income and savings for the Council.

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. NCC are the lead authority in the Midlands for the NFI business rates pilot. This is ongoing but has already identified additional rating income.

During 2018-19, CCFT have been carrying out matching between Single Persons Discounts (SPD) and Electoral Roll (ER) with a view to identifying households that should have the discount removed. The team also receives and investigates referrals from Council Tax teams regarding SPD.

Following previous successes, CCFT are also data matching NCC business rate accounts with data provided by the GIS Mapping Team. We envisage further properties being brought into rating towards the end of this financial year as a result of CCFT work, including several of high value. The team is also involved in a review of charitable rating reliefs as well as proactive observation and investigation of rateable properties.

1.6.6 We continue to assist in identifying and investigating fraud in Right To Buy applications and tenancies, and work with colleagues within Nottingham City Homes. We support the Monitoring Officer in respect of Whistleblowing reports, most of which are received by Internal Audit. We advise on or carry out investigations in relation to suspected fraud and irregularities.

1.6.7 Information and Technology
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. In this quarter we have reported on business continuity and disaster recovery and other audits are ongoing. We continue to review and provide assurance regarding the Fit For the Future project.

1.6.9 Table 2 shows that actual days achieved are significantly better than expected at this point in the year due to a vacancy being filled earlier than expected and we have updated the plan at Appendix 3 to reflect this.

TABLE 2: ACTUAL v PLANNED AUDIT DAYS		
Total Planned Days	Actual to date	Comments
2512	2057	On track

1.6.10 Table 3 shows that in the year to date, acceptance of recommendations is above the target of 95% for all recommendations and is meeting the 100% target for high recommendations.

TABLE 3: RECOMMENDATIONS ACCEPTED				
	To Date		Period	
	All	High	All	High
Total new recommendations made	97	52	17	9
Rejected	0	0	0	0
Total recommendations accepted	97	52	17	9
% accepted	100%	100%	100%	100%

1.7 **Internal Audit Plan 2019-20**

We have prepared a risk-based Internal Audit Plan for 2019-20 in accordance with the Public Sector Internal Audit Standards.

- 1.7.1 The number of days allocated in the plan to provide the Head of Internal Audit with the necessary evidence for the opinion on the control environment is 2571, which includes the resources required to provide internal audit services to external clients. A summary of the Internal Audit Plan for 2019/20 is provided in Appendix 4 of this report.
- 1.7.2 As with previous years, the plan is being compiled in consultation with our stakeholders across the council and has taken into account our professional judgement, our assessment of risk and the requirements of external auditors. The plan is centred on the need to align audit activity to Council objectives and to meet the requirements of effective corporate governance, including the Annual Governance Statement (AGS).
- 1.7.3 The plan incorporates time for development of the service and colleagues in order to remain in line with required professional standards outlined in PSIAS. To support this colleagues participate in personal development reviews and receive a minimum of three days training. I am satisfied that there are adequate staffing resources available to me to deliver the plan.
- 1.7.4 The Head of Audit and Risk confirms to the Audit Committee his personal independence and objectivity and the continuing organisational independence of the internal audit activity required by PSIAS and reinforced by the Internal Audit Charter and the council's Financial Regulations. Appropriate reporting and management arrangements are in place within NCC that preserve the independence and objectivity of the Head of Audit and Risk and internal audit activity. Robust arrangements are in place to ensure that any threats to objectivity are managed at the individual auditor, engagement, functional and organisational levels. These factors help to ensure that there are no inappropriate scope or resource limitations on the audit activity.

2 **BACKGROUND**

- 2.1 The Audit Committee's terms of reference include responsibility for receiving reports on the work undertaken by IA and for monitoring its performance. The Public Sector Internal Audit Standards (PSIAS) set the responsibility for the management of Internal Audit 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.

This report is one of the regular updates on work planned and undertaken by the service.

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

Accounts and Audit Regulations 2015

Internal Audit Plan 2018/19

Public Sector Internal Audit Standards (2017 update)