

Audit Committee

Item No.....

Report title:	Norfolk Audit Services Report for the Quarter ending 30th September 2018
Date of meeting:	27 September 2018
Responsible Chief Officer:	Executive Director of Finance and Commercial Services

Strategic impact

The Audit Committee provide proactive leadership and direction on audit governance and risk management issues, in accordance with their terms of reference which are part of the [Council's Constitution, part 4.1 \(4.4\)](#) (page 13) being:

B. INTERNAL AUDIT AND INTERNAL CONTROL

1. With Chief Officers, to provide proactive leadership and direction on audit governance issues and champion audit and internal control throughout the Council.

C. RISK MANAGEMENT

5. Independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk.

The Accounts and Audit Regulations 2015 require that, from 1 April 2015, the Council must ensure that it has a sound system of internal control that meets the relevant standards. Internal Audit is part of the Policy and Resources Committee Service Plan 2018-21.

Executive summary

The Council has approved a clear set of priorities 'Norfolk Futures', based around the Administration's 'Caring for our County' priorities. Internal Audit's work will contribute to these new priorities through the activity set out in the Policy and Resources Committee Service Plan.

The Audit Committee is recommended to consider and comment on:

- the overall opinion on the effectiveness of risk management and internal control being 'Acceptable' and therefore considered 'Sound'
- Satisfactory progress with the traded school audits and the operation of the Audit Authority for the France Channel England Interreg Programme
- The plans (2.9 to 2.12) to strengthen corporate development themes

1. Proposal (or options)

1.1 The proposal is covered in the Executive Summary above.

2. Evidence

2.1 This section covers:

- Work to support the opinion (2.2)
- Other relevant information (2.19)
- France Channel England FCE Update (2.24)
- External matters of Note (2.26)

Work to Support the opinion

2.2 The audit work and opinion supports the Policy and Resources Committee Plan 2018-21. Our work contributes to the Local Service Strategy (page 5) and the Finance and Commercial Services Department functions for Finance and Risk Management (page 7). Internal Audit's role is described specifically on page 12 of that Committee Plan.

2.3 My opinion, in the Executive Summary, is based upon:

- Final reports issued in the period (representing a proportion of the planned audit coverage for the year) **Appendix A**
- The results of any follow up audits,
- The results of other work carried out by Norfolk Audit Services; and
- The corporate significance of the reports

2.4 Progress with delivering the audits brought forward from the 2017/18 Audit Plan is shown in **Table 1** below. Progress with delivering the 2018/19 Audit Plan (first half year) is shown in **Tables 2 and 3** below. The details appear at **Appendix A**. Details of the number of Corporate High Priority Audit Findings are shown in **Table 4**.

Table 1: The thirteen 2017-18 Audits Brought Forward

Report Type	2017/18 B/fwd
Draft Reports Issued (WIP)	1
Final Reports Issued (non-schools)	9
Management Letters Issued	2
Total Audits for Opinion Work	12
Traded Schools (including traded audits and health checks)	1
Total	13

Table 2: The 2018-19 (Q1 and Q2) Audit Plan: at end of Quarter 2

Work Type	Audits Not Started	Work in Progress	Draft Reports Issued	Final Reports Issued	Total
Opinion Work	0	9	1	6	16
N.B. In the quarterly report ending 30 th June 2018, the total number of opinion audits was 27. Of these, three audits have been cancelled, four have become watching briefs for consideration in the 2019/20 Audit Plan and four have moved into quarter 3/4.					
Traded Schools (including traded audits and health checks)	0	0	2	2	4
Schools – Compliance / themed Audits)	0	0	0	1	1
Pensions	0	0	2	1	3
N.B. In the quarterly report ending 30 th June 2018, the total number of Pensions audits was 4. Of these, one audit has moved into quarter 3.					
Totals (Target*)	0	9 (6)	5 (6)	10 (6)	24 (18)

*The target values were reported to the Audit Committee in the January Committee.

Table 3: Certified Grant Claims (Q1 and Q2): at end of Quarter 2

Grant Type	Number of Grant Certifications Required in Q1/2	Number of Grant Claims Certified at end of Q1	Number of Grant Claims Certified at end of Q2
LGA (Local Government Association)	7	2	5
EU	4	2	2
External Clients	0	0	0
Internal Clients	2	2	0
Total	13	6	7

- 2.5 Corporate High Priority Audit Findings identified during audits are followed up. We have received assurance from the relevant Assistant Directors and Managers to confirm satisfactory action has been taken. There are no findings that are rated as Amber or Red. Four findings are rated Blue for removal as they have been completed. Details are shown in Table 4 below:

Table 4: Corporate High Priority Audit Findings

Department	Green Rated	Amber Rated	Blue Rated	Total
Adult Care	0	0	0	0
Children's Services	0	0	0	0
Communities and Environment	1	0	0	1
Finance and Commercial Services	7	0	4	11
Total NCC	8	0	4	12
Schools	0	0	0	0
Total Corporate High Priority Findings	8	0	4	12

- 2.6 There has been a slow take up of Traded Schools Audits in the first half of the year. Table 1 above details Quarters 1 and 2's activity and we have had two further enquiries to be followed up and booked for quarters 3 and 4. We

are sending letters/reminders to those schools who are overdue for an audit.

- 2.7 Details were set out in the separate Internal Audit Strategy report to the January 2018 meeting of this Committee, to develop an action plan for the Internal Audit Team to further develop four 'ways of working', these being:
- Strategy into Action/Accountability
 - Commerciality/Business Like
 - Data Analytics/Evidence Based
 - Collaboration/Influencing
- 2.8 Strategy into Action / Accountability – we have enhanced the audit planning process whereby deadlines dates for each step in the audit process are documented for planning and monitoring purposes. Managers are spending more time with the Senior Auditors, challenging the adequacy and appropriateness of the budgets set as well as reviewing the scheduling of all parts of the audit process. Ongoing regular monitoring is helping to ensure audit work moves forward within the timescales set. A new protocol for working with our contracted audit firm, BDO has also been agreed and will ensure that audits contracted out also move forward within the timescales agreed.
- 2.9 Commerciality / Business Like: - In Quarter 1, we reviewed the basis of our approach to charging our time for grant certifications for both internal and external clients and in line with Council policy we have moved to a full cost recovery hourly rate. These rates will now apply to all grant certification work in 2018/19. We will also be reviewing our blended daily rate which we use to charge external clients for audit work in 2018/19 as well.
- 2.10 Data Analytics / Evidence Based: - We have been looking at the Information Management Team's (IMT) business intelligence and analytics platform that has a central repository to hold the Council's and third party data and the associated data analytics software and how we can use this in our audit work. We are in the process of identifying what data we wish to analyse and in Quarter 2 we have been learning how to use the software and exploring which audits would benefit from data analytic testing. Furthermore, we are exploring how we can use this technology on a live basis to employ preventative measures to combat fraud or error. One area under development is mortality screening, the process of identifying deceased individuals within a given payment system thus reducing the risk of overpayments.
- 2.11 Collaborative/Influencing: - We participate in points of practice requests from our peers. We coordinate responses and share best practice.

Whistleblowing

- 2.12 The responsibility for managing Whistleblowing referrals has transferred to the Council's Chief Internal Auditor. An appropriate investigator will be allocated where an investigation is required. There have been five disclosures received in 2018-19. Three related directly to the Council's services and two for those we do business with. Four were anonymous disclosures and one remains confidential. The topics raised can be categorised as follows (some disclosures cover more than one category):

- Conduct (2)
- Governance (3)
- Procedural (4)

Anti-Fraud and Corruption

- 2.13 An Anti-fraud action plan has been approved by this Committee.

Ongoing projects are to review and update the following:

- Rolling out the e-learning packages for all key employees
- Promotion of the Strategy and related policies such as the Whistleblowing Policy (para 2.10)

- 2.14 The progress with allegations and cases investigated is shown in **Table 5** below. The "**Fraud Detected**" column represents cases that resulted in either a sanction/redress or other corrective action to mitigate the risk of reoccurrence

Table 5: 2018/2019 Fraud, Bribery and Corruption referrals.

Cases ongoing from 2017/2018	Total referrals received 2018/2019	Cases closed – Fraud/error Detected	Cases closed – No Further action	Total cases on-going
1	3	1	1	2

From the referrals received:

- 2 cases relate to social care payments.
- 1 case related to conflicts of interest and did not present an immediate fraud risk.
- 1 Case related to a traded investigation

The total cases worked during the period is 4, which is in keeping with the quarterly average of referrals received in the previous financial year.

- 2.15 Our Audit Universe and Audit Needs Assessment continue to be reviewed during each quarter to ensure topics remain relevant and that new topics are considered on a risk assessed basis.
- 2.16 Norfolk Audit Services makes every effort to reduce its carbon footprint. More details are described in **Appendix B**, Section 4 (4.2)
- 2.17 Satisfaction Questionnaires are issued with draft reports and when grant certification work is completed. We have received positive feedback for 6 responses in the quarter ending 1st January 2018 – 30th June 2018, as shown at **Appendix B, 5.2.5**. We will continue to stress to clients how important feedback is to us to seek to improve response rates. We will also be reviewing the client feedback process during 2018/19 and considering if there is a better way of obtaining client feedback.
- 2.18 Supporting notes and Technical Details for this report appear at **Appendix B**, for reference only.

Other relevant information

- 2.19 External Review of compliance with the Public Sector Internal Auditing Standards (PSIAS) – Status is Current
- 2.20 It is a requirement that every five years an independent external review of our compliance with the PSIAS is undertaken. CIPFA Services were commissioned to undertake this review in early May 2017. The review identified no areas of non-compliance with the Standards that would affect the overall scope or operation of internal audit activity. Nine out of the eleven recommendation are completed, one is in progress and the actions for one is not due to be completed yet. Eight of the eleven suggestions are completed, two are in progress and the actions for one are not due yet.
- 2.21 A self-review of the quality of audit files completed in quarters 1 and 2 is due to take place in quarter 3 as part of our ongoing Quality Assurance Improvement Plan. The results of this self-review will be shared with the Executive Director of Finance and Commercial Services and the Team for action.
- 2.22 LGPS Pooling Update
 - a. The Government requires regional Local Government Pension Scheme (LGPS) Funds to work together to “pool investments to significantly reduce costs, while maintaining investment performance”.
 - b. The Norfolk Pension Fund is working with 10 other Administering Authorities, collectively known as the ACCESS (A Collaboration of Central, Eastern and Southern Shires) Pool. The ACCESS Funds are Cambridge, East Sussex, Essex, Hampshire, Hertfordshire, Isle of Wight, Kent, Norfolk, Northamptonshire, Suffolk and West Sussex. An Inter-Authority Agreement (IAA) has been signed by all 11

authorities defining governance and cost sharing arrangements for the ACCESS Pool. Approval for the Norfolk Pension Fund to enter into the IAA for the pooling of assets was given by County Council on the 20th February 2017.

- c. The ACCESS Pool is governed by a Joint Committee made up of one elected councillor from each authority's Pensions Committee. Norfolk is represented by the Pension Committee Chair (Cllr Oliver). The Norfolk Pensions Committee receive quarterly progress reports on the work of ACCESS.
- d. The ACCESS Funds have appointed Link Fund Solutions Ltd (Link) to provide regulated financial services to the Pool. Link is responsible for establishing and operating a range of investment sub-funds into which the ACCESS Funds invest.
- e. Link Fund Solutions Ltd was given FCA Regulatory Approval for 'The LF ACCESS Pool Authorised Contractual Scheme (ACS)' and first sub-fund in August 2018.
- f. Essex County Council has been chosen to be the Host Authority for the ACCESS Support Unit (ASU). The ASU will consist of a small number of staff, led by a Programme Director.

- 2.23 The Policy and Resources Committee receives regular reports on Performance and Risk and the delivery of financial savings.

France (Channel) England (FCE) update –

- 2.24 The 2018 Audit Strategy and Audit Plan have been agreed. Progress is satisfactory at this stage of the audit year. We have made good progress against the completion of systems audits included in the plan and are nearing completion of the audit of operations. This means that we are in a good place to prepare and carry out the audit of the accounts and be in a position to the report to the European Commission by the 15 February 2019 deadline.
- 2.25 The FCE team staff continues to attend relevant training events organised by the European Commission or Member States in order to build capacity and knowledge at the required levels.

External Matters of Note

- 2.26 The [National Audit Office](https://www.nao.org.uk/) (please click to go to their website) have published the following reports that are relevant to the Council:
- 1. <https://www.nao.org.uk/report/transformation-guidance-for-audit-committees>
 - 2. <https://www.nao.org.uk/report/ofsted-inspection-of-schools/>
- 2.27 There are no other external matters to note this period.

3. Financial Implications

- 3.1. The service expenditure falls within the parameters of the Annual Budget agreed by the Council.
- 3.2. All audits are allocated a budget in days which determines the budgeted cost for the audit. A target for 2018-19 has been set to deliver 100% of audit work within budget. This is to allow the Team to adjust to the new ways of working which have been implemented for the 2018/19 audit year. Audit budgets are actively monitored by the Managers and the reasons for exceeding budgets, where this occurs, result in agreement as to how this will be avoided going forward, with improvements and suggestions made to help the Senior Auditors keep audits within budget.
- 3.3. The costs of half yearly audit plans are communicated to the Executive Director of Finance and Commercial Services.

4. Issues, risks and innovation

4.1. There are no implications with respect to:

- Resource
- Legal
- Equality
- Human Rights
- Environmental
- Health and Safety.

5. Background

5.1. The Council must undertake sufficient audit coverage to comply with the Accounts and Audit Regulations (England) 2015. The allocation of audit time was based upon a risk assessment and this is continuously reviewed throughout the year.

5.2. There is no relevant input or comments from other committees to include within this report.

Officer Contact

If you have any questions about matters contained or want to see copies of any assessments, eg equality impact assessment, please get in touch with:

If you have any questions about matters contained in this paper please get in touch with:

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Norfolk Audit Services
Final Reports Issued in the Quarter 2 ending 30 September 2018
and for the audits B/Fwd from 2017/18

In the 2nd Quarter for the 2018/19 Audit Plan five opinion final reports, two Traded School Audit final reports, one Pension final report and two management letters were issued and seven grant claims were certified.

For the audits brought forward from 2017/18 Audit Plan, four further final reports have now been issued.

NOTE: Any further audits completed by 1st September 2018 will be added to this report and any audits completed up to the September Audit Committee will be reported at the meeting verbally.

Final Reports: - B/Fwd from 2017/18

Opinion Work (Audit opinion provided is shown in brackets)

1. Role of Caldicott Guardians (Acceptable)
2. Acquisition and Disposal of Property (Key Issues to be addressed)
3. Probation HR (Acceptable)
4. Budget and Financial Control – Children's Services*

*Opinion deferred to Follow Up

Final Reports: - Quarter 2 2018/19

School Traded Audits

5. Nightingale Infant and Nursery Primary School
6. North Walsham High School

Opinion Work (Audit opinion provided is shown in brackets)

7. Performance Management of Commissioned Childrens Contracts (semi-independent accommodation (Key Issues to be addressed – red)
8. Norfolk Fire and Rescue Service – Fleet SLA (Key Issues to be addressed – amber)
9. Teachers' Pensions Agency Return (Acceptable)
10. Carbon Reduction Scheme (Acceptable)
11. Norwich Safety Community Interest Company (CIC) Subsidiary (Acceptable)

Management Letters

12. Schools Financial Value Standard Return – Thematic Audit (Management Letter) (No opinion given)
13. Norfolk Fire and Rescue Service – Preparation for the National Inspection Regime) (Management Letter) (No opinion given)

Pensions

14. National LGPS Procurement Framework Accounting Processes (Acceptable)

Certified Grants - Quarter 2

15. LGA – Fire and Rescue Authorities Capital Funding Grant (P/e March 2018)
16. LGA – Greater Norwich Area Surface Water Drainage (Highways Maintenance Challenge Fund) (P/e March 2018)
17. LGA – Disabled Facilities Capital Grant (P/e March 2018)
18. LGA – CES (Local Transport Capital Block Funding) (P/e March 2018)
19. LGA – LA Bus Subsidy Ring Fenced Revenue Grant (P/e March 2018)
20. EU – Green Pilgrimage (P/e June 2018)
21. EU – ENDURE (P/e June 2018)

Technical Details

Notes for section 2

2.1 Productive Time

- 2.1.1 Norfolk Audit Services monitor the productive and non-productive time of the team on a regular basis to ensure delivery of an effective and efficient service. The target for time NAS staff spends on work supporting the audit opinion has been set at 67.5% for the 2018-19 year. This takes into account time required for general management, training, team development and induction of new or temporary staff and excludes team members who work on FCE audit work, risk management and investigative work.

2.2 Investigations Procedure

- 2.2.1 Norfolk Audit Services is notified of any allegations of a financial or control nature. Allegations are managed in two stages, a preliminary assessment and then, if required, a formal investigation. Preliminary assessments may require significant work and can lead to an assessment report. Formal investigations will have terms of reference and a time budget.

Notes for section 4

4.1 Crime and Disorder Act 1998

- 4.1.1 Under Section 17 of the Crime and Disorder Act (1998), the Council has a statutory general duty to take account of the crime and disorder implications of all its work, and do all that it reasonably can to prevent crime and disorder in Norfolk. Norfolk Audit Services work helps with the aim of prevention of crime in Norfolk in that its work results in the likelihood of detection and prosecution increasing. The profile of Anti- Fraud and Corruption arrangements remains high and we are responding to the challenges that arise.
- 4.1.2 This report has fully taken into account any relevant issues arising from the Council's policy and strategy for risk management and any issues identified in the corporate and departmental risk registers.

4.2 Sustainability

4.2.1 Norfolk Audit Services makes every effort to reduce its carbon footprint. Distance travelled is taken into account when booking audits outside of the County Hall, booking auditors living closest to the venues. Our team uses all recycling facilities available to us working at County Hall in order to reduce consignment to landfill. We monitor our printing/photocopying usage half yearly and encourage people to reduce where they can.

4.2.2 Norfolk Audit Services continually review our performance and costs.

Notes for Section 5

5.1 Audit Opinions

5.1.1 Audit reports usually contain an overall audit opinion on the adequacy and effectiveness of risk management and internal control, indicating whether the area concerned is either 'acceptable' or if 'key issues need to be addressed'. Where controls are yet to be embedded an audit opinion may not be given. Audit work and reporting give assurance on the adequacy and effectiveness of Governance, Risk Management and Internal Control and forms part of the achievement of the Council's Plans and its Strategic Ambitions.

5.2 The difference we are making

5.2.1 Audit findings have provided assurance or where necessary led to agreed actions to address any identified weaknesses in risk management and internal control. This demonstrates the Council's good Value for Money and thus supports the Council's Plan and its Strategic Ambitions. No actual savings or potential savings have been noted as a result of our audit work and grant claim certification in the last quarter.

5.2.2 The work undertaken by Norfolk Audit Services complements the work of the external auditors. There is a good working relationship between Internal and External Audit such that in total they give adequate audit coverage to all areas of the Council's activities. Norfolk Audit Services is responsible for communicating the final results of their audit work to parties who can ensure that the results are given due consideration.

5.2.5 Feedback received was as follows:

Type of work	Questionnaires issued	Questionnaires received
Standard audit	7	6
Grants	0	0
Analysis of results:		
	Expectations Met*	Disappointed or Very Disappointed
	6	0

*The simpler electronic “Smart Survey” based questionnaire was launched from 1 January 2015 onwards to increase the likelihood of returns.