

Audit Committee

Item No.....

Report title:	Norfolk Audit Services Report for the Quarter ending 31st December 2018
Date of meeting:	31st January 2019
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 [Vision](#) and Strategy setting out a clear set of 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 agree:

- 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 support 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 An audit of note during the quarter was the Delayed Transfer of Care (DTC) – Part 1 audit. An action plan has been prepared to strengthen controls as a priority and will be agreed by Adults Senior Management Team in January 2019. Many of the issues have been addressed already to ensure that a robust verification process is in place, that figures on the monthly returns are correct, can be verified to adequate supporting evidence and are able to be agreed by the Director of Adult Social Services and submitted when due. The actions will also ensure that processes are in place to identify any exceptions and data error or manipulation. The audit opinion was that there were key issues to be addressed – Red rated

2.5 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 completed thirteen 2017-18 Audits Brought Forward

Report Type	2017/18 B/fwd
Final Reports Issued (non-schools)	10
Management Letters Issued	2
Total Audits for Opinion Work	12
Final Traded Schools (including traded audits and health checks)	1
Total	13

Table 2: The 2018-19 (Q1 – Q3) Audit Plan: at end of Quarter 3

Work Type	Audits Not Started	Work in Progress	Draft Reports Issued	Final Reports Issued	Total
Opinion Work	12	30	2	12	56
Traded Schools (including traded audits and health checks)	8	6	0	6	20
Schools – Compliance / themed Audits)	0	1	0	1	2
Pensions	1	2	0	3	6
Totals (Target*)	21(0)	39 (7)	2 (9)	21 (35)	84(51)

*The target values were reported to the Audit Committee in the September Committee and total 51 audits as the Audit Plan is over scribed by eight audits.

Table 3: Certified Grant Claims (Q1 – Q3): at end of Quarter 3

Grant Type	Number of Grant Certifications	Number of Grant Claims Certified at end	Number of Grant Claims	Number of Grant Claims
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	Required in 2018/19	of Q1	Certified at end of Q2	Certified at end of Q3
LGA (Local Government Association)	7	2	5	2
EU	9	2	2	2
External Clients	2	0	0	1
Internal Clients	3	2	0	3
Total	21	6	7	8

- 2.6 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	Blue	Amber	Total
Adult Care	0	0	0	0
Children's Services	0	0	0	0
Finance and Commercial Services Appendix B(ii) Finance and (ii) ICT	3	4	0	7
Communities and Environment	1	0	0	1
Total NCC	4	4	0	8
Schools	0	0	0	0
Total Corporate High Priority Findings	4	4	0	8

- 2.7 There was a slow take up of Traded Schools audits in the first half of the year. Table 2, above, details 2018-19 activity to date. In early September, we sent letters/reminders to those schools who were overdue for an audit. This resulted in several schools booking a health check or full audit and the total number planned for the year is now 20, which is five short of our target.
- 2.8 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

- 2.9 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.
- 2.10 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.
- 2.11 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 we will be 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.
- 2.12 Collaborative/Influencing: - We participate in points of practice requests from our peers. We coordinate responses and share best practice.

Whistleblowing

- 2.13 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 thirteen disclosures received in 2018-19. Further details are set out in our Anti-Fraud and Corruption Update elsewhere on this agenda.

Anti-Fraud and Corruption

- 2.14 An Anti-fraud action plan has been approved by this Committee. Further details are set out in our Anti-Fraud and Corruption Update elsewhere on this agenda.

Other

- 2.15 The implications of organisational change for Annual Governance reporting, Risk Management and internal controls are being monitored.
- 2.16 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.
- 2.17 Norfolk Audit Services makes every effort to reduce its carbon footprint. More details are described in **Appendix B**, Section 4 (4.2)
- 2.18 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.
- 2.19 Supporting notes and Technical Details for this report appear at **Appendix B**, for reference only.

Other relevant information

- 2.20 External Review of compliance with the Public Sector Internal Auditing Standards (PSIAS) – Status is Current
- 2.21 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.
- 2.22 A self-review of the quality of audit files completed in quarters 1 and 2 is due to take place in quarter 4 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.
- 2.23 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.

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

France (Channel) England (FCE) update –

- 2.25 The FCE audit team has been busy delivering the audit plan, as established in the 2018 Audit Strategy. Most of the summer has been spent on undertaking the audit of expenditure (as claimed to the EC by the beneficiaries) in readiness for the annual opinion on the annual accounts. Overall, the annual accounts for the FCE programme will show expenditure of c.2.5 Million €, half of which relate to expenditure incurred by the NCC based teams (Managing Authority and Audit Authority – the Certifying Authority has not yet, to date, requested reimbursement from the EC).
- 2.26 The audit work is progressing well to fully deliver the audit plan and report to the EC by the statutory deadline of 15 February 2019.
- 2.27 During the annual meeting with the European Commission, the audit team received praise for the robustness of its strategy, the diligence of its work and the constructive approach it has showed in solving queries from the EC auditors.
- 2.28 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

2.29 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/ofsteds-inspection-of-schools/>

2.30 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 3 ending 30 December 2018
and for the audits B/Fwd from 2017/18

In the 3rd quarter for the 2018/19 Audit Plan five opinion final reports, four Traded School Audit final reports, two Pension final reports and one management letter were issued, and eight grant claims were certified.

For the audits brought forward from 2017/18 Audit Plan, the last final report was issued.

NOTE: Any further audits completed by 1st January 2019 will be added to this report and any audits completed up to the January Audit Committee will reported at the meeting verbally.

Final Reports: - B/Fwd from 2017/18

Opinion Work (Audit opinion provided is shown in brackets)

1. Budget and Financial Control – Adults*

*Opinion deferred to Follow Up

Final Reports: - Quarter 3 2018/19

School Traded Audits

2. Watlington Community School (Acceptable)
3. Queen's Hill Primary and Nursery School (Key Issues to be addressed – Amber)
4. The Clare School (Key Issues to be addressed – Amber)
5. St George's Primary and Nursery School GY (Key Issues to be addressed – Amber)

Opinion Work (Audit opinion provided is shown in brackets)

6. Active Norfolk (Key Issues to be addressed – Amber)
7. Accounts Payable (Acceptable)
8. Prepayment Cards and Managed Accounts (No opinion provided)
9. Norwich City Highways Agency Agreement (No opinion provided)
10. Delayed Transfer of Care – Part 1 (Key Issues to be addressed – Red) (see paragraph 2.4)

Management Letters

11. Routine Maintenance Follow Up (Key Issues to be addressed – Amber)

Pensions

12. ACCESS pooled arrangements - Governance (Acceptable)
13. Receivables - Employee and employer contributions, AVC's AVP's transfer values (Acceptable)

Certified Grants - Quarter 3

14. EU – BIDREX (P/e October 2018)
15. EU – SAIL (P/e September 2018)
16. Norse (P/e September 2018)
17. Police and Crime Panel (PCP) (P/e September 2018)
18. Family Focus (P/e September 2018)
19. Family Focus (P/e December 2018)
20. Major Scheme DoT Certification
21. Teacher's Pension Scheme Certification

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 because 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.

