

Audit Committee

Item No.....

Report title:	Norfolk Audit Services Quarterly Report for the Quarter ended 30 September 2016
Date of meeting:	26 January 2017
Responsible Chief Officer:	Executive Director, Finance and Commercial Services

Strategic impact

The Audit Committee are responsible for monitoring the adequacy and effectiveness of the systems of risk management and internal control, including internal audit, as set out in its Terms of Reference, which is part of the Council's Constitution.

Executive summary

Internal Audit's work has contributed to the Council's priorities, being:

Excellence in Education - We have used our experience and skills to drive up the standards of financial and risk management in a total of 6 Norfolk schools this quarter; through a mix of:

- 4 full traded schools audits; and
- 2 traded school health checks audits

Real Jobs - No specific audits on this topic in the last quarter

Good Infrastructure – We audited NCC Cloud Governance

Supporting Vulnerable People – We audited Special Educational Needs & Disabilities (SEND) assessments

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 schools audits and the preparations for an Audit Authority for the France Channel England Interreg Programme
- That plans are being established to strengthen corporate development themes of: Strategy into Action/Accountability, Commerciality/Business Like, Data Analytics/Evidence Based and Collaboration/Influencing for the internal audit function

1. Proposal (or options)

- 1.1 The proposal is covered in the Executive Summary above.
- 1.2 The County Leadership Team have been consulted in the preparation of this report.

2. Evidence

- 2.1 This section covers:

- Work to support the opinion (2.2)
- Other relevant information (2.21)
- France Channel England FCE Update (2.24)
- External matters of Note (2.28)

2.2 Work to Support the opinion

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

- Final reports issued in the quarter (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 The Internal Audit Plan has been delivered within the context of:

- Managing vacancies (recruitment for Investigative Auditor and Internal Audit Manager roles)
- Managing productivity rates (currently additional time is being spent training two new auditors)
- Un-planned investigatory and preliminary assessments of allegations work in the quarter. During the quarter we completed responses to nine County Farms complaints and one Adult Services complaint.

- 2.5 A list of final reports for the last quarter is attached as **Appendix A**. The progress with delivering the audit plan, including totals up to the end of the year is shown in table 1 below.

Table 1: Final Audit Reports

Report type	Quarter 1	Quarter 2	Total to 30/9/16	Annual Target
Final audit reports (non-schools)	9*	10*	19	22
Final audit reports (schools – compliance/themed Audits)	0	0	0	2
Management Letters	1	4*	5	10
Total Audits for opinion work	11	13	24	34
Traded Schools (including traded audits and healthchecks)	10	6	16	34
Certified grant claims	2	11	13	24
Follow-up report	0	0	0	0
Pension Audits	3	2	5	6

The target number of final reports to be issued for the year is 34.

*It should be noted that these figures include final reports issued in relation to finalisation of carried forward 2015-16 audits.

- 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. Details are shown in table 2 below:

Table 2: Corporate High Priority Audit Findings

Department	Green Rated High Priority Audit Findings	Blue Rated High Priority Audit Findings (action taken and awaiting removal)
Adult Care	0	0
Children's Services	2	0
Communities and Environment	0	0
Finance and Commercial Services	6	1
Resources	0	1
Total NCC	8	2
Schools	0	0
Total High Priority Findings	8	2

- 2.7 There has been an increase in the take up of the Traded Schools Audits. As at the date of writing this report 25 schools have requested a traded audit from the start of the 2016/17 financial year.
- 2.8 There were no formal investigations in the quarter but there was one assessment. No further action was required. Since the end of the quarter there were two referrals to the Internal Audit Team which required assessments to be completed. It was concluded that no further action was required.
- 2.9 Work is underway to develop an action plan for the Internal Audit Team to further develop four 'ways of working':
- Strategy into Action/Accountability
 - Commerciality/Business Like
 - Data Analytics/Evidence Based
 - Collaboration/Influencing

Whistleblowing

- 2.10 Since the end of the last quarter, as part of the reorganisation of the Resources and Finance Departments, the responsibility for managing Whistleblowing referrals has transferred to the Council's Chief Internal Auditor. Investigations are delegated to a Senior Officer in the relevant department of Internal Audit for financial concerns.
- 2.11 There has been one whistleblowing referral in progress since the transfer of responsibility and that has now been concluded. The Head of the Service has taken action and no further action is required.

National Minimum Working Wage Audit Work Update

- 2.12 The work on this topic was reported to this Committee in September 2016. Since the end of the last quarter the second phase of the audit has commenced. That work will re audit the original nine block contract providers to check compliance with the national minimum living wage and test the effectiveness of the remedial steps that were taken following the first round of audits.

External Review to meet PSIAS

- 2.13 CIPFA Services have been commissioned to undertake an external review in early 2017. An independent evaluation of how the Public Sector Internal Audit Standards are being met is required every five years and a review is now due. The results will be reported to a future meeting.
- 2.14 A self review of the quality of audit files was undertaken during quarter 2 as part of our ongoing quality assurance improvement plan. Minor strengthening of the quality of files was identified and action plans have been put into place to support this. The results of this self review have been shared with the Executive Director of Finance and the team for action.
- 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 grant work performed. We have received positive feedback for the six responses received in the quarter ended 30 September 2016, 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.
- 2.18 The cumulative proportion of time supporting the audit opinion for quarter 2 was 65% in line with the target of 62%. See **Appendix B**, Section 2 (2.1) for further detail.
- 2.19 The preparations for the France Channel England Interreg Audit Authority are progressing satisfactorily (see 2.20 below).
- 2.20 Supporting notes and Technical Details for this report appear at **Appendix B**, for reference only.

2.21 **Other relevant information**

Highways Network Asset – postponement

- 2.22 Reports to recent Audit Committees have flagged up a major change in the way that the Councils “Highways Network Asset” will have to be accounted

for, using depreciated replacement cost rather than historic costs. The change will result in a significant increase in the value of net assets in the Council's balance sheet, and was due to be implemented in the 2016-17 financial statements. However at its meeting on 9 November, the CIPFA/LASAAC Local Authority Accounting Code Board decided to postpone the implementation. The reason given for postponement related to concerns that the centrally provided "gross replacement cost" rates necessary for the valuation would not be ready in time for closing the 2016-17 accounts. The position will be reviewed in March 2017 with a view to implementation in 2017/18. As a result of the postponement, internal audit work planned for 2016-17 will be deferred to 2017-18.

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

2.24 France (Channel) England (FCE) update

- 2.25 The team has continued progressing the setting up of the Audit Authority. In particular, the documentation has been developed for the selection of a supplier to deliver audit work on the French territory. The Invitation to Tender has been issued, leading to a selection by 7 February 2017.
- 2.26 In addition to this, Norfolk Audit Services has acted as the Independent Audit Body responsible for the review of the Description of the Management and Control System (DMCS) developed by the Managing Authority and the Certifying Authority. A final report has been sent to DCLG, in November 2016, which includes an unqualified opinion on the latest version of the DMCS.
- 2.27 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.

2.28 External Matters of Note

- 2.29 The [National Audit Office](#) (please click to go to their website) have published the following reports that are relevant to the Council:

1. NAO Work in Police and Fire Sectors 9 July 2016
2. Local Public Service Reform – 7 September 2016
3. The Syrian Vulnerable Persons Resettlement Programme 13 September 2016
4. Protecting information across government - 14 September 2016
5. Round up for Audit Committees 12 October 2016
6. Children in Need of Help and Protection 12 October 2016
7. Troubled Families Programme Update – 18 October 2016
8. Departmental Overview 2015-16 DCLG – 9 November 2016

9. Commercial & Contract Management insight and emerging best practice – 14 November 2016
10. Market Analytic Toolkit – 22 November 2016
11. LEP Census Findings – 1 December 2016

2.30 There are no other external matters to note this quarter.

3. Financial Implications

- 3.1. The expenditure falls within the parameters of the Annual Budget agreed by the Council.
- 3.2. Norfolk Audit Services has delivered approved savings in 2016-17 by adhering to the planned budget and preparing for ongoing savings as required.
- 3.3. All standard audits are allocated a budget (£) which is formally monitored at draft and final report stages. A target for 2016-17 has been set to deliver 100% of audit work is within budget. At present 75% of audit work is keeping to the original budget (+ 10%). Generally when audit work is over budget it is because the completion of the work, including obtaining agreement to findings and obtaining action plans, has taken longer than originally planned. This is currently being actively managed to ensure all future audit work is kept within budget.
- 3.4. The costs of half yearly audit plans are communicated to the Executive Director of Finance.

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 has to 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 Ended 30 September 2016

There were 14 final reports, 4 full traded school audits completed, 2 traded school health checks, 4 management Letters and 11 grants certified during the quarter.

Final Reports

Children's Services

1. Special Educational Needs and Disabilities Assessments (SEND)

Communities and Environment

2. Museums – Accreditation of Collections

Finance

3. Key Financial systems - AGS testing
4. Treasury Management
5. Carbon reduction Scheme (CRC)
6. Management of Property Assets
7. Cloud Computing (Governance) / NCC Cloud Governance

Resources

8. County Farms Governance (issued in Q1)
9. County Farms - Lines of Enquiry (issued in Q1)
10. ICT Resilience/Support - ICT Business Continuity

Traded Audits

Schools (Traded – full audit)

1. Queensway Infant School and Nursery
2. Parker's CE VC Primary School
3. Harford Manor School
4. Catton Grove Primary School

School Traded Healthchecks

1. Dereham Church Infant and Nursery School
2. Ashleigh Primary and Nursery School

Management Letters

Adult Social Services

1. Care First (quality of data)

Resources

2. Review of the management of block contracts
3. Access rights (including link to Sailpoint) (2016-17)
4. HP - Asset Disposal (2016-17)

Certified Grants

1. BDUK 2015-16 Q4
2. Police & Crime panel (p/e September 2016)
3. NORSE (p/e March 2016)
4. PbR submission -September 2016
5. Fire (June 2016)
6. CES (September 2016)
7. Transforming Care (June 2016)
8. Disabled facilities grant (September 2016)
9. Maintenance challenge fund
10. RINSE LP – supporting the 2nd level audit
11. PRISMA – supporting the 2nd level audit

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 61.1% for the 2016-17 year. This takes into account time required for general management, training, team development and induction of new or temporary staff.

2.2 Investigations Procedure

- 2.2.1 From time to time Norfolk Audit Services is notified of allegations. 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. We participate in an Audit Benchmarking Club which compares us to similar County Council Internal Audit teams. No significant exceptions have been noted.

Notes for Section 5

5.1 Audit Opinions

- 5.1.1 All audit reports 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'. 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 Norfolk Audit Services have adopted a "Statement of Customer Pledge and Remedy".
- 5.2.3 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	10	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. A Service Level Agreement is being drafted for our services.