

# Audit Committee

Item No.....

<b>Report title:</b>	<b>Norfolk Audit Services' Annual Report for 2018/19</b>
<b>Date of meeting:</b>	<b>18 April 2019</b>
<b>Responsible Chief Officer:</b>	<b>Executive Director, Finance and Commercial Services</b>
<b>Strategic Impact</b>  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 <a href="#">Constitution</a> at part 4.1 (please click underlined text for links to the webpage).	

## Executive summary

Norfolk Audit Services (NAS) fulfils the internal audit function for the County Council as required by its own Terms of Reference and the relevant regulations and standards, which are considered annually by the Committee. Our work is planned to support the County Council's [vision and strategy](#).

This report sets out the:

- Introduction (Section 3)
- Our opinions (Section 4)
- Our Quality Assurance and Improvement Programme (Section 5)
- Our Performance (Section 6)
- Financial implications (Section 7)
- Issues, risks, staffing and innovation (Section 8)
- Council's Financial Statements and Fraud (ISA 240) (Section 9)
- Background papers (Section 10)

### **Recommendation:**

The Audit Committee is recommended to consider and agree:

- Our opinion on the overall adequacy and effectiveness of the County Council's framework of risk management, governance and control for 2018/19 is 'Acceptable'.
- The audit service provided by NAS continues to conform with the International Standards for the Professional Practice of Internal Auditing (Public Sector Internal Auditing Standards (PSIAS)) and complies with the Accounts and Audit Regulations 2015.
- The Annual Governance Statement (AGS) for 2018/19 will refer to this report and will be reported to this Committee in July 2019 for its approval.

## **1. Proposal (or options)**

1.1 The recommendation is set out in the Executive Summary above.

## **2. Evidence**

2.1 The evidence is detailed in sections 3 to 7 below.

## **3. Introduction**

### Accounts and Audit Regulations (England) 2015

3.1 Under these regulations, the County Council ('the Council')

- 'must ensure that it has a sound system of internal control which (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives; (b) ensures that the financial and operational management of the authority is effective; and (c) includes effective arrangements for the management of risk.
- 'must, each financial year (a) conduct a review of the effectiveness of the system of internal control' and '(b) prepare an annual governance statement.'
- 'must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

### Planning considerations

3.2 In compiling our Audit Plan, we considered the requirement to produce an annual internal audit opinion and report, that could be used by the Council to inform its Annual Governance Statement (AGS), and the need to conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control, and ensured sufficient days and a variety of audit areas were included.

### Opinion requirements

3.3 Our Annual Report concludes on our overall opinion of the adequacy and effectiveness of the Council's framework of risk management, governance and control, following the completion and outcomes of our audit opinion and traded school work.

### Other work and our performance

3.4 Our Annual Report also covers the outcomes of our grant certification work, audit work for external clients and the performance of NAS.

#### 4. Our opinions

##### Internal Control

- 4.1 Our opinion on the adequacy and effectiveness of the Council's framework of control is 'Acceptable'.
- 4.2 In total there were 66 opinion audits in the 2018/19 Audit Plan (59 audits were detailed in the second half of the year Audit Plan which was overscribed by eight audits for flexibility. The 59 audits increased to 66 over the course of the second half of the year).
- 4.3 Overall ten of the 66 audits were cancelled, six were deferred to 2019/20 and four were watching briefs only. Therefore, in total there were 46 opinion audits in 2018/19. However, of the 46, 10 were work in progress at the end of the year. Therefore, as of 31<sup>st</sup> March 2019, our opinion is based on 36 opinion audits at draft or final stage and 14 traded school audits at draft or final stage.
- 4.4 The 36 opinion audits at draft or final stage were classified as follows: -

Opinion	Number
Acceptable – green rated	14
Key issues to be addressed – amber rated	10
Key issues to be addressed – red rated	4
No opinion applicable	8

N.B. No opinion applicable relates to where we have issued management letters and in one case where the external contractor did not provide an overall assurance opinion and in another where the work was advisory.

- 4.5 The 14 traded audits at final or draft stage were classified as follows: -

Opinion	Number
Acceptable – green rated	8
Key issues to be addressed – amber rated	5
Key issues to be addressed – red rated	1

N.B. Health checks are not graded

- 4.6 There were four red rated opinions issued in 2018/19: -

- Delayed Transfer of Care (DTOC) – Part 1 audit. An action plan was prepared to strengthen controls as a priority, to 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

- The Use of Volunteers audit – an action plan was agreed to strengthen controls around the use of volunteers. This includes the need for a full revision of the volunteer's strategy and policy to bring it into line with the Council's current ways of working and recognising the increased use of volunteers across all directorates and the associated risk of this. The agreed actions will ensure the work of volunteers is adequately managed and monitored and understood in terms of service delivery and that all volunteers have the necessary screening checks, training and trial periods appropriate to their volunteering role. The audit opinion was 'key issues to be addressed' – red rated and corporately significant and this has been addressed.
- The Performance and Challenge audit – an action plan was agreed to strengthen controls around the application of the monitoring and evaluation framework used to monitor the management of performance of commissioned services' contracts. This audit focused on the contracts for semi-independent accommodation. The audit opinion was that there were key issues to be addressed – red rated and departmentally significant.
- The Transforming Care Programme – an action plan is being agreed to make the overall control environment more robust and to establish a finance protocol with the CCGs for the split of funding for the costs of health and social care for patients in community settings. The audit focused on the admissions and discharges processes, the recharges' process when inpatients move into a community setting and the reasons for the any delays in the admissions or discharges process. The audit opinion was that there were key issues to be addressed – red rated and departmentally significant. This draft report was issued at the end of March.

### Governance

- 4.7 Our opinion on the adequacy and effectiveness of the Council's framework of governance is 'Acceptable'. This is based on the opinion audits: Third River Crossing, External Funding (museums, environment and arts, Apprenticeship Levy, Norfolk Fire and Rescue Service – Fleet SLA).
- 4.8 It should be noted that the Council is drafting its Annual Governance Statement (AGS), which concludes on the fitness for purpose of the Council's governance framework, for signature by the Leader of the Council and the Head of Paid Service. That review is informed by the audit opinion work we undertake in the year.

### Background to governance

- 4.9 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The Council has its own [Code of Corporate Governance](#) based on the International Framework: Good Governance in the Public Sector, produced by CIPFA and the International Federation of Accountants (IFAC).

- 4.10 The Council's AGS provides an overall self-assessment of the Council's corporate governance arrangements and how it adheres to the governance standards set out in the Code. Evidence relating to the principles of the Code is reviewed and analysed to assess the robustness of the Council's governance arrangements.
- 4.11 The AGS includes an appraisal of the key controls in place to manage the Council's principal governance risks and the effectiveness of systems and processes governing decision making and financial control.

#### Risk management

- 4.12 Our opinion on the adequacy and effectiveness of the Council's framework of risk management is 'Acceptable'.
- 4.13 Our opinion is based on a high-level review of the Council's risk management framework, undertaken during the completion of the Audit Plan for 2019/20, in determining whether to rely on the Council's risk assessments for audit planning purposes, to develop a risk-based plan, as well as the Risk Management Officer's own conclusion, as detailed in the Annual Report for Risk Management 2018/19. This states that 'the Council's system of Risk Management during 2018/19 was sound, adequate, and effective in accordance with the requirements of the Accounts and Audit (England) Regulations 2015.'

#### Background to risk management

- 4.14 It should be noted that the CIA has management responsibility for the corporate risk management system and that safeguards are in place to limit any impairments to independence and objectivity in drawing a conclusion on the adequacy and effectiveness of the risk framework.
- 4.15 These safeguards are detailed below: -
- The Council has a qualified Risk Management Officer.
  - The function undertakes nationally recognised benchmarking and reports this to the Committee.
  - The Executive Director of Finance and Commercial Services has overall responsibility and reports to the Committee quarterly and annually.
  - The External Auditors review the AGS which includes the effectiveness of risk management.
  - External reviews of the Risk Management Framework are undertaken.

## Grants

4.16 We have certified a total of 32 grants during 2018/19 as detailed in the table below.

<b>Grant Name</b>	<b>Total Certified</b>
<b>LGA</b>	
Fire and Rescue Authorities Capital Funding Grant	1
Greater Norwich Area Surface Water Drainage (Highways Maintenance Challenge Fund)	1
Disabled Facilities Capital Grant	1
CES (Local Transport Capital Block Funding)	1
LA Bus Subsidy Ring Fenced Revenue Grant	1
Transforming Care	1
Additional Pothole Funding	1
<b>EU</b>	
BID-REX	2
SAIL	2
Green Pilgrimage	2
ENDURE	2
CATCH	2
PROWAD	1
<b>Internal for UK Government grants</b>	
BD-UK	4
Police and Crime Panel (PCP)	2
Payment By results (Family Focus)	4
Major Scheme DoT Certification	1
Teacher's Pension Scheme Certification	1
<b>External Clients</b>	
Norse	1
ESFA	1
<b>Total</b>	<b>32</b>

## Norfolk Pension Fund

4.17 In total there six opinion audits in the 2018/19 Audit Plan for the Norfolk Pension Fund. The six opinion audits were classified as follows: -

Opinion	Number
Acceptable – green rated	6
Key issues to be addressed – amber rated	0
Key issues to be addressed – red rated	0
No opinion applicable	0

### Other work

4.18 We completed audit work for the EIFCA (Eastern Inshore Fisheries and Conservation Authority) in 2018/19.

### FCE

4.19 The Audit Authority completed sufficient work in relation to the accounting year ending 30 June 2018 and issued an Unqualified Annual Audit Opinion within the regulatory deadline (15 February 2019). The report has been accepted by the Commission with no immediate issue raised. The Audit Annual Control Report will be further discussed at the Annual Bi-Lateral Co-ordination meeting later this year.

4.20 The delivery of audit work for the next accounting year has started in March 2019. The planning of system audits is informed by the requirements of the EU regulations concerning what the annual audit opinion is to cover but also by a risk assessment, which considers assurances already available and changes in the external and internal environment or activities undertaken by the MA and Certifying Authority (CA) during the accounting year.

4.21 We have received consistent positive feedback from audited beneficiaries on how the on-the-spot visits were conducted.

## **5. Our Quality Assurance and Improvement Programme**

### External Assessments

5.1 CIPFA, in collaboration with the Chartered Institute of Internal Auditors (CIIA), has produced the [UK Public Sector Internal Audit Standards \(PSIAS\)](#) which came into force on 1 April 2013 and latest revised version is dated, 1 April 2017. CIPFA, in collaboration with the CIIA, also published in February 2019 the [Local Authority Guidance Note \(LAGN\)](#) for the Standards, which remain current.

- 5.2 At our last external quality assessment (EQA) in 2017/18, found that our internal audit activity 'conforms to the International Standards for the Professional Practice of Internal Auditing'. Our next EQA is due in 2022/23.
- 5.3 There is one action still to complete from the eleven recommendations resulting from the EQA in 2017/18. This is detailed in the table below.

<b>Recommendation</b>	<b>Response</b>	<b>Action Date</b>
Include Members of the Audit Committee and Officers of the Council in internal peer reviews of NAS	CIA will consider the best way to implement this in readiness to canvas internal peer reviews in 2018-19 (year following CIPFA review)	Autumn 2017

#### Internal Assessments

- 5.4 The NAS Management Team are responsible for ensuring that internal audit activity continues to confirm with International Standards.
- 5.5 All audit work performed by auditors is supervised by a Senior Auditor and a Principal Client Manager.
- 5.6 All audit work is subject to a review during the audit and prior to the issue of the draft report. Coaching notes are raised by the Reviewer and addressed by the Auditor and feedback regarding what the Auditor did well and what they could improve, and any training needs is provided at the end of every audit.
- 5.7 All draft audit reports are reviewed by the Principal Client Managers prior to issue.
- 5.8 The CIA reviews all draft reports where the audit opinion is 'Key Issues to be addressed – 'red rated' and 'key Issues to be addressed - amber rated' audit opinion draft reports where the topic is corporately or departmentally significant prior to issue or where the topic is an 'audit of note'.
- 5.9 The scope of audits (except for schools and grants) are discussed by the CIA and the Principal Client Managers.
- 5.10 The Principal Clients Managers review a sample of audit work in each half of the year and report back on any improvements that need to be made by the Team.
- 5.11 During 2018/19 a review of a sample of audit work in each half of the year was not formally completed. This is due to the implementation of the 'new ways of working' which has meant that the Principal Client Managers have been much more involved in the day to day delivery of audits and the appropriate recording of these on our electronic auditing system. During 2019/20 sample reviews of audit work will recommence.

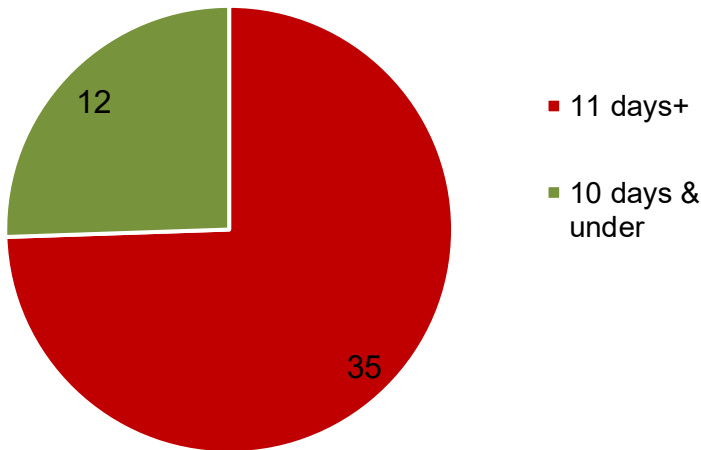
## Conclusion

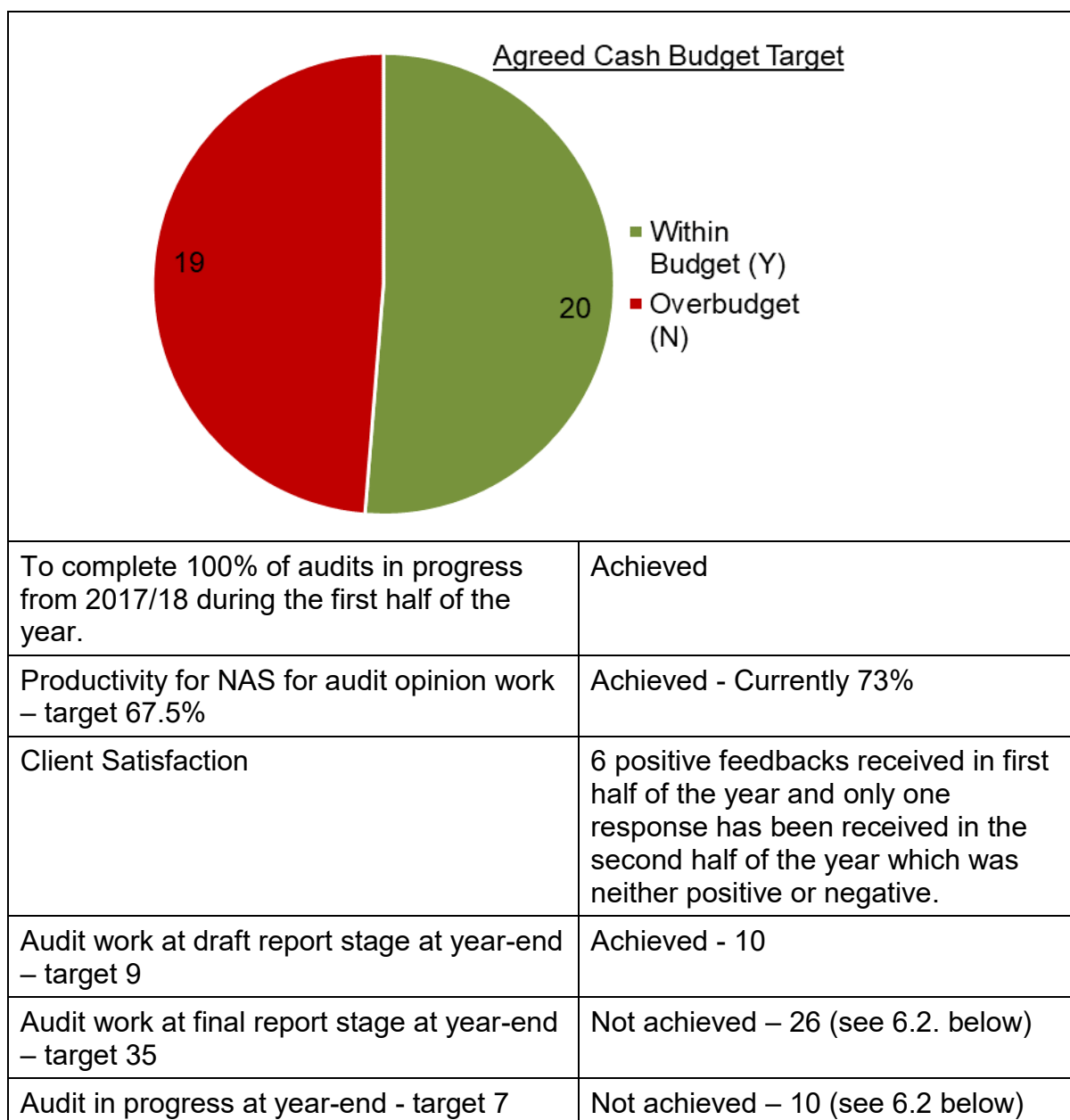
- 5.12 Our self-assessment continues to support our EQA opinion that our internal audit activity still 'conforms to the International Standards for the Professional Practice of Internal Auditing'. During 2019/20 we plan to use CIPFA's checklist for our self-assessment as provided in their February 2019 LAGN.

## **6. Our performance**

### Opinion audits

- 6.1 Our targets and progress with achieving these is detailed in the table below.

Target	Achieved / Not Achieved						
All draft reports (traded schools and opinion audits) issued within 10 days of Feedback Meeting (This is based on 33 opinion audits, which includes the 8 delivered by our external contractor, and 14 traded school audits. Health checks have no draft report and there were three pieces of work where either a feedback meeting or a draft report was not applicable)	Not achieved (see 6.2 below)						
<p style="text-align: center;"><u>Draft Report Target</u></p>  <p>A pie chart titled 'Draft Report Target' showing the distribution of draft report issuance times. The chart is divided into two segments: a large red segment representing '11 days+' with a value of 35, and a smaller green segment representing '10 days &amp; under' with a value of 12. A legend to the right of the chart identifies the colors: red for '11 days+' and green for '10 days &amp; under'.</p> <table border="1"><thead><tr><th>Category</th><th>Count</th></tr></thead><tbody><tr><td>11 days+</td><td>35</td></tr><tr><td>10 days &amp; under</td><td>12</td></tr></tbody></table>		Category	Count	11 days+	35	10 days & under	12
Category	Count						
11 days+	35						
10 days & under	12						
To deliver 100% of traded school and opinion audits within +/-5% of the agreed cash budget (Based on 26 finalised opinion audits, which includes 5 completed by our external contractor, and 10 finalised traded school audits and 3 finalised health checks)	Not achieved (see 6.2 below)						



6.2 There are several reasons as to why our targets have not been achieved this year. In quarter three, one member of staff was on short-term sickness absence and another was on long-term sickness absence and is now on a phased return to work. We also have two auditors in training and a new experienced auditor, who started in late quarter three, learning our ways of working.

6.3 Also, audits in 2018/19 were allocated more days in the Audit Plan to provide the assurance required on the audit topic, typically 15, 20 or 25 days compared to 10 or 15 days in previous years. Therefore, the scope of our audits has been wider and our review more in depth, crossing directorates and departments in some cases. As a result, we have also seen more challenge from auditees on the overall assurance opinions and priority ratings provided, particularly as our new report format for 2018/19 has more information on how we assign these, which has led to more discussions and work in some cases. We have also been complemented by auditees on the depth of our review, our understanding of the audit subject and how our review will help the auditee with improving their control system.

- 6.4 In addition, the new ways of working are still being fully embedded. Two key procedures have been updated to reflect the final agreed 'new ways of working'. Regular reports have been provided to the CIA in NAS Management Team meetings on progress with implementing the 'new ways of working'. This has all impacted on the timely delivery of draft reports and completing audits within agreed cash budgets.

#### Norfolk Pension Fund

- 6.5 Out of the six audits, one was completed within +/- 5% of the cash budget.
- 6.6 Out of the six audits, three draft reports were issued within ten days of the feedback meeting. No feedback meeting was held for one audit.
- 6.7 All the audits have been completed for 2018/19.

#### Grant certifications

- 6.8 Charges are made for EU grant certifications, UK Government grant certifications for internal clients and grants certifications for external clients. Budgets were set for all our grant certification work this year and so far, all grants certifications have been completed within the budgeted cost. All our grant certifications were delivered on time.

#### Other work

- 6.9 All our actual time spent on delivering audit work for EIFCA is charged to the client.

### **7. Financial Implications**

- 7.1 The expenditure falls within the parameters of the Annual Budget agreed by the Council. Our work provides assurance on the systems and internal controls that manage £1.405 billion of Gross Revenue expenditure, £145 million Capital programme and £977 million of assets.
- 7.2 The costings for NAS remains unchanged, subject to any savings that the Committee may agree in year, no further savings are proposed for 2019/20. The overall resourcing levels remain unchanged. We will actively maintain traded services and pursue new opportunities when they arise.

### **8. Issues, risks, staffing and innovation**

#### Issues

- 8.1 There are no issues to report.

#### Risk implications

- 8.2 If we are unable to provide an annual opinion, then the Council may be unable to conclude on the adequacy and effectiveness of its framework for risk management, governance and control.

### Staffing

- 8.3 Our Business Support Officer started the level 4 Internal Audit Practitioner apprenticeship in December 2018 and is moving into an auditor role in the new financial year. One of our auditors has completed level 4 AAT and another is studying for that.

### Innovation

- 8.4 The Internal Audit Planning seeks to apply innovative practices, methodology, partnering and resourcing where possible, ensuring that relevant standards are maintained and that value for money is demonstrated.
- 8.5 Examples of such innovation include how we resource the audit plan through the in-house team, use of agency staff and contracting our external contractor, BDO to provide resilience and flexibility in audit delivery. We have this past year also commissioned Grant Thornton to undertake some complex audit work and will continue to use such a model in the future.

## **9. The Council's Financial Statements and Fraud (ISA 240)**

- 9.1 During the year NAS has reviewed the internal controls of some of the Council's main financial systems, Accounts Payable and Payroll. That work, and the assurance it provides, helps the Audit Committee to reasonably assess the risk that the Council's Financial Statements are not materially misstated due to fraud.
- 9.2 Internal Audit has planned and delivered audits during the year, which include reasonable measures to detect fraud and to give assurance on internal controls that would prevent it. Reports on the audit findings clearly set out those findings which increase the risk of fraud and whose responsibility it is to ensure that recommendations are completed.
- 9.3 The Council has an Anti-Fraud and Corruption Strategy, which covers the scope of this Committee. The Strategy has been applied, where appropriate, throughout the year and any significant fraud investigations have been reported where they have been completed. Therefore, the Audit Committee will be aware of the process for identifying and responding to the risks of fraud generally and of the specific risks of mis-statement in the Financial Statements when they are asked to approve the Annual Financial Statements at the end of the year.
- 9.4 Actual fraud cases that have been fully investigated are reported in summary to the Audit Committee. The Chairman would be informed of any significant fraud which had implications for this Committee. Therefore, the Audit Committee is aware of the arrangements in place for Executive Directors to report fraud to the Committee. The Audit Committee has knowledge of actual

or suspected fraud and the actions that Chief Officers are taking to address it when required.

- 9.5 The Anti-Fraud and Corruption Strategy, Whistle blowing Strategy, Money Laundering Policy and the Standards of Conduct are promoted through staff newsletters and on the Council's Intranet site as well as through training for non-financial managers. The Audit Committee is aware, through the reports it receives, of the arrangements Executive Directors have in place for communicating with employees, members, partners and stakeholders regarding ethical governance and standards of conduct and behaviour. The Council's Audit Committee has responsibility for reviewing the Anti-Fraud and Corruption arrangements. The Audit Committee approved a revised Anti-Fraud and Corruption Strategy in September 2017. This Committee also receives this Annual Internal Audit Report, Risk Management reports and other reports giving assurance on the adequacy and effectiveness of risk management and internal control, anti-fraud and corruption measures and of the Council's governance and value for money arrangements. These assurances support the AGS that this Committee considers and approves. Therefore, the Audit Committee oversees management arrangements for identifying and responding to the risks of fraud and the establishment of internal control.

## **10. Background papers**

- 9.1 The background papers relevant to this report is the Master Work Plan and Performance Management radar charts and reports.

### **Officer Contact**

If you have any questions about matters contained or want to see copies of any assessments, e.g. 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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