

# Audit Committee

Item No.....

<b>Report title:</b>	<b>Norfolk Audit Services Report for the Quarter ending 31<sup>st</sup> March 2019</b>
<b>Date of meeting:</b>	<b>18 April 2019</b>
<b>Responsible Chief Officer:</b>	<b>Executive Director of Finance and Commercial Services</b>

## **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 (2.20)
- France Channel England FCE Update (2.25)
- 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

An audit of note during the quarter was 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.

- 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 completed thirteen 2017-18 Audits Brought Forward**

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

**Table 2: The 2018-19 (Q1 – Q4) Audit Plan: at end of Quarter 4**

<b>Work Type</b>	<b>Audits Not Started</b>	<b>Work in Progress</b>	<b>Draft Reports Issued</b>	<b>Final Reports Issued</b>	<b>Total</b>
Opinion Work (*Target)	0(0)	10 (7)	10 (9)	26 (35)	46 (51)
<p>N.B. 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. Of the 66, six audits have been deferred, ten were cancelled and four were watching briefs.</p>					
Traded Schools (including traded audits and health checks)	0	0	4	13	17
Schools – Compliance / themed Audits)	0	0	0	2	2
Pensions	0	0	0	6	6
Totals	0	12	14	47	71

**Table 3: Certified Grant Claims (Q1 – Q4): at end of Quarter 4**

Grant Type	Number of Grant Certifications Required in 2018/19	Number of Grant Claims Certified at end of Q1	Number of Grant Claims Certified at end of Q2	Number of Grant Claims Certified at end of Q3	Number of Grant Claims Certified at end of Q4
<b>LGA (Local Government Association)</b>	7	2	5	0	0
<b>EU</b>	10	2	2	2	4
<b>External Clients</b>	2	0	0	1	1
<b>Internal Clients</b>	10	2	0	3	5
<b>Total</b>	<b>28</b>	<b>6</b>	<b>7</b>	<b>6</b>	<b>10</b>

- 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. 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	0	0	2
Communities and Environment	1	0	0	1
Strategy and Governance	1	0	0	1
<b>Total NCC</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>4</b>
Schools	0	0	0	0
<b>Total Corporate High Priority Findings</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>4</b>

- 2.6 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 17, which is eight short of our target.

- 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 have also reviewed our blended daily rate which we use to charge external clients for audit work in 2018/19.
- 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 we will be learning how to use the software and exploring which audits would benefit from data analytic testing. We continue to explore how we can use this technology on a live basis to employ preventative measures to combat fraud or error.
- 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 twenty 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

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

## Other

- 2.14 The implications of organisational change for Annual Governance reporting, Risk Management and internal controls are being monitored. The two Principal Client Managers attended the CIPFA Better Governance Forum in March 2019 and will incorporate best practice into our framework of governance arrangements. Watching briefs will be maintained over new developments impacting on Governance including:
- CIPFA statement on the Role of the Head of Internal Audit
  - National Assurance Framework for Local Enterprise Partnerships
  - Consultation on the CIPFA Financial Management Code
  - Board Effectiveness
- 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 received one reply from the surveys sent out in the quarter ending 31 March 2019, 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. Ten out of the eleven recommendations are completed. The final recommendation related

to undertaking a peer review of NAS and the Chief Internal Auditor is taking this forward. Nine of the eleven suggestions are completed, two are in progress and relate to continuing to develop our use of data analytics within our audit work (see 2.11 above).

- 2.21 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 audit system. During 2019/20 sample reviews of audit work will recommence.
- 2.22 LGPS Pooling Update - A separate report included on the agenda reports and updates on LGPS pooling arrangements and Norfolk Pension Fund governance arrangements.
- 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 During quarter 4 the Audit Authority completed its 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). This is reported on in more detail in the Annual Internal Audit report included elsewhere on the agenda.

#### **External Matters of Note**

- 2.25 The [National Audit Office](#) (please click to go to their website) have published the following reports that are relevant to the Council:
- Round up for Audit Committees 15 March 2019
  - Pressures on Childrens Social Care 23 March 2019
  - Local Authority Governance 15 January 2019
  - Local Auditor Reporting in England 10 January 2019
- 2.26 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 +/- 5% of the cash budget. 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 4 ending 31 March

In the 4th quarter for the 2018/19 Audit Plan ten opinion final reports, seven Traded School Audit final reports, three Pension final reports and one management letter were issued, and seven grant claims were certified.

#### **Final Reports: - Quarter 4 2018/19**

##### **School Traded Audits**

1. Ormesby Village Infant & Junior School (Acceptable)
2. St Michael's CE VA Junior School & Clover Hill VA Infant and Nursery School (Key Issues Amber)
3. Dereham Church Infant and Nursery School (Health check – no opinion)
4. Hevingham Primary School & Marsham Primary School (Health check – no opinion)
5. Stoke Holy Cross Primary (Health check – no opinion)
6. Biofield Primary School (Acceptable)
7. South Wootton Infant School (Acceptable)

##### **Opinion Work** (Audit opinion provided is shown in brackets)

1. Use of Volunteers (Key Issues – Red)
2. Apprentice Levy (Key Issues – Amber)
3. DIY Waste (Acceptable)
4. Public Health Road Safety Team (Key Issues - Amber)
5. Contract Management and Monitoring (Norse) (Key Issues -Amber)
6. Payroll cyclical audit payments, deductions and variations (Acceptable)
7. Procurement Cards (Key Issues – Amber)
8. Highways Infrastructure (Acceptable)
9. HR Systems (Acceptable)
10. Coroner's Office (Key Issues – Amber)

##### **Management Letters**

1. Maintained Schools Thematic Audit 2 - Asbestos Management

##### **Other Work**

1. Replacement Iproc System (No opinion)

##### **Pensions**

1. Early retirement costing and recharges (Acceptable)
2. General Data Protection Regulation (GDPR) (Acceptable)
3. Investment Strategy Statement (Acceptable)

#### **Certified Grants - Quarter 4**

1. BDUK (2017/18 & Q1, Q2 & Q3 2018-19)
2. Family Focus (P/e March 2019)
3. EU Green Pilgrimage (P/e December 2018)
4. EU CATCH (P/e January 2019)
5. EU ENDURE (P/e October 2018)
6. EU PROWAD (P/e February 2019)
7. 16-19 ESFA Funding

### 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'. The audit opinion of 'key issues to be addressed' is further broken down as Amber or Red rated, with Amber rated being medium priority findings only and Red rated being a mix of high and medium priority findings or highs only. 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 for the quarter was as follows:

<b>Type of work</b>	<b>Questionnaires issued</b>	<b>Questionnaires received</b>	
Standard audits	9	1	
Grants	0	0	
	<b>Analysis of results:</b>		
	<b>Expectations Met*</b>	<b>Neither met or disappointed</b>	<b>Disappointed or Very Disappointed</b>
	0	1	0