

Report of the: Director: Governance and Partnerships

Agenda  
Item No:  
Meeting: 25 April 2018

## **NORTH LINCOLNSHIRE COUNCIL**

### **AUDIT COMMITTEE**

## **INTERNAL AUDIT PLAN 2018/19**

### **1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 To consider and approve the internal audit plan for 2018/19

### **2. BACKGROUND INFORMATION**

- 2.1 The Accounts and Audit Regulations 2015 require the Council to ensure there are sound systems of internal control and to undertake effective internal audit to evaluate the effectiveness of its risk management, control and governance processes. Internal audit must take into account Public Sector Internal Auditing Standards (PSIAS) and guidance.
- 2.2 The PSIAS requires that an Internal Audit Plan is agreed by the Audit Committee annually. The audit plan must be risk-based and take into account the organisation's risk management framework and reflect changes in the organisation's business, risks, operations, programmes, systems and controls. The plan also confirms the resources available and required to support a reliable year-end Audit opinion.
- 2.3 The Audit Charter, approved by the Audit Committee in January 2018 defines the internal audit activity's purpose, authority and responsibility and defines the scope of internal audit activities. The attached audit plan prepared by the Head of Audit and Assurance provides Members with an outline of the Audit Plan, a commentary on the methodology for compiling the plan, and assurance on compliance with auditing standards.

### **3. OPTIONS FOR CONSIDERATION**

#### **Option 1**

- 3.1 To consider whether the Internal Audit plan will provide sufficient assurance in 2018/19.
- 3.2 To approve the Internal Audit plan for 2018/19

#### **4. ANALYSIS OF OPTIONS**

- 4.1 The audit plan meets the requirements of the Public Sector Internal Audit Standards (PSIAS),
- 4.2 The Head of Internal Audit and Assurance is satisfied that he has sufficient resources for the delivery of the plan and that it will provide a reliable year-end annual audit opinion on the council's control environment.

#### **5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)**

- 5.1 The plan will be delivered from existing resources within the council's internal audit service which is provided through the Shared Service. The resource allocation is based upon assumptions about the design and operation of systems and processes; the co-operation of council staff with the audit process and estimated vacancy and absence rates. The resource allocation will be reviewed periodically to take account any changes in assumptions and the extent of emerging risks.

#### **6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)**

- 6.1 An Integrated Impact Assessment is not required.

#### **7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED**

- 7.1 The plan is subject to discussion with members of the Council's Leadership team and their comments were incorporated wherever possible.
- 7.2 The Head of Audit and Assurance has responsibilities around risk management and counter fraud. As referred to in the audit plan another audit provider will be asked to carry out an audit in these areas to prevent a potential conflict of interest. In addition at the beginning of each year audit team members, in line with the audit of code of conduct are required to declare any close relationships which could impact on the delivery of particular audit assignment. If relevant such assignments are provided to other members of the team.

#### **8. RECOMMENDATIONS**

- 8.1 That the Audit Committee:
  - (i) Considers whether the Internal Audit plan for 2018/19 will provide the Committee with sufficient level of assurance to fulfil its role; and
  - (ii) Approves the Internal Audit plan for 2018/19.

DIRECTOR:GOVERNANCE AND PARTNERSHIPS

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**Background Papers used in the preparation of this report:**

Public Sector Internal Audit Standards  
The Accounts and Audit Regulations 2015  
The Audit Charter- January 2018



# North Lincolnshire Council

## Internal Audit Plan 2018/19

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## 1. INTRODUCTION

- 1.1 As recognised in the Accounts and Audit Regulations 2015 Internal Audit is a key part of the Council's control environment. Its primary objective is to provide an independent and objective opinion and advice on the Council's control environment, which comprise the systems of risk management, internal control and governance. The Audit Charter (which was last approved by the Audit Committee in January 2018) defines the mission of internal audit *"To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight"*.
- 1.2 As laid out in paragraph 6.1 of the charter the Head of Audit and Assurance is responsible for *"developing an annual audit plan based on an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes, and adjust the plan in response to the organisations business, risk, operations, programmes, systems and controls"*.
- 1.3 The audit plan lays out Internal Audit's priorities and work programme for 2018/19. It has been compiled to ensure that
- it meets the requirements of the Public Sector Internal Audit Standards (summarised in Appendix 1);
  - provides sufficient evidence to support a reliable year-end Audit opinion on the Council's control; and
  - adds value to the Council by providing assurance on the underlying processes and governance arrangements to support the achievement of strategic outcomes and the achievement of value for money (VfM).

## 2. COMPILATION OF THE AUDIT PLAN

- 2.1 As required by the standards, the 2018/19 audit plan has been developed on a risk based approach. We have developed planning processes to ensure as far as possible that Audit resources are prioritised to where the need is greatest, and where potentially Audit could provide most value. In compiling the plan we have ensured that the requirements laid down in the standards have been met.
- 2.2 At the heart of the approach to Internal Audit is the "3 lines of defence model" where:
- the first line of defence is the control environment operated by managers in individual services;
  - the second line of defence includes the oversight functions such as Finance, HR, Procurement, Legal Services, "Client side management" who provide advice, direction and support to individual services; and
  - the third line of defence, such as Internal Audit, External Audit and other external assurance providers which offer independent challenge to business functions.

The more developed the first and second lines of defence are then the greater the reliance that can be placed on the assurances obtained by services rather than direct Internal Audit work.

2.3 The plan is divided into a number of components to reflect the various inter-related elements for which the audit team provide assurance:

- strategic and operational risks relating to the delivery of the Council's strategic outcomes and its Annual Governance Statement;
- the key financial systems to support the S151 Officer's statement provided as part of the Annual Statement of Accounts in relation to the reliability of the systems supporting the accounts;
- other key areas which support the Council's control environment e.g. Human resources, ICT, procurement;
- providing assurance on the control environment within maintained schools; and
- work such as providing advice and support, the mandatory certification of external grants claims and audit team member's contribution to the Council's approach to counter fraud.

2.4 In relation to strategic and operational risks we not only review the risk register as a key source of intelligence, but also significantly take into account of the Council's Code of Corporate Governance. We identified each element of the Code of Governance and carried out a detailed assessment of them which takes into account their impact on the control environment and the extent to which there is a risk of control failure or there was relatively little cumulative knowledge about the design and operation of the system/ service. A summary of the outline scoring structure for assessing the impact of a control failure is shown in Appendix 2. Those with the highest combined score are prioritised for inclusion in the Audit plan, and this was shared with the strategic leadership team for their comments and to enable us to identify any important factors which could impact on our assessment. This resulted in the programme of audits identified on Appendix 3, although it should be noted that during the course of 2018/19 this programme may be subject to amendment due to factors such as changing priorities, the re-scheduling of Council transformation programmes, or other sources of assurance which we are able to place reliance on.

2.5 In relation to financial systems, human resources, ICT and procurement we have consulted with relevant managers to identify audit programmes based on anticipated risks and changes to processes. These are designed to provide sufficient assurance on the underlying systems to support reliable financial and performance reporting, the achievement of value for money, compliance with legislation and regulation, and the security of the council's assets.

2.6 The audit team also carry out work in relation to fraud and financial misconduct. This work involves carrying out proactive audits on those systems designed to prevent fraud and corruption where there is a potential risk, including substantive testing, investigations into allegations of financial

misconduct, and co-ordinating the council's approach to the National Fraud Initiative. The audit team work closely with the Council's fraud team, which is also part of Audit and Assurance, and the results of such work are reported in the Annual Fraud Report. In March 2018 a fraud risk assessment was carried out, and this will form the basis for prioritising work in this area.

2.7 We also use our expertise of control, risk, governance and VfM to support change programmes, major commissioning and procurement exercises and the implementation of new systems, and areas where Directors may seek specific assurances. Indeed this is an area where we will continue to enhance the role of Internal Audit in the future as providing support at an early stage can prevent control weaknesses arising from the outset. Supporting the development of the new Finance/Human Resources/ payroll system, the internal control aspects of the transformation programme, the development of the Council's commercial approach, and the arrangements for scrutiny have already been identified as areas in which audit will provide assistance in an advisory capacity.

2.8 The table below shows the resources allocated to each area of the main areas of the internal audit activity:

Area	Planned days	
Strategic and operational risk/ governance	460	Summary of proposed work shown on Appendix 3
Financial systems	130	
Human Resources	40	Work identified includes the apprenticeship levy, compliance with IR35, training budgets, sickness absence
ICT	55	Will include testing of ICT controls in advance of the introduction of the Human Resources/ Payroll/ Finance/ System
Procurement	15	
Grant Certification	30	
Schools	100	
Follow up	40	Includes sending reminders to managers about their outstanding actions, and receiving their responses
Fraud and investigation	100	
Advisory	70	
Management time	75	Includes audit planning, monitoring, liaison with the Audit Committee and senior management
Contingency	65	
Total	1180	

The days assigned to particular areas of the plan are indicative. During the set up stage for each assignment the Audit team will work with relevant Directors and Managers to identify key risks and the controls in place to

mitigate those risks, at which point the indicative time budget we will be amended if appropriate to ensure that the level of Audit work is proportionate. Any significant changes to the plan will be reported to the Audit and Governance Committee. As well as testing the controls in place we will aim to add value by identifying notable practice, where possible, and where appropriate use techniques such as facilitated workshops and analytical review. We will focus on identifying VfM opportunities with services, and if applicable identify controls that may not significantly add value.

### **3 RESOURCES TO DELIVER THE AUDIT PLAN**

- 3.1 The standards require the Chief Audit Executive to be satisfied that he or she has sufficient resources available to deliver the plan and be able to provide an opinion on the control environment and discharge their other responsibilities. In addition, under the CIPFA statement “The Role of the Head of Internal Audit” the Head of Internal Audit must “lead and direct an Internal Audit service that is resourced to be fit for purpose”.
- 3.2 Based on the risks identified we can confirm that there are sufficient resources available to deliver the Audit Plan as laid out in section 2. This conclusion is due to the following:
  - an assessment of resources available to the team as at 1 April 2018 - this includes being prudent on the potential impact of long term sickness and unfilled vacancies given the relatively small size of the team;
  - as at 1 April 2018 the team had two vacancies but we are intending to repeat the successful procurement of additional specialist ICT audit, and also advertising for the outstanding vacancy;
  - developing links with other audit providers to provide shared additional support if required; and
  - the anticipated backlog at 31 May 2018 to complete the 2017/18 plan being lower than the previous year.
- 3.3 It is recognised, however, that resourcing is a risk, and in response we will monitor the delivery of the plan on a monthly basis, and will reprioritise the audit programme on a risk basis should issues arise regarding the level of resources available. We will report any significant changes to the plan, particularly any reductions to the overall days, to the Audit and Assurance Committee.

### **4 REPORTING AND MONITORING ARRANGEMENTS**

- 4.1 For most assignments, excluding advisory work and grant certification, we will provide a report with an overall opinion on the control environment (“substantial”, “satisfactory”, “limited”, “none”) and the residual risk. There will be some areas, due to particular circumstances, where it may not be appropriate to issue a full report and/or an opinion, although in such cases a short commentary will be provided in the Annual Head of Internal Report and Opinion.

- 4.2 A summary of completed audit work will be included in the Annual report, and this will feed into the overall opinion on the control environment. Interim reports will also be presented to the Audit and Governance Committee during the year. These will include progress in achieving the annual plan, including any significant amendments to it.
- 4.2 As part of its Quality Assurance and Improvement Programme (QAIP) Internal audit has a number of performance indicators based on the three principles of Outcome Based Accountability:
- “what did we do?”;
  - how well did we do it?; and
  - how did we add value

As at 1 April 2018 these indicators were under review.



## Appendix 1: Confirmation of compliance with Public Sector Internal Auditing Standards (PSIAS) requirements

PSIAS Requirement	How we demonstrate compliance
<p>The Head of Internal Audit (HOIA) must establish risk-based plans to determine the priorities of the Internal Audit activity, consistent with the organisation's goals. (PSIAS 2010)</p>	<p>The plan is based on the Council's strategic objectives and its Code of Corporate Governance. Those activities with the greatest impact on the achievement of strategic objectives are given greatest priority.</p>
<p>The risk-based plan must take into account the requirement to produce an annual Internal Audit opinion and the assurance framework. (PSIAS 2010 public sector requirement)</p>	<p>The Audit Plan has been designed to ensure that there is sufficient evidence to provide a reliable year end opinion in relation to risk, governance and internal control. It also includes work to support assurances for the Annual Governance Statement, with audit activity directly linked to the Code of Corporate Governance.</p>
<p>The plan must incorporate or be linked to a high-level statement of how the Internal Audit service will be delivered, developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities. (PSIAS 2010 public sector requirement)</p>	<p>The Audit Charter lays out the key objectives of internal audit, the methodology used to develop the plan and its links to organisational objectives and priorities.</p>
<p>The risk-based plan must explain how Internal Audit's resource requirements have been assessed. (PSIAS 2030 public sector requirement)</p>	<p>Included in the Audit plan.</p>
<p>The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.</p>	<p>The plan is based on an assessment methodology laid out in Appendix 2 of this document plan, and has been discussed with the Senior leadership Team.</p>



## **Appendix 2: Internal Audit planning risk assessment methodology**

The activities/ functions identified in the Audit Universe are prioritised based on multiplying the impact on the control environment with the likelihood of a significant control failure.

### **Impact on the control environment**

Attributes of a 5 score

Exhibits at least one of the following:

- Has a significant impact on the achievement of stated strategic outcomes;
- Has a material impact on the Financial Statements;
- Has a material impact on the governance arrangements of the Council, is an integral part of the Code of Corporate Governance, and impacts on the Annual Governance Statement;
- Is intended to mitigate a significant strategic risk;
- Has a significant impact on ensuring that the Council operates within applicable laws and regulations and/or prevents significant reputational risk;
- Significant inherent risk of fraud or the loss of assets;
- Significant safeguarding implications;
- Failure of the function may potentially lead to:
  1. a significant financial loss;
  2. a detrimental impact to service users; or
  3. an adverse effect on the Council's reputation.

Attributes of a 1 score

Exhibits most of the following:

- The activity does not significantly contribute to the achievement of strategic outcomes;
- The activity is relatively small in value, and would not have a material impact on the Financial Statements;
- The activity does not have a material impact on the governance arrangements of the Council;
- The activity does not have a significantly impact on the Council's strategic or operational risks;
- The activity is not significantly subject to laws and regulation and/or does not have a significant reputational risk;
- Low inherent risk of fraud or the misappropriation of assets;
- Limited direct safeguarding implications;
- Failure of the function would not lead to:
  1. a significant financial loss;
  2. a detrimental impact to service users; or
  3. an adverse effect on the Council's reputation



## **Appendix 3: Planned Audits relating to strategic outcomes, operational risks and the aspects code of corporate governance**

### **Community safety**

*Assurance on the Council's approach to community safety, including the governance of the community safety partnership*

### **Domestic abuse strategy**

*Assurance on the production and delivery of the updated domestic abuse strategy*

### **Adoption**

*Assurance on the Council's approach to adoption*

### **Data Quality relating to child social care/ safeguarding**

*Assurance that the Council has reliable data, to enable it to prioritise resources to greatest need*

### **Capital programme**

*Assurance on the Council's arrangements in setting and monitoring the capital programme*

### **Enforcement (licensing, planning etc)**

*Assurance on the Council's approach to enforcement*

### **External funding**

*Assurance on how the Council identifies and obtains external funding to support the delivery of its strategic outcomes, and how it ensures that it meets grant requirements*

### **Prosperity Board- Economy and Housing**

*Assurance on the governance arrangements for delivery of key strategies, specifically the Housing Strategy and Economic Strategy (carried forward from 2017/18)*

## **Transformation programme**

*Assurance on the governance arrangements in place in relation to the delivery of the transformation programme, including the digital programme, commercialism and well-being at work*

## **Commissioned Services**

*Assurance on the Council's approach to commissioning, with focus on those contracts with significant value/ risk (for example public health contracts with significant inherent reputational service, financial, clinical risks related to public health contracts such as the Sexual health contract put in place with NELC in December 2017)*

## **Adult Social Care finance/ financial assessments**

*Assurance on the Council's models relating to adult social care financing, with potential focus on deferred payments*

## **Leisure and culture**

*Audit planned for 2017/18 but due to the review of the service deferred to 2018/19. We will provide assurance on the control environment related to leisure and cultural services following restructuring in this area*

## **Deprivation of liberty**

*Assurance that arrangements are legally compliant and risks are being managed*

## **Homelessness**

*Assurance that arrangements are in place to manage any service or reputational risks resulting from the updated statutory responsibilities relating to Homelessness*

## **Scrutiny**

*Assurance on the effectiveness of governance arrangements compared to expected practice. We understand that this area may be subject to internal review and therefore maybe better to provide advisory support in 2018/19, rather than a full audit*

### **Role of Director of Adult Social Services**

*Assurance on the mechanisms which allows the DASS to obtain assurance that statutory responsibilities are being met*

### **Role of Director of Children's services**

*Assurance on the mechanisms which allows DCS to obtain assurance that statutory responsibilities are being met*

### **Role of the Director of Public Health**

*Assurance on the mechanisms which allows the DPH to obtain assurance that statutory responsibilities are being met*

### **Waste Management**

*Assurance on the arrangements around waste management*

### **Adult referrals**

*Assurance on the effectiveness of the new arrangements recently introduced*

### **Wellbeing hubs**

*Assurance on the control environment relating to the wellbeing hubs, which provide a key link between the council and the community*

### **Planning and building control**

*Assurance on compliance with regulatory requirements*

### **Freedom of Information Act**

*Assurance on the effectiveness of arrangement for freedom of Information which plays an important role in the transparency aspects of the council's Code of Governance*

### **Elections and electoral registration**

*Assurance on the council's processes regarding elections, and the completeness and accuracy of the council's electoral register prior to the 2019 council elections*

### **Heritage assets responsibilities**

*Review of the Council's approach to meeting its statutory requirements relating to heritage assets and listed buildings in the area*

## **Working with the voluntary sector**

*Assurance on how the councils promotes working with the voluntary sector, and how it ensures that there is an effective control environment in place when working with the voluntary sector. Particular focus on the process for awarding community grants*

## **Financial sustainability**

*Review of the implementation of the Council's revised approach to financial management*

## **Performance management**

*Assurance on the effectiveness of the council's revised performance management arrangement such as the level of compliance, the setting of targets, the reliability of data etc.*

## **Early years**

*Assurance on the council's approach to Early Years, particularly in relation to the recently introduced additional hours available for some parents*

## **Educational standards**

*Assurance that the council is meeting its statutory requirements, and the delivery of w the "Education strategy for schools- all our children"*

## **Young Carers**

*Assurance that the Council is effectively supporting the young carers and meeting its legislative obligation*

## **Special Educational Needs and Disability (SEND)**

*Assurance that there is an effective control environment in relation to SEND in the context of the Special Educational Needs and Disability (SEND) Inclusion Plan- "All our Children"- the timing and content of such an audit will be dependent upon the timing of any inspection- e.g. if inspection is expected in 2018/19 an audit would focus on the implementation of any actions resulting from it*

## **Cemeteries and crematoria**

*Assurance on the control environment relating to cemeteries and crematoria such as compliance with regulations, processes to ensure good quality services/ VFM and income collection processes*

## **Street Lighting**

*Assurance on the effectiveness of street light arrangements and the implementation of its LED programme, particularly in relation to value for money*

## **Risk Management**

*Assurance on the Council's risk management arrangements- as risk management is part of the Head of Audit and Assurance's responsibilities another audit provider will be asked to provide this assurance*

## **Anti-Fraud and corruption arrangements**

*Assurance on the Council's anti-fraud and corruption arrangements- as counter fraud is part of the Head of Audit and Assurance's responsibilities another audit provider will be asked to provide this assurance*

