

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

INTERNAL AUDIT – ANNUAL REPORT 2016-17

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 This report provides an opinion on the adequacy and effectiveness of the council's internal control environment based upon work carried out by Internal Audit in accordance with the approved 2016/17 audit plan. It also considers the effectiveness of the audit service. This provides the Audit Committee with an important source of assurance when considering the Annual Governance Statement.
- 1.2 The Internal Audit Annual report complies with the Public Sector Internal Audit Standards (PSIAS) and The Accounts and Audit Regulations 2015.

2. BACKGROUND INFORMATION

- 2.1 The requirement for Internal Audit is supported by statute in the Accounts and Audit Regulations 2015 and the Local Government Act 1972. The Accounts and Audit Regulations state that a "*relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into public sector internal audit standards for guidance*"
- 2.2 Internal Audit operates in accordance with the Public Sector Internal Audit Standards (PSIAS) which defines the way in which the Internal Audit Service should be established and undertake its functions. The PSIAS define internal audit as:

"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

- 2.3 As set out in the standards there is a requirement under PSIAS 2450 that the Chief Audit Executive must provide an annual report to the Audit and Governance Committee, timed to support the Annual Governance Statement. This must include:
- an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment);
 - a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies); and
 - a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.
- 2.4 A copy of the Annual Report and Opinion is attached and its main findings are summarised below. This was the first year the internal audit function has been carried out through shared service arrangements and significant progress has been made in creating a unified approach whilst delivering its responsibilities.
- 2.5 Section 2 of the Annual Report refers to the work carried out from which the audit opinion is derived. It also lays out amendments to the plan in-year due to the changes in the Council's risk profile and priorities. Although sufficient work was carried out to support the opinion some planned audits were deferred to 2017/18 due to staff absence and vacancies. In particular some of the ICT audit programme required to be deferred, and this will be an area of particular audit focus in 2017/18.
- 2.6 As referred to in Section 3 of the Annual Report satisfactory assurance could be provided on the Council's governance, risk and control framework. This view has been formed based upon the work on internal audit and although areas of improvement have been identified no issues of serious concern were identified that would impact on the overall operation of the control environment.
- 2.7 As referred to in Section 4 of the Annual Report the Audit Team complies with the standards in all material respects, and has effective arrangements in place for monitoring quality. The key challenge identified from the reviews was ensuring compliance with the standards and ensuring that there is sufficient audit coverage when there remains pressure on audit budgets at a time for significant change.

3. OPTIONS FOR CONSIDERATION

- 3.1 The Committee is asked to consider whether Internal Audit's Annual Report provides sufficient assurance on the adequacy of the council's internal control environment in 2016/17.
- 3.2 Members of the committee are invited to ask questions about the Internal Audit Report findings.

4. ANALYSIS OF OPTIONS

- 4.1 The Internal Audit Annual Report 2016/17 complies with professional guidance available and is designed to provide this Committee with the assurance required.

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

- 5.1 Internal audit recommendations enhance internal control over the use of the council's resources.

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 Consultation takes place at all stages of audit work. It affects the scope of audit work undertaken, the risk assessment of audit work, audit practices and products.
- 7.2 There are no conflicts of interests to declare in relation to this report. Audit team members are asked to complete declaration forms on annual basis. If any potential conflicts are identified then they are not allocated assignments related to the potential conflict of interest.

8. RECOMMENDATIONS

- 8.1 That the Audit Committee considers the assurance provided by the Internal Audit Annual Report for 2016/17 on the adequacy and effectiveness of the council's internal control environment.

DIRECTOR: GOVERNANCE AND PARTNERSHIPS

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Date: 14 June 2017

Background Papers used in the preparation of this report: None



Head of Internal Audit Annual Report and Opinion 2016/17

North Lincolnshire Council

Peter Hanmer
Head of Audit and Assurance
June 2017

1 Introduction

1.1 The requirement for Internal Audit is supported by statute in the Accounts and Audit Regulations 2015 and the Local Government Act 1972. The Accounts and Audit Regulations state that a “*relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into public sector internal audit standards for guidance.*”

1.2 Internal Audit operates in accordance with the Public Sector Internal Audit Standards (PSIAS) which defines the way in which the Internal Audit Service should be established and undertake its functions. The PSIAS define internal audit as:

“an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

1.3 As set out in the standards there is a requirement under PSIAS 2450 that the Chief Audit Executive must provide an annual report to the Audit Committee, timed to support the Annual Governance Statement. This must include:

- an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment);
- a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies); and;
- a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.

1.4 This report provides a summary for each of these areas. At North Lincolnshire Council, the Head of Audit and Assurance carries out the functions of the Chief Audit Executive as defined in the standards.

2 Audit work from which the opinion is derived

- 2.1 Internal Audit carried out its work in accordance with its 2016/17 plan, which was approved by the Audit Committee on 12 April 2016. The scope of Internal Audit activity is clearly set out in each audit assignment specification and report.
- 2.2 As laid out in the audit plan the work of Internal Audit is split into a number of key areas. It is critical that in forming an opinion on the overall control environment, the Annual Plan is designed to ensure that specific assurance is provided for each of these areas:
 - 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;
 - corporate governance and council wide systems, including the implementation of new legislation and systems to support the annual governance statement;
 - the effectiveness of risk management processes;
 - the effectiveness of information governance processes;
 - systems relating to commissioning and procurement including the award of contracts, management and control of work done and monitoring of payments;
 - procedures and operations, relating to key strategic or operational risks; and
 - work to support the council's overall approach to anti-fraud including proactive and reactive testing of key fraud risks

In addition to the work outlined above Internal Audit provided support and advice on internal controls and governance.

- 2.3 During 2016/17 the audit plan was subject to regular review. As new risks emerged that required audit coverage they were added to the plan, whilst other areas where either taken out due to reduced level of risk due to changing circumstances, or where there had been internal or external reviews either carried out or pending. The Audit Committee is informed of significant amendments to the plan throughout the year. A summary of the changes to the plan are shown on Appendix 1.

2.4 The final outturn is shown on Table 1 below. Overall, at 31 May 2017 audit delivered a total of 1087 days compared to the plan of 1289 days, a reduction of 202 days. This was due to unfilled staff vacancies during the year and two instances of long term staff sickness. Although in some cases work was re-prioritised, this did not prevent sufficient work being carried out to support the audit opinion, with the exception of ICT audit where some work has had to be carried forward to 2017/18. As at 31 May out of a target of 76 reports issued (including imprest accounts) 46 had been issued in final and 17 in draft.

Table 1: 2016/17 audit plan as at 31 May 2017days)

| Audit Area | Planned days | Outturn (31 May 2017) |
|---|--------------|-----------------------|
| Fundamental Financial Systems | 185 | 202 |
| Corporate Governance | 7 | 7 |
| Risk Management | 10 | 7 |
| IT | 65 | 27 |
| Commissioning and Contracting | 40 | 49 |
| Fraud prevention and detection | 98 | 62 |
| Council Wide systems | 58 | 21 |
| Other key strategic risks | 276 | 182 |
| Other Key operational risks | 237 | 265 |
| Advice and unplanned work (including commercial work) | 194 | 217 |
| Other (including follow up, audit planning) | 119 | 55 |
| Total | 1289 | 1087 |

2.5 A summary of the audit work to support the opinion is shown on Appendix 3. For each review undertaken, individual assessments of the adequacy of the control environment are provided in the form of an ‘opinion’. Typically, those areas where the assurance on the control environment is “limited”, with particular focus on those areas which are critical to the Council’s financial management and governance arrangement, including the potential impact of any weaknesses identified.

Overall Control Effectiveness

| | |
|---------------------|--|
| Substantial | Strong controls support achievement of the business objectives. |
| Satisfactory | Controls support the business objectives, but some improvements should be made. |
| Limited | Controls provide some support for business objectives, but improvements are essential. |
| None | Controls do not support the achievement of business objectives. |

2.6 In forming our overall opinion we also take into account of the following:

- Where appropriate other sources of assurance, such as work by other inspectorates and peer reviews, or internal reviews carried out within the Council.
- As listed at Appendix 4, Internal Audit has carried out significant advisory work for the Council and where appropriate we have taken into account any issues arising from this work.
- As part of the wider Audit and Assurance Team, Internal Audit makes a significant contribution to the delivery of the Council's approach to anti-fraud and corruption. This was reported to the Annual Fraud Report 2016/17 which was reported to the Audit Committee on 12 April 2017. There were no issues identified in the report that requires specific reference in the annual audit opinion.

3 Chief Audit Executive Annual Opinion 2016/17

3.1 The overall opinion for each of the three areas of the control environment is shown below. This opinion is subject to the limitation of scope and statement of responsibilities laid out in Appendix 1.

Control Framework

3.2 Overall, we can provide **satisfactory assurance** on the effectiveness of the Council's control framework for 2016/17, taking into account those areas identified as limited assurance in Appendix 3. Maintaining an effective control environment, however, is challenging in a time of reducing resources and a changing operating environment and internal audit will have a role in supporting the council in ensuring that an adequate but appropriate control environment is in place.

3.3 We can also specifically provide **satisfactory assurance** in relation to those audits which support the annual financial statements. In April 2016 the finance function entered into a shared service arrangement with North East Lincolnshire Council and although no major control issues occurred following from this change, there is scope to further integrate processes whilst the introduction of joint systems within the shared services for finance and human resources planned during 2018/19 will be critical for delivering a reliable, efficient and effective financial control environment.

Governance

- 3.4 Overall, we can provide **satisfactory assurance** in relation to its overall governance arrangements and the processes which support them. From our work and other sources we are not aware of any material governance failures occurring in 2016/17. The Audit and Assurance Team played a key role in co-ordinating the development of the updated Code of Governance which was based on principles designed by CIPFA/SOLACE. This work identified that there were no material differences between the key components of the Council's governance framework and those expected in the CIPFA/SOLACE model framework. In addition during 2016/17 the Council has been developing an assurance framework based on the "3 lines of defence model" to assess the effectiveness of its governance arrangements and the outcome of this is reported in the Annual Governance Statement. Internal Audit will support the development of this framework in 2017/18.
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Risk Management

- 3.5 Overall, we can provide **satisfactory assurance** in relation to the Council's risk management arrangements. Given that the Head of Assurance has responsibilities for co-ordinating the Council's risk management framework Internal Audit requested a neighbouring council's audit and assurance team to review risk management arrangements. It concluded "*that that most expected key controls are in place, and based on our testing, are operating satisfactorily*". One of the key areas for development raised by the audit was a more systematic oversight by Senior Management in relation to the identification and monitoring of strategic risks. At time of this report this was being progressed via the creation of an Assurance Board which has provisionally identified a number of key strategic key risks to be monitored via the risk register. In the first half of 2017/18 the Council will be introducing an updated risk toolkit and risk register.

4 Quality Assurance Arrangements

- 4.1 A quality assurance process is in place to ensure that work is carried out to Public Sector Internal Audit Standards (PSIAS) and that the opinions provided for individual assignments are supported by sufficient evidence. In 17 January 2017 the team's Quality and Assurance Improvement Programme (QAIP) was presented to the Audit Committee.
- 4.2 Under the standards the annual report is obliged to report on the outcome of the QAIP. The main points are shown below:
 - Summary of the annual self-assessment against the standards (Appendix 5).
 - Self-assessment against the five principles contained in the CIPFA document "The Role of the Head of Internal Audit (2010)". (Appendix 6) demonstrates that it complies with each of the principles.
 - Self-assessment against the internal audit principles introduced in January (Appendix 7).
 - Regular review of the QAIP of the action plan at team meeting.
 - A comprehensive review of the design of team's processes led by the Head of Audit and Assurance and the two Strategic Leads (Audit) but involving all team members carried out at a workshop in May 2017.
 - The post-audit customer satisfaction questionnaires found that of those questionnaires returned, 100% of respondents indicated that they were satisfied with the way the audits were conducted, and 93.8% felt that the audits added value.
 - Monitoring performance against key indicators (Appendix 8). This showed that there remained opportunities to work with officers to further improve the timeliness of the completion of audit assignments.

4.3 The reviews demonstrate that the Audit Team complies with the standards in all material respects, and has effective arrangements in place for monitoring quality. The main challenges moving forward include:

- ensuring compliance with the standards and ensuring that there is sufficient audit coverage when there remains pressure on audit budgets at time for significant change;
- ensuring continued client engagement at a time when they also have competing priorities reduced resources;
- demonstrating how audit provides an insightful approach and adds value; and
- a more systematic approach to the follow up of previous audits to ensure that agreed actions are properly implemented.

5 Closing Remarks

5.1 I would like to take this opportunity to thank Members, management and staff for their continued support as we carry out audit work during a period of continued significant organisational change. We will strive to continue to provide an effective and supportive internal audit service as the Council deals with the challenges it faces in the future.

Appendix 1: Amendments to the 2016/17 Audit Plan

Planned work not carried out or scope significantly reduced

| Audit area | Assignment | Reason for amendment |
|---|--------------------|--|
| Public Health - Contract Monitoring | Councilwide | Deferred to 2017/18 due to re-prioritisation of audit resources |
| New Legislation | Councilwide | Cancelled – no major changes in legislation to be implemented during the year |
| Better Care Fund | People | Deferred at request of service |
| Fixed Assets | Places | The decision taken nationally to defer indefinitely highways asset valuation intended for the 2016/17 financial statements significantly reduced the scope of this audit |
| LSCB/Safeguarding - children missing from home/care | People | Deferred to 2017/18 due to reprioritisation of audit resources |
| Services for older people - residential care | People | Deferred at request of service |
| Children in care/leaving care – PHASE | People | Not carried out due to re-prioritisation of audit resources |
| Child protection/children in need - special guardianships | People | Deferred to 2017/18 at request of service |
| NEETS – processes | People | Not carried out due to re-prioritisation of audit resources |
| Partnership Governance | People | Deferred to 2017/18 with the agreement of the service |
| Lincolnshire LEP | Places | Cancelled in agreement with the service. Current head of service has no concerns |
| Compliance with HR policies - training and development | Policy & Resources | Deferred at request of service as approach to training and development was being amended in 2016/17 |
| Democratic Services | Policy & Resources | Deferred at request of service |
| IT Governance | Policy & Resources | Deferred to 2017/18 due to in-year availability of IT audit specialist resource Governance arrangements were |

| | | |
|--|--------------------|--|
| | | reviewed during the year as part of the new shared service |
| IT Project Management Controls | Policy & Resources | Deferred from 2016/17 due to in year availability of IT audit specialist resource Client has asked for further referral as project management within IT will subject to significant review in 2017/18 |
| Schools assurance - financial management | People | Deferred to 2017/18 due to reprioritisation of audit resources but assurance obtained from school visits |
| CareFirst | People | Deferred, assurance gained through other audits |

Additional work or were scope was significantly increased

| Audit area | Assignment | Reason for amendment |
|-------------------|--|---|
| People | Troubled families Initiative – January claim | Change in requirements for grant submissions |
| Places | Community Meals referral process | Scope of planned audit extended to cover liaison between services |
| Places | Contaminated land – Conesby Quarry | Advice requested on control environment |
| Councilwide | Imprest accounts | Additional piece of work identified |
| P&R | Budgetary control | Additional piece of work identified to align the approach to fundamental audit between NELC and NLC and to allow for a comparison of processes in the new shared arrangements |

Appendix 2: Limitations of Scope and Responsibilities

Internal Audit has prepared the Annual Report and undertaken a programme of work agreed by the Council's senior management and approved by the Audit and Governance Committee subject to the limitations outlined below:

Opinion

The Opinion is based, primarily on work undertaken as part of the agreed 2016/17 Audit Plan. Each audit assignment undertaken addressed the control objectives agreed with the relevant, responsible managers.

There may be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work or were not brought to our attention. As a consequence, the Audit and Governance Committee should be aware that the opinion might have differed if our programme of work, or the scope of individual assignments was extended or other relevant matters were brought to our attention

Internal Control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls and unforeseeable circumstances.

Future Periods

Our assessment of the Council's control framework is for the year ended 31st March 2017. This historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; and
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Audit

It is the responsibility of management to develop and maintain sound systems of risk management; internal control and governance; and for the prevention or detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected, additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and our work should not be relied upon to disclose all fraud or other irregularities that might exist.

Appendix 3: Summary of Audit reports supporting the Audit opinion

See separate attachment

Appendix 4: Summary of advisory work provided by Internal Audit in 2016/17

- Leading on the production of the Council's updated Code of Governance
- Co-ordinating the production of the Annual Governance Statement
- Via membership of CIPFA's Better Governance Forum, inform relevant managers of national developments and emerging issues relating to internal control and governance which may impact upon their duties
- The certification of grants in relation to transport, highways and troubled families
- Involvement in the group developing an assurance framework in relation to safeguarding
- Providing training to Members on governance, internal control and risk management
- Providing support and advice in relation to the council's approach to the External Auditor appointment to commence as from April 2018
- Providing information and advice in relation to the value of "escrow" agreements
- Representation on the IT and Security Incident Group, including the provision of advice relating to data breaches
- Representation on the Change Agent Group
- Working with the other Humber authorities to bring together our working practices on fundamental audits, reporting and data analytics
- Providing an independent opinion in respect of a complaint about a taxi licensing application
- General requests for advice from services relating to the control environment in their specific area
- Providing assurance and advice on management arrangements for a contaminated land site
- Providing advice and support on the development of council wide assurance mapping
- Providing assurance and challenge on the NHS information governance self-assessment
- Providing support and challenge to the council's Commercialisation Board

Appendix 5: Comparison of Audit Approach against the Public Sector Internal Audit Standards and the Local Government Application Note Standards Requirements

| Conformance with the PSIAS and the Local Government Application Note Standards/Requirements | Evaluation/Comments |
|--|---|
| Code of Ethics | Requirement met - referred to in the audit charter and communicated to all audit staff |
| Attribute Standards | |
| 1.Purpose, Authority and Responsibility | Requirement met and defined in the audit charter |
| 2.Independence and Objectivity | Requirements met and defined in the audit charter. Potential conflicts of interest are appropriately managed |
| 3.Proficiency and Due Professional Care | Requirements met and defined in the audit charter |
| 4.Quality Assurance and Improvement Programme | Requirements met - Quality Assurance and Improvement Programme in place, and the outcome of the annual review of the programme included in the Head of Audit annual report. External inspection due in 2017/18 |
| Performance Standards | |
| 1.Managing the Internal Audit Activity | Requirements met |
| 2. Nature of Work | Requirements met |
| 2. Engagement Planning | Requirements met, although scope to review the planning and reporting of advisory work |
| 3. Performing the audit engagement | Requirements met - methodologies in relation to evidence gathering and sampling regularly reviewed. All assignments are subject to review. |
| 4. Communicating Results | Requirements met - the report template is subject to at least annual review to ensure that reports are clear, insightful and promote improvements |
| 5. Monitoring Progress | Requirements met, although scope to formalise follow-up arrangements |
| 6. Communicating the Acceptance of Risks | Requirements met |

Appendix 6: Comparison of Audit Approach against the 5 key principles contained in “The Role of the Head of Internal Audit” (2010)

| Principle | How Compliance is demonstrated |
|---|---|
| Championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments | <p>Promotes good governance and conduct e.g. facilitates the production of the Code of Governance and the Annual Governance Statement”, and lead officer on the update of the council’s anti-fraud and corruption strategy and the supporting whistleblowing policy and anti-money laundering policy. Promotes an effective control environment including advising senior management on the development of assurance framework</p> <p>The audit plan is based upon the Council’s strategic risk register, the Council’s governance arrangements and the systems of internal control.</p> <p>HOIA reports on the adequacy of such arrangements both individually and in aggregate via the annual Head of Internal Report.</p> <p>Whilst ensuring it remains management’s responsibility, facilitates the embedding of effective risk management throughout the Council</p> |
| Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control | <p>Audit programme covers all these areas.</p> <p>Assignments carried out objectively and evidence based, and provide an opinion on the controls in place and the residual risk</p> |

| Principle | How Compliance is demonstrated |
|---|---|
| (HOIA) must be a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee | <p>Member of the Northern Lincolnshire Business Connect Senior management team.</p> <p>Member of the Financial Services Management Team and has regular direct contacts with the Section 151 Officer.</p> <p>Reports to the Audit Committee in own name, and has regular contact with the chair of the Audit Committee.</p> |
| (HOIA) must lead and direct an Internal Audit service that is resourced to be fit for purpose | Sufficient resource and staff mix in place in 2016/17 to deliver a PSIAS compliant Internal Audit Plan and to provide sufficient evidence in relation to the Council's control environment and key risks to support the Head of Internal Audit opinion statement, although some resourcing pressures in 2016/17 due to staff vacancies and long term sickness. |
| (HOIA) must be professionally qualified and suitably experienced | CIPFA Member since 1993, Chartered Member of the Institute of Internal Audit (CIIA) and Qualification in Audit Leadership (QIAL). Also up to date "Continuing Professional Development" (CPD), 28 years of internal and external audit experience, 16 years of which at senior level, and has carried out the Head of Internal Audit role at NELC since April 2008. |

Appendix 7: Comparison of Audit Approach against the 11 principles as laid down in the audit standards)

| Principle | How comply? |
|---|--|
| Demonstrates integrity | The code of ethics, including integrity, is included in the audit charter. Team members are asked annually to confirm that they have read and understood the code of ethics. |
| Demonstrates competence and due professional care | The code of ethics, including competence, is included in the audit charter. Team members are asked annually to confirm that they have read and understood the code of ethics. The required levels of competence and experience are laid out in each job description, and training needs are considered in regular 1 to 1 meetings. There is a Quality Assurance and Improvement Programme in place to ensure that professional care is maintained. |
| Is objective and free from undue influence (independent) | The code of ethics, including independence, is included in the audit charter. Team members are asked annually confirm that they have read and understood the code of ethics, and annually declare any interests which could impact on their independence. The HAA has responsibilities for risk, counter fraud and insurance as well as audit. To preserve independence audits in these areas are carried out by other audit organisations. |
| Aligns with the strategies, objectives, and risks of the organisation | The audit plans are aligned are far as possible to the strategic risks of the organisation. Mechanisms are in place to consider risks to an effective control environment for each part of the audit universe when determining the audit plan. |
| Is appropriately positioned and adequately resourced | The Head of Audit is a 3 rd tier officer who sits on the finance management teams at both council as well as the shared service management team. HAA has unfettered accesses to the CFO, Chief Executive and audit committee at both Councils. When compiling the plan the level of resource available is compared to the resource required to provide a reliable and standards compliant opinion. For 2016/17 it was reported by the Head of Audit that for both organisations the audit plan was sufficiently resourced to achieve the audit plan although due to long term sickness and vacancies this has been challenging. |
| Principle | How comply? |

| | |
|---|--|
| Demonstrates quality and continuous improvement | A Quality Assurance and Improvement Programme is in place. All assignments are subject to supervision and review, and the overall arrangements are subject to annual self-assessment. Quality issues are discussed at each monthly team meeting and any relevant issues arising are included in the improvement plan. In May 2017 the audit team held a workshop to review its processes following the first anniversary of the shared service. |
| Communicates effectively | The team has a report template which meets the requirements of the audit standards. Reports are subject to regular review and update, and any common issues are included in the quality improvement plan. Team members are provided with guidance on effective reporting. |
| Provides risk-based assurance | The overall plan and individual assignments are prioritised depending on risk. When considering the work programme for individual assignments team members consider the importance of each of the five key areas of an effective control environment. One area for further development is the development of an assurance plan for both councils. During 2017/18 it will work with managers at both councils to develop their assurance map. |
| Is insightful, proactive, and future-focused | <p>Audit reports are designed to be insightful by encouraging auditors for their reports to be insightful, relevant and include agreed actions which add value. Both the overall audit plan and the design of individual assignments take account of future developments and risks to the organisation, and are subject to consultation with relevant officers. The team keeps a library of future developments to ensure that future issues (both nationally and locally) are picked up through membership of various bodies Cipfa, BGF, IIA, Humber Fraud Forum) and considered for audit programmes where appropriate. Internal audit is proactively involved in the council risk management system and proactively works with services to make sure their risk registers are up to date and take account of potential future developments in their area - this in turn helps inform audit planning.</p> <p>Team meetings ensure that service, development and cultural issues and changes are discussed, and training is delivered where required.</p> |

| Principle | How comply? |
|-------------------------------------|--|
| Promotes organisational improvement | <p>The audit team promotes organisational improvement in the a number of ways including:</p> <ul style="list-style-type: none"> - Aligning the audit programme to the strategic objectives of the council - Ensuring assignments are based on key risks, and reports have meaningful actions which add value - Provide advisory work, particularly in relation to the implementation of new programmes or systems - Carry out follow up work to provide assurance that actions are being implemented and improvements made |

Appendix 8: Key Performance Indicators 2016/17

| | Annual target | Outturn | Variance | Comments |
|--|---------------|---------|----------|---|
| What did we do? | | | | |
| Actual outturn forecast v budgeted outturn (for shared service) | 592K | £608K | £16K | Although there were vacancies and additional income for the audit shared service, did not fully cover the required vacancy factor |
| Audit days delivered as 31/5/17 | 1289 | 1087 | -202 | |
| Audit days delivered as 31/3/17 | 1160 | 900 | -260 | |
| Number of audits completed in Final by 31 May 2017 | 71 | 57 | -14 | 40 complete 17 draft |
| % of audits issued in final within 20 working days of the issue of the draft | 90% | 61% | -29% | There is scope to work with officers to speed up the process for finalising audits |
| How well did we do it? | | | | |
| Did we carry out the audit well? (customer satisfaction questionnaires) | 90% | 100% | +10% | |

| | Annual target | Outturn | Variance | Comments |
|--|---------------|----------|----------|--|
| Cost per chargeable day within 10% of unitary average | £293 | £300 | +£7 | Within 10% of target. Slightly higher than the unitary average due to long term sickness reducing the days delivered |
| Chargeable time per employee excluding HOIA | 181 days | 174 days | -7 days | |
| % of audits issued in draft by the agreed date | 90% | 83% | -7% | |
| Did we add value? | | | | |
| Did we add value? (customer satisfaction questionnaires) | 90% | 94% | +4% | |
| % recommendations fully or partially implemented | 90% | 70% | -20% | |

Appendix 3 : Audit work to support the Head of Internal Audit Opinion

| Audit Assignment | Service Area | Assurance | Comments |
|---|--------------|--------------|---|
| Fundamental systems | | | |
| Budgetary control (draft) | P & R | SATISFACTORY | |
| Council Tax & NNDR | P & R | SUBSTANTIAL | |
| Creditors | P & R | SATISFACTORY | |
| Debtors | P & R | SATISFACTORY | |
| Housing Benefits & Council Tax Reduction Scheme | P & R | SUBSTANTIAL | |
| Income collection (draft) | P & R | SATISFACTORY | |
| Main Accounting (draft) | P & R | SATISFACTORY | |
| Payroll (draft) | P & R | SATISFACTORY | |
| Treasury Management | P & R | SATISFACTORY | |
| Corporate governance and council wide systems | | | |
| Northern Lincolnshire Business Connect | P & R | SATISFACTORY | |
| Grant Claims | Councilwide | | Work in progress - to report in 2017/18 |
| Public Health - NHS self-assessment | Councilwide | | Assurance provided on self-assessment prior to submission |
| Health & Safety (draft) | P & R | LIMITED | |
| Other key strategic risks | | | |
| Carer Support | People | SUBSTANTIAL | |
| Assessment, Support Planning and Review | People | | Work in progress - to report in 2017/18 |
| Special schools funding | People | | Work in progress - to report in 2017/18 |
| NEETS - Elective home education | People | SUBSTANTIAL | |
| Financial assessment process (draft) | People | LIMITED | |
| Emergency Planning / Business Continuity | Places | SATISFACTORY | |
| Environmental Health - food safety | Places | SATISFACTORY | |
| External Funding - heritage Lottery Isle of Axholme | Places | SATISFACTORY | |
| External Funding - Tata Challenge growth fund (draft) | Places | SATISFACTORY | |
| Strategic Assessment (draft) | Places | SATISFACTORY | |
| Economic Development (draft) | Places | LIMITED | |
| Compliance with HR policies - pay policy | P & R | LIMITED | |
| Compliance with HR policies - disciplinary policy | P & R | SUBSTANTIAL | |
| Information Governance-records management | P & R | SATISFACTORY | |
| Performance Management (draft) | P & R | SATISFACTORY | |
| Other key operational risks | | | |
| Extra Care Housing-allocation criteria (draft) | People | SATISFACTORY | |
| Council run nurseries | People | SATISFACTORY | |
| Home improvements & disabled adaptations | Places | SATISFACTORY | |
| Licensing - taxis | Places | SATISFACTORY | |

| Adult Community Learning | Places | SUBSTANTIAL | |
|--|---------------------|---------------------|---|
| Transport - CallConnect | Places | SATISFACTORY | |
| | | | |
| Audit Assignment | Service Area | Assurance | Comments |
| Highways & Neighbourhood Service - budgetary control (draft) | Places | SATISFACTORY | |
| Self-service portal | Places | SATISFACTORY | |
| Schools Catering (draft) | Places | SATISFACTORY | |
| Community Meals | Places | SATISFACTORY | |
| Fleet Management | Places | SATISFACTORY | |
| Customer Services Management System | P & R | LIMITED | |
| Search Fees | P & R | SATISFACTORY | |
| Risk Management | | | |
| Risk Management (draft) | Councilwide | SATISFACTORY | |
| ICT | | | |
| Remote access (draft) | P & R | SUBSTANTIAL | |
| Inventory (Hardware & Software) | P & R | | Work in progress - to report in 2017/18 |
| Commissioning and Contracting | | | |
| Contract monitoring - use of self-assessment | P & R | LIMITED | |
| Compliance with corporate contracts | P & R | | Work in progress - to report in 2017/18 |
| Compliance with CPRs - use of extensions and exceptions | P & R | | Work in progress - to report in 2017/18 |
| Commissioning - Kaleidoscope | People | LIMITED | |
| Fraud Prevention and Detection | | | |
| Deferred payments (draft) | People | LIMITED | |
| Brigg Tourist Information Centre | Places | SATISFACTORY | |
| Car parking | Places | SATISFACTORY | |
| Trading Standards fees and charges | Places | SUBSTANTIAL | |
| Contracts - counter fraud and corruption | Councilwide | | Work in progress - to report in 2017/18 |
| Follow up Audits | | | |
| Continuing Health care - Adults | People | SATISFACTORY | |
| Social media | P & R | SATISFACTORY | |
| Imprest - Strategic Regeneration | Places | SATISFACTORY | |
| TLMS Debtors (draft) | Places | LIMITED | |
| Contaminated Land | Places | LIMITED | |
| Housing related support follow up (draft) | People | LIMITED | |
| Construction Framework - Highways | Places | SATISFACTORY | |
| School Audits | | | |
| Schools assurance - eSafety | People | SATISFACTORY | |
| Schools assurance - information governance (draft) | People | SATISFACTORY | |
| Winterton Junior | People | SATISFACTORY | |
| Messingham Primary | People | SATISFACTORY | |

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|------------------|--------|--------------|
| Baysgarth School | People | SATISFACTORY |
|------------------|--------|--------------|