

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

INTERNAL AUDIT UPDATE (INCLUDING THE UPDATED AUDIT CHARTER)

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 This report provides:

- an update on Internal Audit activity up to 31 December 2019;
- an update on the small changes made to the Audit Charter

2. BACKGROUND INFORMATION

2.1 It is a requirement of the Public Sector Internal Audit Standards (PSIAS) for the Audit Committee to receive regular updates on the activities of Internal Audit, in particular:

- providing assurance that sufficient work will be carried to provide a reliable risk based annual opinion on the effectiveness of the control environment and any amendments to the audit plan;
- bringing to the Committee's attention any issues identified during the course of the 2019/20 audit which could impact on the annual opinion; and
- providing assurance of Internal Audit's compliance with PSIAS.

2.2 The attached report on Appendix 1 prepared by the Head of Audit and Assurance provides an update on the delivery of the audit plan up to 31 December 2019. Sufficient work should be carried out by May 2020 to provide a reliable opinion on the Council's control environment. From the final reports issued there were no issues identified which will have an adverse impact on the annual audit opinion.

2.3 In addition it is a requirement for the Audit Charter (which sets out the purpose, authority and responsibility of Internal Audit) to be annually reviewed. Although there have been no changes to the PSIAS the attached updated charter has been subject to some small amendments as shown below:

- more clearly linking the Audit Charter with the requirements of the Accounts and Audit Regulations 2015 (para 1.1. of the charter);

- how potential conflicts of independence due to the Head of Audit and Assurance's role on the shared service management team will be mitigated (para 3.3 of the charter); and
- making reference to the Head of Audit and Assurance's membership of the Council's Assurance Group, chaired by the Deputy Chief Executive (para 4.1 of the charter)

3. OPTIONS FOR CONSIDERATION

3.1 In its role as the body charged with governance the Audit Committee is asked to consider the progress against the delivery of the audit plan and the updated Audit Charter and seek appropriate assurances where applicable.

4. ANALYSIS OF OPTIONS

4.1 It is a requirement of the PSIAS for the Audit Committee to receive updates on progress against the delivery of the audit plan, and to annually review the Audit Charter.

5. FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)

5.1 There are no specific resource implications relating to this report.

6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1 None.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1 Not applicable.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 There are no conflicts of interest related to this report.

9. **RECOMMENDATIONS**

- 9.1 That the Audit Committee receives the Internal Audit progress report on Appendix 1.
- 9.2 That the Audit Committee approves the updated Audit Charter on Appendix 2.

DIRECTOR: GOVERNANCE AND PARTNERSHIPS

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Background Papers used in the preparation of this report:

Audit Plan 2019/20 (March 2019)

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North Lincolnshire Council

Interim Audit Report 2019/20

Month 9

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Introduction

The purpose of the briefing paper is to keep the Audit Committee Members informed in relation to the delivery of the audit plan, in particular:

- providing assurance that sufficient work will be carried to provide a reliable risk based annual opinion on the effectiveness of the control environment;
- bringing to the Committee's attention any issues identified during the course of the 2019/20 audit which could impact on the annual opinion; and
- providing assurance of Internal Audit's compliance with Public Sector Internal Audit Standards (PSIAS)

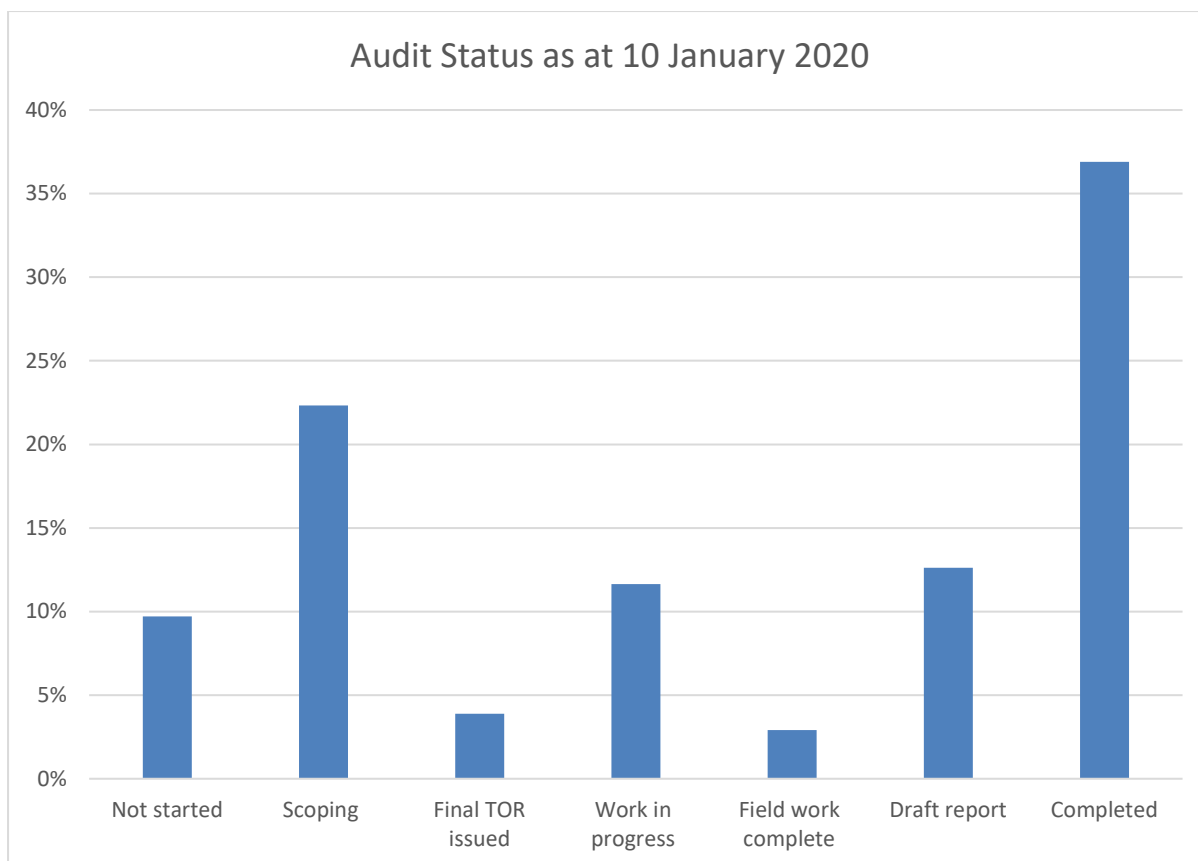
Delivery of the audit plan

On 27 March 2019 the Audit and Governance Committee approved a plan consisting of 1190 days as shown in the table below. According to PSIAS 2010 "the chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls". Amendments to the plan, which have been managed through the contingency are shown on Appendix1.

Days charged against the audit plan as at 31 December 2019

Area	Planned days	Revised days	Actual days
Strategic and operational risk/ governance	540	580	345
Financial systems	130	130	107
ICT	60	60	36
Commissioning and Procurement	35	35	19
Grant Certification	25	15	9
Schools	100	100	76
Follow up	40	40	20
Fraud and investigation	75	75	56
Advisory	50	50	32
Management time	75	75	60
Contingency	60	30	
Total	1190	1190	760

As at 31st December 2019 760 days had been charged against the audit plan. This compares to the anticipated 695 days at this point in the audit cycle, and therefore the team is on course to have carried out sufficient work by May 2020 to provide a reliable audit opinion. An analysis of progress by individual assignments identified in the plan is shown below.



Advisory and other support work is an important part of audit's work. A summary of such work carried out is shown on Appendix 2. The outcome of Fraud and investigation work will be reported in the Annual Fraud Report in April 2020.

Audit reports

A summary of final audit reports issued in 2019/20 issued by 31 December 2019 is shown on Appendix 3. There were no issues identified which will have an adverse impact on the annual audit opinion.

Quality

In January 2017 the Committee received Internal Audit's Quality and Assurance Improvement Programme (QAIP) whilst in January 2018 it was reported that having reviewed the QAIP we did not identify any amendments to the content of the QAIP.

An important element of the standards is that every five years audit teams are subject to an external inspection in order to assess compliance with the Public Sector Internal Audit Standards. As previously stated the outcome of the external inspection held in March 2018 was that "the internal audit function for North Lincolnshire Council generally conforms to the Public Sector Internal Audit Standards", where 'Generally conforms' is the top rating available.

During 2019/20 a number of quality review measures have been carried out to ensure compliance with the standards in general and the full embedding of the actions identified in the external review, including the following:

- continuing to ensure that all audit work is subject to supervision and review with any emerging issues discussed at team meetings;
- updating of the Annual Manual which provides guidance to staff on how to carry out their work and using team meetings to talk about the various sections of the manual;
- developing processes to remind service managers of their agreed audit actions resulting from audit reports, and enhanced escalation processes to improve engagement with audit;
- the Head of Audit and Assurance carrying out quality reviews of specific aspects of the audit process (e.g. in October 2019 carrying out a quality review of a sample of final audit reports which concluded they met quality standards but there was scope for them to further add value);
- testing of agreed actions implemented - as at 31 December 2019 55% of agreed actions tested had been implemented;
- monitoring the % of respondents to post audit questionnaires who thought that an audit was carried out well - as at 31 December 2019 this was 100%;
- monitoring the % of respondents to post audit questionnaires who thought that an audit added value - as at 31 December 2019 this was 92%.
- monitoring the timeliness of audits- as at 31 December 2019 42% of audits had been issued in draft by the date agreed in the terms of reference compared to a target of 90%, whilst 49% were issued in final within 20 working days of the issue of the draft- the underlying reasons for these variations are currently being reviewed.

Appendix 1: Changes to the audit plan

Additions to the 2019/20 audit plan

Assignment	Comments
Educational Standards	Carried forward from 2018/19
Capital programme	Carried forward from 2018/19
Leisure – safety and safeguarding	Carried forward from 2018/19
Role of DASS	Carried forward from 2018/19
SEND- governance arrangements	Carried forward from 2018/19
Domestic Violence	Completion carried forward from 2018/19
Role of the Director of Public Health	Completion carried forward from 2018/19
Heritage Assets	Completion carried forward from 2018/19
Training budgets	Completion carried forward from 2018/19
Waste management- Trade Waste	Completion carried forward from 2018/19
Adult Finance Transformation	Additional audit resource identified with the service to support the introduction of enhanced controls

Assignments removed from the plan or scope reduced

Assignment	Comments
Customer Services	The Council has been enhancing its arrangements for customer engagement and therefore it was agreed that it would be too early to carry out a full audit in 2019/20. Instead audit assessed the progress in developing the new arrangements, with the view that a full audit of those arrangements will be carried out in 2020/21
Partnerships	As the Council's Partnership's Protocol was under development in 2019/20, it was felt it was too early to carry out an audit of compliance with the protocol. Instead audit provided comment and advice on the draft protocol, with the view of carrying out a full audit in 2020/21
Community Wardens	The main work currently carried out by Community Wardens is parking enforcement; this was included in the audit of Car Parking, which has been completed. Methods of enforcement for other issues such as littering and dog fouling and countering anti-social behaviour are being considered and an audit would not add value at this time.
Grant certification	Estimate of time required reduced based on certification work requested up to 31 December 2019

Appendix 2: Advisory work carried out up to 31 December 2019

- Preparing a report for the Audit Committee examining the potential advantages and disadvantages of including co-opted Members
- Advice on the development of the updated partnership protocol
- Certification of grant claims relating to highways, bus subsidies and disabled facilities
- Membership of the Workwell Stakeholder Group
- Supporting the development of internal control and performance management arrangements within Northern Lincolnshire Business Connect
- Providing advice to the Adult Social Care Financing Transformation Board in relation to expected financial controls, including the processes related to Direct Payments
- Advice on security data breaches
- Advice and support to Schools Finance and Governing Bodies Service e.g. revision of school funds manual
- Advice and support to individual schools relating to finance, governance etc.
- Advice on controls for income collection within the Music Support Service
- Advice on the governance arrangements of the Greater Lincolnshire LEP
- 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

Appendix 3: 2019/20 Final Reports

Audits issued in final as at 31 December 2019

Audit Assignment	Director	Assurance	Residual Risk
Governance, Strategic Risks and operational risks			
Air Quality	Director of Operations	Substantial	Low
Car Parking	Director of Operations	Satisfactory	Medium
Children's Safeguarding	Director of Children and Community Resilience	Substantial	Low
Customer Services	Director of Governance and Partnerships	The Council has been enhancing its arrangements for customer engagement and therefore it was agreed that it would be too early to carry out a full audit. It was demonstrated that a lot of positive actions are being carried out in relation to customer engagement and it is clear that it is an area that the Council has strongly recognised its strategic importance and is a central part of both the Council Plan and the Organisational Development Plan	
Domestic Abuse	Director of Children and Community Resilience	Satisfactory	Medium
Financial Compliance	Director of Governance and Partnerships		
Heritage Assets Responsibilities	Director of Operations	Satisfactory	Medium
HR Minimum Wage	Director of Business Development	A HRMC compliance review in December 2017 identified some non-compliance with the National Minimum Wage Act 1998. Following an advisory piece of work, assurance could be given that adequate procedures are in place to ensure that when a salary sacrifice arrangement is put in place compliance with the National Minimum Wage and National Living Wage is maintained.	

Audit Assignment	Director	Assurance	Residual Risk
Role of DASS	Chief Executive	Substantial	Low
Role of Director of Public Health	Director of Public Health	Substantial	Low
Security Centre	Director of Children and Community Resilience	Satisfactory	Low
Training	Director of Business Development	Satisfactory	Medium
Financial systems			
Income receipting	Director of Governance and Partnerships	Substantial	Low
ICT			
Network Device Security and Management Controls	Director of Governance and Partnerships	Satisfactory	Low
Procurement			
Review of Procurement Exercises	In 2019/20 we instigated a programme of reviewing a sample of procurement exercises with the intention that at the year end we will identify any emerging themes in relation to compliance with contract procedure rules. So far we have reviewed the contracts for grounds maintenance and bulky waste collection		
Construction framework	Director of Operations	Substantial	Low
Follow up			
Community Meals	Director of Business Development	Satisfactory	Low
Social media	Director of Operations	Satisfactory	Medium
Schools			
Castledyke Primary	Director of Learning, Skills and Culture	Satisfactory	Low
Althorpe and Keadby Primary	Director of Learning, Skills and Culture	Satisfactory	Low
Baysgarth School	Director of Learning, Skills and Culture	Satisfactory	Low

Audit Assignment	Director	Assurance	Residual Risk
Berkeley Primary	Director of Learning, Skills and Culture	Satisfactory	Low
Broughton Primary	Director of Learning, Skills and Culture	Satisfactory	Low
Bushfield Road Infant	Director of Learning, Skills and Culture	Satisfactory	Low
Darley Centre	Director of Learning, Skills and Culture	Satisfactory	Medium
Frodingham Infant	Director of Learning , Skills and Culture	Satisfactory	Low
Luddington and Garthorpe	Director of Learning, Skills and Culture	Satisfactory	Low
St Hugh's School	Director of Learning, Skills and Culture	Satisfactory	Low
The Grange Primary	Director of Learning, Skills and Culture	Satisfactory	Low
Wroot Travis Primary	Director of Learning, Skills and Culture	Satisfactory	Low
Probity audits			
20:21 Income		Satisfactory	Low
Car Loans for Foster Carers		Satisfactory	Low
Church Square House Imprest		Satisfactory	Low
Councillors Allowances		Substantial	Low
Normanby Hall Income		Substantial	Low

Key to control effectiveness:

Effectiveness	Action Level
Substantial Assurance	Strong controls support achievement of the business objectives.
Satisfactory Assurance	Controls support the business objectives, but some improvements should be made.
Limited Assurance	Controls provide some support for business objectives, but improvements are essential.
No Assurance	Controls do not support the achievement of business objectives.

Key for residual risk rating

Priority Level	Action Level
High	Significant possibility for substantial financial, service, reputational or personal safety issue (including the non-achievement of strategic outcomes). Action must be taken to mitigate the risk.
Medium	Potential for financial, service, reputational or personal safety issue (including the non-achievement of strategic outcomes). Depending on risk appetite, action should be taken to either mitigate the risk or accept that an event could occur and manage its impact.
Low	Risk is being suitably managed based on current knowledge. Should be regularly reviewed and monitored.

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INTERNAL AUDIT CHARTER- NORTH LINCOLNSHIRE COUNCIL

1. Introduction

1.1 Under the Accounts and Audit Regulations (2015) the Council is required 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.

1.2 This document sets out the purpose, authority and responsibility of Internal Audit in accordance with the Standards.

2. Definitions

2.1 Internal Audit is provided at North Lincolnshire Council by the Audit and Assurance team of Northern Lincolnshire Business Connect (the Assurance People) and is governed by the UK Public Sector Internal Audit Standards. They are mandatory for all internal auditors working in the UK public sector. The main components are:

- articulating the mission of internal audit;
- providing a definition of internal audit;
- laying out the key principles of effective internal auditing;
- the code of ethics for internal auditors; and
- the standards themselves.

2.2 The mission of internal audit as laid out in the standards is *“To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight”*.

2.3 The standards define internal auditing 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”*.

- 2.4 As defined in the standards internal audit adds value to the organisation and its stakeholders when it considers strategies, operations and risk; strives to offer ways to enhance risk, governance and control processes; and objectively provides relevant assurance.
- 2.5 Internal Audit supports the Director of Governance and Partnerships to discharge her responsibilities for maintaining an adequate and effective system of internal audit as required under section 151 of the Local Government Act 1972 and by the Accounts and Audit Regulations 2015.
- 2.6 Internal Audit supports the Monitoring Officer in discharging his/her responsibilities for providing advice on vires issues, maladministration, financial impropriety, probity, Code of Conduct, policy framework and investigating cases reported under the confidential reporting policy as appropriate.
- 2.7 The Head of Audit and Assurance is responsible for the effective review of all aspects of governance, risk and internal control throughout the full range of the council's activities.
- 2.8 The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.
- 2.9 The Public Sector Internal Audit Standards require that the internal audit charter defines the terms 'board' and 'senior management' in relation to the work of internal audit. For the purposes of internal audit work, the 'board' refers to the council's Audit Committee which has delegated responsibility for overseeing the work of internal audit. The term senior management will be defined on an individual basis according to individual context

3. Independence

- 3.1 Internal Audit is independent of all of the activities of the council to ensure it is able to appraise the council's governance, risks and internal control systems in the impartial and unbiased manner essential to the proper conduct of audits. Independence is secured by a number of means, in particular:
- unfettered access to all council officers, senior management and Elected Members;
 - direct access to the Chair of the Audit Committee if appropriate;
 - the right to all documentation held by the council and to seek explanations as they see necessary to effectively discharge their duties, from all officers and Elected Members of the council;
 - the Head of Audit and Assurance reports in his / her own name to officers and Elected Members, particularly those charged with governance; and
 - where internal audit staff have a perceived or real conflict of interest in undertaking a particular piece of work, this will be managed through the

internal audit management and supervisory process. Staff are required to declare any potential conflict of interest when they are assigned a particular audit review and the work will then be reassigned to another auditor. All staff are required to complete a yearly declaration of interests form.

3.2 The responsibilities of the Head of Audit and Assurance include risk management, insurance and counter fraud. To maintain this independence in these areas his role, and that of the team, is clearly defined for example:

- although the Audit and Assurance team provides support and advice for the maintenance of the risk registers and the development of the council's risk framework, the definition of risk appetites and the management of individual risks lies purely with management;
- the Head of Audit and Assurance is not actively involved in the audit of those areas where he has some managerial responsibility, and usually a third party provider will be asked to carry out an audit on the team's behalf.

3.3 The Head of Audit and Assurance is also member of the shared services management team. He therefore has some input into the overall management arrangements for the shared services as a whole and its overall strategic, although has no input for the services contained within it with the exception of Audit and Assurance. For that reason any audit review of the overall arrangements for shared services will be carried out by a third party provider on the Head of Audit and Assurance's behalf.

4. Reporting Lines of the Head of Audit and Assurance

4.1 The Head of Audit and Assurance is a member of the management team of Northern Lincolnshire Business Connect and the senior finance management team at North Lincolnshire Council. He is line managed within the senior management structure of North East Lincolnshire Council, but meets with the Director of Governance and Partnerships at least monthly and is a member of the Council's quarterly Assurance Group chaired by the Deputy Chief Executive. This ensures that the Head of Audit and Assurance has suitable status within the Authority

4.2 The work of Internal Audit is reported to the Audit Committee in summary via a quarterly progress report, and he has periodic meetings with the Head of Paid Service.

5. Scope of Internal Audit Work

5.1 The scope of Internal Audit allows for unrestricted coverage of all the council's activities and unfettered access to all records, assets, personnel and premises deemed necessary in the course of its work. It also has unrestricted access to all Authority employees and Elected Members and the authority to obtain such information and explanations, as it considers necessary to fulfil its responsibilities.

- 5.2 The Head of Audit and Assurance has direct access to, and freedom to report to, all senior management including Directors, the Chief Executive, and the Audit Committee.
- 5.3 Where the council works in partnership with other organisations, the role of Internal Audit will be defined on an individual basis. Where Internal Audit undertakes work on behalf of any other organisations, this will be determined in conjunction with both councils' Section 151 officers to ensure that appropriate audit resources are available to provide assurance over the council's activities.
- 5.4 Internal Audit may undertake consultancy work in addition to its primary assurance role. The scope of any consultancy work will be agreed with management and will only be undertaken where resources permit without impacting on the annual assurance process, and where the Head of Audit is satisfied that the team has sufficient expertise to carry out the work. When attending project boards or steering groups auditors will agree their role and act as "critical friend" or advisor and not have any decision making responsibility. In line with the PSIAS, approval will be sought from the Audit and Governance Committee before any significant unplanned consultancy work is accepted.
- 5.5 Internal Audit may provide assurance services where it has previously performed consulting service, provided the nature of the consulting did not impair objectivity, and the assignment is carried out by a team member not directly involved in the consultancy assignment.
- 5.6 Managing the risk of fraud and corruption is the responsibility of management. Management is also responsible for developing, implementing and maintaining systems of internal control to guard against fraud or irregularity and ensure probity in systems and operations. Internal Audit will assist management by reviewing the controls and procedures in place. Internal Audit may also lead or support investigations for suspected fraud.

6. Responsibility

- 6.1 The Head of Audit and Assurance is responsible for:
- developing an annual audit plan based on an understanding of the organisations 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;
 - determining the strategic direction of the Audit and Assurance Service;
 - the management of the Audit and Assurance Service that is compliant with the Public Sector Internal Audit Standards, including a Quality and Assurance Improvement Plan;
 - the monitoring and reporting of the performance of the Audit and Assurance service;
 - the production and reporting of an annual audit opinion based on the outcomes of internal audit work conducted throughout the year;

- providing advice and guidance on risks and the application and development of internal controls;
- the fostering of good working relationships with External Audit with an aim to achieving mutual recognition and respect, leading to a joint improvement in performance and the avoidance of unnecessary overlapping of work; and
- assessing all matters of potential fraud or irregularity brought to his attention in line with the requirement of the council's Counter Fraud Strategy, and arranging for team members to lead or support the investigations into such matters.

7. Resourcing and Staffing Matters

- 7.1 Internal audit is staffed according to the staffing structure as approved by the Joint Committee of Northern Lincolnshire Business Connect in consultation with the Audit Committee and both councils' Section 151 officers. The structure is designed to ensure that there is a suitable mix of experienced and qualified staff. In line with the standards the Head of Audit and Assurance will annually confirm whether there are sufficient resources available to deliver a reliable annual audit opinion and comply with the standards.
- 7.2 Individual training needs are established and agreed through the respective performance management systems of both councils, involving regular 1-2-1 meetings. A training and development plan is developed for each team member, and the team has access to both councils' training budgets

8. Ethics

- 8.1 The Public Sector Internal Audit Standards (PSIAS) contain a Code of Ethics which is mandatory for all internal auditors in the public sector. In addition, individual staff are also required to adhere to the Codes of Ethics of their professional bodies where appropriate.
- 8.2 Team members are reminded of the need to comply with the Code on an annual basis including the requirement to complete a Code of Ethics Declaration Form. In addition they are expected to be aware of the seven standards of public life.

9. Limitations of Internal Audit Responsibilities

- 9.1 In seeking to discharge the responsibilities detailed above, and in line with the responsibilities of Internal Audit it should be noted that the Internal Audit Service is not responsible for:
- controlling the risks of the Authority;
 - establishing and maintaining systems of internal control;
 - determining operational policies or procedures; and
 - ensuring the prevention or detection of fraud and irregularity.

10. Reporting

10.1 All internal audit assignments will be the subject of formal reports. Draft reports will be sent to the manager(s) responsible for the area under review for agreement of the factual accuracy of findings and the implementation of agreed actions made to address weaknesses in internal controls. Once agreed, final reports will be copied to all relevant stakeholders.

10.2 Internal Audit will report regularly on the results of its work to Senior Management through the council's performance management processes, regular meetings with senior management teams and the Audit Committee. Such reporting will include:

- The Audit Charter.
- Independence of the internal audit activity.
- The audit plan and progress against the plan.
- Resource requirements.
- Results of audit activities.
- Conformance with the Code of Ethics and the Standards, and action plans to address any significant conformance issues
- Where applicable, management's response to risk that, in the Head of Audit and Assurance's judgment, may be not unacceptable to the organisation.

10.3 An overall summary of Internal Audit's work will be provided in the Annual Head of Internal Audit Report and Opinion.