

AUDIT AND GOVERNANCE COMMITTEE

DATE	23 rd July 2020
REPORT OF	Head of Audit and Assurance
SUBJECT	Head of Internal Audit Annual Report and Opinion 2019/20
STATUS	Open

CONTRIBUTION TO OUR AIMS

An effective control framework, good governance and risk management is fundamental to the effective delivery of the Council's services and its strategic aims. Internal Audit supports this by providing assurance, challenge and advice on their design and operation. Furthermore, the Internal Audit programme is risk based with specific priority given to those systems and processes which support the delivery of the Council's strategic aims.

EXECUTIVE SUMMARY

As set out in the Public Sector Internal Audit Standards (PSIAS) there is a requirement under PSIAS 2450 for the Chief Audit Executive to provide an annual report to the Audit and Governance Committee, timed to support the Annual Governance Statement. At North East Lincolnshire Council, the Head of Audit and Assurance carried out the functions of the Chief Audit Executive as defined in the standards.

This report provides satisfactory assurance on the overall arrangements for governance, risk and the internal control framework, taking into account those areas where additional improvements have been identified.

RECOMMENDATIONS

As part of its role in reviewing the effectiveness of the Council's governance arrangements (including the content of the Annual Governance Statement), the Audit and Governance Committee is asked to consider this report, including the control issues identified within it.

REASONS FOR DECISION

It is a requirement of the Public Sector Internal Audit Standards (PSIAS) for the Chief Audit Executive to produce an Annual Report incorporating his/ her opinion on the design and operation of the control environment.

1. BACKGROUND AND ISSUES

As set out in the Public Sector Internal Audit standards (PSIAS), there is a requirement under PSIAS 2450, for the Chief Audit Executive to 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);
- 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

A copy of the Annual Report and Opinion is attached. The key points identified in the 2019/20 the Head of Internal Annual report and opinion are as follows:

- Section 2 of the Annual Report refers to the work carried out from which the audit opinion is derived, and shows the work carried out compare to the Audit Plan. Due to the impact of COVID-19 on re-prioritising audit resources to support the emergency, a small number of audit assignments were not completed by 30 June 2020. However, the report concludes that sufficient work was carried out to support the opinion, whilst the outstanding work will be reported in 2020/21. Should any significant issues arise between the date of this report and the issue of the final Annual Governance (AGS) statement then they will be considered for inclusion in it.
- As referred to in Section 3 based on the work carried out by internal audit satisfactory assurance could be provided on the Council's governance, risk, and control framework, with a small number of areas identified for further development.
- As referred to in Section 4 the Audit Team complies with the standards in all material respects and has effective arrangements in place for monitoring quality. Working with clients to improve the timeliness of audit reporting and the implementation of agreed actions has again been highlighted as an area for further development.

2. RISKS AND OPPORTUNITIES

The Head of Internal Audit's Annual Report and Opinions a regulatory requirement and there is potential reputational risk if it was not produced or if did not provide sufficient assurance that Internal Audit carried out its responsibilities in line with the standards.

As well as individual audit assignments identifying specific areas of potential risk, it is a requirement to provide an overall opinion on the Council's risk management arrangements as shown in section 3 of the report.

3. OTHER OPTIONS CONSIDERED

Not applicable. The production of this report is a requirement of the Public Sector Internal Audit Standards.

4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS

There are no specific reputation issues in relation to this report. The main messages relating to this report have been communicated with the Leadership

Team, and the report will be publicised on the Council's intranet.

5. FINANCIAL CONSIDERATIONS

One of the key aspects of internal audit work is to consider the Council's systems of financial control. This is considered not only in specific audits of its key financial systems, but in most of its other audit work.

6. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

A cyclical audit of the Council's environmental arrangements was carried out as part of the 2019/20 audit plan. The audit identified opportunities to refresh them to support the Council's aspirations in relation to climate change and the environment.

7. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report. However the report provides assurance over the reliability of the systems supporting the financial information provided within the statement of accounts.

8. LEGAL IMPLICATIONS

There are no specific legal implications associated with this report.

9. HUMAN RESOURCES IMPLICATIONS

There are no direct specific human resources implications associated with this report.

10. WARD IMPLICATIONS

The report covers issues affecting the whole operation of the council and therefore is relevant to all wards.

11. BACKGROUND PAPERS

The Public Sector Internal Audit Standards 2017
Internal Audit Plan 2019/20 (April 2019)
Internal Audit Interim Report (January 2019)

12. CONTACT OFFICER(S)

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Peter Hanmer
Head of Audit and Assurance



Head of Internal Audit Annual Report and Opinion 2019/20

North East Lincolnshire Council

**Peter Hanmer
Head of Audit and Assurance
July 2020**

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 define 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 which must:

- consider the strategies, objectives and risks of the organisation and the expectations of senior management, the Audit and Governance Committee and other stakeholders.
- be supported by sufficient, reliable, relevant, and useful information.
- include an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
- include an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control; and
- include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

1.4 This report provides a summary for each of these areas. At North East 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 2019/20 plan, which was approved by the Audit Committee on 25 April 2019. This described how it was compiled, considering the Council's strategies, objectives, and risks. 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 all of which can potentially feed into the annual governance statement:
- strategic and operational risks relating to the delivery of the Council's strategic outcomes and/ or a key part of the Council's Code of Governance.
 - 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.
- 2.3 During 2019/20 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 were either taken out because of reduced level of risk due to changing circumstances, or where there had been internal or external reviews either carried out or pending. On 16 January 2020, the Audit Committee was informed of the amendments to the plan, which are re-shown on Appendix1, but the total planned days stayed unchanged at 980.

2.1 The position as of 30 June 2020 is shown on the table below. 863 audit days were delivered against the revised budget, a difference of 117 days. The predominant reason was the impact of Covid-19. As at 31 March 2020 in terms of time charged 82% of the audit plan had been completed, which was close to target for the time completed by the end of March, but subsequently Covid-19 has had an impact on the completion of the audit plan for the following reasons:

- for a number of key services their focus, particularly in April and May, has been understandably on dealing with the Council's response and this has impacted the completion of audit work in these areas.
- audit resource was prioritised on areas to support the Council's response to COVID-19, such as the distribution of Business Grants where audit has played a key role in advising on the design of the controls and carrying out the necessary compliance checks, as well supporting managers in designing control frameworks for other activities such as stock control relating shielding hubs and PPE, and support to suppliers (most of which time has been recorded against the 2020/21 audit plan); and
- some of the team provided general support to the shielding hubs.

Furthermore, the variance between budgeted and actual days can also be explained by an number of audits not requiring the anticipated the budget, the completion of some audits being deferred to 2020/21, and a planned ICT audit on ICT funding and recharging not being required. Consequently, not all the time originally in the revised plan, including the revised contingency, was required.

Days charged against the audit plan as of 30 June 2020

Area	Planned days	Revised days	Actual days
Strategic risks, operational risks, and governance (including Union related work as part of CCG plan)	460	490	418
Financial systems	130	130	135
ICT	60	60	49
Procurement and commissioning	35	25	22
Grants	25	15	19
Schools	10	10	12
Follow up	40	40	27
Fraud and investigation	60	60	52
Advisory	50	50	49
Audit Management	75	75	79
Contingency	35	15	
Total	980	980	863

2.2 A summary of the audit work to support the opinion is shown on Appendix 2. For most audits we provide two opinions as shown below; one relates to the overall control effectiveness, whilst the other relates to the residual risk exposure. Against a planned target of 61, on 30 June 2020, 52 audits had been completed with a further 6 in draft. We derive our overall opinion on the control framework by considering the outcome of individual audits. Typically, those areas where the assurance on the control environment is “limited”, and the residual risk is at least “medium” will be considered for specific reference in the overall opinion on the Council’s overall control environment, with particular focus on those areas which are critical to the Council’s financial management and governance arrangements, including the potential impact of any weaknesses identified.

Overall Control Effectiveness

Substantial	Strong controls support achievement of the business objectives.
Satisfactory	Controls support 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.

Residual Risk Exposure

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.

2.3 In forming our overall opinion, we also consider of the following:

- As shown on Appendix 2, there were some audits where we found that new processes or systems were in development and therefore we were not able to provide an opinion in 2019/20 but instead have provided a short commentary on the current position. Where appropriate we have taken this work into account when assessing the Council's control environment.
- The audit work relating to Adult Social Care as part of "the union" which is carried out as part of the audit of NELCCG and reported to its audit committee; although risks and areas for improvement were identified from the audits there were no issues identified directly impacting on the audit opinion in relation to the Council.
- Where appropriate other sources of assurance, such as work by external audit, other inspectorates and peer reviews, or internal reviews carried out within the Council. For example, the inspections carried out by Ofsted and CQC, and the Council's response to them, have been considered when forming the audit opinion.
- As listed at Appendix 4, Internal Audit has carried out advisory work for the Council, and where appropriate we have considered any issues arising from this work when forming our opinion.
- 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 in the Annual Fraud Report 2019/20 which was reported to the Audit Committee on 23 July 2020. There were no issues identified in the report that requires specific reference in the annual audit opinion.

3 Chief Audit Executive Annual Opinion 2019/20

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 4. It is based on work reported by Internal Audit, or placed reliance on, up to 30 June 2020, Should any significant issues arise in relation to the audit work to be finalised prior to the final AGS being signed off they will be considered for inclusion in it.

3.2 Control Framework

Overall, we can provide satisfactory assurance on the effectiveness of the Council's control framework in relation to 2019/20 as highlighted on the list of audits shown on Appendix 2. During 2020/21 the key focus for the council in ensuring that it maintains an effective control environment in what will be a period of considerable uncertainty should be:

- **Children and Families services:** In both March 2019 and October 2019 Children and Family Services received critical reports from OFSTED. These included criticisms of the control environment. This resulted in the DfE issuing a formal Improvement Notice to the Council on 18th December 2019. It is pleasing to note The Council has now received formal notification from the Parliamentary Under-Secretary of State for Children and Families that they are satisfied that sufficient progress has been made and that the Council can now focus on embedding quality of practice across Children's Social Care. It is also pleasing to note that considerable work is being carried out in developing the approach to SEND and out of area placements. It is important that the transformation framework which will establish the strategic ambition and direction of children's services is underpinned by an effective system of internal control.
- **Covid-19:** In response to the impact of Covid-19 the Council has developed a Recovery Plan based around 6 themes. In implementing the plan, it should ensure that sufficient focus is placed around there being effective systems of internal control.
- **Partnerships:** In January 2020, the updated partnership protocol was approved. The Council should continue to focus on strengthening its arrangements and ensuring that the principles laid out in partnership protocol are complied with.

- **Human Resources, Payroll and Finance systems:** We were able to provide **substantial** assurance in relation to the audits of those systems which support the annual financial statements. However, it is recognised by the Council that increased effectiveness will be generated by the adoption of updated financial and human resources systems. The target implementation dates are April 2021 for Payroll/ Human Resources and September 2021 for Finance. It is important that sufficient focus is placed on ensuring that these target are met, and that sufficient work is carried out around the design of the new systems to ensure that the anticipated improvements will be delivered and at the same time ensuring that they will produce accurate and reliable information.

3.3 Governance

Our audit programme is, in part, designed around the Council's Code of Governance which was based on the principles designed by CIPFA/SOLACE. During the year, the partnership protocol has been updated and work is ongoing with the CCG to fully implement and further develop its new joint community engagement strategy. At the same time, however, we have identified scope to refresh the governance arrangements around the environment to support the Council's aspirations in this area, whilst the Council has been working with partners and stakeholders to enhance its approach to data management. Overall, we can provide **satisfactory** assurance in relation to its governance arrangements and the processes which support the Council's governance framework and from our work and other sources we are not aware of any material governance failures occurring in 2019/20.

3.4 Risk Management

As reported in 2018/19 an audit carried out on our behalf by Lincolnshire County Council's Assurance team provided **substantial** assurance in relation to the Council's risk management arrangements. It identified two key issues for further improvement: aligning the strategic risk register to the Council's risk appetite and enhanced risk management training for staff. Although work has been carried out in aligning the strategic risk register to risk appetite, there is still a requirement for further risk management training. There is also a need to ensure that operational risk registers are consistently reviewed and updated on a regular basis by risk owners, to help ensure that risk management principles are embedded throughout the organisation.

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 January 2017, the team's Quality and Assurance Improvement Programme (QAIP) was presented to the Audit Committee and remains in operation. Under the standards the annual report is obliged to report on the outcome of, and any issues arising from, the QAIP

4.2 An important element of the standards is that every five years audit teams are subject to an external inspection to assess compliance with the Public Sector Internal Audit Standards, and where appropriate identify area for further development. As reported in the 2017/18 Head of Internal Audit Report an inspection was carried out in March 2018, and the report was issued in May 2018. Its overall conclusion was that:

"It is our overall conclusion that the internal audit function for North Lincolnshire Council generally conforms with the Public Sector Internal Audit Standards"

4.3 'Generally, conforms' is the top rating available, and is defined as:

"the internal audit activity has a charter, policies, and processes that are judged to be in conformance with the standards. There may be opportunities for improvement, but these do not represent situations where the internal audit activity has not implemented the Standards, the Code of Ethics or is not achieving their stated objectives".

4.4 The report identified a small number of actions designed to further enhance the impact of Internal Audit and the implementation of these actions were carried out during 2018/19, in particular the updating the Audit Manual which lays out the team's processes and practices. In 2019/20 we have continued to monitor the effectiveness of the implementation of the actions from the review, and as a result have further updated the audit manual in relation to documenting systems and processes, reporting and follow up.

4.5 Other sources of evidence for the QAIP included:

- a review carried out by the Head of Audit and Assurance of a sample of audit reports; the review found that the reports were compliant with the team's quality standards and processes, but in some cases there was scope to make them more impactful, and further guidance has been built into the manual in relation to this;
- the annual self-assessment against the standards (Appendix 5).

- Self-assessment against the five principles contained in the updated CIPFA document “The Role of the Head of Internal Audit” (2019). (Appendix 6) demonstrates that we comply with each of the principles; although there is scope to be involved earlier in providing support and advice on governance and internal control issues around major projects.
- Self-assessment against the internal audit principles introduced in January 2017 (Appendix 7).
- Every assignment is subject to supervision and any common issues identified are discussed at team meetings and where appropriate have contributed to the update of the audit manual.
- The post-audit customer satisfaction questionnaires found that of those questionnaires returned, 95% of respondents indicated that they were satisfied with the way the audits were conducted and felt that they added value.
- Monitoring performance against key indicators (Appendix 8). They demonstrate that audit operates efficiently and effectively although working with officers in ensuring audits are completed in a timely manner as possible and agreed actions are implemented by them remain a key priority. During 2019/20 the audit team has strengthened its escalation policy and enhanced its monitoring process for the implementation of agreed actions but based on the 2019/20 outturn has been examining how these can be further strengthened.

5 Closing Remarks

- 5.1 We 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: Changes to the audit plan as reported to the Audit Committee in January 2020

Additions to the 2019/20 audit plan

Assignment	Comments
Cleethorpes Regeneration	Completion carried forward from 2018/19
Environmental Sustainability	Carried forward from 2018/19
Consultation and Community Engagement	Carried forward from 2018/19
Economic Strategy	Deferred in 2018/19
Child and Mental Health Services Contracting	Completion carried forward from 2018/19
Homelessness	Completion carried forward from 2018/19
Local Transport Plan	Completion carried forward from 2018/19
Digital Strategy	Completion carried forward from 2018/19
People and Culture	Two specific audits identified in year- process for reviewing HR policies and managers' compliance with HR systems

Assignments removed from the plan or scope reduced

Assignment	Comments
Community Learning OFSTED Follow up	Audit cancelled as a decision was taken, following the OFSTED review, for the Council not to directly provide community learning services
Disabled Facilities Grants	In November 2019 new systems were introduced for housing grants, including disabled facilities grants. It was therefore agreed to reduce the scope to review the design of the new systems, with an audit of the operation of the new systems to be completed in 2020/21
Joint Strategic Needs Assessment	The Council's approach to the Joint Strategic Needs Assessment was currently being reviewed and so agreed to reduce scope in 2019/20 to gain assurance on how the review is progress, with a fuller audit to be carried out in 2020/21
Regeneration Partnership Data Quality	As part of the updated partnership arrangements the partnership's indicators have been considerably amended. The changes to the indicators will be considered as part of the audit of the partnership's governance arrangements with an audit of the data quality related to them to be carried out in 2021/21
Grants Certification	Revised budget based on time required to certify the required grants
Procurement and commissioning	Revised budget based on the actual time required

Appendix 2: Summary of Audit work supporting the Audit opinion

Audit work contributing to the 19/20 audit opinion

Audit Assignment	Director	Assurance	Residual Risk	Comments
Governance, Strategic Risks and operational risks				
Adoption	Director of Children and Family Services			Joint audit of the regional wide adoption agency led by York's audit team. Awaiting outcome of the audit.
Bereavement services	Director of Economy and Growth	Satisfactory	Medium	
Childhood Obesity	Director of Health and Wellbeing	Substantial	Medium	
Children's Safeguarding - change to the new governance arrangements	Director of Children and Family Services	Satisfactory	Medium	
Cleethorpes Regeneration	Director of Economy and Growth	Substantial	Low	
Commercial Estates	Director of Resources and Governance	Limited	Low	The audit identified a number of required improvements in relation to the management of the commercial estates such as the frequency of rent reviews, handover arrangements, frequency of property inspections, and a backlog of rent reviews, and the marketing of properties. An improvement plan is now in place, as well as enhanced performance indicators
Community engagement and consultation				During 2019/20 the Council and the CCG produced a joint community engagement strategy. Community and voluntary groups were involved in the steering group which developed it. There is an action plan in place to implement the strategy and supporting frameworks and toolkits are being developed. A full audit of the operation of the revised arrangements will take place once they have had time to embed
Design and Print Unit		Substantial	Low	
Digital Programme	Director Resources and Governance	Substantial	Low	
Disabled facilities grants (systems design)	Director of Economy and Growth			Due to the adoption of a new Housing Assistance and Disabled Adaptations Policy in October 2019, it was agreed that in 2019/20 audit would focus on reviewing the systems design on an advisory basis, and then carry out a full audit to test the application of the policy in 2020/21. No significant issues were identified relating to the design of the policy.
Economic Strategy	Director of Economy and Growth			The Council updated its Local Economic Assessment during 2019 as a pre-cursor to refresh its economic strategy and present it to cabinet in June 2020. Given the likely significant impact of Covid-19, however, further development of it has been put on hold due to the need to reassess the economic baseline resulting from Covid-19. We have therefore re-scheduled our work on the Council's economic strategy to 2020/21. This will include a review of recovery planning.

Audit Assignment	Director	Assurance	Residual Risk	Comments
Environmental Strategy	Director of Economy and Growth	Limited	Medium	The audit identified that progress in implementing actions identified in previous years needed to be monitored and reported, some its environmental policies to be refreshed, and key performance indicators to be developed for inclusion in the outcomes framework
Facilities management	Director of Resources and Governance	Satisfactory	Low	
Financial compliance	Director Resources and Governance	Satisfactory	Low	
Financial Resilience	Director Resources and Governance	Satisfactory	High	The high risk score reflects that there remains inherent risks due to acknowledged uncertainties in future funding and service demand, which have been further increased due to the COVID-19 pandemic.
Fixed penalty notices	Director of Economy and Growth			Due to Covid-19, the FPN system has been suspended as it is difficult to obtain the required evidence and any potential prosecutions may require face-to-face interviews under caution. Currently, written warnings are being issued to suspected perpetrators. We have rescheduled the audit to 2020/21 when the system is back up and running.
Homelessness	Director of Economy and Growth	Satisfactory	Medium	
Human Resources Data Quality	Director of Resources and Governance			At the request of the client this was referred into 2020/21 in line with the revised implementation dates for the new system
ILACS	Director of Children and Family Services	Satisfactory	Medium	
Joint Strategic Needs Assessment (JSNA)	Director of Health and Wellbeing			This audit has been deferred to 2020/21 to take account that the approach to the compilation methodology JSNA has been subject to review during 2019/20
Legal Services	Director Resources & Governance	Substantial	Medium	
Libraries	Director of Health and Wellbeing			Draft report
Licensing - Animal Welfare	Director of Economy and Growth	Substantial	Low	
Local Transport Plan	Director of Economy and Growth	Substantial	Medium	

Audit Assignment	Director	Assurance	Residual Risk	Comments
Out of Area Placements	Director of Children's and families			Out of Area placements in respect of both residential and education currently costs the Council approximately £13m per year. In order to improve the experience of users and improved value for money it is reviewing the process and options for increase in-house capacity. Impower have completed an independent piece of work on the placement process which has been reported back separately to Children and Family Services. Audit work has progressed in this area during 2019/20 but given this project is ongoing we have agreed to continue this audit into 2020/21 and then provide assurance on the design and operation of the revised
People and culture- review of policies	Director of Resources and Governance	Satisfactory	Medium	
Data Quality	Director of Resources and Governance	Satisfactory	Low	The Council, alongside the CCG, is carrying out a significant review of its mechanisms around data, including its quality and how it is applied to provide intelligence in the decision making process. Our audit therefore focused on reviewing a sample of performance indicators which are reported as part of the Council's outcomes framework.
Planning & Building Control	Director of Economy and Growth	Substantial	Low	
Prescribing Services and Medicine Management	Director of Children and Family Services			This was an advisory piece of work requested by the service. It was established during the review that the number of prescriptions issued and the associated costs of this was relatively small. Some minor improvements in governance arrangements were identified.
Public Health Peer Review Follow Up	Director of health and Wellbeing			The Council received an update on progress in the implementing of actions from the Peer Review in September 2019. This identified that progress was being made. A further update was due to report in March 2020, but was delayed until September 2020 due to Covid19. Audit intends to seek reliance from this when produced.
Regeneration partnership	Director of Economy and Growth			In progress
Schools exclusions	Director of Children and Families	Substantial	Low	
SEND	Director of Children and Families			The Council, in partnership with the CCG, has been implementing the actions of its Written Statement of Action (WSOH) and governance arrangements are in place to monitor it. In March 2020 a peer review was carried out which provided feedback on progress in implementing the actions and made suggestions for improvement which have been included in the WSOH.
South Humber Industrial Investment Programme	Director of Economy and growth			in progress.

Audit Assignment	Director	Assurance	Residual Risk	Comments
Street cleansing	Director of Economy and Growth	Satisfactory	Low	
Tobacco Control	Director of Health and Wellbeing	Satisfactory	Low	
Town Deal	Director of Economy and Growth			Discussions with key officers confirmed that work was progressing with West Haven Maltings to make the building structurally safe ready for handover to the identified provider . Public realm works are also in progress on Frederick Ward Way. Other aspects are in the development stage. Town Deal has been included in the 2020/21 audit plan and we anticipate that the schemes will have progressed to a sufficient stage that we will be able to provide an audit opinion.
Trading Standards - Management of Seized Assets	Director of Economy and Growth	Satisfactory	Medium	
Traffic Regulation Orders	Director of Economy and Growth	Satisfactory	Low	
Training Budget	Director Resources & Governance	Satisfactory	Low	
Waste Collection	Director of Economy and Growth	Substantial	Medium	
Financial systems				
Creditors	Director Resources and Governance	Substantial	Medium	
Debtors	Director Resources and Governance	Substantial	Medium	
Direct Debits	Director Resources and Governance			An advisory piece of work carried out on request of the Finance section. It identified a small number of recommendations around non compliance with the standards
e- financials	Director Resources and Governance	Substantial	Low	
Income receipting	Director Resources and Governance	Substantial	Low	
Local Taxation and benefits	Director Resources and Governance	Substantial	Low	
Payroll	Director Resources and Governance	Substantial	Low	
Treasury management	Director Resources and Governance	Substantial	Low	
ICT				
Liquid Logic	Director Resources and Governance	Satisfactory	Low	
Network Device Security and Management Controls	Director Resources and Governance	Satisfactory	Low	
Firewall Security and Management Controls	Director Resources and Governance	Substantial	Low	

Audit Assignment	Director	Assurance	Residual Risk	Comments
Server Operational Management Controls	Director Resources and Governance	Substantial	Low	
Finance system - resilience in existing system	Director Resources and Governance			Audit in progress
HR/Payroll - resilience in existing system	Director Resources and Governance			Audit in progress
Project Management	Director Resources and Governance			Audit in progress
Procurement				
Social Value	Director of Resources and Governance			A social value policy was adopted by the Council in April 2019, and social value group has been established to oversee its development and implementation, including the monitoring an action plan based partly on recommendations from work commissioned from consultants to establish a base line position. As at the end of February 2020 a number of actions were rag rated "high" or "amber risk with one of the key issues identified being training and awareness.). Given that the council's approach is in development we have not provided an opinion, but we will revisit this area during 2020/21 to further review progress.
Compliance with CPRs	Director of Resources and Governance	Satisfactory	Low	In 2019/20 we instigated a programme of reviewing a sample of procurements to check compliance with the council's Contract Procedure Rules (CPRs). No significant concerns were identified
Young Minds Matter (CAMHS)- contractual arrangements	Director of Children and Family Services	Limited	Medium	This is based on the work completed by the service which highlighted areas of improvement in relation to the monitoring of the external contract . An action plan has been developed to work in partnership with the provider on areas where the specification requirements are not being fully delivered. It is anticipated that the actions will be delivered by 31 March 2020.
Follow up				
Apprenticeship Levy	Director of Resources and Governance	Satisfactory	Medium	
External funding	Director of Resources and Governance	Substantial	Medium	
Heritage assets	Director of Economy and Growth			Draft report
Housing Strategy	Director of Economy and Growth			Draft report
Leisure and culture	Director of Health and Wellbeing			Draft report
Smarter Energy Governance Arrangements	Environment, Economy & Growth	Substantial	Medium	
Schools				
Coombs Briggs	Director of Children and families	Satisfactory	Low	

Audit Assignment	Director	Assurance	Residual Risk	Comments
Stallingborough Primary follow up	Director of Children and families	Satisfactory	Low	
Probity audits				
Councillors Allowances	Director of Resources and Governance	Satisfactory	Low	
Heneage Road Imprest	Director of Children and Family Services	Satisfactory	Low	
Cromwell Road Imprest	Director of Children and Family Services	Satisfactory	Low	
Markets Income	Director of Economy and Growth	Substantial	Low	

Appendix 3: Summary of advisory work provided by Internal Audit in 2019/20

- 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
- Representation on the Information Security and Assurance Board and provided advice on data breaches
- General requests for advice from services relating to the control environment in their specific area
- Assurance Mapping
- Providing Audit Committee Induction Training
- Part of the sub-group developing the updated partnership protocol
- Advice on controls for the Blue Badge system
- Advice on controls for setting up direct debits
- Advice on controls in relation to the Smarter Energy Project
- Advice on the proposed updated controls relating to Disabled Facilities Grants
- Certification of grant claims relating to troubled families, highways, bus subsidies and disabled facilities
- Membership of the Business Development Board responsible for evaluating business cases
- Membership of the Information Security and Assurance Board
- Membership of the Smarter Neighbourhoods Operational Group
- Responding to various accounting queries
- Promoting the requirement for employees to declare interests, gifts and hospitality and providing the Council with an analysis of the current levels of declarations
- Supporting the development of internal control and performance management arrangements within Northern Lincolnshire Business Connect
- Providing support and assurance on the Council's submission regarding the NHS IT Governance toolkit
- Preparing the Annual Report of the Audit Committee
- Supporting schools in relation to their School Financial Value Standard (SFVS) submissions

Appendix 4: 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 2019/20 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. Consequently, the Audit 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 based on completed audit work up to 30th June 2020. In a small number of cases the finalisation of audits has been delayed due to the impact of COVID-19, and the outcome of this work will be considered for the 2020/21 audit opinion. However, given that the final Annual Governance Statement will be produced at a later date in 2019/20 than July 2020 then any significant issues reported by internal audit between 30th June 2020 and the date of the final Annual governance Statement will be considered for inclusion in it.

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 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 5: Comparison of Audit Approach against the Public Sector Internal Audit Standards

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. Team members were asked to confirm they have read and understood annually- last request February 2020
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 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. Five yearly external inspection carried out in 2017/18.
Performance Standards	
1.Managing the Internal Audit Activity	Requirements met
2. Nature of Work	Requirements met
2. Engagement Planning	Requirements met
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. Review of reporting carried out in 2019/20.
5. Monitoring Progress	Requirements met. Follow up arrangements have been further updated in 19/20 and regular reminders sent out to managers although potential to report the findings of these more effectively
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” (2019)

Principle	How Compliance is demonstrated
<p>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>	<ul style="list-style-type: none"> • Promotes good governance and conduct e.g. facilitates the production of the code of governance, the AGS, the guide to control environment, the anti-fraud and corruption strategy • Promotes the role of internal audit via the “Audit offer” and accompanying “FAQs” • Promotes good governance and internal control through the role on the Assurance Board, • The audit plan is based upon the Council’s strategic risk register, the Council’s governance arrangements and the systems of internal control. • HOIA reports on the adequacy of such arrangements both individually and in aggregate via the annual Head of Internal Audit Report. • Provides commentary on emerging risks both to the Audit Committee and the Assurance Board. • Whilst ensuring it remains management’s responsibility, facilitates the embedding of effective risk management throughout the Council. • Internal Audit is represented in the group which considers bids for capital funding where it can provide comment on proposed developments, but there is scope for involvement in the implementation of projects at an earlier stage
<p>giving an objective and evidence-based opinion on all aspects of governance, risk management and internal control</p>	<ul style="list-style-type: none"> • The Audit Charter, laying out the role and responsibilities of internal audit, is updated and approved annual by the Audit Committee • Process in place for providing independent assurance for those areas where HAA has managerial responsibilities • Audit plan aligned to the Council’s strategic aims • Producing an evidence based annual internal audit opinion on the organisation’s control environment. • Risk based approach to developing the audit plan, and for carrying out audit assignments • Seeks assurance on the Council’s key partnerships • Where applicable, seeks to rely on assurance provided by external audit and inspectorates

Principle	How Compliance is demonstrated
<p>The HIA in a public service organisation must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee</p>	<ul style="list-style-type: none"> • Member of the Director of Resources and Governance Management Team • Line managed by the Director of Resources and Governance, including monthly 1 to 1 s • Consults with the Strategic Leadership Team on the content of the audit plan • Meets with members of the leadership team monthly via the Assurance Board chaired by the Chief Executive • Quarterly 1o 1s with the Chief Executive • Member of the NLBC management team. • Reports to the Audit Committee in own name • Supports the Audit Committee in assessing its own effectiveness • As laid out in the Audit Charter unfettered access to documentation and staff
<p>The HIA in a public service organisation must lead and direct an internal audit service that is resourced to be fit for purpose.</p>	<ul style="list-style-type: none"> • Sufficient resource and staff mix in place in 2019/20 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. • Quality assurance and improvement programme in place, including key performance indicators which are reported upon annually • Staff development programme in place. In the process of enhancing this to continue to ensure that they have adequate skills to meet the changing requirements and expectations of audit • Keeps up to date with developments in governance, risk management, control and internal auditing through professional memberships and membership of CIPFA’s Better Governance Forum, including networking with other HIAs (including membership of CIPFA’s national Audit Special Interest Group). Learns from them and implements improvements where appropriate
<p>The HIA in a public service organisation must be professionally qualified and suitably experienced</p>	<p>CIPFA Member since 1993 and ICAS Member since 2017. Chartered Member of the Institute of Internal Audit (CMIIA) and Qualification in Audit Leadership (QIAL). Also, up to date “Continuing Professional Development” (CPD), 31 years of internal and external audit experience, 18 years of which at senior level, and has carried out the Head of Internal Audit role at NELC since April 2008.</p>

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. Last update February 2020
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 meeting. 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 to 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 and is a member of the shared service management team. To preserve independence audits in these areas are carried out by other audit organisations.
Aligns with the strategies, objectives, and risks of the organisation	A strategic council wide approach, as opposed to a service based one, is used to prioritise work and compile the audit plan. The Council Plan, the Council's strategic outcomes, the strategic risk register and the operational risk registers are key components compiling the audit plan. The key components of an effective control environment, and the risks to it, are also considered.
Is appropriately positioned and adequately resourced	The HAA sits on the CFOs' management teams at both councils as well as the shared service management team. HAA has unfettered accesses to the CFO, Chief Executive, and audit committee at both Councils. Also sits on both Council's Assurance Boards. When compiling the plan, the level of resource available is compared to the resource required to provide a reliable

	and standards compliant opinion. Although the finalisation of audit work was impacted during April and May 2020 due to Covid-19, sufficient work was carried out to provide a reliable audit opinion
Demonstrates quality and continuous improvement	A Quality Assurance and Improvement Programme is in place, and the team had a successful five yearly external inspection of its processes. All assignments are subject to supervision and review, and the overall arrangements are subject to annual self-assessments. Quality issues are discussed at each monthly team meeting and any relevant issues arising are included in the improvement plan. The Audit Manual is subject to regular update as issues arise.
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 and this updated regularly following on from internal quality reviews and feedback from clients.
Provides risk-based assurance	The plan and individual assignments are prioritised depending on risk. When considering the work programme for individual assignments team members consider the inherent impact of each of the five key areas of an effective control environment on the area, the local and national risk related to it, and the completeness of the risk register
Is insightful, proactive, and future-focused	Auditors are encouraged to ensure their reports are insightful, relevant and include agreed actions which add value. Following feedback from the external inspection the reporting template was enhanced in 2018/19, and guidance has been provided to Team Members on effective reporting. Both the overall audit plan and the design of individual assignments take accounts 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) and considered for audit programmes where appropriate. Team meetings ensure that service, development and cultural issues and changes are discussed, and training is delivered where required.

<p>Promotes organisational improvement</p>	<p>The audit team promotes organisational improvement in a few ways including:</p> <ul style="list-style-type: none">- Aligning the audit programme to the strategic objectives of the council- Shares emerging good practice with management- Ensuring assignments are based on key risks, and reports have meaningful actions which add value- Provide advisory work to support the development of an effective control environment- Carry out follow up work to provide assurance that actions are being implemented and improvements made
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Appendix 8: Key Performance Indicators 2019/20

	Annual target	Outturn	Variance	Comments
What did we do?				
Actual outturn forecast v budgeted outturn (shared service combined)	£522K	£526K	+£4K	
Audit days delivered as at 31/5/20 against 2019/20 audit plan	980	831	-149	Reduction in the time charged due to the impact of Covid-19. Completion of the audit plan was temporarily suspended with resources focused on supporting the emergency.
Audit days delivered as at 31/3/20 against 2019/20 audit plan	833	809	-24	
Number of audits completed	61	52	-10	Position as of 30 June 2020. The figure excludes 6 audits in draft. Delivery impacted by Covid19
% of audits issued in final within 20 working days of the issue of the draft	90%	52%	-38%	Although this figure has been impacted in part by Covid-19, there still requires a need to reduce the time to reduce the time to finalise audits. The escalation policy has been in 19/20 been enhanced but requires further promotion and enforcement

	Annual target	Outturn	Variance	Comments
How well did we do it?				
Did we carry out the audit well? (customer satisfaction questionnaires)	90%	95%	+5%	Based on post audit questionnaires received 1/4/9 and 31/3/20. Shows positive satisfaction of the quality of audit work
Cost per chargeable day within 10% of unitary average (shared service wide)	£297	£257	-40	Demonstrates that the audit service continues to be economic compared to other teams.
Chargeable time days per employee excluding HOIA compared to CIPFA average	177	171	-6	Reflects additional non-chargeable time to support trainees, and some time lost in mid-late March.
% of audits issued in draft by the agreed date	90%	40%	-53%	Although this figure has been impacted in part by Covid-19, there still requires a need to improve the timeliness of audits. The escalation policy has been enhanced in 19/20 but requires further promotion and enforcement. Also, in some more realistic target completion dates need to be set at the outset
Did we add value?				
Did we add value? (customer satisfaction questionnaires)	90%	95%	+5%	Based on post audit questionnaires received 1/4/9 and 31/3/20. Shows positive satisfaction of the quality of audit work
% agreed actions implemented by the agreed date.	90%	63%	-27%	Some improvement on the previous year but still need to further improve. Improved monitoring and reporting have been introduced in 2019/20 and this will be further enhanced in 2020/21. In some cases, need for managers to set more realistic target completion dates

