

**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 30 November 2017;
- an updated Audit Charter to take account of changes to the Public Sector Internal Auditing Standards (PSIAS).

**2. BACKGROUND INFORMATION**

2.1 It is a requirement of the 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 2017/18 audit which could impact on the annual opinion; and
- providing assurance of Internal Audit's compliance with Public Sector Internal Audit Standards (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 30 November 2017. Sufficient work should be carried out by May 2018 to provide a reliable opinion on the Council's control environment. In addition work has been prioritised so that key pieces of assurance, such as those in relation to the fundamental financial systems, are completed in sufficient time.

2.3 The report also shows that there has been a reduction in the overall size of the audit plan from 1250 days to 1100. This is due to re-prioritisation of work, particularly the initial contingency not being required.

2.4 The report also refers to Audit's Quality and Assurance Improvement Plan (QAIP). As previously reported the audit arrangements will be subject to a five year inspection in early 2018. In December 2017 a tender exercise was initiated to identify a suitable provider of the inspection.

2.5 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. The updated charter is attached on Appendix 2, and has been subject to some small amendments to reflect:

- Changes in the council's structure; and
- Amendments to the PSIAS, particularly those relating to the additional roles carried out by the Head of Audit and Assurance, consultancy engagements carried out by Internal Audit, and the compilation of the audit plan.

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

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

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

6.1 Not applicable.

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

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

## **8. RECOMMENDATIONS**

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

### **DIRECTOR: GOVERNANCE AND PARTNERSHIPS**

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Date: 3 January 2018

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

**Audit Plan 2017/ 18 (April 2017, updated June 2017)**



# **North Lincolnshire Council**

## **Internal Audit Plan 2017/18**

### **Update Report - Month 8**

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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, including amendments to the audit plan;
- bringing to the Committee's attention any issues identified during the course of the 2017/18 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 11 April 2017 the Audit and Governance Committee approved a plan consisting of 1250 days. 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". Consequently as shown in Appendix 1 there has been amendments to the plan which have been managed through the contingency. As shown on Exhibit 1 the number of planned days required has been reduced to 1100 days.

### ***Exhibit 1: Days charged against the audit plan as at 30 November 2017***

Area	Planned days	Revised days	Actual days	Reasons for changes
Strategic and operational risks	455	397	223	See Appendix 1
Financial systems	140	140	32	
ICT	60	60	18	
HR Systems and Processes	30	15	8	Revised budget based on work identified
Procurement	15	28	22	Includes work carried forward from 2016/17
Grants	30	30	28	
Schools	100	80	10	Revised budget based on prioritisation of work
Follow up	50	40	11	
Fraud and investigation	125	100	28	Revised budget based on number of investigations up to M8
Advisory	70	50	33	Revised budget based upon advisory work requested up to M8
Audit Management	75	75	50	
Contingency	100	85		Estimate of contingency which may be required
Total	1250	1100	532	

As at 30 November 2017 532 days had been charged against the audit plan. This compares to the anticipated 627 days at this point in the audit cycle. The reasons for this are:

- unfilled vacancies during the year;
- an instance of long term sickness totalling 0.5 full time equivalents; and
- as reported in the Head of Internal Audit Annual Report 2016/17, there was a greater carried forward for the period from April to June 2017 to complete the 2016/17 audit plan than initially planned which impacted on the start of work related to the 2017/18 internal audit plan.

Although it remains a risk which needs to be managed, we are still on course, to have carried out sufficient work to provide a reliable risk based annual opinion by June 2018 for the following reasons:

- we have successfully recruited two new team members and have estimated there is currently sufficient resource to complete the plan by May 2018;
- we have engaged a partner to work with us on the delivery of our ICT audit programme;
- where appropriate re-prioritising aspects of the audit work programme, particularly those areas which require completion by 31 March 2018 (e.g. financial systems); and
- carrying out more work relating to the 2017/18 audit plan in April and May 2018 then the planned 100 days, although acknowledging that this could subsequently impact on the delivery of the 2018/19 audit.

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.

### **Audit reports**

A summary of audit reports issued in 2017/18 is shown on Appendix 3. There are 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) and in July 2017 performance against the QAIP was reported in the Head of Internal Audit Annual Report. Having reviewed the QAIP we have not identified any amendments to the content of the QAIP that need to be brought to your attention.

Activities to assess quality and compliance with standards carried out in 2017/18 have included:

- updating of the Audit Charter to reflect changes to the Standards;
- ensuring all audit work is subject to supervision and review with any emerging issues discussed at team meetings;
- the carrying out of quality reviews by Head of Audit and Assurance of a sample of audit files - no significant examples of non-compliance identified;
- 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;
- introducing a new system to remind managers of their agreed actions arising from previous audit work, and to allow them to confirm whether an action has been implemented;
- monitoring the % of agreed actions implemented - as at 30 November 2017 this was 75%;
- monitoring the % of respondents who thought that an audit was carried out well - as at 30 November 2017 this was 100%; 8 questionnaires had been received;
- monitoring the % of respondents who thought that an audit added value - as at 30 November 2017 this was 100%; 8 questionnaires had been received.

An important element of the standards is that every five years audit teams are subject to an external inspection. Consequently between January and March 2018 there will be an inspection of the audit team to assess compliance with the Public Sector Internal Audit Standards, and where appropriate identify areas for further development. As the audit teams at Hull City Council and East Riding of Yorkshire Council were also due for inspection the Humber Unitary Finance Officer group (comprising of each councils' Section 151 Officers) agreed to make a joint appointment, and on 13 December 2017 invitations to tender were issued. The appointment will be made on the basis of cost and quality.



## Appendix 1: Changes to the audit plan relating to strategic and operational risks

### *New assignments identified or scope increased*

<b>Assignment</b>	<b>Comments</b>
Assessment, Support Planning and Review	Providing support to the review of the processes around adult social care financial assessments
Deferred payments	Began in 2016/17 completed 2017/18
Fixed Assets	Began in 2016/17 completed 2017/18
Grant Claims	Began in 2016/17, completed in 2017/18
Special schools funding	Began in 2016/17 completed 2017/18

### *Assignments removed from the plan or scope reduced*

<b>Assignment</b>	<b>Comments</b>
Adults Referrals	Audit deferred to allow for the new processes for adult referrals to be implemented
Clinical Governance	Discussions with the Director of Public Health identified that this was a relatively low risk for NLC and therefore full audit not required at this stage
Deferred Payments (ASC)	Incorporated into the processes related to social care financial assessments
Delivery of the Financial Plan	Scope of audit reduced to take account that some of the required audit enquiries are covered in the audit of the role of the Chief Financial Officer
Direct payments (ASC)	Incorporated into the processes related to social care financial assessments
Leisure	Audit deferred to early 2018/19 to take account that this area is being subject to review
Media enquiries	Audit deferred to 2018/19 due to the prioritisation of work required for Q4 2017/18 plan
Public Health- Contracted Services	Audit was to review on contract arrangements for three areas- sexual health, smoking cessation and substance misuse. Latter deferred as subject to re-procurement in early 2018
SEN, incl. Out of area placements	Not all of the original budget was required
Welfare Reform	Original budget reduced to reflect the economies of scale due to the shared service

## **Appendix 2: Advisory work carried out up to 30 November 2017**

- Providing support to the BPR review of Adults Financial assessments
- Providing support to the preparation for the LGA peer challenge
- Providing assurance on the Eclipse system implementation
- Providing support to the Finance/ HR/ Payroll systems upgrade project
- 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 Security Incident Group and provided advice on data breaches
- General requests for advice from services relating to the control environment in their specific area
- Provided support and challenge to the council's Commercialisation Board
- Support and advice on the update of the council's whistleblowing policy

### Appendix 3: 2017/18 Audits issued in final as at 30 November 2017

#### Key to control effectiveness:

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

#### Key for residual risk rating

Priority Level	Action Level
<b>High</b>	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.
<b>Medium</b>	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.
<b>Low</b>	Risk is being suitably managed based on current knowledge. Should be regularly reviewed and monitored.

#### Follow up reports issued up to 30 November 2017

	Original assurance level	Revised assurance level
Customer services	<b>Limited</b>	<b>Satisfactory</b>
Pay Policy	<b>Limited</b>	<b>Substantial</b>
Regeneration Imprest	<b>Limited</b>	<b>Satisfactory</b>

## Final Reports issued up to 30 November 2017

	<b>Control effectiveness</b>	<b>Residual risk</b>
Assessment support planning	<b>Satisfactory</b>	<b>N/A</b>
Deferred payments	<b>Satisfactory</b>	<b>N/A</b>
Eclipse	<b>Substantial</b>	<b>Low</b>
Fixed Assets	<b>Substantial</b>	<b>N/A</b>
Gifts and hospitality	<b>Satisfactory</b>	<b>Low</b>
Lincs Lotto	<b>Satisfactory</b>	<b>Low</b>
Publications	<b>Satisfactory</b>	<b>Low</b>
Bottesford Infants	<b>Satisfactory</b>	<b>Low</b>
Kiillingholme Primary	<b>Satisfactory</b>	<b>Low</b>
Sir John Nepplethorpe School	<b>Satisfactory</b>	<b>Medium</b>
St Martins Primary	<b>Satisfactory</b>	<b>Medium</b>
West Butterwick Primary	<b>Satisfactory</b>	<b>Low</b>
Highways Grant	<b>Satisfactory</b>	<b>Low</b>
Troubled Families Grant	<b>Substernal</b>	<b>Low</b>



# INTERNAL AUDIT CHARTER- NORTH LINCOLNSHIRE COUNCIL

## 1. Introduction

- 1.1 This document sets out the purpose, authority and responsibility of Internal Audit in accordance with the Public Sector Internal Audit Standards (PSIAS).

## 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 his or 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.

#### **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 has regular meetings with the Director of Governance and Partnerships and the Head of Finance. 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 Head of Paid Service, 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 the Northern Lincolnshire Business Connect Management Board and 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. In line with the PSIAS, approval will be sought from the Audit Committee before any significant unplanned consultancy work is accepted.

- 5.5 Internal Audit may provide assurance services where it as 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.

## **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 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 though 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.

