



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 2018;
- an update on the small changes made to the Audit Charter

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 2018/19 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 Appendix1 prepared by the Head of Audit and Assurance provides an update on the delivery of the audit plan up to 30 November 2018. Sufficient work should be carried out by May 2018 to provide a reliable opinion on the Council's control environment.
- 2.3 The report also shows that there has been a reduction in the overall size of the audit plan from 1180 days to 1110 days. This is due to some planned audits no longer being required or their scope reduced due to changes in circumstances. The report also refers to Audit's Quality and Assurance processes. It provides assurances on the Audit team's compliance with PSIAS and in particular how it is progressing against actions identified in the external quality inspection carried out in March 2018.

2.4 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 to further clarify the role of audit in relation to fraud and advisory work as follows:

- When attending project boards or steering groups auditors will agree their role and act as “critical friend” or advisor and will not have any decision making responsibility (para 5.4 of the charter)
- 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 (para 5.6 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. 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

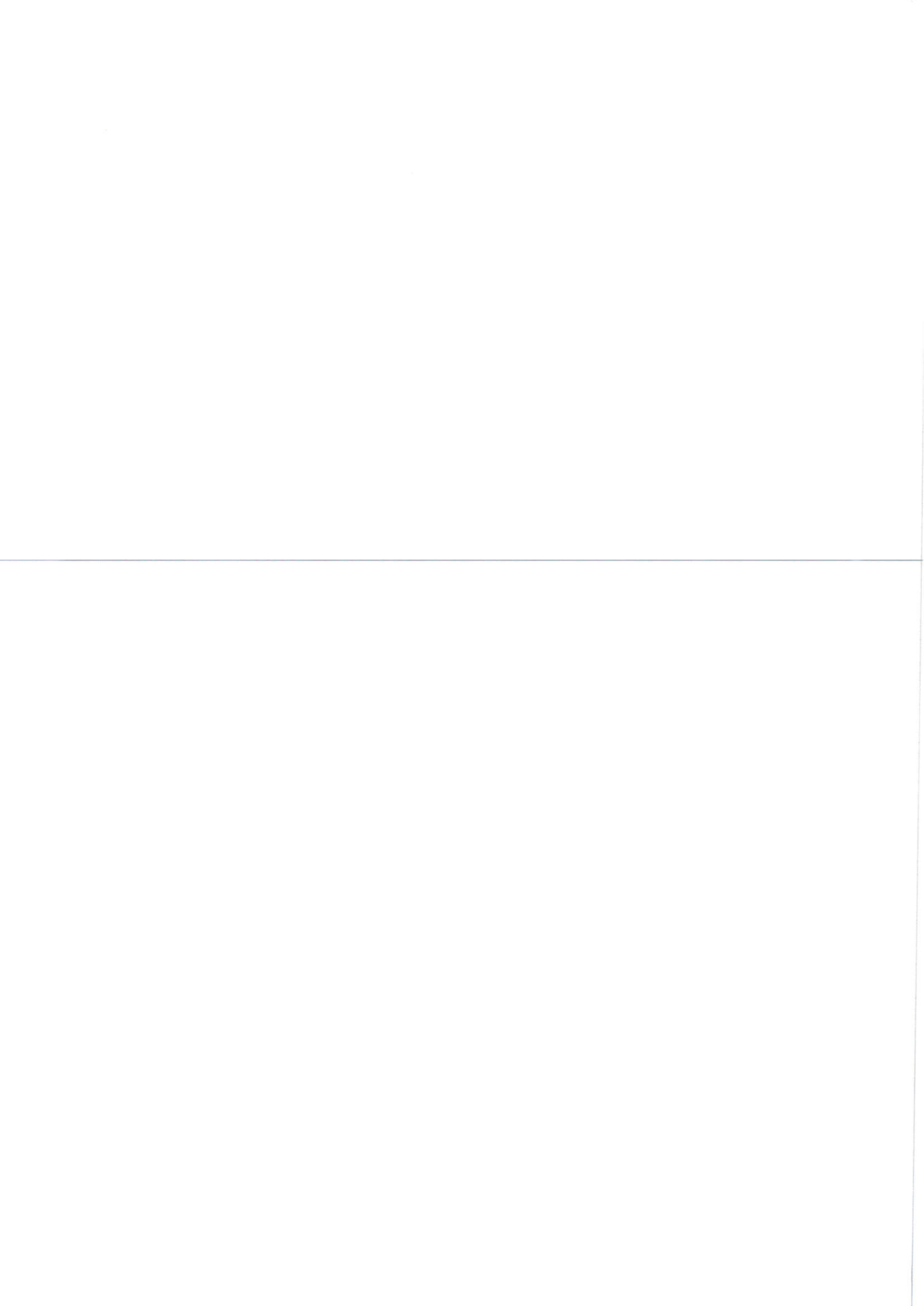
- 8.1 That the Audit Committee receives the Internal Audit progress report on Appendix 1.
- 8.2 That the Audit Committee approves the updated Audit Charter on Appendix 2.

DIRECTOR OF GOVERNANCE AND PARTNERSHIPS

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Background Papers used in the preparation of this report:

Audit Plan 2018/19 (April 2018)





North Lincolnshire Council

Interim Internal Audit Report 2018/19

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 2018/19 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 25 April 2018 the Audit and Governance Committee approved a plan consisting of 1180 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 have 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 1110 days to reflect the audits no longer required to be completed in 2018/19.

Exhibit 1: Days charged against the audit plan as at 30 November 2018

Area	Planned days	Revised days	Actual days	Reasons for changes
Strategic and operational risks	460	430	180	See Appendix 1
Financial systems	130	130	81	
HR Systems and Processes	40	40	20	
ICT	55	55	2	
Procurement	15	25	5	Increase in budget due to contracts to be reviewed.
Grant certification	30	20	8	Less time required than anticipated.
Schools	100	100	60	
Follow up	40	40	15	
Fraud and investigation	100	105	41	Anticipated time to complete the anti-fraud programme, including proactive work. The outcome of this work will be reported in the Annual Fraud Report.
Advisory	70	50	27	Anticipated advisory work requested in M9 to M12.
Audit Management	75	75	49	
Contingency	65	40		
Total	1180	1110	488	

As at 30 November 2018 488 days had been charged against the audit plan. This compares to the anticipated 590 days at this point in the audit cycle. The reasons for this are:

- unfilled vacancies during the year and also training requirements for new staff;
- ICT audit, provided by third parties has been backloaded towards the end of year; and
- as reported in the Head of Internal Audit Annual Report 2017/18, although lower than in the previous two years, there was a greater carried forward for the period from April to June 2018 to complete the 2017/18 audit plan than initially planned which impacted on the start of work related to the 2018/19 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 2019 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 2019;
- we have engaged a partner to work with us on the delivery of our ICT audit programme; and
- carrying out more work relating to the 2018/19 audit plan in April and May 2019 than we planned, although acknowledging that this could subsequently impact on the delivery of the 2019/20 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 2018/19 is shown on Appendix 3. There are no issues identified from the final reports which will have an adverse impact on the annual audit opinion, although we note the project to enhance the Adult Social Care Financial systems for which audit is providing ongoing support.

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 reported in the Head of Internal Audit Annual Report and Opinion the outcome of the external inspection held in March 2018 was that "the internal audit function for North Lincolnshire Council generally conforms with the Public Sector Internal Audit Standards", where 'Generally conforms' is the top rating available.

The report identified a small number of actions designed to further enhance the impact of Internal Audit. During 2018/19, via a number of team meetings, the audit team reviewed its processes and updated its audit manual, including the following:

- requiring auditors to conclude on the design of the control framework within their audit working papers;
- providing guidance on how controls, risks and actions should be described within audit reports and the introduction of root cause analysis to help make reports more insightful;
- updating our approach to evidence retention particularly in relation to GDPR;
- reviewing arrangements for monitoring and reporting on the implementation of agreed audit actions;
- updated the Audit Charter to further clarify Internal Audit's role in relation to fraud and advisory work; and
- developing appropriate KPIs to be ready for the 2019/20 audit plan.

Other activities to assess quality and compliance with standards carried out in 2018/19 have included: ensuring all audit work is subject to supervision and review with any emerging issues discussed at team meetings:

- updating of the Audit 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;
- testing of agreed actions implemented - as at 30 November 2018 this was 56%; and
- monitoring the percentage of respondents to post audit questionnaires who thought that an audit was carried out well - as at 30 November 2018 this was 100%; monitoring the percentage of respondents to post audit questionnaires who thought that an audit added value - as at 30 November 2018 this was 94%.

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

New assignments identified or scope increased

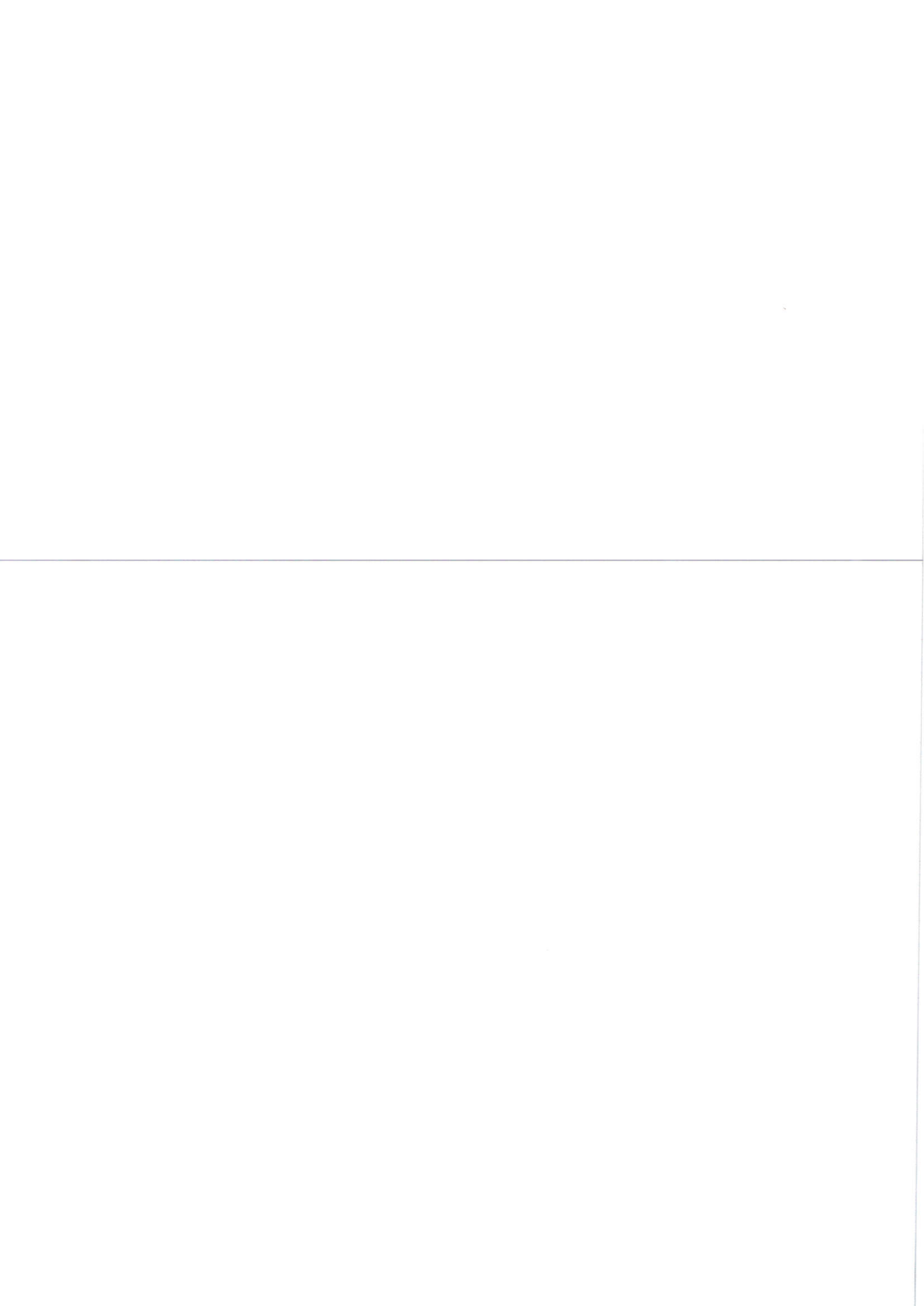
Assignment	Comments
Critical Assets - Property	Completion carried forward from 2017/18 audit plan.
Grant claims	Completion carried forward from 2017/18 audit plan.
Transparency Code	Completion carried forward from 2017/18 audit plan.
Partnership Governance Education	Completion carried forward from 2017/18 audit plan.
Highways Maintenance & LTP	Completion carried forward from 2017/18 audit plan.
Mental Health	During 2018/19 elements of the service came back in house and therefore an audit was identified to assess the arrangements.
Troubled Families	Future government funding is unclear and therefore audit identified to review the sustainability of the programme in the future.
Lone working	Client identified a need to local at local application of the council wide policy in specified high risk areas.

Assignments removed from the plan or scope reduced

Assignment	Comments
Adoption	It is agreed to defer most of the work 2019/20 due to the council reviewing its approach to adoption, although some work on relevant actions in the OFSTED action plan.
Adult Safeguarding referrals	Audit postponed while policy was refreshed and therefore to allow sufficient time for changes to be embedded.
Community Safety	Significant work has been undertaken with the accountable partner (the police) to revise governance procedures and the audit deferred to allow sufficient time for revisions to be embedded.
Data quality- Children's and safeguarding	This was an advisory piece of work based on earlier issues identified. Assurance gained that issues had been addressed via revisions to the process and full audit not required.
Scrutiny	It was envisaged that MHCLG would be issuing guidance in 2018 in relation to scrutiny. As this guidance has been deferred it was agreed to defer this review to 2019/20
Section 11	The LSCB safeguarding arrangements have been replaced by the MARS approach. The governance arrangements are being finalised and the Section 11 responsibility to safeguard children will be further developed for an audit next year.
SEND	At the time of audit planning it was envisaged that during 2018/19 that there would be an inspection of SEND which the audit would then follow up. As at December 2018, however, inspection had not taken place and therefore audit deferred to 2019/20.
Wellbeing Hubs	The service requested that this was deferred.

Appendix 2: Advisory work carried out up to 30 November 2018

- provided support to the BPR review of Adults Financial assessments;
 - 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;
 - provided advice on data breaches;
 - provided comment on the draft Integrated Impact Assessment Guide;
 - general requests for advice from services relating to the control environment in their specific area, particularly schools;
 - provided information to operations as part of a service review;
 - reviewed the operation of the Audit Committee compared to recent guidance issued by CIPFA; and
 - representing the Council at the Public Sector Audit Appointments annual conference.
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Appendix 3: 2017/18 Audits issued in final as at 30 November 2018

Audit Assignment	Service Area	Assurance	Residual Risk	Comments
Strategic Risks and operational risks				
Cemeteries and crematoria	Operations	Satisfactory	Low	
Community Funding Grants	Adults & Community Wellbeing	Substantial	Low	
Critical assets- property	Operations	Satisfactory	Medium	
ASF financial Management Processes Follow up	Adults & Community Wellbeing			We have not provided an overall assurance level for our work to reflect that the system is undergoing
Elections	Governance and Partnerships	Substantial	Low	
Role Of DCS	Children's and Community resilience	Substantial	Low	
Grant claims	Governance and Partnerships	Satisfactory	Low	
Transparency	Governance and Partnerships	Substantial	Low	
Planning and Building Control	Operations	Substantial	Low	
Partnership Governance - Education	Learning, Skills and Culture	Satisfactory	Low	
Human Resources				
IFR35	Business Development	Satisfactory	Low	
Schools				
Burton upon Stather Primary	Learning, Skills and Culture	Satisfactory	Low	
Leys Farm Infant	Learning, Skills and Culture	Satisfactory	Low	
Bowmandale Primary	Learning, Skills and Culture	Satisfactory	Low	
Westcliffe Primary	Learning, Skills and Culture	Satisfactory	Low	
Winterton C of E Infant	Learning, Skills and Culture	Satisfactory	Low	
Priory Lane Community School	Learning, Skills and Culture	Satisfactory	Low	
Haxey C of E Primary	Learning, Skills and Culture	Satisfactory	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.



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. **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 r support investigations for suspected fraud.**
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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.
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- 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.
- Were 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.
