

Report of the: Director of Governance and Partnerships

Agenda
Item No: 5
Meeting: 26 July 2019

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

HEAD OF INTERNAL AUDIT ANNUAL REPORT AND OPINION 2018/19

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 This report provides an opinion on the adequacy and effectiveness of the council's internal control environment based upon work carried out by Internal Audit in accordance with the approved 2018/19 audit plan. It also considers the effectiveness of the audit service. This provides the Audit Committee with an important source of assurance when considering the Annual Governance Statement.
- 1.2 The Internal Audit Annual report complies with the Public Sector Internal Audit Standards (PSIAS) and The Accounts and Audit Regulations 2015.

2. BACKGROUND INFORMATION

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

"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic,

disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

- 2.3 As set out in the standards there is a requirement under PSIAS 2450 that the Chief Audit Executive must provide an annual report to the Audit and Governance Committee, timed to support the Annual Governance Statement. This must include:
- an annual internal audit opinion on the overall adequacy and effectiveness of the organisation’s governance, risk and control framework (i.e. the control environment);
 - a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies);and
 - a statement on conformance with the PSIAS, the outcome of the five yearly external review of Internal Audit, and the results of the internal audit Quality Assurance and Improvement Programme.
- 2.4 A copy of the Annual Report and Opinion is attached and its main findings are summarised below.
- 2.5 Section 2 of the Annual Report refers to the work carried out from which the audit opinion is derived. It also lays out amendments to the plan in-year due to the changes in the Council’s risk profile and priorities. Although for the reasons highlighted in the report not all the planned days were delivered, It concludes that sufficient work was carried out to support the opinion although a small number of planned audits were work is in progress (and to be reported in 2019/20) or the start was deferred into 2019/20.
- 2.6 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.
- 2.7 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 has been highlighted as an area for development..

3. OPTIONS FOR CONSIDERATION

- 3.1 The Committee is asked to consider whether Internal Audit’s Annual Report provides sufficient assurance on the adequacy of the council’s internal control environment in 2018/19. Members may wish to ask questions and seek clarification as necessary.

4. ANALYSIS OF OPTIONS

4.1 The Internal Audit Annual Report and Opinion 2018/19 complies with professional guidance available and is designed to provide this Committee with the assurance required.

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

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

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

6.1 An Integrated Impact Assessment is not required.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

7.1 Consultation takes place at all stages of audit work. It affects the scope of audit work undertaken, the risk assessment of audit work, audit practices and products.

7.2 Given that the Head of Audit and Assurance has responsibilities around risk management and counter fraud a third audit provider (Lincolnshire County Council) was commissioned to carry out audits in these areas to prevent a potential perceived conflict of interest, Audit team members are asked to complete declaration forms on annual basis. If any potential conflicts are identified then they are not allocated assignments related to the potential conflict of interest.

8. RECOMMENDATIONS

8.1 That the Audit Committee considers the assurance provided by the Internal Audit Annual Report for 2018/19 on the adequacy and effectiveness of the council's internal control environment.

DIRECTOR OF GOVERNANCE AND PARTNERSHIPS

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Date: 10 June 2019

Background Papers used in the preparation of this report:
Internal Audit Plan 2018/19 (April 2018)
Internal Audit Interim Report (January 2019)



The
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The logo for Northern Lincolnshire Business Connect features a stylized white silhouette of a horse or similar animal against a teal background. Below the silhouette, the words "NORTHERN LINCOLNSHIRE BUSINESS CONNECT" are written in a bold, sans-serif font.

**NORTHERN LINCOLNSHIRE
BUSINESS CONNECT**

Head of Internal Audit Annual Report and Opinion 2018/19

North Lincolnshire Council

Peter Hanmer
Head of Audit and Assurance
June 2019

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:

- take into account 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 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 2018/19 plan, which was approved by the Audit Committee on 25 April 2018. This described how it was compiled, taking into account 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 2018/19 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 23 January 2019 the Audit Committee was informed of amendments to the plan and the detail of the changes are re-shown on Appendix 1 of this report. This included a reduction in the planned days from 1180 days to 1110.
- 2.4 The final outturn is shown on Table 1 below. Overall, audit delivered a total of 919 days compared to the plan of 1110 days, a difference of 191 days. The reasons for the variances were as follows:
- delays in recruiting which meant the team had vacancies longer than anticipated and a re-prioritisation of audits- although as at 1

April 2019 the team was at full complement the beneficial impact of this will be felt in 2019/20;

- in Quarter 4 there was an unexpected increase in sickness which impacted on the resources available and led to delays in the completion of audits;
- a number of audits relating to strategic and operational were carried out (or we obtained the necessary assurance) more quickly than planned and so the initial budget was not required;
- in some areas, such as performance management, procurement and workforce development, as they were in the process of being redesigned in 2018/19, some time was transferred to the 2019/20 to review the operation of those processes;
- the number of referrals in relation to allegations to fraud and financial misconduct was less than anticipated resulting in less resources than expected being required;
- the revise contingency of 40 days was not required; and
- in a small number of cases the work was not completed in 18/19 or deferred due to resounding issues.

As at 31 May 2019, out of a revised target of 69 reports, 62 had been reported in final or draft and 8 were work in progress (or deferred) and will be reported as part of the 2019/20 internal audit plan. The audit assignments to be completed are as follows:

- Educational standards
- Leisure
- Role of DASS
- Waste management
- Domestic Violence
- Role of the Director of Public Health
- Capital Programme

Table 1: Days charged against the audit plan as at 31 May 2019

Area	Planned days	Revised days	Actual days	Comments
Strategic and operational risks	460	430	317	Reasons for variance explained above
Financial systems	130	130	130	
HR Systems and Processes	40	40	44	
ICT	55	55	49	
Procurement	15	25	30	
Grant certification	30	20	13	Time required for grant certification not as great as initially anticipated
Schools	100	100	102	
Follow up	40	40	28	
Fraud and investigation	100	105	75	
Advisory	70	50	61	
Audit Management	75	75	70	
Contingency	65	40		
Total	1180	1110	919	

2.5 A summary of the audit work to support the opinion is shown on Appendix 2. Subject to a small number of exceptions, for each review undertaken, individual assessments of the adequacy of the control environment are provided in the form of an 'opinion'. We provide two opinions as shown below. One relates to the overall control effectiveness, whilst the other relates to the residual risk exposure. 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 the business objectives, but some improvements should be made.
Limited	Controls provide some support for business objectives, but improvements are essential.
None	Controls do not support the achievement of business objectives.

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.

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

- Where appropriate other sources of assurance, such as work by other inspectorates and peer reviews, or internal reviews carried out within the Council. As highlighted in Appendices 1 and 2 we have taken account of such activity when obtaining assurance.
- As listed at Appendix 4, Internal Audit has carried out advisory work for the Council and where appropriate we have taken into account any issues arising from this work.
- As part of the wider Audit and Assurance Team, Internal Audit makes a significant contribution to the delivery of the Council's approach to anti-fraud and corruption. This was reported in the Annual Fraud Report 2018/19 which was reported to the Audit Committee on 27 March 2019.

There were no issues identified in the report that requires specific reference in the annual audit opinion.

3 Chief Audit Executive Annual Opinion 2018/19

- 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.

Control Framework

- 3.2 Overall, we can provide **satisfactory assurance** on the effectiveness of the Council's control framework in relation to 2018/19 as highlighted on the list of audits shown on Appendix 2, and this is also supported by the outcome of external inspections. Assurance on the control environment is also a central part of the updated performance management system which has been developed during 2018/19, whilst mechanisms have been put in place to provide assurance on the delivery of the extensive transformation programme. Areas for further development include:

- adult social care finance where the service has been restructured and systems and processes are undergoing transformation through a redesign of the service to sit alongside revisions to the care pathway;
- complete the introduction of the updated arrangements for setting and monitoring the capital programme; and
- complete the review of governance arrangements in relation to external funding

We can also specifically provide **satisfactory assurance** in relation to the audits of those systems which support the annual financial statements. However, it is recognised by the Council that efficiencies will be generated by the adoption of updated financial and human resources systems. The planned procurement during 2018/19 was unable to be completed and therefore new options are being explored with a view to implementation for April 2020. This is a tight deadline and therefore it is essential that the implementation programme is closely monitored. Further it is critical that sufficient work is carried out around the design of the new systems to

ensure that the anticipated efficiencies will be delivered and at the same time ensuring that they will produce accurate and reliable information.

Governance

- 3.4 Our audit programme is designed around the Council's Code of Governance which was based on the principles designed by CIPFA/SOLACE. Overall, we can provide **satisfactory assurance** in relation to its governance arrangements and the processes which support them, and from our work and other sources we are not aware of any material governance failures occurring in 2018/19. In particular, via the Assurance Group, it has developed effective mechanisms to obtain assurance on the effectiveness of the governance arrangements, including Director assurance statements, identification of key measures to demonstrate good governance, and reviewing the outcomes of external inspections. The updated national guidance in relation to scrutiny has recently been issued and therefore the Council will need to review its arrangements.

Risk Management

- 3.5 Based on work carried out on our behalf by Lincolnshire County Council's Assurance team, overall, we can provide **substantial assurance** in relation to the Council's risk management arrangements. The key issue identified for further improvement was to further develop the strategic risk register.

4 Quality Assurance Arrangements

4.1 A quality assurance process is in place to ensure that work is carried out to Public Sector Internal Audit Standards (PSIAS) and that the opinions provided for individual assignments are supported by sufficient evidence. On 26 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 in order 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 has identified a small number of actions designed to further enhance the impact of Internal Audit and the implementation of these actions has been carried out throughout 2018/19. This has also included updating the Audit Manual which lays out the team's processes and practices.

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 assignments to assess whether they were compliant with the team's quality standards and processes: no significant weaknesses were identified, with any areas for further improvement built into the update of the manual.
- 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” (2010). (Appendix 6) demonstrates that we comply with each of the principles.
- 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, 100% of respondents indicated that they were satisfied with the way the audits were conducted and 94% felt that the audits added value.
- Monitoring performance against key indicators (Appendix 8). They demonstrate that audit operates efficiently and effectively and has good customer satisfaction although working with officers to ensuring audits are completed in a timely manner as possible remains a key priority.

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 relating to strategic and operational risks as reported to the Audit Committee in January 2019

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 to 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 accountable partner (the police) to revise governance procedures and the audit deferred to all 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 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 2018/19.
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. Some assurance work is planned to take place in early 2019/20, prior to the inspection.
Wellbeing Hubs	The council's approach to Wellbeing Hubs is being reviewed and hence the potential audit has been deferred

Appendix 2: Summary of Audit work supporting the Audit opinion

See separate attachment

Appendix 3: Summary of advisory work provided by Internal Audit in 2018/19

- 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
- Representing the Council at the Public Sector Audit Appointments annual conference
- Reviewed anomalies between the payroll system and the personnel system at the request of Human Resources
- Co-ordinated the production of the Audit Committee Annual Report
- Supporting changes to the governance arrangements in relation to shared services with North East Lincolnshire
- Providing high level support to the Humber's Chief Executives on internal control issues
- Supported the council's self-assessment of its ICT controls against the NHS toolkit

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 2018/19 Audit Plan. Each audit assignment undertaken addressed the control objectives agreed with the relevant, responsible managers.

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

Internal Control

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

Future Periods

Our assessment of the Council's control framework is for the year ended 31st March 2019. This historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

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

Responsibilities of Management and Internal Audit

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

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

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

Conformance with the PSIAS and the Local Government Application Note Standards/Requirements	Evaluation/Comments
Code of Ethics	Requirement met - referred to in the audit charter and communicated to all audit staff
Attribute Standards	
1.Purpose, Authority and Responsibility	Requirement met and defined in the audit charter
2.Independence and Objectivity	Requirements met and defined in the audit charter. Potential conflicts 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.
5. Monitoring Progress	Requirements met, although follow up arrangements have been updated in 2018/19.
6. Communicating the Acceptance of Risks	Requirements met

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

Principle	How Compliance is demonstrated
<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 and the Annual Governance Statement, lead officer on the update of the council’s anti-fraud and corruption framework, the development of the Council’s VFM framework. • Promotes an effective control environment including the development and promotion of the “Manager’s guide to the control environment” and associated training, co-ordinate the development of e-learning, advising senior management on the development of assurance framework, and providing support on cultural issues. • 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. • Provides comment on proposed developments.
<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"> • Audit programme covers all these areas. • Assignments carried out objectively and evidence based, and provides an opinion on the controls in place and the residual risk.

Principle	How Compliance is demonstrated
(HOIA) must be a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit and Governance Committee	<ul style="list-style-type: none"> • Member of the Financial Services Management Team • Monthly 1 to 1 meetings with the Director of Governance and Partnerships • Meets with all members of the leadership team regularly • Member of the NLBC management team. • Member of the Council's Assurance Group chaired by the Chief Executive. • Reports to the Audit Committee in own name, and has regular contact with the chair and Deputy Chair of the Audit Committee.
(HOIA) must lead and direct an Internal Audit service that is resourced to be fit for purpose	Sufficient resource and staff mix in place in 2018/19 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.
(HOIA) must be professionally qualified and suitably experienced	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), 30 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.

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

Principle	How comply?
Demonstrates integrity	The code of ethics, including integrity, is included in the audit charter. Team members are asked annually to confirm that they have read and understood the code of ethics.
Demonstrates competence and due professional care	The code of ethics, including competence, is included in the audit charter. Team members are asked annually to confirm that they have read and understood the code of ethics. The required levels of competence and experience are laid out in each job description, and training needs are considered in regular 1 to 1 meetings. There is a Quality Assurance and Improvement Programme in place to ensure that professional care is maintained.
Is objective and free from undue influence (independent)	The code of ethics, including independence, is included in the audit charter. Team members are asked annually confirm that they have read and understood the code of ethics, and annually declare any interests which could impact on their independence. The HAA has responsibilities for risk, counter fraud and insurance as well as audit. To preserve independence audits in these areas are carried out by other audit organisations.
Aligns with the strategies, objectives, and risks of the organisation	The audit plans are aligned are far as possible to the strategic risks of the organisations. Mechanisms are in place to consider risks to an effective control environment for each part of the audit universe when determining the audit plan.
Is appropriately positioned and adequately resourced	The HAA sits on the finance 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 Board. When compiling the plan the level of resource available is compared to the resource required to provide a reliable and standards compliant opinion. Although for the reasons laid out in the 2018/19 annual report the

	number of planned days were not achieved sufficient work was carried out to provide a reliable audit opinion
Principle	How comply?
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. In 2018/19 the Audit Manual was updated.
Communicates effectively	The team has a report template which meets the requirements of the audit standards. Reports are subject to regular review and update, and any common issues are included in the quality improvement plan. Team members are provided with guidance on effective reporting.
Provides risk-based assurance	The overall plan and individual assignments are prioritised depending on risk. When considering the work programme for individual assignments team members consider the importance of each of the five key areas of an effective control environment.
Is insightful, proactive, and future-focused	<p>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 Humber Fraud Forum) and considered for audit programmes where appropriate.</p> <p>Team meetings ensure that service, development and cultural issues and changes are discussed, and training is delivered where required.</p>

Principle	How comply?
Promotes organisational improvement	<p>The audit team promotes organisational improvement in the a number of ways including:</p> <ul style="list-style-type: none"><li data-bbox="613 333 1299 407">- Aligning the audit programme to the strategic objectives of the council<li data-bbox="613 422 1364 457">- Shares emerging good practice with management<li data-bbox="613 472 1328 579">- Ensuring assignments are based on key risks, and reports have meaningful actions which add value<li data-bbox="613 594 1369 667">- Provide advisory work to support the development of an effective control environment<li data-bbox="613 682 1369 789">- Carry out follow up work to provide assurance that actions are being implemented and improvements made

Appendix 8: Key Performance Indicators 2018/19

	Annual target	Outturn	Variance	Comments
What did we do?				
Actual outturn forecast v budgeted outturn (shared service combined)	£562K	£506K	-£56K	Underspend due staff vacancies in the first half of 2018/19
Audit days delivered as at 31/5/19	1110	919	-191	Outturn below target for the reasons explained in the body of the report but sufficient work carried out to form a reliable audit opinion
Audit days delivered as at 31/3/19	925	750	-175	Behind target due to staff vacancies earlier in the year, and some sickness in Q4
Number of audits completed by 31 May 2019	69	62	-7	Reasons for the variance explained in para 2.4
% of audits issued in final within 20 working days of the issue of the draft	90%	67%	-23%	This continues to be an issue due to a number of factors. Escalation processes are being strengthened for 2019/20

	Annual target	Outturn	Variance	Comments
How well did we do it?				
Did we carry out the audit well? (customer satisfaction questionnaires)	90%	100%	+10%	Very good customer feedback based on the questionnaires received
Cost per chargeable day within 10% of unitary average (shared service wide)	£297	£281	-£16	Cost per chargeable day remains below the unitary average
Chargeable time days per employee excluding HOIA compared to CIPFA average	177	181	+4	Exceeds CIPFA average demonstrating that the team operates efficiently
% of audits issued in draft by the agreed date	90%	55%	-35%	Although an improvement on 2017/18 outturn of 44% there are still issues relating to the timeliness of some reports
Did we add value?				
Did we add value? (customer satisfaction questionnaires)	90%	94%	+4%	Very good feedback based on the questionnaire received
% recommendations fully or partially implemented	90%	53%	-37%	This was based on those audits followed up by Audit during the year, and therefore is a relatively small sample compared to all outstanding actions. In 2018/19 Audit instigated a revised system for reminding relevant managers of their actions, and reporting mechanisms in relation to the outcome of this are being developed for 2019/20

Audit work contributing to the 1819 audit opinion

Audit Assignment	Service Area	Assurance	Residual Risk	Comments
Strategic Risks and operational risks				
Adult Social Care Top Ups	Adults & Community Wellbeing	Satisfactory	Low	
ASCF 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 transformation and redesign. Instead provided an update of risks identified from previous reports. Most of these actions will be considered through the review currently taking place.
Capital programme	Governance and Partnerships			In March 2019, the council approved the capital investment strategy, which provides the governance framework for all capital investment decisions. The framework has been designed to ensure that the capital programme is not only completed to time, quality and to budget, but is also linked to the council's strategic outcomes. It was agreed that it would be more appropriate to review the design and compliance with the revised process during 2019/20.
Cemeteries and crematoria	Operations	Satisfactory	Low	
Community Funding Grants	Adults & Community Wellbeing	Substantial	Low	
Community Safety	Children's and Community resilience			Full audit was not completed due to recent review undertaken by lead partner (Humberside Police)
Critical assets- property	Operations	Satisfactory	Medium	
Counter fraud arrangements	Governance and Partnerships	Satisfactory	Medium	
Data quality Child Care	Children's and Community resilience			The audit was not completed due to positive results at a recent Ofsted inspection on which we could place reliance
Deprivation of liberty	Adults & Community Wellbeing	Satisfactory	Medium	
Early Years	Learning, Skills and Culture	Substantial	Low	
Elections	Governance and Partnerships	Substantial	Low	
Enforcement	Operations	Substantial	Low	
External Funding	Business Development			The strategic approach to external funding was in development and therefore it was agreed that this work would be deferred until once the new governance arrangements are in place. Some of the audit time was spent providing advice and assurance on arrangements for the Community Led Local Development Programme
Financial sustainability	Governance and Partnerships	Satisfactory	Medium	
Freedom of information	Governance and Partnerships	Satisfactory	Medium	
Grant claims	Governance and Partnerships	Satisfactory	Low	
Highway and Local Transport Plan	Operations	Satisfactory	Medium	

Audit Assignment	Service Area	Assurance	Residual Risk	Comments
Homelessness	Operations	Satisfactory	Low	
Leader programme	Business Development	Satisfactory	Low	
Lone working - Integrated Commissioning and Prevention				Advisory piece of work to provide independent assurance that local procedures in place and were in line with corporate policy and sufficient to safeguard staff.
Mental Health	Adults & Community Wellbeing	Satisfactory	Medium	
Partnership Governance - Education	Learning, Skills and Culture	Satisfactory	Low	
Performance Management	Governance and Partnerships			During 2018/19 the Council revised the design of its performance management arrangements so that they aligned with the revised Council Plan. Although it was agreed that it was too early to provide assurance on the operation of the new arrangements, audit reviewed their design and found that they were comprehensive and should be able to provide Members and senior management with the assurance they require to monitor the delivery of strategic outcomes
Planning and Building Control	Operations	Substantial	Low	
Risk Management arrangements	Governance and Partnerships	Substantial	Low	
Role Of DCS	Children's and Community resilience	Substantial	Low	
Special Schools Funding	Learning, Skills and Culture			Introduction of national funding formulae for schools, high needs and central school services brings changes, which means that it is no longer beneficial to complete the audit as originally defined. Audit to be redefined following the introduction of new high needs guidance.
Street Lighting	Operations	Satisfactory	Low	
Transformation Programme				2018/19 has seen significant progress in the implementation of the Council's transformation programme. No issues requiring reporting in HOIA report
Transparency	Governance and Partnerships	Substantial	Low	
Troubled Families	Children's and Community resilience			Advisory work to support team with accessing data/formatting to ensure maximum claims are submitted during the time frames.
Young Carers	Learning, Skills and Culture	Substantial	Low	
Financial systems				
Debtors	Governance and Partnerships	Satisfactory	Medium	
Creditors	Governance and Partnerships	Substantial	Low	
eFinancials	Governance and Partnerships	Substantial	Low	
Payroll	Governance and Partnerships	Satisfactory	Low	
Treasury Management	Governance and Partnerships	Substantial	Low	
Local Taxation, Housing Benefits and Council tax Support Scheme	Governance and Partnerships	Substantial	Low	
ICT				
GDPR	Governance and Partnerships	Satisfactory	Low	

Audit Assignment	Service Area	Assurance	Residual Risk	Comments
Social media	Business Development	Satisfactory	Medium	
Human Resources				
IFR35	Business Development	Satisfactory	Low	
Apprenticeships	Business Development	Satisfactory	Medium	
Sickness Absence	Business Development	Satisfactory	Medium	
Procurement				
Procurement- counter fraud processes	Governance and partnerships	Substantial	Medium	
Sexual Health	Public Health	Substantial	Medium	
Home Care Commissioning		Substantial	low	
Follow up				
Community Meals follow up	Business Development	Limited	Low	
Kaleidoscope follow up	Operations	Satisfactory	Medium	
Fleet Management follow up	Operations	Satisfactory	Medium	
Schools				
Burton upon Stather Primary	Learning, Skills and Culture	Satisfactory	Low	
Alkborough Primary	Learning, Skills and Culture	Satisfactory	Low	
Barton St Peters	Learning, Skills and Culture	Satisfactory	Low	
Bowmandale Primary	Learning, Skills and Culture	Satisfactory	Low	
Eastoft Primary	Learning, Skills and Culture	Satisfactory	Low	
Goxhill and East Halton Primary Schools' Federation	Learning, Skills and Culture	Satisfactory	Medium	
Gunness & Burringham C of E Primary	Learning, Skills and Culture	Satisfactory	Low	
Haxey C of E Primary	Learning, Skills and Culture	Satisfactory	Low	
Holme Valley Primary	Learning, Skills and Culture	Satisfactory	Low	
Leys Farm Infant	Learning, Skills and Culture	Satisfactory	Low	
Priory Lane Community School	Learning, Skills and Culture	Satisfactory	Low	
St Peter's & St Paul's Primary	Learning, Skills and Culture	Satisfactory	Low	
The Bridge Federation (Winteringham & South Ferriby Primaries)	Learning, Skills and Culture	Satisfactory	Low	
Westcliffe Primary	Learning, Skills and Culture	Satisfactory	Medium	
Winterton C of E Infant	Learning, Skills and Culture	Satisfactory	Low	
Probity audits				
Imprest Account- civic centre	Governance and Partnerships	Satisfactory	Low	
Imprest - Hewson House	Operations	Satisfactory	Low	
Water's Edge Visitor Centre	Business Development	Satisfactory	Low	
Imprest - Library Book Fund	Learning, Skills and Culture	Satisfactory	Low	
Leisure Service - Income	Learning, Skills and Culture	Satisfactory	Medium	