

**North
Lincolnshire
Council**

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Head of Internal Audit Annual Report and Opinion 2020/21

North Lincolnshire Council

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1 Introduction

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

“an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”
- 1.3 As set out in the standards there is a requirement under PSIAS 2450 that the Chief Audit Executive must provide an annual report which must:
 - consider the strategies, objectives and risks of the organisation and the expectations of senior management, the Audit and Governance Committee and other stakeholders.
 - be supported by sufficient, reliable, relevant and useful information.
 - include an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
 - include an opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control; and
 - include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.
- 1.4 This report provides a summary for each of these areas. At North 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 2020/21 Audit Plan, which was formally approved by the Audit Committee on 20 May 2020. The plan described how it was compiled, considering the Council's strategies, objectives and risks. The scope of Internal Audit activity is clearly set out in the Audit Charter which is reviewed annually.
- 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's contribution to the Council's approach to counter fraud, including specific audits testing anti-fraud controls.
- 2.3 During 2020/21 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.
- 2.4 As communicated to the Committee when the plan was approved, due to the impact of the pandemic there was likely to be a greater degree of ongoing amendment and re-prioritisation to the plan than in previous years. On 21 January 2021, the Audit Committee received an interim report which informed Members as to how Internal Audit had responded to the pandemic and was informed of the amendments to the plan, and how it had been amended to reflect the following:

- the audit team provided considerable advisory support during the pandemic including Covid-19 related grants (particularly business grants), support for implementation of changes to adult social care payments, advice on stock control for PPE and the deliveries of support to clinically extremely vulnerable people, and advice on applying changes to national procurement guidance resulting from the pandemic (as reflected in the significant increase in advisory time);
- in those areas facing significant challenges leading the Council's response to the pandemic it was agreed to defer some of the less urgent audit work to 2021/22.
- additional work was built into the audit plan to provide assurance on the Council's response to COVID-19 and its recovery programme: this covered three strands: as part of carrying out audit assignments assessing how services have managed the response to the pandemic, providing assurance on the use of additional resources received by the Council, and providing assurance on the governance of the recovery plan; and
- due to the challenges faced by schools during the pandemic, and the delays in starting the schools audit programme, the number of schools' audits to be carried out in 2020/21 was reduced.

The summary of changes to the audit plan reported to the Audit Committee in January 2021 are re-shown in Appendix 1 of this report.

2.5 The position on 30 June 2021 is shown on the table below.

Days charged against the audit plan as of 30 June 2021.

	Planned days	Revised days	Actual days
Strategic and operational risk/ governance	457	368	308
Financial systems	140	140	130
ICT	55	55	39
Procurement and Contract Management	35	35	23
Grant Certification	25	37	39
Schools	100	80	77
Follow up	40	40	42
Fraud, probity, and investigation	75	116	124
Advisory	50	160	196
Management time	75	75	78
Contingency	93	38	
Total	1145	1145	1056

- 2.6 Overall, as at 30 June 2021 audit delivered a total of 1056 days compared to the plan of 1145, a difference of 89 days. The reason for the differences were as follows:
- some ICT work was deferred to 2021/22 to allow the ICT staff to focus on the challenges brought by the pandemic.
 - some of the audits related to strategic and operational risks took quicker to complete than anticipated and the completion of a small number was postponed for the reasons laid out in Appendix 2;
 - the planned recruitment of two new staff in early 2021 took slightly longer than anticipated meaning that some lower risk audits needed to be reprioritised.

- 2.7 A summary of the audit work to support the opinion is shown on Appendix 2. For most audits we provide two opinions as shown below; one relates to the overall control effectiveness, whilst the other relates to the residual risk exposure. Against a planned target of 75 as of 30 June 2021, 67 audits had been completed. We derive our overall opinion on the control framework by considering the outcome of individual audits. Typically, those areas where the assurance on the control environment is “limited”, and the residual risk is at least “medium” will be considered for specific reference in the overall opinion on the Council’s overall control environment, with particular focus on those areas which are critical to the Council’s financial management and governance arrangements, including the potential impact of any weaknesses identified.

Overall Control Effectiveness

Substantial	Strong controls support achievement of the business objectives.
Satisfactory	Controls support business objectives, but some improvements should be made.
Limited	Controls provide some support for business objectives, but improvements are essential.
None	Controls do not support the achievement of business objectives.

Residual Risk Exposure

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

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

- As shown on Appendix 2, there were some audits where we found that new process or systems were in development and, therefore, we were not able to provide an opinion in 2020/21, but instead have provided a short commentary on the current position. Where appropriate we have taken this work into account when assessing the Council's control environment.
- As listed at Appendix 4, Internal Audit has carried out advisory work for the Council and where appropriate we have considered any issues arising from this work.
- 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 shown in the Annual Fraud Report 2020/21 which was reported to the Audit Committee on 8 April 2021. Although there no issues of significant concern raised in the report, it did identify potential opportunities to further promote the Whistleblowing Policy.

2.9 Covid-19 has inevitably had an impact on the operation of the Council's control environment. Rather than carrying out a separate audit on the response to COVID-19 as described in paragraph 2.4 we have incorporated it into our existing work programme and reviewed key documents and reports about the Council's response as they arose.

Despite the challenges it has brought we have not identified, or aware of, any major control failures directly resulting from it. Our main observations are as follows:

- some planned developments to the control environment had to be deferred as the Council's resources were prioritised to dealing with the response;
- as shown on the summary of our work on Appendix 2 COVID-19 did not significantly impact the control environment on those areas subject to audit, although in some areas it has increased the level of risk;
- the Council quickly set up a log of changes in legislation and guidance and ensured that key staff were aware of it and acted upon it;
- the decision-making process was adapted to allow decisions to be made promptly and transparently during the early stages of the pandemic when meetings could not be held, and subsequently actions were put in place to ensure meetings could be held remotely;
- the Council has put in processes to manage the substantial grant funding it has received in relation to COVID-19, including systems for recording the grants received and payments made. Through our work and support we have identified an effective control environment for things such as business grants and infection control funding. During 2021/22 internal audit will be asked from grant paying departments to provide assurance on a number of grant schemes and we will provide further updates when that work is complete: and
- recovery plans have been put in place and throughout the year Directors have been keeping cabinet informed about the impact of Covid-19 in their area- in December 2020, a half yearly review was taken to Cabinet and a full year review is scheduled for July 2021. The impact of the pandemic is likely to be long lasting and so it is important that the Council continues to monitor its recovery plans throughout 2021/22.

3 Chief Audit Executive Annual Opinion 2020/21

- 3.1 The overall opinion for each of the three areas of the control environment is shown below. This opinion is subject to the limitation of scope and statement of responsibilities laid out in Appendix 4. It is based on work reported by Internal Audit up to 30 June 2021.

Control Framework

- 3.2 Overall, we can provide **satisfactory assurance** on the effectiveness of the Council's control framework in relation to 2020/21 as highlighted on the list of audits shown on Appendix 2. Although COVID-19 has inevitably had some impact on the scope of our work and some planned developments in the control environment, sufficient work has been carried out to provide a reliable opinion, and no major control failures have been identified.
- 3.3 We were able to provide substantial assurance in relation to the audits of those systems which support the annual financial statements. Despite the impact of COVID-19 the Council's key financial systems continued to produce materially reliable financial information. However, it is recognised by the Council that efficiencies will be generated by the adoption of updated financial and human resources systems. The target implementation date of April 2021 for Payroll/ Human Resources was largely met, but the target date of September 2021 for Finance has been pushed back to April 2022. It is important that sufficient focus is provided by management to ensure that this target is met, and that sufficient work is carried out around the design of the new system 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 2020/21. The Assurance Group, has further developed 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 Council also quickly put in place adaptations to its governance framework in response to the pandemic. The council, however, still needs to carry out an assessment of its scrutiny arrangements against the guidance issued by the MHCLG in May 2019.

Although there is nothing to suggest that the council does not comply with the minimum requirements of this guidance there may, however, be opportunities to enhance the effectiveness of its scrutiny arrangements.

Risk Management

- 3.5 As reported in 2018/19 an audit carried out on our behalf by Lincolnshire County Council's Assurance team provided **substantial** assurance in relation to the Council's risk management arrangements. The key issue identified for further improvement was to further develop the strategic risk register. The strategic risk register is now reviewed by the Audit Committee at least annually, and reports by the Strategic Lead (Risk and Governance) has reported that in most respects the operational risk register is being kept up to date. However, an audit of risk reporting within Cabinet reports identified that there was scope to lay out the risk and opportunities more clearly in relation to the reports in support of proposed key decisions.

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 Other sources of evidence for the QAIP included:

- the annual self-assessment against the standards (Appendix 5).
- Self-assessment against the five principles contained in the updated CIPFA document “The Role of the Head of Internal Audit” (2019). (Appendix 6) demonstrates that we comply with each of the principles.
- Self-assessment against the internal audit principles introduced in January 2017 (Appendix 7). This review demonstrates that the audit team complies with each of the principles, although some potential areas for further development have been identified.
- 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.
- a review carried out by the Head of Audit and Assurance of a sample of assignments including reports; the review found that overall, the work compliant with the team’s quality standards and processes, but there were some opportunities to make improvements, and these will be reflected in an updated action plan and further guidance within the audit manual;
- The post-audit customer satisfaction questionnaires found that of those questionnaires returned, 96% of respondents indicated that they were satisfied with the way the audits were conducted and 92% 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. It is pleasing to see an improvement in the implementation of agreed actions compared to previous years. However, there is still work to do in conjunction with management in ensuring audits are completed in a timely manner.

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 2021

Area	Original Planned Days	Revised Planned Days	Reason for change in budget
Strategic and operational risk/governance	457	368	See below for explanations for major changes to the plan
Schools	100	80	Schools' audits impacted by schools' closures and subsequent restrictions on visiting schools. Some of the time used for two council wide audits.
Grant Certification	25	37	Additional time required due to covid-19 related grants
Advisory	50	160	Additional time required for advisory support in relation to the Council's response to Covid-19, particularly considerable time business grants
Probity and Counter Fraud	75	116	Additional time identified to take account of the biennial NFI and additional investigations

New audits or scope expanded.

Audit	Comments
Council Run Nurseries	Review of compliance with relevant guidance in respect of opening council run nursery settings following the COVID-19 pandemic.
COVID-19 Recovery Plan	Review of governance arrangements for the delivery of the COVID-19 recovery plan
Imprest accounts- Financial compliance	Larger sample taken than initially planned due to some issues identified with compliance
HR Recruitment Portal	Brought forward from the 2019/20 audit plan
Residential Care	Scope amended to focus on the application of infection control funding

Audits postponed or scope reduced.

Audit	Comments
Care Leavers	Scope reduced to focus on the arrangements for bringing the previous outsourced arrangements back in house
Community grants	Audit postponed
Kingfisher Lodge - care standards S22	Audit postponed
Children 5-19 public health programme	Audit postponed
Community/ Customer engagement	Reduced resource required as only overview carried out to allow updated arrangements time needed to be embedded
Endemics and Pandemics	Planned work absorbed into the recovery plan audit
Governance arrangements - Partnerships	Reduced resource required as only overview carried out to allow updated arrangements time needed to be embedded. Full audit planned for 2021/22.

Growing the economy	Audit postponed until 2021/22 as the economic plan will be re-considered to take account of the impacts of Covid-19. Economic development team currently focused on business grants and the recovery plan which are covered elsewhere in the audit plan.
Role of the Local Authority Designated Officer	Less time required than originally forecast to complete the audit
Role of the Monitoring Officer	Less time required than originally forecast to complete the audit
Role of the Principal Social Worker	Audit postponed until early 2021/22
Shared services (Joint with NELC)	Audit no longer a priority given the change to the scope of shared services and the governance arrangements during 2020/21