

## **Appendix 3: Summary of advisory work provided by Internal Audit in 2020/21**

- Certification of grant claims relating to COVID, troubled families, highways and transportation, and bus subsidies.
- Provided considerable support to the Council's response to COVID, including:
  - advice and support for the design of systems for the distribution of COVID related grants, particularly business grants;
  - advice and support on stock control for PPE and supplies to support clinically extremely vulnerable people;
  - advice and support relating to temporary changes for social care payments;
  - advice on the application of procurement rules during the pandemic; and
  - advice to Human Resources on the design of the self-isolation process.
- Continuing to provide advice to the Adult Social Care Financing Transformation Board
- Co-ordinating the production of the Audit Committee Annual Report 2019/20 and 2020/21 including a facilitating the Committee's annual self-assessment
- Providing a briefing paper to Members and senior management on the implications on the Redmond Report
- Providing support and advice on the investigation of potential data breaches
- Attending meetings of the Local Growth Monitoring team
- Facilitating a procurement fraud risk workshop with the procurement team
- 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
- As part of audit's probity and fraud work, co-ordinating the submission of data for the 2020/22 National Fraud Initiative
- As part of audit's probity and fraud work supporting investigations into allegations of fraud or financial misconduct
- Advice on disabled facility grants retention schedules.
- Advice to schools relating to internal control queries
- Advice on waste management income collection systems

## **Appendix 4: Limitations of Scope and Responsibilities**

Internal Audit has prepared the Annual Report and undertaken a programme of work agreed by the Council's senior management and approved by the Audit and Governance Committee subject to the limitations outlined below:

### **Opinion**

The Opinion is based, primarily on work undertaken as part of the agreed 2019/20 Audit Plan. Each audit assignment undertaken addressed the control objectives agreed with the relevant, responsible managers.

There may be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work or were not brought to our attention. 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 based on completed audit work up to 30<sup>th</sup> June 2021. In a small number of cases the finalisation of audits has been delayed the outcome of this work will be considered for the 2021/22 audit opinion.

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

<b>Conformance with the PSIAS and the Local Government Application Note Standards/Requirements</b>	<b>Evaluation/Comments</b>
<b>Code of Ethics</b>	Requirement met - referred to in the audit charter and communicated to all audit staff. Team members were asked to confirm they have read and understood annually- last request February 2020
<b>Attribute Standards</b>	
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. Will develop a competency framework and a team training plan in 2021/22.
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.
<b>Performance Standards</b>	
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 - all assignments are subject to review, and the audit manual is regularly updated
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. Follow up arrangements were further updated in 19/20 and regular reminders sent out to managers. Exploring ways of improving the reporting of this work
6. Communicating the Acceptance of Risks	Requirements met

## Appendix 6: Comparison of Audit Approach against the 5 key principles contained in “The Role of the Head of Internal Audit” (2019)

Principle	How Compliance is demonstrated
<p>championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments;</p>	<ul style="list-style-type: none"> <li>• 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,</li> <li>• Promotes the role of internal audit via the “Audit offer” and accompanying “frequently asked questions”</li> <li>• Promotes good governance and internal control through the role on the assurance group, although scope to extend this throughout the organisation</li> <li>• The audit plan is based upon the Council’s strategic risk register, the Council’s governance arrangements and the systems of internal control.</li> <li>• HOIA reports on the adequacy of such arrangements both individually and in aggregate via the annual Head of Internal Audit Report.</li> <li>• Provides commentary on emerging risks both to the Audit Committee and the Assurance Group.</li> <li>• Whilst ensuring it remains management’s responsibility, facilitates the embedding of effective risk management throughout the Council.</li> <li>• Provides comment on proposed developments, with increased involvement at an earlier stage</li> </ul>
<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"> <li>• The Audit Charter, laying out the role and responsibilities of internal audit, is updated and approved annual by the Audit Committee</li> <li>• Process in place for providing independent assurance for those areas where HAA has managerial responsibilities</li> <li>• Audit plan aligned to the Council’s strategic aims</li> <li>• Producing an evidence based annual internal audit opinion on the organisation’s control environment.</li> <li>• Risk based approach to developing the audit plan, and for carting out audit assignments</li> <li>• Seeks assurance on the Council’s key partnerships</li> <li>• Where applicable, seeks to rely on assurance provided by external audit and inspectorates</li> </ul>

<b>Principle</b>	<b>How Compliance is demonstrated</b>
<p>The HIA in a public service organisation must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee</p>	<ul style="list-style-type: none"> <li>• Member of the Director of Governance and Partnerships Management Team</li> <li>• Monthly 1 to 1 meeting with the Director of Governance and Partnerships</li> <li>• Consults with the Strategic Leadership Team on the content of the audit plan</li> <li>• Meets with members of the leadership team,</li> <li>• Member of the Council's Assurance Group chaired by the Deputy Chief Executive</li> <li>• Reports to the Audit Committee in own name</li> <li>• Supports the Audit Committee in assessing its own effectiveness</li> <li>• As laid out in the Audit Charter unfettered access to documentation and staff</li> </ul>
<p>The HIA in a public service organisation must lead and direct an internal audit service that is resourced to be fit for purpose.</p>	<ul style="list-style-type: none"> <li>• Sufficient resource and staff mix in place in 2020/21 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.</li> <li>• Quality assurance and improvement programme in place, including key performance indicators which are reported upon annually</li> <li>• Staff development programme in place. In the process of enhancing this to continue to ensure that they have adequate skills to meet the changing requirements and expectations of audit</li> <li>• Keeps up to date with developments in governance, risk management, control and internal auditing through professional memberships and membership of CIPFA's Better Governance Forum, including networking with other HIAs (including membership of CIPFA's national Audit Special Interest Group). Learns from them and implements improvements where appropriate</li> </ul>
<p>The HIA in a public service organisation must be professionally qualified and suitably experienced</p>	<p>CIPFA Member since 1993 and ICAS Member since 2017. Chartered Member of the Institute of Internal Audit (CMIIA) and Qualification in Audit Leadership (QIAL). Also, up to date "Continuing Professional Development" (CPD), 32 years of internal and external audit experience, 19 years of which at senior level, and has carried out the Head of Internal Audit role at NELC since April 2008.</p>



# Appendix 7: Comparison of Audit Approach against the 10 principles as laid down in the audit standards)

Principle	How we comply?
Demonstrates integrity.	<p>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, and at least one session a year is held with team members to discuss ethics. Last update April 2021</p>
Demonstrates competence and due professional care.	<ul style="list-style-type: none"> <li>• The required levels of competence and experience are laid out in each job description, and training needs are considered in regular 1 to 1 meeting.</li> <li>• Audit good practice prepared by IIA, and others is discussed at team meetings.</li> <li>• There is a Quality Assurance and Improvement Programme in place to ensure that professional care is maintained.</li> <li>• Sufficient background research as part of engagement planning to have informed discussions with the audit client.</li> <li>• Each assignment is subject to supervision and review.</li> <li>• The performance of each assignment is assessed through supervision sheets.</li> <li>• Auditors engage with and validate fieldwork and findings through ongoing communication with management in the areas under review.</li> </ul>
Is objective and free from undue influence (independent)	<p><b>Potential area for development</b></p> <p>The development of a competency framework for team members, and to fully develop a team training plan.</p> <ul style="list-style-type: none"> <li>• The code of ethics, including independence, is included in the audit charter. Team members are asked annually to confirm that they have read and understood the code of ethics, and annually declare any interests which could impact on their independence.</li> <li>• The HOIA 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.</li> </ul>

- The audit manual provides guidance on reporting to ensure that audit communications are clear, factual, reliable, and relevant.
- Functional reporting to the audit committee is defined in the internal audit charter.
- The HOIA has direct access to the audit committee as defined in the internal audit charter.
- Scope of internal audit work is defined in the internal audit charter.
- The HOIA can meet with the Audit Committee) without management present.

Aligns with the strategies, objectives, and risks of the organisation.

- A strategic council wide approach, as opposed to a service based one, is used to prioritise work and compile the audit plan.
- The Council Plan, the Council's strategic outcomes, the strategic risk register and the operational risk registers are key components compiling the audit plan. The key components of an effective control environment, and the risks to it, are also considered.
- The audit strategy is updated based on changes to the internal or external environment.
- The audit plan is updated based on changes in the organisation's strategies and/or objectives.
- Internal audit plan links engagements to a strategic objective and or risks
- Post audit questionnaires indicates that the internal audit activity is operating in alignment with stakeholders' view of priorities.
- The HOIA is invited to and attends strategy discussion meetings e.g., Assurance Board/ Group, extended leadership team, etc.
- The HOIA is a senior enough level in the organisation to give them the appropriate standing, access, and authority in the organisation.
- High percentage of internal audit plan covering strategic projects and/or initiatives.
- Performance management and project management are regularly subject to audit

Is appropriately positioned and adequately resourced.

- The HOIA sits on the CFO's management teams at both Councils.
- The HOIA has unfettered accesses to the CFO, Chief Executive, and audit committee at both Councils. Also sits on both Council's Assurance Board/ Group.

- When compiling the plan, the level of resource available is compared to the resource required to provide a reliable and standards compliant opinion. Although COVID-19 has required the need to re-prioritise audit work, sufficient work was carried out to provide a reliable audit opinion.
- A documented and customised internal audit charter, aligned with the IPPF, is in place.
- Functional reporting to the audit committee and senior management is defined in the charter.
- Internal audit activity's mandate is broad and aligned to organisational needs.
- A sufficient operating budget is available to internal audit.
- Periodic discussions occur with the audit committee on QAIP, resource availability (capability and capacity), and any limitations.
- Access to the Council's Human resources, technology, and tools are provided to internal audit enabling it to execute its engagements effectively and efficiently.
- The HOIA is of a senior enough position within the organisation and is involved in numerous senior management groups e.g., extended leadership team, assurance board/ group etc.
- Evidence that the HOIA has challenged management when needed.
- The results of audit are given due consideration e.g., audit committee, compilation of the AGS, assurance board/ group meetings, senior management groups.

### **Potential area for the development**

Since the demise of CIPFA benchmarking need to develop periodic benchmarking of resources is compared to similar size/profile organisations.

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.
- An Audit Manual is in place defining methodology is in place and subject to regular update as issues arise.
- Through membership of accounting and auditing bodies keep up to date with developments in audit practice
- Mechanisms are in place to solicit feedback from audit clients and key stakeholders via questionnaires.
- Operational KPIs are defined and monitored, including KPIs to promote internal audit activity improvements and innovations.
- The audit committee is provided with a twice-yearly update on the QAIP.
- Co-sourced internal audit activities (e.g., ICT audit) are required to conform with the IIA's Standards and Code of Ethics, and to have demonstrated that they have had a successful external inspection within previous five years

Communicates effectively.

- The team has a report template which meets the requirements of the audit standards. Reports are subject to regular review and update, and any common issues are included in the quality improvement plan. Team members are provided with guidance on effective reporting, and this updated regularly following on from internal quality reviews and feedback from clients.
- Periodic reporting and some engagement reports are customised for key stakeholders (senior management, audit committee. Assurance Board/ Group) as needed.
- Reports are factually accurate, highlight risk, address root causes, and encourage action from management responsible for the area or process under review.
- Reports are succinct, aligned with key risks, and use graphics or visuals where appropriate.

- Engagement reports and other periodic reporting provide a holistic view of assurance, and positive performance is acknowledged.
- Internal audit activity raises awareness of its role and promotes its value contribution via the FAQs and “Audit Offer”.
- A structure exists to encourage active, two-way communication with stakeholders (receiving and delivering information via client meetings, meetings with senior management teams, assurance board/group
- Internal audit has implemented controls to secure the confidentiality of the data it receives, accesses, and issues e.g., section in manual on GPPR compliance, taking part in council wide mandatory training on data protection, and the team regularly reminded of data protection and confidentiality issues.
- Internal audit reports clearly link to the engagement scope and objectives.
- Feedback from audit client and key stakeholders indicate that internal audit reports are fit for purpose and add value.
- No cases of major errors or omissions are identified after final reports are issued.
- Monitoring is undertaken through the review process and KPIs to ensure that reports are issued within defined timescales.
- No cases of unauthorised or erroneous disclosure of confidential data by internal auditors.

Provides risk-based assurance.

- The strategic and operational risk registers are a key source of evidence for determining the content of the audit plan.
- Both local and national emerging risks are an important part of the audit planning process. Identified through the review of agenda papers, papers and guidance prepared by CIPFA, CIIA and others, and planning discussions with senior managers.
- Internal plan is regularly reviewed throughout the year, and where appropriate amended, to take account of emerging risks.
- Individual engagement objectives target the effectiveness of controls over the most important risks. When considering the work programme for individual assignments team members consider the inherent impact of each of the five key areas of an effective control environment on the area, the local and national risk related to it, and the completeness of the risk register.
- The audit opinion in each audit assignment includes an assessment of the residual risk based on the effectiveness of the controls tested.
- Audit and risk management are both part of the Audit and Assurance team. Although kept operationally separate it fosters very close links between the two functions,

### **Potential area for development**

Scope to be more explicit in reports about the quality of risk management within individual services

Is insightful, proactive, and future-focused.

- Auditors are encouraged to ensure that 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, CIIA) and considered for audit programmes where appropriate.
- Team meetings ensure that service, development and cultural issues, and organisational changes are identified and discussed, and training is delivered where required.
- Increasing use of data analytics to identify risks and provide assurance.
- Makes the organisation aware of emerging governance and control issues through various forums assurance board/ group, Assistant Directors/ Head of Service meetings, management meetings etc.
- The delivery of audit assignments is timed for when they have the greatest potential added value.
- Internal audit reports include commentary on the potential impact of identified gaps in control.
- Where appropriate provide briefing papers to support areas under development and assesses preparedness.
- Post-assignment questionnaires ask whether the audit has added value- consistently positive results.

### **Potential area for development**

Increase the Audit Team's knowledge of data analytics, including the identification and training of more specialists in this field

Promotes organisational improvement.

The audit team promotes organisational improvement in several ways including:

- Aligning the audit programme to the strategic objectives of the council
- Shares emerging good practice with management.
- Ensuring assignments are based on key risks, and reports have meaningful actions which add value.
- Provide advisory work to support the development of an effective control environment.
- Carry out follow up work to provide assurance that actions are being implemented and improvements made.
- Increasingly consulted about business initiatives and process and system transformations during initial assessments and pre-implementations (though scope for it to be more universal)
- Adopted three lines of assurance model and works closely with other sources of assurance e.g., through membership of the assurance board/ group, corporate governance group, role of in management teams etc.

#### **Potential area for development**

Continue to identify opportunities and promote the role of audit in supporting new initiatives at the initial assessment and pre-implementation stage.

## Appendix 8: Key Performance Indicators 2020/21

	Annual target	Outturn	Variance	Comments
<b>What did we do?</b>				
Actual outturn forecast v budgeted outturn (shared service combined)	£588K	£532K	-£56K	Staff vacancies, 3rd party ICT audit requirement below budget, underspend on travel due to the pandemic, and some additional income above budget
Audit days delivered as at 31/5/21	1145	1037	-112	Staff vacancies, 3rd party ICT audit less than anticipated, some audits deferred to 2021/22 after discussion with client.
Number of audits completed by 30 June 2020	75	67	-8	Audits not completed are shown by 30 June are shown on Appendix 2.
% of audits issued in final within 20 working days of the issue of the draft	90%	57%	-33%	An improvement compared to 2019/20 but still scope to work with managers to ensure audit reports are agreed promptly

	Annual target	Outturn	Variance	Comments
<b>How well did we do it?</b>				
Did we carry out the audit well? (customer satisfaction questionnaires)	96%	100%	+6%	Shows very good customer satisfaction
Chargeable time days per employee excluding HOIA compared to CIPFA average	177	171	-6	Impacted by some staff doing other duties at the beginning of the pandemic in April 2020.
% of audits issued in draft by the agreed date	90%	42%	-48%	Variance caused by a number of factors such as audits taking longer than expected in terms of lapsed time and audit team needing to be more proactive in resetting due dates where applicable

	Annual target	Outturn	Variance	Comments
<b>Did we add value?</b>				
Did we add value? (customer satisfaction questionnaires)	90%	92%	+2%	Demonstrates very good customer satisfaction and how audit adds value
% agreed actions implemented by the agreed date	70%	73%	+3%	Represents an improvement in recent years.