

North Lincolnshire Council

Internal Audit Plan 2022/23

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1. INTRODUCTION

- 1.1 As recognised in the Accounts and Audit Regulations 2015 Internal Audit is a key part of the Council's control environment. Its primary objective is to provide an independent and objective opinion and advice on the Council's control environment, which comprise the systems of risk management, internal control, and governance.
- 1.2 The Audit Charter sets out the purpose, authority, and responsibility of Internal Audit in accordance with the Public Sector Internal Audit Standards (PSIAS). It was updated in March 2022 and should be read in conjunction with this Plan. It defines the mission of internal audit *"To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight"*.
- 1.3 As laid out in paragraph 6.1 of the Charter the Head of Audit and Assurance is responsible for *"developing an annual audit plan based on an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes, and adjust the plan in response to the organisations business, risk, operations, programmes, systems and controls "*. As referred to regularly in the Audit Plan below, the Council's strategic aims and objectives play a critical part in determining its key priorities.
- 1.4 The audit plan lays out Internal Audit's priorities and work programme for 2022/23. It has been compiled to ensure that
 - it meets the requirements of the Public Sector Internal Audit Standards (summarised in Appendix 1);
 - provides sufficient evidence to support a reliable year-end Audit opinion on the Council's control; and
 - adds value to the Council by providing assurance on the underlying processes and governance arrangements to support the achievement of strategic outcomes and the achievement of value for money (VfM).

2. COMPILATION OF THE AUDIT PLAN

- 2.1 As required by the standards, it has been developed on a risk-based approach. We have prioritised resources to where the need is greatest, and where potentially Audit could provide most value. In compiling the plan we have ensured that the requirements laid down in the standards have been met.
- 2.2 At the heart of the approach to Internal Audit is the "3 lines of assurance" model where:
 - the first line of assurance is the control environment operated by managers in individual services;

- the second line of assurance includes the oversight functions such as Finance, HR, Procurement, Legal Services, “” who provide advice, direction, and support to individual services; and
- the third line of assurance, such as Internal Audit, External Audit and other external assurance providers which offer independent challenge to business functions.

The more developed the first and second lines of assurance are then the greater the reliance that can be placed on the assurances obtained by services rather than directly from Internal Audit work.

2.3 The plan is made up of a number of key components designed to provide assurance on the effectiveness of the Council's control environment, i.e.

- the achievement of strategic outcomes;
- those specific areas identified in the Council's code of governance;
- effective procedures and processes;
- reliable financial and performance information;
- compliance with laws and regulations ; and
- the protection of council assets, including physical assets, financial resources, people, information – this includes a review the controls in place to minimise the risk of fraud and financial irregularity in those areas of highest risk

Depending on the nature of their scope, audit assignments may provide assurance on more than one of these areas of the control environment. In addition, internal audit follows up the implementation of agreed actions from previous audit work with relevant managers.

2.4 In addition Internal Audit provides support to the Council in the following areas:

- providing assurance in relation to the control environment within maintained schools;
- providing advice and support to management on the design of the control environment; and
- the mandatory certification of external grant claim.

2.5 Internal Audit takes a cyclical risk based approach in determining the content of the audit plan with those areas having the biggest potential risk to an effective control environment. It first identifies those areas which potentially have a significant impact on the control environment. The key sources of information are:

- the Council's key strategic outcomes and performance reports relating to their delivery;
- the strategic risk register;
- those areas in the operational risk registers where a high inherent risk has been identified;

- areas which represent key components of the code of governance.
- issues identified in Director assurance statements prepared as part of the preparation of the Annual Governance Statement (AGS);
- activities in receipt of significant external grant funding.
- the Council's statutory responsibilities.
- cabinet and scrutiny reports to help identify areas of emerging risk; and
- emerging national issues, including areas subject to changes in legislation and regulation.

Those areas considered to have the highest risk are prioritised for inclusion in the plan based on the likelihood of a control failure and its impact to the organisation should it occur. A summary of what is considered in making this assessment is shown on Appendix 2. Discussions are held with the Leadership Team, Directors, and Heads of Service to determine the prioritisation of work.

2.6 The level of estimated audit resource allocated to each assignment is dependent upon;

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- previous knowledge of the function or system and the risks associated with it;
- if there have been significant changes to the design or operation of the system or function since it was last audited;
- the complexity of the function or system;
- the level of assurance which can be obtained from internal assurance mechanisms (second line of assurance) or by external sources of assurance such as the external audit and the outcome of inspections (third line of assurance); and
- the nature of the testing required to obtain assurance - for example the use of control testing and observation compared to substantive testing, and the testing methodology required. Increasingly the audit team has been using analytical techniques to obtain assurance based on wider populations compared to sample testing.

2.7 The draft plan, based on internal audit's risk assessment, is then subject to consultation with the strategic leadership team and with Heads of Service. Where appropriate amendments are made to the plan to reflect its feedback on the areas where they felt audit resource needed to be prioritised. The emerging themes which have been identified as part of the 2022/23 audit planning process include:

- Providing assurance on the new systems to be introduced from 1 April 2022 (financial ledger, creditors, debtors, budget control)
- Regeneration schemes and associated central government funding
- Governance arrangements for monitoring the delivery of the capital programme

- The implementation of “A Green Future: Our Plan For Positive Change” and the supporting performance management processes designed to support its delivery
- The implementation of the updated Council plan and supporting performance management/ data
- Assurance on the impact of changes to the funding and delivery of Adult Social Care and the associated changes in NHS structures
- Processes for managing costs and achieving value for money during a period of significant inflationary pressures
- The revised governance arrangements relating to Public Health, and the impact of the pandemic on the delivery of Public Health
- The implementation of the community engagement and consultation strategies and the systems in place to support them
- Strategic Housing
- Providing assurance on preparedness for new or changing external inspection regimes relating to Adult Social Care and Children and Families
- Arrangements for replacing the current social care system, CareFirst
- Assurance on changing responsibilities following changes in legislation for example Domestic Abuse Bill
- Workforce development
- The design and operation of internal controls relating to the operation of Baths Hall and the Plowright Theatre following the transfer of their management back to the Council.

2.8 The proposed audit plan is summarised in the table below. It shows the resources provisionally allocated to each of the main areas of the internal audit activity. As of 11 March 2022, the section relating to strategic risk/ operational risk/ governance is subject to further development to allow for discussion with the Strategic Leadership Team, the reassignment of Head of Service portfolios, and to take account of Director Assurance Statements due to be completed by 30 April 2022. We will circulate an updated plan, including a breakdown of the planned audits to be covered under this heading once complete.

Area	Planned days	
Strategic risk/ operational risk/ governance	470	A risk-based programme of audit reviews to provide assurance on the Council's governance framework, as well as the arrangements in place to deliver key strategic and service outcomes efficiently and effectively and ensure compliance with laws and regulations
Financial systems	135	Providing assurance on the design and operation of the fundamental financial systems, including on a cyclical basis those systems which feed into them. Our 2022/23 work will particularly focus on providing assurance on the new general ledger, debtors, creditors, and budgetary control systems.
ICT	45	Providing assurance on the effectiveness of the Council's approach to ICT and Information governance, and key ICT systems.
Procurement and contract management	25	Providing assurance on the Council's procurement and contract management processes, including reviews of a sample of key procurement exercises.
Schools	100	Provide assurance on the control environment within maintained schools via a cyclical programme of schools audits
Grant Certification	60	Mandatory certification of grant claims. The time required for this element of audit activity has increased in recent years due to a greater number of certifications requested by central government departments
Advisory	50	Providing advice and support on governance and internal control matters
Follow up	40	Follow up of previous actions
Probity and Counter Fraud	75	Proactive and reactive work to support the Council's approach to anti-fraud and corruption, to provide assurance on the controls in place designed to prevent fraud in areas of high risk
Management time	75	Includes audit planning, monitoring, liaison with the Audit Committee and senior management
Contingency	40	
Total	1115	

2.9 Throughout the year the audit plan will be subject to regular review to reflect the changes in the risks to the Council's control environment, and to reflect changes in the assumptions made when the plan was first completed. For example:

- an area in which internal audit intended to work may subsequently be subject to an external inspection, in which case less audit work may be required as audit will look to seek reliance on the outcome of the inspection;
- where a new process or system has not been implemented as quickly as anticipated and therefore the audit of it would be delayed;
- a risk may emerge during the year which may require to be included in the audit plan so that work can be carried out to obtain sufficient assurance.
- where issues arise during a planned audit then extra resource may be required to obtain sufficient assurance and /or obtain an understanding of the underlying control issues; and
- potential reprioritisation of the plan due to a greater level of uncompleted audit work carried forward from the previous year than anticipated, or changes in staffing levels during the year due to leavers or long-term sickness absence.

Any significant changes to the allocations will be reported to future Audit Committees.

2.10 The Audit Charter describes how the Audit Team will conduct itself when delivering the plan, and the quality assurance processes which underpin the quality of its work. It will continue to develop as a team by providing training and development programmes for team members and keeping them aware of developments in local government (both locally and nationally), and audit practice. The team will also continue to develop and enhance its approach to data analytics.

3 RESOURCES TO DELIVER THE AUDIT PLAN

3.1 The standards require the Head of Audit and Assurance to be satisfied that he or she has sufficient resources available to deliver the plan and be able to provide an opinion on the control environment and discharge their other responsibilities. In addition, under the CIPFA statement "The Role of the Head of Internal Audit" the Head of Internal Audit must "lead and direct an Internal Audit service that is resourced to be fit for purpose".

3.2 Based on the risks identified we can confirm that there are sufficient resources available to deliver the Audit Plan as laid out in section 2 of this report, and to provide a reliable year-end audit opinion. This conclusion is due an assessment of resources available to the team as of 28 February 2022 considering annual leave, training, non-audit time, the availability of additional ICT audit specialist support.

This includes being prudent on the potential impact of long-term sickness and unfilled vacancies that may arise given the relatively small size of the team.

- 3.3 It is recognised, however, that resourcing is a risk, and in response we will monitor the delivery of the plan monthly and will reprioritise the audit programme on a risk basis should issues arise regarding the level of resources available.

4 REPORTING AND MONITORING ARRANGEMENTS

- 4.1 For most assignments, excluding advisory work and grant certification, we will provide a report with an overall opinion on the control environment (“substantial”, “satisfactory”, “limited”, “none”) and the residual risk. There will be some areas, due to particular circumstances, where it may not be appropriate to issue a full report and/or an opinion. In such cases a short commentary will be provided in the Annual Head of Internal Report and Opinion.
- 4.2 A summary of completed audit work will be included in the Annual report, and this will feed into the overall opinion on the control environment. The opinion will also take account of other sources of intelligence, as appropriate, such as the outcome of inspections or other relevant forms of third-party assurance. Interim reports will also be presented to the Audit and Governance Committee during the year. These will include progress in achieving the annual plan, including any significant amendments to it.
- 4.2 As part of its Quality Assurance and Improvement Programme (QAIP) Internal audit has a number of performance indicators based on the three principles of Outcome Based Accountability:
- “what did we do?”;
 - how well did we do it?; and
 - how did we add value

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Appendix 1: Confirmation of compliance with Public Sector Internal Auditing Standards (PSIAS) requirements

PSIAS Requirement	How we demonstrate compliance
The Head of Internal Audit (HOIA) must establish risk-based plans to determine the priorities of the Internal Audit activity, consistent with the organisation's goals. (PSIAS 2010)	The plan is based on the Council's strategic objectives and its Code of Corporate Governance. Those activities with the greatest impact on the achievement of strategic objectives are given greatest priority. The Head of Audit and Assurance carries out a detailed risk assessment to prioritise audit work
The risk-based plan must take into account the requirement to produce an annual Internal Audit opinion and the assurance framework. (PSIAS 2010 public sector requirement)	The Audit Plan has been designed to ensure that there is sufficient evidence to provide a reliable year end opinion in relation to risk, governance and internal control.
The plan must incorporate or be linked to a high-level statement of how the Internal Audit service will be delivered, developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities. (PSIAS 2010 public sector requirement)	The audit plan demonstrates the extent to which it links in with organisational objectives and priorities, including reference to the Audit Charter, which was updated in March 2022, whilst paragraphs 2.9 and 2.10 reflects how the plan will be delivered and the audit service delivered
The risk-based plan must explain how Internal Audit's resource requirements have been assessed. (PSIAS 2030 public sector requirement)	Considered in Section 3 of this report
The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.	The Audit Team carries out a detailed risk assessment to prioritise the work to be included in the audit plan. In determining priorities discussions are held with the Senior Leadership Team, Heads of Service and other stakeholders.

Appendix 2: Internal Audit planning risk assessment methodology

The Council's activities/ functions are prioritised based on the likelihood of a significant control failure and its impact on the control environment

Likelihood of control failure

For the purposes of audit planning those areas which have a higher likelihood control failure include those which exhibit one or more of the following:

- Have had recent changes to system design
- There have been changes to statutory responsibilities or national guidance
- Have been identified as having high inherent risk in the Council's risk register
- Have not been subject to audit review for a number of years
- Control failures have been recently occurred.
- Identified in Director Assurance Statements as a potential area for development.
- Weaknesses identified by external inspectorates which required the Council to take action.

Impact on the control environment

Areas of high priority exhibit at least one of the following:

- Has a significant impact on the achievement of stated strategic outcomes;
- Has a material impact on the Financial Statements;
- Has a material impact on the governance arrangements of the Council, is an integral part of the Code of Corporate Governance, and impacts on the Annual Governance Statement;
- Is intended to mitigate a significant strategic risk;
- Has a significant impact on ensuring that the Council operates within applicable laws and regulations and/or prevents significant reputational risk;
- Significant inherent risk of fraud or the loss of assets;
- Significant safeguarding implications;
- Failure of the function may potentially lead to:
 1. a significant financial loss;
 2. a detrimental impact to service users; or
 3. an adverse effect on the Council's reputation.