

# AUDIT AND GOVERNANCE COMMITTEE

|                  |  |
|------------------|--|
| <b>DATE</b>      | 21 January 2021                              |
| <b>REPORT OF</b> | Head of Audit and Assurance                  |
| <b>SUBJECT</b>   | <b>Interim Internal Audit Report 2020/21</b> |
| <b>STATUS</b>    | Open   |

## CONTRIBUTION TO OUR AIMS

An effective Internal Audit service contributes to the achievement of the Council's strategic objectives by assessing, providing comment and, if relevant, recommending improvement to the Council's assurance and control frameworks. The Internal Audit plan has also been designed to provide assurances on strategic risks and the supporting governance framework.

## EXECUTIVE SUMMARY

The attached report summarises the results of Internal Audit work in relation to the 2020/21 Internal Audit Plan up to 20 December 2020. It describes the progress being made in delivering the audit plan, the impact of COVID-19 on its delivery and the reprioritisation of work, the outcome of audit of audit work, and compliance with quality standards. This report allows the Audit and Governance Committee, as part of its responsibilities, to assess the effectiveness of Internal Audit in achieving its objectives.

## RECOMMENDATIONS

The Audit Committee is asked to note this report as part of its role in monitoring the effectiveness of Internal Audit.

## REASONS FOR DECISION

A key responsibility of the Committee is to obtain assurance on the effectiveness of the Council's control environment. Internal Audit plays a significant role in evaluating the control environment, and therefore interim reports such as this contribute to the Committee discharging its duties. In addition, the Committee also has responsibility in monitoring the effectiveness of Internal Audit, including the delivery of the Internal Audit Plan and compliance with Internal Audit Standards.

## 1. BACKGROUND AND ISSUES

- 1.1 It is a requirement of auditing standards for the Audit and Governance Committee to receive regular updates on the activities of Internal Audit, in particular:
- providing assurance that sufficient work will be carried out to provide a reliable risk based annual opinion on the effectiveness of the control environment and any amendments to the audit plan;

- bringing to the Committee's attention any issues identified during the course of the 2020/21 audit which could impact on the annual opinion; and
- providing assurance on Internal Audit's compliance with Public Sector Internal Audit Standards (PSIAS).

1.2 The attached interim report provides an update on the delivery of the audit plan up to 20 December 2020. Currently the team is on course to complete the audit plan in sufficient time to provide the Head of Audit Annual Report and Opinion by 31 May 2021. As highlighted in the report, and as predicted when the plan was initially approved, it has been subject to significant amendment and re-prioritisation, due to the impact of COVID-19.

1.3 The interim report also shows the final reports issued by 20 December 2020 and refers to Audit's Quality and Assurance Improvement Plan (QAIP). It describes the activities which have taken place in 2020/21 to ensure that Internal Audit complies with quality standards.

## **2. RISKS AND OPPORTUNITIES**

Audits are planned and delivered using risk-based auditing concepts, whilst strategic and operational risks form the significant basis of the formulation of the audit plan. In addition, audit provides an opinion on the residual risk exposure for each audit completed.

Although it is currently forecast that sufficient work will be carried out by 31 May 2021 to provide a standards compliant risk-based annual audit opinion on the Council's control environment, risks remain on the delivery of the revised plan due to the continued uncertainty resulting from the impact of COVID-19. Consequently further amendment and re-prioritisation may be required.

## **3. OTHER OPTIONS CONSIDERED**

Not applicable - the Audit and Governance Committee is required to regularly receive updates on the delivery of the audit plan as part of the discharge of its responsibilities.

## **4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS**

There are no specific reputational and communication considerations other than any identified in specific audit reports shown on Appendix 3 of the interim report.

## **5. FINANCIAL CONSIDERATIONS**

A key role of internal Audit is to provide assurance on the financial systems which support the production of the statement of the accounts. Any significant issues arising from this work will be reported to the Audit and Governance Committee in the Chief Audit Executive Annual Report and Opinion. In addition, effective financial reporting and processes are a key component of the control environment and therefore are considered when planning each

assignment

**6. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS**

None directly arising from the recommendations in this report.

**7. FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

**8. LEGAL IMPLICATIONS**

There are no specific legal implications arising from this this report.

**9. HUMAN RESOURCES IMPLICATIONS**

There are no direct human resources implications arising from this report.

**10. WARD IMPLICATIONS**

Applicable to all wards.

**11. BACKGROUND PAPERS**

Internal Audit Annual Plan 2020/21 (April 2020)  
Public Sector Internal Audit Standards (April 2017)

**12. CONTACT OFFICER(S)**

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**Head of Audit and Assurance**





# North East Lincolnshire Council

## Interim Audit Report 2020/21

### Month 9

**Authors:**

|              |                             |
|--------------|-----------------------------|
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## **Introduction**

The purpose of the briefing paper is to keep the Audit Committee Members informed in relation to the delivery of the audit plan, in particular:

- providing assurance that sufficient work will be carried to provide a reliable risk based annual opinion on the effectiveness of the control environment;
- bringing to the Committee's attention any issues identified during the course of the 2020/21 audit which could impact on the annual opinion; and
- providing assurance of Internal Audit's compliance with Public Sector Internal Audit Standards (PSIAS)

## **Delivery of the audit plan**

On 23 July 2020 the Audit and Governance Committee formally approved a plan consisting of 980 days. It was originally intended to be presented to the Committee on 23 April 2020, but due to the meeting's cancellation because of social distancing restrictions, was circulated to the Committee via email in May 2020 for comment.

According to PSIAS 2010 "the chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls". As communicated to the Committee in May 2020 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. Consequently, the plan has been amended to reflect following:

- the audit team has provided considerable advisory support during the pandemic including Covid-19 related grants, advice on stock control for PPE and the Shielding Hubs, advice on applying changes to procurement rules during the pandemic, whilst some staff were temporarily seconded to support the distribution of food parcels;
- in those areas facing significant challenges leading the Council's response to the pandemic it has been agreed to defer some of the less urgent audit work to 2021/22;
- given that the transformation framework has been launched in relation to Children's services, together with a transformation plan as well scrutiny from OFSTED and the DFE, audit's focus is on the governance arrangements for the delivery of the plan, with some full audits being deferred until once new arrangements are in place;
- additional work has been built into the audit plan for 2020/21 to provide assurance on the Council's response to COVID-19 and its recovery programme: this will cover three strands: assessing how services have managed the response to the pandemic when carrying out the audit plan, 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, it is likely that the number of schools' audits carried out in 2020/21 will be reduced

A summary of the changes to the plan, together with the days charged as at 20 December 2020 are shown in the table below. Explanations for the reasons for the amendments to the plan are shown in Appendix 1.

***Days charged against the revised audit plan as at 20 December 2020***

| Area  | Original Planned days | Revised days | Days at 20/12/20 |
|---|-----------------------|--------------|------------------|
| Strategic and operational risk/ governance (including CCG led audits) | 445                   | 405          | 189              |
| Financial systems   | 145                   | 145          | 89               |
| ICT   | 55                    | 55           | 38               |
| Procurement and contract management                                   | 25                    | 30           | 20               |
| Schools   | 15                    | 15           | 0                |
| Grant Certification   | 25                    | 30           | 15               |
| Advisory  | 50                    | 70           | 57               |
| Follow up   | 40                    | 40           | 20               |
| Probity and Counter Fraud   | 60                    | 84           | 59               |
| Management time   | 75                    | 75           | 56               |
| Contingency   | 35                    | 21           |                  |
| Total   | 970                   | 970          | 543              |

As at 20 December 2020 543 days had been charged against the audit plan. This compares to the anticipated 565 days at this point in the audit cycle. We anticipate that sufficient work will be carried out to provide a reliable audit opinion on the Council's control environment by 31 May 2021, although risks to the delivery of the plan remain including:

- the continued impact of Covid-19 on Council priorities, the ability to carry out audit work in some areas, and the prioritisation of audit work; and
- During the summer two members of the audit team (one from NELC and one from NLC) left. A recruitment process has been instigated to replace them but even if successful the loss of staff is likely to impact on the resource available.

Advisory and other support work is an important part of audit's work. A summary of such work carried out is shown on Appendix 2.

## **Audit reports**

A summary of audit reports issued since June 2020/21 is shown in Appendix 3. They include a small number of audits which were largely carried out as part of the 2019/20 audit plan but were reported in 2020/21 and therefore will be considered as part of the 2020/21 opinion. Two reports received limited assurance.

## **Quality**

As reported in previous year Internal Audit has a Quality and Assurance Improvement Programme (QAIP), which is reviewed annually. No significant amendments to the QAIP have been identified

An important element of the standards is that every five years audit teams are subject to an external inspection in order to assess compliance with the Public Sector Internal Audit Standards. As previously the outcome of the external inspection held in March 2018 was that “the internal audit function for North Lincolnshire Council generally conforms to the Public Sector Internal Audit Standards”, where ‘Generally conforms’ is the top rating available.

During 2020/21 a number of quality review measures have been carried out to ensure compliance with the standards including the following:

- continuing to ensure that all audit work is subject to supervision and review with any emerging issues discussed at team meetings;
- updating of the Audit Manual which provides guidance to staff on how to carry out their work and using virtual team meetings to talk about the various sections of the manual;
- further developing processes to remind service managers of their agreed audit actions resulting from audit reports, and enhanced escalation processes to improve their engagement with audit;
- testing of agreed actions implemented - as at 20 December 2019 60% of agreed actions tested had been implemented by the due date;
- monitoring the % of respondents to post audit questionnaires who thought that an audit was carried out well - as at 20 December 2020 this was 100%;
- monitoring the % of respondents to post audit questionnaires who thought that an audit added value - as at 20 December 2020 this was 100%.
- monitoring the timeliness of audits- as at 20 December 64% of audits had been issued in draft by the date agreed in the terms of reference compared to a target of 90%, whilst 57% were issued in final within 20 working days of the

issue of the draft- although still below target this represents an improvement on the 2019/20 outturn of 40% and 52% respectively

## Appendix 1: Changes to the audit plan

| Area  | Original planned days | Revised planned days | Days at 20/12/20 | Reason for budget change  |
|---|-----------------------|----------------------|------------------|---|
| Strategic and operational risk/ governance (including CCG led audits) | 445                   | 405                  | 189              | See below for more detailed explanations to changes to this part of the plan  |
| Financial systems   | 145                   | 145                  | 89               |   |
| ICT   | 55                    | 55                   | 38               |   |
| Procurement and contract management                                   | 25                    | 30                   | 20               | Additional time included to provide assurance and support to the adoption of government guidance on procurement as result of the pandemic |
| Schools   | 15                    | 15                   | 0                | Due to the recently announced schools closures, determining whether it will be possible to carry out the planned school visits            |
| Grant Certification   | 25                    | 30                   | 15               | Additional time required time required due to covid-19 related grants   |
| Advisory  | 50                    | 70                   | 57               | Additional time required for advisory support in relation to the Council's response to the pandemic                                       |
| Follow up   | 40                    | 40                   | 20               |   |
| Probity and Counter Fraud   | 60                    | 84                   | 59               | Additional time identified to take account of biennial NFI  |
| CCG led audits  | 80                    | 80                   | 34               |   |
| Management time   | 75                    | 75                   | 56               |   |
| Contingency   | 35                    | 21                   |                  |   |
| Total   | 970                   | 970                  | 543              |   |

### **New audit assignments, or where the scope has been amended**

|   |   |
|---|---|
| COVID-19 Recovery Programme                     | Governance arrangements relating to the delivery of the Council's COVID-19 Recovery Plan                                      |
| Special Educational Needs and Disability (SEND) | Increased audit resource to assess the governance arrangements of the Council's review of its approach to SEND                |
| Children's and Family Services Transformation   | Review of the governance arrangements for the Children's and Families Services Transformation programme                       |
| Looked after Children and Fostering             | Scope amended to focus on arrangements for protecting the assets of looked after children and managing the impact of COVID-19 |
| Public Health Peer Review                       | Carried forward from 2019/20  |
| Fixed Penalty Notices                           | Carried forward from 2019/20  |

### **Assignments which will not be carried out in 2020/21 or the scope of the work has been reduced**

|  |  |
|--|--|
| Children's Home Standards                  | Audit postponed due to accessibility to children's homes although some areas incorporated into the audit of looked after children  |
| Child protection                           | Audit postponed to reflect that the arrangements for child protection are under review. Governance arrangements for this review to be considered as part of the Children's and Families Services Transformation programme, with a full audit to be carried out in 2021/22. |
| Children's public law                      | Audit postponed as not appropriate time to carry out an audit due to the emergency arrangements currently in place in relation to the operation of family courts   |
| Joint Strategic Needs Assessment (JSNA)    | Scope of the audit reduced to take account of the arrangements for producing and using the JSNA (and data intelligence general) being subject to revision  |
| Role of Local Authority Designated Officer | Audit completed more quickly than initially budgeted for   |
| Shared Services                            | Audit no longer a priority given the change to the scope of shared services and the governance arrangements during 2020/21   |
| Smarter Energy                             | Specific audit no longer required as can place reliance on the MHCLG's own positive review of compliance with the grant requirements and the outcome of our own quarterly grant certification work   |

## **Appendix 2: Summary of advisory work provided by Internal Audit in 2020/21**

- 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
- Provided considerable support to the Council's response to Covid-19, including business grants, advice on stock control for PPE and the Shielding Hubs, advice on applying changes to procurement rules during the pandemic, co-ordinating the Council's submission on the initial impact of the pandemic on the provision of services for Yorkshire and Humber Chief Executives
- The certification of grants in relation to Covid-19, transport, highways, and troubled families
- Preparing a paper for the senior leadership team on the potential impact of the independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting - "Redmond review"
- Facilitating a fraud risk assessment with the Procurement team
- Co-ordinating the production of the "Partnership Stocktake" for the Audit And Governance Committee
- Providing advice on governance and internal control arrangements around joint ventures
- Representation on the Information Security and Assurance Board and provided advice on data breaches
- Assurance Mapping
- Membership of the Business Development Group responsible for evaluating business cases
- Membership of the Information Security and Assurance Board, including support on the investigation of potential breaches
- Membership of the Smarter Neighbourhoods Operational Group
- Responding to various accounting queries
- Providing support and assurance on the Council's submission regarding the NHS IT Governance toolkit
- As part of audit's probity and fraud work co-ordinating the submission of data for the 2020/21 National Fraud Initiative

- As part of audit's probity and fraud work supporting investigations into allegations of fraud or financial misconduct

## Appendix 3: 2020/21 Final Reports

### Audits issued as Final at 20 December 2020

| Audit Assignment  | Director   | Assurance    | Residual Risk | Comments   |
|---|--|--------------|---------------|--|
| <b>Governance, strategic risks and operational risks</b>                                  |  |              |               |  |
| Alcohol and Drug Framework  | Director Health and Wellbeing                          | Substantial  | Medium        | Though substantial assurance could be provided in relation to the current monitoring arrangements, the medium risk score reflects that the governance arrangements will be subject to change in 2021 |
| Child Criminal Exploitation (CCE), Child Sexual Exploitation (CSE) and Modern Day Slavery | Director Children's Services (Chief Operating Officer) | Satisfactory | Medium        |  |
| Educational Standards   | Director Children's Services (Chief Operating Officer) | Satisfactory | Medium        |  |
| Libraries   | Director Health and Wellbeing                          | Limited      | Medium        | At the time of the audit there was need to improve performance monitoring arrangements   |
| People and Culture - Workforce Development  | Director Resources and Governance                      | Satisfactory | Medium        |  |
| Regeneration Partnership Governance   | Interim Director of Economy                            | Substantial  | Medium        |  |
| Regional growth Fund- Wykeland  | Interim Director of Economy                            | Substantial  | Low           |  |

| <b>Audit Assignment</b>   | <b>Director</b>  | <b>Assurance</b> | <b>Residual Risk</b> | <b>Comments</b>   |
|---|--|------------------|----------------------|---|
| Registrars Income   | Governance, Democracy and Community Engagement         | Substantial      | Low                  |   |
| Role of LADO  | Director Children's Services (Chief Operating Officer) | Satisfactory     | Medium               |   |
| Search Fees   | Director Resources and Governance                      | Substantial      | Low                  |   |
| South Humber Industrial Investment Programme (SHIIP) Implementation | Interim Director of Economy                            | Satisfactory     | Medium               |   |
| <b>Financial systems</b>  |  |                  |                      |   |
| Payroll   | Director Resources and Governance                      | Substantial      | Low                  |   |
| Feeder Systems  | Director Resources and Governance                      |                  |                      | To support our audit of the key financial systems we carry out audits of feeder systems. No issues of concern were identified |
| <b>ICT</b>  |  |                  |                      |   |
| Finance System Resilience   | Director Resources and Governance                      | Substantial      | Low                  | Provided assurance that the ICT controls relating to the systems to be replaced in 2021/22 can still be relied upon           |
| HR and Payroll System Resilience                                    | Director Resources and Governance                      | Satisfactory     | Medium               | Provided assurance that the ICT controls relating to the systems to be replaced in 2021/22 can still be relied upon           |

| <b>Audit Assignment</b>      | <b>Director</b>                   | <b>Assurance</b> | <b>Residual Risk</b> | <b>Comments</b>   |
|------------------------------|-----------------------------------|------------------|----------------------|---|
| <b>Procurement</b>           |                                   |                  |                      | We provide an overall opinion on procurement arrangements by a mixture of a review of overall arrangements and reviewing a sample of procurement exercises  |
| Procurement - Clinical Waste | Director Resources and Governance | See comments     | See comments         | KPIs to be introduced are required for monitoring purposes for future related contracts   |
| Procurement - Mental Health  | Director Resources and Governance | See comments     | See comments         | No area of concern identified   |
| <b>Follow up</b>             |                                   |                  |                      |   |
| Housing Strategy Follow up   | Interim Director of Economy       | Satisfactory     | Medium               |   |
| Heritage Assets Follow Up    | Interim Director of Economy       | Satisfactory     | Medium               |   |
| Leisure & Culture Follow Up  | Director Health and Wellbeing     | Limited          | Medium               | At the time of audit the actions from the previous reports on systematic performance and financial monitoring by the Council had not been fully addressed, and there was a need to update the contract to reflect arrangements around facilities management |
| <b>Probity audits</b>        |                                   |                  |                      |   |
| Agency Workers               | Director Resources and Governance | Substantial      | Low                  |   |
| Data Matching                | Director Resources and Governance |                  |                      | Exercises were carried out matching payroll/ creditors, debtors/ creditors and duplicate payments. No evidence of fraud or a significant number of duplicate payments was identified  |



### Key to control effectiveness:

| Effectiveness                 | Action Level   |
|-------------------------------|--|
| <b>Substantial Assurance</b>  | Strong controls support achievement of the business objectives.                        |
| <b>Satisfactory Assurance</b> | Controls support the business objectives, but some improvements should be made.        |
| <b>Limited Assurance</b>      | Controls provide some support for business objectives, but improvements are essential. |
| <b>No Assurance</b>           | Controls do not support the achievement of business objectives.                        |

### Key for residual risk rating

| Priority Level | Action Level   |
|----------------|--|
| <b>High</b>    | 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.  |
| <b>Medium</b>  | 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. |
| <b>Low</b>     | Risk is being suitably managed based on current knowledge. Should be regularly reviewed and monitored.   |