

AUDIT AND GOVERNANCE COMMITTEE

DATE	20 January 2021
REPORT OF	Head of Audit and Assurance
SUBJECT	Interim Internal Audit Report 2021/22
STATUS	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 2021/22 Internal Audit Plan up to 30 November 2021. It describes the progress being made in delivering the audit plan, 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 2021/22 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 30 November 2021. 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 2022, although identifies a number of risks to its delivery which will need to be managed over the forthcoming months.
- 1.3 The interim report also shows the final reports issued by 23 December 2021 and refers to Audit's Quality and Assurance Improvement Plan (QAIP). It describes the activities which have taken place so far in 2021/22 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 2022 to provide a standards compliant risk-based annual audit opinion on the Council's control environment, it also highlights risk to the delivery of the plan which will need to be managed.

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 2021/22 (April 2021)
Public Sector Internal Audit Standards (April 2017)

12. CONTACT OFFICER(S)

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North East Lincolnshire Council

Interim Audit Report 2020/21

Month 8

Introduction

The purpose of this briefing paper is to keep the Audit and Governance 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 2021/22 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 22 April 2021 the Audit and Governance Committee formally approved the 2021/22 audit plan consisting of 940 days. The Head of Audit and Assurance confirmed that, based on the risks identified, there were sufficient resources available to deliver the Audit Plan by 31 May 2022, but it was also recognised that resourcing remained a risk, and in response the delivery of the plan would be monitored on a monthly basis, and where appropriate the audit programme would be reprioritised to meet changing audit resourcing needs and risks.

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". A summary of the revisions to the plan, together with the days charged is shown on the table below. As shown as of 30 November 2021 there has been a reduction in the budgeted days on the area of the plan covering strategic risks, operational risks and governance, to reflect adjustments to assignment budgets and the removal of a proposed audit on Humber LEP grants from the plan, as well as an increase in the allocation for grant certification for the reasons explained below.

Days charged against the revised audit plan as of 30 November 2021

Area	Planned days	Revised days	Actual days
Strategic risks, operational risks, and governance (including Union related work as part of CCG plan)	415	380	175
Financial systems	125	125	61
ICT	50	50	36
Procurement and contract management	30	31	4
Grants	60	72	53
Schools	10	13	3
Follow up	35	35	13
Fraud and investigation	60	60	40
Advisory	50	50	34
Audit Management	75	75	50
Contingency	30	49	
Total	940	940	469

As of 30 November 2021 469, days had been charged against the audit plan. This compares to the anticipated 470 days at this point in the audit cycle. Whilst this a pleasing position to be in at this time of year (particularly when taking account of the level of contingency which is currently available), and it is anticipated that sufficient work will be carried out to provide a reliable audit opinion on the Council's control environment by 31 May 2021, risks to the delivery of the plan remain including:

- the time charged to the 2021/22 plan includes 61 days for uncompleted work carried forward from the 2021/22 plan, which thus creates a resource pressure;
- some of the resources available will be required in April and May 2022 for setting up 2022/23 audit assignments;
- the availability of audit staff- although the internal audit team have been fortunate that it has been able operate at full capacity for most of the year there is a risk that this could be subject to change due to staff turnover or incidences of long term sickness;
- Grant certification- there has been considerable work this year on grant certification resulting in audit resources having to be to be diverted to this area, both in the original plan and the revised plan. Although some of this work is related to COVID related grants, there appears to be a growing trend that government departments are expecting internal audit certification of the use of grant funding, and therefore there is a possibility that further additional time may be required in 2021/22.

- following the publication of the OFSTED report, the audit team is reviewing the audit programme in Children and Family Services to ensure that it is focused, and provides support, on those areas of greatest risk to an effective control environment - in early January 2022 Audit will be having discussions with senior management to determine where audit resource should be prioritised in relation to Children and Family Services for both the remainder of 2021/22 and for 2022/23, which potentially will lead to a further revision of the plan;
- the need to review the audit programme in relation to public health following the appointment of the Interim Director of the Audit Public Health which could also lead to a revision of the plan; and
- staff within services being available to ensure that planned audits are completed promptly so that the number of audits outstanding as of 31 May 2022 is minimised- the audit team has been having regular discussion with Assistant Directors about the progress of audit work in their area, and where appropriate identifying those areas where progress has been slower than anticipated.

Advisory and other support work is an important part of audit's work. A summary of such work carried out is shown on Appendix 1.

Audit reports

A summary of audit reports issued since June 2021 is shown in Appendix 2. They include a number of audits which were largely carried out as part of the 2020/21 audit plan but were reported in 2021/22 and therefore will be considered as part of the 2021/22 opinion. Two reports have 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 to assess compliance with the Public Sector Internal Audit Standards. As previously reported 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. The next external review is scheduled for early 2023.

During 2021/22 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 being 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- the sections on assignment planning and the approach to counter fraud have been recently updated;
- annually reviewing the audit charter, which establishes the internal audit activity's position within the organisation, including the head of internal audit's reporting lines, access to records, people and property, and the scope of its activities- an updated charter will be brought to the April Audit and Governance Committee alongside the Audit plan 2022/23;
- testing of agreed actions implemented - as of 30 November 2021 57% of agreed actions tested had been implemented by the agreed date;
- monitoring the % of respondents to post audit questionnaires who thought that an audit was carried out well - as of 30 November 2021 this was 100% (although based on a small number of returns);
- monitoring the % of respondents to post audit questionnaires who thought that an audit added value - as of 30 November 2021 this was 100% (although based on a small number of returns)
- monitoring the timeliness of the completion of audits- as of 30 November 2021 50% of audits had been issued in draft by the date agreed in the terms of reference, whilst 60% were issued in final within 20 working days of the issue of the draft.

Further quality assurance activities to be carried out in 2021/22 will be reported in the Annual Head of Audit Report and Opinion.

Appendix 1: 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
- The certification of grants in relation to Covid-19, transport, highways, and troubled families
- Co-ordinating the production of the "Partnership Stocktake" for the Audit and Governance Committee
- Representation on the Information Security and Assurance Board and provided advice on data breaches
- Representation on the Business Development Group responsible for evaluating business cases
- Representation on the Information Security and Assurance Board, including support on the investigation of potential breaches
- Representation on the Major Projects Group
- Representation on the Policy and Procedures Stakeholders Group, and where appropriate providing advice and support on the design of new Human Resources policies from a governance and internal control perspective
- Representation on the Digital inclusion Group, providing advice and challenge from an internal control perspective
- Providing advice and support, where appropriate, on the design of systems in relation to Covid related Business Support Grants
- As part of audit's work on financial systems providing support and challenge to the Financial Project Board tasked with implementing the new financial system
- Responding to various accounting queries
- As part of audit's probity and fraud work co-ordinating the council's response to the National Fraud Initiative
- As part of audit's probity and fraud work supporting investigations into allegations of fraud or financial misconduct

Appendix 2: Completed Audit work contributing to the 21/22 audit opinion as of 17 December 2021

Audit Assignment	Director	Assurance	Residual Risk	Comments
Governance, Strategic Risks and operational risks				
Cultural Development Fund	Environment, Economy and Resources	Substantial	Medium	
Disabled Facilities Grants	Environment, Economy and Resources/ Adult Services	Satisfactory	Medium	
Early Help and Prevention	Children Services	Satisfactory	Medium	
Flood Management	Environment, economy and Resources	Satisfactory	Medium	
Highways Maintenance	Environment, economy and Resources	Satisfactory	Low	
HR Data Migration and Data Quality	Environment, Economy and Resources	Substantial	Low	
Regeneration Partnership Data Quality	Environment, economy and Resources	Satisfactory	Low	
Transitions - Children to Adults	Children Services/ Adult Services	Limited	Medium	The significant work to develop and implement the new Protocol, together with the necessary processes and procedures to ensure delivery, is still in development, whilst it will be some time before the working group can assess the effectiveness of these changes.
Youth Justice-performance Indicators	Children Services	Substantial	Low	

Audit Assignment	Director	Assurance	Residual Risk	Comments
Financial systems				
LTB Initial work	Environment, Economy and Resources	Substantial	Medium	
Treasury Management	Environment, Economy and Resources	Substantial	Low	
ICT				
ICT Controls- New HR System	Environment, Economy and Resources	Satisfactory	Low	
ICT Project Management Controls	Environment, Economy and Resources	Limited	Medium	The ICT service has recognised the need to formalise some of its project management arrangements. Key areas of ongoing improvement in the context of the developments with the future operating model include: continuing development of project templates and guidance; use of a Council-wide project management tool; and adoption of corporate templates for the purpose of reporting
ICT Solution Centre	Environment, Economy and Resources	Substantial	Low	
Procurement				We provide an opinion on procurement arrangements by a mixture of a review of overall arrangements and reviewing a sample of procurement exercises. As of December 2021, we have completed a review of the procurement of wheelie bins and identified no issues of concern
Follow up				
Health and Safety	Environment, Economy and Resources	Substantial	Low	All actions from the previous audit have been implemented

Schools				
Humberston CofE Primary	Children's	Satisfactory	Low	
Audit Assignment	Director	Assurance	Residual Risk	Comments
Grants				We have been increasingly required to certify grant claims and in 2021/22 this has taken up substantially more time than in previous years. This has included Covid grants (e.g. community testing, public transport support) and various highways grants. In addition, although we are not required to provide certification for returns on business grants, infection control fund (cover in CCG audit plan), emergency assistance and Covid winter grants we have carried out assurance work in these areas. No significant issues identified but where appropriate have made recommendations for improvements in areas such as audit trails and supporting documentation to demonstrate compliance with grant determinations.
Probity audits				
Travel Claims	Environment, Economy and Resources	Satisfactory	Low	
Mobile Phones	Environment, Economy and Resources	Substantial	Low	

Key to control effectiveness:

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

Key for residual risk rating

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.