

# AUDIT AND GOVERNANCE COMMITTEE

<b>DATE</b>	21 July 2022
<b>REPORT OF</b>	Peter Hanmer - Head of Audit and Assurance
<b>SUBJECT</b>	Head of Internal Audit Annual Report and Opinion 2021/22
<b>STATUS</b>	Open

## CONTRIBUTION TO OUR AIMS

An effective control framework, good governance and risk management is fundamental to the effective delivery of the Council's services and its strategic aims. Internal Audit supports this by providing assurance, challenge and advice on their design and operation. Furthermore, the Internal Audit programme is risk based with specific priority given to those systems and processes which support the delivery of the Council's strategic aims.

## EXECUTIVE SUMMARY

As set out in the Public Sector Internal Audit Standards (PSIAS) there is a requirement under PSIAS 2450 for the Chief Audit Executive to provide an annual report and opinion to the Audit and Governance Committee, timed to support the Annual Governance Statement. At North East Lincolnshire Council, the Head of Audit and Assurance conducts the functions of the Chief Audit Executive as defined in the standards.

As shown in section 3 of the Annual Report, "satisfactory" assurance has been provided on the overall arrangements for governance, risk and the internal control framework, with areas requiring further development being identified.

## RECOMMENDATIONS

It is recommended that as part of its role in reviewing the effectiveness of the Council's governance arrangements (including the content of the Annual Governance Statement), the Audit and Governance Committee considers and receives this report, including the control issues identified within it.

## REASONS FOR DECISION

It is a requirement of the Public Sector Internal Audit Standards (PSIAS) for the Chief Audit Executive to produce an Annual Report incorporating his/ her opinion on the design and operation of the control environment.

## 1. BACKGROUND AND ISSUES

As set out in the Public Sector Internal Audit standards (PSIAS), there is a requirement under PSIAS 2450, for the Chief Audit Executive to provide an annual report to the Audit and Governance Committee, timed to support the Annual Governance Statement. This must include:

- an annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e., the control environment).
- a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies); and
- a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme

The Head of Internal Audit Annual Report and Opinion is attached. The key points identified in the 2021/22 t Head of Internal Annual report and opinion are as follows:

- Section 2 of the Annual Report refers to the work conducted from which the audit opinion is derived, and shows the work conducted compared to the Audit Plan. Although the planned target for chargeable days was not achieved, sufficient work was conducted to provide a reliable opinion on the Council's control environment. As shown on Appendix 1 of the report a small number of assignments are in progress or after discussion with the relevant service deferred to the 2022/23 plan, whilst most assignments were provided with either "substantial" or "satisfactory assurance" Continuing a trend from previous years, increasingly internal audit is required to provide independent certification for grants received by the Council, particularly COVID-19 related ones. .
- As referred to in Section 3 based on the work conducted by internal audit (and where applicable external inspection reports), satisfactory assurance could be provided on the Council's governance, risk, and internal control framework. However, it also highlights potential challenges to the control environment due to organisational capacity, and the need to improve the control environment within Children's Services
- As referred to in Section 4 Internal Audit complies with auditing standards in all material respects and has effective arrangements in place for monitoring quality. It continues to work with services to improve the timeliness of audit reporting, although this has seen some improvement since the previous year.

## **2. RISKS AND OPPORTUNITIES**

The Head of Internal Audit's Annual Report and Opinions are a regulatory requirement and there is potential reputational risk if it was not produced or if did not provide sufficient assurance that Internal Audit carried out its responsibilities in line with the standards.

As well as individual audit assignments identifying specific areas of potential risk, it is a requirement to provide an overall opinion on the Council's risk management arrangements as shown in section 3 of the report.

## **3. OTHER OPTIONS CONSIDERED**

Not applicable. The production of this report is a requirement of the Public Sector Internal Audit Standards.

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

There are no specific reputation issues in relation to this report. The main messages relating to this report have been communicated with the Leadership Team, and the report will be publicised on the Council's intranet.

#### **5. FINANCIAL CONSIDERATIONS**

One of the key aspects of internal audit work is to consider the Council's systems of financial control. This is considered not only in specific audits of its key financial systems, but in most other audit assignments.

#### **6. CHILDREN AND YOUNG PEOPLE CONSIDERATIONS**

Audit assignments relating to Children's Services and the outcome of external inspections contribute to the overall opinion on the Council's control environment. As shown on Section 3 of the Head of Internal Audit Annual Report strengthening the control environment within Children's Services was identified as a key priority.

#### **7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS**

Climate change and the environment are included in audit's planning considerations. An audit around the Council's environmental strategies was included in the 2021/22 audit plan.

#### **8. FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report. However, the report provides assurance over the reliability of the systems supporting the financial information provided within the statement of accounts.

#### **9. LEGAL IMPLICATIONS**

There are no specific legal implications associated with this report.

#### **10. HUMAN RESOURCES IMPLICATIONS**

There are no direct specific human resources implications associated with this report.

#### **11. WARD IMPLICATIONS**

The report covers issues affecting the whole operation of the council and therefore is relevant to all wards.

## **12. BACKGROUND PAPERS**

The Public Sector Internal Audit Standards 2017  
Internal Audit Plan 2021/21 (April 2021)  
Internal Audit Interim Report (January 2022)

## **13. CONTACT OFFICER(S)**

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**Peter Hanmer**  
**Head of Audit and Assurance**



# **Head of Internal Audit Annual Report and Opinion 2021/22**

## **North East Lincolnshire Council**

**Peter Hanmer  
Head of Audit and Assurance  
July 2022**

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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 account 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 East Lincolnshire Council, the Head of Audit and Assurance carries out the functions of the Chief Audit Executive as defined in the standards.

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## 2 Audit work from which the opinion is derived

- 2.1 Internal Audit conducted its work in accordance with its 2021/22 Audit Plan, which was formally approved by the Audit Committee on 22 April 2021. The plan included a description on how it was compiled, including consideration of 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., 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 2021/22 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. On 20 January 2022 the Audit Committee received the mid-year interim report. This report provided assurance on the progress to delivering the plan and any changes made to it. As reported the main revisions were as follows:
- reductions to the section 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; and

- increases in the allocation for grant certification

We also highlighted that there may be subsequent changes to the work programme due to things such as the potential impact of the OFSTED report leading to a re-prioritisation of our work related to Children’s, and the pilot joint arrangements in relation to public health with Lincolnshire County Council and North Lincolnshire Council. Although not reflected in further revisions to the budget, as described on Appendix 1 it subsequently did lead to a small number of audits being deferred.

2.4 The position on 24 June 2022 is shown on the table below. 881 days had been delivered compared to the plan of 940 days, a difference of 59 days.

***Days charged against the audit plan as of 24 June 2022.***

<b>Area</b>	<b>Planned days</b>	<b>Revised days</b>	<b>Actual days</b>
Strategic risks, operational risks, and governance (including ASC audits reported to NELCCG Audit Committee)	415	380	380
Financial systems	125	125	120
ICT	50	50	57
Procurement and contract management	30	31	12
Grants	60	72	81
Schools	10	13	17
Follow up	35	35	25
Fraud and investigation	60	60	57
Advisory	50	50	59
Audit Management	75	75	73
Contingency	30	49	
<b>Total</b>	<b>940</b>	<b>940</b>	<b>881</b>

2.5 A summary of the audit work to support the opinion is shown in Appendix 1. This summary also makes reference to audits which have been deferred or work is ongoing. 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 72 (excluding grants) as of 30 June 2022, 57 audits had been completed at least to draft. 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**

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

**Residual Risk Exposure**

<b>Priority Level</b>	<b>Action Level</b>
<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.

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

- As shown in Appendix 1, 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 2021/22, 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 2, 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 2021/22 which was reported to the Audit Committee on 21 April 2022
- The outcome of external inspections carried out in 2021/22 and the subsequent response to them - such as:
  - OFSTED- Inspection of Safeguarding and Looked After Children (November 2021)- Inadequate
  - the Commissioner's Report on Children's Services (May 2022);
  - the Joint local area inspection of Special Educational Needs and Disabilities (SEND) (March 2022), which concluded that "the area has made sufficient progress in addressing all three of the significant weaknesses identified at the (previous) inspection."; and
  - the internal review of the Council's scrutiny arrangements, which included support from the "Centre for Governance and Scrutiny".

### 3 Chief Audit Executive Annual Opinion 2021/22

- 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 3.

#### Control Framework

- 3.2 Overall, we can provide **satisfactory assurance** on the effectiveness of the Council's control framework based on the work we have carried out as highlighted in Appendix 1, and where applicable the outcome of external inspections, subject to the comments below.
- 3.3 A potential significant challenge facing the Council in relation to internal control moving forward is resourcing and capacity given the significant demands placed on teams. For example although there have been no significant gaps control failures relating to them being identified it can be challenging for the "second line of assurance" functions (such as procurement, ICT, project management, legal services and performance management) to provide the desired levels of support for the Council's priorities. The development of the council plan, and supporting monitoring processes, together with the 'new operating model' (which will re-design the provision of many support and strategic functions) and the updated financial systems, should strengthen the Council's control environment. This is due to having more efficient and effective processes to monitor performance and compliance, further improved tools to allow managers to self-manage their controls, and provide more targeted capacity to support the delivery of the Council's key outcomes and programmes.
- 3.4 A further key priority is the strengthening of the control environment within Children's Services. The OFSTED Inspection report issued in November 2021 identified services to children and families as inadequate, including highlighting gaps in the design and operation of systems of internal control relating to Children Needing Protection, Looked After Children and Care Leavers. Control weaknesses were also identified in our own audits relating to financial management within Care Homes, Out of Area Placements (both for Looked After Children and Special Educational Needs and Disabilities), and the transition from Children's Services to Adult Services. At the same time, however, we recognise that the challenge has been in many ways as much about capacity, the sufficiency of places available locally and levels of demand, than about system design and compliance. We also note as highlighted

by the Commissioner's report (May 2022), that a revised improvement plan is in place and governance arrangements for monitoring performance and compliance have been strengthened. In addition, the Special Educational Needs and Disabilities Inspection report issued in March 2022 demonstrated considerable improvement compared to the previous inspection in this area.

- 3.5 During 2022/23 we will continue to provide support to Children's Services in the design and operation of an effective control environment, including carrying out assignments focusing on those areas highlighted in the OFSTED report (and in the subsequent Commissioner's report), as well as providing training and support to its staff in relation to the importance of effective systems of internal control.
- 3.6 Although it had some impact on capacity within services (including increasing demand on Adult and Child Social Care) and led to some planned initiatives being delayed, overall, our work found that COVID-19 did not have a significant detrimental impact on the Council's control environment. Furthermore, our work on COVID-19 related grants (including business grants and infection control) found that no significant non-compliance issues were identified.
- 3.7 In relation to the design and operation of the key financial systems which support the Council's Annual Statements of Accounts, and the reliability of the information produced by them, we can provide **substantial assurance**. However, it should be noted that in relation to the systems replaced on 1 April 2022 the focus of our work was based on obtaining assurance from data analytics and the testing of key controls.
- 3.8 During 2023/22 our work in relation to the financial systems will focus on the operation of controls relating to the general ledger (including interfaces with other financial systems), creditors, debtors, and the budgetary control system

### **Governance**

- 3.9 Our audit programme is designed around the Council's Code of Governance which was based on the principles designed by CIPFA/SOLACE, and on a cyclical basis we include audits specifically related to the governance framework, such as complaints management, compliance with statutory requirements of the Chief Financial Officer and the Monitoring Officer, the environmental strategy, website transparency and accessibility, and Health and Safety follow up. We were also able to rely on the Council's review of Scrutiny which found that that good arrangements were in place. 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 2021/22.

- 3.10 During 2022/23 the key areas of focus for the Council in relation to governance will include, embedding the monitoring arrangements for the delivery of the Council Plan, further developing its partnership arrangements for Health and Social Care, and the governance arrangements for the Humber Freeport.

### **Risk Management**

- 3.11 The Head of Internal Audit and Assurance also has responsibilities, though his line management of the Strategic Lead (Risk and Governance) for the co-ordination of the Council's risk management framework. The Annual Risk Management Report, to be presented to the Audit Committee on 21 June 2022, concluded that the Council has appropriate arrangements for the management of risk, but identified areas for improvement, particularly a consistent approach to operational risk management.
- 3.12 In order to manage the potential conflict of interest around risk management, the Head of Audit and Assurance periodically engages a third party to provide independent assurance on it. Consequently, Zurich Municipal ((ZM) carried out a health check of risk management arrangements. Overall, there were no areas of significant concerns, but areas for potential further development were identified which will be considered in the review and refresh of the Risk and Opportunities Protocol.
- 3.13 Based on the work referred to above we can provide **satisfactory assurance** on the Council's risk management arrangements.

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## 4 Quality Assurance Arrangements

- 4.1 A quality assurance process is in place to ensure that work is conducted to Public Sector Internal Audit Standards (PSIAS) and that the opinions provided for individual assignments are supported by sufficient evidence. Under the standards the Chief Audit Executive is obliged to report on the outcome of, and any issues arising from, our quality assurance arrangements
- 4.2 An essential 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, and where appropriate identify area for further development. As reported in the 2017/18 Head of Internal Audit Report, an inspection was conducted 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 East 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 Our next 5-yearly inspection is scheduled for early 2023, with the intention that outcome will be included in the 2022/23 Head of Audit and Assurance Annual Report and Opinion.
- 4.5 Other sources of evidence for the Audit Team to assess and report on its quality included:
- the annual self-assessment against the standards (Appendix 4).
  - Self-assessment against the five principles contained in the updated CIPFA document “The Role of the Head of Internal Audit” (2019). (Appendix 5) demonstrates that we comply with each of the principles.
  - Self-assessment against the internal audit principles introduced in January 2017 (Appendix 6). This review demonstrates that the audit team complies with each of the principles, although some potential

areas for further development have been identified and have been incorporated into an action plan

- 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 post audit review conducted by the Head of Audit and Assurance of a sample of assignments including reports at least annually; the review found that overall, the work compliant with the team's quality standards and processes, with any opportunities for further improvement reflected in an updated action plan and further guidance within the audit manual.
- Feedback from our customers via a post-audit customer satisfaction questionnaire and for the first time a year-end survey of Assistant Directors. We received a positive response from those questionnaires returned- 100%of respondents indicated that they were satisfied with the way the audits were conducted and felt that the audits added value.
- Follow up – an important part of audit, and to help demonstrate that its work adds value to the organisation, is following up previous actions to ensure that they are implemented in a timely manner by management. We follow up by sending reminders to managers when the agreed implementation date is due, and also by conducting our own specific follow up audits. During 2021/22 we have enhanced our monitoring and escalation process in relation to such reminders, and in relation to our specific follow up work, as shown in Appendix 7, 67% had been implemented by the due date by management (although this excludes cases where it has been agreed to extend the due date due to extenuating circumstances),
- Monitoring performance against key indicators (Appendix 7) – these demonstrate that the audit team continues to work economically and efficiently, with expenditure within budget and chargeable days close to target. Although timeliness of reporting remains below target it has improved significantly on the previous year.

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## **5 Closing Remarks**

- 5.1 We would like to take this opportunity to thank Members, Management and Staff for their continued support as we conduct 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: Summary of Audit work supporting the Audit opinion**

See separate attachment

## **Appendix 2: Summary of advisory work provided by Internal Audit in 2021/22**

- 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
- Providing induction training to new Members of the Audit and Governance Committee, including the role of the committee, governance, internal control, and the role of Internal Audit
- The certification of grants in relation to Covid-19, transport, highways, and supporting families
- Co-ordinating the production of the "Partnership Stocktake" for the Audit and Governance Committee
- Representation on the Information Security and Assurance Board and providing 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

- Co-ordinating the production of the Annual Report of the Audit and Governance Committee
- 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 3: 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 2021/22 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 2022. In a small number of cases the finalisation of audits has been delayed the outcome of this work will be considered for the 2022/23 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 4: Comparison of Audit Approach against the Public Sector Internal Audit Standards

Conformance with the PSIAS and the Local Government Application Note Standards and Requirements	Evaluation/Comments
<b>Code of Ethics</b>	Requirement met - referred to in the audit charter and communicated to all audit staff. Team members are asked to confirm they have read and understood annually- last request May 2022
<b>Attribute Standards</b>	
1.Purpose, Authority and Responsibility	Requirement met, and defined in the audit charter which was updated in March 2022
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 in 2022/23.
4.Quality Assurance and Improvement Programme	Requirements met - Quality Assurance and Improvement Programme in place, and the outcome of the annual review of the quality included in the Head of Audit annual report. Five yearly external inspection conducted 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 to reflect areas where further clarity is required
4. Communicating Results	Requirements met - the report template is subject to annual review to ensure that reports are clear, insightful and promote improvements. Scope to develop root cause analysis within our reporting methodology, where applicable

5. Monitoring Progress	Requirements met. Follow up arrangements were further updated in 2019/20 and regular reminders sent out to managers. We have recently developed a new reporting tool which will provide Assistant Directors with an exception report which shows actions exceeding their due date.
6. Communicating the Acceptance of Risks	Requirements met

## Appendix 5: 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 Board</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> <li>• Co-ordinates the ongoing development of “The Managers Guide to the Control Environment”</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 annually 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 conducting 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>
Principle	How Compliance is demonstrated

<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 Monitoring Officer’s management team, and Executive Director of Environment, Economy and Resources Extended Management Team</li> <li>• Monthly 1 to 1 meetings with the Executive Director of Environment, Economy and Resources</li> <li>• Quarterly 1 to1 meetings with the Chief Executive</li> <li>• Regularly attends the Assistant Director Group to promote good governance and effective systems of internal Control</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 Chief Executive, and the Corporate Governance Group</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 2021/22 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. Currently developing a “competency matrix” to ensure that staff 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, membership of CIPFA’s Better Governance Forum, and networking with other HIAs (including membership of CIPFA’s national Audit Special Interest Group and the Local Government Chief Auditors Network). 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), 33 years of internal and external audit experience, 21 years of which at senior level, and has conducted the Head of Internal Audit role at NELC since April 2008.</p>

## Appendix 6: Comparison of Audit Approach against the 10 principles as laid down in the audit standards)

Principle	How we comply?
Demonstrates integrity.	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 May 2022
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 meetings.</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> <p><b>Potential area for development</b></p> <ul style="list-style-type: none"> <li>• The development of a competency framework for team members, and to fully develop a team training plan.</li> </ul>
Is objective and free from undue influence (independent)	<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</li> </ul>

	<p>declare any interests which could impact on their independence.</p> <ul style="list-style-type: none"> <li>• The HOIA has responsibilities for risk, counter fraud, and insurance as well as audit. to preserve independence audits in these areas are conducted by other audit organisations.</li> <li>• The audit manual provides guidance on reporting to ensure that audit communications are clear, factual, reliable, and relevant.</li> <li>• Functional reporting to the audit committee is defined in the internal audit charter.</li> <li>• The HOIA has direct access to the audit committee as defined in the internal audit charter.</li> <li>• Scope of internal audit work is defined in the internal audit charter.</li> <li>• The HOIA can meet with the Audit Committee) without management present.</li> </ul>
<p>Aligns with the strategies, objectives, and risks of the organisation.</p>	<ul style="list-style-type: none"> <li>• A strategic council wide approach, as opposed to a service based one, is used to prioritise work and compile the audit plan.</li> <li>• 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.</li> <li>• The audit strategy is updated based on changes to the internal or external environment.</li> <li>• The audit plan is updated based on changes in the organisation's strategies and/or objectives.</li> <li>• Internal audit plan links engagements to a strategic objective and or risks</li> <li>• Post audit questionnaires indicates that the internal audit activity is operating in alignment with stakeholders' view of priorities.</li> <li>• Since 2021/22 have surveyed Assistant Directors to obtain their opinions on how well audit meets their expectations and the extent to which it adds value</li> <li>• The HOIA is invited to and attends strategy discussion meetings e.g., Assurance Board/ Group, extended leadership team, etc.</li> <li>• The HOIA is a senior enough level in the organisation to give them the appropriate</li> </ul>

	<p>standing, access, and authority in the organisation.</p> <ul style="list-style-type: none"> <li>• High percentage of internal audit plan covering strategic projects and/or initiatives.</li> <li>• Performance management and project management are regularly subject to audit</li> </ul>
<p>Is appropriately positioned and adequately resourced.</p>	<ul style="list-style-type: none"> <li>• Directly reports to the Monitoring Officer (SLT member)</li> <li>• Regularly meets with the Executive Director of Environment Economy and Resources and regularly attends her management team</li> <li>• The HOIA has unfettered accesses to the CFO, Chief Executive, and audit committee. Also sits on the Council's Assurance Board.</li> <li>• When compiling the plan, the level of resource available is compared to the resource required to provide a reliable and standards compliant opinion.</li> <li>• A documented and customised internal audit charter, aligned with the IPPF, is in place.</li> <li>• Functional reporting to the audit committee and senior management is defined in the charter.</li> <li>• Internal audit activity's mandate is broad and aligned to organisational needs.</li> <li>• A sufficient operating budget is available to internal audit.</li> <li>• Periodic discussions occur with the audit committee on QAIP, resource availability (capability and capacity), and any limitations.</li> <li>• Access to the Council's Human resources, technology, and tools are provided to internal audit enabling it to execute its engagements effectively and efficiently.</li> <li>• The HOIA is of a senior enough position within the organisation and participates in numerous senior management groups e.g., extended leadership team, assurance board etc.</li> <li>• Evidence that the HOIA has challenged management when needed.</li> <li>• The results of audit are given due consideration e.g., audit committee, compilation of the AGS, assurance board meetings, senior management groups.</li> </ul> <p><b>Potential area for development</b></p>

	<ul style="list-style-type: none"> <li>• Since the demise of CIPFA benchmarking need to develop periodic benchmarking of resources is compared to comparable size/profile organisations.</li> </ul>
<p>Demonstrates quality and continuous improvement</p>	<ul style="list-style-type: none"> <li>• A Quality Assurance and Improvement Programme is in place, and the team had a successful five yearly external inspection of its processes.</li> <li>• All assignments are subject to supervision and review, and the overall arrangements are subject to annual self-assessments.</li> <li>• Quality issues are discussed at each monthly team meeting and any relevant issues arising are included in the improvement plan.</li> <li>• An Audit Manual is in place defining methodology is in place and subject to regular update as issues arise.</li> <li>• Through membership of accounting and auditing bodies keep up to date with developments in audit practice</li> <li>• Mechanisms are in place to solicit feedback from audit clients and key stakeholders via questionnaires.</li> <li>• Operational KPIs are defined and monitored, including KPIs to promote internal audit activity improvements and innovations.</li> <li>• The audit committee is provided with a twice-yearly update on the Audit Team's performance.</li> <li>• 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</li> </ul>
<p>Communicates effectively.</p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Periodic reporting and some engagement reports are customised for key stakeholders (senior</li> </ul>

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 after final reports are issue have occurred.
- 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.

**Potential area for development**

- Scope to improve the time taken between the issue of the draft and final reports after fieldwork ends, and enforce escalation policy

<p>Provides risk-based assurance.</p>	<ul style="list-style-type: none"> <li>• The strategic and operational risk registers are a key source of evidence for determining the content of the audit plan.</li> <li>• 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.</li> <li>• Internal plan is regularly reviewed throughout the year, and where appropriate amended, to take account of emerging risks.</li> <li>• 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.</li> <li>• The audit opinion in each audit assignment includes an assessment of the residual risk based on the effectiveness of the controls tested.</li> <li>• Audit and risk management are both part of the Audit and Assurance team. Although kept operationally separate it fosters close links between the two functions,</li> </ul> <p><b>Potential area for development</b></p> <ul style="list-style-type: none"> <li>• Provide additional guidance to team members on how to assess the quality of risk management arrangements within services</li> </ul>
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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, including the development of a Data Analytics Strategy
- 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.
- Systematic issues and/or trends in risk or controls are identified in the annual opinion
- The delivery of audit assignments is timed for when they have the greatest potential added value
- Internal audit reports include an assessment 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**

- Implement the Data Analytics Strategy
- Enhance our reporting methodology to include guidance on “root cause analysis”

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.
- Conduct 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.

- Formalise the role of audit in relation to projects
- Further develop the approach to follow up to enhance the reporting of outstanding actions beyond the due agreed date to ADs

## Appendix 7: Key Performance Indicators 2021/22

	Annual target	Outturn	Variance	Comments
<b>What did we do?</b>				
Actual outturn forecast v budgeted outturn (shared service combined)	586K	582K	-4K	Expenditure in line with budget
Audit days delivered as at 31/5/22	940	845	-95	This represents 90% of planned days being delivered by 31/5/2022, and represents an improvement compared to 2020/21 (84%). By 24 June this figure had increased to 94%
Number of audits completed by 30 June 2022	72	57	-15	As shown on Appendix 1, 8 assignments are ongoing and 6 were deferred to 2022/23 after discussion with the client, and 1 was superseded as a result of the OFSTED Inspection

% of audits issued in final within 20 working days of the issue of the draft	90%	63%	-27%	Although below target represent a significant improvement on the 2020/21 outturn 51%
<b>How well did we do it?</b>				
Did we carry out the audit well? (customer satisfaction questionnaires)	90%	100%	+10%	Based on post-audit questionnaires and a survey of Assistant Directors
Chargeable days per employee excluding HOIA compared to CIPFA average	177	173	--4	Slightly below target but improvement on 2020/21 outturn of 171 days
% of audits issued in draft by the agreed date	90%	73%	-17%	Although below target represents a considerable improvement on the 2020/21 outturn of 51%

<b>Did we add value?</b>				
Did we add value? (customer satisfaction questionnaires)	100%	100%	+10%	Based on post-audit questionnaires and a survey of Assistant Directors
% agreed actions implemented by the agreed date	70%	67%	-3%	Compares to 69% in 2020/21 although based on a relatively small sample and excludes cases where it has been agreed to extend the due date due to extenuating circumstances.