

# AUDIT AND GOVERNANCE COMMITTEE

<b>DATE</b>	02/02/2023
<b>REPORT OF</b>	Head of Audit and Assurance
<b>SUBJECT</b>	Interim Internal Audit Report 2022/23
<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 2022/23 Internal Audit Plan up to 31 December 2022. 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 2022/23 audit which could impact on the annual opinion; and

- providing an update on the activities which have taken place during 2022/23 to assess 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 31 December 2022. 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 it explains that there have been adjustments to the planned work during the year, that the overall size of the plan in terms of days may be reduced if the revised contingency of 40 days is not required, and 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 31 December 2022 and refers to Audit's Quality and Assurance Improvement Plan (QAIP). It describes the activities which have taken place so far in 2022/23 to ensure that Internal Audit complies with quality standards, as well as the plans for the mandatory 5-yearly External Quality Assessment to be carried out later in 2023.

## **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 2023 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 1 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, and specific time is allocated for this work. Any significant issues arising from this work will be reported to the Audit and Governance Committee in the Head of Internal Audit 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. CHILDREN AND YOUNG PEOPLE IMPLICATIONS**

Audit assignments relating to Children's Services are included in the list of final reports issued shown on Appendix 1. As discussed in the report, as well as the work carried out by Internal Audit, other sources of intelligence are considered when forming the year-end Head of Internal Audit opinion, including the outcome of external inspection reports (particularly in relation to OFSTED) and the response to them.

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

None directly arising from the recommendations in this report.

## **8. FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

## **9. LEGAL IMPLICATIONS**

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

## **10. HUMAN RESOURCES IMPLICATIONS**

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

## **11. WARD IMPLICATIONS**

Applicable to all wards.

## **12. BACKGROUND PAPERS**

Internal Audit Annual Plan 2022/23 (April 2022)

Public Sector Internal Audit Standards (April 2017)

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

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**PETER HANMER**  
**HEAD OF AUDIT AND ASSURANCE**





# **North East Lincolnshire Council**

## **Interim Audit Report 2022/23**

### **Month 9**

## Introduction

The purpose of this 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 out 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 2022/2023 audit which could impact on the annual opinion: and
- providing an update on the activities which have occurred during 2022/23 in relation to quality improvement, and to ensure Internal Audit's continued compliance with Public Sector Internal Audit Standards (PSIAS).

## Delivery of the Audit Plan

At the meeting of the Audit Committee held on 21 April 2022, the Head of Audit and Assurance presented the Internal Audit Plan 2022/23. The report provided an outline of the audit priorities and activities for 2022/23, how it will be delivered and resourced, a commentary on the methodology for its compilation, and assurance on compliance with auditing standards. An update to the audit plan, providing further detail of the planned audit work, was provided to the Committee on 21 July 2022. The total audit days identified in the plan was 920 days, but Members of the Committee were informed that it is subject to regular review and amendment to take account of changes in the Council's risk profiles and priorities, and the level of audit resources available.

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 at 31 December 2022 is shown on the table below.

As shown, there have been some adjustments to the distribution of audit days e,g

- a reduction in the planned days relating to strategic risk, operational risks and governance risks due some planned audits in Adult Social Care being no longer being applicable to the planned national changes in social care process and funding being deferred, a realignment of the audit plan relating to children's to take account of the ongoing transformation work in response to the OFSTED review, and some work being deferred until 2022/23 at the request of services due to service pressures and service redesign;
- a reduction in the time has been required for ICT audits: the audit team contracted with a third party supplier to provide ICT audit support over a 30 month period up to 31 March 2023, but there was greater input in 2021/22 meaning less time than budgeted for has been required in 2022/23;

- increase in time required for procurement to take account of audit work carried forward from 2021/22; and
- additional request for advisory work.

***Days charged against the revised audit plan as of 31 December 2022***

<b>Area</b>	<b>Planned days</b>	<b>Revised days</b>	<b>Actual days</b>
Strategic risks, operational risks, and governance	400	360	205
Financial systems	135	135	70
ICT	45	35	12
Procurement and contract management	25	35	25
Grants	60	60	42
Schools	10	10	9
Follow up	40	40	15
Fraud and financial probity	60	60	53
Advisory	50	70	47
Audit Management	75	75	48
Contingency	20	40	
<b>Total</b>	<b>920</b>	<b>920</b>	<b>526</b>

As of 31 December 2022, 526 days had been charged against the audit plan. This compares to the anticipated days of 536 days at this point in the audit cycle. Although this is a pleasing position, there are some caveats to take into account, which may result in the planned days not being completed and/or some planned audits not being completed by May 2023 e.g:

- the backlog from the previous audit year which meant more 2021/22 work needed to be carried forward and completed in 2022/ thus impacting on the start of some 2022/23 audits; and
- one off reductions in the resources available to the audit team during 2022/23.

Although it is still anticipated that audit will have carried out sufficient work by 31 May 2023 to provide a reliable, risk based, and code compliant audit opinion, this is subject to risk. Consequently, the content and the delivery of the audit plan will continue to be subject to review, and there is a likelihood that the current contingency of 40 days may not be required which would reduce the planned days to 880 days.

## **Audit work carried out**

A summary of audit reports issued since June 2022 is shown in Appendix 1. They include a number of audits which were largely carried out as part of the 2021/22 audit plan but were reported in 2022/23 and therefore will be considered as part of the 2022/23 opinion.

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. This included providing considerable support in relation to providing assurance on the eligibility of applicants for Council Tax Energy Rebates

During 2022/23, audit has also carried out work in relation to the certification of grants, including:

- Outbreak Fund Management Fund (COMF)
- Substance Misuse
- Local Transport Plan and Potholes
- Supporting Families
- Bus Services Operators Grant
- Household Support Fund
- Community Renewal Fund
- Greens Homes Grant Phase 2

Based on the evidence provided to audit, expenditure was in line with the grant conditions. Where appropriate, Internal Audit have recommended improvements to the audit trails so that they more easily demonstrate compliance with grant determinations.

Internal Audit also follows up the implementation of previously agreed actions. This work is carried out as follows:

- Sending out quarterly reminders to managers to remind them of their agreed actions and seeking confirmation as to whether they have been implemented- during 2022/23 Internal Audit has enhanced the escalation and reporting process and intends to provide a summary of the outcome of this work in future reports to the Audit and Governance Committee; and
- Carrying out specific follow up audits or checking previous actions when carrying out audit assignments- as at 31 December 2022 out of 17 actions checked, 8 had been implemented. However, this based on a small sample of follow-up work carried out so far in 2022/23.

As well as the work carried out by Internal Audit, other sources of intelligence are taken into account when forming the year-end Head of Internal Audit opinion,



including the outcome of external inspection reports (particularly in relation to OFSTED) and the response to them.

## **Quality Assurance**

As reported in previous years, Internal Audit has a Quality and Assurance Improvement Programme (QAIP). This is subject to regular review, and should any changes be required it will be brought to the March 2023 Audit Committee alongside the 2023/24 audit plan and the updated Audit Charter.

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 and North East 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 2023. A procurement exercise will be carried out in January 2023, based on a specification produced by the Treasury, in order to appoint a suitable person or organisation to carry out the inspection, and it is anticipated that the inspection will take place in sufficient time for its outcome to be reported in the Annual Head of Internal Audit Report and Opinion to be issued in June 2023.

During 2022/23 several 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 monthly team meetings;
- implementing the action plan identified following the self-assessment against the ten “audit principles” defined by the Institute of Internal Audit- this has included updating the approach in relation to advisory work and involvement in projects, developing an action plan to support the implementation of our Data Analytics Strategy, updating our competency matrix to help identify development needs and opportunities for team members, and updating our approach to stakeholder management;
- regularly updating of the Audit Manual which provides guidance to staff on how to carry out their work and virtual team meetings to talk about the various sections of the manual;
- the review of 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 Committee alongside the Audit plan 2022/23;
- reminding team members of the Code of Ethics, including the consideration of ethical dilemmas at team meetings;

- monitoring the % of respondents to post audit questionnaires who thought that an audit was carried out well - as of 31 December 2022 this was 100% (but based on a low return rate)
- monitoring the % of respondents to post audit questionnaires who thought that an audit added value - as of 31 December 2022 this was 100% (but based on a low return rate)
- monitoring the timeliness of the completion of audits-
  - as of 31 December 2022 69% of audits had been issued in draft by the date agreed in the terms of reference, compared to the target of 90%; and
  - 54% were issued in final within 20 working days of the issue of the draft.

Further quality assurance and improvement activities to be carried out during the remainder of 2022/2023 will be reported in the Annual Head of Audit Report and Opinion.

### **Final Remarks**

Audit would like to thank managers and staff for their continued support to the audit process despite the challenging environment they operate it

**Appendix 1: Completed Audit work contributing to the 2022/23 audit opinion as of 11 January 2023**

<b>Audit Assignment</b>	<b>Director</b>	<b>Assurance</b>	<b>Residual Risk</b>	<b>Comments</b>
<b>Delivery of strategic outcomes and good governance</b>				
Attendance and Attainment	Children's Services	<b>Satisfactory</b>	<b>Medium</b>	
Car Parking	Environment, Economy and Resources	<b>Satisfactory</b>	<b>Low</b>	
Commercial Estates	Environment, Economy and Resources	<b>Satisfactory</b>	<b>Medium</b>	
Decision records	Environment, Economy and Resources	<b>Satisfactory</b>	<b>Low</b>	
Education Welfare Service	Children's Services	<b>Satisfactory</b>	<b>Medium</b>	
Home Choice Lincs	Environment, Economy and Resources	<b>Satisfactory</b>	<b>Medium</b>	
Integrated Resort Service	Environment, Economy and Resources	<b>Substantial</b>	<b>Medium</b>	
Local Transport Plan	Environment, Economy and Resources	<b>Substantial</b>	<b>Low</b>	
Role of Principal Social Worker (Children's)	Children's Services	<b>Satisfactory</b>	<b>Medium</b>	
Role of LADO	Children's Services	<b>Substantial</b>	<b>Low</b>	

<b>Audit Assignment</b>	<b>Director</b>	<b>Assurance</b>	<b>Residual Risk</b>	<b>Comments</b>
<b>ICT</b>				
Cloud Computing		<b>Limited</b>	<b>Medium</b>	At the time of the audit management was working towards ensuring that all cloud system procurements comply with the 14 NCSC cloud security principles. A follow up audit will be carried out early in 2023
Cyber Security		<b>Satisfactory</b>	<b>Medium</b>	
ICT Controls HR- Payroll Application		<b>Satisfactory</b>	<b>Low</b>	
<b>Probity and counter fraud</b>				
NFI				2022/2023 is data collection year for NFI with matches expected to be available from late January 2023. Outcomes from these matches will be reported in 2023/2024.
Car Hire	Environment, Economy and Resources  Children's Services	<b>Substantial</b>	<b>Low</b>	
Duplicate Payments	Environment, Economy and Resources			No significant areas of concern were identified
Income Collection - Allotments	Environment, Economy and Resources	<b>Satisfactory</b>	<b>Low</b>	

<b>Audit Assignment</b>	<b>Director</b>	<b>Assurance</b>	<b>Residual Risk</b>	<b>Comments</b>
Overtime	Environment, Economy and Resources	<b>Substantial</b>	<b>Low</b>	
<b>Follow up</b>				
Risk in Cabinet Reports	Environment, Economy and Resources	<b>Satisfactory</b>	<b>Low</b>	
Transitions - Childrens to Adults - Follow Up	Adult Services and Children's Services	<b>Limited</b>	<b>Medium</b>	Most of the previously agreed actions had not been implemented
<b>Schools</b>	<b>Director of Children and Families</b>			
Stanford Junior and Infant School		<b>Satisfactory</b>	<b>Low</b>	
Queen Mary Infant and Nursery		<b>Satisfactory</b>	<b>Low</b>	

**Key to control effectiveness:**

<b>Effectiveness</b>	<b>Action Level</b>
<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

<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.

## **Appendix 2: Summary of advisory work provided by Internal Audit in 2022/23**

- 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 considerable advice and support, where appropriate, on the design of systems in relation to energy rebates
- Providing support and challenge to the Financial Project Board tasked with implementing the new financial system
- Providing advice and support to the Audit Committee in relation to the latest guidance from CIPFA regarding the operation of Audit Committees
- Providing advice and support in relation to the design of the systems for producing KPIs in relation to the Regeneration Partnership
- Providing induction training to Audit Committee Members on the role of the committee, governance, internal control, and the role of Internal Audit
- Providing support on council-wide reviews about organisational culture
- Where appropriate, providing support on the review of processes operating within Children's Services
- Providing advice and support, where appropriate, on the design of the systems in relation to the "Homes Ukraine" scheme
- Co-ordinating the production of the "Partnership Stocktake" for the Audit and Governance Committee
- Representation on the Business Development Group responsible for evaluating business cases
- Representation on the Information Security and Assurance Board, including advice and 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
- 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.