

AUDIT AND GOVERNANCE COMMITTEE

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| DATE | 1 February 2024 |
| REPORT OF | Head of Audit and Assurance |
| SUBJECT | Interim Internal Audit Report 2023/24 |
| 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 2023/24 Internal Audit Plan up to 31 December 2023. 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.

As highlighted in previous reports to the committee this has been a challenging year for the Internal Audit team due to sickness and vacancies. Following the re-prioritisation of work and the ability to rely upon other sources of assurance we have been able to reduce the proposed audit plan from 900 to 800 days and still forecast that sufficient work will be carried out to provide a reliable year-end opinion, although this is subject to risks.

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 its delivery, 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 delivery of the 2023/24 audit which could impact on the annual opinion; and
 - providing an update on the activities which have taken place during 2023/24 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 2023. As discussed in the report there have been challenges to delivering the audit plan, and as a result the target days to be delivered by 31 May 2024 has been reduced from 900 to 800 days. Although, sufficient work should be carried out to provide a reliable, code complaint opinion (including taking account of other sources of assurance if applicable), this remains a risk and there is a potential that a "limitation in scope" may have to be caveated to the opinion.
- 1.3 The interim report also shows the final reports issued by 31 December 2023. Based on the worked completed so far Internal Audit is not anticipating an adverse opinion on the Council's control environment.
- 1.4 The report also refers to Audit's Quality Assurance arrangements. The External Quality Assessment, carried out in November 2023, has provisionally concluded that the audit team "Generally Conforms" with auditing standards, which is the highest score available. The report will be shared with Member once it has been issued in final.

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.

The report has highlighted that risks remain in delivering the audit plan in 2023/24 and that a "limitation in scope" may potentially be included in the year end audit opinion.

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 2023/24 (April 2023)
Internal Audit Update (November 2023)
Public Sector Internal Audit Standards (April 2017)

13. CONTACT OFFICER(S)

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Head of Audit and Assurance



North East Lincolnshire Council

Interim Audit Report 2023/24

Month 9

Introduction

The purpose of this briefing paper is to keep the Audit and Governance Committee Members informed in relation to the delivery of the internal 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 2023/24 audit which could impact on the annual opinion: and
- providing an update on the activities which have occurred during 2023/24 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 and Governance Committee held on 20 April 2023, the Head of Audit and Assurance presented the outline Internal Audit Plan 2023/24. The report provided a summary of the audit priorities and activities for 2023/24, how it would be delivered and resourced, a commentary on the methodology for its compilation, and assurance on compliance with auditing standards. The total audit days identified in the plan was 900 days, but Members of the Committee were informed that it was 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". An update to the audit plan, providing greater detail of the planned audit work, was provided to the Committee on 13 July 2023. Although there were some adjustments to the plan, the total audit days remained at 900 days.

At its meeting on 11 November 2023 the Head of Audit and Assurance reported that the delivery of the Audit Plan would be particularly challenging due to numerous factors including:

- higher level than in previous years of staff retirements and turnover impacting on resources;
- there has been greater than anticipated levels of sickness during the summer which has impacted on resources;
- there was a greater level of work from 2022/23 not completed by 30 June 2023 initially anticipated; and
- anticipated changes relating to the senior management in children's services was impacted upon the setting up of audits in this critical area whilst some of

the external challenge which has made it difficult to deliver planned work (whilst noting the additional assurance arising from additional scrutiny in the service.

The Head of Audit and Assurance reported to the Audit and Governance Committee that actions were being put in place to ensure that sufficient work would be carried out by 31 May 2024 to provide a reliable year end opinion on the Council's control environment. This included the reprioritisation of audit assignments dependent on their relative importance to the Council's control environment, holding discussions with Assistant Directors to emphasise the importance of audits being delivered to schedule, increasing emphasis on the use of data analytics to obtain assurance more efficiently, and limiting the acceptance of requests for advisory work.

A breakdown of the revised budget of the plan due to this re-prioritisation is shown on the table below. This generated an increased contingency of 139 days. As most of this contingency will not be required, and in any event that resources will not be available, the target planned days has been reduced to 800 days. The main adjustments to the plan are as shown below:

- A reduction in the estimated days required for strategic and operational risks. This is due to changes in the risk profile meaning that some audits identified at the planning stage can be re-prioritised and will be best carried out in 2024/25 or we can place reliance on the outcome of inspections or peer reviews, such as the ongoing OFSTED visits in relation to Children's Services, the corporate peer review and its follow up, Regulation of Investigatory Powers Act (RIPA) inspection, and the peer review carried out on Adult Services in January 2024. A summary of these changes is shown on Appendix 1.
- In relation to financial systems, we are still completing all audits, but we have adopted a more risk assessed approach of looking at analytical review to gain high level assurance, and testing exceptions, changes to control and where there were issues last year.
- Based on the requests for advisory work up to month 9, we have reduced our forecast for the level of resource required for the rest of the financial year.

In addition, we will be meeting with the new Children's Services Management Team, and this could lead to further changes to the plan.

The revised plan, if delivered, will provide sufficient coverage to provide a reliable, risk-based, standards compliant opinion on the Council's control environment, subject to the risks identified below.

Table1: Revised Plan and days charged as of 31 December 2023

| Area | Planned days as of 20 April 2023 | Planned days as of 13 July 2023 | Planned days as of 31 December 2023 | Actual Days as of 14 January 2024 |
|--|----------------------------------|---------------------------------|-------------------------------------|-----------------------------------|
| Strategic risk/ operational risk/ governance | 415 | 441 | 364 | 142 |
| 2022/23 work carried forward from 1 July 2023 * | | | | 42 |
| Financial systems | 115 | 121 | 93 | 46 |
| ICT | 50 | 50 | 48 | 17 |
| Procurement and contract management | 20 | 20 | 20 | 6 |
| Schools | 10 | 10 | 12 | 37 |
| Grant Certification | 40 | 40 | 45 | 7 |
| Advisory | 60 | 51 | 30 | 15 |
| Follow up | 40 | 40 | 36 | 23 |
| Probity and Counter Fraud | 60 | 60 | 38 | 23 |
| Management time | 75 | 75 | 75 | 60 |
| Contingency | 15 | 2 | 39 | |
| Total | 900 | 900 | 800 | 376 |

*(the 2022/23 time charged up to 30 June 2023 was included in the outturn for 2023/23 in the Head of Internal Audit Report and Opinion)

As of 31 December 2023, 376 days had been charged against the audit plan. This was against the original target of 525 days for this point in the audit cycle, or 467 when taking account of the reduction in planned days.

Since the previous update to the Committee the resources available to audit have further been reduced due to two resignations in quarter three, as well as one further long-term sickness. Consequently, there remains a gap in the revised plan and the resources available to complete it by the target date of 31 May 2024. Mitigating actions are being put in place to try to reduce this gap. These include:

- successfully securing a new ICT audit partner and agreeing a programme of work with them to be completed by 31 May 2024;
- looking at the temporary recruitment of staff;
- engaging with other audit providers to establish whether they have any spare capacity; and
- considering extending the completion of the Head of Audit Annual Report and Opinion to 30 June 2024, although this would require scheduling the Audit and Governance Committee towards the end of July 2024.

We are focusing our work on those areas which will have greatest impact on the audit opinion (e.g., financial risks, strategic risks, areas of known significant operational risk, and the key components of the governance framework) but there may be areas where we may need to provide a “limited” scope opinion.

For example, each year the audit programme includes testing of a small number of contracts to confirm whether the Council’s contract procedure rules (CPRs) and contract monitoring arrangements are being followed in practice. Due to other priorities this work may not take place in 2023/24 and if this were the case, though the overall opinion would not be affected, we would report that these areas of work had not been completed. We will provide a further update at the next Audit and Governance Committee.

Audit work carried out.

A summary of audit reports issued since June 2023 is shown in Appendix 2. They include audits which were largely carried out as part of the 2022/23 audit plan but due to their time of issue will be considered as part of the 2023/24 opinion. As previously reported two reports have received limited assurance, these were:

- Discharge of Mental Health Responsibilities; and
- Public Health Grant Governance Arrangements.

As well as the assurance work an important part of audit work is carrying out advisory work to support the Council governance arrangement and control environment. A list of this work carried out in 2023/24 is shown on Appendix 1.

We have also carried out work in relation to the certification of grants, including:

- Outbreak Fund Management Fund (COMF)
- Local Transport Plan and Potholes

- Supporting Families
- Bus Services Operators Grant
- Household Support Fund
- Greens Homes Grant Phase 3
- Household Support Fund 3
- Housing Upgrade Grant 2
- Multiply Ring Fenced Spending

We also follow up the implementation of previously agreed actions. This work is carried out as follows.

- sending out reminders to managers to remind them of their agreed actions and seeking confirmation as to whether they have been implemented. In 2023/24 the audit software was enhanced, and we are in the process of using it to implement a new system to allow action owners to provide an update note on progress directly onto the system rather than via email and they will receive an automated prompt to do so, and improved reporting capabilities; and
- carrying out specific follow up audits as of 31 December 2023, of 48 actions checked, 34 had been implemented (69%)., whilst a further 6 were close to implementation. Although below the target of 90% this represents an improvement on the previous year's outturn, and ongoing work is being done via the Assistant Director group to drive up further compliance.

Quality Assurance

As reported in previous years, Internal Audit has a Quality and Assurance Improvement Programme (QAIP). This is subject to regular review, and an update of it will be brought to the March 2024 Audit Committee alongside the 2024/25 audit plan and the updated Audit Charter.

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. The external Inspection was carried out in November 2023 by the Chartered Institute of Public Finance and Accountancy (CIPFA). This included validation of the self-assessment reported in the 2022/23 Head of Internal Annual report, interviews with stakeholders and a review of audit documentation, files and reports. The initial feedback was received in late December 2023. This confirmed 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. Feedback on the draft report has been provided and it is anticipated that the final report will be issued by 31 January 2024, and will be presented to the Committee at its March 2024 meeting.

During 2023/24 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.
- regularly updating the Audit Manual which provides guidance to staff on how to carry out their work and team meetings to talk about the various sections of the manual.
- reminding team members of the Code of Ethics, including the consideration of ethical dilemmas at team meetings.
- monitoring the percentage of respondents to post audit questionnaires who thought that an audit was carried out well - as of 31 December 2023 this was 100%.
- monitoring the percentage of respondents to post audit questionnaires who thought that an audit added value - as of 31 December 2023 this was 100%.
- monitoring the timeliness of the completion of audits- as of 31 December 2023, against a target of 90%
 - 35% of audits had been issued in draft by the date agreed in the terms of reference, compared to 73% for the 2022/23 outturn; and
 - 74% were issued in final within 20 working days of the issue of the draft, compared to 49% for the 2022/23 outturn.

Further quality assurance and improvement activities to be carried out during the remainder of 2023/2024 will be reported in the Annual Head of Audit Report and Opinion.

Appendix 1: Changes to the audit plan relating to strategic and operational risk audits

Deferred audits or changed scope

| Assignment | Outline Scope | Director | Reason for Amendment |
|------------------------------|--|-----------|--|
| Care assessments and reviews | Assurance that individuals with a care need are subject to asset-based assessment that results in a care plan, which is subject to review at appropriate intervals | Adults | This area is being subject to a peer review in January 2024 and therefore we will rely on the outcome of this review, and then consider what additional work is required by audit in 2024/25. |
| Community Asset Transfers | Assurance on the Council's arrangements for managing risk related to community asset transfers | Resources | After discussion with the relevant Assistant Director was not considered a significant risk as relatively few transfers have occurred in 23 /24. However, may increase because of the asset rationalisation review, and so will pick up in part as the audit of that, and be included in 24/25 audit plan depending on the number of community assets transfers. |
| New Operating Model | Assurance on the delivery of the New Operating Model, particularly performance management framework, data quality / data insights and digital strategy / digital inclusion, all of which underpin the Council Plan | Resources | Some areas of the new operating model are in the plan already or have been subject to audit in 23/24 (e.g., community engagement, project management, procurement, council plan) whilst the Assistant Director will be providing the Audit Committee with an overview in January. |

| Assignment | Outline Scope | Director | Reason for Amendment |
|--|---|-------------------------|--|
| Planning | Assurance on the arrangements for managing and approving planning applications and ensuring compliance with legislation and local policy | Economy and Environment | Merged with the Section 106 audit including focus on the development of the new plan as at the current time considered a bigger immediate risk than the operational side of planning. |
| Role of key officers- Principal Social Worker - Adults | Assurance that the role of the Principal Social Worker is being effectively delivered across all settings and in accordance with best practice | Adults | Will in part be covered by the peer review, and for 2023/24 focus will be providing assurance on the new Section 75 arrangements and how the Director of Adults is able to discharge their duties via it. |
| School Nursing | Provide assurance on the control environment relating to the school nursing service | Public Health | The Children Health Service, including school nursing, was subject to an OFSTED review in August 2023 and was reported as "good". In addition, the commissioning arrangement for school nursing are being reviewed and should be complete by the end of the financial year. Therefore, we can place reliance on the OFSTED report, and it has been agreed that we will do the audit in the new year of the revised commissioning arrangements. |
| SHIPP | Assurance on the approach to encourage businesses to locate to the estate, including marketing and provision of support, thereby improving the economy and maximising business rates income | Economy and Environment | The arrangements for SHIPP will be changing with the recent announcement of the sale of a substantial proportion of land related to it to a third party. |

| Assignment | Outline Scope | Director | Reason for Amendment |
|---|---|-------------------------|---|
| Single point of access and hospital team | Assurance on the triage process for assessing care needs promptly particularly in relation to hospital discharge | Adults | Currently being reviewed by the DHSC (Department of Health and Social Care) who are currently working with the local hospital. Therefore, not an appropriate time to carry out an audit review, and we will await the outcome of this work. |
| Supported families | Assurance that all work with families is captured and there is an effective link to being able to claim payment by results for supporting families' outcomes realised | Children's | Delayed due to some sickness issues with the relevant team, and software issues in implementing the new criteria for supported families. Assurance can be received from our mandatory audits of the grant return to central government. |
| SEND (Special Educational Needs and Disabilities) - preparedness for new inspection framework | Assurance on the processes in place for preparing for an inspection under the revised framework | Children's | lower risk audit |
| Transitions | Assurance on the effectiveness of partnership arrangements in place relating to the seamless transition of young persons from children's social care to adult social care | Children's / Adults | Deferred as new Childrens Director in post and both Childrens and Adults subject to external reviews in quarter 4 |
| Waste disposal | Assurance on the arrangements for waste disposal, including contract management, environmental responsibilities and VFM (Value for Money) | Economy and Environment | Contract arrangements have been under review during 2023/ 24 and therefore agreed to defer to early 2024/25 when revised arrangements are in place |

Appendix 2: Summary of advisory work provided by Internal Audit in 2023/24

- 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 advice and support to the Audit Committee in relation to the latest guidance from CIPFA regarding the operation of Audit Committees
- Involvement in council-wide reviews about organisational culture
- Providing training to management teams on good governance and internal control
- Providing training to Children's Services senior managers on their responsibilities in relation to the control environment
- 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.

Appendix 3: Summary of Completed Audit work as of 31 December 2023

See attachment.

Summary of Completed Audit work up to 31 December 2023

| Audit Assignments 2023/24 | Director | Assurance | Residual Risk | Comments |
|--|-------------------------|--------------|---------------|--|
| Delivery of strategic outcomes and good governance | | | | |
| Adults Safeguarding | Adult Services | Satisfactory | Medium | |
| Casual Workers | Economy and Environment | Satisfactory | Low | |
| Council Plan/Performance Management | Resources | Substantial | Low | |
| Deprivation of Liberties | Adult Services | Satisfactory | High | We have assessed the residual risk as high. We have made this judgement because although a satisfactory control environment is in place and work is in place to further develop arrangements, although this is restricted by a lack of capacity, there remains underlying inherent reputational and financial risks, and risk for individuals human rights if cases are not dealt with correctly, there are capacity issues. This is in line with the risk related to DOLS that is on the Council's strategic risk register. |

| Audit Assignments 2023/24 | Director | Assurance | Residual Risk | Comments |
|---|-------------------------|------------------|----------------------|--|
| Discharge of Mental Health Responsibilities | Adults | Limited | Medium | Although the necessary functions relating to mental health are being fulfilled, improvements in relation to embedding policy have been identified. The main issue within the service, as highlighted as part of the audit, is the shortage of Approved Mental Health Professionals (AMHP's). This is in line with issues that have been reported nationally, and actions are being taken to mitigate this. |
| Domestic Abuse Act | Children's Services | Satisfactory | Medium | |
| Fostering and Adoption Panels | Childrens Services | Satisfactory | Low | |
| Grimsby Town Centre | Economy and Environment | Substantial | Medium | |
| Health Inequalities Risk Management | Public Health | Substantial | Low | |
| Public Health Grant | Public Health | Limited | Medium | The council complies with the requirements of the public health grant. However, the allocation has not been significantly reviewed for a number of years to reflect changing public health priorities and challenges. |
| Public Law Outline | Childrens Services | Satisfactory | Medium | |

| Audit Assignments 2023/24 | Director | Assurance | Residual Risk | Comments |
|---|-------------------------|---------------------|----------------------|---|
| Safeguarding Children Partnership | Childrens Services | Satisfactory | Medium | |
| Sexual Health (joint with NLC) | Public Health | Substantial | Low | |
| Tree Safety | Economy and Environment | Satisfactory | Medium | |
| Financial systems | | | | |
| Payroll (c/f from 2022/23) | Resources | Substantial | Low | |
| Duplicate Payments | Resources | Substantial | Low | |
| ICT | | | | |
| Cloud Computing Follow Up | Resources | Substantial | Medium | Of the 7 agreed actions all had been implemented |
| Procurement and contract and contract monitoring | | | | |
| Central Procurement Arrangements | Resources | Satisfactory | Medium | We have assessed the residual risk as medium. We have made this judgement because there is potential for financial, service provision and reputational risks if procurements are not completed in line with the relevant guidance |
| Follow up | | | | |
| Children's Homes - Financial Control | Childrens Services | Satisfactory | Medium | Of the 9 agreed all has been implemented, although the embeddedness of these actions will need to be tested as at the time of the audit they had only just been introduced |

| Audit Assignments 2023/24 | Director | Assurance | Residual Risk | Comments |
|----------------------------------|-----------|--------------|---------------|--|
| Commercial Estates | Resources | Substantial | Medium | Of the 5 agreed actions, 4 have been implemented |
| Counter Fraud and Probity | | | | |
| Conflicts of interest | Resources | Satisfactory | Low | |
| Expenses | Resources | Satisfactory | Low | |