



GA.53 13/14

**Governance & Audit
Committee**

10^h April 2014

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**Subject: Internal Audit Plan 2013/14 – December 2013 to February 2014
Progress report**

Report by:

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Purpose / Summary:

The report gives members an update of progress, by the Audit partner, against the 2013/14 annual programme agreed by the Audit Committee on the 21st March 2013.

RECOMMENDATION(S):

1) **Members consider the content of the report and identify any actions required.**

IMPLICATIONS

Legal: None directly arising from the report

Financial: None directly arises from the report.

Staffing: None.

Equality and Diversity including Human Rights:

NB: A full impact assessment **HAS TO BE** attached if the report relates to any new or revised policy or revision to service delivery/introduction of new services.

None arising from this report

Risk Assessment: N/A

Climate Related Risks and Opportunities: None arising from this report

Background Papers: No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

Call in and Urgency:

Is the decision one to which Rule 14 of the Scrutiny Procedure Rules apply?

Yes

No

Key Decision:

Yes

No



Internal Audit - Progress Report 2013 / 14



Date: *March 2014*

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Introduction

1. The purpose of this report is to:
 - Advise of progress being made with the Audit Plan
 - Provide details of the audit work during the period
 - Provide details of the current position with agreed management actions in respect of previously issued reports
 - Raise any other matters that may be relevant to the West Lindsey Audit Committee role

Key Messages

2. We have made good progress against the internal audit plan and have so far completed 86% of the planned work for the year. Remaining audits are scheduled for the fieldwork to be completed by the end of March 2014. These include:
 - finance audits
 - risk management
 - ICT
3. We have completed 6 audits since our last progress report, 4 of which have resulted in limited assurance, one system received substantial assurance and the remaining audit full assurance. Other significant work in this period includes:
 - A gateway review of the E-accessibility Project
 - Co-ordination of the Council's Combined Assurance Status report

Internal Audit work completed from 1st December to 28th February

4. The following audit work has been completed and a final report issued:

Full Assurance	Substantial Assurance	Limited Assurance	No Assurance
<ul style="list-style-type: none">• Welfare Reform	<ul style="list-style-type: none">• Housing Benefits – Highlight Report	<ul style="list-style-type: none">• Asset Management• NNDR – Growth Project• Partnership Management• Project Management	No reports

Note: The Governance & Audit Committee should note that the assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. Definitions levels are shown in Appendix 1.

5. The Executive Summaries of the 4 areas where limited assurance has been given are provided in Appendix 2. The key findings are:

Asset Management

The Council's current approach to the management of assets does not provide a positive level of assurance that its aims and objectives will be met. Specifically in understanding its asset base, maximising asset use and complying with asset disposal and acquisition policies.

NNDR – Growth Project

This is a key project for the Council – our audit identified that the project in its current form will struggle to progress and achieve successful delivery of its potential benefits. We have recommended that management review the project to assist in defining achievable outcomes and detailed success measures.

Partnership Management

Our audit identified the need to strengthen the governance and accountability arrangements for partnerships.

Project Management

Work is underway to strengthen the project management arrangements of the Council. Our limited assurance opinion is based on the fact that these arrangements are at an early stage and are not fully embedded across the Council.

6. In the audits given Full and Substantial Assurance, we confirmed that the Council has sound processes in place:

Welfare Reform

We are confident that Management have implemented the requirements of the Welfare Reform Act 2012 and the Local Government Finance Bill fully in the required timeframes.

Housing Benefits – Highlight Report

Our work identified that there are systems and processes in place to ensure that results from subsidy testing are monitored, reported to management and shared with the benefits team.

Other Significant Work

7. Other audit work undertaken during the period:

Gateway Review – E-accessibility Project

We found that the project is compliant with WLDC project management methodology. This provides confidence that the project is being well managed, that governance arrangements are in place and that management and board members are kept up to date with progress and delivery of the project. The project has been in place for some time but had not been progressing as expected. In the summer of 2013, management offered support in terms of a consultant and a project team. This reinvigorated the project and this is reflected in the progress reported through highlight reports to the board and Core Management Team.

Areas for management to consider are summarised below:

- There is a risk that highlight reports are too detailed and while they provide information on weekly tasks and progress, overall progress of the project could be lost in the detail. It is important that senior management can maintain an overview of progress against stated deadlines for completion of the project. This included progress against the eight key strategic objectives.
- The project has benefited from the use of a project management consultant. The contract is due to end in April 2014. This should be recorded as a risk and contingency plans drawn up, to ensure the good progress made is not lost by a reduction in project resource.
- Some of the supporting documentation is very detailed and requires manual updating, including the project plan. We advise Management review that this is appropriate and proportionate to the size of the project. Ensuring the right balance of supporting records against compliance with project management standards is an important consideration in embedding new processes.

Combined Assurance

The annual update of the combined assurance document is now complete and will be presented to the Governance and Audit Committee in April 2014.

Audits in Progress

8. The following 2013/14 audits are currently in progress:

Risk Management

We are undertaking an audit of the Council's risk management process in order to give assurance on their effectiveness in helping the Council achieve its objectives.

Financial Systems

We are currently undertaking audits of the following fundamental financial systems, to give you independent assurance about the effectiveness of key controls and the exposure to risk any control weaknesses may cause:

- Payroll
- Creditors
- Treasury Management
- General Ledger

ICT

We are undertaking an Internal Audit review of ICT, which will give you independent assurance in the following areas:

- Progress is being made on the implementation of agreed actions arising from the IT Security Audit Report dated August 2013.
- Compliance with KPMG requirements for ICT, on Access Controls, Access to systems and data and System Changes.
- Public Service Network Compliance.
- Data Centre controls.

Performance Information

9. Our current performance against targets for 2013/14 is shown below.

Performance Indicator	Target	Actual @ 28/02/2014
Percentage of plan completed.	100% (revised plan)	86%
Percentage of key financial systems completed.	100%	75%
Percentage of recommendations agreed.	100%	98% 1 out of 48 recommendations not agreed
Percentage of recommendations due implemented.	100% or escalated	To be included in the annual report @ 31.3.14
Timescales: Draft report issued within 10 working days of completing audit.	100%	44% 4 out of 9 reports
Final report issued within 5 working days of CMT sign off	100%	56% 5 out of 9 reports
Client Feedback on Audit (average)	Good to excellent	Excellent

Other matters of Interest

CIPFA Better Governance Forum - Audit Committee Update Issue 12

10. The CIPFA Better Governance Forum has recently published issue 12 of its Audit Committee Updates and a copy is attached at Appendix 4. This issue focuses on reviewing internal audit quality noting that the audit committee needs to be satisfied that appropriate arrangements are in place. It also outlines the new guidance from CIPFA's publication *Audit Committees, Practical Guidance for Local Authorities and Police* (see below) and includes a round-up of legislation, reports and developments that may be of interest to audit committee members

Audit Committees - Practical Guide for Local Authorities and Police - 2013 Edition (CIPFA)

11. CIPFA has issued updated guidance on the function and operation of audit committees in local authorities and police bodies. It represents CIPFA's view of best practice and includes the following areas:
12. Position statement on Audit Committees – emphasising the importance of the Audit Committee as a key component of governance
 - Whilst recognising no single model of audit committee is prescribed gives suggested core functions – including :
 - Effectiveness, understanding and realism of assurance statements - including the Annual Governance Statement
 - Oversee the Internal Audit Function performance and effectiveness
 - Consider the effectiveness of the Council's risk management arrangements and control environment. Review the risk profile of the Council and assurances that action being taken on risk-related issues. – including partnerships with other organisations.
 - Monitoring the effectiveness of value for money and counter fraud arrangements
 - Consider reports and recommendations of external audit and inspection agencies and their implications for governance, risk or control.
 - Support effective relationships between internal and external audit, inspection agencies – encouraging the active promotion of the value of the audit process.
 - Review the financial statements, external auditors opinion and reports to members – monitoring management response to any issues raised by external audit
 - Suggested terms of reference for audit committees
 - Information on possible wider functions of an Audit Committee ie
 - Considering governance, risk or control matters at the request of other Committees or Statutory officers
 - Working with local standard committees to support ethical values and reviewing the arrangements in place to achieve those values
 - Reviewing and monitoring treasury management arrangements
 - Providing oversight of other public reports, such as the annual report
 - Independence and Accountability
 - Membership and Effectiveness
 - Self-assessments / appendices covering:
 - Audit Committee members – knowledge and skills framework
 - Core areas of knowledge
 - Specialist knowledge that adds value to the Audit Committee
 - Core skills
 - Self-assessment of good practice
 - Evaluating the effectiveness of the Audit Committee

Possible consideration for the Governance & Audit Committee:

- Review existing arrangements in light of the best practice guidance – identifying any changes it may wish to make
- Review terms of reference of the Committee
- Review the effectiveness of the Committee

Appendix 1 - Assurance Definitions

<p>Full Assurance</p>	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low.</p> <p>As a guide there are a few low risk / priority actions arising from the review.</p>
<p>Substantial Assurance</p>	<p>Our critical review or assessment on the activity gives us a reasonable level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls are in place and operating sufficiently so that the risk to the activity not achieving its objectives is medium to low.</p> <p>As a guide there are low to medium risk / priority actions arising from the review.</p>
<p>Limited Assurance</p>	<p>Our critical review or assessment on the activity identified some concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the risks are not always being operated or are inadequate. Therefore, the risk of the activity not achieving its objectives is medium to high.</p> <p>As a guide there are medium and a few high risk / priority actions arising from the review.</p> <p>Our work did not identify system failures that could result in any of the following:</p> <ul style="list-style-type: none"> - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements
<p>No Assurance</p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>Our work identified system failures that could result in any of the following:</p> <ul style="list-style-type: none"> - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements <p>The controls to manage the risks are not being operated or are not present. Therefore the risk of the activity not achieving its objectives is high.</p> <p>As a guide there are a large number of medium and high risks / priority actions arising from the review.</p>

Appendix 2 – Audits where assurance is assessed as ‘No’ or ‘Limited’ (Executive Summaries only)

Asset Management – issued 10th February 2014

Introduction and Scope

We have carried out an internal audit review of the Councils asset service. The aim of our review is to give independent assurance to the Council on the processes and system in place to manage assets.

How the Council uses its resources is vital in meeting the economic challenges ahead. The successful acquisition, disposal and management of assets supports the Councils Corporate Themes, Priorities, Commercial Strategy and investment decisions – the Asset Management Strategy states: -

The quality and suitability of these assets impact directly not only on the effectiveness and efficiency of service delivery, but also on the perception of the Council as an employer and advocate for the county of Lincolnshire. If these assets are managed well then it provides a significant opportunity to shape and influence policy options as well as bring in income and capital receipts through the sale of property surplus to requirements.

Our audit is focusing on three distinct areas - as agreed with the Councils Corporate Management Team. These are:

- The Council has a full understanding of all assets held;
- The Council maximises assets to their full potential;
- There is process to manage asset acquisition and disposal.

Our approach included reviewing:

- the day to day running and management of the asset section;
- the work of the Land and Property Programme group
- Examination of asset acquisition and disposal – including compliance with policy, and;
- The effectiveness of the interaction between the different services involved in asset acquisition and management.

Executive Summary

Opinion Limited Assurance

We found that the current approach to the management of assets does not provide a positive level of assurance that the Council will meet its aims and objectives. Specifically in having a full understanding of assets, maximising asset use and compliance with asset disposal and acquisition policies.

Our opinion is based on the following key findings;

Asset strategy and policy,

- The strategy is primarily a copy of another Council's strategy and this does not provide assurance that it is tailored to this district's needs,
- The strategy contains gaps in information and detail which risk undermining the aims and objectives of the strategy.
- To assist the Council in successful delivery the strategy should be supported by an implementation or service plan, at the time of the audit there was no plan.
- A key part of the asset strategy is to "Ensure that the Council retains only property essential to its service delivery" and "Ensure that non-essential assets are disposed of for the optimum capital or community benefit or commercially marketed." To support these aims the Council should have in place detailed performance information and an approved disposal and acquisition policy.

The Asset Section,

- There is no effective system in place to report performance, staff one to one meetings had not all been recorded on the Council template. The sections management should focus on creating and monitoring progress and performance reporting, which aligns to service delivery and strategic aims.
- Specifically there was a lack of awareness on yields, voids, rent reviews and maintenance costs, which are not fully documented.
- The asset section has been subject to some key changes including a reduction in staff capacity. Requests for the purchase of asset specific software have been ongoing but are now resolved, these factors may have contributed to the above issues within the service.
- There is no action or service plan to document and manage issues within the section.

Acquisition and Disposal,

- The Council has investigated and purchased some assets without an approved acquisition policy in place. Approved policies are important to support successful delivery of Council's outcomes.
- Several groups and services had been involved with asset purchases and asset management, roles and responsibilities had either not been defined or clearly communicated and understood by officers.
- The constitution had not been complied on two asset purchases. Members should approve asset purchases below market value and over fifty thousand pounds. Two purchases had been made without prior member approval.

Direction of Travel



No Change

We have not audited this area before

The services strategic approach and supporting policies could now be reviewed to provide the corporate management team with assurance that documents are fit for purpose. The Council has ambitious aims for a commercial approach and increasing income so it has less reliance on central government funding. Currently Asset strategies, plans and management do not provide confidence that they can deliver against these aims.

The asset strategy document does not provide assurance that it is tailored to fit WLDC needs. It does not contain detailed asset information and states what still needs to be done and put in place to support outcomes. These gaps in detail and actions should be supported by a service or implementation plan. This was not in place and the service could not confirm how these would be addressed.

Discussion with staff and management and the review of the day to day functions of the Asset section showed that there are some areas where the performance framework could be improved.

- We found there is no internal performance reporting, so progress and delivery is not being measured.
- One to ones between the Team Manager and the Head of Service had not always been documented on the standard template format.
- The measures for assets in the Corporate Plan do not provide enough detail to provide assurance on performance and delivery.
- Staff capacity had been reduced and the section had requested the purchase of asset specific software to support improved working and delivery. This had taken some time to resolve.

The section should develop an action plan to address improvements in performance and reporting to provide assurance that these are being monitored and actioned.

We found some issues around the acquisition and disposal of assets which risk undermining the Council's aims of supporting growth and achieving commercial

returns on assets. Review of processes, policy and assurance that staff have received and are clear on roles and responsibilities and governance can give management more confidence on asset management.

Our review found the following key areas;

- Two purchases had been made which should have involved prior member scrutiny and approval. These had not been obtained and the constitution had been misquoted on these business cases by officers.
- The Council ensures that governance and reporting is understood by the group's involved in asset management. Staff are not clear on overall roles and responsibilities and reporting lines.
- The acquisition and disposal policy has not been approved, all acquisitions and disposals should be in line with and supported by an approved policy.
- There have been no disposals in the last twelve months. A list of possible sites was created but this had not resulted in any sales. The Council ensures the strategies and governance provides clarity on decisions and policies are approved so it does not miss out on disposal opportunities.
- Asset acquisition records could be more complete. Records should be centrally retained for a clear audit trail of decisions. Challenge, scrutiny, and approval of board and officer decisions should be minuted and retained.

Management Response

The Council welcomes the Report and supports the findings and suggested actions.

The Report identifies a clear lack of strategic and operational direction in the Strategic Growth Team but in particular, the ability to identify the improvements required to the service and to prioritise actions through an improvement plan. This is demonstrated by the limited assurance assessment.

Turning to the specific concerns raised by the report. The Asset Management Strategy was developed from what was considered to be a best in class approach and so if internalised effectively will provide the strategic direction for the management of our assets. It is recognised that the strategy requires further development to both make it directly relevant to the Council's needs and also to create an action plan to deliver the required changes.

It is of concern that an asset acquisition and disposal policy was created in 2012, but having made one unsuccessful attempt to secure agreement by the Core Management Team no further action appears to have been taken to redraft the Policy and secure adoption. It is agreed that this Policy is a clear requisite for Members to further inform the delivery of the Asset Management Strategy and reflect their ambition to optimise the value of assets for the benefit of local people. For surplus assets the best option may be disposal, but the clear priority is to explore all options prior to disposal to ensure the maximum value is secured having regard to all circumstances. The report identifies concerns about performance management, communication and direction in the Strategic Growth area. A robust asset database is required to effectively manage the Council's assets both in terms of understanding the type of assets in ownership, but also how the assets are performing, future

maintenance and improvement options together with the day to day management of commercial leases, deeds, etc. There has been an extended period of time to secure the agreement for the purchase of a suitable system due to the Council wishing to try and secure an “enterprise approach” to the deployment of ICT systems wherever possible and the concerns within the asset management team to secure a database system with the required level of functionality required. This debate has now been resolved; a new asset database acquired and plans are in place to secure the careful population of the system.

In particular, the Council has procured a company to undertake a 100% valuation of all assets during February to March 2014 and for the data to be added to the database. Furthermore, a stock condition survey is being procured to identify the condition of the assets, identify a forward plan of maintenance, a schedule of planned preventative maintenance and options for improvement. This information together with the energy rating for all buildings will also be added to the database once available. The combined action with the database has been designed to ensure that by the third quarter of 2014/15 the Council will be better placed to strategically and operationally manage its assets.

Communication through the one to one meetings with the Team Leader has been identified as a cause for concern. Some evidence was provided of improved arrangements for documenting the agreed actions at one to one meetings between the Head of Service and the Team Leader. However, senior management of the Council accept there has been some lack of communication by the Head of Service providing direction and the prioritisation of workload to the Property and Asset Management Team Leader. This situation is also demonstrated by the lack of satisfactory performance management of the Property and Asset Management Team.

The Council has been subject to a restructuring of its senior management during the period of the internal audit review. The recruitment to the new structure is on-going at the time of this management response. During the period of change it is recognised that some lack of certainty may have existed between the activities of the three groups of staff involved. This uncertainty has now been removed through the Chief Operating Officer and the Interim Commercial Director agreeing the respective leadership roles of each post which have been communicated to the affected staff both formally and through the new systems now in place. These are: Chief Operating Officer (COO): Day to day management of assets, including the management of commercial lettings; daily and planned preventative maintenance; performance and staff management. The COO is also responsible for leading on regeneration of the major town, in particular the Gainsborough Town Centre Regeneration.

Interim Commercial Director (ICD): development, disposal, asset acquisitions and investments. The Commercial Board Terms of reference have been overhauled and embedded to secure the Board maintaining an overview of all project management, procurement and capital and revenue expenditure associated with the delivery of projects. Therefore, the Board chaired by the ICD will maintain an oversight and control of any future procurement for the development of assets including large scale regeneration, special delivery vehicles, etc. An approved Code of Practice (ACOP) will be created to provide future clarification and direction.

An ACOP is also in draft which will deal with the preparation of service plans. This service area will be required to produce a service plan which will detail how its work will deliver the Corporate Plan, its principal projects and how performance will be measured, This will address some of the recommendations in the report.

To provide both improved Member involvement in asset acquisitions and disposals changes to the Council's Constitution have been agreed. These provide for maintaining confidentiality during the acquisition and disposal process, but involve the Leader or Deputy Leader in the decision above a £75,000 value. Upon completion of the transaction, the new procedure requires that upon completion the Policy and Resources Committee will receive a summary report on asset changes (acquisitions and disposals) during the period since the last Committee meeting. The list of surplus properties has been reviewed by the ICD and an action plan. Some sites have already been subject to appraisals which have already increased the book value of the assets. The first site is being reported to the Policy and Resources Committee on the 20/01/14 to seek agreement to the preferred option for progressing the development and phased disposal of the site. Other activity is underway to bring other sites forward for development. Acquisitions of key strategic sites are being considered but in the context of both the draft acquisition and disposal policy (which is being progressed for formal adoption) and due diligence to understand the redevelopment options and costs together with external funding opportunities available before proceeding with the acquisition.

Overall, whilst the Report has identified serious failings in the management of the Council's assets, senior management action has already been taken to manage assets more effectively and secure the improvements required. We accept the action plan and will implement action to deliver the changes recommended within the suggested timescales.

Management Actions	No	All to be completed by:
High Priority	6	31/May/2014
Medium Priority	3	31/May/2014

NNDR – Growth Project – issued 03rd March 2014

Introduction and Scope

We have undertaken an Internal Audit review of National Non-Domestic Rates (NNDR) which has focussed on the changes brought about by the Governments 'Business Rates Retention Scheme', which came into effect from the 01st April 2013. We will give you independent assurance on how the council is proactively managing NNDR income, including supporting business growth, maintaining collection rates and maximising sustainability.

The Council has decided to address these issues through a project on NNDR growth and we will be seeking to provide assurance on the project management, strategy and outcomes. The review will consider:

- Compliance with Organisation project methodology
- Governance arrangements to manage the project
- Strategic approach for maximising income
- Identification of and responses to key risks
- Consideration and options for pooling with other authorities
- Links to:
 - Economic growth
 - Renewable energies
 - Central Lincolnshire Local Plan
 - Partners
- Timescales for identifying delivering additional income
- Financial modelling and budget setting
- Progress, monitoring and reporting

Executive Summary

Assurance Opinion Limited

This is a vital project for the Council which aims to address reductions in central funding through increased income from local taxation. Increases are dependent on growth resulting in increased property based taxes. Review and testing of the development of this project does not provide confidence that these objectives will be achieved.

Government changes to NNDR and the launch of the project started in April 2013. At the time of this review the project had not progressed beyond the development stage. Given the priority of increased income and the significance of this project we would have expected this to have moved beyond the development stage.

In our opinion the project in its current form will struggle to progress and would benefit from a review and refresh, to assist management in defining achievable outcomes and detailed success measures. Any refresh could consider which aspects of the project is business as usual and which is project specific.

The project team should also ensure there is compliance with WLDC's project management processes and documentation, as this will provide further confidence on successful delivery.

Direction of Travel



No Change

The findings from this review are consistent with previous audit findings from our review of project management systems at WLDC.

The Council has project management systems and processes are in place to provide guidance and support to project teams on the successful timely delivery of Council outcomes.

We found there has been an informal approach to the early development stages of this project. This approach had resulted in a lack of evidence and documentation to confirm that project management processes and governance arrangements had been complied with.

The project initiation document is the only supporting document for this project. It does not contain sufficient detail to support the objectives. There are actions listed in the initiation document but these are not supported by detailed measures so progress is not easily measured.

The outcomes of the project could be reviewed to further determine what the project aims are and what should be done as business as usual. Improved definition and focus on outcomes would lead to measurable targets by which progress and success can be measured.

In our view the project is aligned to support Corporate Plan priorities but current management of this project is not aligned to the Councils project management systems. Management confidence on delivery could benefit from a refresh including,

- A review of project objectives, outcomes and where it fits in the new governance and project management process
- Appointing lead responsible project officers
- Agreeing targets with timescales and overall delivery deadlines
- Detailed measures which support overall aims and higher level actions
- Alignment with the corporate plan
- A review of the project team membership to include planning and growth officers

- Clear reporting expectations and detail required between finance, revenues, growth team and planning
- Information to include, appeals, bad debt, tax base size, trends for collection, business intelligence on larger companies within the district and benchmarking,
- Review of risks and issues
- Target setting baseline data to measure growth and collection

Management Response

This project was initiated following the Government's decision to 'localise' the distribution of part of the receipts for the National Non Domestic Rates (NNDR) The principal aim of the project as originally envisaged is set out in the PID.

- The project has been managed by the Growth Board and the principle reporting line is to that Board. The opportunity this audit gives to refresh and redefine this project is welcome.
- The scope of the project has changed during its development. NNDR is now seen as a key part of the Councils income going forward (15% p.a) and there is a need to assess over the short, medium and long terms how it will contribute to the Councils budget. This is now the main aim of the project. In itself the project will not generate income, but act as a spur to the forward facing services of the Council to consider the NNDR impact of all decisions they are making – in particular planning, building control, land charges, economic development, public protection etc....

The measures will look at

- Short term NNDR those developments currently under construction – **high certainty**
- Medium term NNDR those developments with planning permission not yet under construction – **medium certainty**
- Long term NNDR – those developments which are allocated in plans, but have not yet received planning permission – **low certainty**
- The identification of these measures and evidence collected against them will provide greater certainty around the Councils income from this source over the period covered by the Medium Term Financial Strategy.
- It will also provide evidence to assist key decisions the Council has to take which will affect its income, such as whether to join partners in pooling arrangements.
- Widespread publication of this information will show to service teams the importance to the Council of encouraging and supporting development which will increase NNDR. Targets can then be developed for service teams around the development of NNDR generating development. (Link to Corporate Plan) However it has to be acknowledged that projects such as this can only make

a marginal difference to the amount of NNDR the Council can receive. The main body of that income is still determined by the state of the local and national economy and the appetite of firms (both national and local) to invest in the district.

- The action plan sets out what we now intend to do as a result of this audit. This allocates roles and responsibilities and timescales and deals with the other Governance matter identified by the audit.

Management Actions	No	All to be completed by:
High Priority	4	30/June/2014
Medium Priority	1	Completed

Partnership Management – Issued 21st February 2014

Introduction and Scope

The aim of our audit is to give the Council an independent review and assurance that there are structures and governance arrangements in place to manage key partnerships.

We carried out testing and review to provide assurance on the following areas:

- Process in place to approve and manage partnerships, including, key partnerships have been approved with set objectives, action plans and outcomes.
- Compliance with corporate policies,
- Governance structures in place to monitor key partnerships,
- Risk management
- Previous audit recommendations from the 2011 review have been implemented.

At the time of the audit the Council did not have a full list of all partnerships in which it was involved in (a partnership register) so a sample of partnerships were chosen for audit by the Corporate Management Team. Testing and findings are based on this sample provided and discussions with senior management.

The sample provided was as follows,

1. ICT Lincolnshire
2. Economic Development Forum
3. Finance Officer Group
4. Waste Partnership
5. ICT 5 District

Further review and analysis of the sampled showed that only three were what we would determine as true partnerships for the Council. The Finance Group and Economic Forum are more discussion groups than partnerships.

The remaining three partnerships did give us enough of a sample and evidence to provide assurance on the Councils Partnership management approach.

Executive Summary

Assurance Opinion Limited

The Council should strengthen its approach to the management and monitoring of partnerships through an agreed corporate approach. Currently systems do not provide assurance that there is effective governance and accountability in partnership management.


Opinion is based on the following key findings;

- There is no system to measure partnerships importance to the Council. This is key as limited resources should be targeted at critical partnerships,
- We found that full details of all partnerships are not corporately recorded on a partnership register,
- There is no agreed system or requirement for partnership lead officers to report progress and performance to management,
- We found that for the sample tested, partnership objectives are not supported by detailed performance measures making reporting on performance less clear.

Our opinion is also based on findings that the 2011 audit review of partnership management made. There were sixteen findings for the Council to consider in future partnership work. We could find no evidence that these had been implemented or that they had been considered as part of any development or action plan.

Management should ensure that officers understand the importance of effective partnership working and the positive impact this will have on achieving corporate objectives.

Direction of Travel

 Reducing

The last audit in 2011 gave substantial assurance and made a series of recommendations to support robust corporate partnership management. We could find no evidence that these findings had been implemented.

Key findings included that there should be,

- 1. Clear process for entering partnerships*
- 2. Clear outcomes and timescales*
- 3. Effective planning*
- 4. Performance monitoring process.*

The Council does not have a documented corporate approach to partnership management. There were partnership registers in place previously but these have not been updated and a different less formal approach has been adopted. This has resulted in a reduction of controls around partnership management, including no structured performance reporting from partnership lead officers to the management team and no clear definition of which partnerships are formal and critical to supporting the Councils corporate objectives.

We found that the Council does not have a partnership register. This is a fundamental part of managing partnerships. It should list all partnerships the Council is involved in and prioritise them, through risk, criticality or value. This in turn would give management and members more awareness of the scale of officer involvement and importance to the Council.

Essentially what is West Lindsey involved in and what do the Council get out of its involvement?

As part of the review we revisited the last Partnership Audit report from 2011 to assess how the findings from this report had been used to improve the Councils approach to partnership working. The report made sixteen findings and is attached as appendix 1.

The findings had not been implemented and we could not confirm that they had been reviewed or formed part of an action or development plan for partnership management.

The implementation of these findings designed to strengthen and improve the Council's management of partnerships, had they been implemented should have resulted in a more robust corporate approach.

The attached action plan aims to support and strengthen the Councils Partnership Management arrangements by recommending a more robust corporate approach to key partnerships and clear definition of expectations to lead officers and management.

We would like to thank the Assistant Chief Executive and the lead officers from the sample of partnerships we tested for their help and support during the review.

Management Response

The audit presents a true position with regards to partnership management at West Lindsey District Council. The audit raises some excellent suggestions for improving governance in this area and these have been taken on board. An Approved Code of Practice has been drafted to pick up the issues identified by the audit to ensure that clear guidance is given to all staff and that this is monitored.

A central Partnership Register has been created which doubles as a document store. Through a series of 'Back to Basics' meetings with the interim Director of Resources, existing partnerships will be registered and documents transferred to the register by the end of June 2014.

Management Actions	No	All to be completed by:
High Priority	4	31/March/2014
Medium Priority	2	30/June/2014

Project Management – issued 03rd February 2014

Introduction and Scope

Internal Audit reviews of project management going back to 2008 have reported low levels of assurance, highlighted issues with the systems employed by the Council and made recommendations to support and strengthen the project management processes.

Project management was included in the 2013/2014 plan to ensure a review of progress could be carried out.

The scope of our work examined the following areas:

- Corporate policies, guides and systems in place,
- The application of policies to key projects,
- Governance arrangements in place to manage projects,
- Risk management,
- Project documentation and record retention,
- Previous audit recommendations were implemented.

In the absence of a comprehensive list of projects the Corporate Management Team requested we review a sample of the following projects to ensure compliance with project management standards.

1. The Plough
2. The Public Realm Works
3. Assets
4. Civic Solar
5. Market Rasen Leisure
6. Agri Foods
7. Empty Homes
8. In Depth Business Reviews
9. Channel Shift
10. Universal Credit
11. Broadband.

We recognised that the Council was reviewing its project management systems in response to recent governance and audit reports. We agreed with management to amend the scope of this audit, to include a review of the steps and changes being taken around project management.

Executive Summary

Assurance Opinion Limited

We found that many of the key findings from this review have been reported in previous years Internal Audit reports. We found that project management procedures and systems were not embedded across the Council. Officers are still not clear about the process and expressed frustration with the continually changing procedures.

This does not provide assurance that action has been taken to improve project management processes. There is a risk that project management is not robust and cannot support the Councils ambitious plans for delivering "Big Ticket" projects and supporting the entrepreneurial aims of the Authority.

The Council should address these long running issues and consider;

- Carrying out a regular internal review to ensure standards and compliance with procedures,
- Agreeing a project management process and considering communication, training, implementation and management of the process.
- Role definitions for responsibility of project management development, including the management of change control on project documentation.
- Having systems and feedback in place to provide assurance that staff feel supported, trained and understand the project management process and the expectations on them to manage and deliver.

Recent Internal Audit reports which covered project management at the Council, including Elswitha and Investment Decisions along with the red rating on Corporate Governance have resulted in a number of internal Council reviews to strengthen its project management processes.

The findings from these are not repeated in this review but the key areas of recommended improvement include:

- Project Governance including oversight and delivery challenge
- Risk management
- Due diligence over project appraisal and business cases
- Appropriate and timely engagement with key stakeholders / advisors
- Sufficiency of project documentation

The implementation of the agreed actions in these reports would give much greater assurance and confidence over Council project management systems. We have included a positive direction of travel in the report to reflect this.

Direction of Travel



There is a large amount of review and monitoring being carried out to understand and improve project management processes. New systems, templates, governance and training are all being planned and implemented.

Through regular internal review, quality assurance testing and feedback, the Council can assure its self that project management methodology has been embedded across the Authority.

The agreement and implementation of recommendations on the Elswitha and Investment Decision audits aim to strengthen project governance.

The Council has acknowledged improvements are required to project management systems through its own internal reviews and reports including the Corporate Governance 2012/13 report and 2013 Corporate Management Team report on Project Management.

This is also evident in the recent Elswitha and Investment Decision audit reports completed during 2013, which make recommendations on improving project management.

The Council should now ensure that all the findings, actions and plans are put into practice and monitored to provide assurance on project management development. Essentially the required improvements to project management should be effectively managed.

We found that project management processes were not embedded and crucially staff felt that constant changes and amendments to project documents and reporting expectations has undermined their understanding and ability to deliver.

As part of any review the Council considers its management of changing processes and controls. The Council should ensure that after any changes officers are engaged and processes are embedded. This was a key message from staff questioned as part of the audit testing and was a response from all project management lead officers questioned.

Management Response

The Council welcomes the Internal Audit Report into project management, especially the recognition the Council is improving. We especially recognise the need to create a programme and project methodology that supports the effective management of projects whilst also recognising the capacity of the organisation. Complex documents and processes may be exemplars of good practice, but if unused or lead to confusion contribute little to effective project management.

In December 2013, the Corporate Management Team adopted a new Terms of Reference for the Commercial Board that includes a nomenclature of terminology. It also agreed to discontinue the Corporate Plan Board. The Commercial Board now corporately leads for Programme & Project Management together with the management of the capital programme, procurement and contract management. This means that all Boards will report to the Commercial Board to commence a project, progression, to agree the procurement approach (if required) and to release the capital or bespoke revenue post procurement.

At the first meeting of the board on 07th January 2014, the over 80 projects were rationalised to 35 and the several programmes rationalised into the five themes used for priorities in the Corporate Plan. This approach has aligned programme and project management to the Corporate Plan, but also the related strategies that will inform the development of each Programme. The Commercial Board has also agreed to undertake bi-monthly gateway reviews of a programme (jointly with other Boards where relevant) to ensure the programme is making the progress and within the scope required by the Corporate Plan. It has also been agreed that all projects will be reviewed to ensure they have adopted the prescribed documentation by 31/03/2014.

To assist project management new single “Lite” Business Plan template has also been adopted to complement the more detailed Type I methodology.

Type I Methodology - This comprises of the Project Mandate, Project Initiation Document, Business Case, Risk Register, etc. The templates are available on Minerva. The completion of the Financial Appraisal Model V4.0 will also be required, including the payback, rate of return, etc.

Type II Methodology - The Lite Version of the project management methodology encapsulated in a Business Case, available on Minerva. The same Business Case template is used for all 4 Gateways, but the information incrementally enhanced at each Gateway to provide the level of information required.

Criteria for selecting the appropriate Project management Methodology

The following criteria guide Project Managers to assist preparing for a Gateway 1 submission. The Commercial Board provide guidance and determine if the Type I version is required in cases of doubt.

Type I Projects: The Type I methodology will be where two or more of the following criteria apply:

- **Financial:** Projects with expenditure greater than £500,000¹;
- **Organisational:** Projects which involve more than one local authority, another public body; etc.;
- **Human Resources:** Projects that affect more than 20 staff, in terms of requiring restructuring; TUPE; etc.;
- **Procurement:** Projects that will require OJEU level procurement.

Type II Projects: The default position for projects will be to use the Type II, Lite Methodology.

In future projects will be managed in line with four gateways:

- **Gateway 1: overview of the project with outline information.** This is an important stage as it will define if a project is to proceed and if so clarify the approach, resources, etc. to be used. Large and complex projects will need to follow the Type I Methodology and complete a Project Mandate to satisfy this stage. The Type II methodology requires the Business Case to be completed, but at this stage using high level information only. At the Gateway 3 stage, the results of procurement will be used to refine the CAPEX and revenue consequences of the Project.
- **Gateway 2: detailed information once approved but prior to procurement.** Large and complex projects will need to follow the Type I Methodology and complete a Project Initiation Document, Business Case, and Risk Register at this stage. The Type II methodology requires the same Business Case template to be used, but for the information used at Gateway 1 to be refined and improved to reflect the greater level of information, data, etc. obtained.
- **Gateway 3: procurement undertaken, value checked against approved CAPEX, revenue expenditure & realised savings (as relevant to the Project).** For both the Type I and Type II methodologies the same Business Case template used for Gateway 2 is developed further and populated with the outcome of the procurement (if required). Otherwise the detail of the project planning will have been resolved, including timescales for the rollout of the project, to facilitate the Board approving the project to proceed with implementation.
- **Gateway 4: Benefits realisation report & Project closure.** This stage will be the formal closure of the project. For most projects this stage will incorporate reporting on how the benefits initially planned into the project upon inception have been realised in whole or part, together with any other tangential or unplanned benefits. In some cases, the Gateway 4 stage will be divided into two stages, the first (4A) to report and seek agreement to close

¹ Land acquisitions would not normally follow the Type I methodology as a business case (Type II) will be used. But the process following acquisition will follow the Type methodology used for all projects.

the project and the second (4B) to report on benefits realisation. The Type I Methodology will require the benefits realisation report to be completed together with the Project Closure Report. For the Type II methodology the same Business Case template is to be used, but the Benefits realisation Section 5 is completed in full.

On the 15th January the changes to the terms of reference for the Commercial Board and project methodology will be explained to the Wider Management Team. To embed the changes and check understanding, the WMT will work in groups to promote the management of a project using the new Type II Lite methodology. Feedback will be provided. In future all projects will be required to follow the new processes.

Recommendation 7 - The Council has considered the use of creating a project management team rather than supporting all staff who may be involved in projects. The Council is relatively small and so does not have the ability to create a specialist project management resource. As with other core work like HR and finance, project management is one of the competencies sought of our managers. Non-compliance with procedures is not a reason to be profligate with resources, but to create appropriate systems and procedures together with the rigour of management to ensure they are complied with. Therefore we consider recommendation 7 is not relevant.

Management Actions	No	All to be completed by:
High Priority	1	31/03/2014
High Priority	2	31/03/2014
High Priority	3	31/03/2014
High Priority	4	30/09/2014
High Priority	5	31/03/2014
High Priority	6	30/04/2014
Medium Priority	7	Not relevant
Medium Priority	8	31/03/2014

Appendix 3 – Internal Audit Plan & Schedule 2013/14

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Critical Service Activities						
Communities and Localism						
Partnership Management		To provide assurance on the structures and governance arrangements in place to manage key partnerships.	May 2013	July 2013	Feb 2014	Complete – Limited Assurance
Resources						
Progress and delivery of the corporate plan		<p>To provide assurance on the progress made against the delivery of key priorities in the corporate plan and reporting through progress and delivery reports.</p> <p>To also include the role and effectiveness of the programme boards – incorporating how well risk, performance, partnership working and projects associated with the priority are being managed.</p>	May 2013	July 2013	Oct 2013	Complete – Limited Assurance

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Welfare Reform		To provide assurance that welfare reform has been implemented effectively, including <ul style="list-style-type: none"> • Delivery plan • Sustainability • Assessment of the impact on communities / vulnerable people • Impact on collection rates 	October 2013	December 2013	Feb 2014	Complete – Full Assurance
NNDR and new homes bonus		To provide assurance on how the council is proactively managing NNDR income, including: <ul style="list-style-type: none"> • Supporting business growth • Maintaining collection rates • Sustainability 	January 2014	February 2014	Feb 2014	Complete – Limited Assurance
Subtotal	50					
Due Diligence						

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Resources						
Finance Systems – to be agreed with external audit input		To review systems and test transactions for finance systems feeding into the Council's accounts in liaison with external audit: <ul style="list-style-type: none"> • Creditors • Payroll • General Ledger • Treasury Management 	December 2013	March 2014		Creditors and Payroll – In progress General Ledger and Treasury Management – Review Stage
Housing Benefits and Subsidy claim Review		Review of the housing benefit systems in conjunction with testing to support the external audit of the subsidy claim.	July 2013	September 2013	Dec 2013	Complete – Substantial Assurance
Risk Management		To provide assurance on the risk management strategy, structure and operations within the organisation.	January 2014	March 2014		In progress
Project Management		Review of the project management process, its fit in the organisation and its application to the management of projects.	May 2013	July 2013	Feb 2014	Complete – Limited Assurance

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Gateway Review – E-accessibility		A review of how WLDC services are accessed throughout the District.	Jan 2014	Jan 2014	Feb 2014	Complete
Elswitha Quarter		To review processes and decisions made in the Elswitha Development, to include governance arrangements.	April 2013	June 2013	Oct 2014	Complete
Sub Total	110					
Key Projects						
Asset Mgt, utilisation and disposal		Review of the asset management project to provide assurance that: <ul style="list-style-type: none"> • There is a comprehensive understanding of assets held; • Process for acquisition, utilisation and disposal; • Assets are used for maximum benefit of communities and the authority. 	May 2013	July 2013	Feb 2014	Complete – Limited Assurance

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Sub Total	10					
Emerging Risks						
Emerging risk contingency		To audit any significant emerging risks arising in the year.			Used on additional days for Elswitha review and Asset Management	
Sub Total	10					
Other relevant Areas						
Assurance mapping		Update assurance map with service managers and gain management assurances and third party assurances.	September 2013	November 2013	Feb 2014	Complete
Counter Fraud		To assess the effectiveness of the Council's arrangements for 'Fighting Fraud Locally' as outlined in the National Fraud Authority good practice guide.	July 2013	July 2013	Aug 2013	Complete – Limited Assurance
Sub Total	20					

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
ICT Audit.						
		Identifying the assurances available on the Councils ICT Management arrangements – Infrastructure – applications. Based on this information undertaken an ICT audit eg critical application or IT security	January 2014	Feb 2014		In progress
Sub Total	10					
Non-Audit						
Advice / liaison	5					
Annual Report	1					
Audit Committee	5					
Sub Total	11					
Total Audit Plan for 2013/14	221					

Appendix 4 - Outstanding Recommendations as at 31st March 2014

Audit Area	Date	Assurance	Number of Recs	Implem' d	Outstanding			Not Due Date
					H	M	L	
Business Improvement								
Change program	Nov 2012	Substantial	11	9	0	2	0	
Information Governance	May 2013	Limited	12	7	2	3	0	
IT Security	May 2013	Limited	15	2	8	5	0	
Resources								
Asset Management	May 2013	Substantial	4	3	0	1	0	
Progress and Delivery of the Corporate Plan	July 2013	Limited	10	4	3	3	0	
Counter Fraud	August 2013	Limited	10	10	0	0	0	
Housing Benefits – Highlight Report	Dec 2013	Substantial	2	2	0	0	0	
Partnership Management	Feb 2014	Limited	6	1	3	1	0	1
Project Management	Feb 2014	Limited	8	5	0	1	0	2
Strategic Growth and Localism								
Localism	Oct 2012	Substantial	5	2	3	0	0	
Gainsborough Regained	April 2013	Limited	6	6	0	0	0	
Asset Management – Utilisation and Disposal	Feb 2014	Limited	9	2	1	1	0	5
NNDR – Growth Project	March 2014	Limited	5	3	0	0	0	2
Development and Neighbourhoods								
Gateway Review - Elswitha			21	18	3	0	0	

Appendix 4 - Outstanding recommendations as at 31st March 2014

Audit Area	Date	Assurance	Number of Recs	Implem'd	Outstanding			Not Due Date
					H	M	L	
Business Improvement								
Change program	Nov 2012	Substantial	11	9	0	2	0	
Information Governance	May 2013	Limited	12	7	2	3	0	
IT Security	May 2013	Limited	15	2	8	5	0	
Resources								
Asset Management	May 2013	Substantial	4	3	0	1	0	
Progress and Delivery of the Corporate Plan	July 2013	Limited	10	4	3	3	0	
Counter Fraud	August 2013	Limited	10	10	0	0	0	
Housing Benefits – Highlight Report	Dec 2013	Substantial	2	2	0	0	0	
Partnership Management	Feb 2014	Limited	6	1	3	1	0	1
Project Management	Feb 2014	Limited	8	5	0	1	0	2
Strategic Growth and Localism								
Localism	Oct 2012	Substantial	5	2	3	0	0	
Gainsborough Regained	April 2013	Limited	6	6	0	0	0	
Asset Management – Utilisation and Disposal	Feb 2014	Limited	9	2	1	1	0	5
NNDR – Growth Project	March 2014	Limited	5	3	0	0	0	2
Development and Neighbourhoods								
Gateway Review - Elswitha			21	18	3	0	0	

CIPFA Better Governance Forum

Audit Committee Update

– helping audit committees to be effective

Issue 12

Reviewing Internal Audit Quality

New CIPFA Publication, *Audit Committees Practical Guidance for Local Authorities and Police*

Regular Briefing on Current Issues

November 2013

Introduction

Dear audit committee member,

This issue of Audit Committee Update focuses on reviewing internal audit quality. Ensuring the quality of internal audit is an important part of the professional standards for internal audit (the Public Sector Internal Audit Standards) and is an important responsibility for your head of internal audit. From the audit committee's point of view it is an area that you need to be satisfied that appropriate arrangements are in place, underpinning the important assurance work that your internal audit team provide.

This issue also outlines the new guidance from CIPFA's *Audit Committees, Practical Guidance for Local Authorities and Police* due out next month.

As usual we also feature a round-up of legislation, reports and developments that may be of interest to audit committee members.

We have included links to resources and further information on our website. To access these all you need to do is register. Further details on how to do this are at the bottom of the page.

We welcome feedback on these briefings and also any suggestions for future topics. Feel free to contact me and let me know.

Kind regards

Diana Melville
Governance Advisor
CIPFA Better Governance Forum

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01722 349398

Previous Issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. The earlier issues are on the archive site. Click on the links below to find what you need.

Issue	Principal Content	Link
1	Reviewing the Audit Plan	Issue 1
2	Reviewing the Annual Governance Statement	Issue 2
3	Countering Fraud	Issue 3
4	Strategic Risk Management, Governance Risks in 2011, Role of the Head of Internal Audit	Issue 4
5	Understanding the Impact of IFRS on the Accounts, Key Findings from CIPFA's Survey of Audit Committees in Local Government	Issue 5
6	Partnerships from the Audit Committee Perspective	Issue 6
7	Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	Issue 7
8	Commissioning, Procurement and Contracting Risks	Issue 8
9	Reviewing Assurance over Value for Money	Issue 9
10	Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
11	Local Audit and Accountability Bill, the Implications for Audit Committees Update of CIPFA's Guidance on Audit Committees	Issue 11

Receive Our Briefings Directly

This briefing will be sent to all key contacts of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be forwarded to all audit committee members.

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website. This will give you access to governance material, guidance documents and you can receive these briefings directly.

Visit our website <http://www.cipfa.org/Services/Networks/Better-Governance-Forum> or [register](#) today.

Workshops and Training for Audit Committee Members in 2013 and 2014 from CIPFA

Improving the Standard of your Audit Committee

A new series of workshops that will explore the challenges and barriers to performing effectively as an audit committee.

2014 dates:

22 January London, 5 February Chester, 12 June Edinburgh, 9 July York, 10 July Birmingham, 4 December London

Advanced Audit Committees

Have you cracked the basics? This workshop examines the audit committee role in strategic risk management, value for money, counter fraud and assurance gathering.

20 November 2013, London, Further dates available in 2014

Essential Skills for Board Members

The role of a board member in a public sector body, featuring sessions on corporate governance, decision making, accountability and evaluating board performance.

3 December 2013 London

17 June 2014, London

<http://www.cipfa.org/events>

In-house training

We have many years' experience in delivering training in-house for audit committees.

A range of options are available including:

- Key roles and responsibilities
- Effective chairing and support for the committee
- Working with internal and external auditors
- Corporate governance
- Strategic risk management
- Value for money
- Counter fraud
- Reviewing the financial statements
- Treasury management
- Assurance arrangements
- Partnership assurance

We can also develop bespoke training to meet your needs.

For more information please contact inhousetraining@cipfa.org or speak to Diana Melville.

Internal Audit Needs You!

What have you done this year to maintain the quality of internal auditing?

Nothing? Not your job? Think again.

Asked the external auditor? Well, have a care! External audit has an explicit and specific goal – to give an opinion on your financial statements. When external audit assesses your system of internal control, it does so against criteria related to how the system helps to ensure true and fair financial statements – and it assesses internal audit in this way too.

Internal audit has a much wider purpose – it is there to assess your system of governance, how you manage risks over operations and strategic matters as well as over financial reporting, and how you then control those risks. Internal audit is there to give you a report every year, including a conclusion on the effectiveness of governance, risk management and control. Internal audit is also there to help your organisation to take action to improve how the organisation controls its risks. If you discuss internal audit with your external auditor, make sure you know the context of their remarks.

Internal audit is a profession with standards of education and of performance. It recognises that to achieve the quality of work that you deserve every day of the year, it has to have a programme to ensure that quality. This is what the Quality Assurance and Improvement Programme (QAIP) is all about – it comprises a set of activities that your internal auditors will carry out and commission and it ensures that your internal audit activity is fit for purpose.

The UK Public Sector Internal Audit Standards, introduced from April 2013 to ensure a consistent standard of performance across the public sector, include the requirement for the QAIP. This is in line with international standards for the profession of internal auditing.

You may have heard people talking about needing a costly external assessment of quality. That's not the most important aspect of this. What is important is acknowledging that quality doesn't just happen; that to be fit for purpose, you must first agree what the purpose is and what good performance looks like. After that, achieving quality every day requires good people, good processes and hard work.

So, you can expect that your internal audit team will be talking to you and all their stakeholders about what "good" looks like to you. You can expect your internal audit team to be setting out procedures and templates and expectations that help every internal auditor to do their work to the standard required. You can expect your internal audit team to take some time out to review the work of the team to check if it is in line with procedures, and, perhaps more importantly, if it actually achieves the desired outcomes.

That's what quality is all about. And, you might say, that's what management is all about too – and it is. What the QAIP does is ensure that all professional internal auditors pay attention to quality.

The QAIP must include on-going checks, an internal assessment and an external assessment. That requires professional internal auditors to take care to establish the level at which they must work, to review it every day, to conduct a more thorough review once a year and to invite every few years a knowledgeable outsider to review what they are doing as an independent check.

The annual review is a chance for the internal audit team to step back and to look at what they are doing and how they are doing it. They will look at the standards and ask

themselves: How are we applying these principles? What do our processes say? Are we following them? And, is that achieving the outcomes we intended?

The value of an external assessment really comes out when you have someone who knows about internal auditing and who has no personal axe to grind. For that reason, it is worth following the professional standards to find an "Independent and Qualified Assessor".

Your head of internal audit will be reporting to you on the programme of quality assurance and improvement. In the annual report, they'll tell you about the programme itself and about its results, or, as standards say: "a statement on conformance with" them. They can report more frequently on the on-going monitoring part of the programme, if you wish.

It's worth familiarising yourself with the expected language of these reports. Quality isn't about a binary yes/no answer. It has to mould itself to each organisation and it works best when people focus on trying to apply the principles that the standards capture. That's why we use the word "conformance", not compliance. The statement will say your internal audit department generally conforms, partially conforms or does not conform with the standards.

As an audit committee member, what can you do to help?

1. Think about what you want from internal audit.
2. Think about the value of their independent and objective but knowledgeable view of what the organisation is doing.
3. Give the internal auditors enough resources to do a good job and keep professionally up-to-date.
4. Encourage the internal audit team to take its on-going quality work seriously.
5. Ask for regular updates on the findings of the QAIP and what things the internal audit team is doing to improve the efficiency and effectiveness of its work.
6. Support the need for an external assessment every few years and take part in interviews and other parts of the assessment.

Sources of further information:

Public Sector Internal Audit Standards – a free document, available from the website of the UK Public Sector Internal Audit Standards Advisory Board. <http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>

Local Government Application Note for the UK Public Sector Internal Audit Standards 2013 - The PSIAS are new and complex, and CIPFA recognises the need to provide guidance for the bodies set out above in applying them, and has produced an Application Note to provide that guidance. The CD Rom version includes a Word version of the assessment tool that can be used as part of the QAIP. Check with your head of audit if they have a copy you can access. <http://www.cipfa.org/policy-and-guidance/publications/l/local-government-application-note-for-the-united-kingdom-public-sector-internal-audit-standards-cdrom>

Jackie Cain CMIIA
Technical Manager
CIPFA

New Guidance from CIPFA for Audit Committees in Local Authorities and Police

CIPFA will be publishing a new position statement and guidance on audit committees in December 2013. This will replace the current CIPFA's publication *Audit Committees Practical Guidance for Local Authorities* and *Position Statement* which were published in 2005. Since then audit committees have become well established and a core part of good governance. During that time there have been some significant changes to governance to which audit committees have had to adapt. Taking these trends together, CIPFA felt it was timely to issue a fully revised position statement and guidance document.

The position statement sets out what CIPFA considers to be good practice for audit committees and the publication is an aid to achieving that. While CIPFA hopes that local authorities and police audit committees will review their arrangements against the new position statement, it is a recommendation and not mandatory to do so.

What's new?

The new guidance reflects developments since the original document, for example Public Sector Internal Audit Standards and Annual Governance Statements. It also provides support on a wider range of topics where the audit committee may expect to be involved, for example, assurance over value for money and counter fraud arrangements. It recognises the significant changes affecting police audit committees following the Police Reform and Social Responsibility Act 2011 and also developments in Wales with the introduction of statutory audit committees.

The publication recognises that there isn't a "one-size fits all" template for audit committees so while the publication includes an updated terms of reference, authorities are encouraged to think more widely about how their audit committee adds value and supports the organisation's objectives. An important new section on effectiveness emphasises an evaluation of the impact of an audit committee rather than compliance with a checklist. For example, the audit committee can support improvement across a range of objectives such as good governance, arrangements to secure value for money and the operation of an ethical governance framework.

What has stayed the same?

Many of the principles set out in the original position statement are unchanged. CIPFA is not recommending changes to the way most audit committees are constituted. There are a few key principles that CIPFA thinks form an essential platform on which to build a successful committee and the position statement includes these.

Additional resources

The publication includes additional resources to support those reviewing their audit committee and working to make it as effective as possible. There is additional guidance on the knowledge and skills audit committee members should have and assessment tools to help you review your arrangements. There is also an analysis of the common problems an audit committee may experience and suggestions for addressing these.

The position statement and publication will be available in December from the CIPFA website. If you have queries relating to the purchase of the publication then please contact publications@cipfa.org. If you have any queries about the latest guidance please contact me.

Diana Melville

Governance Advisor

Diana.Melville@cipfa.org

Developments You May Need to Know About

- **Legislation and Regulations**

Local Audit and Accountability Bill

The July 2013 edition of the Audit Committee Update gave Audit Committee members an overview of how the provisions of the Local Audit and Accountability Bill could impact on the work of Audit Committees. As promised, this note provides a brief update.

The Bill completed its passage through the House of Lords on 24 July 2013 and received its 2nd Reading in the House of Commons on 28 October 2013. It goes into Committee on 5 November 2013 and is still expected to complete all parliamentary stages by the end of the year and receive Royal Assent early in 2014.

The government has promised to introduce amendments to the Bill to permit the creation of sector-led procurement bodies (one for principal authorities and one for smaller authorities) to appoint auditors. Authorities that opt to use such procurement bodies will not need to establish an Auditor Panel. There are clearly advantages in using sector-led procurement bodies, not least in that it will mean audit committees retaining their role in relation to external audit.

The Opposition suggested during the 2nd Reading that they might introduce an amendment during Committee stage to place local government audit committees, chaired by an independent person, on a statutory footing. This idea was raised during the Lords' Grand Committee stage and was supported by many peers from all parties, although an amendment was voted down. Peers believed that such a move would then obviate the need for auditor panels, as the audit committee could perform that function. It will be interesting to see if such a provision gains the same level of support in the Commons. If it were to become law, this could have significant implications for local authorities in terms of appointing audit committee chairs, but equally could enhance the role of audit committees in local government.

A further update will be provided in the next issue.
David Watkins, Policy and Technical, CIPFA.

The progress of the Bill can be tracked on the [Parliament website](#).

Financial Management Code of Practice for the Police Forces of England and Wales

The Home Office has issued an updated code of practice. The code refers to a number of CIPFA standards and guidance documents including *Public Sector Internal Audit Standards* (2013) and *Delivering Good Governance in Local Government: Guidance Note for Police* (2012). In establishing police audit committees the police and crime commissioner and chief constable should have regard to the CIPFA *Guidance on Audit Committees* due out in December 2013.

The code of practice comes into effect from 1 November 2013. This is statutory guidance applying to England and Wales.

[Financial Management Code of Practice](#)

Local Authority Accounts (Scotland) Regulations 2013

The Scottish Government has recently conducted consultation on new accounts regulations for Scottish local authorities. The proposed regulations will amend regulations covering publication of annual governance statements, timing of publication of the financial statements and internal audit. The proposals in these areas are in line with the Accounts and Audit Regulations already in force in England.

Key points proposed are:

- the local authority must conduct a review of the effectiveness of its system of internal control and publish an annual governance statement
- a local authority must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with recognised practices in relation to internal control
- a local authority must, at least once in each financial year, conduct a review of the effectiveness of its internal audit
- the proper officer must certify the statement of accounts by 30 June each year and submit them for audit. The authority must publish the unaudited statements of accounts on its website
- approval of the audited accounts must take place by 30 September.

It is intended that the final regulations will come into force on 31 March 2014 and will apply to the financial year 2013/14. This means that audit committees in Scotland will need to ensure that the regulations are complied with in relation to the 2013/14 accounts, annual governance statement and annual review of internal audit.

[Consultation draft of Accounts Regulations 2013](#)

• **Reports, Recommendations and Guidance**

Audit regime compliance monitoring reports

The Audit Commission conducts monitoring of their outsourced audit contracts and publishes quarterly and annual reports on the results for each of the contracted firms. The latest quarterly reports relating to 2013/14 were published in September. The reports cover a range of performance indicators including the issue of annual audit letters, quality of data returns, complaints against the auditor upheld, fee variation requests and requests to undertake non-audit work.

It is helpful for audit committees to understand the monitoring that is undertaken by the Audit Commission and to review the results for their own external audit provider.

[Audit Quality Reports](#)

Transparency International UK, Corruption in Local Government

This recent report investigated the risks and evidence of corruption in local government. It didn't find evidence of widespread corruption but it did conclude that there are conditions within local government that could enable corruption to thrive. The report is also critical that some checks and balances within local government are being reduced or removed, particularly in England. The report makes a number of recommendations to the government but also for individual local authorities, including:

- each local authority should have a nominated individual responsible for counter-corruption
- each local authority should undertake a periodic corruption risk assessment in relation to its own functions and operations
- there should be strict procedures requiring officers always to report (i) major price discrepancies among procurement bids and (ii) details of contract variations to the council's audit committee and senior management.

www.cipfa.org/Services/Networks/Better-Governance-Forum

- internal auditors and those conducting internal investigations should be supported to ensure adequate resourcing and independence
- elected members' declared interests must be subject to monitoring and, where appropriate, investigation.

[Corruption in Local Government report](#)

Committee on Standards in Public Life Annual Report 2012/13

The Committee's annual report outlines the work of the committee over the year but also reflects on the current evidence of standards and areas of risk. While the committee finds evidence of good practice it also highlights the need to review ethical governance and to continue to reinforce standards at the operational level. More specifically it recommends:

'Ethical issues should feature regularly on the agendas of the boards of public bodies and, where appropriate, on risk registers. All such boards should as a matter of course monitor standards of behaviour throughout their organisation, either directly or through their audit and risk committees.'

The report also expresses concern over the operation of local government standards and the committee has identified this area as one of the outstanding risks it will continue to monitor. Other risks areas it is likely to investigate include:

- how best to maintain high standards as new models of delivering public services are developed and
- the interchange between the public and private sectors (the so-called revolving door).

[Committee on Standards In Public Life Annual Report](#)

Severance agreements and confidentiality clauses – update on NAO report

The National Audit Office has published a report containing further work on severance agreements and the use of confidentiality clauses. Their findings highlight the need for:

- better guidance on the use of confidentiality clauses and special severance payments
- improved transparency and oversight to identify and address patterns of behaviour.

The original report highlighted concerns that compromise agreements could potentially interfere with genuine whistleblowing under the Public Interest Disclosure Act 1998.

[National Audit Office report](#)

Single Fraud Investigation Service update

An emerging issue is the latest proposal to form the Single Fraud Investigation Service (or SFIS) to undertake all benefit investigations as part of the universal credit development. The Department for Work and Pensions (DWP) is proposing that SFIS should be sited within the DWP rather than shared between local authorities and the DWP. If agreed this could mean that local authority fraud investigators and legal prosecutors transfer to SFIS or the Crown Prosecution Service during 2014/15. There is concern that some local authorities will have reduced capacity and expertise to tackle other areas of fraud risk such as council tax, business rates, housing and all other forms of corporate fraud as a result.

Audit committee members should consider what impact the proposals could have for their organisation's counter fraud capability.

The latest information is available by joining the LGA Knowledge Hub. Alternatively the following article summarises the new position. [SOLACE briefing on SFIS](#)

- Look out for

Protecting the Public Purse

The Audit Commission report will be published on 14 November. The report is based on their annual data collection on fraud from English local authorities and gives valuable insight into the experience of fraud and emerging fraud risks in the sector. It will be available from the [Audit Commission website](#).

Fighting Fraud Locally update and conference

Registration is now open for the third annual conference in London on 10 December. It will update on progress made over the year and consider the next steps for tackling fraud in local government. Details of the conference are available here:

<http://fightingfraudlocally.co.uk/>

[Download the Fighting Fraud Locally Strategy](#)

Whistleblowing Commission Report and Recommendations

Public Concern at Work will be publishing the report of the Commission on 27 November. Details will be available on the [Public Concern at Work website](#).

The Audit Committee Cycle

Take stock of your assurance needs

Mid-way through the year it is helpful to take stock of the assurances planned, received and any emerging issues. Audit committees usually plan their agendas for the year to ensure that they are covering all the appropriate areas in their terms of reference and it is likely that the committee will have received regular updates or monitoring reports on assurance. For example you are likely to have had progress reports from internal audit outlining work done to date and performance against the audit plan and there may be regular reports outlining current risks or progress against action plans or strategies.

It is important to keep track of changes to ensure that adequate assurance is received to support the fulfilment of the committee's terms of reference and to underpin the annual governance statement. The committee should also be made aware of any resourcing issues that could impact on the head of internal audit's annual opinion.

Where any significant governance, risk or control issues emerge during the year the audit committee may need to re-assess their need for assurance and their agendas to respond to these.

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