	GA. 30 11/12
	Governance & Audit Committee
	19th December 2011

Subject: Getting the most out of your Internal Audit Service

Report by:	Lucy Pledge (Head of Service – Corporate Audit & Risk Management – Lincolnshire County Council)
Contact Officer:	Russell Stone, Financial Services Manager Russell.Stone@west-lindsey.gov.uk
Purpose / Summary:	The report gives members the opportunity to comment on the Councils Internal Audit Strategy. It aims to show how Audit Lincolnshire proposes to deliver its assurance work to the Council focusing our resources on what matters most and leveraging other sources of assurance where we can.

RECOMMENDATION(S):	1) **Members consider the content of the report and identify any actions required.** 2) **Approve the proposed Internal Audit Strategy, subject to the above.**

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** | X |

Key Decision:

Yes | | **No** | X |

DISCUSSION

1. Internal Audit Strategy

1.1 This strategy is a statement of how Audit Lincolnshire delivers assurance to our clients, creating a framework within which more detailed plans can be developed. Our strategy aims to provide a complete a picture as possible of the Council's critical systems and the key risks it faces. It is designed to provide assurance on the Councils' corporate plan objectives and priorities.

1.2 At the heart of the strategy is our 'Assurance Map'. This helps focus our work plans on risks that matter – the make or break risks that affect the successful delivery of services and strategic objectives. It also recognises the importance of critical business systems that support successful delivery and 'protects the business'.

1.3 Our aim is to align our work with other assurance functions, particularly performance and risk management and look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council. The Map can be used to:

- Help establish the Internal Annual Audit Plan by identifying where more independent assurance is required based on significance and risk of the activity.
- Support the Head of Audit's annual audit opinion and the work of the Audit Committee (or equivalent).
- Provide an overview of assurance to the Audit Committee and Senior Management which will help address any gaps in assurance based on the significance and risk of the activity.
- Streamline and avoid duplication of effort where assurance can be drawn from a third party or other sources.

1.4 Attached in Appendix A is our Internal Audit Strategy. It shows information on:
- Our vision
- How we chose what to look at
- Our service
- Audit and Our approach
- Regulatory background

1.5 The Governance and Audit Committee is requested to approve the strategy, subject to any comments it may have.

2. Assurance Map

2.1 The assurance mapping exercise is still work in progress – however we have attached an example of the type of information that could be made available to the Committee when it's completed to illustrate the concept – See Appendix B.

2.2 The next phase is to 'validate' the data with the Section 151 Officer (Russell Stone) and the Core Management Team. We will then obtain management assurances.

2.3   We propose to present the completed Map to the Committee at its March 2012 meeting together with our Annual Internal Audit Plan.

APPENDICES (If applicable) - these are listed below and attached at the back of the report. **(if no appendices are attached, please delete this entire box)**
APPENDIX A   Internal Audit Strategy - 2011 APPENDIX B   Assurance Map

Internal Audit Strategy

This strategy is a statement of how Audit Lincolnshire delivers assurance to our clients, creating a framework within which more detailed plans can be developed. Our strategy aims to provide a complete a picture as possible of the Council's critical systems and the key risks it faces. It is designed to provide assurance on the Councils' corporate plan objectives and priorities.

At the heart of the strategy is our 'Assurance Map'. This helps focus our work plans on risks that matter – the make or break risks that affect the successful delivery of services and strategic objectives. It also recognises the importance of critical business systems that support successful delivery and 'protects the business'.

Our aim is to align our work with other assurance functions, particularly performance and risk management and look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council. The Map can be used to:

- Help establish the Internal Annual Audit Plan by identifying where more independent assurance is required based on significance and risk of the activity.
- Support the Head of Audit's annual audit opinion and the work of the Audit Committee (or equivalent).
- Provide an overview of assurance to the Audit Committee and Senior Management which will help address any gaps in assurance based on the significance and risk of the activity.
- Streamline and avoid duplication of effort where assurance can be drawn from a third party or other sources.

Our vision

Our main role is to provide assurance that the Council maintains an effective internal control environment that enables it to manage its significant business risks and achieve its objectives / priorities. We help the Council achieve its objectives, ensure that effective & efficient operations are maintained, safeguards its resources and provides assurance that the Council has good governance arrangements in place.

Our aim is to:

"To deliver excellent and innovative services that help support delivery of the Council's objectives and priorities"

"Work together to be the best risk and audit assurance provider for Lincolnshire public sector agencies"

The key drivers of this strategy are:

- To help managers identify, understand and manage the risks facing achieving their, and the Council's, objectives and priorities as set out in the Corporate and

Business plans. Create an environment of well measured risk taking and a strong control environment,

- To help promote effective risk management,
- Provide *independent* and *objective* assurance on the critical systems and strategic key risk areas whilst leveraging other assurance functions,
- To meet our customers needs now and for the longer term, and
- Maintain a resilient and sustainable service.

This helps focus our work to where it is most needed, whilst complying with the CIPFA[1] Code of Practice for Internal Auditors in Local Government in the UK 2006 (the Code).

How we chose what to look at

Our Assurance Map can be linked back to:

- business plan objectives & priorities;
- service plans;
- critical systems;
- the strategic risk register;
- change management programme,
- emerging risks, and
- the assurance framework.

The Assurance Map has been developed through our understanding of the business, reference to the risk management arrangements in the Council and by gathering information from Senior Management. It maps:

- The critical systems of the Council - Those key service activities whose failure could result in significant damage to the Council's reputation, material financial loss, significant impact on members of the public or failure to comply with service legal requirements.
- Due diligence activities – Key processes that support the running of the business and ensure compliance with corporate policies and legal requirements. How often we review these activities depends on previous assurance opinions, when we last examined the activity and if there has been any significant changes to the system or senior management.
- Strategic Risks – Any risk recorded within the Strategic Risk Register or a risk considered by Senior Management that should be considered for inclusion.
- Emerging risks - Risks that are created by a new activity or business strategy, a change programme or changes to an existing activity.
- Key transformation programmes and projects. Those supporting delivery of a corporate objective / priority.

---

[1] Chartered Institute of Pubic Finance and Accountancy

- ICT Assurance. An ICT Audit plan focussed on the critical IT applications and activities that support delivery of the Councils' key functions. This is based on a risk assessment.

Having developed the Assurance Map we then assess what assurance (comfort) we can obtain ie A critical review or assessment that gives us a reasonable level of confidence on the activity's service delivery arrangements, management of risks, operation of controls and / or performance'.

Assurance can be obtained by:

- Audit Lincolnshire through our work plans
- Third Party Assurance eg Inspections and / or other assurance functions of the Council (Risk Management, Performance, Programme Management, Health & Safety, Legal, Procurement, External Audit, Inspection results)
- Management Assurance – Provided by the Senior Manager of the activity through responding to some diagnostic questions on service delivery, risks and performance.

Our strategy for determining the level of assurance and allocating our resources is also influenced by the Council's *risk appetite*[2].

In deciding what we look at we assess how much reliance we can place on the risk management arrangements of the Council and other sources of assurance.

We take all of the above into account when we plan our work to ensure that our clients get the most out of their Internal Audit Service.

Our Service

Our service is made up of three teams:
- Risk Management
- Audit
- Counter Fraud and Investigations

They work closely to provide independent assurance that an effective internal control environment is in place that enables the Council to manage its significant business risks

Our Audit Lincolnshire partnership involves Lincolnshire County Council and the City of Lincoln working together for the provision of internal audit services to their own authorities and authorities with whom they have contractual, or other agreements. For more information on the partnership please follow this link

Where appropriate we engage specialist auditors to support the delivery of our work plans eg Computer Audit

---

[2] The amount of risk that we are prepared to accept, tolerate or be exposed to at any point in time

Audit

This team supports the Section 151 Officer and Monitoring Officer. It ensures the Council meets the requirements of the Accounts and Audit Regulations for maintaining an adequate and effective internal audit function.

Our scope spans the whole range of Council activities, financial or otherwise, and includes:

- Working with managers to provide assurance that key service risks are being effectively managed. Gaining assurance that key control mechanisms are operating or are being developed effectively.
- Gaining assurance that our key financial systems are working correctly
- Gaining assurance that our critical systems are working correctly
- Value for Money reviews
- Giving advice on risk and controls for major change programmes and developments

The audit plan includes key financial systems regarded by External Audit as material to their opinion on a Council's Statement of Accounts. We have a protocol with them that aims to make the best use of the Councils combined audit resource.

Our annual work plans

The focus of our work is primarily determined by the evaluation of the Assurance Map and tends to be on the critical systems (including IT), strategic risk areas, key finance systems and transformational change programmes. This helps our service be more proactive and directs our work to areas where it is most needed.

The development of plans includes consultation with service and senior management. They are approved in accordance with each client's requirements[3], and include flexibility to take into account of changing requirements.

Some *contingency* days is also included to help us respond to any issues highlighted during consultation and emerging risks during the year.

Our annual plan is approved by the Section 151 Officer and the Audit Committee (or equivalent).

Our Assurance Approach

How we provide assurance can vary and will be based on what evidence we need to have a reasonable level of confidence on the activity's service delivery arrangements, management of risks, operation of controls and / or performance. Our options are:
Our options are:

- We assess what reliance we can place on Third Parties work
- We assess what reliance we can place on Management Assurances

---

[3] Generally the Section 151 officer and the Audit Committee or equivalent

- We undertake an audit using the most appropriate approach. These are:

A risk based approach audit assignment

Risk based auditing contributes to ensuring that the governance framework, including risk and internal control is working as intended and helps provide senior management and the audit committee with information on how effective the Council is at managing its risks.

This approach draws on the knowledge and experience of managers as we consult with them to ensure that each audit assignment is focussed on areas of greatest risk or concern. This enables us to provide the most effective coverage, minimise duplication and provides an ideal opportunity to raise risk awareness amongst managers.

An objective based approach audit assignment

Using this approach will give more value when used on appropriate audit assignments. It helps us move away from looking at the impact of failure (blame culture) and focus on delivery of outcomes.

Instead of solely focussing on the risk our approach focuses on:
- what needs to happen to achieve your objectives or outcome (it recognises that innovation and opportunities to improve our services requires risk taking and changes in delivery / strategy)
- what will stop you from getting there (the risks - managers need to know the boundaries to work in and what you want them to do if they want to step out of these)
- what needs to be done (actions / controls that take a proportionate response to a risk)

It uses the similar techniques as a risk based approach but with a different focus and understanding that the *risk appetite* may vary for the activity.

A Health Check

We obtain direct management assurance, evaluating their responses to some key diagnostic questions on systems, obtaining an insight to how risks are being managed and controls operated. Further evidence is obtained as necessary to 'test out / confirm' their assertions.

The Health Check is a form of the Objectives Based Audit. As such the purpose of the Health Check is to assess whether or not appropriate arrangements are in place to achieve the activity's objectives and seize opportunities.

A system based audit assignment

We review a system's end to end processes, evaluate and test its risks and controls, recommending control improvements.   This tends to be used on financial and due diligence systems.

Using this approach provides wider assurance on the whole system with testing being undertaken on key risks and control areas.

Regulatory background

The requirement of an internal audit function is contained in The Accounts and Audit Regulations 2003 (as amended) which requires the Council to:

> "maintain an adequate and effective system of internal audit of it's accounting records and of its system of internal control in accordance with proper practices in relation to internal control"

Guidance on the regulations and internal control practices are contained in various CIPFA publications but particularly the Code of Practice for Internal Auditors in Local Government in the UK 2006 (the Code). We operate in accordance with these standards.

Corporate Audit and Risk Management is one of the principle ways the Council gains assurance on the adequacy and effectiveness of it's governance framework and internal control environment[4] and the extent which the Council can rely on it.

The regulations, and related guidance, also lay down far-reaching requirements on systems of internal control. They require the Council to:

- Have "a sound system of internal control .... which include arrangements for the management of risk";
- Review the effectiveness of its system of internal audit once a year, and
- Prepare and publish an Annual Governance Statement.

---

[4] The 'culture' of the Council determines its control environment and affects employees' **control awareness.** The control environment is about what importance management attaches to controls and probity. The CIPFA code of Practice for Internal Auditors in Local Government defines the control environment as comprising of governance, risk management and internal control.

West Lindsey Assurance Map (SAMPLE)

Assurance Map - by type of activity

This graph shows how assurances are split across the various business activities of the Council.
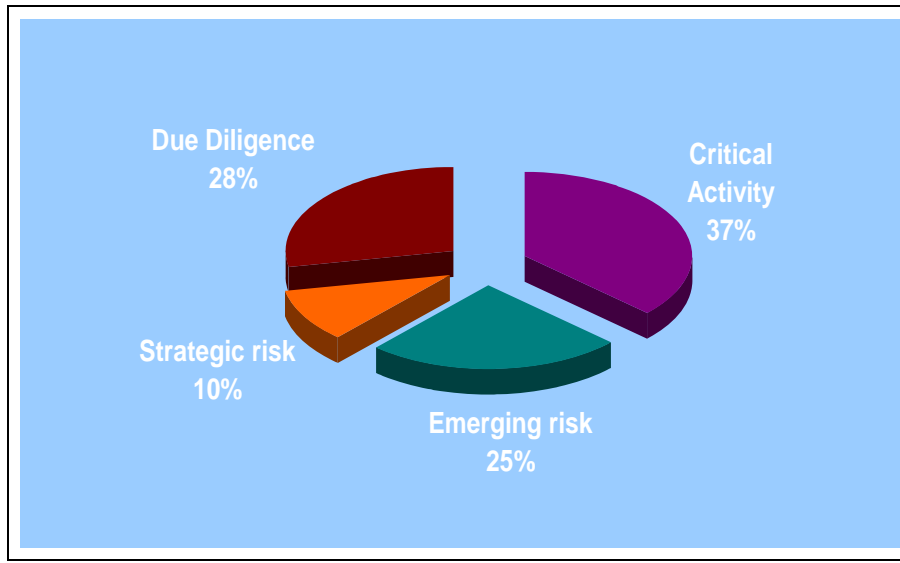
Current Assurances on all activities

This graph shows the amount of assurances obtained where we have a reasonable level of confidence over the activity's service delivery, management of risks and / or performance. It shows the *'Assurance Gap'* – the aim is to reduce this gap through leveraging assurance through management and other functions.
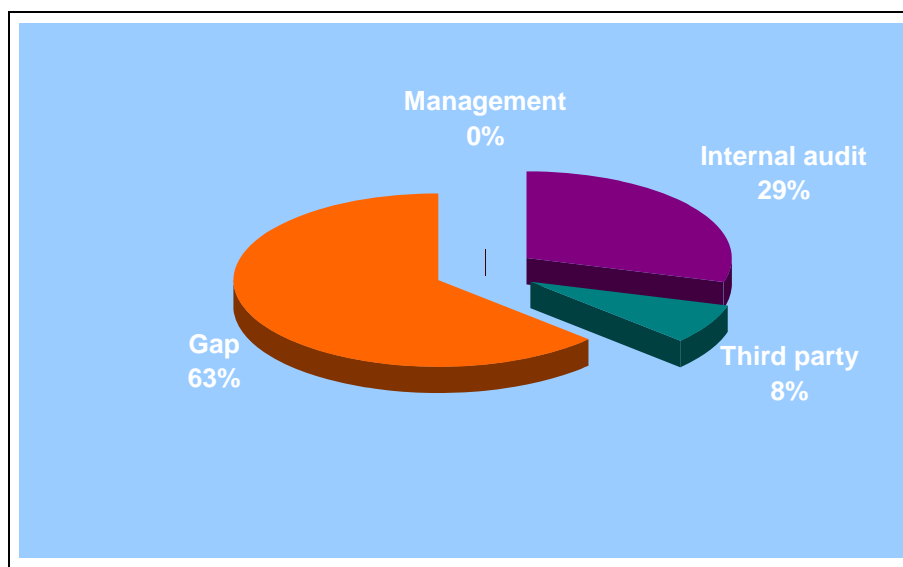
*We will assess how much of the 'gap' is covered by management assurances

Current Assurances for Critical Activities

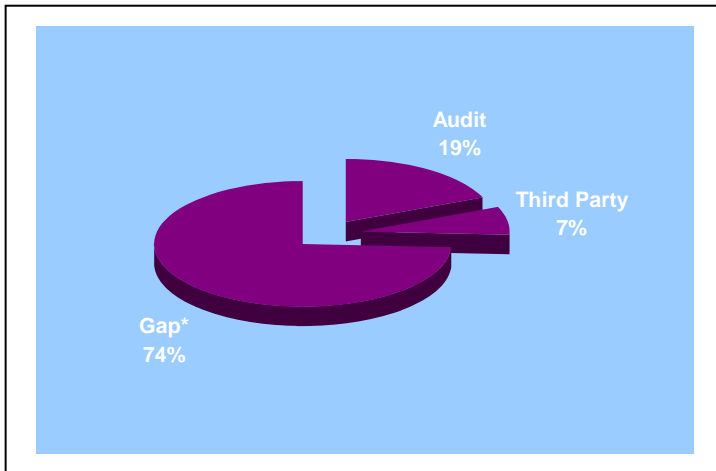This graph shows the amount of assurances we have obtained on critical activities of the Council where we have a reasonable level of confidence over the activity's service delivery, management of risks and / or performance. It shows the *'Assurance Gap'* – the aim is to reduce this gap through leveraging assurance through

Current Assurances for Strategic Risks
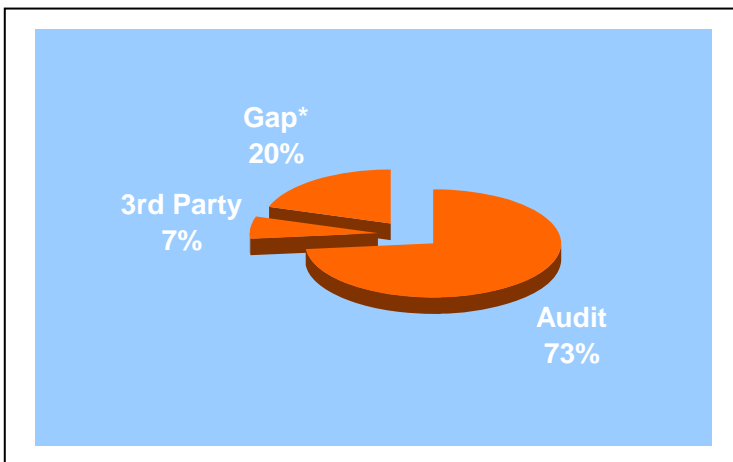
This graph shows the amount of assurances we have obtained on the Strategic Risks of the Council where we have a reasonable level of confidence over how well the risks are being managed. It shows the *'Assurance Gap'* – the aim is to reduce this gap through leveraging assurance through management and other functions

Current Assurances for Due Diligence
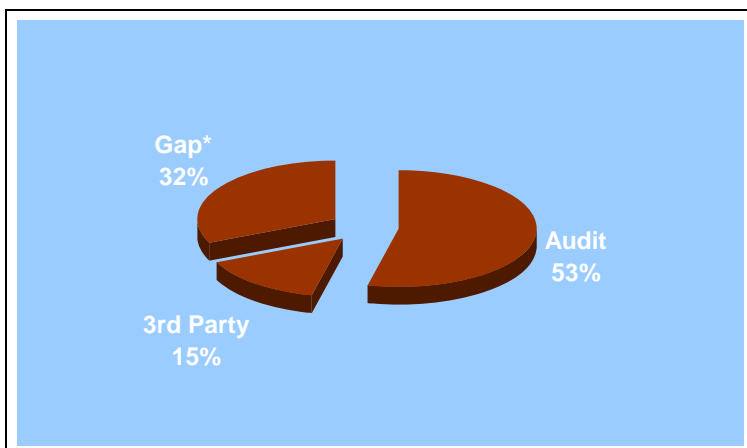
This graph shows the amount of assurances we have obtained on activities that support the running of the business. It shows the *'Assurance Gap'* – the aim is to reduce this gap through leveraging assurance through management and other functions

*We will assess how much of the 'gap' is covered by management assurances

	West Lindsey District Council - Assurance Map **DRAFT**									
	Internal Audit Assurance				**Third Party Assurance**				**Management Assurance**	
	Date	**Area**	**Assurance**		**Date**	**Assurance**	**Reliance**		**Date**	**Manager**	**Assurance**
Neighbourhoods & Health										
Critical Systems										
Property management					Annual	That equipment and services are effective and safe	High			
Building Control	May-11	Cc	Substantial							
Energy efficiency					Annual	That WL are meeting their carbon reduction targets	Medium			
Corporate facilities										
Car parking										
Rents										
Environmental protection										
Community health										
Public health										
Fleet management										
Staff management										
Efficiency projects										

	West Lindsey District Council - Assurance Map **DRAFT**										
	Internal Audit Assurance				**Third Party Assurance**				**Management Assurance**		
	Date	**Area**	**Assurance**		**Date**	**Assurance**	**Reliance**		**Date**	**Manager**	**Assurance**
Partnership working with Translinc											
Due Diligence											
Health & Safety	Jul-10	LR	Full								
Financial management											
Strategic Risks											
none											
Emerging Risks											
register of community assets could delay disposals causing cash flow issues											
Decrimalisation of parking could affect income											
Using capital assets as equity in joint ventures could affect disposable capital monies											

	West Lindsey District Council - Assurance Map **DRAFT**									
	Internal Audit Assurance				**Third Party Assurance**				**Management Assurance**	
	Date	**Area**	**Assurance**		**Date**	**Assurance**	**Reliance**		**Date**	**Manager**	**Assurance**
Capacity could affect service delivery										
Delivering 8% savings could be affected by no redundancy policy										
Additional Collection responsibilities could increase costs										
Pension rules could have an affect given physical nature of job										
Agency worker Directive could result in increased costs										
Resources										
Critical systems										
Post Opening										
Training										
Customer Services										
Access to Services										

	West Lindsey District Council - Assurance Map DRAFT										
	Internal Audit Assurance				Third Party Assurance				Management Assurance		
	Date	Area	Assurance		Date	Assurance	Reliance		Date	Manager	Assurance
Complaints	Oct-09	all	Substantial								
Corporate Plan Document											
Web services											
Corporate systems											
IT Strategy & Governance											
Internet/E-mail security											
Infrastructure											
HR policy & procedures											
Training & development staff											
Managing Attendance	Mar-10	all	Substantial								
Capability											
Appraisals	Feb-11	all	Substantial								
Competency Framework											
Engagement											
Insurance	Aug-09	all	Substantial								
Due Diligence											
Council Tax (CT) - Billing	Oct-11	all	Substantial		Annually						

West Lindsey District Council - Assurance Map DRAFT

	Internal Audit Assurance				Third Party Assurance				Management Assurance		
	Date	Area	Assurance		Date	Assurance	Reliance		Date	Manager	Assurance
CT - Refunds	Sep-09	all	Full		Annually						
CT - Recovery & Enforcement					Annually						
CT - Reconciliation					Annually						
CT - Liability	Sep-09	all	Full		Annually						
Assessment	Oct-11	all	Substantial		Dec-10	Accuracy of benefit payments	High				
Payments					Dec-10	Accuracy of benefit payments	High				
Overpayments					Dec-10	Accuracy of benefit payments	High				
Fraud prevention & Detection	Oct-11	all	Substantial								
Subsidy Claims					Dec-10	Accuracy of benefit payments	High				