



GA.02 14/15

**Governance & Audit  
Committee**

26<sup>th</sup> June 2014

**B**

**Subject: Internal Audit Annual Report – 2013/14**

Report by:

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Purpose / Summary:

The Internal Audit Plan was approved in March 2013. This report gives the Head of Internal Audit's opinion on the adequacy of the Councils, governance, risk and control environment and the delivery of the plan for 2013/14.

**RECOMMENDATION(S):**

- 1. That the Committee consider the Head of Audit's Annual Report and Opinion for 2013/14 and identifies any actions it requires.**
- 2. That the Committee consider this Annual Report when scrutinising the Annual Governance Statement.**

## IMPLICATIONS

**Legal:** None directly arising from the report

**Financial: FIN/GA/22/15**

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.

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**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**

West Lindsey  
District  
Council  
Internal Audit  
Annual Report  
2013/14

Lucy Pledge  
Head of Audit



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| Distribution List    |                    |  |  |
|----------------------|--------------------|--|--|
| Chief Executive      | Governance & Audit |  |  |
| Corporate Management | Committee          |  |  |
| Team                 | External Audit     |  |  |
| Section 151 Officer  |                    |  |  |

## MANAGEMENT SUMMARY

### Purpose of Annual Report

- 1 The Annual Internal Audit Report of West Lindsey District Council aims to present a summary of the audit work undertaken over the past year. In particular:
- Include an opinion on the overall adequacy of and effectiveness of the internal control system and the extent to which the Council can rely on it;
  - Inform how the plan was discharged and of overall outcomes of the work undertaken;
  - Draw attention to any issues particularly relevant to the Annual Governance Statement.

### Our Opinion

- 2 We have taken account of structures and processes, which have been put in place to ensure that the Council promotes good governance in the way it operates.
- 3 The *Governance and Audit Committee* helps ensure that these arrangements are working effectively. They regularly review the governance framework and consider draft and final versions of the Annual Governance Statement.
- 4 From the work we have undertaken during the year our opinion on the effectiveness of West Lindsey District Council's arrangements for governance, risk management and control arrangements are as follows:

#### 2012/13

Governance



Inadequate

Risk Management



Performing adequately

Internal Control



Performing adequately

Financial Control



Performing Well

#### 2013/14

Governance



Performing adequately

Risk Management



Performing Well

Internal Control



Performing adequately

Financial Control



Performing Well

- Red Inadequate Performance. Critical action required by management throughout the Council.
- Amber Performing Adequately Some improvement required to manage a high risk in a specific business area and medium risks across the Council.
- Green Performing well. No concerns that significantly affect the governance framework and successful delivery of the Council priorities

5 Following the ‘performing inadequately – red governance rating’ last year, a significant amount of work has been undertaken by the Council to strengthen and improve its governance, risk and internal control environment. This is reflected in the improved assurance opinion being given for the year ending 31<sup>st</sup> March 2014. I am satisfied that the overall standard of governance, risk and internal control in the Council is ‘performing adequately’ - our work did identify some areas of improvement.

## How we came to our opinion

**Governance** – *“If management is about running the business – Governance is about seeing that it is run properly”<sup>1</sup>*

6 Good governance underpins everything the Council does and how it delivers services often comes under close scrutiny. It is therefore vital that resources focus on agreed policy and priorities; that there is sound and inclusive decision making with clear accountability for the use of those resources. This ensures that the Council achieves the desired outcomes for the people of West Lindsey.

7 In response to last year’s Head of Internal Audit opinion and the outcome of the internal audit of the Elswitha development, the Council took swift action to review and improve its governance arrangements.

This included:

- Clarity over Elected Members and staff roles and remits and working together more effectively
- Review of Political Governance arrangements
- A Review of Corporate Governance and the implementation of SMART targets.
- A review of Committee reporting requirements for key

- More robust Terms of Reference for member working groups.
- Improving Project and Risk Management
- Improving investment decision making
- Review of performance and delivery

8 The review of the risk and control environment has also influenced my opinion on the Council’s overall governance arrangements.

9 Local Government has been and will continue to undergo significant change. The way it operates and deliver services – either directly, with or through other organisations will provide challenges for managing risk, ensuring transparency and demonstrating accountability. The importance to aim for the standards of the best and ensuring governance arrangements should not only be sound but also seen to be sound has never been greater.

10 The Council’s review of its governance framework and assurance arrangements helps the public have confidence in the way it works and runs its business - on this basis we have assessed the governance framework as **amber** – performing adequately.

## **Risk and Internal Control**

11 We took account of the outcome of our internal audit work during the year. Our work identified a number of areas where our assurance opinion on the activity identified some concerns on service delivery arrangements, management of risks, and operation of controls. These are:

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<sup>1</sup> Robert Tricker. An expert in Corporate Governance.

### 11.1 Progress and Delivery of the Corporate Plan

Progress and Delivery reports were not achieving their objective of providing members with a clear performance update on delivery of the corporate plan. This should be improved by providing members with complete, accurate and timely information on performance against agreed measures. Baseline data needs to be validated to ensure targets are realistic. Finally the focus of reports should be on providing quality of data as well as delivering the report to meet governance deadlines.

### 11.2 Asset Management

The Council's approach to the management of assets did 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.

### 11.3 NNDR – Growth Project

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

### 11.4 Partnership Management

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

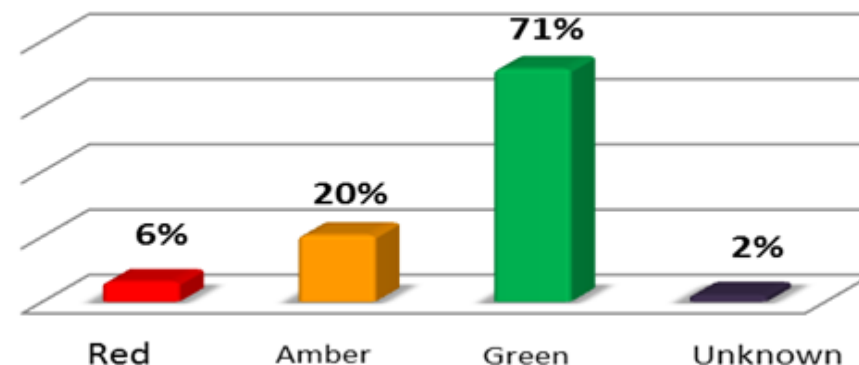
### 11.5 Project Management

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

We suggest the Council consider whether the above areas should be included in the Annual Governance Statement 2014.

12 Good progress has been made to assess how and the level of assurance which is provided on the Councils' critical systems key risks and projects - the outcome of which will be assessed by the Management Team and the Governance and Audit Committee. This will give greater assurance coverage and insight on the level of assurance that is present on the Councils' critical systems, key risks and projects:

**Your Overall Assurance Status on Critical Activities - February 2014**



13 The Council has identified some areas where further assurance is required and will be seeking to establish / improve these in 2014/15.

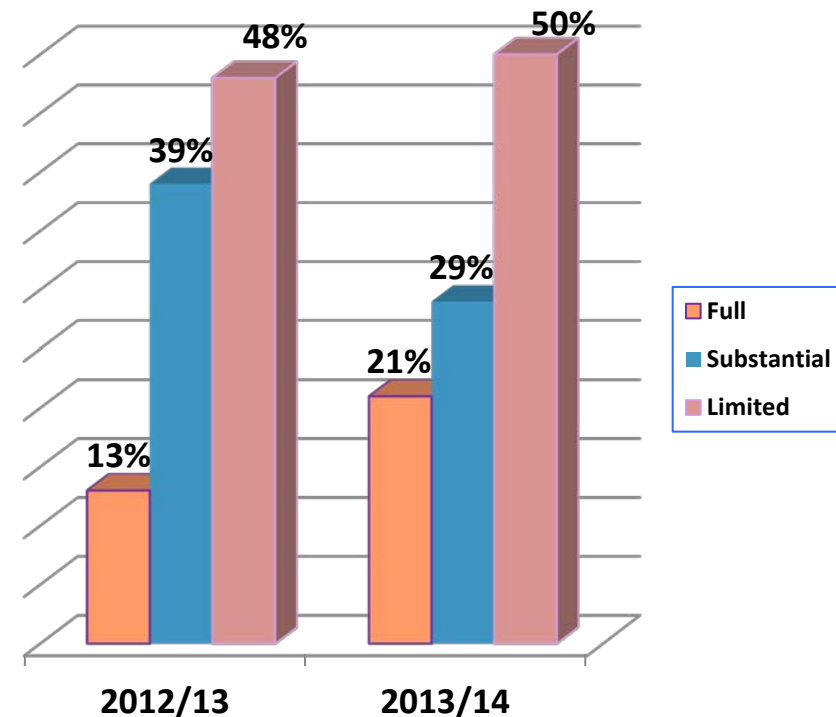
14 It is noted that Significant progress has been made within the field of corporate governance over 2013/14. Services are documenting their processes into Approved Codes of Practice (ACOPs) to ensure absolute clarity on roles and responsibilities is provided.



- 15 A robust set of performance measures has been included for service areas to ensure that performance expectations are well understood and these performance expectations have been pushed through to officer objectives as part of the appraisal process. This was one of the commitments from last years' Combined Assurance Report.
- 16 Workshops have taken place on risk management and SMART actions are now in place across the breadth of risk registers (service, corporate, strategic and project risks) and the corporate and strategic risk registers are standing items on the Core Management Team agenda and are shared with policy, scrutiny and regulatory committees. On this basis we have assessed risk management as **green** – performing well.
- 17 A new project methodology has also been put in place, building on the learning from the recent Elswitha audit and all projects have been migrated to the new form of documentation and revised gateway process.
- 18 Officers, Managers and Members have been trained on their respective roles on project management and decision-making. Guidance questions will be provided to the management team and to elected Members to assist in gaining assurance during the decision making process and monitoring projects as they are delivered.
- 19 Further work has been identified to help ensure that partnerships and shared service arrangements are well governed and a programme is in place to ensure that this is delivered.

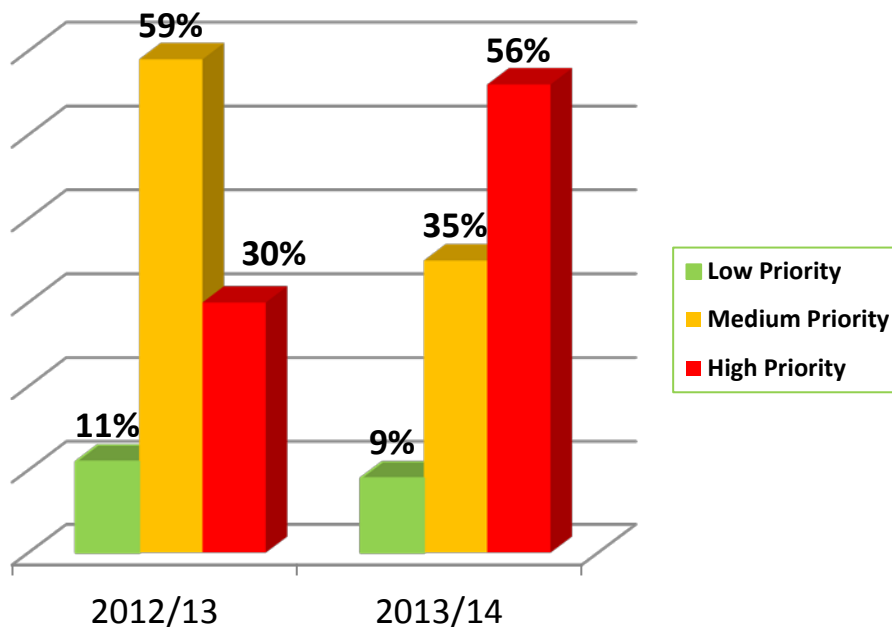
20 The bar chart below shows the assurance opinions given in 2013/14 compared to those in 2012/13. Our audit plan includes different activities each year – it is therefore not unexpected that these vary however the assurance levels do give an insight on the application of the Councils control environment. We can report that there were no instances of a 'no assurance' opinion this year. Details of systems reviewed can be found in Appendix 1.

**Assurances 2012/13 and 2013/14**



- 21 The chart below show the comparison of internal audit recommendations made 2012/13 and 2013/14.
- 22 We track the implementation of agreed management actions. Over the past year management have implemented **86%** of our high priority and **89%** of our medium priority recommendations due by the 31<sup>st</sup> March 2014. Where action has not been taken we have escalated the activity to the Governance and Audit Committee. We will continue to work with the Governance and Audit Committee to monitor implementation of recommended action during 2014/15. Appendix 2 shows the outstanding recommendations at 31<sup>st</sup> March 2014.

**Recommendations 2012/13 and 2013/14**



- 23 On the basis of the above information we have assessed the internal control environment as **amber** – performing adequately – some improvements are required with management actions still to be implemented.

### **Finance**

- 24 Our work provides an important assurance element to support the External Auditor's opinion on the Council's Statement of Accounts. During the year we reviewed:

- Treasury Management
- General Ledger
- Payroll
- Creditors

- 25 Our work did identify some areas of improvement over the creditors system however overall we have assessed finance as **green** – performing well.

### **Delivery of internal audit plan 2013/14**

- 26 The Audit Committee approved the 2013/14 audit plan in March 2013. We had delivered **97%** by the end of the year.

### **Counter Fraud**

- 27 The Council has put in place arrangements to help reduce the risk of fraud and error. Although there have been no reported cases of Corporate fraud a recent Internal Audit identified the need to review and refocus the Council's counter fraud arrangements.

### **Restrictions on Scope / Disagreements**

- 28 In carrying out our work we identified no unexpected restrictions to the scope of our work

## Other Areas of Audit Activity

- 29 We continue to undertake Housing Subsidy work on behalf of External Audit. This arrangement works well and ensures the Council gets the most out of its combined audit resource. This work contributes to the External Audit fee remaining low.
- 30 Training has been given to the Governance & Audit Committee to provide members with knowledge and information on key areas in its terms of reference.

## Quality Assurance

- 31 We recognise the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards. We continually focus on delivering high quality audit to our clients – seeking opportunities to improve where we can.
- 32 Our commitment to quality begins with ensuring that we recruit develop and assign appropriately skilled and experienced people to undertake your audits.
- 33 Our audit practice includes ongoing quality reviews for all our assignments. These reviews examine all areas of the work undertaken, from initial planning through to completion and reporting. Key targets have been specified - that the assignment has been completed on time, within budget and to the required quality standard.
- 34 Our Quality Assurance Framework (Appendix 3) includes all aspects of the Internal Audit Activity – including governance, professional practice and communication. We are able to evidence the quality of our audits through performance and delivery of audits, feedback from our clients and an annual self-assessment and the annual review of the effectiveness of the Internal Audit Function by the Council.

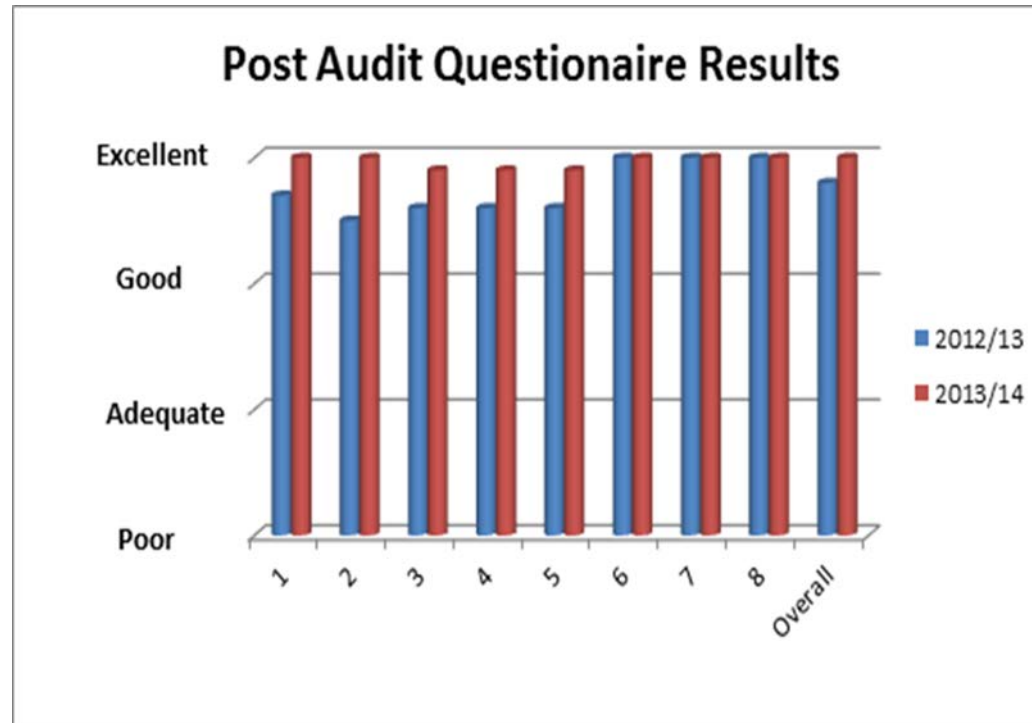
- 35 There is a financial commitment for training and developing staff. Training provision is continually reviewed through the appraisal process and regular one to one meetings. A training programme has been developed to ensure that staff are kept up to date with the latest technical / professional information and to ensure that they are equipped with the appropriate skills to perform their role.
- 36 Audit Lincolnshire conforms to the UK Public Sector Internal Audit Standards. Our quality assurance framework has however identified the following areas of improvement:
- Raising the awareness of the role and remit of internal audit and the contents of the Internal Audit Charter
  - Ensuring contemporary reporting
  - More regular client liaison arrangements with Corporate Management Team
  - Reviewing the effectiveness of our audit report follow up process
- 37 A quality assurance improvement plan is in place to help us continually improve and develop.
- 38 The Council has undertaken a comprehensive assessment of the effectiveness of its Internal Audit service. We are pleased to report that this assessment concluded that:
- 'Council does have an effective Internal Audit service: it is independent, professional, has appropriate relationships with Members and senior officer; alerts the Council to areas of control weakness and provides support in addressing those issues.'*
- 39 Although internal and external auditors carry out their work with different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will place reliance and assurance upon internal audit work.

## Effectiveness of Internal Audit

40 Internal Audit's performance is measured against a range of indicators. The table below shows performance at the end of the year.

| Performance Indicator  | Target              | Actual 2013                |
|--|---------------------|----------------------------|
| Percentage of plan completed.  | 100% (revised plan) | 97%                        |
| Percentage of key financial systems completed.                                 | 100%                | 75%                        |
| Percentage of recommendations agreed.  | 100%                | 100%                       |
| Percentage of recommendations due implemented.                                 | 100% or escalated   | 87%                        |
| Timescales:<br>Draft report issued within 10 working days of completing audit. | 100%                | 64%<br>7 out of 11 reports |
| Final report issued within 5 working days of CMT sign off                      | 100%                | 89%<br>8 out of 9 reports  |
| Client Feedback on Audit (average)   | Good to excellent   | Excellent                  |

41 We regularly canvass opinions on audit planning, report and communication from management responsible for activities under review. They score the effectiveness of our service as excellent, good, adequate or poor. The table below outlines the responses by management on our service. For 2013/14 there was an 87% questionnaire return rate, the overall average rating for the service was good to excellent.



#### Questions

##### A. Audit Planning

1. Consultation on audit coverage
2. Fulfilment of scope and objectives

##### B. Audit Report

3. Quality of report
4. Accuracy of findings
5. Value of report

##### C. Communication

6. Feedback of findings during audit
7. Helpfulness of auditor(s)
8. Prompt delivery of the audit report

## Internal Audit Assurances Given 2013/14

| Area   | Assurance Provided            | Priority of Recommendations |           |           |           |
|--|-------------------------------|-----------------------------|-----------|-----------|-----------|
|  |                               | Total Recs.                 | High      | Medium    | Low       |
| Partnership Management                                       | Limited Assurance             | 6                           | 4         | 2         | 0         |
| Progress and delivery of the corporate plan                  | Limited Assurance             | 10                          | 3         | 7         | 0         |
| Welfare Reform   | Full Assurance                | 4                           | 0         | 2         | 2         |
| NNDR and new homes bonus                                     | Limited Assurance             | 5                           | 4         | 1         | 0         |
| Housing Benefits and Subsidy claim Review (Highlight Report) | Substantial Assurance         | 5                           | 0         | 1         | 4         |
| Risk Management  | Substantial Assurance         | 8                           | 4         | 3         | 1         |
| Project Management   | Limited Assurance             | 8                           | 6         | 2         | 0         |
| Gateway Review – E-accessibility                             | N/A                           |                             |           |           |           |
| Elswitha Quarter   | N/A                           | 21                          | 21        | 0         | 0         |
| Asset Mgt, utilisation and disposal                          | Limited Assurance             | 9                           | 6         | 3         | 0         |
| <i>ICT</i>   | <i>*Substantial Assurance</i> | 2                           | 0         | 2         | 0         |
| Counter Fraud  | Limited Assurance             | 12                          | 4         | 6         | 2         |
| Treasury Management  | Full Assurance                | 4                           | 0         | 1         | 3         |
| General Ledger   | Substantial Assurance         | 3                           | 0         | 3         | 0         |
| <i>Creditors</i>   | <i>*Limited Assurance</i>     | 3                           | 1         | 2         | 0         |
| <i>Payroll</i>   | <i>*Full</i>                  | 1                           | 0         | 0         | 1         |
|  |                               |                             |           |           |           |
|  |                               |                             |           |           |           |
| <b>Totals</b>  |                               | <b>101</b>                  | <b>53</b> | <b>35</b> | <b>13</b> |

\* This is an indicative assurance as the audit is not yet finalised.

**End of Appendix 1**

**SUMMARY**  
**Outstanding Internal Audit Recommendations as at 31<sup>st</sup> March 2014**

| Audit Area                                  | Date        | Assurance   | Number of Recs | Implem'd  | Outstanding |          |          | Not Yet Due             |
|---|-------------|-------------|----------------|-----------|-------------|----------|----------|-------------------------|
|   |             |             |                |           | High        | Medium   | Low      |                         |
| <b>Previous Years</b>                       |             |             |                |           |             |          |          |                         |
| Localism                                    | Oct 2012    | Substantial | 5              | 2         | 3           | 0        | 0        |                         |
| Change program                              | Nov 2012    | Substantial | 11             | 9         | 0           | 2        | 0        |                         |
| IT Security                                 | August 2013 | Limited     | 15             | 11        | 3           | 1        | 0        |                         |
|   |             |             | <b>31</b>      | <b>22</b> | <b>6</b>    | <b>3</b> |          |                         |
| Partnership Management                      | Feb 2014    | Limited     | 6              | 1         | 3           | 1        | 0        | 1 (M)                   |
| Project Management                          | Feb 2014    | Limited     | 8              | 4         | 0           | 1        | 0        | 2 (H)<br>1 Not Agreed   |
| Asset Management – Utilisation and Disposal | Feb 2014    | Limited     | 9              | 0         | 0           | 0        | 0        | 6 (H)<br>3 (M)          |
| NNDR – Growth Project                       | March 2014  | Limited     | 5              | 1         | 0           | 0        | 0        | 4 (H)                   |
| Gateway Review - Elswitha                   | Oct 2013    | N/A         | 21             | 18        | 3           | 0        | 0        |                         |
| Treasury Management                         | March 2014  | Full        | 4              | 0         | 0           | 0        | 0        | 1 (M)<br>3 (L)          |
| General Ledger                              | March 2014  | Substantial | 3              | 0         | 0           | 0        | 0        | 3 (M)                   |
| Risk Management                             | Draft       | Substantial | 8              | 0         | 0           | 0        | 0        | 4 (H)<br>3 (M)<br>1 (L) |
| Creditors                                   | Draft       | Limited     | 3              | 0         | 0           | 0        | 0        | 1 (H)<br>2 (M)          |
| Payroll                                     | Draft       | Full        | 1              | 0         | 0           | 0        | 0        | 1 (L)                   |
| ICT   | Draft       | Substantial | 2              | 0         | 0           | 0        | 0        | 2 (M)                   |
|   |             |             |                |           |             |          |          |                         |
| <b>2013/14</b>                              |             |             | <b>70</b>      | <b>24</b> | <b>6</b>    | <b>2</b> | <b>0</b> | <b>38</b>               |
|   |             |             |                |           |             |          |          |                         |

End of Appendix 2



Quality outcomes / process designed to deliver a consistently high quality audit service to our clients - fit for purpose / meet client expectations / conform to PSIAS<sup>&</sup>



Quality improvement plan - HIA reporting to Audit Committee on the outcome of Quality Assurance – with improvement action plan and any significant non-conformance included in the Annual Report / Annual Governance Statement



**Ongoing monitoring – quality built into the audit process**

Quality checks and oversight are undertaken throughout the audit engagement ensuring that processes and practice are consistently applied and working well.



**Annual self- assessment**

- Head of Internal Audit - develop & maintain Quality Assurance Improvement Programme (QAIP) & improvement action plan
- Focus on evaluating conformance with Internal Audit Charter, definition of Internal Audit, Code of Ethics & the Standards
- Arrange an External Assessment – co-ordinated with Audit Committee (planned for 2015)



**Periodic quality assurance assessments**

- Obtain periodic assurance that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Provide HIA with quarterly highlight reports on outcome of reviews



- Conduct all audit engagements in accordance with audit practice standards / PSIAS
- Behave at all times in accordance with the Code of Ethics / Code of Conduct
- Promote the standards and their use throughout the Internal Audit activity
- Commitment to delivering quality services



- Obtain on-going assurance that that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Undertake engagement supervision and review