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| GA. 06 14/15 |
| Governance and Audit Committee |
| Date: 26 June 2014 |

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Subject: Review of the Effectiveness of Internal Audit

Report by:

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Purpose / Summary:

To review and report on the effectiveness of the internal audit service provided by Audit Lincolnshire.

RECOMMENDATION(S):

1) That Members consider the contents of this report and endorse the conclusion that the Council has effective internal audit in place.

IMPLICATIONS

Legal: None

Financial : FIN/GA/21/15

The Council continues with the Audit Lincolnshire service, the cost of which is included in existing budgets.

Staffing : None

Equality and Diversity including Human Rights : None

*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.*

Risk Assessment : Continuing with the Audit Lincolnshire internal audit service is actively contributing to the Council's current risk management strategy.

Climate Related Risks and Opportunities : None

Title and Location of any Background Papers used in the preparation of this report:

Public Sector Internal Audit Standards CIPFA

Finance Section

Reviewing the effectiveness of your internal audit function Dr Sarah Blackburn,
The Wayside Network 2003 Finance Section

Draft Audit Charter, Paper J GA 43 13/14

Internal Audit Plan 13-14 Paper F GA34: 12/13

Review of the Effectiveness of Internal Audit Paper H GA 08-12-13

Combined Assurance Report Paper H 10.4.14

Internal Audit Strategy and Plan Paper F GA54 13/14

Internal Audit Report Elswitha Quarter Development Paper A GA 21 13/14

Governance Review Report Paper CGA14 13/14

Call in and Urgency:

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

Yes

No

x

Key Decision:

Yes

No

x

1 Executive Summary

- 1.1 The Council is required to assess the effectiveness of its Internal Audit service on an annual basis. Internal Audit is provided by Audit Lincolnshire, part of Lincolnshire County Council.
- 1.2 The determination of effectiveness is arbitrary: there is no prescribed method by which it should be assessed. This review has drawn on empirical evidence, where it exists and has consulted key stakeholders. It has looked at the organisational impact that Internal Audit has had on the authority, both in terms of its reports and recommendations (notably the red rating for Governance, and the Elswitha report) and the ensuing changes in management, culture and process within the organisation. The report also recognises the work the Head of Internal Audit has undertaken to help Members understand and develop their role through the Governance and Audit committee.
- 1.3 The conclusion the report draws is that the 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. There are some areas for development which have been discussed with the Head of Internal Audit and these form an improvement plan.
- 1.4 Timeliness has been an issue in the past, with the bureaucracy of approving audit scope and draft reports resulting in delays in delivery. These processes have been streamlined, but the requirement to take reports through CMT, Leaders Panel before going to G&A still builds delays into the system. Comments were received from some stakeholders that additional value would be gained if audits were forward looking as well as retrospective and some of the more recent audit work around investments reflects that.
- 1.5 The service offers good value for money in terms of costs per day and the number of audit days required to deliver the audit plan. Furthermore external audit are able to rely on their work where appropriate and thus saves the Council external audit fees.
- 1.6 However, although Audit Lincolnshire provide an effective internal audit service the Council has not gained maximum benefit from their findings in the past as historically some recommendations have not been implemented, or have been delayed. There needs to be an improvement in the management response to audit recommendations and a more robust method of tracking implementation.
- 1.7 The final element to a truly effective internal audit service is the function and role of the audit committee. Considerable work has gone into improving the way the Governance and Audit committee works, but it is recognised that further development would be beneficial.

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2 Background

The Accounts and Audit regulations require the Council to review its internal audit function at least once a year. This year’s review has been a comprehensive exercise, including interviews with key stakeholders, it is anticipated that for the next two years a lighter touch would be sufficient.

Internal Audit services are provided to the Council by Audit Lincolnshire (part of Lincolnshire County Council).

2.1 Methodology for the Review

Measuring “effectiveness” is not an exact science and there is no prescribed methodology to follow. A steering group comprising the Chair of the Governance and Audit Committee (Cllr Sue Rawlins); the interim Director with responsibility for governance (Jeannette McGarry); the Chief Financial Officer (Russell Stone) and the Monitoring Officer (Alan Robinson) agreed through a workshop that a variety of sources of information should be used, detailed below. They also agreed that if the internal audit service was well managed, properly resourced and complied with the Standards for Public Sector Internal Audit, it would be reasonable to assume that they were likely to be effective in the execution of their function.

2.2 EVIDENCE FOR DETERMINING EFFECTIVENESS

| | Evidence |
|--|--|
| COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS | Head of Internal Audit self-assessment against detailed criteria prescribed by CIPFA |
| PERFORMANCE AGAINST AUDIT CHARTER | Assessment by Financial Services Manager |
| DELIVERY AGAINST AUDIT PLAN | Progress reporting to G&A committee Findings and recommendations of reports |
| FEEDBACK FROM KEY STAKEHOLDERS | Questionnaire and interviews |
| BENCHMARKING | Comparison against other authorities and audit providers |

2.3 Internal Audit in Context

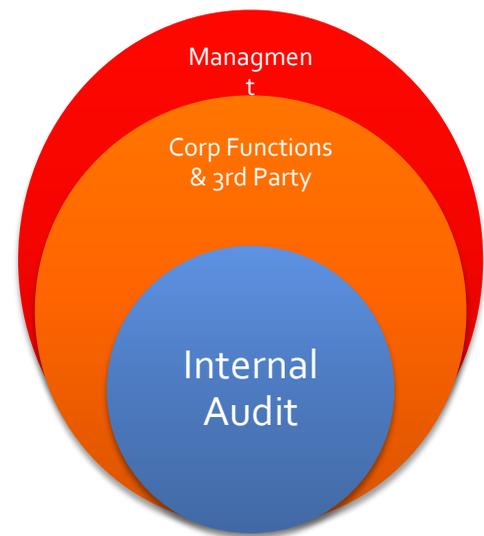
Combined Assurance Model

Internal Audit (IA) provides independent assurance designed to add value and improve how the Council operates.

Audit Lincolnshire have developed an award winning model of using all assurance functions across the Council, including that of management and corporate functions and 3rd parties. This is used to develop an assurance map which shows what assurance IA can obtain from other sources.

In brief IA populates the Assurance Map in the first instance, using high level risk assessment against areas falling within the following categories: critical activities, fundamental systems, key projects, key risks. This is based on a mixture of standard audit requirements, intelligence gained by the auditors on the ground and corporate strategic priorities articulated in the Corporate Plan and Commercial Strategy.

In this way Audit Lincolnshire are able to plan their audits to make the best use of their resources and to ensure critical systems, and key strategic risks are adequately covered within the minimum number of days.



2.4 How Internal Audit Works

Staff

Audit Lincolnshire is made up of LCC and CoL staff in a collaborative arrangement. It has 23 people in audit team, 4 in the Counter Fraud team and 5 responsible for Risk Management, Insurance and Health and Safety. This benefits WLDC as it has access to specialist skills if required.

The principal staff working on WLDC caseload is Lucy Pledge (HIA), Audit Manager John Sketchley, Principal Auditor Lisa McKenzie and Senior Auditor Matt Waller. Staff are rotated periodically, to ensure they do not become too close to the client. All staff are professionally qualified, through either CIPFA, AAT or IIA. All staff have personal development plans and participate regularly in continuing professional development.

All work carried out for WLDC is supervised by HIA.

Development of Audit Plan

This is done in accordance with the Combined Assurance model, an innovative approach developed by Audit Lincolnshire which has won an award from CIPFA.

The draft plan is discussed with CMT and through a process of constructive challenge a final plan is drawn up which is signed off and owned by CMT. Although the HIA will listen to the views of CMT, ultimately it is her decision which areas require audit investigation. There is evidence that HIA displays sufficient independence to set the audit plan according to perceived risk rather than management requirements, which is essential for an effective internal audit.

Once the audit plan has been agreed by CMT it is taken through Leaders Panel, Chairs Briefing before being submitted to the Governance and Audit Committee for final approval. The audit plan can be amended throughout the year as new risks and issues come to light – these can be signaled by IA, the Chair of the Governance and Audit committee, any of the statutory officers or by CMT. There is evidence of such additional investigations over the past three years, which provides assurance that the system is sufficiently flexible and communication lines are sufficiently robust to respond to emerging potential threats. In such circumstances the number of audit days for the year tends to increase, rather than diverting resources from other audits.

Process of Conducting Reviews

Once the plan is agreed the individual reviews are undertaken during the course of the year.

IA put together an indicative scope and then meet with the auditee to agree where they can add value/assess key risks/provide assurance. This forms the basis of the client brief.

The client brief is then agreed by CMT for major audits – which is useful as a combination of operational and strategic insights add value to the final brief.

Reviews are generally carried out by the senior and principal auditors and each review is overseen by the HIA. Once a review is completed the draft report is prepared within 10 working days, it is then sent to the auditee for the factual accuracy to be checked. When feedback from the auditee has been considered (which may result in amendments of facts) the amended draft is sent to CMT for discussion. The review by CMT tends to be a full and frank discussion of the findings and recommendations, with some constructive challenge. The aim of the exit meeting is to secure management action and ownership – which is designed to improve the control environment. Following this the report is finalised and then goes through to leaders panel, chairs briefing and finally Governance and Audit committee.

Progress Reporting and Follow Up

A quarterly tracker is produced which picks up any outstanding recommendations.

If recommendations continue to be outstanding they are reported to the G&A committee in summary format.

3 Findings

3.1 Compliance with Public Sector Internal Audit Standards

Public Sector internal audit standards have been defined in a document published by CIPFA and the government in April 2013 and are based on international standards for internal audit. The HIA has carried out an in depth self-assessment against these standards which provides assurance that the internal audit service provided is compliant. The main points are summarized below; the detailed self-assessment is included as Appendix 1.

| STANDARD | ELEMENTS | CONFORM |
|---------------------------------|--|---------|
| DEFINITION OF INTERNAL AUDITING | | yes |
| CODE OF ETHICS | Integrity, objectivity, confidentiality, competency | yes |
| ATTRIBUTE STANDARDS | Purpose, authority and responsibility Proficiency and due professional care Quality assurance and improvement programme | yes |
| PERFORMANCE STANDARDS | Managing the Internal Audit Activity Nature of Work Engagement Planning Communicating Results Monitoring Progress Communicating the Acceptance of Risks | yes |

Whilst the self-assessment indicates that IA comply with the required standards, a quality assurance improvement plan for West Lindsey has been developed which details opportunities for improvement across a range of aspects of the service. This includes governance, practice, communication and

continuing professional development of the audit team. This QA improvement plan has been agreed with WLDC and has actions for both the HIA and the Director responsible for corporate governance. The improvement plan is attached as Appendix 2 and actions will need to be incorporated into the AGS action plan.

3.2 Performance Against Audit Charter

The Audit Charter sets out the nature of the internal audit function and details the roles and responsibilities of Internal Audit, Management and the Governance and Audit Committee.



The Financial Services manager has assessed how well IA is fulfilling its role and discharging its responsibilities. He has concluded that IA is behaving in accordance with the undertakings within the Charter.

The HIA attends CMT to discuss the Audit Plan, to agree scopes of major audits and to discuss draft recommendations of major audits. IA provide regular progress reports to the G&A committee advising them of work against the plan completed during the period, other significant work, audits in progress, performance information and any other matters of interest – thus helping them keep abreast of relevant emerging guidance and legislation. The HIA, together with the external auditors, have undertaken a programme of training G&A committee members to enable them to fulfill their role effectively.

It is acknowledged that from the management side there are two areas which could be strengthened and these will assist the process of Internal Audit. These are:

- 1) Considering and responding promptly to recommendations in audit reports.
- 2) Ensuring that agreed actions arising from audit recommendations are carried out in a timely and efficient fashion

3.3 Delivery Against Audit Plan

In the 2013/14 year IA have delivered 100% of the audit plan. Performance information is regularly reported to the G&A committee. Whilst all audits on the plan have been completed by the end of the year, some of the audits were started later than scheduled. This is due to two reasons:

- 1) There had been a delay in agreeing the scope of audits with the CMT, which impacted on the start date of several audits. This has a detrimental effect on the effectiveness of IA as it holds up their ability to progress with reviews. The problem was so acute that by January 2014 only 62% of audits had been completed, and all audits were delayed by up to two months. This causes unnecessary delays to WLDC in getting the benefits from audit reviews and frustrations for the IA team in terms of managing their workload and resources. It is understood that the process has now been streamlined. However, the cycle of discussion and approval prior to final reports reaching the G&A committee builds further significant delay into the process: a bottleneck is created by all reports going to CMT for discussion and the timing of CMTs/Leaders Panel/Chairs Briefing and G&A committees can mean that in some cases months can elapse before a final report is presented to G&A committee.
- 2) Unscheduled work arising during the year. An example of this is the work on the Elswitha project, which diverted significant audit resource.

PERFORMANCE INFORMATION

| | TARGET | ACTUAL 2013/14 |
|---|--------|----------------|
| % OF PLAN COMPLETED | 100% | 100% |
| % OF KEY FINANCIAL SYSTEMS COMPLETED | 100% | 100% |
| % RECOMMENDATIONS AGREED | 100% | 100% |
| % RECOMMENDATIONS DUE IMPLEMENTED | 100% | 75% |
| DRAFT REPORT ISSUED WITHIN 10 WORKING DAYS | 100% | 64% |
| FINAL REPORT ISSUED WITHIN 5 WORKING DAYS OF CMT SIGN OFF | 100% | 89% |

The HIA comments on indicators below 100% are as follows:

% of Recommendations due to be implemented: more detail on the audits and the priority of the recommendations is given in Appendix 3.

Draft report issued within 10 working days: 7 out of 11 reports were issued within 10 working days, for the remainder the IA quality assurance process/review of report resulted in additional work prior to the report's issue.

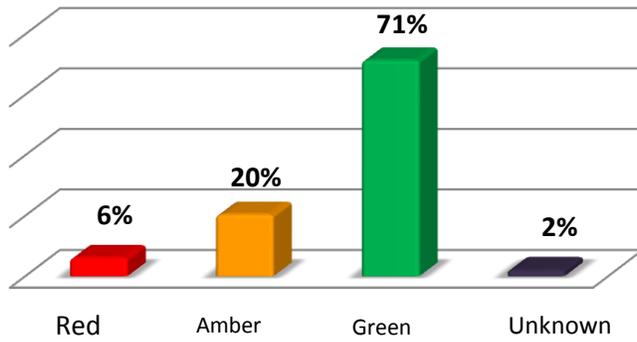
Final report issued within 5 working days of CMT sign off: 8 out of 9 reports were issued according to the performance indicator, on one audit there was a slight delay (3 days) receiving the management response through CMT.

Whilst the audit plan is being delivered, that in itself does not mean that Internal Audit is being *effective*. The measure of effectiveness is surely whether or not things have improved within the organization. There is general consensus that the red rating for governance was a very effective tool to promote a management response to serious control weaknesses. Since the audit report was issued the Council has made significant changes to its processes and organizational structure, and is continuing to work against an action plan to meet the recommendations. The overall opinion from the HIA for 2013/14 will reflect the work on improving the governance, risk and control environment, with a shift from a red rating to amber for governance, risk will have a green rating, Internal control amber and Financial Control Green. It is envisaged that once the policies and procedures introduced have bedded in and the action plan is completed all ratings will move to green.

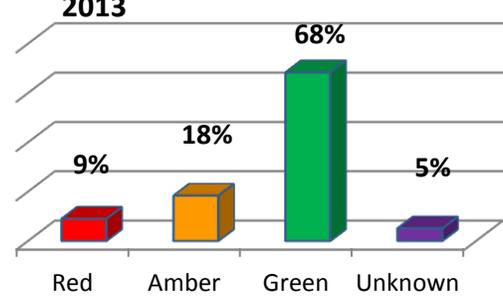
The audit report on the Elswitha Quarter development is another example of major change in the Council's procedures as a result of audit recommendations. Since the report was issued the role of the Commercial Board has changed and an action plan has been agreed which strengthens the Council's project management, business case evaluation and reinforces the requirements to follow procurement procedures. It should be noted that the Elswitha report also highlighted the importance for auditors to ensure they have evidence to substantiate their findings – initially a comment was taken at face value which in fact was erroneous, this was resolved before the final report was issued

The graphs below show that system of management control would appear to be improving over the last two years, with an increase in green rated critical activities and a decrease in red rated activities. This provides further evidence of an effective internal audit service.

**Figure 1 -
Your Overall Assurance Status on Critical
Activities - February 2014**



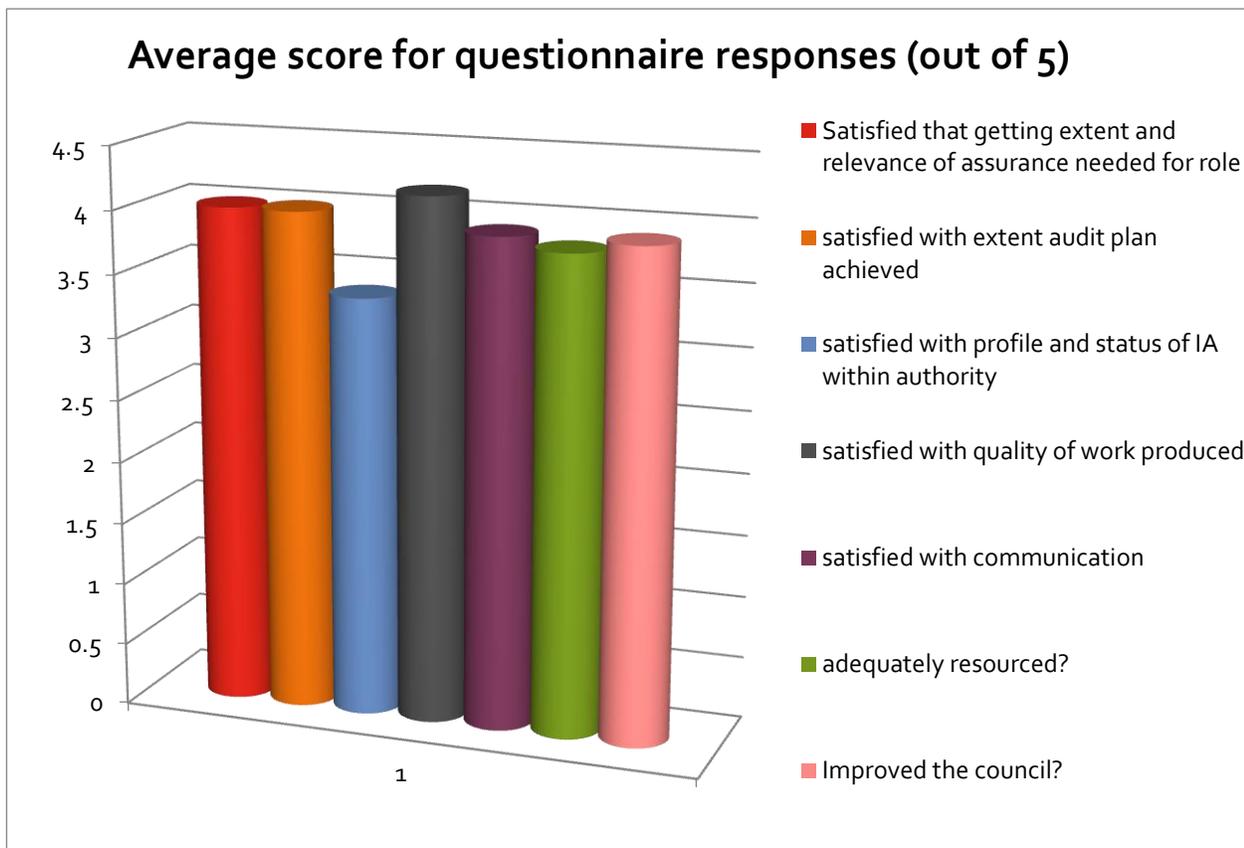
**Figure 2 -
Your Overall Assurance Status
on Critical Activities - June
2013**



3.4 Feedback from Key Stakeholders

Key stakeholders were interviewed as part of the review (list given as Appendix 4) and asked to complete a short questionnaire. The questionnaire asked wider questions about the context of audit than is necessary for the purposes of this review, but will be used to further develop the way the Council makes use of the work of IA.

The graph below is the average score for the questions shown. The highest potential score is 5. This shows that most respondents were very satisfied with the service provided by IA, and believed that IA had been effective in moving the Council forwards. The slight dip in the satisfied with the profile and status of IA within the authority was due to some respondents feeling that IA should have more respect amongst the middle management tier.



The main responses relating to the effectiveness of internal audit are shown in Appendix 5. In summary respondents were satisfied with the service provided by IA and felt that they were an effective organization. Many respondents quoted the red rating for governance given in 2012/13 as a very positive action, describing it as a “wake up call” which enabled the Council to address certain weaknesses. Others noted that audits such as those concerning Elswitha and investment strategies had also been very useful in moving the Council forwards.

Some criticisms were made, particularly around the need to be more pragmatic and to remember the context within which the Council operates. There were also comments from some responders that there is insufficient follow up of the implementation of audit recommendations.

There was some concern that in one particular audit there was a perception from officers that reported findings were not being researched thoroughly and not evidenced properly; this has been discussed at length with the HIA, who is confident that there was clear evidence for the findings. However, this case highlighted the importance of client engagement during the draft report stage, where these concerns should have been aired. This has been addressed in subsequent audits.

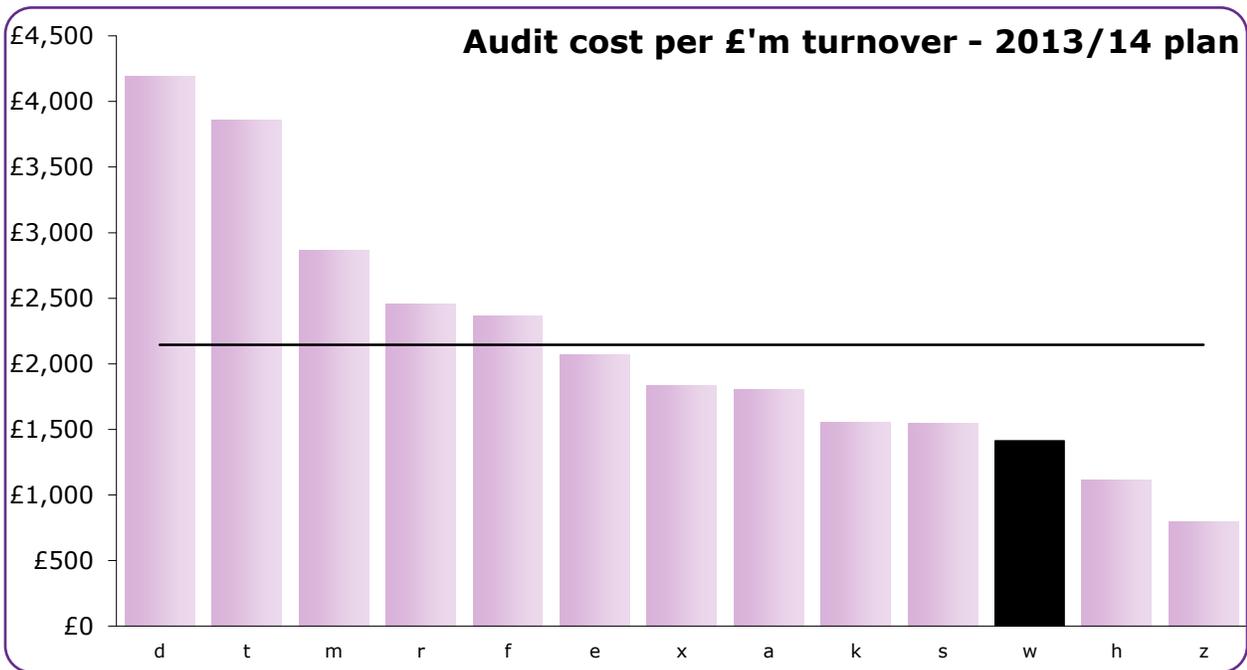
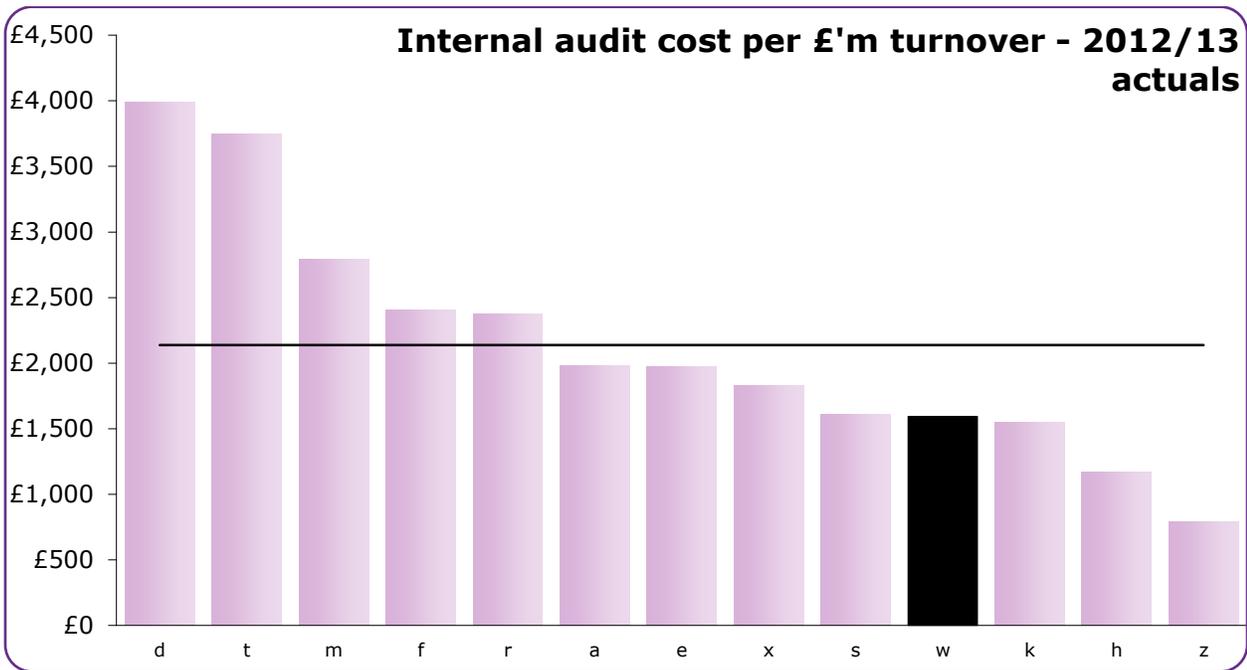
Relationships with IA are good, with both officers and Members feeling able to approach IA and to have robust discussions with them where appropriate. It was felt that the HIA had been particularly helpful and supportive, whilst maintaining the necessary professional distance and objectivity.

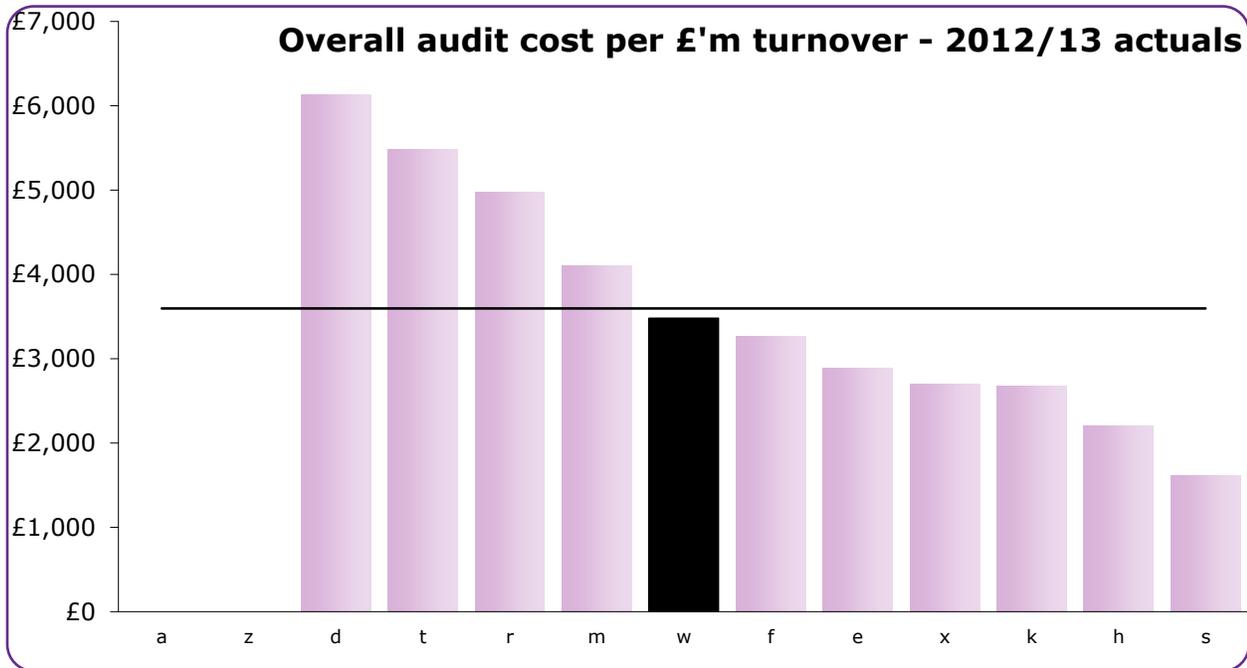
External audit reported that they were satisfied with their relationship with IA and were able to place reliance on their work in certain situations, which saves the Council money.

Other comments made by respondents were about how IA could improve its service in the future and how the G&A committee could improve in the future: there was a general consensus that whilst G&A had become more effective over the last year it still had some way to go. These comments will be discussed at a workshop to be held in June 2014, following which an action plan for the future direction of the relationship with IA and the operation of the G&A committee will be developed.

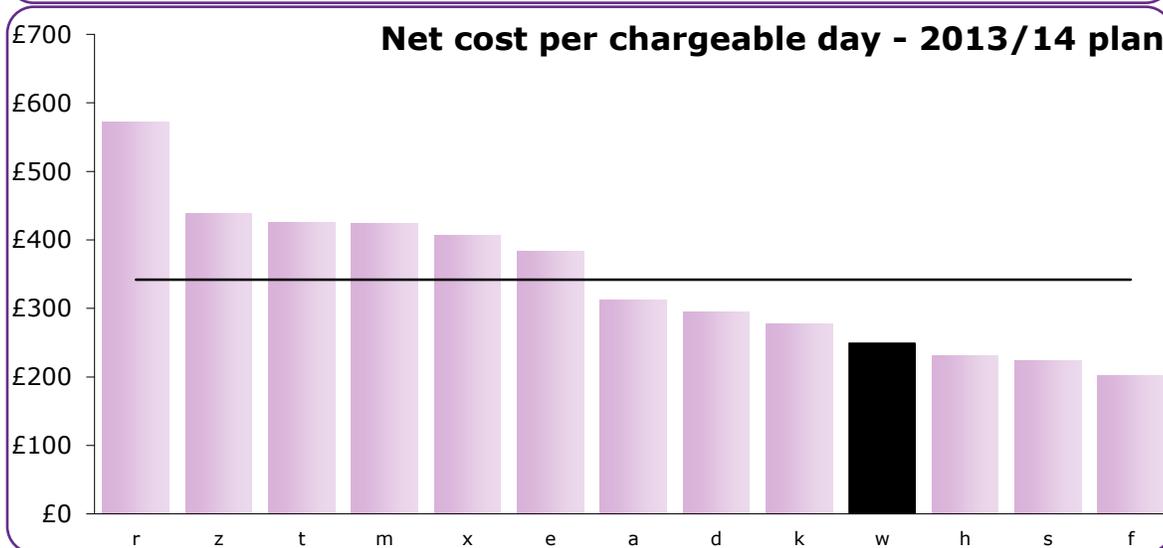
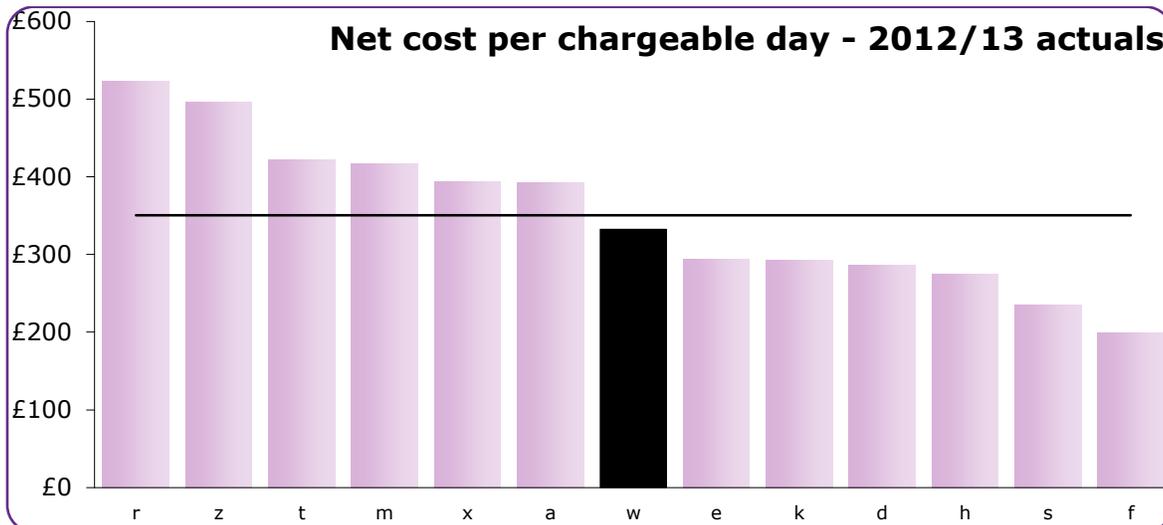
3.5 Benchmarking

The Council subscribes to the CIPFA audit benchmarking group. This allows us to compare the Council with other member districts. The graphs below show audit costs per £m turnover, as actuals for the 2012/13 financial year and budgets for 2013/14 financial year. These show that WL (shown in black) spends considerably less than average on internal audit, whilst when taking into account external audit as well WL has an average cost.





Costs per £000 depend on the cost per day and the number of days, WL costs may be below other councils because we are simply not buying as many audit days. This is true to an extent, we are using less audit days than some councils, which in itself can be viewed as a measure of effectiveness: if we are still receiving adequate assurance and are using less audit days one might conclude that the Council has an effective audit service. The other variable is the cost per audit day: the graphs below show that we are slightly below average in 2012/13 and with a further reduction in price per day we are in the lower quartile for 2103/14.



WL spent £63,000 on internal audit fees in 2013/14 and received 221 days at £282 per day, which is reducing to £271 per day in 2014. In terms of other Lincolnshire authorities this compares favourably with South Kesteven DC, who contract outside of Audit Lincolnshire and pay a rate of £315 per day, but is not as competitive as East Lindsey DC who have an in house internal audit service costing £236 per day in 2013/14. However, at that time the EL service did not have a qualified and experienced HIA and as such did not conform to the Public Sector Internal Audit Standards.

As part of the Audit Lincolnshire partnership a number of other benefits accrue:

- Easier & more cost effective to audit Joint working / cross cutting reviews (e.g. shared services)

- Sharing best practice across partner sites to complete audits quickly and focusing on key areas of concern/risk
- Innovative Audit Approach - "Combined Assurance" feeding directly into documents such as the Annual Governance Statement
- Wider range of specialists to draw upon for audit work/consultation (e.g. Fraud, Risk, Insurance, Health safety)
- Understanding the business - LA operated service with a proven track record – flexibility – responsive.
- Accessibility – on-site provision of audit staff
- Provision of audit committee training
- Risk appetite work
- Close working with external audit e.g. Audit Lincolnshire take on HB subsidy and other work to help reduce additional external audit fees

4 Conclusion

The overall view of IA is that it is an effective, value for money service with whom the Council enjoys a good relationship. It is sufficiently independent and professional to provide an objective arm's length appraisal of control weaknesses; but is at the same time regarded as approachable and is used particularly by Members as a tool to provide assurance on matters of concern.

The audit service is well run and conforms to all necessary standards. There is a culture of continuous improvement and regular quality assurance work is undertaken.

The terms of the relationship with the Council is set out within the Audit Charter, which clearly defines the roles and responsibilities of all parties. Internal Audit fulfill their role according to the terms of the charter, although there are some aspects of the management and G&A committee role which need strengthening on the part of the Council.

The audit plan is compiled based on an assessment of risk, materiality and drawing on other forms of assurance through an award winning model known as Combined Assurance model. The plan has been fully discharged in 2013/14, despite additional unplanned audit work arising throughout the year. There have been some issues of timeliness due to procedural delays in reviewing scopes and draft reports. These issues have now been resolved.

There is clear evidence of real improvements in organizational practices, structures, procedures and behaviours arising as a direct result of recommendations made by Internal Audit, and in this respect the function is effective.

When compared with other authorities the daily chargeable rate is favourable and is decreasing. The number of audit days required is satisfactory. In addition there are a number of value added benefits gained by the Council as being part of the wider Audit Lincolnshire partnership.

The success of IA as a service is in no small part due to the skill and professionalism of the HIA and the Council recognizes the investment she has made in delivering an effective audit service to West Lindsey, and in helping West Lindsey become a better Council.

Having an effective audit function is not in itself sufficient; it is one aspect of the overall control framework. The Council must develop an effective management response to the issues highlighted in audit reports and whilst the Governance and Audit committee is good compared to many other authority, there is further work to do to become world class. Only when all three elements are working as they should will the maximum benefit be derived from the work of Internal Audit.

5 References

Public Sector Internal Audit Standards CIPFa

Reviewing the effectiveness of your internal audit function Dr Sarah Blackburn, The Wayside Network 2003

Draft Audit Charter, Paper J GA 43 13/14

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Appendix One

Public Sector Internal Audit Standards 2014 conformance assessment

| Standard | Conformance | Observations and actions proposed | When? | Who? |
|--|-------------|---|------------|---------------|
| Definition of Internal Auditing | Yes | | | |
| Code of Ethics | | | | |
| Integrity | Yes | | | |
| Objectivity | Yes | | | |
| Confidentiality | Yes | | | |
| Competency | Yes | Whilst training records are maintained by auditors and appraisals identify development requirements, the recording and retention of training records and whether there is a need to keep a central training file will be reviewed | April 2014 | Head of Audit |
| Attribute Standards | | | | |
| 1000 Purpose, Authority and Responsibility | Yes | | | |
| 1100 Independence and Objectivity | Yes | The internal audit charter was updated in December 2013 and approved by both the Audit Committee and Management Board. Circulation and awareness | March 2014 | Head of Audit |

| Standard | Conformance | Observations and actions proposed | When? | Who? |
|---|-------------|--|----------------------------|---------------------|
| | | | 2014 September 2014 | Section 151 Officer |
| 1111 Direct Interaction with the Board | Yes | Review of internal audit strategy and outcome of combined assurance status report circulated to Management Board | March 2014 | Head of Audit |
| 1120 Individual Objectivity | Yes | Note: Where the Head of Audit has operational responsibility – external firms undertake the audit engagement through the Section 151 Officer | | |
| 1130 Impairment to Independence or Objectivity | Yes | | | |
| 1200 Proficiency and Due Professional Care | Yes | | | |
| 1210 Proficiency | Yes | | | |

| Standard | Conformance | Observations and actions proposed | When? | Who? |
|--|-------------|--|------------------------------------|---------------------------------------|
| 1220 Due Professional Care | Yes | | | |
| 1230 Continuing Professional Development | Yes | | | |
| 1300 Quality Assurance and Improvement Programme | Yes | There is a QAIP in place however, the IA manual would benefit from a review to reflect those processes which are now electronic and to ensure that it complies completely with the standards | July 2014 | Head of Audit |
| 1310 Requirements of the Quality Assurance and Improvement Programme | Yes | | | |
| 1311 Internal Assessments | Yes | | | |
| 1312 External Assessments | No | Consider the approach and timing of an external audit assessment with the Section 151 Officer or a self-assessment with 'independent validation'. External assessment or a self-assessment with 'independent validation' to be conducted. | March 2015 During 2015 / 16 | Section 151 Officer & Audit Committee |
| 1320 Reporting on the Quality Assurance and | Yes | Head of Internal Audit produces annual report and self-assessment for review group to evaluate the | June 2014 | Review Group |

| Standard | Conformance | Observations and actions proposed | When? | Who? |
|--|-------------|---|-------|-------------------|
| Improvement Programme | | effectiveness of the Council's internal audit arrangements. | | & Audit Committee |
| 1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing' | Yes | | | |
| 1322 Disclosure of Non-conformance | Yes | | | |
| Performance Standards | | | | |
| 2000 Managing the Internal Audit Activity | Yes | | | |
| 2010 Planning | Yes | | | |
| 2020 Communication and Approval | Yes | | | |
| 2030 Resource Management | Yes | | | |
| 2040 Policies and Procedures | Yes | | | |
| 2050 Coordination | Yes | | | |
| 2060 Reporting to Senior Management and the | Yes | | | |

| Standard | Conformance | Observations and actions proposed | When? | Who? |
|--|-------------|---|-------|------|
| Board | | | | |
| 2070 External Service Provider and Organisational Responsibility for Internal Auditing | Yes | | | |
| 2100 Nature of Work | Yes | | | |
| 2110 Governance | Yes | <p>Note: the standards include IA review of ethics. We audit the governance arrangements which includes - values</p> <p>The Head of Audit forms an opinion on the governance, risk and control environment of the Council each year.</p> <p>Public sectors ethical framework is determined through the Councils standards regime with oversight undertaken by the Monitoring Officer.</p> <p>Given the above it is not deemed necessary to undertake a separate ethical audit</p> | | |

| Standard | Conformance | Observations and actions proposed | When? | Who? |
|-------------------------------------|-------------|-----------------------------------|-------|------|
| 2120 Risk Management | Yes | | | |
| 2130 Control | Yes | | | |
| 2200 Engagement Planning | Yes | | | |
| 2210 Engagement Objectives | Yes | | | |
| 2220 Engagement Scope | Yes | | | |
| 2230 Engagement Resource Allocation | Yes | | | |
| 2240 Engagement Work Programme | Yes | | | |
| 2300 Performing the Engagement | Yes | | | |
| 2310 Identifying Information | Yes | | | |
| 2320 Analysis and Evaluation | Yes | | | |
| 2330 Documenting Information | Yes | | | |

| Standard | Conformance | Observations and actions proposed | When? | Who? |
|--|-------------|--|-----------|---------------|
| 2340 Engagement Supervision | Yes | | | |
| 2400 Communicating Results | Yes | | | |
| 2410 Criteria for Communicating | Yes | | | |
| 2420 Quality of Communications | Yes | | | |
| 2421 Errors and Omissions | Yes | | | |
| 2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing' | Yes | | | |
| 2431 Engagement Disclosure of Non-conformance | Yes | | | |
| 2440 Disseminating Results | Yes | | | |
| 2450 Overall Opinion | Yes | Annual opinion included in the Head of Audit's annual report on governance, risk and control | June 2014 | Head of Audit |
| 2500 Monitoring Progress | Yes | | | |

| Standard | Conformance | Observations and actions proposed | When? | Who? |
|---|-------------|--|--|----------------------|
| 2600 Communicating the Acceptance of Risks | <p>Yes</p> | <p>Given the future resource restrictions envisaged and a review of risks, it is necessary to identify and report upon what areas will not be, or are unlikely to be, audited on a regular basis to senior managers and Audit Committee.</p> | <p>March 2014 (plan)</p> <p>Progress reports</p> | <p>Head of Audit</p> |

| Appendix Two | | Quality Assurance Improvement Plan – West Lindsey District Council | | | |
|-------------------------------|--|--|------------------------------------|---------------------------------|----------------------|
| Opportunities for Improvement | | Actions | Timescale for tasks to be achieved | Person Responsible | Status |
| Governance | | | | | |
| 1. | Purpose, Authority & Responsibility | <ul style="list-style-type: none"> Update audit charter to reflect new standards Charter approved by Corporate Management Team and Governance & Audit Committee | December 2013 December 2013 | Lucy Pledge Jeanette McGarry | Complete Complete |
| 2. | Client engagement Raise awareness of role and remit of both Internal Audit & Governance & Audit Committee | <ul style="list-style-type: none"> Issue Charter and management briefing | March 2014 | Jeanette McGarry | Complete |
| 3. | Governance & Audit t Committee effectiveness | Using the new CIPFA Audit Committee Practical guide <ul style="list-style-type: none"> Update the skills matrix for members including JD's Undertake self-assessment | February 2014 March 2014 | Lucy Pledge Jeanette McGarry | Complete Complete |

| Opportunities for Improvement | | Actions | Timescale for tasks to be achieved | Person Responsible | Status |
|-------------------------------|---|--|---|---------------------------------------|--------------------------|
| 4. | Audit Committee Effectiveness | Review Terms of Reference of the Audit Committee in light of the new CIPFA Audit Committee Practical guide | April 2014 | Jeanette McGarry | Complete |
| 5. | Gathering of business intelligence – keeping informed | Produce regular briefing papers on significant changes to client / organisations: <ul style="list-style-type: none"> • Business / corporate plans • Service plans • Culture and values • Annual reports • Committee papers • SRR Regular client liaison / engagement | On-going – with quarterly update Throughout the year – see above | Principle Auditors Lucy Pledge | On-going On-going |
| 6. | External Assessment | Paper to Governance & Audit Committee presenting options | March 2015 | Section 151 Officer | Not due |
| Practice | | | | | |
| 7. | UK PSIAS self -assessment | Undertake self- assessment contained in the CIPFA Local Governance Practice note | March 2014 | Lucy Pledge | Complete |

| Opportunities for Improvement | | Actions | Timescale for tasks to be achieved | Person Responsible | Status |
|-------------------------------|--|---|------------------------------------|--------------------|-------------|
| 8. | Internal Audit Strategy | <ul style="list-style-type: none"> Review strategy | January 2014 | Lucy Pledge | Complete |
| | | <ul style="list-style-type: none"> Update strategy and obtain approval from Corporate Management Team and Governance & Audit Committee | March 2014 | Lucy Pledge | Complete |
| 9. | Engagement Planning Better engagement with the client at the start of the audit | <ul style="list-style-type: none"> Change to engagement planning process | January 2014 | Lucy Pledge | Complete |
| | | <ul style="list-style-type: none"> Introduction of new planning document | January 2014 | John Sketchley | Complete |
| 10. | Document Retention | <ul style="list-style-type: none"> Team to undertake archiving exercise ensuring no document s/ key info retained on outlook | March 2014 | All | Ongoing |
| 11. | Practice Manual | Annual Review | July 2014 | Lucy Pledge | Not Due |
| 12. | Practice Manual | Update practice notes to reflect new Standards and any changes | March 2014 | Lucy Pledge | Complete |
| | | <ul style="list-style-type: none"> Quality Assurance Improvement Programme | January 2014 | Lucy Pledge | Complete |
| | | <ul style="list-style-type: none"> Performance framework | March 2014 | Stephanie Kent | In progress |
| | | <ul style="list-style-type: none"> Audit Process | February 2014 | John Sketchley | Complete |

| Opportunities for Improvement | | Actions | Timescale for tasks to be achieved | Person Responsible | Status |
|-------------------------------|--|---|------------------------------------|----------------------------------|----------------------|
| Communication | | | | | |
| 13. | Feedback from clients | Issue a quality survey to key stakeholders Review feedback and report in annual report | January 2014 June 2014 | Lucy Pledge Lucy Pledge | Complete Not due |
| 14. | Report template | Review assurance opinions and include disclaimer / paragraph re standards | February 2014 | Lucy Pledge | Complete |
| 15. | Disclaimer included in report | Update template | March 2014 | Lucy Pledge | Complete |
| 16. | Conformance – in report and scoping document | Update template | March 2014 | Lucy Pledge | Complete |
| 17. | Contemporary reporting | Introduce a performance indicator to measure time taken from fieldwork commencing to issuing the draft report to the client | January 2014 | Lucy Pledge | Completed |
| 18. | Performance reporting | Review performance definitions to ensure consistency Communicate to teams and set up monitoring arrangements | January 2014 February 2014 | John Sketchley John Sketchley | Completed Not due |

| Opportunities for Improvement | | Actions | Timescale for tasks to be achieved | Person Responsible | Status |
|---|---|--|---|--------------------|-----------|
| 19. | Head of Audit Annual Opinion | <p>Include reference to UK PSIAS and outcome of quality assurance</p> <p>Present to both by Corporate Management Team and Governance & Audit Committee</p> | June 2014 | Lucy Pledge | Not due |
| Continuing Professional Development (Service / Team) | | | | | |
| | Area / Activity | Outcome | Date Planned | Status | |
| 1. | <p>Update on UK Public Sector Internal Audit Standards</p> <ul style="list-style-type: none"> • General • Key areas | To have a full understanding of new standards | <p>May 2013 - Intro</p> <ul style="list-style-type: none"> • Code of Ethics – January 2014 • Engagement planning – January 2014 • Quality Assurance – January 2014 • Communicating Results – January 2014 | Delivered | Delivered |
| | Fraud Awareness Session | Provide information on key fraud risks and indicators of fraud | March 2014 – Stephanie Kent | Rescheduled | |

| | Area / Activity | Outcome | Date Planned | Status |
|----|-------------------|--|---|-----------|
| 2. | Critical thinking | <p>To help develop our ability to critically analyse information</p> <p>Explore different techniques to:</p> <ul style="list-style-type: none"> ♦ Develop an awareness of the 'bigger picture' and how this might impact on your audit ♦ Aid evaluation and forming of evidenced based opinions ♦ Sharing approaches tor tackling audit assurance on the more complex service outcome areas | September 2013 / November 2013 & January 2014 | Delivered |

Appendix 3 Summary of Recommendations Made

| 2013/14 | | Priority of Recommendations | | | |
|---|-----------------------|-----------------------------|-----------|-----------|----------|
| Area | Assurance Provided | 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 | Substantial Assurance | 0 | 0 | 0 | 0 |
| 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 |
| ICT | *Limited Assurance | 3 | 1 | 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 |
| Creditors | *Limited Assurance | 5 | 3 | 2 | 0 |
| Payroll | *Full | 2 | 0 | 1 | 1 |
| | | | | | |
| | | | | | |
| Totals | | 100 | 56 | 35 | 9 |

| Audit Area | Date | Assurance | Number of Recs | Implem'd | Outstanding | | | Not Due Date |
|--|-------------|-------------|----------------|-----------|-------------|-----------|---|----------------------------------|
| | | | | | H | M | L | |
| Previous Years | | | | | | | | |
| Localism | Oct 2012 | Substantial | 5 | 2 | 3 | 0 | 0 | |
| Change program | Nov 2012 | Substantial | 11 | 9 | 0 | 2 | 0 | |
| Gainsborough Regained | April 2013 | Limited | 6 | 6 | 0 | 0 | 0 | |
| Information Governance | May 2013 | Limited | 12 | 7 | 2 | 3 | 0 | |
| IT Security | May 2013 | Limited | 15 | 2 | 8 | 5 | 0 | |
| Asset Management | May 2013 | Substantial | 4 | 3 | 0 | 1 | 0 | |
| | | | 53 | 29 | 13 | 11 | | |
| 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 | |
| Partnership Management | Feb 2014 | Limited | 6 | 1 | 3 | 1 | 0 | 1 (M) |
| Project Management | Feb 2014 | Limited | 8 | 4 | 0 | 1 | 0 | 2 (H) 1 Not Agreed |
| Asset Management – Utilisation and Disposal | Feb 2014 | Limited | 9 | 0 | 0 | 0 | 0 | 6 (H) 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 | 1 | 3 | 1 (M) 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) 3 (M) 1 (L) |
| Creditors | Draft | Limited | 5 | 0 | 0 | 0 | 0 | 2 (H) 3 (M) |
| Payroll | Draft | Full | 2 | 0 | 0 | 0 | 0 | 1 (M) |

| | | | | | | | | | |
|---------|-------|---------|----|----|---|---|---|---|----------------|
| | | | | | | | | | 1 (L) |
| ICT | Draft | Limited | 3 | 0 | 0 | 0 | 0 | 0 | 1 (H) 2 (M) |
| 2013/14 | | | 94 | 38 | 9 | 6 | 3 | | 41 |

SUMMARY OUTSTANDING AUDIT RECOMMENDATIONS

Total 2013/14 Recs Made = 99
Total not yet due = 40
Net = 59
Implemented in full = 44
% Implemented = 75%

Outstanding Recs
High = 54 made
Not yet due = 19
Net = 35
o/s = 9
Number implemented = 26
 = 26 / 35 = 74%

Medium = 36 made
Not yet due = 12
Net = 24
o/s = 6
Number Implemented = 18 / 24 = 75%

Appendix 4 Interviewees

| Name | Capacity |
|------------------|--|
| Cllr S Rawlins | Chair of G&A Committee |
| Cllr G McNeill | Vice Chair of G&A Committee |
| Cllr A Wellburn | Deputy Leader of Council |
| Cllr G Wiseman | Independent Member |
| Alison Adams | Non-elected member of G&A committee |
| Manjeet Gill | Chief Executive |
| Mark Sturgess | Chief Operating Officer |
| John Rice | Acting Commercial Director |
| Jeanette McGarry | Acting Director with responsibility for Governance |
| Russell Stone | Chief Financial Officer |
| Alan Robinson | Monitoring Officer |
| Alex Reeks | Assistant Chief Executive |
| Lucy Pledge | Head of Internal Audit |
| Tony Crawley | External Audit |

| Appendix 5 Key messages from interviews | |
|--|---|
| Question | Key Points |
| Extent and relevance of assurance | <p>Yes, like combined assurance model</p> <p>Members should have more input into what forms audit plan</p> |
| Audit plan achievement | <p>Yes</p> |
| Profile and status within authority | <p>Yes at senior officer and member level</p> <p>Service and team leader manager level needs strengthening</p> <p>Recommendations not always followed through</p> |
| Quality of work | <p>Good</p> <p>Evidence to support findings,</p> <p>Materiality</p> <p>Needs to be more pragmatic – e.g. project management resource availability in a small organisation.</p> |
| Communication | <p>Good – divided opinion regarding succinctness of reports</p> <p>Requirement to keep language simple, highlight key messages, succinct reports.</p> |
| Importance of findings | <p>Very important in moving authority forward.</p> <p>Particularly Elswitha, governance and investments.</p> <p>Use of red rating was good – wake up call.</p> |
| Suggestions for future work | <p>Councils policy framework, reporting structures, culture</p> <p>Follow up of recommendations, particularly around red or amber ratings.</p> <p>Should be more than reviewing past actions – should help authority develop its future – particularly around due diligence</p> <p>Continue to review Council's approach to investments</p> |
| Suggestions for improving IA | <p>Regular informal discussion with stat officers, chair G&A to pick up emerging issues.</p> <p>More engagement with CMT – regular attendance, more pro-active</p> |

Be sure of evidence to support findings

Take a less pedantic/more pragmatic view sometimes

More follow up work on implementation of recommendations

Timeline of improvements should be presented

Actions should be SMART

Timeliness can be an issue – instead of looking backwards should also be looking at current work/issues

Suggestions for improving G&A cttee

IA to provide more training for members to help them understand and develop their roles.

More workshop type activity outside of formal committee to allow more discussion/understanding

Focus groups/special interest sessions – Build a programme throughout the year based on requirements of AGS

e.g.: audit recommendations compliance, member development, treasury management.

Needs to be more openness and transparency for members not on G&A

Too big at moment, should be non-political

Some officers can be intimidating in respect of technical aspects

Suggestions for improving delivery of audit plan

CFO to hold CMT colleagues to account for non-delivery recommendations

CMT to have scope and final reports scheduled on their agendas

CMT to show leadership in terms of taking findings seriously and putting recommendations in place