



GA.04 13/14

Governance & Audit
Committee

27th June 2013

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Subject: Internal Audit Annual Report – 2012/2013

Report by:

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Lincolnshire County Council)

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Purpose / Summary:

The Internal Audit Plan was approved the on the
12th March 2012. This report gives the Head of
Internal Audit's opinion on the adequacy of the
Councils control environment and the delivery of
the plan for 2012/13.

RECOMMENDATION(S):

- 1. That the Committee consider the Head of Audit's Annual Report and Opinion for 2012/2013 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: None directly arises from the report.

Staffing: None.

Equality and Diversity including Human Rights:

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

None arising from this report

Risk Assessment: N/A

Climate Related Risks and Opportunities: None arising from this report

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

Call in and Urgency:

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

Yes

No

Key Decision:

Yes

No



West Lindsey District Council Internal Audit Annual Report 2012/13

Lucy Pledge
Head of Audit & Risk Management

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Appendix 1 – Internal Audit Assurances Given 2012/13

Appendix 2 – Outstanding Internal Audit Recommendations as at 31st
March 2013

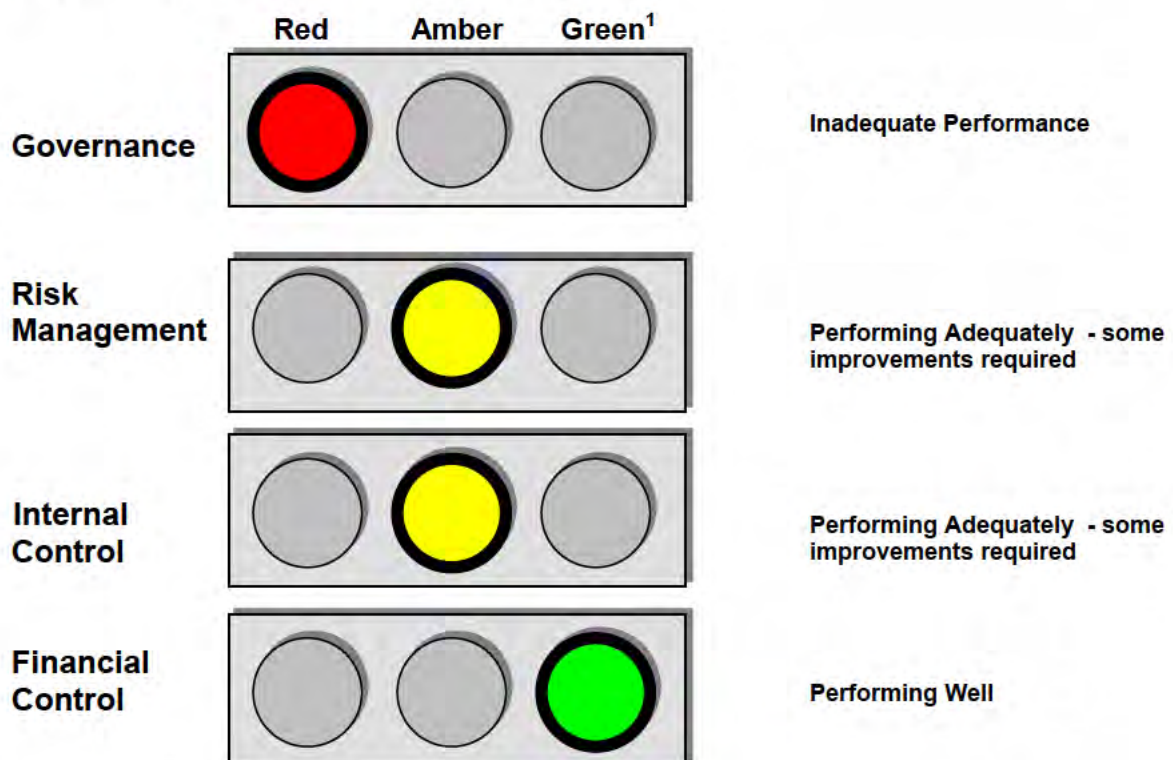
Distribution List			
Chief Executive	External Audit		
Assistant Chief Executive			
Section 151 Officer			

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:



¹ 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 Whilst we are satisfied that the overall standard of internal control for the financial year ending 31st March 2013 is 'performing adequately' - our work did identify some areas of improvement.

How we came to our opinion.

Governance

- 6 Maintaining good governance for public services means setting up a framework which includes:
- Focusing on the Council's purpose and outcomes for citizens and service users
 - Performing effectively in clearly defined functions and roles
 - Promoting values for the whole organisation and demonstrating the values of good governance through behaviour
 - Taking informed, transparent decisions and managing risks
 - Engaging stakeholders and making accountability real

The Council has a strong commitment to entrepreneurialism and addressing these opportunities from a commercial perspective, which has developed over the last 12 months. Governance structures to support this concept have not been fully established or embedded. The recent issues raised over the Elswitha development indicate that the above framework may not be robust enough or effectively applied throughout this project.

An Internal Audit review has been commissioned to look openly and critically at processes and decisions made to see whether the Elswitha development indicates that changes could and should be made to policies and practice – balancing good governance with the Council's commercial strategy.

- 7 The opinion on risk and internal control - detailed below – has also informed our assessment of the governance framework.
- 8 On this basis we have assessed the governance framework as **red** – inadequate i.e. Critical action required by management throughout the Council. We suggest – Improving and maintaining good governance is included in the Council's Annual Governance Statement.

Risk and Internal Control

- 9 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:

Project Management

New project management processes need to be embedded and integral to how the Council successfully manages and delivers its projects.

Risk Management	<p>We found that the Council has systems and processes in place for managing risk. A new Risk Management Strategy has been developed.</p> <p>We identified that the Corporate Risk Register needs reviewing / updating to ensure that it focuses on what is of Corporate importance to the Council. Further work is planned in 2013 to assess operational risks as part of on-going service reviews.</p>
Investment Decisions	<p>Whilst we have not formally reported detailed findings to the Councils – audit put on hold – due to the Elswitha Development audit our interim findings need to inform the Head of Audit Annual opinion.</p> <p>Our interim findings have identified a number of areas of improvement, namely;</p> <ul style="list-style-type: none"> • Ensuring that there is sufficient capacity to deliver business as usual activities and key priority projects • Ensure compliance with the agreed project methodology • Implementing the Council's commercial strategy, particularly the development of sound business cases, taking informed decisions and managing risk.
Income Generation	<p>Our work identified how income budgets are set and projected needed improvement. The 'Finance Matters' project aims to enhance the information and capability of budget managers.</p> <p>Income generation, budgeting, monitoring and reporting processes need to keep pace with the priority the Council now places on income generation</p>
ICT Infrastructure	<p>Our audit identified areas of improvement around:</p> <ul style="list-style-type: none"> • IT security • resilience in the event of disaster • development of Code of Connection for WLDC network • Review and update IT policies • Software licencing and asset control • Firewall / intrusion prevention system
Information Governance	<p>We established that the organisation does not have a coordinated corporate approach to managing information governance. Introduction of this through an information governance group</p>

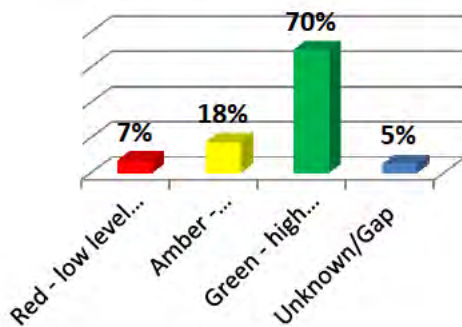
could aid several areas where improvement is needed, including:

- Creating a clear structure for information governance
- Facilitating a joined up approach to policy creation and practice
- A formal training and refresher programme for staff
- Standardising file naming
- Embedding protective marking
- Clarification on system owners

We suggest the Council consider whether the above areas should be included in the Annual Governance Statement 2013.

- 10 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. This work is due to be completed after the 31st March 2013.

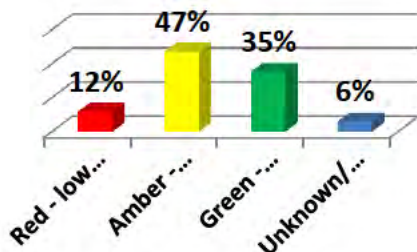
Overall Assurance Status - Critical Activities



On the whole a good level of assurance exists on the Councils critical activities and systems.

The Council has identified some areas where further assurance is required and will be seeking to establish / improve these in 2013/14.

Assurance on Your Key Projects

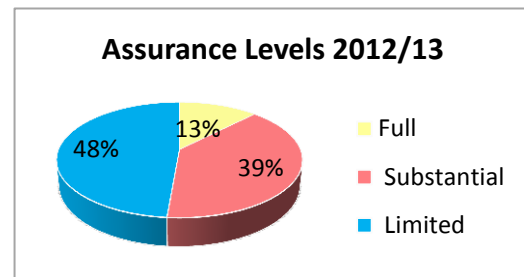
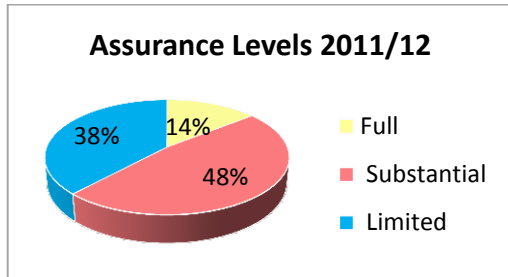


Projects management arrangements have been reviewed. Further, work is planned to embed and monitor good practice and progress.

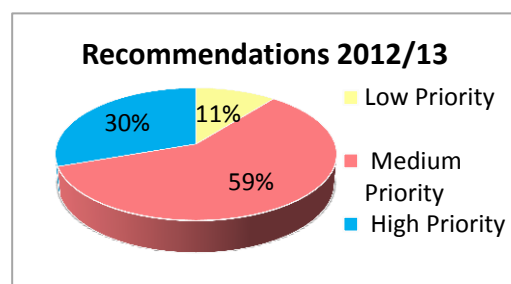
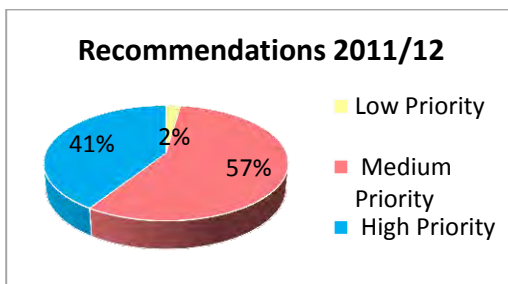
The outcome of the current Internal Audit of the Elswitha Project will help establish what lessons can be learned to improve project governance.

- 11 Based on this we have assessed risk and internal control as **amber** – performing adequately – some improvement required.

12 The charts below show the assurance opinions given in 2012/13 compared to those in 2011/12. 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.



13 The charts below show the comparison of internal audit recommendations made 2011/12 and 2012/13.



14 We track the implementation of agreed management actions. Over the past year management have implemented **0%** of our high priority and **72%** of our medium priority recommendations due by the 31st March 2013. 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 2013/14. Appendix 2 shows the outstanding recommendations at 31st March 2013.

Finance

15 Our work provides an important assurance element to support the District Auditor’s opinion on the Council’s Statement of Accounts. During the year we reviewed:

- Council Tax
- National non-domestic rates
- Income collection
- Bank reconciliation
- General Ledger
- Non-current Assets
- Payroll

- Medium term financial planning

Our work did not identify any areas of concern and on this basis we have assessed finance as **green** – performing well.

Delivery of internal audit plan 2012/13

- 16 The Audit Committee approved the 2012/13 audit plan on the 12th March 2012. We had delivered **95%** (target 95%) of the revised plan by the end of the year. Details of annual plan delivered is shown in Appendix 1.

Counter Fraud

- 17 The Council has put in place good arrangements to help reduce the risk of fraud and error. The Council continues to actively participate in the National Fraud Initiative and has processes in place to reduce exposure to benefit fraud. There have been no reported cases of Corporate fraud.

Restrictions on Scope / Disagreements

- 18 In carrying out our work we identified no unexpected restrictions to the scope of our work. At the beginning of the year we did experience some difficulty scheduling our work plan. Our protocol with management aims to reduce the risk of this happening again and impacting on the successful delivery of the plan.

Other Areas of Audit Activity

- 19 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.
- 20 Training has been given to the Governance & Audit Committee to provide members with knowledge and information on key areas in its terms of reference.

Effectiveness of Internal Audit

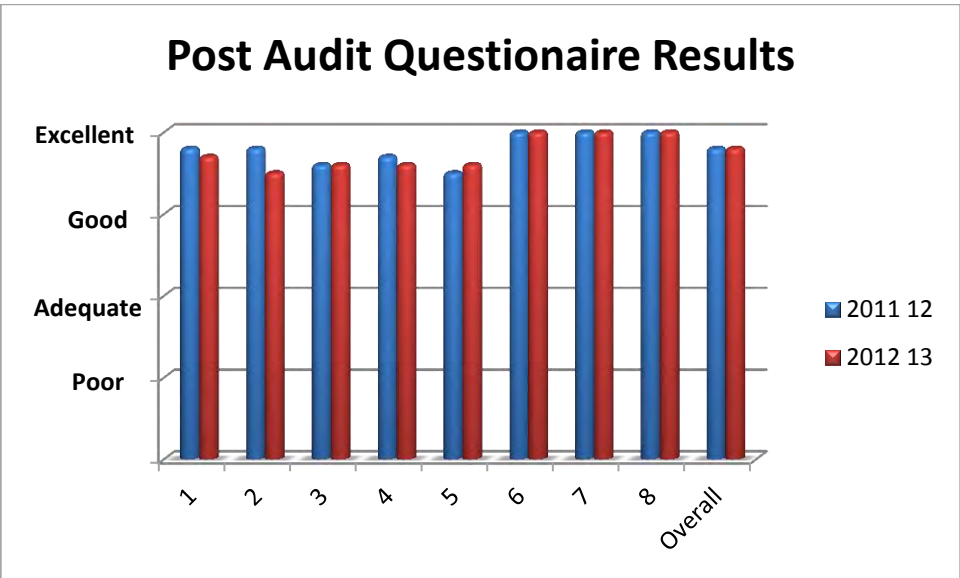
- 21 Internal Audit's performance is measured against a range of indicators. The table below shows performance at the end of the year:

Performance Indicator	Target	Actual 2013
1. Actual audits versus planned (by no of audits)	95%	95%
2. % of Reports issued within 2 weeks of closure meeting	90%	100%
3. Annual plans finalised	By march	March 2012
4. Quality of Service Client questionnaire scoring good to excellent	Good to excellent	Good to Excellent

- 22 A number of planned improvements were delivered in 2012/13:
- Further development of the Audit Lincolnshire Partnership
 - Improved efficiency through pooling resources and sharing good practice.
 - Successful development of the Combined Assurance model to help the Council to obtain wider assurance across its critical activities and key risks. This initiative has been recognised by CIPFA for its 'innovation and excellence' in public sector auditing – Audit Lincolnshire were the winners of the Cliff Nicholson Award 2012.

Quality Assurance

- 23 Internal Audit operates in accordance with the standards of best practice applicable to Internal Audit (particularly the CIPFA Code of Practice for Internal Audit in Local Government).
- 24 Our audit practice includes 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.
- 25 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. KPMG has undertaken a 'light touch' review of our audit practice and we are pleased to report that no issues have been identified.
- 26 New Public Sector Internal Audit Standards came into effect from the 1st April 2013 – a self- assessment is currently being undertaken by Audit Lincolnshire on behalf of the Council. The outcome of this assessment will identify any changes / actions that may be required to ensure compliance.
- 27 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.
- 28 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 2012/13 there was an 80% 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 2012/13

Area	Assurance Provided	Priority of Recommendations			
		Total Recs.	High	Medium	Low
Critical Service Activities					
Gainsborough Regained: - Development	Substantial	6	2	4	0
- Implementation	Limited				
Financial Strategy	Substantial	5	0	5	0
Housing benefit subsidy	N/A	0	0	0	0
Corporate plan – progress and delivery	Substantial	5	1	4	0
Investment Decisions	Limited*	8	4	4	0
Change Programme	Substantial	11	0	4	7
Localism	Substantial	5	1	4	0
Financial Systems					
Income	Full	2	0	0	2
Council Tax	Substantial	8	1	7	0
NNDR	Limited	4	2	2	0
Bank Reconciliation	Full	0	0	0	0
General Ledger	Limited	3	1	1	1
Non-current Assets	Substantial	4	1	3	0
Payroll	Substantial	2	0	2	0
Financial Management	Limited	8	3	5	0
Income Generation	Limited	7	2	5	0
Due Diligence					
Information Governance	Limited	13	4	7	2
ICT Infrastructure	Limited	15	9	6	0
Risk Management	Limited	6	3	3	0
Totals		112	34	66	12
Due by 31 March 2013		30	5	25	0
Due after 31 March 2013		82	29	41	12

End of Appendix 1

Appendix 2

SUMMARY Outstanding Internal Audit Recommendations as at 31st March 2013

Audit Area	Issue Date	Assurance	Implemented	Outstanding Recommendations		
				High	Medium	Low
Project Management	October 2011	Limited	12	3	1	0
Risk Management	May 2012	Limited	3	3	3	0
Council Tax	Nov 2012	Substantial	6	0	2	0
NNDR	Nov 2012	Limited	0	1	2	0
Localism	Dec 2012	Substantial	2	1	0	0
Total			23	8	8	0

End of Appendix 2