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GA.07 13/14
Committee Governance and Audit Committee
Date 27th June 2013

Subject: Annual Review of the Effectiveness of Internal Audit 2012/13

Report by:	Chief Finance Officer
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Purpose / Summary:	The authority is required by statute to review the effectiveness of internal audit at least annually and the findings of the review to be considered by an appropriate committee of the Council. This paper meets the requirement by reporting the findings of work undertaken by Officers and Members to review the Council's current arrangements.

RECOMMENDATION(S):

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

IMPLICATIONS

Legal:

None arising from this report.

Financial : FIN/1/14

None arising from this report.

Staffing :

None arising from this report.

Equality and Diversity including Human Rights :

N.B. 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 :

None arising from this report.

Climate Related Risks and Opportunities :

None arising from this report.

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

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Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

x

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

x

Executive Summary

The Council must review the effectiveness of the Internal Audit service annually. This review conducted by the Chief Finance Officer has considered the

- Internal Audit plan – the approach, development and coverage;
- Implementation of the plan, judgements and recommendations;
- Engagement with the organisation to develop the internal control framework and governance arrangements;
- Proper Practices -CIPFA recommended best practice guidance;
- The views of stakeholders and audit feedback.

On the basis of the review the Chief Financial Officer has assessed that the internal audit arrangements at the Council continue to provide effective and appropriate assurance. The areas identified for development during 2013/14 are:

Internal audit continue to engagement with senior management through approval at the Corporate Management Team of the audit scopes, draft reports and management responses.

Continue to the development of the combined assurance mapping with the Council's management.

Support the development of Risk Management practices across the Council's activities.

Focus on areas that were judged to have limited assurance in 2012/13.

The Council is operating in an environment of significant economic uncertainty and radical reshaping of public services. The risk based approach and assurance mapping alongside enhanced corporate engagement with the audit agenda means internal audit is a key tool in supporting the management and development of the Council.

1. Introduction

- 1.1. The Accounts and Audit (Amendment) (England) Regulations 2011 require this Council to, at least once a year, conduct a review of the effectiveness of its internal audit and for the findings of the review to be considered by a Committee of the Council. The Governance and Audit Committee is the appropriate Committee at West Lindsey District Council.
- 1.2. Internal audit is part of the system of internal control and makes an important contribution to providing assurance that the risk to the

Council's objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation. The Annual Governance Statement elsewhere on this agenda addresses the effectiveness of the Council's wider Internal Control activities.

- 1.3. The CIPFA Code of Practice for Internal Audit 2006 includes a checklist of generally accepted proper practices to assist in assessing the effectiveness of internal audit. The CIFA guidance emphasises that the effectiveness of internal audit should not solely be judged by the extent of compliance with the Code of Practice. *The review is primarily about effectiveness, not process.* In essence the need for the review is to ensure that the internal audit service is achieving the appropriate standard to support the relevant assurance opinions on internal control.
- 1.4. The CIPFA statement on the role of the Head of Internal Audit (2010) advises that assurance can come from a variety of sources. Internal Audit can be seen as the 'third line of defence' with the first line being the organisation's policies, processes and controls and the second being managers' own checks of this first line.
- 1.5. This review by the Chief Financial Officer has been based on the following sources:
 - The CIPFA Code of Practice for Internal Audit and Statement on the role of the Head of Internal Audit;
 - Annual Internal Audit plan – coverage and development;
 - Head of Internal audit progress reports;
 - Engagement with the specific internal audit reports produced during the year;
 - Views of key stakeholders and feedback from specific reports.
- 1.6. Areas for development or change have been identified along with an action plan.

2. The Review

This review of internal audit effectiveness has considered the following issues:

- Internal Audit plan – the approach, development and coverage;
- Implementation of the plan, judgements and recommendations;

- Engagement with the organisation to develop the internal control framework and governance arrangements;
- Proper Practices – CIPFA recommended best practice guidance;
- The views of stakeholders and audit feedback.

2.1. Internal Audit Plan – the approach, development and coverage.

2.1.1. The Internal Audit service is delivered by professional internal auditors from Lincolnshire County Council seconded to WLDC. The annual internal audit plan follows a strategy developed with the Council's section 151 Officer and senior managers which is scrutinised and approved by the Governance and Audit Committee.

2.1.2. The plan is essentially risk based with some capacity included for emerging risks and other issues, the planned coverage is informed by the Council's plans and routinely includes:

- Critical Financial Systems,
- Due diligence on key business processes,
- Strategic and Emerging risks,
- Key transformation activities, and
- ICT assurance
- Areas assessed as limited assurance in the previous year.

2.1.3. The plan for 2012/13 allocated approximately two thirds of the audit resource towards the review and testing of core business activities and processes, financial systems and strategic risks. The remaining resource is focused on specific ad hoc reviews, emerging risks and other support to the development of the organisation's assurance framework.

2.1.4. The audit plan is produced in consultation with the CFO, the Corporate Management Team and this Committee. The work plan is a flexible system which provides insight across a broad range of business risks and issues across the Council.

2.1.5. The plan has been developed with an increased emphasis on risk based auditing and focuses on leveraging in assurances from other sources. These other sources of assurance include management oversight, corporate frameworks and the member scrutiny arrangements. The internal audit function is used to provide assurance around the adequacy of the control framework and compliance with it.

2.1.6. The plan adequately covers the Council's activities and allows for work to be redirected if required. The approach to plan development

follows best practice and demonstrates development over time in response to both changes in risks and the views of relevant stakeholders.

2.2. Implementation of the plan, assurance judgements and recommendations 2012/13

2.2.1. The progress on plan delivery is reported quarterly to this Committee. During 2012/13 Internal Audit completed assurance reviews on the following core financial systems and procedures all of which were given either full or substantial assurance:

- Gainsborough Regained
- Progress and Delivery
- Financial Strategy
- Housing Benefits Subsidy & Systems Review
- Financial Strategy
- Financial Systems
- Change Programme
- Big Society and Localism Agenda

2.2.2. The following systems have had control weaknesses identified or have been given limited assurance:

- Financial Management
- Income Generation
- NNDR
- Joint Planning Unit
- Use of Consultants

Actions to implement the recommendations to rectify the control weaknesses have either been carried out or are planned.

2.2.3. The audit of Investment Decisions is currently in progress and work relating to the ICT Audit commenced in March 2013.

2.2.4. The planned audit programme was delivered during 2012/13 and the recommendations have been important in informing management of required improvements and the operation of the internal control framework.

2.3. Engagement with the organisation to develop the internal control framework and governance arrangements

2.3.1. During the year Internal Audit have supported governance development through a Combined Assurance Status report which will inform the production of the Annual Governance Statement of the Council and informs the Head of Internal Audit's annual audit opinion.

2.4. Proper Practices – CIPFA recommended best practice guidance

2.4.1. The internal audit arrangements comply with CIPFA best practice guidance on the role of Internal Audit and the Head of Internal Audit (HIA).

2.4.2. Outlined overleaf are the governance requirements and responsibilities recommended in the guide to the role of the HIA. In assessing practice at the Council the comments attached indicates compliance with specific requirements.

Governance requirements	
<ul style="list-style-type: none"> • Ensure that the HIA is consulted on all proposed major projects, programmes and policy initiatives. 	Comply
<ul style="list-style-type: none"> • Where the HIA does have operational responsibilities the HIA's line manager and the Audit Committee should specifically approve the IA strategy for these and associated plans and reports and ensure the work is independently managed. 	Comply
<ul style="list-style-type: none"> • Establish clear lines of responsibility for those with an interest in governance. This covers responsibilities for drawing up and reviewing key corporate strategies, statements and policies. 	Comply
<ul style="list-style-type: none"> • Include awareness of governance in the competencies required by members of the Leadership Team. 	Comply
<ul style="list-style-type: none"> • Ensure that the internal audit strategy is approved by the Audit Committee and endorsed by the Leadership Team. 	Comply
<ul style="list-style-type: none"> • Ensure that where the HIA is an employee the HIA is line managed by a member of the Management Team. Where the HIA is not an employee then the reporting line must be clearly set out in the contract or agreement with the internal audit supplier. 	Comply
Core HIA responsibilities	
<ul style="list-style-type: none"> • Consulting stakeholders including senior managers and non-executive directors/elected representatives on the internal audit strategy. 	Comply
<ul style="list-style-type: none"> • Setting out how the HIA plans to rely on others for assurance on the organisation's controls and risks and taking account of any limitations in assurance given by others. 	Comply

2.5. Views of Stakeholders and audit feedback

2.5.1. Feedback by clients on the quality of the Internal audit service has been positive, scoring the service as Good to Excellent. The external auditor, KPMG. was appointed in November 2012 by the Audit Commission to carry out the statutory Audit of Accounts and

DCLG grant claims. The External Auditor will rely upon work undertaken by the Internal Audit in relation to the review of financial systems and test transactions feeding into the Council's accounts. It is planned, subject to a small level of re-performance testing, to rely upon Internal Audit at WLDC for their work (yet to be undertaken) on the 2012/13 certification work for the Council Tax & Housing Benefits claim.

3. Conclusions and actions

- 3.1. On the basis of the review as Chief Finance Officer in my opinion the internal audit arrangements at the Council continue to provide effective and appropriate assurance.
- 3.2. The Council continues to operate in an environment of significant economic uncertainty and radical reshaping of public services. The risk based approach and assurance mapping alongside enhanced corporate engagement with the audit agenda means internal audit is a key tool in supporting the management and development of the Council.