



GA.04 12/13
Governance & Audit Committee
7 June 2012

Subject: Internal Audit Annual Report – 2011/2012

Report by: Lucy Pledge (Head Audit & Risk Management – Lincolnshire County Council)

Contact Officer: Russell Stone, Financial Services Manager
Russell.Stone@west-lindsey.gov.uk

Purpose / Summary: The Internal Audit Plan was approved the on the 5th April 2011. 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.

RECOMMENDATION(S):	<ol style="list-style-type: none">1. That the Committee consider the Head of Audit's Annual Report and Opinion for 2011/2012 and identifies any actions it requires.2. That the Committee consider this Annual Report when scrutinising the Annual Governance Statement.
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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 2011/12

Lucy Pledge
Head of Audit & Risk Management

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Appendix 1 – Internal Audit Assurances Given 2011/12

Appendix 2 – Outstanding Internal Audit Recommendations as at 31st
March 2012

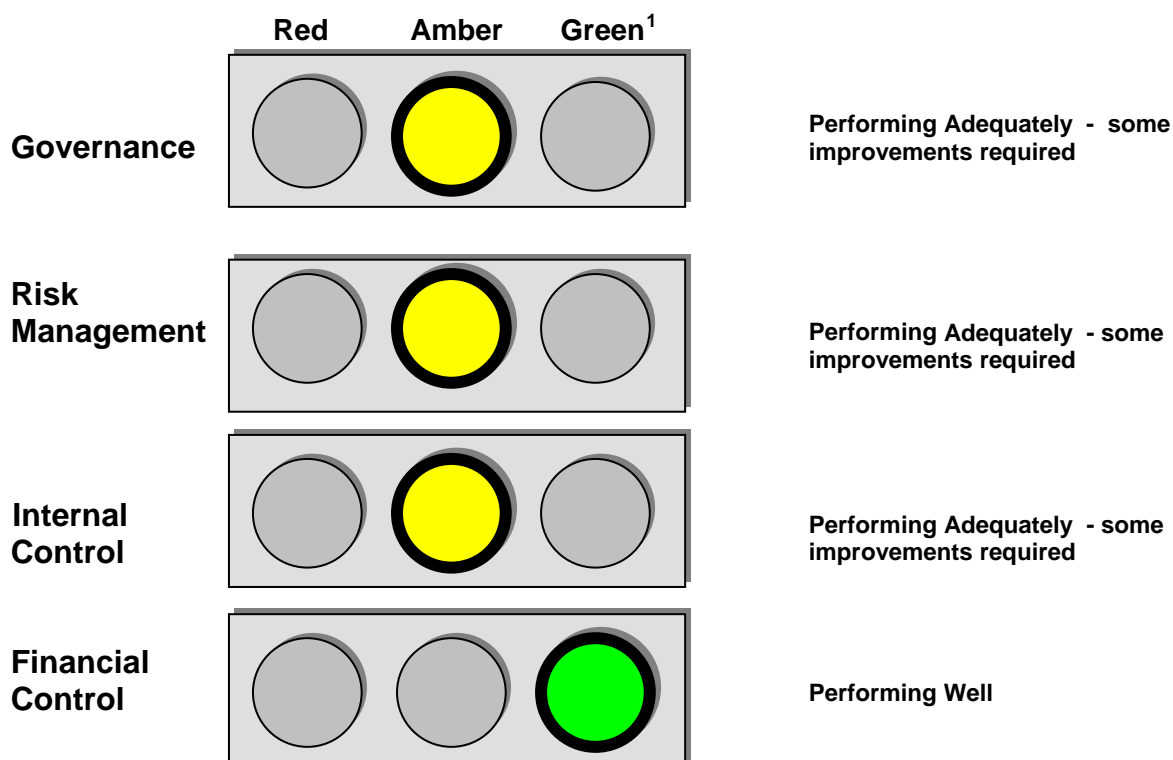
Distribution List			
Chief Executive	External Audit		
Assistant Chief Executive			
Section 151 Officer			

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 Our work provides an important assurance element to support the District Auditor's opinion on the Council's Statement of Accounts. Our work did not identify any areas of concern.
- 6 Whilst we are satisfied that the overall standard of internal control for the financial year ending 31st March 2012 is 'performing adequately' - our work did identify some areas of improvement.

How we came to our opinion.

- 7 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	We found that the Council has systems and processes in place for managing risk. However, as the organisation is changing these need to adapt to change the way the Council approaches risk management ie taking well measured risks which improve overall performance and decision making. Our work identified that the Corporate Risk Register needs reviewing / updating to ensure that it focuses on what is of Corporate importance to the Council.
Treasury Management	There have been two breaches of the Council's policy on investment counterparty limits. Action has been taken to prevent this from happening again.
Strategy & regeneration	We found two key projects for improving service delivery had been approached with an entrepreneurial spirit, but robust governance, project management and budget management practices have not been applied.
Joint Planning Unit	Good working relationships exist between the officers of the Unit, the Steering Group (representing all partners) and the Joint Strategic Planning Committee. Meetings are regular and constructive. However, the timetable for delivery of the Local Development Framework documents, including the Core Strategy, is behind schedule.

Use of Consultants

Our work identified that the policy for engaging Consultants was not always evidenced as being followed.

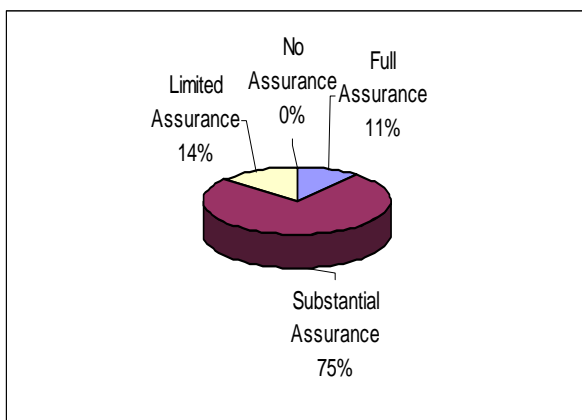
IT Starters and Leavers

We found that there are systems and process in place to manage ICT access for new starters but the process is not as well embedded for leavers and internal staff changes.

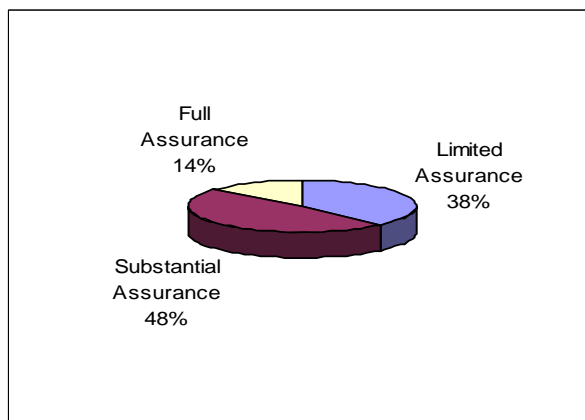
We suggest the Council consider whether the above areas should be included in the Annual Governance Statement 2012.

- 8 During September 2011 West Lindsey participated in a peer challenge by the Local Government Association. Positive reassurance on the Councils governance framework was received and has helped encourage reflection at a time of major change. One of the actions taken by the Council was to update its Governance Framework to adapt and respond to a changing organisational delivery model and different ways of working - less prescriptive in style, while balancing risk and accountability. Good progress has also been made on how assurance is provided on the Councils' critical systems and key risks - 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 Councils' critical systems and key risks. This work is due to be completed after the 31st March 2012.
- 9 Based on this we have assessed the governance framework as **amber** – performing adequately – some improvement required. An Internal Audit review of the governance framework is planned in 2012/13.
- 10 The charts below show the assurance opinions given in 2011/12 compared to those in 2010/11. Although we have reviewed different areas it shows a **decrease** in areas where we could place reliance. Details of systems reviewed can be found in Appendix 1.

Assurance levels 2010/11

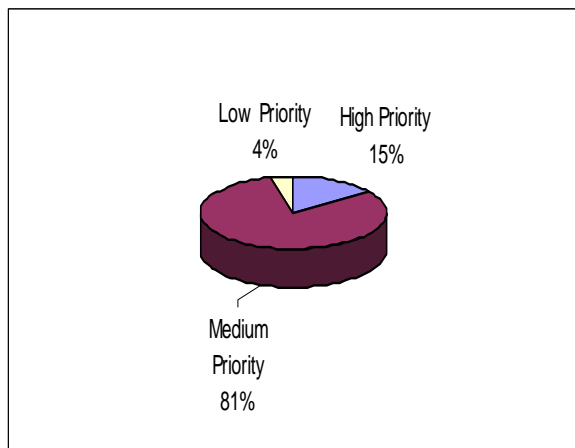


Assurance levels 2011/12

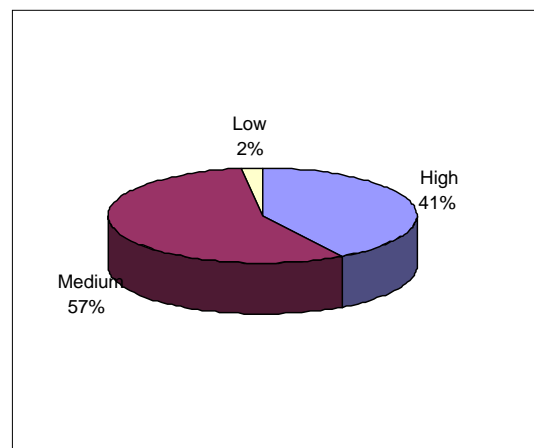


- 11 The charts below show the comparison of internal audit recommendations made 2010/11 and 2011/12. Although we reviewed different areas as part of our work the graphs shows an **increase** in the significance of actions being recommended – these predominately relate to the areas of Project and Risk Management.

Recommendations 2010/11



Recommendations 2011/12



- 12 We track the implementation of agreed management actions. Over the past year management have implemented 83% of our high priority and 78% of our medium priority recommendations due by the 31st March 2012. 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 2012/13. Appendix 2 shows the outstanding recommendations at 31st March 2012.

Delivery of internal audit plan 2011/12

- 13 The Audit Committee approved the 2009/2010 audit plan on the 22nd March 2011. We had delivered **92%** (target 95%) of the revised plan by the end of the year. Details of annual plan delivered is shown in Appendix 1.

Counter Fraud

- 14 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

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

Other Areas of Audit Activity

- 16 Other areas of audit activity provided to the Council include:
- 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.
 - Supporting West Lindsey and Lincolnshire Police in the new approach for handing calls about Anti Social Behaviour.

- Working with the Council to help articulate its Risk Appetite – the level of risk it's prepared to take and accept on its activities. When Risk Appetite is properly understood and clearly defined, it becomes a powerful tool, not only in taking well measured risks, but also for improving overall performance and decision making.

17 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

18 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 (April 11 – March 2012)
1. Actual audits versus planned (by no of audits)	95%	92%
2. % of Reports issued within 2 weeks of closure meeting	90%	89%
3. Annual plans finalised	By march	April 2011
4. Quality of Service Client questionnaire scoring good to excellent	Good to excellent	Good to Excellent

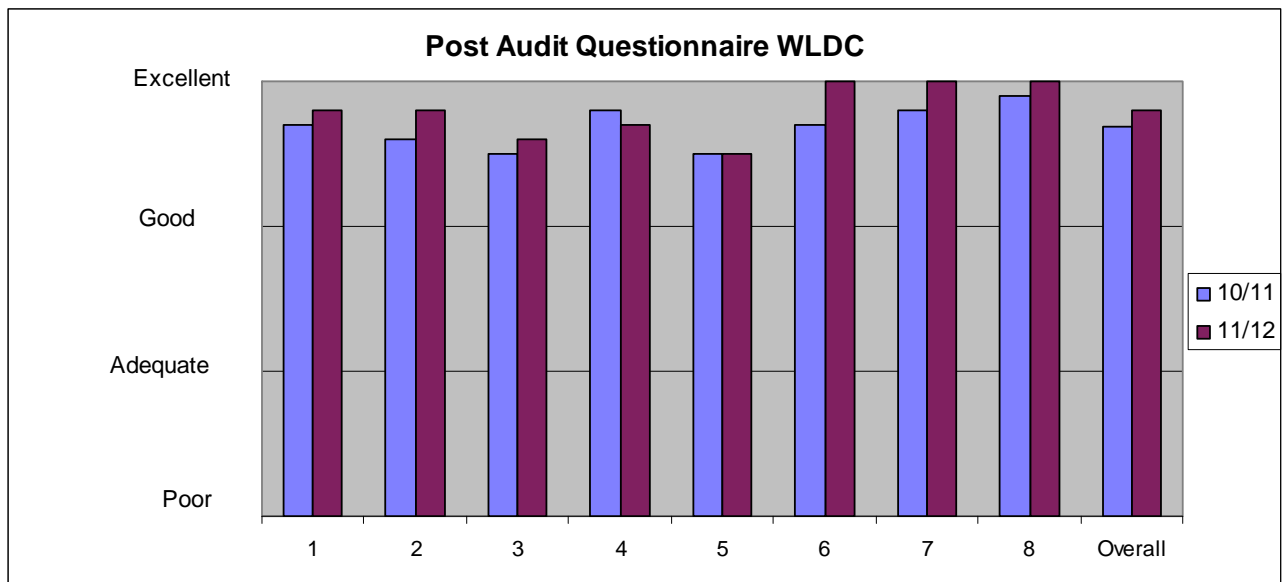
19 The system of Internal Audit has been assessed as effective. A number of planned improvements were delivered in 2011/12:

- Further development of the Audit Lincolnshire Partnership - Completed
- Improved efficiency through pooling resources and sharing good practice.
- Development of the Combined Assurance model to help the Council to obtain wider assurance across its critical activities and key risks. This will help inform Internal Audit work where independent assurance will be of most value. We are pleased to announce that 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

20 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). During the year Internal Audit have continued to strive to improve services and have undertaken a number of internal reviews to look at working practices, automation of routines, approach and compliance with professional good practice. The County Council's External Auditors continue to place reliance on our work where appropriate.

- 21 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.
- 22 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.
- 23 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 2011/12 there was an 83% 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 2011/12

Area	Assurance Provided	Priority of Recommendations			
		Total Recs.	High	Medium	Low
Health Programme	Substantial	2	0	2	0
Revenue Contracts	Substantial	7	0	7	0
Building Control	Full	0	0	0	0
Use of Consultants	Limited	4	0	4	0
IT Audit	Limited	6	3	3	0
Housing Benefits	Substantial	5	4	1	0
Planning	Substantial	2	1	1	0
Bank Reconciliation	Substantial	2	0	2	0
Treasury Management	Limited	5	4	1	0
Income collection	Substantial	3	0	3	0
Procurement cards	Substantial	6	0	6	0
Budget Management	Substantial	5	2	3	0
Payroll	Full	2	0	2	0
Finance system post implementation review	Limited	2	1	1	0
Anti-Social Behaviour	Support work so no opinion given				
Housing Standards	Full	0	0	0	0
Employment & Skills Development	Substantial	1	0	1	0
Strategy & regeneration	Limited *	12	7	5	0
Corporate Governance – follow up	Substantial	4	1	1	2
Corporate Governance	Postponed**				
Project Management	Limited	16	10	6	0
Risk Management	Limited***	6	3	3	
Joint Planning Unit	Limited	4	3	1	0
Joint Revenue & Benefits Unit	Postponed****				
Totals		88	36	50	2

* The customer first programme was removed from the plan as it ceased and was replaced with an audit of Strategy & Regeneration.

** The Council's governance framework was reviewed in December 2011. Terms of reference for the audit have been agreed but the actual audit has been scheduled for late June 2012 to enable the new arrangements time to get established.

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

**** This venture did not go ahead however the system will be upgraded after which the time will be used to complete a post implementation review.

End of Appendix 1

Appendix 2

SUMMARY Outstanding Internal Audit Recommendations as at 31st March 2012

Audit Area	Issue Date	Assurance	Implemented	Outstanding Recommendations		
				High	Medium	Low
Information Governance	Sept 2010	Substantial	1	0	4	0
Corporate Governance follow up	August 2011	Substantial	0	1	1	2
Project Management	October 2011	Limited	5	5	5	0
Procurement cards	March 2012	Substantial	0	0	1	0
Total			6	6	11	2

End of Appendix 2