



GA.06 12/13

Governance & Audit  
Committee

7<sup>th</sup> June 2012

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**Subject: Internal Audit Plan 2011/2012 – Quarter 4 Progress Report and  
Internal Audit Plan 2012/13 – April Progress report**

Report by:

Lucy Pledge (Head of Service – Corporate Audit  
& Risk Management – Lincolnshire County  
Council)

Contact Officer:

Russell Stone, Financial Services Manager  
[russell.stone@west-lindsey.gov.uk](mailto:russell.stone@west-lindsey.gov.uk)

Purpose / Summary:

The report gives members an update of  
progress, by the Audit partner, against the  
annual programme agreed by the Audit  
Committee on the 5<sup>th</sup> April 2011 and the 12<sup>th</sup>  
March 2012.

**RECOMMENDATION(S):**

- 1) **Members consider the content of the  
report and identify any actions required.**

## 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.

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**Call in and Urgency:**

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

**Yes**

**No**

**Key Decision:**

**Yes**

**No**

## DISCUSSION

### 1. Introduction

The purpose of this report is to:

- Advise of progress being made with the Audit Plan.
- Provide details of the audit work during the period
- Provide details of the current position with agreed management actions in respect of previously issued reports.

### 2. Audit Work in the period February to April 2012

The following audit work has been completed and a final report issued:

(The Governance & Audit Committee should note that the assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. Definitions levels are shown in appendix A)

Full Assurance	Substantial Assurance	Limited Assurance	No Assurance
<ul style="list-style-type: none"><li>• Housing Standards</li><li>• Payroll</li></ul>	<ul style="list-style-type: none"><li>• Bank Reconciliation</li><li>• Budget Management</li><li>• Management of purchasing cards</li><li>• Income collection</li><li>• Planning applications</li></ul>	<ul style="list-style-type: none"><li>• Treasury Management</li><li>• Joint Planning Unit</li><li>• Use of Consultants</li><li>• IT starters and Leavers</li><li>• Strategy and Regeneration</li></ul>	No reports

We are reporting five limited assurance audits in this quarter the management summaries are at Appendix B. The Financial Service Manager will update progress on implementing agreed actions.

Our overall performance for 2011/12 is shown in the Head of Audit's Annual Report – presented in a separate paper to this Committee.

### 3. Audit Plan 2012/13

Appendix C shows the initial schedule for the 2012/13 audit plan approved by the Committee on 12<sup>th</sup> March 2012.

Our performance will be measured by the following targets:

Performance Indicator	Target
Percentage of plan completed.	100% (revised plan)
Percentage of key financial systems completed.	100%

<b>Performance Indicator</b>	<b>Target</b>
Percentage of recommendations agreed.	100%
Percentage of recommendations implemented.	100% or escalated to Governance & Audit Committee
Timescales	<ul style="list-style-type: none"> <li>■ Draft report issued within 10 working days of completing audit.</li> <li>■ Final report issued within 5 working days of closure meeting / receipt of management responses.</li> <li>■ Period taken to complete audit – by exception</li> </ul>
Client Feedback on Audit (average)	Good to excellent

**APPENDICES (If applicable) - these are listed below and attached at the back of the report.**

**(if no appendices are attached, please delete this entire box)**

APPENDIX A

Assurance Definitions

APPENDIX B

Management Summaries for audits with Limited Assurance

APPENDIX C

Initial schedule of work for the Annual Audit Plan 2012/2013

## Appendix A

### Internal Audit Standard Assurance Definitions

<b>Assurance Classification</b>	
Full Assurance	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low.</p> <p>As a guide there are a few low risk / priority actions arising from the review.</p>
Substantial Assurance	<p>Our critical review or assessment on the activity gives us a reasonable level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls are in place and operating sufficiently so that the risk to the activity not achieving its objectives is medium to low.</p> <p>As a guide there are low to medium risk / priority actions arising from the review.</p>
Limited Assurance	<p>Our critical review or assessment on the activity identified some concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the risks are not always being operated or are inadequate. Therefore, the risk of the activity not achieving its objectives is medium to high.</p> <p>As a guide there are medium and a few high risk / priority actions arising from the review.</p> <p>Our work did not identify system failures that could result in any of the following:</p> <ul style="list-style-type: none"><li>- damage to the Council's reputation</li><li>- material financial loss</li><li>- adverse impact on members of the public</li><li>- failure to comply with legal requirements</li></ul>
No Assurance	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation</p>

	<p>of controls and / or performance.</p> <p>Our work identified system failures that could result in any of the following:</p> <ul style="list-style-type: none"> <li>- damage to the Council's reputation</li> <li>- material financial loss</li> <li>- adverse impact on members of the public</li> <li>- failure to comply with legal requirements</li> </ul> <p>The controls to manage the risks are not being operated or are not present. Therefore the risk of the activity not achieving its objectives is high.</p> <p>As a guide there are a large number of medium and high risks / priority actions arising from the review.</p>
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**Further classification may be necessary to support any Assurance given which is not 'Full Assurance'. As a very broad guide the following may also be used as a consistency check when considering the level of assurance**

<b>Assurance Classification</b>	
Full Assurance	Objectives of the activity are met. A few low risk recommendations.
Substantial Assurance	Objectives of the activity are generally met. There are low or medium risk recommendations.
Limited Assurance	Some of the objectives of the activity are not being met. There are low, medium and a few high risks.
No Assurance	Most or all of the objectives are not being met. Large number of medium and high risks.

**End of Appendix A**



## Appendix B

# Treasury Management System 2011/12

### Introduction and Scope

We completed a review of West Lindsey's Treasury Management system as part of the agreed work plan for 2011/12.

The agreed system objective was that the council has effective systems in place to ensure security of investments whilst balancing liquidity and yield of funds for day to day operations.

The Council had £7 million invested in Icelandic Banks when they collapsed in 2008. Work is still on going to recover these monies, but since this time the Council's priority is to ensure the security of investments over the possibility of higher returns and this is reflected in the treasury management strategy. As such there is limited scope to invest due to the continuing global economic situation.

### Management Summary

#### *Assurance Opinion*

##### Limited Assurance

The Council's priority is to ensure the security of investments and not to risk investments in return for possible higher yields.

There have been two breaches of the Council's policy on investment counterparty limits. The breaches occurred when funds were invested with Lloyds bank for longer than the 364 days limit set within the approved counterparty policy. Current checks and controls failed to identify or prevent the breaches.

The most significant breach was made in June 2011, with a fixed term deposit of 402 days instead of 364 days. Although the duration of the deposit was included in a quarterly report to committee, it was not queried by officers or members. At the time of the audit the breaches had not been recorded as such and reported to committee.

Management were aware at the time of the audit that there had been one breach of the counterparty policy, where an investment had been made for thirteen months. Further checking of investments showed another breach of the 364 day time limit.

At the time of the audit the breaches had not been reported to members of the Policy and Resource committee specifically as breaches of the Council's policy. Financial Services planned to report the duration breaches within the quarterly report to committee.

We would also advise that previously agreed management actions are implemented including:

- Management and the Treasury Management officer should ensure that regular one to ones take place, in line with the Council's procedures and policies,
- Ensuring reconciliations are up to date and reconciled on a monthly basis,
- Treasury management procedures are reviewed every twelve months in line with policy.

### **Management Response**

The two breaches of Counter Party limits were very disappointing and internal checking; authorising and reporting procedures have now been significantly revised to reduce the risk of reoccurrence.

All agreed actions have now been implemented.

# Central Lincolnshire Joint Planning Unit

## Introduction and Scope

Our audit focused on the Central Lincolnshire Joint Planning Unit. The purpose of the Joint Planning Unit is to deliver planning policy documents for its partners, which are:

- West Lindsey District Council;
  - North Kesteven District Council;
  - City of Lincoln Council;
- Lincolnshire County Council is also a partner.

We agreed that we would look at:

- Governance arrangements – for managing the Unit and decision making;
- How Partners drive policy, timescales and meetings;
- Compliance with the statutory instrument in relation to responsibilities;

## Executive Summary

### *Limited Assurance*

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.

The timetable for delivery of the Local Development Framework documents, including the Core Strategy, is behind schedule. Various factors may have contributed to this including:

- The resources available to gather the levels of evidence needed to support the Core Strategy;
- Potential under estimation of the level of evidence needed to ensure the Core Strategy will stand up to challenge;
- Unrealistic assessment of the time needed to prepare the Local Development Framework for such a large area as Central Lincolnshire to ensure its diverse and complex planning needs are met and growth is delivered;
- The time spent liaising with and collating information from staff outside of planning at the partner authorities;

The consequences of not having a Core Strategy in place when the new National Planning Policy Framework comes in is still unclear; however a potential risk is that lack of a development plan may mean that the partner authorities have to grant planning permission for developments that are not aligned with the vision or may not be able to promote the level of development to which they aspire.

The risk associated with pushing the core strategy through without ensuring it is supported by robust evidence is that it may not stand up to challenge. Partners and the Committee should decide on the best solution for long term

sustainable development.

We also found that the Joint Planning Unit's budget currently includes grants from central government. These grants only cover to the end of 2012/13 meaning current levels of resources will only be sustainable if additional grants are awarded or partner contributions are increased.

Our review found many areas of good practice and evidence of progress made towards creating a Local Development Framework for Central Lincolnshire, including:

- the Central Lincolnshire Joint Strategic Planning Committee has a Memorandum of Intent which identifies the roles and responsibilities of the Joint Planning Unit;
- There is a steering group which is attended by Heads of Planning for each partner, the Head of the Unit and other key staff as necessary. Meetings are held regularly and relationships are open and professional;
- The Joint Planning Unit has produced many studies, assessments and reports which all help form the evidence base that will support the Core Strategy. These are available on the Unit website to enable stakeholders to consider these;

All our findings are detailed in the attached action plan. We met with the Director of Regeneration and the Planning and Service Managers to discuss actions. We agreed that the findings raised would be considered and resolved by the newly formed Director's Governance Group. This group has Director level representation for all partners and will provide the direction and decision making for the Joint Planning Unit.

### **Management Response**

Management agreed with the finding of the report and have plans in place to address the findings promptly, as recorded in the action plan.

We agreed that all actions would be implemented by the end of June 2012.

# Use of Consultants

## Introduction and Scope

In January 2011, the Financial Service Manager issued guidance to managers for using consultants (the Constitution was updated in May 2011 to include this)

During this audit review discussions were held with officers and paperwork was examined to assess how WLDC manages its use of consultants.

## Executive Summary

### *Assurance Opinion*

Limited assurance

We found the process is not robust enough for management to be assured consultants are being engaged correctly. We therefore could not assess that the most suitable consultant is chosen and that best value is achieved.

Our work identified:-

- There is no supervisory checking over the process
- The guidance produced for Use of Consultants is not always followed
- Paperwork to support individual transactions was not always available

Although we can only give limited assurance on the Use of Consultants procedures being adhered to we found that expenditure on consultants is minimal and as such the risk to the organisation still remains low.

There is no supervisory checking to ensure that officers adhere to the process and controls covering use of consultants.

One of the controls described, and understood by officers, was that before a consultant is used this has to be authorised by the Chief Executive or a Director. There were cases where this was not happening and/or there was no evidence that this had happened. This control is not explicit in the guidance.

We also found it was not always clear whether or not someone was classed as a consultant if they:

- Were bought in to cover a vacancy
- Provided an ongoing service (e.g. expert VAT advice)

Areas where we suggest the guidance could be enhanced include:

- Clarity of authorisation requirements
- The authorisation needed when consultants go over the time originally specified
- Giving examples of what is and what is not consultancy work

The assurance level of 'limited' is based on the system assessed at the time of the audit review. The findings of this review have been discussed with the Financial Services Manager. A series of positive actions have been agreed that are to be completed in June 2012. Once these actions have been taken this will make the system far more robust and worthy of a higher assurance level in the future.

### **Management Response**

I agree that the guidance (having been in place for just over a year) now needs some enhancement to ensure it remains fit for purpose.

I thank the auditor for his efforts in bringing together this valuable report.

We agreed that all actions will be completed by the end of June 2012

# ICT Starters and Leavers Access 2011/12

## Introduction and Scope

Our audit looked at the processes in place to manage IT and building access and security for starters, leavers and internal staff changes. We reviewed the corporate process for communication of changes and compliance with the ICT access policy

There have been changes at the Council with staff leaving, including some senior management and staff changing roles internally.

The ICT Service manager is due to leave the Council at the end of March 2012 to take up a role providing ICT management for five of the County's District Councils. A new position of joint West Lindsey and North Kesteven IT Manager is currently being advertised.

## Management Summary

### *Assurance Opinion*

#### Limited Assurance

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.

There is an ICT access policy but processes are not being consistently applied to staff changes at the Council.

Communication needs to be improved between the relevant sections of HR, ICT and providers of access equipment to ensure there is prompt action taken when changes occur.

The ICT access policy states that leavers' access should be stopped on the officers last day of work. Testing of the leavers' process showed that this policy is not always applied - procedures had not been followed for several managers who had recently left the authority.

We found that the ICT section is either not informed of all changes or is informed but does not receive the correct documents and requests for IT access to be stopped. This is contrary to the ICT access policy which makes it clear that to reduce risks to system and data security access should be stopped on the last day of employment.

To strengthen security arrangements management should introduce a system where all leavers are notified to relevant sections, including ICT and building access sections, to ensure access to systems and building is deactivated on the officers last day.

During our work we found a number of areas of good practice, namely that:

- Access to systems is controlled centrally through the ICT section.
- System access tokens and building access fobs can only be activated by authorised staff.

- New users are only set up with authorised paper work
- There are procedure notes on setting up new users and detailed records of authorised access forms.
- System administrators reviewed user's access on a regular basis to ensure access remained relevant to job role.

## **Management Response**

Whilst the communications relating to physical and logical access controls across the Council could be improved, this does not in its self present a high risk to the authority. It is acknowledged that improvements can be made to communications relating to the creation, change, and cessation of access privileges and these will be addressed in the coming weeks.

However given the effectiveness of technical controls – both to control access to ICT resources and to the Guildhall building – it is somewhat surprising to see an opinion giving only limited assurance to ICT Starters and Leavers Access.

Onsite inspections for GCSx Code of Connection, Financial Management and ICT Risk Management purposes have previously reported Substantial Assurance for Access controls, and there is no evidence in the report suggesting a significant change to the effectiveness of the controls in place. Nor is it evident in the report that the authority has been exposed to any significant risk as a result of any incident, action or poor communication.

Management would request a review of the opinion to that of Substantial Assurance.

Two actions remain outstanding and are due for completion by the end of May 2012.



# Review of the Strategy and Regeneration Directorate

## Introduction

We have completed a review of the Strategy and Regeneration Directorate's arrangements for the management of the Disabled Facilities Grant (DFG) and pilot project aimed at improving the efficiency of the DFG process, and the Linden Terrace housing renovation project. We have focussed on the arrangements for:

- Governance and Accountability
- Budget management
- Project and programme management

The review was prompted by the DFG being overspent, and it being reported that the Linden Terrace project would not break even as was expected.

## Management Summary

### *Assurance Opinion*

#### Limited Assurance

The DFG pilot and Linden Terrace projects have been key projects for improving service delivery and management have approached both projects with an entrepreneurial spirit.

The projects have identified a number of learning points in terms of partnership governance and project management arrangements for future projects, and the budget management arrangements for DFG.

### ***DFG Budget and Pilot Project***

The DFG budget overspend and the DFG Pilot were reviewed by the business improvement team in July 2011.

We concur with their findings that the DFG overspend is due to:

- A greater throughput of cases due to the pilot
- The budget not being sufficient as it took no account of prior year commitments and the impact of the pilot
- The budget not being effectively monitored or managed

We also found there to be uncertainty over budget preparation responsibilities between Housing Services and Accountancy staff, and that because DFG is treated as capital expenditure the monitoring of the budget did not commence until July 2011 when the budget was already overspent.

Business Improvement also identified various issues with the operation of the DFG pilot with which we also concur. In particular the arrangements for Housing Services to interface with the DFG Pilot have not always worked, and the flow of information between the two has not been sufficient.

Two factors have contributed to the insufficient information:

- There are problems with the data in the FLARE systems which means that the transaction volumes cannot be relied upon and values are likely to be understated
- While the pilot has been running the Council has continued to use an agent, John Gray, to manage some of the DFG applications allocated to him before the pilot commenced, and details of the work he is managing are not readily available

To date no action has been taken, or actions agreed, to address the issues identified in the business improvement section's report.

There was also a Bridge review of DFG in June 2011. It identified a number of actions, however responsibility and timescales were never established for a number of them and so they have yet to be addressed.

### ***Linden Terrace Project***

We were informed that the Linden Terrace project to buy and renovate an empty property was to be undertaken on a break-even basis, but that break-even was not going to be achieved, resulting in a loss to the Council.

We found that when the property was purchased there was no agreed budget for the purchase and renovation, and it had not been established that the project was to break even. Officers involved in the project had no expectations that the project was to break even, and have stated that the nature of the projects means that break even is not a possibility. It is only over time, and after some negotiation with project partners, that a budget of £100k for the purchase and renovation has been agreed, whilst it is known that income from transfer to a registered provider could be as low as £40k.

We found that there are informal partnership and project management arrangements. There was no formal project in place before the property was purchased, and a business case produced by partners was never formally agreed. There was also no Committee approval to procure a property and commence the project

**End of Appendix B**

Appendix C

**West Lindsey District Council –Internal Audit Plan 2012/13**

Area	Days	Indicative Scope	Start Date	End Date	Status
<b>Critical Service Activities</b>					
<b>Planning and Regeneration</b>					
Gainsborough Regained	15	<p>Review of projects within Gainsborough Regained considering the integration of projects focusing on growth point, town centre regeneration and deprivation.</p> <p>Include how Council co-ordinates / works with partners to deliver this initiative / investment</p>			
<b>Resources</b>					
Financial Strategy	5	To ensure the Council has a sustainable medium to long term finance strategy to address future reduced government funding whilst continuing to meet the needs of the community and effective service delivery.			

Area	Days	Indicative Scope	Start Date	End Date	Status
Housing Benefits Subsidy & Systems Review	20	Review of the housing benefit systems in conjunction with testing to support the external audit of the subsidy claim.			
Progress and Delivery	10	To review how effective the corporate governance model for programmes, performance / delivery and financial monitoring is in delivering the Corporate Plan priorities.			
<b>Sub Total</b>	<b>50</b>				
<b>Due Diligence</b>					
<b>Resources</b>					
Finance Systems – provisional areas: <ul style="list-style-type: none"> <li>■ Creditors</li> <li>■ NNDR</li> <li>■ Debtors</li> <li>■ Payroll</li> <li>■ Income</li> </ul>	35	To review systems and test transactions for finance systems feeding into the Council's accounts in liaison with external audit.			
Finance Management	10	Identify how effective finance management systems are in allowing managers to manage and monitor their budgets, understand	January 2013	March 2013	

Area	Days	Indicative Scope	Start Date	End Date	Status
		their costs through their cost centre / business centres.			
<b>Sub Total</b>	<b>45</b>				
<b>Strategic Risks</b>					
Income generation	10	Assess the changes in service demand and legislation on income, including: <ul style="list-style-type: none"> <li>■ Car parking</li> <li>■ Rents</li> <li>■ Planning fees</li> <li>■ Building Control</li> <li>■ Land Charges</li> </ul>			
Investment decisions	10	Review of the process (due diligence) for major investments decisions , consider: <ul style="list-style-type: none"> <li>■ Commercial Strategy</li> <li>■ Adequacy business cases</li> <li>■ Decisions Making process</li> <li>■ Future sustainability / impact of</li> </ul>			

Area	Days	Indicative Scope	Start Date	End Date	Status
		investment I			
<b>Sub Total</b>	<b>20</b>				
<b>Emerging Risks</b>					
Change programme	10	Review of Organisational Development and how effective this has been to embed: <ul style="list-style-type: none"> <li>■ New ways of working</li> <li>■ Delivery of Corporate Objectives</li> </ul>	June 2012	Sept 2012	
Big Society & localism agenda	10	To Establish how the council is responding to the localism agenda (Big society), including any potential changes to governance arrangements.			
Emerging risk contingency	5	To audit any significant emerging risks arising in the year.			
<b>Sub Total</b>	<b>25</b>				
<b>Other relevant Areas</b>					
Assurance mapping	5	Update assurance map with service managers and gain management assurances and			

Area	Days	Indicative Scope	Start Date	End Date	Status
		third party assurances.			
Annual Governance Statement	5	Follow up improvements / actions taken by the Council to address the areas in the 2012 statement.			
<b>Sub Total</b>	<b>10</b>				
<b>ICT Audit.</b>					
	20	Our ICT audit strategy is being revised. This includes a risk assessment which will identify areas for audit focus.			
<b>Sub Total</b>	<b>20</b>				
<b>Non-Audit</b>					
Advice	5				
Liaison	5				
Annual Report	1				
Audit Committee	5				
Contingency	5				
<b>Sub Total</b>	<b>21</b>				
<b>Total Audit Plan for 2012/13</b>	<b>191</b>				

End of Appendix C