



GA.55 15/16

**Governance & Audit  
Committee**

**17 March 2016**

**Subject: Internal Audit Plan 2016/17**

Report by:

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Purpose / Summary:

The report gives members details of the draft  
annual programme of internal audit work to be  
completed by the Audit partner, in 2016/17.

**RECOMMENDATION(S):**

- 1) **Members consider the content of the  
report and approve the Audit Plan  
2016/17.**

## IMPLICATIONS

**Legal:** None directly arising from the report

**Financial: FIN-134-16** None directly arises from the report.

**Staffing:** None

**Equality and Diversity including Human Rights:**  
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



# West Lindsey District Council Internal Audit Plan 2016/17 Draft



## **What we do best ....**

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

## **..... And what sets us apart**

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

Already working extensively with the not-for-profit and third sector

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## Introduction

1. This report summarises the proposed work of Internal Audit for 2016/17. The aim is to give a high level overview of areas we are likely to cover during the year – giving you an opportunity to comment on the proposals.
2. The audit plan has been developed to enable us to respond to changes during the year. Whilst every effort will be made to deliver the plan, we recognise that we need to be flexible and prepared to revise audit activity – responding to changing circumstances or emerging risks. The plan is therefore a statement of intent – our liaison meetings with senior management will enable us to firm up audit activity during the year.
3. Internal Audit is a statutory service required under the Account and Audit Regulations 2011 (amended 2015). We provide independent assurance designed to add value and improve how the Council operates. We help the Council achieve its priorities and objectives by bringing a systematic, disciplined approach to evaluate and improve the management of risk, control and governance processes.
4. Our work is carried out in conformance with the UK Public Sector Internal Audit Standards. These require that the scope of Internal Audit covers the whole range of the Council activities – seeking to provide an annual internal audit opinion on the governance, risk and internal control environment of the Council which has been established to:
  - Achieve strategic objectives
  - Ensure effective and efficient operational systems and programmes
  - Safeguard assets and interests of all kinds (including risks that relate to work it undertakes through partnerships)
  - Ensure the reliability and integrity of financial and operational information
  - Ensure economic, efficient and effective use of council resources
  - Ensure compliance with established policies, procedures, laws,

## Our Internal Audit Strategy

5. Our Internal Audit strategy has been developed using a risk based approach – taking into account management's assessment of risk including those set out in strategic and operational risk registers) and the assurances present through the Council's assurance framework (the Council's assurance map).
6. We use our own risk assessment against each activity assessing their significance, sensitivity and materiality – ranking the activity as high, medium or low risk. This allows us to prioritise possible areas to be included in the plan on the basis of risk. A copy of our risk assessment methodology is attached in Appendix A.
7. Our aim is to align our work with other assurance functions – seeking to look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council.
8. By adopting this approach it is possible to give the Council comfort that there is a comprehensive risk and assurance framework with no potential gaps. Internal Audit are then able to use our risk assessment and the assurance map to target resources to minimise duplication of effort through sharing and coordinating activities with management and other management oversight functions.
9. We have identified the level of assurances in place by using the "Three lines of assurance" model – See Figures 1
10. Figure 2 below shows the overall assurance levels on your critical service areas / activities.
11. We intend to leverage assurance from these other sources to enable the Head of Internal Audit to provide their Annual Audit opinion on the Council's governance, risk and control framework for 2017.

# Your Assurance Status

Figure 1. - The three lines of assurance model

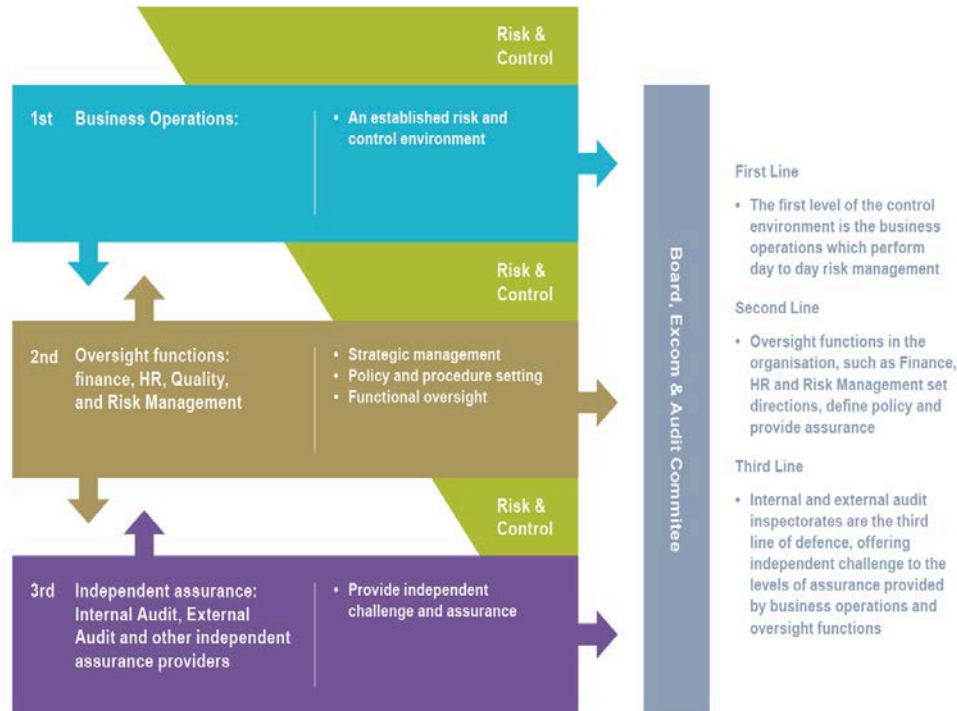
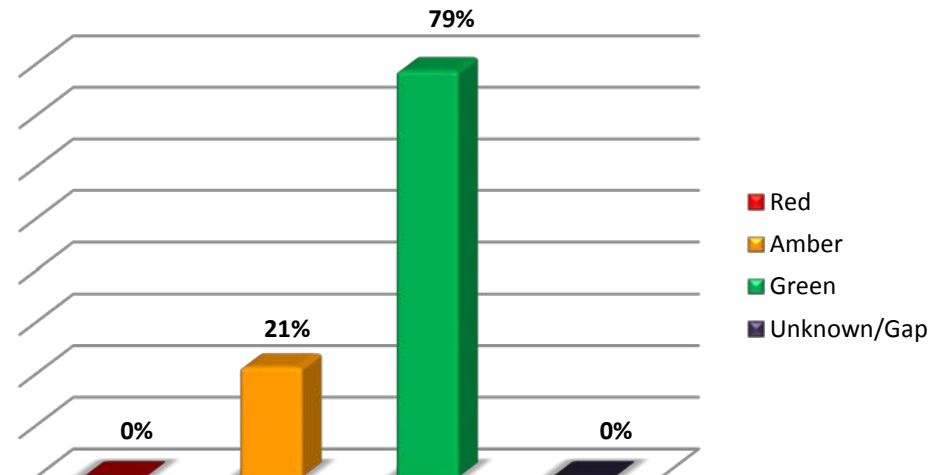


Figure 2 – Your Overall Assurance Status on your critical service areas / activities @ December 2015

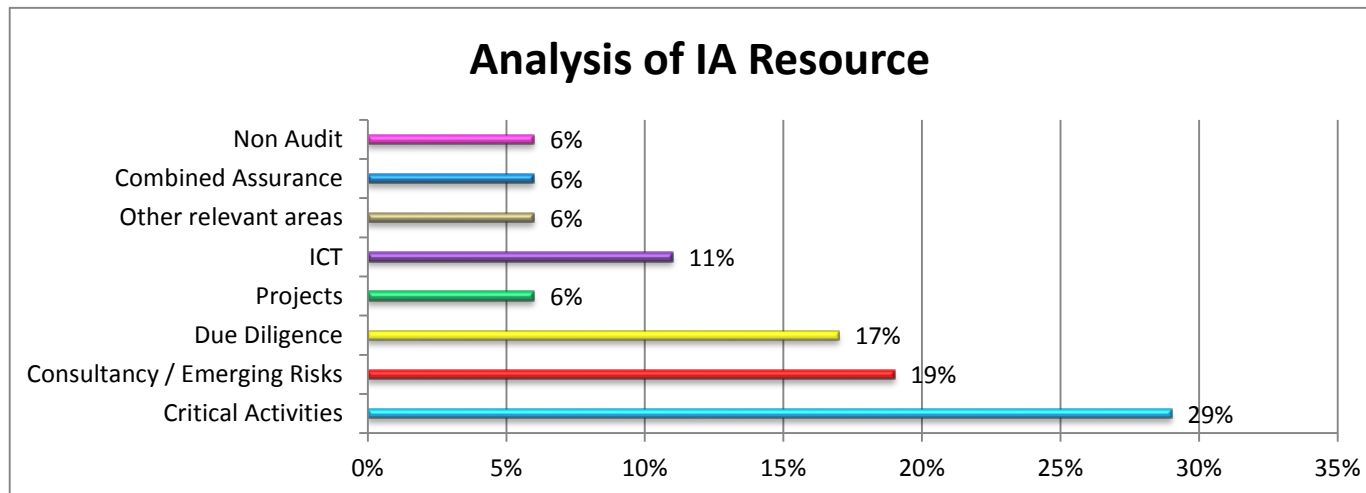


12. We co-ordinate our work on key financial systems with the Councils External Auditors, KPMG. We work to a joint working protocol which sets out where the External Auditor seeks to place reliance on our work. This ensures that the Council gets the most out of its combined audit resource – keeping audit fees low.

## Draft Internal Audit Plan 2016/17

13. The proposed areas to be included in the plan for 2016/17 is shown in Figure 3 with detailed information given in in Appendix B. A schedule of audits will be developed with management once the plan has been approved.

Figure 3 – Analysis of Internal Audit Resource (showing % split)



14. The Combined Assurance Status reports provides management and members with insight over the current levels of assurance over the Councils critical activities, key projects and risks however the Governance and Audit Committee may wish to specifically request assurance information directly from management for those items not in the Internal Audit Plan. Analysing the assurance map identified a number of specific critical and low risk activities – 3 which we do not have the resources to review – these are shown in Appendix C.



## Our Performance & Quality Assurance Framework

15. Assurance Lincolnshire operates in conformance with standards of best practice applicable to Internal Audit – in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. Our audit team offers a wide depth of knowledge and experience gained across different organisations. We promote excellence and quality through our audit process, application of our Quality Assurance Framework (Appendix D) and our training and development programme.
16. Our Quality Assurance Framework includes all aspects of the Internal Audit Activity – including governance, professional practice and communication.
17. Our Internal Audit Charter sets out the nature, role, responsibilities and authority of the Internal Audit service within the Council – this was approved by the Governance & Audit Committee and is due to be reviewed on 2016 following the planned revision of the Standards
18. Internal Audit remains sufficiently independent of the activities that it audits to enable auditors to perform their duties in such a way that allows them to make impartial and effective professional judgements and recommendations
19. We use a number of ways to monitor our performance, respond to feedback and seek opportunities to improve. Evidence of the quality of our audits is gained through feedback from auditees and the results of supervision and quality assurance undertaken as part of our audit process.
20. Our performance measures are set out below in Figure 4 for information:

**Figure 4: Our performance measures**

Performance Indicator	Target
Percentage of plan completed	100% (revised plan)
Percentage of key financial systems completed	100%
Percentage of recommendations agreed*	100%
Percentage of recommendations implemented*	100%
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 – 80% completed within 2 months from fieldwork commencing to the issue of the draft report.</li> </ul>
Client feedback on Audit (average)	Good to excellent



\* Achievement of the performance measures on recommendations agreed and implemented are not within our control. These are reported so the Audit Committee can see what actions management have taken. The details of any recommendations not agreed will be included in the executive summary and report to Committee.

21. Our proposed internal audit fee is outlined below. We have kept our Internal Audit Fees at £275 per day for the past 5 years – we are suggesting a modest increase the fee to £282 per day. Before commencement of any additional work requested an estimate will be provided of the costs.

Area	2015/16	2016/17	Proposed Increase
Internal Audit	£48,400	£49,350	£950
Subsidy Testing	£6,875	£7,050	£175



## Appendix A – Assurance Lincolnshire Planning Risk Assessment Methodology

### Value / Volume

This assessment is based on either the cost to the council, the volume of transactions that the activity is handling or a combination of the two

- 0 – Not material
- 1 – Minor importance (up to £100k<sup>1</sup> budget and approx. weekly transactions)
- 2 – Important (up to £1m<sup>2</sup> budget and up to daily transactions)
- 3 – Material (over £1m budget and multiple transactions daily)

### Audit rating

- 0 – recent review no significant findings (full / substantial)
- 1 – Recent review with findings (limited)
- 2 – Not recently reviewed (3 years)
- 3 – Recent review – number of significant findings (No assurance)

### Sensitivity / Profile (Risk)

This assessment is about the impact if things went wrong, how much interest would there be and how much would this impact on reputation

- 0 – low (internal system)
- 1 – Medium profile
- 2 – High profile

### Significance

This assessment reflects how important the activity is to the authority and its residents

- 0 – not significant
- 1 – Minor significance
- 2 – Significant
- 3 – Very significant

### Changes to people / systems

- 0 – no changes
- 1 – Minor changes
- 2 – Significant changes
- 3 – New system or team

### Other assurance

Other assurances we have identified during the mapping process and how much reliance we can place on these.

- 0 – high level of assurance – e.g. Snr mgmt. oversight / management reporting / activities / external review / scrutiny
- 1 – Moderate level of assurance – management assurance
- 2 – Low level of assurance – new area – assurance unknown – emerging risk

Risk score		Risk score		Risk score	
1	<b>Low</b>	7	<b>Med</b>	12	<b>High</b>
2		8		13	
3		9		14	
4		10		15	
5		11			
6					

<sup>1</sup> £500k for County

<sup>2</sup> £5m for County

Audit Area	Assurance Sought	Days	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
<b>Critical Service Areas</b> Those areas identified by senior management as having the most impact on successful delivery of priorities or whose failure could result in significant damage to reputation, financial loss, impact on people (risks). The outcome of the assurance mapping exercise – together with our assessment of risk – will enable us to identify potential areas where an independent audit would add value.							
Development Management Services Phase 1	Phase 1 c/fwd from 15/16, consultancy to provide advice and support on the management of improvement plans to support the long term development of the service.		High	Amber	✓	✓	
Development Management Services Phase 2	Phase 2, provide assurance that improvement plans and changes have led to better outcomes and a sustainable Development Management service.		High	Amber	✓	✓	
Commercial Plan Phase 1	Phase 1 c/fwd from 15/16, consultancy to provide advice and support on the governance and management structures in place to support the Council's Commercial Plan objectives.		High	Amber	✓	✓	
Commercial Plan Phase 2	Phase 2, provide assurance on the management and delivery of the key Commercial Plan themes. Review how services and key projects are structured and align to the commercial plan deliverables and objectives.		High	Amber	✓	✓	
Progress & Delivery	Provide assurance on the Progress and Delivery reporting process. Reviewing accuracy and relevance of key performance measures used in reporting.		High	Green		✓	
Growth Programme	Review and provide assurance on the governance and effectiveness of the Council's Growth plans and agenda.		High	Green		✓	
<b>Sub Total</b>		<b>50</b>					

## Appendix B – Draft Internal Audit Plan 2016/17

Audit Area	Assurance Sought	Days	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
<b>Due Diligence</b> Those systems that support the running of the organisation and ensure compliance with key corporate policies and legal requirements – the 'business as usual' systems. How often Internal Audit reviews these activities depends on previous assurance opinions, when the area was last examined and if there has been any significant changes to the system or senior management. For financial systems we also consider the requirements of External Audit to ensure that the organisation makes the best use of its combined audit resources.  Note: Financial Due Diligence audits are conducted on a 3 year cycle, while Other Due Diligence are conducted on a five year cycle.							
<b>Risk Management</b>	Review Strategic and Service level risk management to give assurance on the effectiveness of monitoring and management of risks.		<b>High</b>	<b>Green</b>	✓	✓	
<b>Key Policies and Procedures</b>	Up to date policies and procedures play a key part in management assurance. We will confirm that key polices are up to date, understood and followed.		<b>Med</b>	<b>Green</b>			
<b>Key Control Testing</b>	Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment.		<b>Med</b>	<b>Green</b>			✓
<b>Sub Total</b>		<b>30</b>					
<b>Projects</b> Those supporting delivery of a corporate objective / priority.							
<b>Project &amp; Programme management</b>	Review the governance and management oversight of key projects to confirm that they are effectively managed to deliver on time, within budget and deliver critical success factors (benefits). We will select a sample of projects to confirm compliance with approved codes of practice.		<b>Med</b>	<b>Green</b>	✓	✓	
<b>Sub Total</b>		<b>10</b>					

## Appendix B – Draft Internal Audit Plan 2016/17

Audit Area	Assurance Sought	Days	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
<b>ICT Audit</b>	<p>During the year we will meet with management to determine the key areas to focus our audit resource. Possible areas, which could be conducted jointly with North Kesteven District Council include;</p> <ul style="list-style-type: none"> <li>• ICT Governance and Business Continuity (Shared Service)</li> <li>• ICT Procurement</li> <li>• Cyber security</li> <li>• IT Disaster Recovery - reliance, back-up and recovery</li> <li>• Social Media</li> <li>• Key Application Audit</li> </ul>		<b>High</b>	<b>Green</b>			
		<b>20</b>					
<p><b>Strategic and Emerging Risks</b>            To enable Internal Audit to respond to changes during the year, we will meet regularly with Senior Management to agree which areas to focus our audit assurance work.</p> <p>The following areas have been identified through our risk assessment and on the assurance map as possible areas to focus audit activity.</p>							
<b>Service Transformation</b>	Provide assurance that new delivery models are fit for purpose and align to medium term financial plan and corporate objectives.						
<b>Consultancy and Emerging risks</b>	<ol style="list-style-type: none"> <li>1. Selective Licensing</li> <li>2. Investment decisions / Commissioning</li> <li>3. Community Safety &amp; Anti Social Behaviour</li> <li>4. Health &amp; Safety</li> <li>5. Partnerships / collaborative working</li> </ol>				<ol style="list-style-type: none"> <li>1. Assurance on implementing new and developing area.</li> <li>2. Consultancy on governance and quality of decisions.</li> <li>3. Postponed from 2015/16 plan.</li> <li>4. Newly added on strategic risk register.</li> <li>5. Assurance on the effectiveness of collaborative working.</li> </ol>		
<b>Sub Total</b>		<b>35</b>					



## Appendix B – Draft Internal Audit Plan 2016/17

Other Relevant Areas	Assurance Sought	Days	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
<b>Other relevant areas</b> Combined Assurance Status Report - Our aim is to give Senior Management and the Audit Committee an insight on assurances across all critical activities and key risks, making recommendations where we believe assurance needs to be stronger.							
<b>Audit follow up work</b>	To provide management with assurance that actions from previous key audits have been implemented and this has led to improved outcomes.		N/A				
<b>Combined Assurance</b>	Completing the integrated assurance mapping process for the Council by helping to map assurance against critical activities and key risks. Helping coordinate the development of the annual status report.		N/A				
<b>Sub Total</b>		<b>20</b>	N/A	N/A			
<b>Non Audit</b>							
Advice and liaison							
Annual Report							
Audit Committee							
Review IA Strategy and Planning							
<b>Sub Total</b>		<b>10</b>					
<b>Grand Total</b>		<b>175</b>					
<b>Housing Benefit Subsidy</b>		<b>25</b>					

## Appendix C – Auditable Areas not included in 2016/17 Plan

Auditable Areas	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
<b>Selective Licensing</b>	Provide assurance on the new developing process of selective licensing. Review the governance and management structures in place to implement this service.	M	A	✓	✓	
<b>Safeguarding Taxi Licensing</b>	To provide assurance that new legislation and best practice has been implemented in the Council's licensing processes.		A			✓
<b>Member Development</b>	Review and assess the effectiveness of the new Member's Induction programme and assess attendance and effectiveness of further Member Training.	M	A		✓	
<b>Car Parking</b>	<p>Moved from <b>RED</b> due to Peer review and action plan being in place. Still staffing, management and resource issues and assessed as <b>AMBER</b>.</p> <p>Review the Council's Car Park strategy, how it aligns to Commercial, Growth and Corporate plans to support town centre growth and income.</p>	M	A		✓	
<b>Investment Decisions / Commissioning</b>	Review investment and commissioning decisions to provide assurance there are effective management and monitoring systems in place.	N/A	N/A		✓	
<b>Gainsborough Market</b>	Raised as an <b>AMBER</b> area during combined assurance mapping process due to declining trends in income and attendance.	M	A		✓	

	Review to provide assurance on management and monitoring of the markets and to review any improvement or action plans to address the decline in the market.					
<b>Community Safety &amp; Anti Social Behaviour</b>	Review and assess the effectiveness of Internal Control in this area and including safeguarding.	H	A		✓	✓

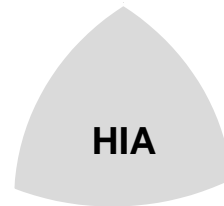
## Due Diligence Areas

System	Opinion	Last audited	System Changes	Current Cyclical Pattern		
				Year 1 2015/16	Year 2 2016/17	Year 3 2017/18
Financial Due Diligence audits are conducted on a 3 year cycle, Other Due Diligence are conducted on a 5 year cycle						
<b>Financial Due Diligence</b>						
Income Collection & Cash Receipting*	Substantial	2015/16	No	✓		
Bank*	Full	2012/13	Yes - 2015	✓		
Budgetary Control/Management	High	2015/16	No	✓		
General Ledger	Some Improvement Needed	2014/15	No		✓	
Budget prep and financial strategy	High	2015/16	No	✓		
Creditors*	Some Improvement Needed	2014/15	No		✓	
Debtors*	Some Improvement Needed	2014/15	No			✓
Pensions	Some Improvement Needed	2014/15	No			✓
Payroll*	Some Improvement Needed (Substantial)	2014/15	Yes - 2014		✓	

System	Opinion	Last audited	System Changes	Current Cyclical Pattern		
				Year 1 2015/16	Year 2 2016/17	Year 3 2017/18
Treasury Management	Full	2014/15	No		✓	
Property, Plant and Equipment*	Some Improvement Needed (Substantial)	2014/15	No			✓
Council Tax*	Effective	2014/15	No			✓
NNDR*	Some Improvement Needed	2014/15	No		✓	
Benefits*	Some Improvement Needed (Substantial)	2014/15	No			✓
* Note: Key Control Testing for Financial Control Opinion is included in the plan						
<b>Other Due Diligence</b>						
Investment Decisions / commissioning	Limited	2012/13	No		✓	
VAT/Tax	Low risk		No			
Insurance	Substantial	2015/16	No	✓		
Grants	Substantial	2015/16	No	✓		
Counter Fraud	Some Improvement Needed	2014/15	No		✓	
Contract Management	Limited	2014/15	No			
Equality & Diversity	Full	2008/09	No			
Health & Safety	Full	2010/11	No		✓	
Information Governance	Some Improvement Needed (Substantial)	2014/15	No			✓
Code of Corp Governance	Substantial	2011/12	No		✓	
Partnerships	Limited	2013/14	No		✓	

System	Opinion	Last audited	System Changes	Current Cyclical Pattern		
				Year 1 2015/16	Year 2 2016/17	Year 3 2017/18
Corporate planning	Substantial	2012/13	No			
Business Continuity	Substantial	2010/11	No			
Emergency Planning	Substantial	2010/11	No			
Human Resources / Managing People	Substantial	2010/11	No			

## Appendix D - Quality Assurance Framework



### Annual self- assessment

- Head of Internal Audit - develop & maintain Quality Assurance Improvement Programme (QAIP) & improvement action plan
- Focus on evaluating conformance with Internal Audit Charter, definition of Internal Audit, Code of Ethics & the Standards
- Arrange an External Assessment – co-ordinated with Audit Committee (planned for 2015)

### Periodic quality assurance assessments

- Obtain periodic assurance that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Provide HIA with quarterly highlight reports on outcome of reviews



Quality outcomes / process designed to deliver a consistently high quality audit service to our clients - fit for purpose / meet client expectations / conform to PSIAS

Quality improvement plan - HIA reporting to Audit Committee on the outcome of Quality Assurance – with improvement action plan and any significant non-conformance included in the Annual Report / Annual Governance Statement

### Ongoing monitoring – quality built into the audit process

Quality checks and oversight are undertaken throughout the audit engagement ensuring that processes and practice are consistently applied and working well.



- Conduct all audit engagements in accordance with audit practice standards / PSIAS
- Behave at all times in accordance with the Code of Ethics / Code of Conduct
- Promote the standards and their use throughout the Internal Audit activity
- Commitment to delivering quality services



- Obtain on-going assurance that that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Undertake engagement supervision and review



