



**GA.57 14/15**

**Governance & Audit Committee**

**9 April 2015**

**Subject: Internal Audit Plan 2015/16**

Report by:

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

Contact Officer:

Ian Knowles, Director of Resources  
[ian.knowles@west-lindsey.gov.uk](mailto:ian.knowles@west-lindsey.gov.uk)

Purpose / Summary:

The report gives members an update of progress, by the Audit partner, against the 2014/15 annual programmes agreed by the Audit Committee in March 2014.

**RECOMMENDATION(S):**

- 1) **Members consider the content of the report and approve the Audit Plan 2015/16.**

**IMPLICATIONS**

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

**Financial: FIN-11-16** 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  
2015/16**





Draft v2  
13/01/15



Lucy Pledge CMIIA

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## Introduction

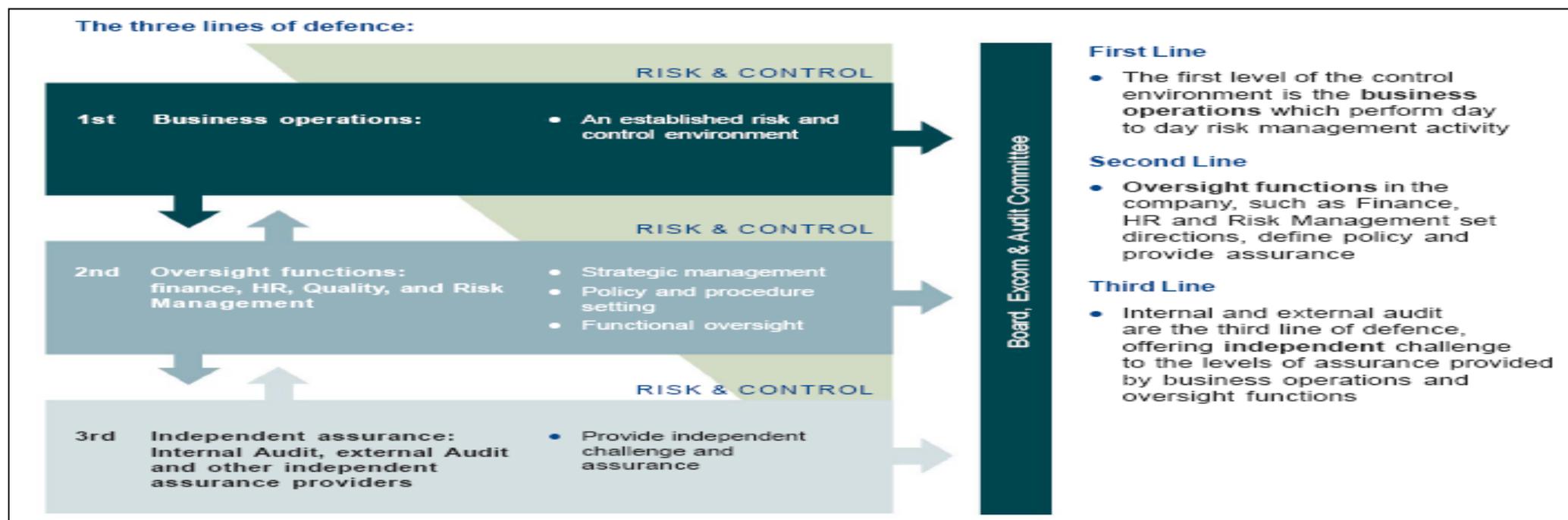
1. This report summarises the proposed work of Internal Audit for 2015/16. The aim is to give a high level overview of areas we are likely to cover during the year – giving you an opportunity to comment on the proposals.
2. The audit plan has been developed to enable us to respond to changes during the 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. 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, regulations and contracts

## Our Internal Audit Strategy

5. Our Internal Audit strategy has been developed to take into account management's assessment of risk (including those set out in strategic and operational risk registers) and the assurances present on the Council's critical systems and key projects (the Council's assurance map).
6. We also 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. 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 2016.
9. We have identified the level of assurances in place by using the 'Three lines of defence (assurance)' model – see Figure 1.

**Figure 1: The three lines of assurance model**



10. Although we undertake a risk assessment each year to develop our risk based audit plan – there are a number of key processes that are fundamental to the running of the Council which we review on a cyclical basis – usually once every 3 years. These systems are shown in Appendix B.

11. Analysing the assurance map may identify a number of specific critical and low risk activities - which we do not have the resources to review. The Audit and Accounts Committee can specifically request management to provide assurance on these areas. Once the

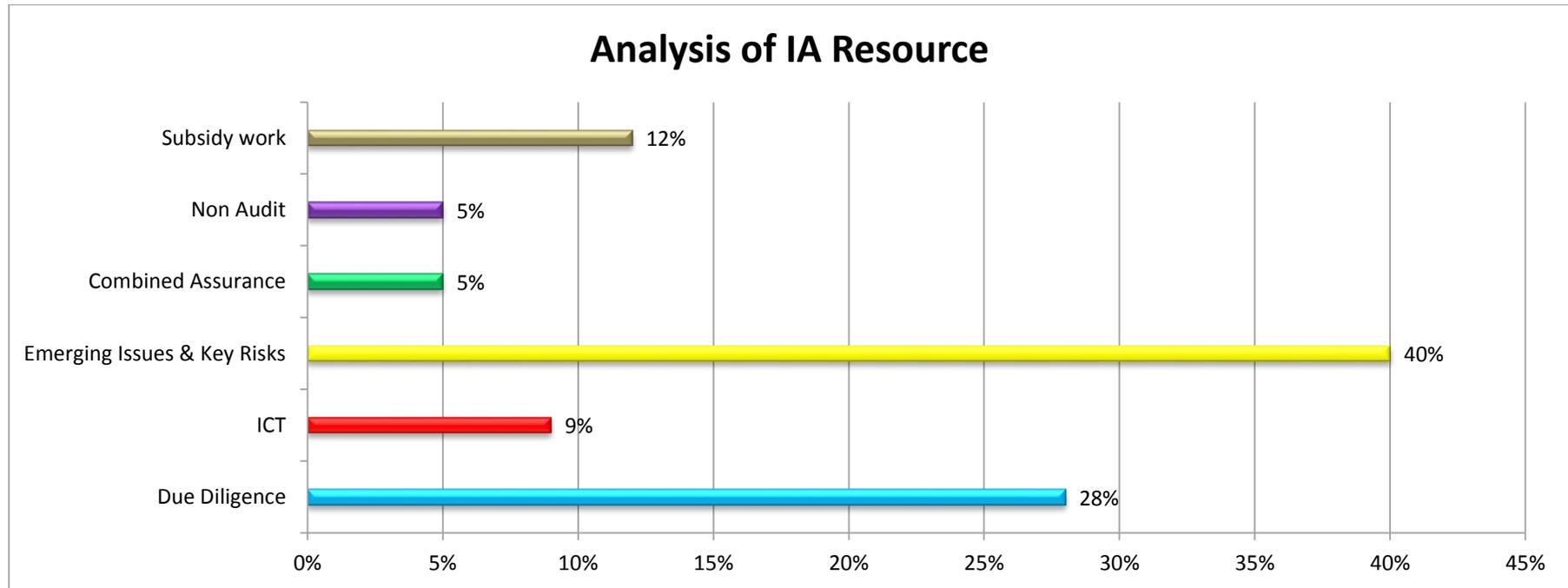
assurance map has been agreed we will provide a further report to Audit and Accounts Committee with more details.

12. We co-ordinate our work on key financial systems with the Council's 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.

## Internal Audit Plan 2015/16

13. The type of areas included in the plan for 2015/16 is shown in figure 2 with the proposed audits detailed in Appendix C. A schedule of audits will be developed with management once the plan has been approved.

**Figure 2 – Analysis of Internal Audit Resource (showing % split)**



## Our Performance & Quality Assurance Framework

14. Audit 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 offer 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.
15. Our Quality Assurance Framework includes all aspects of the Internal Audit Activity – including governance, professional practice and communication.
16. 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 Audit Committee.
17. 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.
18. 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.
19. Our performance measures are set out below in Figure 3 for information:

**Figure 3 – 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
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\* Achievement of the performance measures on recommendations agreed and implemented are not within our control. These are reported so the Governance & 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.

## Fees

20. Our internal audit fee is determined through the pricing schedule of the contract. Before commencement of any additional work requested an estimate will be provided of the cost.

Area	2015 / 16	2014 / 15
Internal Audit	£48,400 <sup>1</sup>	£48,400
Subsidy Testing	£6,875	£6,875

<sup>1</sup> Based on 176 days for 2015/16 (10 days c/f has been included in the plan (186 days))

# Appendix A – Audit 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>2</sup> budget and approx. weekly transactions)
- 2 – Important (up to £1m<sup>3</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>2</sup> £500k for County

<sup>3</sup> £5m for County

## Appendix B – West Lindsey District Council Cyclical Due Diligence Plan

System	Opinion	Last audited	System Changes	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	2011/12	No	✓		
Bank*	Substantial	2011/12	Yes - 2015	✓		
Budgetary Control/Management	Substantial	2011/12	No	✓		
General Ledger	Substantial	2013/14	No		✓	
Budget prep and financial strategy	Substantial	2012/13	No	✓		
Creditors*	Limited	2013/14	No		✓	
Debtors*	Some Improvement Needed	2014/15	No			✓
Pensions	Some Improvement Needed	2014/15	No			✓
Payroll*	Some Improvement Needed	2014/15	Yes - 2014		✓	

<b>System</b>	<b>Opinion</b>	<b>Last audited</b>	<b>System Changes</b>	<b>Year 1 2015/16</b>	<b>Year 2 2016/17</b>	<b>Year 3 2017/18</b>
Treasury Management	Full	2013/14	No		✓	
Property, Plant and Equipment*	Some Improvement Needed	2014/15	No			✓
Council Tax*	Effective	2014/15	No			✓
NNDR*	Limited	2012/13	No		✓	
Benefits*	Some Improvement Needed	2014/15	No			✓
*Key Control Testing for Financial Control Opinion				✓	✓	✓
<b>Other Due Diligence</b>						
Investment Decisions / commissioning	Limited	2013/14	No		✓	
VAT/Tax	Low risk		No			
Insurance			No	✓		
Grants			No	✓		
Counter Fraud	Some Improvement Needed	2014/15	No		✓	

<b>System</b>	<b>Opinion</b>	<b>Last audited</b>	<b>System Changes</b>	<b>Year 1 2015/16</b>	<b>Year 2 2016/17</b>	<b>Year 3 2017/18</b>
Risk management	Substantial	2013/14	No		✓	
Project /Programme Management	Limited	2013/14	No		✓	
Progress & Delivery	Limited	2013/14	No		✓	
Contract Management	Work in Progress	2014/15	No			
Equality & Diversity	Full	2008/09	No			
Health & Safety	Full	2010/11	No		✓	
Information Governance	Some Improvement Needed	2014/15	No			✓
Code of Corp Governance	Substantial	2011/12	No		✓	
Partnerships	Limited	2013/14	No		✓	
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 C – Draft Internal Audit Plan 2015/16

Area	Indicative Scope	Planned Days
<b>Due Diligence</b> - Those systems that support the running of the Council and ensure compliance with key policies		
Grant Management	To review the processes in place for managing and monitoring grants and ensure expenditure is made in accordance with the grants' terms and conditions.	
Insurance	To ensure that the Council has effective arrangements in place to manage its insurable risk.	
Key Control Testing	Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment.	
Bank Reconciliation	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	
Income		
Financial Strategy		
Budget Preparation and Monitoring	How often Internal Audit review these activities depends on previous assurance opinions, when we last examined the activity and if there has been any significant changes to the system or senior management. We also consider the requirements of External Audit.	
<b>Sub Total</b>		<b>60</b>
<b>ICT audit</b>		
ICT plays a vital role in supporting the Council's business and customer interface. During the year we will meet with the Strategic Lead to determine the best areas to focus our audit resources. Possible areas, which will be conducted jointly with North Kesteven District Council include: <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>Sub Total</b>		

Area	Indicative Scope	Planned Days
<b>Emerging Issues and Key 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. We will complete 7 – 8 audits and the following areas have been identified through our risk assessment and on the assurance map as possible areas to focus audit activity.		
Land, Property & Estate Management	To ensure that processes and controls around procurement, project management and investment decisions are embedded / complied with. Ensure the best use of resources / value for money in line with the Commercial Strategy. (Rolled forward from 2014/15).	
Local Land Charges	Review of existing procedures to be undertaken in Quarter 1, to identify issues to be addressed when introducing new automated system.	
Community Safety and Anti Social Behaviour	Review and assess the effectiveness of Internal Control in this area and including safeguarding.	
Effective Decision Making	Assess and provide assurance around Governance Responsibilities following the Senior management and Heads of Service restructures, including a review of management and committee structures, processes, quality of information etc that support the decision making process	
Planning	A full review to provide assurance that sufficient progress has been made in respect of implementing the improvement action plans and that they have delivered expected outcomes. To be undertaken in Quarter 3.	
Traded Services	Review of the governance, performance and financial arrangements that support trading. To be undertaken in Quarter 4.	
Transformation and Commercial Plans	Strategic level review of the effectiveness of these plans in delivering the Medium Term Financial Plan. To be undertaken in Quarter 4..	
Enforcement	Review and assess the effectiveness of Internal Control within Housing and Planning Enforcement.	
Corporate Planning	High level review of the planning process in place for the Council:- corporate priorities, business plans, objectives.	
Member Development	Review and assess the effectiveness of the new Members' Induction programme.	
Building Control	Review and assess the effectiveness of Internal Control in this area.	
<b>Subtotal</b>		<b>85</b>

<b>Other relevant Areas</b>		
Combined Assurance	Updating assurances on the Council's assurance map with service managers and helping to co-ordinate the annual status report.	
<b>Sub Total</b>		<b>10</b>
<b>Area</b>	<b>Indicative Scope</b>	<b>Planned Days</b>
<b>Non-Audit</b>		
Advice & Liaison		5
Annual Report		1
Audit Committee		5
<b>Sub Total</b>		<b>11</b>
<b>Grand Total</b>		<b>186</b>
<b>Other work</b>		
Subsidy claim testing		<b>25</b>

# Appendix D – Quality Assurance Programme



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.



## 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

- 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. The extent of supervision needed will depend on the proficiency and experience of the internal auditors and the complexity of the engagement.