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**Governance & Audit
Committee**

23rd June 2015

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Subject: Internal Audit Annual Report – 2014/15

Report by:	Lucy Pledge (Head Audit & Risk Management – Lincolnshire County Council)
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Purpose / Summary:	The Internal Audit Plan was approved in April 2014. This report gives the Head of Internal Audit's opinion on the adequacy of the Council's, governance, risk and control environment and the delivery of the Internal Audit Plan plan for 2014/15.

RECOMMENDATION(S):	<ol style="list-style-type: none">1. That the Committee consider the Head of Audit's Annual Report and Opinion for 2014/15 and identifies any actions it requires.2. That the Committee consider this Annual Report when scrutinising the Annual Governance Statement 2015.
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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



Public Sector Auditing.... Private Sector Thinking

West Lindsey District Council

Internal Audit Annual Report – 2014/15





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Appendix 2 - Quality Assurance Framework

Distribution List

Chief Executive

Directors

External Audit

Management Summary

Purpose of Annual Report

- 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 governance framework and internal control system and the extent to which the Council relies on it;
 - Inform how the plan was discharged and the overall outcomes of the work undertaken;
 - Draw attention to any issues particularly relevant to the Annual Governance Statement.

Opinion on the Governance Framework and Internal Control Environment

- For the twelve months ended 31 March 2015, based on the work we have undertaken and information from other sources of governance, my opinion on the adequacy and effectiveness of West Lindsey's arrangements for governance, risk management and control is shown in **Figure.1**.
- The Council has continued to maintain its momentum in strengthening its governance, risk and control framework. Good assurance arrangements are in place and work well.

Figure 1

Key




Red **Inadequate Performance** – Critical action required by management throughout the Council.

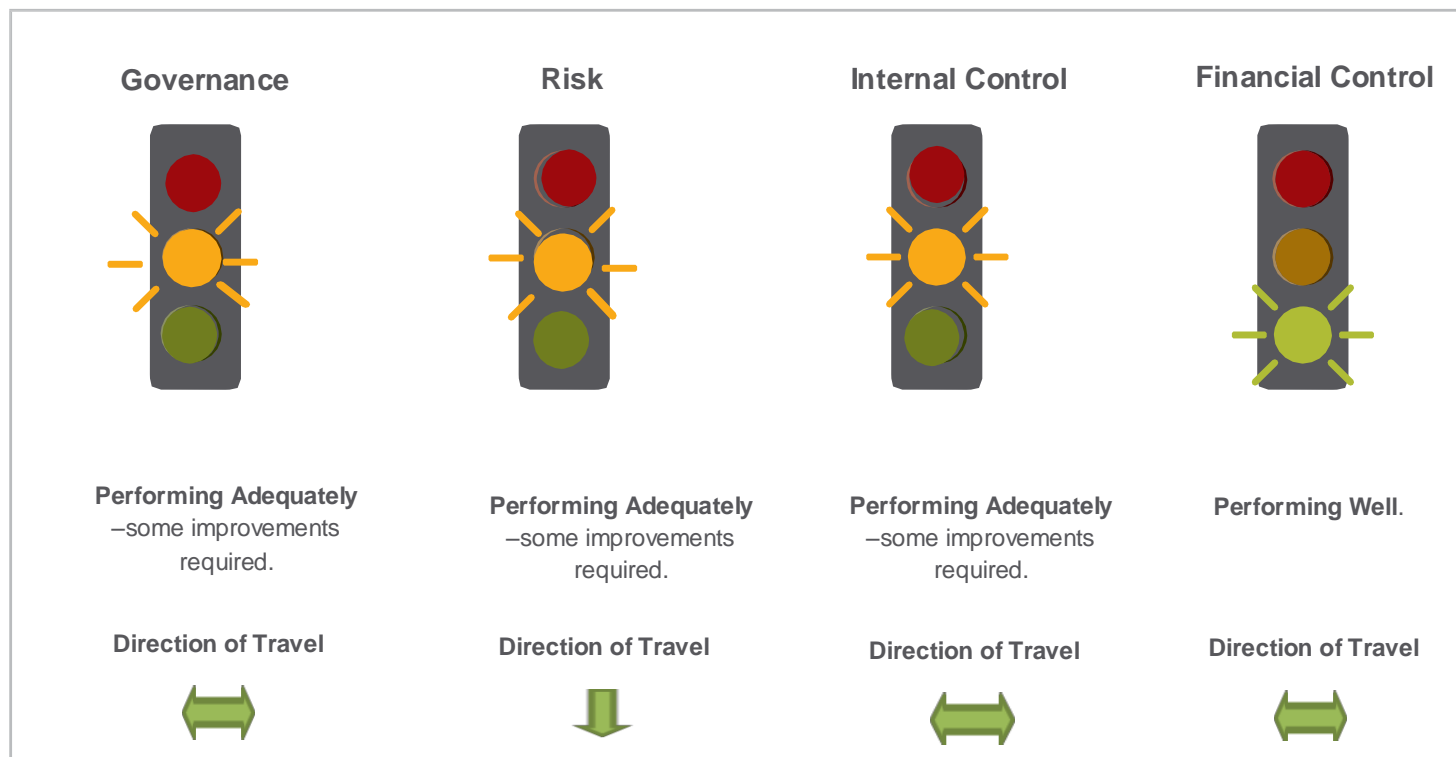
Amber **Performing Adequately** – Some improvement required to manage a high risk in a specific business area and medium risks across the Council.

Green **Performing Well** – No concerns that significantly affect the governance framework and successful delivery of the Council priorities

Direction of Travel (from last report 2014)

No change -stable Improving Reducing



How we came to our opinion

Governance – *“If management is about running the business – Governance is about seeing that it is run properly”*

4. Local Government has been and will continue to undergo significant change. The way it operates and deliver services – either directly, with or through other organisations will provide challenges for managing risk, ensuring transparency and demonstrating accountability. The importance to aim for the standards of the best and ensuring governance arrangements should not only be sound but also seen to be sound has never been greater.
5. Good governance underpins everything the Council does and how it delivers services often comes under close scrutiny. It is therefore vital that resources focus on agreed policy and priorities; that there is sound and inclusive decision making with clear accountability for the use of those resources. This ensures that the Council achieves the desired outcomes for the people of West Lindsey.
6. The Governance and Audit Committee helps to ensure that these arrangements are working effectively. They regularly review the governance framework and consider the draft and final versions of the Annual Governance Statement.
7. During 2014/15 the Council has implemented some significant changes in its management arrangements and structures. These arrangements are still being embedded with the final appointments being made during 2015. It is inevitable that during periods of change that governance arrangements will be affected - however the work that the Council has done during 2014 to strengthen its

governance and assurance arrangements means that the governance framework continues to perform adequately.

8. The review of risk management and the internal control environment has also influenced the opinion on the Council's overall governance arrangements.
9. The Council's undertakes an annual review of the Council's governance framework. Significant governance issues identified in the 2015 statement are:
 - Central Lincolnshire Local Plans Team
 - Review of The Constitution including streamlining decision making
 - Review of Risk Strategy
 - Development of 'Vision 20/20'
 - Contract Management
 - Member Induction and Development
 - Delivery of Finance Matters II
10. Taking the above information into account we have assessed the governance framework as **amber** – performing adequately.

Risk and Internal Control

11. We took account of the outcome of our internal audit work during the year. Our work identified no areas where an 'inadequate' assurance opinion was given. We did however identify 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:

Contract Management

Our audit identified the need for stronger contract management arrangements to be put in place to provide confidence that the Council's policies and procedures are complied with - securing value for money.

Planning

In light of the importance and risks associated with the planning service we were asked by the Chairman of the Governance and Audit Committee to provide some independent assurance over the service.

Phase one of our assurance work focused on the robustness of the improvement plan and the associated governance arrangements put in place. Our work identified that progress has been slow in pulling together an improvement plan – initial plan drawn up in March 2015. Whilst it is acknowledged that the senior management changes have undoubtedly affected progress there was an expectation by the Council that an improvement plan would be put in place as a matter of priority. We suggest oversight of this through the transformation board – which will consequently provide closer governance / oversight of progress.

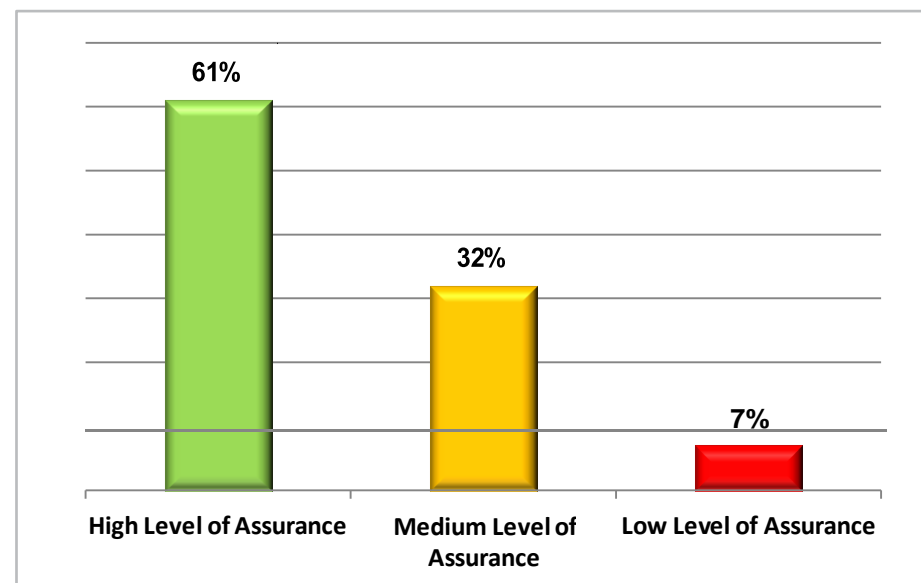
Combined Status Report

12. The Council produced its Combined Assurance report in February 2015. **Figure 2** provides the a summary of the overall assurance status on the Council's critical activities¹ - it shows a number of areas identified where assurance is low, namely;

- Property & Estate Management – Review of asset register and strategy needed
- Car Parking – strategy needs to be put in place
- Planning Management Process – Improvement plan required to address Capacity and Capability issues.

13. We recommend that contract management and planning are included within the Council's Annual Governance Statement as a significant governance issues / high risk that needs addressing.

Figure 2 – Overall Assurance Status on Critical Activities



14. Taking all of the above information into account we have assessed the internal control environment as **amber** – performing adequately.

¹ Those identified by senior management as having significant impact on the successful delivery of Council priorities or whose failure could result in significant damage to reputation, financial loss or impact on people.

Risk Management

15. The Governance and Audit Committee continues to receive regular updates on how the Council manages its risks. The risk management strategy was updated during the year with some areas of improvement identified eg embedding risk management following implementation of new management structures.
16. On this basis we have assessed risk management as **amber** – performing adequately.

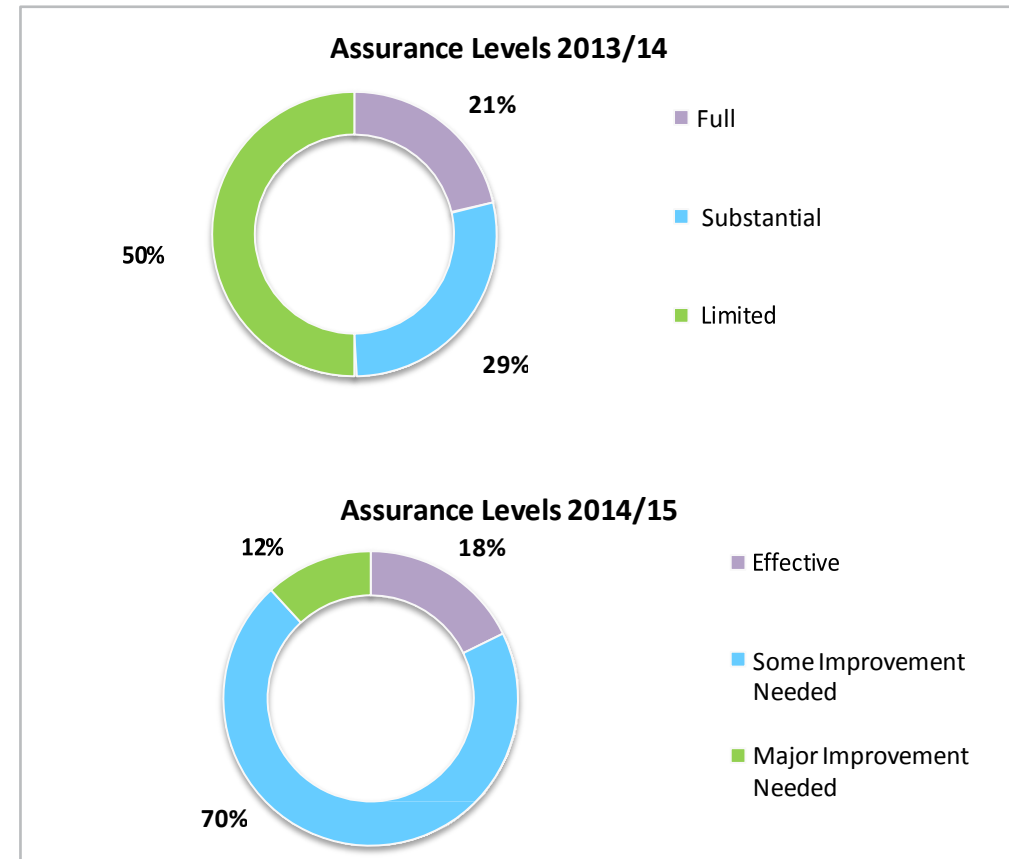
Financial Control

17. Our work provides an important assurance element to support the External Auditor's opinion on the Council's Statement of Accounts. During the year we reviewed:
 - Income
 - Creditors
 - Payroll
 - Treasury Management
 - General Ledger
 - Pensions
 - Property, Plant and Equipment
18. The Council has good financial management processes in place – that generally work well. Our work did identify some areas of improvement over compliance with systems and controls. However, these are not significant enough to influence the overall opinion. On this basis we have assessed financial control as **green** – performing well.

Scope of Work

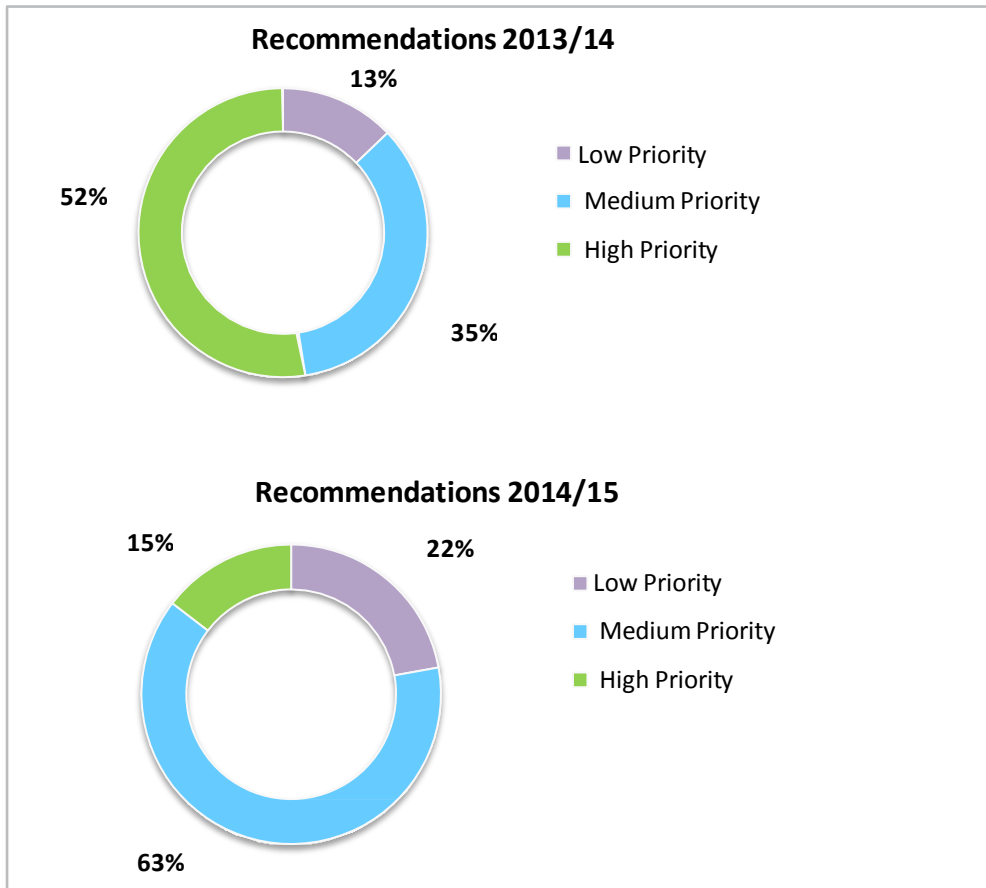
19. The charts in **Figure 3** shows the assurance opinions given in 2014/15 compared to those in 2013/14. Our audit plan includes different activities each year – it is therefore not unexpected that these vary; however, the assurance levels do give an insight on the application of the Council's control environment.
20. We can see from the charts that the overall assurance levels have improved during 2014/15 with less limited or major improvement needed. No areas were given an opinion of inadequate during the year. Details of systems reviewed can be found in Appendices 1.

Figure 3 – Comparison of Assurances



21. The charts in **Figure 4** show the comparison of internal audit recommendations made 2013/14 and 2014/15. Details of systems reviewed can be found in Appendix 1
22. We track the implementation of agreed management actions. Over the past year management have implemented **90%** of recommendations due by the 30th April 2015. Details of outstanding recommendations is shown in Appendix 1.

Figure 4 – Recommendations Made



Delivery of internal audit plan 2014/15

23. The Governance and Audit Committee approved the 2014/15 audit plan in April 2014. We have delivered **98%** of the revised plan by the end of the year.
24. Internal Audit's performance is measured against a range of indicators. The table below shows our performance on key indicators at the end of the year. We are pleased to report a good level of achievement against our targets – one area of improvement is around contemporary reporting (timescales):

Performance Indicator	Target	Actual @ 31/03/2015
Percentage of plan completed.	100%	98%
Percentage of key financial	100%	100%
Percentage of recommendations agreed.	100%	100%
Percentage of recommendations due implemented.	100% or escalated	90%
Timescales: Draft report issued within 10 working days of completing audit	100%	68% - 11 out of 16
Final report issued within 5 working days of closure meeting / receipt of management responses.	100%	86% - 12 out of 14
Period taken to complete audit within 2 months from fieldwork	80%	59% - 10 out of 17
Client Feedback on Audit	Good to Excellent	Excellent

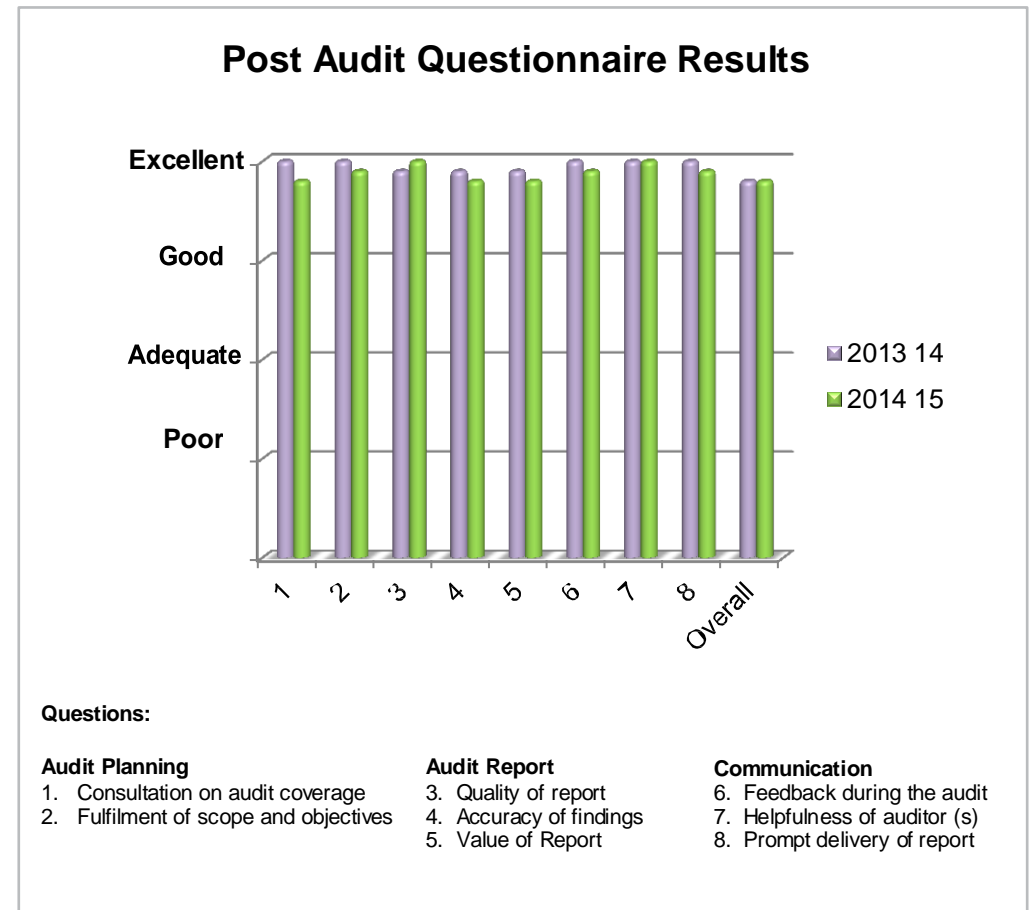
Restrictions on Scope / Disagreements

25. In carrying out our work we identified no unexpected restrictions to the scope of our work. We have had difficulties in gaining access to staff which resulted in some delay or inability to deliver planned work within the expected timescales. This is a common issue with the delivery of our work but was particularly an issue with the Planning review.
26. To help address this issue we have changed the way we plan and schedule our work – we no longer have an annual plan. Audit areas identified via our risk based Internal Audit Strategy are now scheduled on a quarterly / six monthly basis.

Effectiveness of Internal Audit

27. 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.
28. The table in **Figure 5** outlines the responses by management on our service. For 2013/14 there was a 92% questionnaire return rate, the overall average rating for the service was good to excellent.

Figure 5 – Client Feedback



Quality Assurance

29. We recognise the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards. We continually focus on delivering high quality audit to our clients – seeking opportunities to improve where we can.
30. Our commitment to quality begins with ensuring that we recruit, develop and assign appropriately skilled and experienced people to undertake your audits.
31. Our audit practice includes ongoing quality reviews for all our assignments. These reviews examine all areas of the work undertaken, from initial planning through to completion and reporting. Key targets have been specified - that the assignment has been completed on time, within budget and to the required quality standard.
32. Our Quality Assurance Framework (**Appendix 2**) includes all aspects of the Internal Audit Activity – including governance, professional practice and communication. We are able to evidence the quality of our audits through performance and delivery of audits, feedback from our clients and an annual self-assessment.
33. 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.
34. Audit Lincolnshire conforms to the UK Public Sector Internal Audit Standards. Our quality assurance framework helps us maintain a continuous improvement plan, which includes the following areas of development:
- Obtain and share counter fraud risk assessment
 - Review practice manual
 - Ensuring contemporary reporting.
 - More effective client liaison arrangements with Senior Management Team.
 - Implement upgrade to audit software
 - Report writing
 - Further develop Audit Lincolnshire collaboration.
35. 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.



Audit Area	Date	Assurance	Total High / Med Recs	Implem'd	High	Outstanding		Not Yet Due	Notes
						Medium	Total		
Previous Years									
Localism	Oct 2012	Substantial	5	5	0	0	0		The 3 outstanding actions were closed by CLT.
Change program	Nov 2012	Substantial	11	10	0	1	1		Agreed revised completion date – 27 January 2015.
IT Security	August 2013	Limited	15	13	2	0	2		Agreed revised completion date – 31 March 2015. Extended to 30 June 2015.
			31	28	2	1	3		
2013/14									
Investment Decisions	Nov 2013	Limited	12	10	2	0	2		
Asset Management – Utilisation and Disposal	Nov 2012	Substantial	9	7	2	0	2		Agreed revised completion date – 31 March 2015
			21	17	4	0	4		

Audit Area	Date	Assurance	Total High / Med Recs	Implem'd	Outstanding			Not Yet Due	Notes
					High	Medium	Total		
2014/15									
Corporate Fraud	June2014	Some Improvement Needed	9	9	0	0	0		Complete
Housing Benefits	October 2014	Some Improvement Needed	6	6	0	0	0		Complete
Council Tax Discounts	October2014	Effective	1	1	0	0	0		Complete
Economic Development	Dec 2014	Some Improvement Needed	5	3	0	0	0	2 (M)	
Information Governance	Jan 2015	Some Improvement Needed	11	8	1	2	3		
Debtors	Feb 2015	Some Improvement Needed	5	1	0	0	0	4 (M)	
Payroll	Feb 2015	Some Improvement Needed	3	1	0	1	1	1 (M)	
Pensions	Feb 2015	Some Improvement Needed	3	3	0	0	0		Complete
Property, Plant & Equipment	Feb 2015	Some Improvement Needed	2	1	0	0	0	1 (M)	
Vulnerable People	March 2015	Some Improvement Needed	7	1	0	0	0	6 (M)	
Treasury Management (Key Control Testing)	March 2015	Effective	1	0	0	0	0	1 (M)	

Appendix 1 - Internal Audit Assurances Given 2014/15

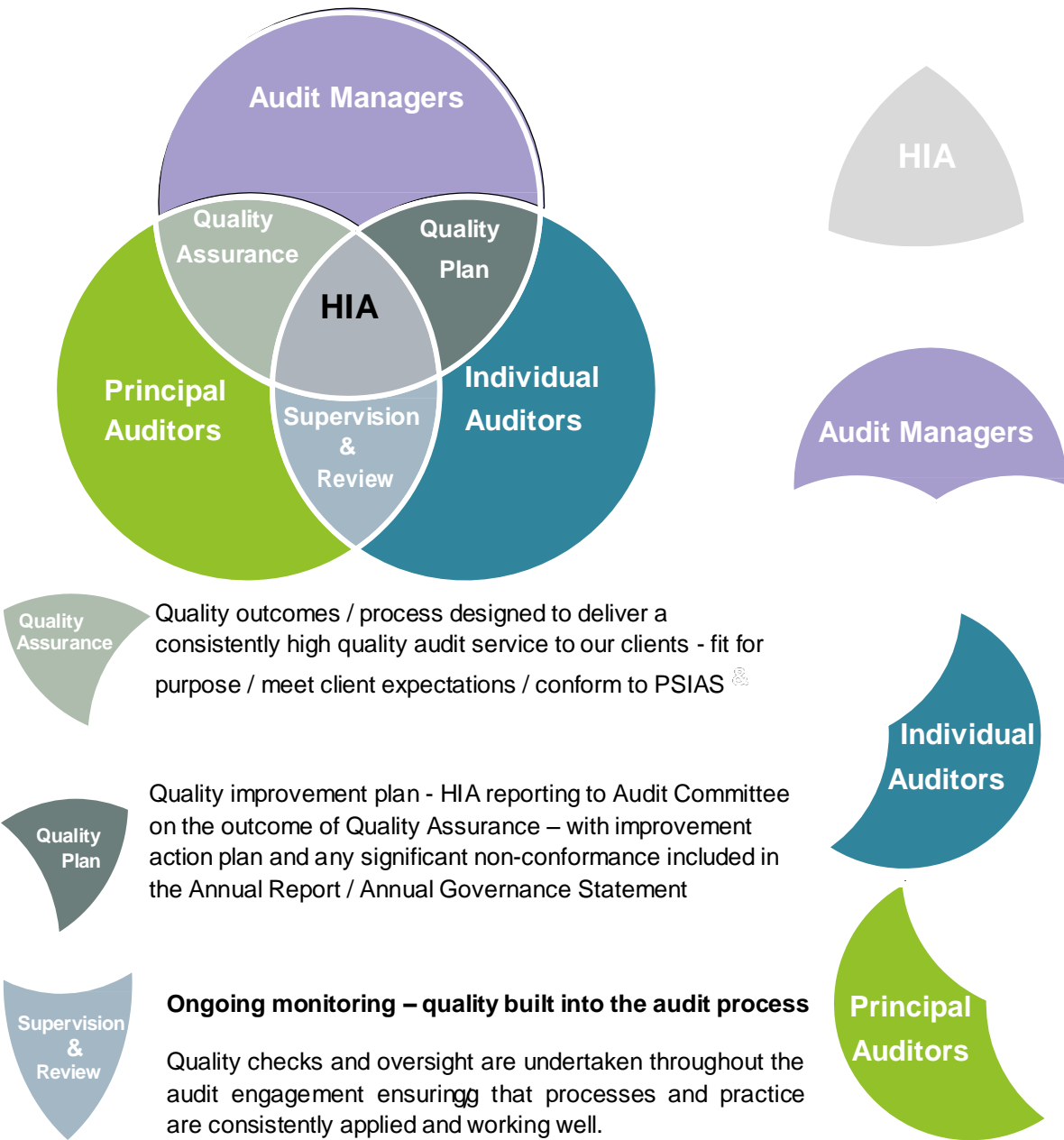
Audit Area	Date	Assurance	Total High / Med Recs	Implem'd	Outstanding			Not Yet Due	Notes
					High	Medium	Total		
2014/15									
General Ledger (Key Control Testing)	March 2015	Some Improvement Needed	5	1	0	4	4		
Central Lincolnshire Local Plan Partnership	April 2015	Effective	8	8	0	0	0		Complete
Contract Management	April 2015	Major Improvement Needed	10	1	0	0	0	5 (H) 4 (M)	
Creditors	May 2015	Some Improvement Needed	6	5	0	0	0	1 (M)	
ICT Mobile Devices	May 2015	Some Improvement Needed	6	0	0	0	0	1 (H) 5 (M)	
Planning		*Major Improvement Needed							
			88	49	1	7	8	31	
Grand Total Outstanding					7	8	15		

* Indicative Assurance as reports not yet finalised

Appendix 1 - Internal Audit Assurances Given 2014/15

Total High / Medium 2014/15 Recs Made	= 88	88
Total Low priority Recs Made	= 28	(not inc Low)
Total not yet due	= 31	31
Net	= 85	57
Implemented in full	= 77	49
% Implemented	= 90%	85% (H & M)





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