



GA.07 15/16

Governance and Audit
Committee

Date: 23 June 2015

Subject: Review of the Effectiveness of Internal Audit

Report by:

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Purpose / Summary:

To review and report on the effectiveness of the internal audit service provided by Audit Lincolnshire.

RECOMMENDATION(S):

- 1) That Members accept the report.**

IMPLICATIONS

Legal: None

Financial: FIN REF 26/16 Audit Lincolnshire Internal Audit continue to provide the Council's internal audit function, the cost of which is included in existing budgets.

Staffing : None

Equality and Diversity including Human Rights : None

*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.*

Risk Assessment: Continuing with the Audit Lincolnshire internal audit service is actively contributing to the Council's current risk management strategy.

Climate Related Risks and Opportunities : None

Title and Location of any Background Papers used in the preparation of this report:

Draft Audit Charter, Paper J GA 43 13/14

Internal Audit Plan 14-15 Paper E GA56: 14/15

Review of the Effectiveness of Internal Audit Paper H GA 06-14-15

Governance Assurance Map Paper H GA59 14/15

Call in and Urgency:

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

Yes

No

x

Key Decision:

Yes

No

x

1 Executive Summary

- 1.1 The Council is required to assess the effectiveness of its Internal Audit service on an annual basis. Internal Audit is provided by Audit Lincolnshire, part of Lincolnshire County Council.
- 1.2 The determination of effectiveness is arbitrary: there is no prescribed method by which it should be assessed.
- 1.3 A very comprehensive review was carried out last year resulting in a report to the Committee on 26 June 2014. At that meeting Members endorsed the conclusion that the internal audit function was effective.
- 1.4 A quality improvement plan was also agreed and the actions from this plan have been progressed during 2014/15.
- 1.5 A light touch review only has been carried out this year.
- 1.6 The service continues to offer good value for money in terms of costs per day to deliver the audit plan. Furthermore external audit are able to rely on their work where appropriate and thus saves the Council external audit fees.
- 1.7 The overall conclusion of the light touch review of Internal Audit is that it continues to be an effective, value for money service with whom the Council enjoys a good relationship. It is sufficiently independent and professional to provide an objective arm's length appraisal of control weaknesses, alerts the Council to areas of control weakness and provides support in addressing those issues.

2. Background

- 2.1 The Accounts and Audit regulations require the Council to review its internal audit function at least once a year. This year's review is a light touch only since last year there was a very comprehensive exercise undertaken, including interviews with key stakeholders. It was anticipated that for the two years following the comprehensive review a lighter touch would be sufficient.
- 2.2 Internal Audit services are provided to the Council by Audit Lincolnshire (part of Lincolnshire County Council).

3. Extent of Review

- 3.1 This years review has focused on the following key areas:

Review Area	Evidence
Effectiveness of internal audit	Delivering to audit plan Progress reporting to G&A committee

	Findings and recommendations of reports
Effectiveness of Audit Reports	Timeliness Recommendations implemented
Governance & Audit Committee	Scrutiny of Reports
Performance Against Audit Charter	Assessment by Financial Services Manager
Benchmarking	% Increase in daily rate
Corporate Governance	Internal review

3.2 Effectiveness of Internal Audit

- 3.2.1 In the 2014/15 year Internal Audit delivered 100% of the audit plan. Performance information is regularly reported to the Governance & Audit committee.
- 3.2.2 The June 2014 review identified that the Council was not maximising the results of internal audit reports as some recommendations had either not been implemented or have been delayed. The current findings are that a more robust tracking mechanism has been put in place.
- 3.2.3 The actions and improvements implemented since then have resulted in a much improved position as at 31 March 2015 in that 98% of audits had been completed.
- 3.2.4 The internal audit report to this committee on the out turn of the 2014/15 internal audit plan indicates that all audits are completed as planned.

PERFORMANCE INFORMATION				
	2013/14		2014/15	
% of Plan Completed	100%	100%	100%	98%
% of Key Financial Systems Completed	100%	100%	100%	100%
% of Recommendations Agreed	100%	100%	100%	100%
% of Recommendations Due Implemented	100%	75%	100% or escalated	85%

Draft Report Issued within 10 Working Days	100%	64%	100%	68%
Final Report Issued within 5 Working Days of CLT Sign Off	100%	89%	100%	83%
Draft Report Issued within 2 Months of Fieldwork Commencing	N/A	N/A	80%	59%
Client Feedback on Audit (Average)	N/A	N/A	Good to Excellent	Excellent

3.2.5 The Head of Internal Audit's comments on indicators below 100% are as follows:

Our performance targets are very high and a challenge to meet without any unforeseen delays, especially where audits are large (there is the same target regardless of size/complexity). Staff availability for progressing audits has been an issue from both parties. However we have agreed with Management some areas where we can strengthen the process, and which will be included in the Approved Code of Practice (ACoP). This should hopefully streamline the process, give greater commitment from both parties and ultimately improve our performance in the coming year.

The Planning Audit remains outstanding due to a Service Improvement Plan not being available for audit testing, this therefore delayed the audit.

Officers at WLDC have been proactive in ensuring that Audit Actions are implemented as soon as practicable with 90% of audit actions having been completed.

Client satisfaction has shown improvement in all areas, planning, reporting and communication.

3.2.6 In addition to delivering the audit plan, Internal Audit also needs to be effective. The overall opinion from the Head of Internal Audit for 2014/15 will reflect the substantial amount of work that has been carried out on improving the governance, risk and control environment. It is envisaged that once the policies and procedures introduced have bedded in and the action plan is completed all ratings will move to green.

3.3 Effectiveness of Audit Reports

- 3.3.1 Timeliness has been an issue in the past, with the bureaucracy of approving audit scope and draft reports resulting in delays in delivery. The Councils Corporate Leadership Team now have in place a mechanism to track progress against agreed audit actions to ensure that these actions are being managed effectively. This includes regularly reviewing audit actions and agreeing actions have been completed prior to them being formally closed. Improvements in this regard will be realised in 2015/16 when the full year effect can be assessed.
- 3.3.2 In terms of effectiveness and gaining additional value, the Audit Team have provided training to Members on Risk, Levels of Assurance, and the role of the Governance and Audit Committee. In addition Audit reports continue to support service improvements based on good practice, and a forward looking approach as in the Contracts Audit with regard to changes in Public Contracts Regulations and advised that we work effectively with Lincs Procurement to ensure this was addressed, our procedures/Constitution will be amended accordingly.

3.4 Governance & Audit Committee

- 3.4.1 Considerable work has gone into improving the way the Governance and Audit committee works with further development taking part during 2014/15.
- 3.4.2 For example, a need for treasury management training to be delivered for Committee Members was identified. This training was carried out during 2014/15 and was extremely well received. Indeed one of the outcomes of the training was a more detailed discussion and scrutiny of the Councils Treasury Management Strategy.
- 3.4.3 Another suggestion was for that the committee was too big and should be non political. At the January 2015 meeting Members considered a report on the co opted members and as part of that had a discussion on the make up of the committee generally. They were in agreement with the suggestion suggestion that the committee was too big and should be non political and thought that in future those views should be taken on board and if necessary the political balance should be suspended to achieve that goal.
- 3.4.4 Evidence from a review of minutes of meetings held throughout 2014/15 show that there is generally more robust scrutiny of all reports, including internal audit reports. Important matters are progressed to be dealt with as apart of the Annual Governance Statement.
- 3.4.5 Evidence of the impact of the committees influence is also seen via a gradual improvement in performance on audit matters throughout the year. Improved performance is seen both in timeliness of implementing audit recommendations.

Significant progress has been made on delivering good outcomes for the action plan issues in 2014/15.

- 3.4.6 At the April 2015 meeting Members approved a Governance Assurance Map that is to be agreed annually that gives assurance in relation to governance related processes.

3.5 Performance Against Audit Charter

- 3.5.1 The Audit Charter sets out the nature of the internal audit function and details the roles and responsibilities of Internal Audit, Management and the Governance and Audit Committee.

- 3.5.3 The Head of Internal Audit attends CLT to discuss the Audit Plan, to agree scopes of major audits and to discuss draft recommendations of major audits. Internal Audit provide regular progress reports to the Governance & Audit committee advising them of work against the plan completed during the period, other significant work, audits in progress, performance information and any other matters of interest – thus helping them keep abreast of relevant emerging guidance and legislation.

- 3.5.4 Relationships with Internal Audit are good, with both officers and Members feeling able to approach Internal Audit and to have robust discussions with them where appropriate. The Head of Internal Audit is particularly helpful and supportive, whilst maintaining the necessary professional distance and objectivity.

- 3.5.5 Management agreed that there were two areas which could be strengthened and these would assist the process of Internal Audit. These are:

- 1) Considering and responding promptly to recommendations in audit reports.
- 2) Ensuring that agreed actions arising from audit recommendations are carried out in a timely and efficient fashion
- 3) Early planning of audits and early inclusion of anticipated dates for scopes/draft reports are now included within the Forward Plan.

These issues have been addressed during 2014/15 and are reflected in the improved performance indicators.

- 3.5.6 The Financial Services Manager has assessed how well Internal Audit is fulfilling its role and discharging its responsibilities. It is concluded that Internal Audit is behaving in accordance with the undertakings within the Charter.

3.6 Benchmarking

- 3.6.1 The Council subscribes to the CIPFA audit benchmarking group. This allows us to compare the Council with other member districts. However, the benchmarking exercise is only carried out every two years. The data as supplied in the last review (for 2013/14) is the latest available. In the last review the data showed that the

Council spends considerably less than average on internal audit. In terms of 2014/15 the hourly rate charged by Audit Lincolnshire has reduced for 2014/15 by 3% and it is therefore reasonable to assume that the service is still cost effective.

3.6.2 Updated benchmarking data will be presented as part of next year's review.

3.7 Corporate Governance

3.7.1 As part of the last review, an opportunity to improve corporate governance (as part of Quality Assurance and Improvement Programme) was identified in that the possibility of an external assessment was agreed. Options on how this was to be delivered was to be presented to this committee by March 2015. Whilst this is still seen as desirable, the timescale has slipped in view of the senior management changes. This being the case, a report should be scheduled for presenting during the autumn of 2015.

3.7.2 The Councils Constitution is kept under constant review. The Councils Financial Procedure Rules form part of the Constitution. Over the past year the Financial Procedure Rules have been totally redrafted to strengthen financial control, provide greater clarity on roles and responsibilities and a stronger framework for delivering good financial governance within the Council.

3.7.3 The Committee has appointed a Member Risk Champion.

3.7.4 The Chairman of the Governance and Audit Committee comments;

“The Committee welcome the work of the Internal Auditor in providing assurance that governance, risk, internal control and financial control are being managed effectively within the Council, and that where recommendations for improvement are reported, Management are ensuring these actions are implemented in a timely manner.”

4. External Audit's Reliance on Internal Audit's Work

4.1 Internal Audit continue to work closely with the Council's External Auditors to deliver an effective and efficient audit function. This is recognised in External Audit's Annual Opinion Letter, which confirmed those areas of internal audit activity that External Audit sought to rely upon.

4.2 Regular meetings are held between key audit staff to discuss progress, key findings and issues arising.

5. Conclusion

- 5.1 The overall conclusion of the light touch review of Internal Audit is that it continues to be an effective, value for money service with whom the Council enjoys a good relationship. It is sufficiently independent and professional to provide an objective arm's length appraisal of control weaknesses, alerts the Council to areas of control weakness and provides support in addressing those issues.
- 5.2 The Council has made good progress in progressing the Quality Improvement Action Plan items.
- 5.3 The Council has developed an effective management response to issues highlighted in internal audit reports.
- 5.4 Audit Actions are regularly monitored for progress and implementation.
- 5.5 The Governance and Audit committee is operating at a higher level than previously and effectiveness has been considerably improved.

6. References

Draft Audit Charter, Paper J GA 43 13/14

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Governance Assurance Map Paper H GA59 14/15