



**Governance & Audit
Committee**

Date: 6th November 2018

Subject: Annual Review of the Effectiveness of Internal Audit

Report by:

Executive Director of Resources

Contact Officer:

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Purpose / Summary:

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

RECOMMENDATION(S): That Members agree with the conclusion that the Council has effective internal audit arrangements in place.

IMPLICATIONS

Legal: None

Financial: FIN-93-19-TJB

Staffing: None – externally provided internal audit service

Equality and Diversity including Human Rights: None

Risk Assessment: None

Climate Related Risks and Opportunities: None

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

None.

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

1. Background

1.1 Internal Audit (IA) services are provided to the Council by Assurance Lincolnshire (part of Lincolnshire County Council).

1.2 The Accounts and Audit regulations require the Council to review its IA arrangements on a regular basis. [Last year's review](#) was a comprehensive exercise, including interviews with key stakeholders; benchmarking activity and reference to the findings of an external quality assessment of IA. Consequently, this year's review is a lighter touch exercise.

2 Methodology for the Review

2.1 Measuring "effectiveness" is not an exact science and there is no prescribed methodology to follow. Therefore, to assist in making a judgment of effectiveness, the review has focused on the key areas set out in the table below. Commentary on each area follows within the body of the report.

| Review Area | Evidence |
|--|---|
| Effectiveness of Internal Audit | Internal Audit Findings & Reporting |
| | Internal Audit Delivery |
| | Assessment Tools |
| | Internal Audit Resources |
| | Service Delivery Outcomes |
| Head of Internal Audit's Annual Report | Delivery of Audit Plan |
| | Customer Feedback |
| Internal Audit Charter | Assessment by Executive Director of Resources |
| Benchmarking & Quality Improvement | Daily Rate Payable |
| | Internal Audit Improvement Plan |
| Governance & Audit Committee | Scrutiny of Reports |

3 Effectiveness of Internal Audit

- 3.1 A number of key questions to consider have been set to determine the effectiveness of IA. They cover IA's findings and reporting; the means by which IA fulfils its obligations and delivers the service; the use of assessment/evaluation tools, the resources available to and deployed by IA and crucially the outcomes achieved as a result of the IA function being discharged across the authority.
- 3.2 Against these criteria, officers have provided responses along with different sources of evidence. This exercise has provided positive findings across all questions posed. All information is contained within the table at Appendix One

4 Head of Internal Audit's Annual Report

- 4.1 Reference has also been made to the [Head of Internal Audit's annual report for 2017/18](#) which was shared with Members at June's meeting of this Committee. The report provided a range of information including:
- comment on the delivery of the audit plan for 2017/18 (90% complete)
 - the results of post audit questionnaires which showed that the overall rating for the service was excellent
 - details of the quality assurance framework the audit function works within
 - the service's continuous improvement plan
- 4.2 The Annual Report was well received, with no matters for concern arising out of its content.

5 Internal Audit Charter

- 5.1 The Council's [Internal Audit Charter](#) is another useful reference point against which to measure the effectiveness of the service provided by IA. The Charter was updated in early 2017 and was presented and approved by this Committee in March 2017. It is a key document setting out the nature of the IA function and details the roles and responsibilities of IA, Management and the Governance & Audit Committee. Adherence to the Charter is a key requirement.

- 5.2 The Head of IA (and her colleagues) attend Management Team meetings to discuss the Audit Plan, to agree scopes of audits and to discuss draft recommendations. IA provide regular progress reports to the Governance & Audit Committee, advising it of work completed against the Plan during the period and any other matters of interest. This includes highlighting relevant emerging guidance and legislation.
- 5.3 Working relationships with the IA team are good, with both officers and Members able to approach IA and have robust discussions with them where appropriate. IA maintain a supportive, yet professional and objective stance in all dealings with the Council.
- 5.4 Over the last 12 months, the Executive Director of Resources has assessed how well IA have fulfilled their role and discharged their responsibilities. No major issues have been identified to suggest that the terms of the Charter have been contravened.

6 Benchmarking and Quality Improvement

- 6.1 Last year's review of effectiveness contained an in-depth benchmarking analysis. This showed that the Council spends considerably less than the average sum on internal audit, which in itself was used as an indicator that value for money was being achieved. In terms of the fees charged, the daily rate for 2018/19 remained unchanged from that in operation for 2017/18.
- 6.2 IA produces and works to a Quality Improvement Plan, which forms part of the Head of IA's annual report. For 2018/19, the focus is on:
- Update of the Internal Audit Charter and practice manual following revision of PSIAS in April 2017 and CIPFA Application Note
 - Working with senior management to continually improve progress and delivery monitoring/audit scheduling
 - Supporting development of the Audit Committee, following publication of CIPFA's Audit Committee practical guidance
 - Continuing professional development around new and emerging practice guidance.

7 Governance & Audit Committee

- 7.1 The Committee plays a key role in reviewing the effectiveness of IA. Evidence from a review of minutes of committee meetings held through 2017/18 shows that Members continue to challenge and robustly scrutinise reports, including IA reports. Discussion is held around potential matters for concern, with relevant issues addressed within the Annual Governance Statement.
- 7.2 IA are also keen to encourage and deliver appropriate training for Members of the Committee, as well as providing training for all Members as part of their induction process.

8 Conclusion

- 8.1 The overall view of IA is that it is 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; but is at the same time regarded as approachable and is used particularly by Members as a tool to provide assurance on matters of concern.
- 8.2 The audit service is well run and conforms to all necessary standards. There is a culture of continuous improvement and regular quality assurance work is undertaken. The externally led Quality Assurance exercise the service partook in relatively recently provided a positive finding and highlighted exemplar work which was recommended as best practice.
- 8.3 The terms of the relationship with the Council are set out within the Audit Charter, which clearly defines the roles and responsibilities of all parties. IA fulfill their role according to the terms of the Charter.
- 8.4 The audit plan is compiled based on an assessment of risk, materiality and drawing on other forms of assurance through an award winning model known as the Combined Assurance model. The plan was 90% discharged in 2017/18.
- 8.5 The consultancy support that IA provide has been utilised by the Council and has been beneficial in supporting programme development and providing objective, independent opinion.

Appendix One: Review of Effectiveness of Internal Audit

| Aspect | Question | Y/N | Evidence |
|---------------------------------------|---|------------|---|
| Internal audit findings and reporting | Does internal audit produce reports for individual audits with a clear rating scale which identify both root causes and consequences of issues which are delivered on a timely basis with clarity and impact, and include credible recommendations to management? | Y | Audit reports produced containing findings, recommendations agreed actions and overall assurance rating. |
| | Does internal audit produce reports for the audit committee which present information in a clear, concise manner, including the identification of themes and trends, and their consequences for the organisation as a whole? | Y | Quarterly progress reports produced for G&A Cttee. Combined Assurance Report produced. Wider discussions take place around trends and developments. |
| | Does internal audit have rapid and effective mechanisms in place for the escalation of issues requiring senior management or audit committee attention? | Y | Head of IA has access to Mgt Team and senior politicians |
| | Has internal audit added value to the organisation? If so, how? | Y | Audit team have worked closely with WLDC over recent years to improve governance matters. Number of issues appearing within AGS has reduced significantly. Consultancy work delivered by IA has been of assistance to WLDC. |
| | Do internal audit procedures produce many significant findings? Are these actioned by management on a timely basis? | Y | Audit reports produce recommendations and agreed actions. Actions are tracked for completion and IA report on the number of overdue actions. Number of overdue actions has reduced dramatically over recent years. |
| Internal audit delivery | Does internal audit have clearly defined audit plan for the year and over the longer term? | Y | Annual plan produced which also sets out potential future areas for consideration. Plan contains a degree of flexibility. |
| | Does internal audit reflect on and adapt its methodology to ensure that it remains fresh and relevant? | Y | IA works to a Quality Improvement Assurance Improvement Plan and adheres to the UK Public Sector Internal Audit Standards |
| | Is internal audit recognised by business leaders as a function providing quality challenge (for example by telling them things that they did not already know, identifying root causes and opportunities for improving control design, and trends in risks and controls)? | Y | Feedback/comment received from IA is welcomed. Challenge and robust discussion on both parts is encouraged. |
| | Does internal audit have a presence in major governance and control forums throughout the organisation, for example, any risk committee? | Y | Presence at Mgt Team and G&A Cttee |
| | Is internal audit characterised by strong relationships at the highest levels (for example, does the head of internal audit and senior colleagues have direct and strong relationships with board members, business heads and senior management)? | Y | Presence at Mgt Team and G&A Cttee. Quarterly liaison meetings with Sect 151 Officer. |

| | | | |
|---------------------------|--|---|--|
| Assessment Tools | Is the use of a survey or questionnaire appropriate? Who should be asked to complete this? | Y | Post-audit questionnaires issued – 72% response rate for 2017/18. |
| | Is too much reliance placed upon any self-assessment process? | N | Other qualitative measuring tools used: External Quality Assessment 2016 |
| | How often is internal audit effectiveness evaluated? Does the audit committee regularly review the quality and results of internal audit reporting and activities? | Y | Annually evaluated. G&A Cttee and Mgt Team review quarterly audit plan progress reports and annual report. |
| | Is internal audit's independence and objectivity included in the assessment? How can this be incorporated? | Y | Audit Charter in place and adherence to principles monitored and reviewed |
| Internal Audit Resources | Does internal audit have sufficient resources to deliver on its annual plan and pick up ad hoc projects as necessary? Is the talent pool diverse, with a broad mix of skills and experience? | Y | Broad mix of expertise in place. Use made of 'external' auditors where required/relevant |
| | Does internal audit have team members with sufficient technical knowledge to perform their role effectively? | Y | No issues have arisen – all audits conducted with relevant knowledge displayed by audit lead. |
| | Does internal audit have team members with appropriate information systems auditing experience to understand and assess the level of technology used by the organisation? | Y | No issues have arisen - all audits conducted with relevant knowledge displayed by audit lead. |
| | Does internal audit manage its resources effectively to maximise the value of its service to the business? | Y | Audit plan is delivered without issue. Contingency built in to respond to any unforeseen issues requiring IA input |
| Service Delivery Outcomes | Have identifiable improvements in service delivery been realised following receipt of audit reports and associated recommendations? | Y | Over recent years some audits have provided limited assurance findings across a small number of service areas. Subsequent action within the relevant services has brought about improvements. Examples include development management; local land charges and choice based lettings. |
| | Are audit recommendations and findings welcomed and acted upon by managers? | Y | Managers complete the Management Response section of the audit report to offer their thoughts on the audits findings. The vast majority of audit actions are completed within agreed time scales. Where this is not possible, completion dates are updated with the reasons why provided. The completion of recommendations is recognised as a means by which service delivery is improved. |
| | Are potential areas of concern identified by the work of IA before issues escalate to a critical stage? | Y | The annual Combined Assurance Report produced by IA provides management with oversight of all critical areas and provides pointers for the production of the IA plan for the year or other forms of intervention. The consultancy advice provided by IA supports the Council in key programme development and mitigates significant issues from arising. |

