



GA.05 16/17

Governance and Audit  
Committee

21 June 2016

**E**

**Subject: Review of the Effectiveness of Internal Audit**

Report by:

Tracey Bircumshaw

Contact Officer:

Tracey Bircumshaw

Financial Services Manager (Deputy S151)

01427 676560

Tracey.Bircumshaw@west-lindsey.gov.uk

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 2/17** 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 15-16 Paper B GA05 15/16

Review of the Effectiveness of Internal Audit Paper G GA 07 15/16

Combined Assurance Report Paper G GA56 15/16

**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 during 2014 and a light touch review undertaken last year resulting in a report to the Committee on 23 June 2015. At that meeting Members endorsed the conclusion that the internal audit function was effective.
- 1.4 A quality assurance improvement plan for internal audit was also agreed and the actions from this plan have been progressed during 2015/16 although the external assessment will not be available until October 2016.
- 1.5 A light touch review has once again 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 two years ago 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 & Quality Improvement	% Increase in daily rate Result of service assessment
Corporate Governance	Internal review

### 3.2 Effectiveness of Internal Audit

3.2.1 In the 2015/16 year Internal Audit delivered 95% 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 with the numbers of outstanding recommendations being reduced considerably. For example, pre 2014/15 outstanding recommendations in January 2015 totalled 16 and in January 2016 these had been significantly reduced to 4.

3.2.3 The actions and improvements implemented since then have resulted in a much improved position as at 31 March 2016 in that 95% of audits had been completed albeit this was slightly reduced on the previous financial year.

3.2.4 The internal audit report to this Committee on the out turn of the 2015/16 internal audit plan indicates that all audits are completed as planned.

PERFORMANCE INFORMATION				
	2014/15		2015/16	
	Target	Achieved	Target	Achieved
% of Plan Completed-Revised Plan	100%	98%	100%	95%
% of Key Financial Systems Completed	100%	100%	100%	100%
% of Recommendations Agreed	100%	100%	100%	100%
% of Recommendations Due Implemented	100% or escalated	85%	100%	82%
Draft Report Issued within 10 Working Days	100%	68%	100%	74%
Final Report Issued within 5 Working Days of CLT Sign Off	100%	83%	100%	66%
Draft Report Issued within 2 Months of Fieldwork Commencing	80%	59%	80%	53%
Client Feedback on Audit (Average)	Good to Excellent	Excellent	Good to Excellent	Excellent

3.2.5 The Head of Internal Audit's has commented that there is a good level of achievement against delivery and there is added value to the internal audit work although there were some difficulties in gaining access to staff that adversely affected plan delivery. The view that internal audit provided added value is backed up by the improvement in client feedback that is now showing as excellent.

### 3.3 Effectiveness of Audit Reports

3.3.1 In addition to delivering the audit plan, Internal Audit also needs to be effective. The overall opinion from the Head of Internal Audit for 2015/16 will reflect the substantial amount of work that has been carried out on improving the governance, risk and control environment. It is now evident that policies and procedures introduced over the last couple of years are starting to be embedded resulting in vast improvements in some previously poor ratings.

3.3.2 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.

- 3.3.3 In terms of effectiveness and gaining additional value, the Audit Team have provided training, in conjunction with the Lincolnshire Audit Committee Forum, to Members with the objective of improving and supporting the role of the Governance and Audit Committee.

In addition, an Internal Audit workshop was carried out in January 2016 with the Senior Leadership Team with part of the presentation highlighting the supportive consultative work of internal audit to managers in addition to the assurance work.

- 3.3.4 Internal audit work continues to play an important role in influencing the direction of how services operate.
- 3.3.5 It is evident from feedback that Internal Audit's working relationships with both officers and Members has improved greatly with confidence in audit reports produced and advice provided. Internal audit has a flexible approach to the audit plan and accommodates changes as required.

#### **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 place during 2015/16, which has included Member induction training on the role of the Committee, and specific training in relation to Treasury Management, Risk, scrutiny of the Statement of Accounts etc.
- 3.4.2 The Committee plays a key role in reviewing the effectiveness of internal audit.
- 3.4.3 Evidence from a review of minutes of meetings held throughout 2015/16 shows that Members continue to challenge and robustly scrutinise all reports, including internal audit reports. Important matters are progressed to be dealt with as apart of the Annual Governance Statement.
- 3.4.4 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 in timeliness of implementing audit recommendations. Significant progress has been made on delivering good outcomes for the action plan issues in 2015/16.
- 3.4.5 At the April 2015 meeting Members approved a Governance Assurance Map that gives assurance in relation to governance related processes. Going forward this will be reviewed as required.

### **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. Governance and Audit Committee approved the Audit Charter in January 2014 and it is due to be reviewed during 2016.
- 3.5.2 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.
- 3.5.3 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.
- 3.5.4 As indicated above, training was delivered to both officers and Members during 2015/16, including a review of the risk register and engagement with officers, fulfilling the consultancy work area of the Charter.
- 3.5.5 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 and Quality Improvement**

- 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. It is hoped that updated benchmarking data will be presented as part of next year's comprehensive review.
- 3.6.2 In terms of 2015/16 the audit fee for 2015/16 has not been increased over that charged in 2014/15, £48,400 plus £6,875 for subsidy testing and it is therefore reasonable to assume that the service is still cost effective.
- 3.6.3 Audit Lincolnshire maintains a Quality Improvement Assurance Improvement Plan, part of which provides for annual assessment of the service. The plan focuses on evaluating conformance with Internal Audit Charter, definition of Internal Audit, Code of Ethics & the Standards. Audit Lincolnshire conforms to UK Public Sector Internal Audit Standards.



3.6.4 With regard to the 2015 external assessment of the internal audit service, it was hoped that the results would be available to include within this review. However, the assessment has been deferred until the autumn of this year in view of announced changes to the Public Sector Internal Audit Standards and other commitments. The output should therefore be available for use as part of next year's comprehensive review and is also to be shared with this committee.

### **3.7 Corporate Governance**

3.7.1 Internal audit continues to influence and strengthen corporate governance arrangements and significant improvements have been seen in this area over the last year. During 2015/16 officers have also worked hard to strengthen the importance of the corporate governance message and this has certainly paid dividends. The Council has seen a huge reduction in outstanding audit actions, from over 100 two years ago to less than 10 as at March 2016.

3.7.2 The Committee has appointed a Member Risk Champion and this appointment is proving to be effective in challenging risk matters.

3.7.3 A revised Risk Management Strategy was approved by this committee at the January 2016 meeting. The work of internal audit complements this strategy since the audit plan takes into account the Council's strategic and operational risk registers when deciding on areas for audit.

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

4.1 Internal Audit continues to work closely with the Council's External Auditors to deliver an effective and efficient audit function.

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 developed an effective management response to issues highlighted in internal audit reports.

5.3 Audit actions are regularly monitored for progress and implementation.

5.4 The Governance and Audit committee is operating effectively.

### **6. References**

Draft Audit Charter, Paper J GA 43 13/14

Internal Audit Annual Plan 2015/16 Paper on this committee agenda

Review of the Effectiveness of Internal Audit Paper G GA 07 15/16

Combined Assurance Report Paper G GA56 15/16