Lincolnshire
COUNTY COUNCIL
Working for a better future

Open Report on behalf of Pete Moore, Executive Director - Finance and Public Protection

Report to:	Audit Committee
Date:	20 July 2015
Subject:	Review of the Effectiveness of Internal Audit

Summary:

Until recently there existed a statutory requirement for bodies such as the County Council to review the effectiveness of internal audit once a year and for the findings of the review to be considered by an appropriate committee of the Council. Given the statutory requirement was in place throughout 2014/15 this work has been undertaken and this paper discharges that responsibility by reporting the findings of work undertaken by a joint officer / councillor working group. Whilst identifying a few areas for ongoing monitoring and improvement, the group concluded that the Council does have an effective system of internal audit. The report also asks the Committee to consider whether they wish to continue to receive such a report in future years in light of the removal of the statutory requirement for its production. Other means of providing assurance on this subject are already in existence.

Recommendation(s):

That the Committee:

(i) endorse the opinion of the Review Group that the County Council maintains an effective system of internal audit.

(ii) considers whether they wish to receive an equivalent report in future given the removal of the statutory requirement for it to be produced and the existence of other means of attaining assurance.

Background

1.1 Regulation 6(3) of the Accounts and Audit (England) Regulations 2011 required this Council to review the effectiveness of internal audit once a year and for the findings of the review to be considered by a Committee of the Council. The Audit Committee is the most appropriate one in the case of this Council. It is sensible to consider this aspect in advance of finalisation of the Annual Governance Statement of the Council as the effectiveness of the system of internal audit is a key aspect of the

governance framework. The Annual Governance Statement is considered in draft elsewhere on the agenda for this meeting. However, revised Accounts and Audit Regulations were adopted nationally in February this year and came into effect on 1st April 2015. These no longer require this work to be undertaken and reported to an appropriate member forum. They are replaced by a requirement for the internal audit to evaluate the effectiveness of the Council's risk management, control and governance processes.

1.2   In this context 'internal audit' is not just restricted to the role, activity and effectiveness of the internal audit team; it also applies to the role, activity and effectiveness of this Committee itself. Guidance makes it clear that is not the role of the external auditor to undertake this work. It has been for the authority itself to complete a review.

2.   **The Review Group**

2.1   Guidance from CIPFA on this issue suggests that this review is best undertaken by a group of officers and / or members. In terms of the officer input this should not directly involve the Head of the Internal Audit service or any audit team member. The Head of Internal Audit can, however, provide material to be considered by the Review Group.

2.2   The Review Group below has been established to undertake this role:

Councillor Mrs Sue Rawlins– Chairman of the Audit Committee
Richard Wills – Executive Director – Environment & Economy
Pete Moore – Executive Director – Finance & Public Protection
David C Forbes – County Finance Officer

3.   **The Review Activity**

3.1   A range of bodies with an interest in public sector internal audit work have developed and issued a set of Public Sector Internal Audit Standards. In response to this development CIPFA have published an advisory note and a self-assessment questionnaire to assess compliance with the Standards. That questionnaire has been completed by the Head of Audit and considered by the Review Group as part of its work. Public Sector Internal Audit Standards also requires the Head of Audit to develop and maintain a quality assurance and improvement programme that covers all aspects of internal audit activity. Again, such a document has been produced by the Head of Audit and considered by the Review Group as part of its work. The Review Group also received information on delivery of the annual work plan and feedback from clients of the service.

3.2   The Review Group considered progress against actions agreed during last years' review and this is dealt with at 4 below.

4.   **Actions taken in relation to issues raised in the last review (July 2014)**

4.1   Issues carried forward from last year's review together with action taken were as follows:

- *Completion of the outstanding issues arising from the self-assessment against the Public Sector Internal Audit Standards and tasks identified in the quality assurance and effectiveness improvement plan.*

    There is one item still outstanding from last year. This relates to the standard requiring there to be an external assessment of the internal audit service (ie. separate from that undertaking annually by external audit). It is planned to bring a paper on this subject to the Committee in September this year with the work taking place during early 2016.

- *Completion of the task list devised from the effectiveness review of the work of the Audit Committee.*

    Ten items of ongoing work were identified last year and seven of these have been completed during the last year. The three outstanding items are as follows:

    ➢ Clarify who should attend the Audit Committee and expectations on the information being presented.

    ➢ Undertake a skills and knowledge survey to review and establish any training and development needs as a whole Committee.

    ➢ Understand and seek assurance over the governance and risks associated with our key partners.

    Work on these matters will be progressed to completion during the current financial year.

- *Monitoring the impact of the impending fundamental budget review on the service to ensure it does not result in a loss of resources that significantly undermines the ability of the service to deliver an adequate and effective internal audit to the County Council.*

    The FBR reduction over the whole service area was 10%, members having decided not to reduce the audit input into maintained schools. The restructuring to deliver that reduction will be implemented in the autumn this year and is not expected to have a materially detrimental impact on the adequacy or effectiveness of the service. However, it needs noting that since 2010 the internal audit plan has reduced 39% in input terms. The envisaged level of input going forward is at, or close to, the minimum level required to deliver an effective service.

A service review is currently underway which is shaping the service to be able to respond to the changing assurance needs of the Council – ultimately making the service more resilient in the longer term. The service delivery model being proposed continues to adopt the co-sourced delivery model where there is a core element of directly employed skilled and motivated workforce together with a budget to engage skilled and specialist resources. This is through the following:

➢ Audit Lincolnshire partnership
➢ a 'pool' of relief auditors
➢ external suppliers of internal audit services (through direct procurement or existing frameworks)

The service applies a 'Combined Assurance Model – this helps leverage assurance from other sources and plays a vital role in supporting the annual Head of Internal opinion on the Council's governance, risk and control environment.

The Review Group felt that adequate progress had been made during the year.

5.   **Current Years' Effectiveness Review**

5.1   This aspect was informed by a range of material supplied by the Head of Internal Audit, the details of which are described below.

5.2   To assist the Review Group with its work the Head of Internal Audit:
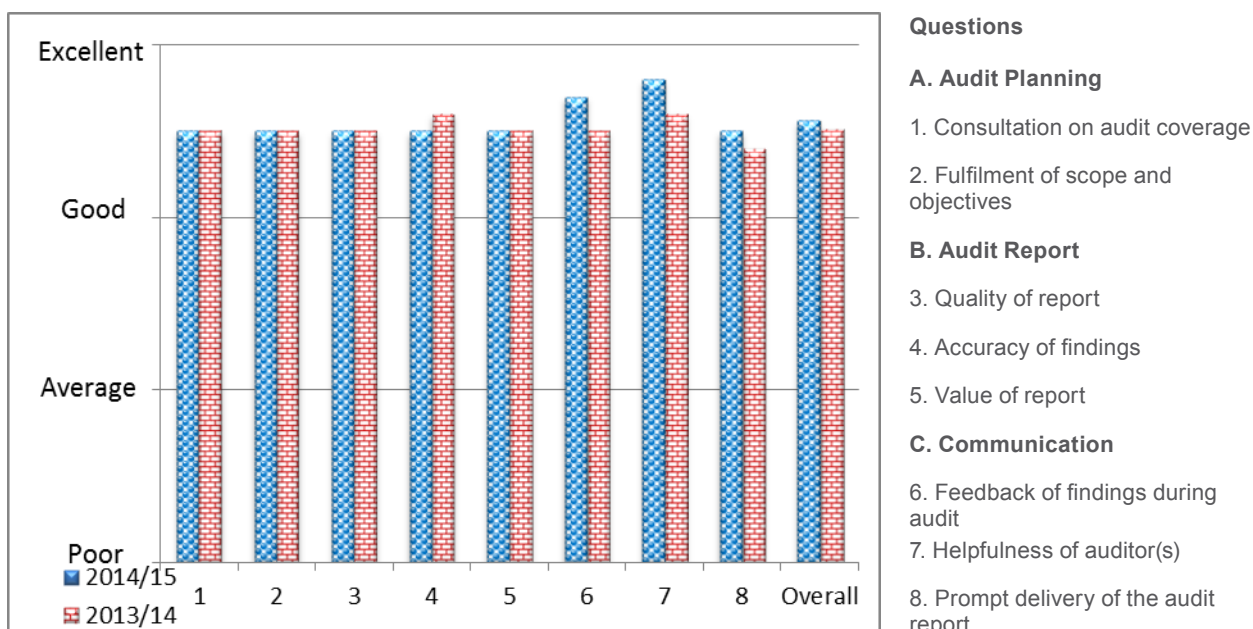
- Undertook a 'self-assessment' against the Public Sector Internal Audit Standards to assess compliance.

- Provided information on delivery of the annual work plan and feedback from clients.

- Provided information on the Quality Assurance Improvement Programme.

5.3   **Self-Assessment** –The Standard comprises 54 separate items to be considered. The self-assessment identified that current practice complies with 53 of these items. The one item of non-compliance is the requirement to have an external assessment of the internal audit service and this was covered under the first bullet point at 4.1 above.

5.4   **Work Plan and Client Feedback** – Progress on delivery of the audit plan is reported regularly to the Audit Committee. The plan is reviewed continually during the year and any changes are also reported to the Committee. The annual report is currently being compiled for the July 2015 Audit Committee but the key headlines are:

Performance Indicator	Target	Actual for 2014/15
Productivity & Efficiency		
Actual audits versus planned (by no of audits) – revised plan	100%	99%
Financial Systems	100%	100%
% of Reports issued within 2 weeks of closure meeting	100%	100%
Quality of Service		
Client questionnaire scoring better than average for all categories	Good to Excellent	Good to Excellent

5.5 During the year there have been a number of tasks that were complex and highly sensitive. Positive feedback has been received on how these audits were conducted. Below is the diagram of feedback from LCC audit work.

Questions

A. Audit Planning

1. Consultation on audit coverage

2. Fulfilment of scope and objectives

B. Audit Report

3. Quality of report

4. Accuracy of findings

5. Value of report

C. Communication

6. Feedback of findings during audit

7. Helpfulness of auditor(s)

8. Prompt delivery of the audit report

5.6 In preparation for the re-tender of the District work the service also engaged a marketing firm to undertake a client survey and assess potential market growth areas. The feedback from clients is summarised below – it provides a positive message. Eight external clients, including all the District Council clients, participated in the survey.

Each client was asked to assess 10 statements and mark the performance of the team out of 10. The statements and the average scores were as follows:

Statement	Score out of 10
Documentation for contracts, planning and reports was in a clear, understandable format.	8.6
All activities were completed in a timely way.	8.2

Invoices and other documentation were submitted punctually.	8.3
Appointments and meetings were scheduled and held as planned or alternative arrangements made in good time.	9.3
Team members displayed levels of integrity, objectivity, confidentiality, and competency that gave you confidence in their assessments and recommendations.	9.0
Team members showed courtesy and respect to your organisation and its employees, treating all people fairly without prejudice on any grounds.	9.1
Findings communicated effectively in written reports to your team/management.	8.3
Findings communicated effectively in face to face meetings with your team/management.	9.0
The assurance element of the work, reporting on the efficacy of risk assessment, governance and process controls in your organisation raised valid issues not previously highlighted.	8.6
Consultancy undertaken as a result of the assurance assessments provided recommendations for improvements that your organisation will be implementing.	8.8

5.7 **Quality Assurance and Effectiveness** – The service has a formal quality assurance and effectiveness mechanism in place. Quality reviews are undertaken for all assignments and cover the whole process from initial planning through to final reporting. Key aspects of the process are the subject of performance targets. Evidence from client feedback surveys (see 5.5 & 5.6 above) indicates the present of a good quality assurance regime.

A quality assurance plan is also in existence and was made available to the Review Group. The service management team keep achievement of the improvement plan targets under review at their regular meetings. Areas of continual improvement identified are as follows:

- **Obtain and share fraud risk assessment** for each client with relevant audit manager / team
- **Review practice manual**, including updating the Charter and IA Strategy to reflect the revised planning approach
- **Develop Audit Lincolnshire partnership** – includes:
  - o Business Development / Marketing strategy
  - o Collaborative working with regional partners
  - o Re-focus brand and client engagement following service review
- **Contemporary reporting** – an on-going issue with delivery are the problems scheduling and completing audits. The result is the service has not met the target of delivering 80% of audits within 2 months from commencing fieldwork to issuing the draft report.

  To help minimise this issue the service has changed the way it plans – it now only schedules a 'few' must dos and adopts a risks based list of

potential audit areas. The service will only schedule / plan on a quarterly basis – identifying audits from the list of potentials with clients at their quarterly liaison meetings.

Any deferred audits by the client will be rescheduled but may not be delivered within the 'annual plan' timeframe by 31st March. This should minimise the 'bottleneck' of quarter 4 requests by clients.

- **Implement upgrade to audit software** – the existing system is no longer supported. Approval and funding given for an alternative and now just waiting for Serco implement the change.
- **Report Writing** – reports are generally well written and well received – they focus on what matters and ease of reading. However, recent QA has identified the need for continuing development to help people provide more clarity on the significance and impact of what they have found.

Feedback from clients also indicates that they were not keen on the assurance opinion of 'major improvement' designation – they preferred 'Limited'. The service will be revisiting assurance opinions when it relooks at the reporting template for 2015/16.

6. **Issues and Actions for 2015/16**

6.1 The Review Group considered a number of actions that could be undertaken over the year ahead to enhance the system of internal audit. The Group felt that the following would be appropriate actions for the year ahead in light of their current assessment.

- Completion of the required external assessment of the internal audit service during early 2016.

- Completion of the three remaining outstanding tasks from the work plan derived from the self-assessment activity undertaken by the Audit Committee.

- Completion of the quality assurance plan tasks aimed at providing ongoing improvement and listed at 5.7 above.

- Monitoring the impact of the fundamental budget review cost reduction initiatives on the service to ensure it does not result in loss of resources to the extent that the ability to deliver an adequate and effective internal audit service is undermined.

7. **The Future of the Effectiveness Review**

7.1 As mentioned there is no longer a statutory requirement to undertake this review annually and report it to this Committee. Given that the external auditors take a view annually, and report upon, the adequacy and effectiveness of the internal

audit service coupled with the introduction of a new need to commission a periodic externally delivered review of the service, there seems little rational in continuing to do an annual internal review. The Committee will continue to receive client feedback information through the performance monitoring and annual report compilation activity undertaken by the service itself.

Conclusion

The Review Group are of the opinion that the County Council has an effective system of internal audit.

Consultation

a) Policy Proofing Actions Required

n/a

Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
Public Sector Internal Audit Standards	Lincolnshire County Council, Corporate Audit & Risk Management Team

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