



Public Sector Auditing.... Private Sector Thinking

# Lincolnshire County Council

## Internal Audit Annual Report – 2014/15





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### **Distribution List**

Chief Executive

Directors

External Audit

# Management Summary

## Purpose of Annual Report

- The Annual Internal Audit Report of Lincolnshire County 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 Lincolnshire County Council's arrangements for governance, risk management and control is shown in **Figure.1**.
- The Council continues to maintain its momentum in strengthening its governance, risk and control framework. Good assurance arrangements are in place which work adequately. Having a strong governance framework is vital if the Council is to successfully meet the challenges ahead.

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Figure 1

**Key**

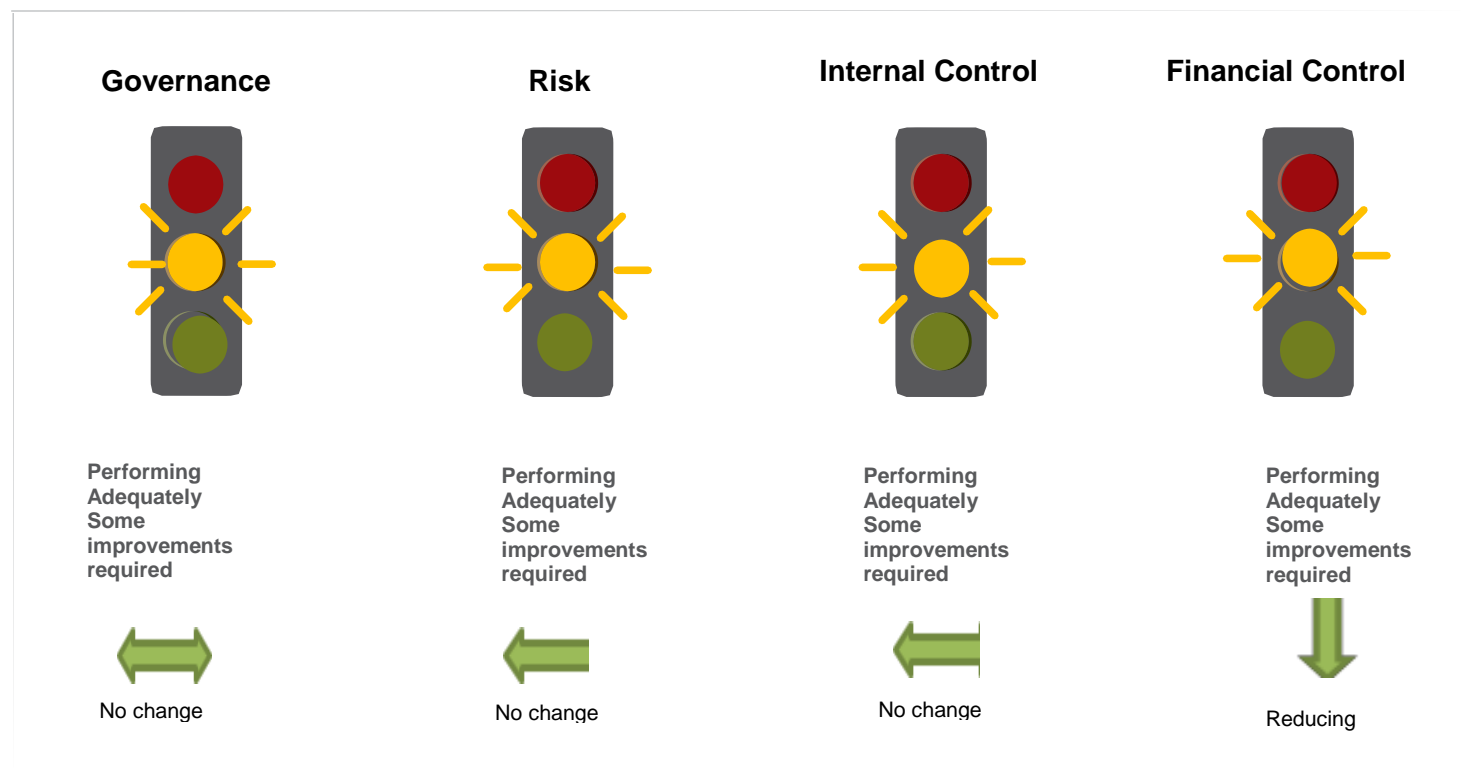
**Red** **Inadequate Performance** – Critical action required by management throughout the Council.

**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 delivers 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 County Council achieves the desired outcomes for the people of Lincolnshire.
6. The 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 County Council has implemented some significant changes in its management arrangements and structures. This included a review of the constitution and implementing organisational learning arising from the outcome of a Judicial Review on the decision on the future of the Library Service. Further work is also underway to review the effectiveness of the Council's scrutiny arrangements. The outcome of which is due in September 2015.

8. With substantial funding cuts and cost pressures to absorb the Council undertook a fundamental budget review during 2014. The fundamental budget review identified £65m towards the budget reduction target of £130m. This was through better ways of doing things and being more efficient. There is still a way to go and some difficult decisions to make to balance what the Council can afford to deliver against cost, quality and risk. The risk of service failure will increase in a lower funded environment.
9. The Council has undertaken the annual review of the Council's governance framework. They have identified a number of areas where work is required to improve systems or monitor how the key risks facing the Council are being managed, namely:
  - Financial challenges ahead
  - Our financial control environment
  - Case management system (MOSIAC)
  - Information Governance
  - Governance Arrangements
    - i. Reviewing our constitution
    - ii. Decision making
    - iii. Risk management culture
10. On this basis we have assessed the governance framework as **amber** – performing adequately with some improvements required.

## 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 some areas where our assurance opinion on the activity identified some concerns on service delivery arrangements, management of risks, and operation of controls. These are:



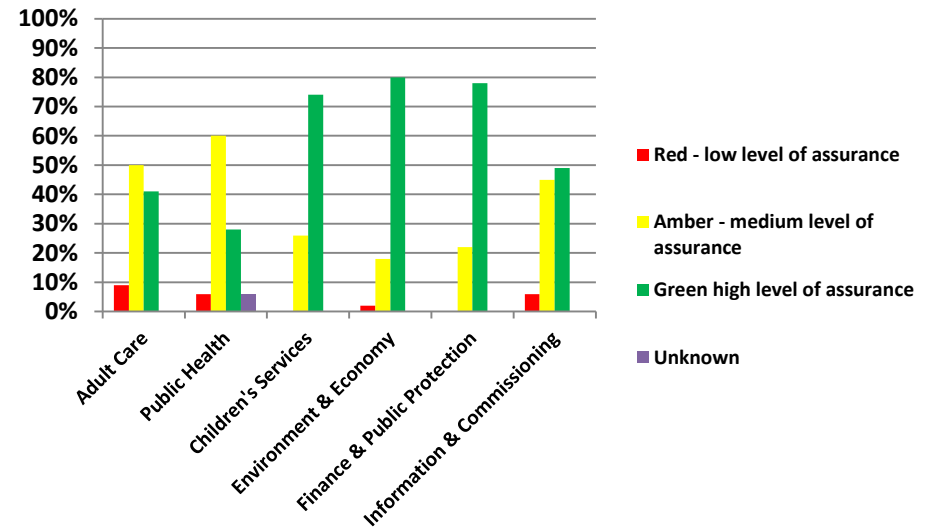
- School Improvement Service – Special Schools
- Information Governance
- Joint Commissioning Board
- Fire and Rescue Trading Company
- Substance misuse
- Corporate Landlord project

12. We suggest that Information Governance and the governance arrangements of the Joint Commissioning Board is considered for inclusion within the Council's Annual Governance Statement as a potential significant governance issue / high risk that is being addressed.

13. A Combined Assurance Status report is produced by each Director on the level of confidence the Council can have on its service delivery arrangements, management of risks, operation of controls and performance for their area of responsibility. These reports are reviewed by the Audit Committee.

14. **Figure 2** shows the current assurance levels for each Executive Director – it gives a positive assurance picture for the Council. This is likely to be the last year where the Council will be able to give this level of positive assurance. The future will mean that the Council will need to be comfortable with taking more high risk decisions and accepting that there may be service failures as a consequence of budget and service reductions.

**Figure 2 – Overall Assurance Levels 2015**



15. Taking all of the above information into account we have assessed the internal control environment as **amber** – performing adequately with some improvements required.

**Risk Management**

16. There is a framework in place for the Council to manage the key risks facing services and successful delivery of priorities - with regular reporting to management and members.

17. The last Internal Audit identified some opportunities to improve risk information around key decisions, projects and the level of risk the Council is prepared to take across its different business units. Whilst some progress has been made the recommendations have yet to be fully implemented.

18. The Governance and Audit Committee continues to receive regular updates on how the Council manages its risks.
19. The Council will need to ensure that its risk management processes work well – with a risk culture that promotes:
  - taking the right risks in an informed manner.
  - having clear accountability for and ownership of specific risks and risk areas.
  - having transparent and timely risk information flowing up and down the organisation with bad news rapidly communicated without the fear of blame.
  - Implement and encourage risk reporting – actively seeking to learn from mistakes and near misses and reporting on risk triggers / events.
20. Taking all of the above information into account we have assessed the risk management as **amber** – performing adequately with some improvements required.

### Financial Control

21. 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:
  - Capital contracts
  - Financial Key Control Testing
  - Mouchel contract
  - Pension Fund Benefits Admin Service transfer
  - Budget Management
  - Agresso Project

22. The Council had good financial management processes in place through SAP– that generally worked well. Our assurance work over the implementation of the new financial and HR system (Agresso) identified some major control weaknesses and gaps in system testing. We were therefore unable to provide comprehensive assurance over system control design and effective operation – particularly on the payroll module. Currently there are significant issues with the Council's financial control environment following the implementation of Agresso – this is caused by the post implementation system issues and the lack of visibility.
23. We are minimising the impact of these issues as much as possible by our joint working arrangements / increased involvement. We plan to carry out a comprehensive evaluation with the Project Lead and report to the Audit Committee meeting in September.
24. We have therefore assessed financial control as **amber** – performing adequately with some improvements required. This is a lower assurance level than last year - it takes into account the post live issues affecting the adequacy of the financial control environment and the risk / issues of fraud and error.

### Counter Fraud

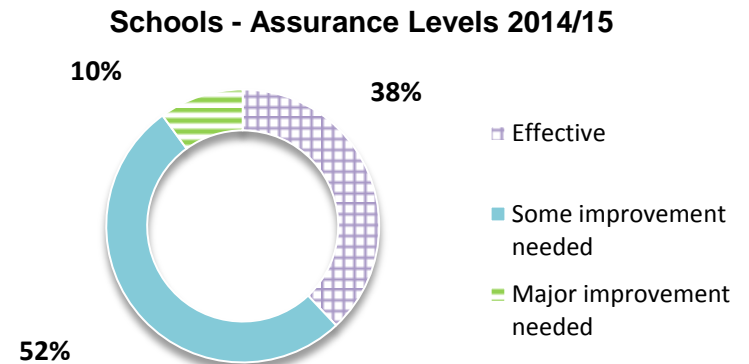
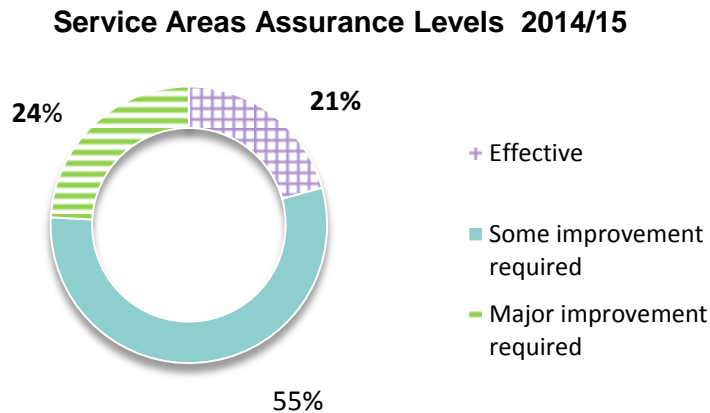
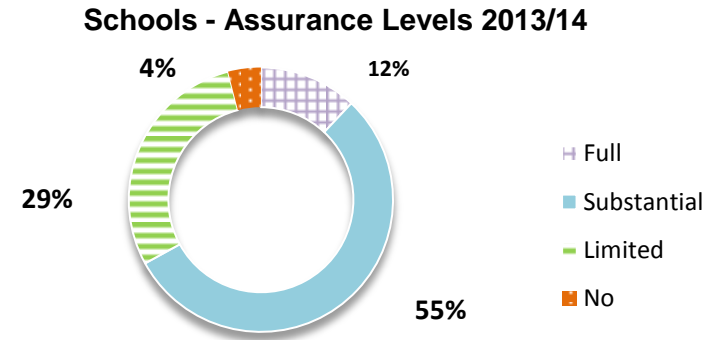
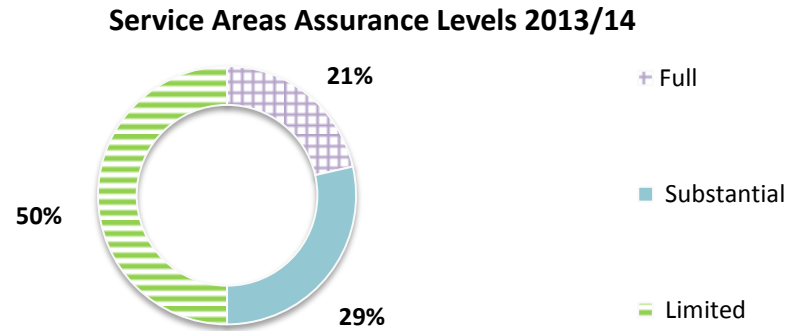
25. The Council continues to have effective counter fraud arrangements in place. The delivery and outcome of proactive counter fraud plan is monitored by the Audit Committee.
26. Our counter fraud work identified a number of areas where internal control processes have failed. The Council continues to fight against the risk of fraud - taking appropriate recovery and redress action. Steps are also taken to improve systems.

## Benchmarking – Comparison of Assurances

27. The charts below show 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.

28. We can see from the charts that no service area was given an inadequate assurance opinion in 2014/15 with mostly a positive assurance opinions being given.

**Figure 3 – Comparison of Assurances**



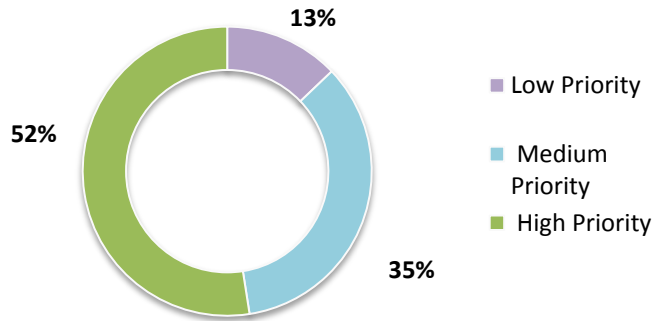
## Scope of Work

### Benchmarking – Comparison of Recommendations

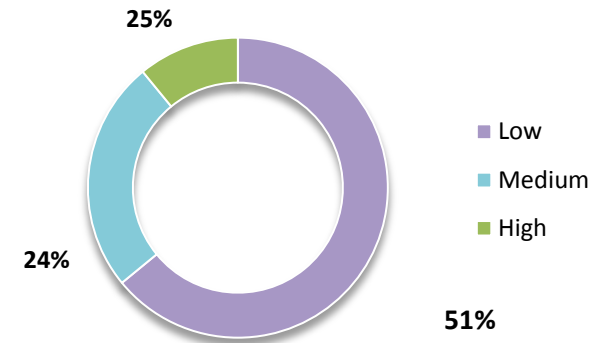
29. The charts below show the comparison of internal audit recommendations made 2013/14 and 2014/15. Details of systems reviewed can be found in Appendices 1 & 2.

Figure 4 – Recommendations Made

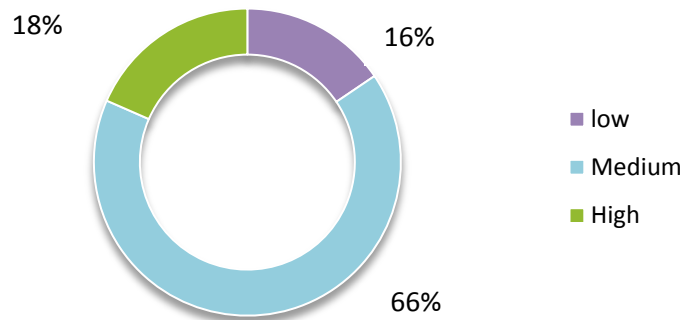
Service Areas Recommendations 2013/14



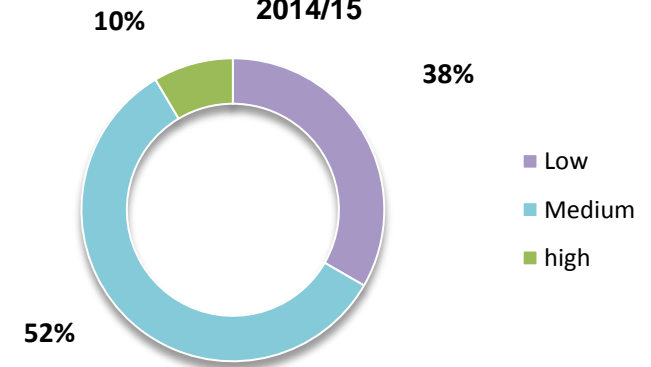
Schools - Recommendations 2013/14



Service Areas Recommendations 2014/15



Schools - Recommendations Levels 2014/15



30. We track the implementation of agreed management actions. Over the past year management have implemented 96 % recommendations due by 31<sup>st</sup> March 2015. Details of outstanding recommendations can be found in Appendix 3.



## Delivery of internal audit plan 2014/15

31. Internal Audit's performance is measured against a range of indicators. The table opposite 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).

## Restrictions on Scope / Disagreements

32. 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.

33. 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.

34. One area where we deferred our internal audit work was around IT Audit – the implementation of 2 major applications, the transition to a new provider and changes in management arrangements meant that there was limited capacity within ICT to facilitate our audit work. The plan for 2015/16 includes an ICT audit needs assessment and a number of key ICT audit areas. Assurance for 2014/15 has been leveraged through the Combined Status Report.

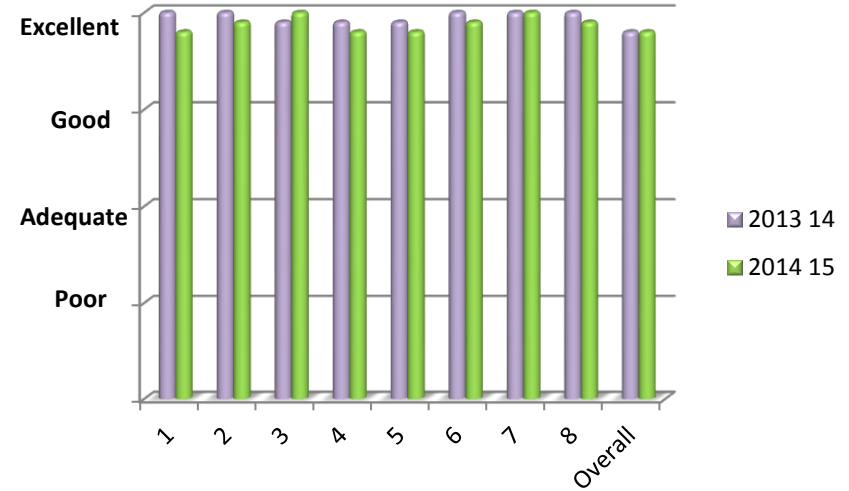
Performance Indicator	Target	Actual @ 31/03/2015
<b>Productivity &amp; Efficiency</b>		
Actual audits versus planned (by number of audits) – revised plan	100%	99%
Financial Systems	100%	100%
% of Reports issued within 2 weeks of closure meeting	100%	100%
<b>Timescales:</b>		
Draft Report issued within 10 days of completion	100%	100%
Final Report issued within 5 days of management response	100%	92%
Draft Report issued within 2 months of fieldwork commencing	80%	69% <sup>1</sup>
<b>Quality of Service</b>		
Client questionnaire scoring better than average for all categories	Good to excellent	Good to excellent

## Effectiveness of Internal Audit

35. 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.
36. The table in **Figure 5** outlines the responses by management on our service. For 2014/15 there was a 51% questionnaire return rate (Schools 33% and Service Areas 60%), the overall average rating for the service was good to excellent. Work is underway to improve the process for collecting feedback from clients.

Figure 5 – Client Feedback

### Post Audit Questionnaire Results



#### 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 finds during audit
7. Helpfulness of auditor(s)
8. Prompt delivery of the audit report



## Other significant audit work and changes to the plan

37. During the year we have undertaken the following additional work:

- Library Review – Organisational Learning
- Standards Complaint Investigation
- Agresso Implementation
- Schools
- Birth to Five delivery arrangements
- Fire and Rescue Trading Company
- School Improvement Service
- Ethnic minority and traveler education

38. During the year we made a number of changes to the plan. The following audits were removed:

- EU Procurement
- Business Continuity
- Joint Waste Strategy
- Adult Education
- CFBT Contract
- Education Performance Moderation
- Raising the participation age
- HR Workforce Strategy
- Workforce development
- Reablement Service
- Contract Management

39. The County Council has a number of significant external clients:

- North Kesteven District Council
- South Holland District Council
- West Lindsey District Council
- Newark and Sherwood District Council
- Lincolnshire Academies
- Gainsborough Town Council
- Charity

The net income generated from this arrangement is in the region of £100K.

## Quality Assurance

40. 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.

41. Our commitment to quality begins with ensuring that we recruit, develop and assign appropriately skilled and experienced people to undertake your audits.

42. 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.

43. Our Quality Assurance Framework (**Appendix 4**) 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.

44. 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.

45. 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.

46. 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 where appropriate.



## Appendix 1 Assurances Given 2014/15

Data is for audits completed 2014/15 where recommendations were due to be implemented by 31<sup>st</sup> March 2015

Activity	Assurance	Total recs	Priority of Recommendations		
			High	Medium	Low
<b>Finance and Public Protection</b>					
Capital Contracts	Some Improvement Needed	3	1	2	0
Fire & Rescue trading company	Major Improvement Needed	7	0	7	0
Fire & Rescue IT Governance	N/A	N/A			
Financial Key Control Testing	Effective	11	0	7	4
Mouchel Contract	Major Improvement Needed	1	1	0	0
Pension Fund Benefits Admin Service transfer	Some Improvement Needed	1	0	1	0
Budget Management	Some Improvement Needed	2	0	2	0
Contract Management	Consultancy	N/A			
Corporate Governance	Consultancy	N/A			
Member Support	Some Improvement Needed	16	0	16	0
Gifts and Hospitality	Some Improvement Needed	4	0	2	2
Agresso Project	Consultancy	N/A			
Broadband in Lincolnshire project	Some Improvement Needed	4	0	3	1
Corporate Landlord project	Major Improvement Needed	10	3	7	0
Finance and Public Protection Assurance Map	Complete	N/A			
<b>Total</b>		<b>59</b>	<b>5</b>	<b>47</b>	<b>7</b>
<b>Environment and Economy</b>					
Carbon Reduction Commitment	Effective	2	2	0	0
Central Lincolnshire Local Plan	Effective	10	2	6	2
Social Care Transport	Some Improvement Needed	14	0	11	3
Library Review – Organisational Learning	N/A	27	9	18	0
Environment & Economy Assurance Map	Complete	N/A			
<b>Total</b>		<b>53</b>	<b>13</b>	<b>35</b>	<b>5</b>



Activity	Assurance	Total recs	Priority of Recommendations		
			High	Medium	Low
<b>Children's Services</b>					
Home to School Transport	Some Improvement Needed	14	0	11	3
Children & Adolescent Mental Health Services	Effective	1	0	1	0
Non Attendance at School	Effective	0	0	0	0
School Improvement Service – Special Schools	Major Improvement Needed	8	5	3	0
Safeguarding – Organisational Learning	Some Improvement Needed	7	3	2	2
Families Working Together Project	Effective	0	0	0	0
Ethnic Minority & Traveler Education	Some Improvement Needed	4	0	4	0
Agresso project – HR	Consultancy	N/A			
Children's Services Assurance Map	Complete	N/A			
<b>Total</b>		<b>34</b>	<b>8</b>	<b>21</b>	<b>5</b>
<b>Adult Services</b>					
Safeguarding Adults	Some Improvement Needed	6	1	4	1
Joint Commissioning Board	Major Improvement Needed	7	2	3	2
Information Governance	Major Improvement Needed	16	7	6	3
Transformation Programme	Consultancy	N/A			
Adult's Assurance Map	Complete	N/A			
<b>Total</b>		<b>29</b>	<b>10</b>	<b>13</b>	<b>6</b>
<b>Public Health</b>					
Sexual Health Services	Some Improvement Needed	3	0	3	0
Health Protection	Some Improvement Needed	13	1	8	4
Lincolnshire Community Assistance Scheme	Some Improvement Needed	5	0	3	2
Substance Misuse	Major Improvement Needed	10	1	6	3
Public Health Assurance Map	Complete	N/A			
<b>Total</b>		<b>31</b>	<b>2</b>	<b>20</b>	<b>9</b>

Activity	Assurance	Total recs	Priority of Recommendations		
			High	Medium	Low
<b>ICT</b>					
ICT Strategy	On-going due to FDSS	N/A			
ICT Assurance Map	Complete	N/A			
<b>Total for LCC</b>		<b>206</b>	<b>38</b>	<b>136</b>	<b>32</b>
Due by 31 March 2015		<b>77</b>	<b>14</b>	<b>31</b>	<b>32</b>
Due after 31 March 2015		<b>162</b>	<b>25</b>	<b>105</b>	



School	Assurance	Total recs	Priority of Recommendations		
			High	Medium	Low
Lincoln St Giles Nursery School	Some Improvement Needed	10	0	7	3
Gainsborough Nursery School	Some Improvement Needed	15	5	5	5
Brant Broughton Church of England & Methodist Primary School	Some Improvement Needed	14	0	6	8
Deeping St James Community Primary School	Some Improvement Needed	9	0	7	2
Deeping St Nicholas Primary School	Effective	5	0	2	3
Digby the Tedder Primary School	Effective	4	0	2	2
Grantham Belmont Community School	Effective	5	0	3	2
Grantham Cliffedale Primary School	Effective	9	0	5	4
Langtoft Primary School	Effective	5	0	2	3
Legsby Primary School	Some Improvement Needed	15	0	7	8
Lutton St Nicholas Primary School	Effective	9	0	5	4
Middle Rasen Primary School	Some Improvement Needed	7	0	4	3
North Hykeham All Saints Primary School	Effective	7	0	5	2
Scampton CE Primary School	Some Improvement Needed	20	1	15	4
Tetney Primary School	Some Improvement Needed	16	0	11	5
Boston Pilgrim Hospital	Some Improvement Needed	15	0	12	3
Alford Primary School	Effective	4	0	2	2
Great Gonerby St Sebastian's CE Primary School	Some Improvement Needed	10	1	6	3
Lincoln Bishop King CE Primary School	Major Improvement Needed	29	6	18	5
Long Sutton Primary School	Some Improvement Needed	10	0	5	5
Lincoln Sincil Sports College	Major Improvement Needed	28	8	14	6
<b>Total for Schools</b>		<b>246</b>	<b>21</b>	<b>143</b>	<b>82</b>

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Recommendations			Recs not due
					High	Medium	Low	
<b>Communities / Children's Services</b>								
Home to School Transport	19/1/15	Some Improvement Needed	14	7	0	11	3	2
Library Review – Organisational Learning		N/A	27	1	9	18	0	16
<b>Finance and Public Protection</b>								
Corporate Landlord project	21/1/15	Major Improvement Needed	10	0	3	7	0	9
<b>Total</b>			<b>51</b>	<b>8</b>	<b>12</b>	<b>36</b>	<b>3</b>	<b>27</b>

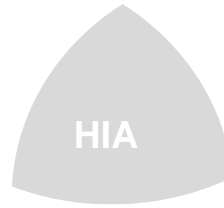


**Quality Assurance**  
Quality outcomes / process designed to deliver a consistently high quality audit service to our clients - fit for purpose / meet client expectations / conform to PSIAS

**Quality Plan**  
Quality improvement plan - HIA reporting to Audit Committee on the outcome of Quality Assurance – with improvement

**Ongoing monitoring – quality built into the audit process**

**Supervision & Review**  
Quality checks and oversight are undertaken throughout the audit engagement ensuring that processes and practice are consistently applied and working well.



**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 ongoing assurance that engagement planning, fieldwork conduct and reporting/communicating results, adheres to audit practice standards
- Undertake engagement supervision and review. The extent of supervision needed will depend on the proficiency and experience of the internal auditors and the complexity of the engagement.