

## **Final Report for the external assessment of the internal audit function**

### **Assurance Lincolnshire Partnership**

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Standards & Guidance**

**21<sup>st</sup> October 2016**

## **Review of Assurance Lincolnshire Partnership's Internal Audit service (September/October 2016)**

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013. The standards require periodic self-assessments and an assessment by an external person every five years. Now that the Assurance Lincolnshire Partnership has been operating under the standards for over three years, this was deemed a good time for the first external review. The review also included checking compliance with the Local Government Advisory Note (LGAN) where this has requirements in addition to those in the PSIAS. This report summarises the findings from reviews across the Partnership and focuses on those areas that are common to the whole Partnership. It should be read in conjunction with the three reports for City of Lincoln Council, East Lindsey District Council and Lincolnshire County Council.

The review was carried out through a process of interview and document review. I should like to thank all those who took the time to talk to me for their help. I reviewed fifteen audits carried out during the 2015/16 and 2016/17 financial years and I examined key documents including the Charter and reports to audit committees.

I identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity, and only one area of partial non-compliance in relation to the lack of audit of ethics and values at each Council. I have made some practical and pragmatic medium priority recommendations (R) and lower priority suggestions (S) to improve compliance with the standards without requiring significant extra work. The Partnership will need to take action to implement them and an action plan is included as appendix 1.

### **Best Practices**

As part of my review I was asked to compare the Assurance Lincolnshire Partnership against other authorities for whom CIPFA has undertaken PSIAS reviews. There is little that I can add to the excellent work that you are already doing and I have already requested examples of some of your core documents to share with others. I have, however, indicated some areas where you could develop your practices further through the suggestions made below. Two further areas for possible development are:

- Working with audit committees to aid their challenge and support of your work, in particular their understanding of the implications of what they are being told and also their engagement in the audit process. One idea is to hold working groups outside the formal committee structure to examine issues arising from audits in greater detail.
- Making the audit principles live rather than simply referring to them in the Charter and audit report, perhaps linking them to your performance measures.

## Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
<b>Attribute standards</b>				
<b>1000</b> Purpose, authority and responsibility	Full	<b>Standard 1000.A1</b> The nature of assurance work is defined in the Charter, although it would be improved by making the link to the annual audit opinion	Make the link between assurance and the annual audit opinion in the Charter	S1
<b>1100</b> Independence and objectivity	Full	<b>Standard 1110</b> Independence and objectivity are well managed. The annual report did not, however, confirm no impairments to independence	Include a statement to confirm that independence has not been impaired in the past year in the annual report	S2
<b>1200</b> Proficiency and due professional care	Full	It was clear from the audit files that audit work is carried out with proficiency and care and in accordance with the Partnership's Practice Notes		
<b>1300</b> Quality assurance and improvement programme	Full	Quality and improvement is given priority and developments are shared across the Partnership		
<b>Performance standards</b>				
<b>2000</b> Managing the internal audit activity	Full	<b>Standard 2010</b> The same audit opinions are used across the Partnership for audits but not for the annual audit opinion	Consider using the same opinion for audit reports and for the annual audit opinion	S3
		<b>Standard 2050</b> A detailed assurance mapping process underpins each year's audit plan and sources of assurance are included on the map but not in the annual plan	Make reference to the assurance mapping process and sources of assurance in the annual audit plan	S4
		<b>LGAN 7.1.2</b> The audit strategy used by CLC and ELDC does not include references as to how audit service will be provided nor the resources needed to deliver the strategy	Include details of resources in the strategy/audit plan	R1
<b>2100</b> Nature of work	Partial	<b>Standard 2110.A1</b> Little ethics work has been undertaken in the past although some is now planned at each council	Ensure that the planned ethical audit is undertaken	R2

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
<b>2200</b> Engagement planning	Full	<b>Standards 2120.A1, 2130.A1 and 2210.A3</b> Engagement planning is thorough and follows the requirements of the audit manual. The introduction of the Planning Engagement Document (PED) has been particularly helpful. However, terms of reference do not cover anything that has been ruled out of the audit (value for money and fraud risks for example) and refer to risks only in high-level terms	Consider including more detail regarding risks on terms of reference Consider indicating which areas have been deemed not applicable on terms of reference And/or consider sharing the PED with auditees	S5  S6  S7
<b>2300</b> Performing the engagement	Full	My review showed that audits are well-performed and well-documented		
<b>2400</b> Communicating the results	Full	Reports are clear and reflect the work undertaken. The new reporting template was particularly welcomed by clients		
<b>2500</b> Monitoring progress	Full	The tracker mechanisms used at each Council push responsibility for monitoring implementation of recommendations onto auditees with audit taking a pragmatic, risk-based approach to obtaining evidence		
<b>2600</b> Communicating the acceptance of risks	Full	There was no evidence that risks have been left unmitigated following an audit, highlighting the importance placed by the officers at each council on audit findings <b>LGAN 10.2.7</b> Other than at ELDC and LCC (but not its clients), there are no arrangements to ensure that risks identified in audits are included on risk registers where appropriate	Introduce mechanisms to highlight risks arising from audits that should be included on risk registers, especially at clients	S8
<b>Code of Ethics</b>	Full	All interviewees stressed the emphasis placed on ethics by the audit team and their independence and objectivity		
<b>Mission</b>	Full	The Charter includes the newly developed internal audit mission		
<b>Core principles</b>	Full	No problems were identified	Work to integrate the	S9

<b>Standard</b>	<b>Compliance</b>	<b>Findings</b>	<b>Recommendations and suggestions</b>	<b>Rec no</b>
<b>of internal audit</b>		with following the new core principles, with the detailed assurance mapping exercise being particularly key. Further work will be needed to demonstrate compliance in the annual report for 2016/17	core principles into audit's work and consider how best to demonstrate this in the annual report in future	

Each member of the Partnership has details of the findings, standard by standard.

Elizabeth Humphrey CPFA

## Appendix 1: action plan

### Recommendations

No	Recommendation	Response	Responsible officer	Action date
R1	Include details of resources in the strategy/audit plan	Agreed – we will ensure a suitable statement on the adequacy of internal audit resources for all our clients.	Senior Management Group	31 <sup>st</sup> March 2016
R2	Ensure that the planned ethical audit is undertaken	Agreed - work is planned to provide assurance over how well our clients governance arrangement work in practice. This includes will include ethics.	Senior Management Group	31 <sup>st</sup> March 2016

### Suggestions

No	Suggestion	Response	Responsible officer	Action date
S1	Make the link between assurance and the annual audit opinion in the Charter	Agreed – updated Charter	Lucy Pledge	Done
S2	Include a statement to confirm that independence has not been impaired in the past year in the annual report	Agreed - for 2016/17 annual report	Lucy Pledge	May 2017
S3	Consider using the same opinion for audit reports and for the annual audit opinion	We are comfortable with our current approach.	-	-
S4	Make reference to the assurance mapping process and sources of assurance in the annual audit plan	Agreed	Lucy Pledge	February / March 2017
S5	Consider including more detail regarding risks on terms of reference	We will ensure that risk descriptions are consistent across all documents – providing appropriate detail.	John Sketchley	Done
S6	Consider indicating which areas have been deemed not applicable on terms of reference	Our guidance to auditors within the terms of reference template includes 'to provide information on areas we are not reviewing'. We will remind staff for the need to be more explicit over the risks and areas not being covered in the terms of reference document.	John Sketchley	Done
S7	Consider sharing the PED with auditees	Not agreed – we use this as an internal planning document. The		

No	Suggestion	Response	Responsible officer	Action date
		key elements and information is already included in the Terms of Reference.		
S8	Introduce mechanisms to highlight risks arising from audits that should be included on risk registers, especially at clients	Agreed - We will include this element in our reports.	Rachel Abbott	31 <sup>st</sup> October 2016
S9	Work to integrate the core principles into audit's work and consider how best to demonstrate this in the annual report in future	<p>We will explore this further with our partners to consider if further action is required within our audit work.</p> <p>We will continue to promote the standards and core principles through our practice and team meetings.</p> <p>We will include commentary around the core principles in our annual report</p>	Senior Management	31 <sup>st</sup> December 2016

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