

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

### **Lincolnshire County Council**

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Standards & Guidance**

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

## Review of Lincolnshire County Council's Internal Audit service (September 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 Lincolnshire County Council's audit team 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 review was carried out together with reviews of East Lindsey District Council and City of Lincoln Council to given an opinion on compliance against the PSIAS across the Assurance Lincolnshire Partnership.

The review was carried out through a process of interview and document review. A list of interviewees is included as appendix 2. I should like to thank all those who took the time to talk to me for their help. I reviewed seven audits carried out during the 2015/16 and 2016/17 financial years and I examined key documents including the Charter and reports to the Audit Committee.

I identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity, nor any significant areas of partial non-compliance. 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 Audit and Risk Manager will need to take action to implement them and an action plan is included as appendix 1.

### 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. All interviewees emphasised the importance of these aspects of audit behaviour. 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	Full	It was clear from the audit files that audit work is carried out with proficiency		

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
care		and care. The team is well qualified, with good access to training and development		
<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.A2</b> The same audit opinions are used across the Partnership. Not all audit committee members were aware of how these were decided on	Be more explicit with audit committee members regarding the source and meaning of audit opinions	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>Standard 2060</b> Internal audit activities are reported to each Audit Committee during the year and also to some audit clients. NKDC's CMT only receives exception reports in year	Feedback formally on audit activity to CMT at NKDC in year	R1
<b>2100</b> Nature of work	Partial	<b>Standard 2110.A1</b> No specific ethics work has been undertaken in the past although some is now planned following the governance review	Ensure that the planned ethical audit is undertaken	R2
		<b>Standard 2110.A2</b> While most clients were satisfied with the IT audit work undertaken, the County was not and work is needed to rebuild this relationship	Work to rebuild the relationship with the County's IT function	R3
<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	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	S6  S7  S8

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		example) and refer to risks only in high-level terms		
<b>2300</b> Performing the engagement	Full	The audits reviewed were 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 mechanism pushes 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> Because risk is not part of the audit function at clients, it is possible that risks identified in audits are not included on risk registers where appropriate	Introduce mechanisms to highlight risks arising from audits that should be included on risk registers, especially at clients	S9
<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 of internal audit</b>	Full	No problems were identified 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		

The Audit & Risk Manager has details of the findings, standard by standard.

Elizabeth Humphrey CPFA

## Appendix 1: action plan

### Recommendations

No	Recommendation	Response	Responsible officer	Action date
R1	Feedback formally on audit activity to CMT at NKDC in year	Agreed – we currently seek feedback on the plan and annual report. We will also share and seek feedback on our progress reports during the year.	Dianne Downs	With effect from October 2016
R2	Ensure that the planned ethical audit is undertaken	Agreed	Lucy Pledge	31 <sup>st</sup> March 2016
R3	Work to rebuild the relationship with the County's IT function	Agreed – The changes within the Council will provide an opportunity to rebuild our relationship with IT and deliver our IT audit plan	Lucy Pledge	November – December 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	Be more explicit with audit committee members regarding the source and meaning of audit opinions	<p>We feel this is explicit enough in our reports to the audit committee as definitions are provided. If you think there is a gap in those definitions it would be helpful to have some thoughts on where we can amend / change.</p> <p>However, we will ask the Audit Committees if they would like us to work through the opinions at our next audit committee meeting. We will also ensure that how we draw our opinions is covered as part audit committee training and induction programme next year.</p>	Lucy Pledge	31 December 2016

No	Suggestion	Response	Responsible officer	Action date
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 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

## Appendix 2: interviewees

Person	Position	Organisation
Rachel Abbott	Team Leader, Audit	Lincolnshire County Council
Nina Camm	Environment Manager	North Kesteven District Council
John Cornett	Director	KPMG
Diane Downs	Team Leader, Counter Fraud	Lincolnshire County Council
Matt Drury	Principal Auditor, Counter-Fraud	Lincolnshire County Council
David Forbes	County Finance Officer	Lincolnshire County Council
Ian Fytche	Chief Executive	North Kesteven District Council
Sarah Golembiewski	Governance and Business Resilience Manager	North Kesteven District Council
Ged Greaves	Policy and Commissioning Manager	Newark and Sherwood District Council
Amanda Hunt	Principal Auditor	Lincolnshire County Council
Cllr Neville Jackson	Member, Audit Committee	Lincolnshire County Council
Zlati Kalchev	Senior Auditor	Lincolnshire County Council
Ian Knowles	Director of Resource and s151 Officer	West Lindsey District Council
Mandy Knowlton-Rayner	Insurance and Risk Manager	Lincolnshire County Council
Nicola Lovely	Business Manager - Financial Services. S151 Officer	Newark and Sherwood District Council
Cllr Giles McNeill	Chair, Governance and Audit Committee	West Lindsey District Council
Pete Moore	Executive Director s151 officer	Lincolnshire County Council
McJoy Nkhoma	Senior Auditor	Lincolnshire County Council
Simon Oliver	Chief Technology Officer	Lincolnshire County Council
James O'Shaughnessy	Strategic Lead for Organisational Transformation	West Lindsey District Council
Lucy Pledge	Audit and Risk Manager	Lincolnshire County Council
Jon Pocock	Audit Officer	Lincolnshire County Council
Cllr Sue Rawlins	Chair, Audit Committee	Lincolnshire County Council
Ashley Simon	Senior Auditor, Counter-Fraud	Lincolnshire County Council
Al Simson	Principal Auditor	Lincolnshire County Council
John Sketchley	Team Leader, Audit	Lincolnshire County Council
Cllr Elizabeth Sneath	Deputy Chair, Audit Committee	Lincolnshire County Council
Russell Stone	Head of Finance and Resources and s151 Officer	North Kesteven District Council
Jill Thomas	Principal Auditor	Lincolnshire County Council
Matt Waller	Principal Auditor	Lincolnshire County Council
Cllr Susan Waring	Chair, Audit Committee	North Kesteven District Council
Cllr William Webb	Member, Audit Committee	Lincolnshire County Council
Richard Wills	Executive Director Monitoring Officer	Lincolnshire County Council

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