

Regulatory and Other Committee

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

Report to:	Audit Committee
Date:	21 July 2014
Subject:	Review of the Effectiveness of Internal Audit

Summary:

There exists 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. 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.

Recommendation(s):

The Committee endorse the opinion of the Review Group that the County Council maintains an effective system of internal audit.

Background

- 1.1 Regulation 6(3) of the Accounts and Audit (England) Regulations 2011 requires 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.
- 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. Aspects of risk management and health and safety are also relevant to this review. Guidance makes it clear that it is not the role of the external auditor to undertake this work. It is 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 following Review Group has been established to undertake this role:
- Councillor Mrs Sue Rawlins– Chairman of the Audit Committee
 - Pete Moore – Executive Director – Finance & Public Protection
 - David C Forbes – Assistant Director – Finance and Resources

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 (Sept. 2013)**

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

- *The Executive Director – Performance & Governance will remind the Corporate Management Board of the need for clients of the internal audit service to respond in a timely and positive manner to requests for meetings and responses to draft conclusions and recommendations.*

This action was taken by the then Executive Director for Performance & Governance.

- *The continued expansion of the client base of Audit Lincolnshire presents a risk that there may, in theory at least, be a detriment to the*

service delivered to the County Council. Consequently the Audit Committee will need to keep this potential risk in mind when monitoring the performance of the service over the coming year.

In the event there was no material increase in the nature of extent of external work undertaken by the team over 2013/14 and, at the present time, there are no specific plans in place to increase this activity in 2014/15.

- *The Audit Committee should undertake a self-assessment of its role and performance during early 2013 in light of the likely change in membership of the Committee that will emerge following the May 2013 County Council elections. This will be useful for the post May 2013 Committee as it will identify both the strengths of the current arrangements and areas for potential improvement.*

This is presently underway with the new Committee and more detail on progress and conclusions is given at 5.6 below.

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

5. Current Years' Effectiveness Review

- 5.1 This was undertaken in two distinct parts – a review of the effectiveness of the internal audit service and separate consideration of the effectiveness of the Audit Committee itself.

Internal Audit Service

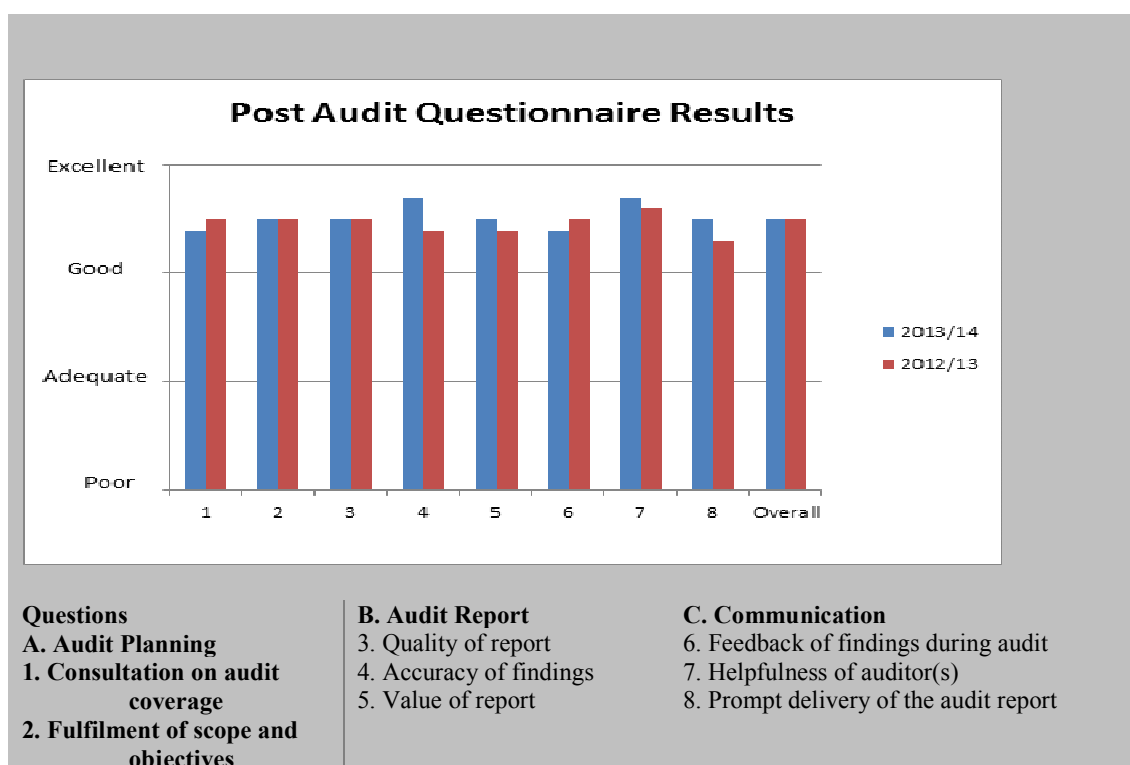
- 5.2 To assist the Review Group with its work the Head of Internal Audit:

- 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** – a summary of the self-assessment exercise is attached as Appendix A to this report. This shows that there are only two aspects of the standard, out of 54, where full compliance is not presently achieved. Firstly, an assessment of partial achievement has been assigned to the standard relating to the organisational independence of the Head of Audit reflecting the fact that their annual appraisal is only directly informed by the views of their line manager, the Assistant Director for Finance & Resources and not by the Chief Executive or Chairman of the

Audit Committee. This will be rectified in future. Secondly, an assessment of non-compliance was given against the standard requiring an external assessment of the internal audit service. It has always been intended to undertake such an exercise in 2015/16, the mid-term point of the existing Committee.

- 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. For 2013/14, 99% of the revised plan was successfully delivered. Client feedback is sought after every audit assignment and is summarised in the chart below.



Feedback is also sought from each of the Executive Directors of the authority and this was available to the Review Group. In general terms the service is broadly assessed as 'Good'.

- 5.5 **Quality Assurance and Effectiveness** – The service has formal quality assurance and effectiveness mechanisms 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 is available on performance from client feedback questionnaires. A quality assurance improvement programme exists and was considered by the Review Group. A quality assurance improvement plan is also in existence and was made available to the Review Group. The service management team keep achievement of improvement plan targets under review at their regular meetings. The

following issues were identified by the latest review of quality assurance matters and are part of the ongoing improvement plan:

- Raising the awareness of the role and remit of internal audit and the contents of the Internal Audit Charter
- Ensuring contemporary reporting
- More regular client liaison arrangements with Management Board / Executive Directors
- Take part in the CIPFA benchmarking

Audit Committee

5.6 The Audit Committee has been reviewing its effectiveness over the last few months. Workshops were held on the 31st March 2014 and on 23rd June. The results of this work showed that overall members of the Committee were:

- Clear about the Committee's purpose and governance.
- Were generally content with the membership of the committee and support – recognising there were opportunities to improve.
- Acknowledged that there were some areas of the Committee's terms of reference not covered in its work plan.

5.7 The key actions being taken to improve the effectiveness of the Committee are:

- Understanding the role and remit of the VfM Scrutiny Committee and being clear about what and how the Audit Committee will seek assurance from it.
- Review the effectiveness of the Council's standards regime, including how well the Council:
 - has dealt with complaints
 - promoted and maintained standards
 - obtained assurance over the completeness and accuracy of the register of interests
- 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.
- Produce an Annual Report for full Council showing how the Committee has discharged its terms of reference and made a difference to the running of the Council.
- Invite Executive Directors to a meeting to look in more depth at their assurance arrangements – seeking assurance that:
 - We are maintaining good governance during times of change.
 - Understand the assurance framework through times of change and associated with the Commissioning Strategies. Particularly the impact on the assurance framework resulting

from these changes, for example, senior management review, fundamental budget review and the impact on the 1st and 2nd lines of assurance (management / corporate functions).

- Understand and seek assurance over the governance and risks associated with our key partners.
- Facilitate risk management training and awareness for members and staff. To clarify the understanding of the level of risk the Council is prepared to accept across its key activities / business units.
- Challenge officers to see if they can cut down the size of the financial statements and make them easier to understand (plain English). For example, a London Boroughs financial statements are half the size of LCC's.
- Ensure that the 'independent' member is provided with same information as elected members.

5.8 Action is planned to address all these issues over the medium term.

6. Issues and Actions for 2014/15

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

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	Public Sector Internal Audit Standards 2014 - Conformance Assessment

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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