

Lincolnshire County Council

Internal Audit Annual Report 2013/14

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Public Sector Auditing.... Private Sector Thinking

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COUNTY COUNCIL
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MANAGEMENT SUMMARY

Purpose of Annual Report

1. 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

2. For the twelve months ended 31 March 2014, based on the work we have undertaken and information from other sources of governance, my opinion regarding the adequacy and effectiveness of Lincolnshire County Council's arrangements for governance, risk management and control are as follows:-

Key to Performance

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



Governance



Performing adequately – some improvements required

Risk Management



Performing adequately – some improvements required

Internal Control



Performing adequately – some improvements required

Financial Control



Performing Well.

How we came to our opinion

Governance – *"If management is about running the business – Governance is about seeing that it is run properly"*¹

3. The Council's Governance Group and Executive Directors have 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:
 - Maintaining good governance in the current environment
 - Integration of Health & Social Care
 - Responding to the Care and Support Bill
 - Capacity to Deliver
 - Future Delivery of Support Services
 - Safeguarding Children
 - Ensuring all children have access to a good education
4. Local Government has been and will continue to undergo significant change. The way it operates and deliver 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. The Council's review of its governance framework and assurance arrangements helps the public have confidence in the way it works and runs its business - on this basis we have assessed the governance framework as **amber** – performing adequately.

Risk and Internal Control

6. Whilst we are satisfied that the overall standard of risk and internal control for the year ending 31st March 2014 is 'performing adequately' - our work did identify some areas of improvement.
7. My opinion has taken into account of the outcome of our internal audit work during the year. There were 2 areas receiving a no assurance opinion and 13 areas receiving a limited assurance opinion. The following have outstanding actions by management which have been designed to improve the system and manage potential risks:

Programme and Project Management

8. The assurance role within the Performance and Programmes Service currently lacks clarity, Council-wide understanding and corporate authority.
9. An action plan was agreed but its implementation has been affected by the senior management review. The key opportunities for improvement were:
 - Engage with the Corporate Management Board to discuss, clarify and mandate the role and remit of the function in supporting key priority activities and providing assurance to the Board.
 - Improving the quality and robustness of business cases – including effective benefit realisation plans.

¹ Robert Tricker. An expert in Corporate Governance.

Domestic Abuse

10. Children Services operates an effective process for dealing with and taking appropriate actions arising from domestic abuse notifications. Our audit identified improvement areas around attendance at Multi Agency Risk Assessment Conferences and clearance of actions in line with the agreed protocol. Action plans are in place but are not due for implementation until the 31st August 2014.

Insurance IT System (MIMS)

11. The MIMS system is not a key financial one but does provide an important range of management information as it is, in effect, an insurance claims database. It is important for tracking historic claims experience and for answering requests for information such as Freedom of Information enquiries.
12. During 2013 we have identified a number of service quality issues that need to be addressed to ensure that the insurance team provide an effective and efficient service and that the Council's Insurance Fund remains solvent and sustainable. An improvement plan is in place which includes the MIMS system – implementation date 31st December 2014.

Coroners – Use of Resources / Financial Management

13. Our audit found limited routine management information on the Coroners' service, particularly around financial commitments, projections, workloads and performance – this reduces confidence on the use of resources and value for money.
14. With the 2014 fundamental budget review the Council has the opportunity to explore further cost efficiencies within the Coroner service, tying in with the recent Chief Coroner guidance on the merger of Coroner areas. We believe there is scope for savings on: salaries, premises, administrative support and equipment

which may, in turn, encourage closer working, improved cost certainty, information sharing and greater compliance with the Council's financial control framework. High priority actions to be implemented by 1st September 2014.

Risk Management

15. There is a good framework in place for the council to manage the key risks facing services and successful delivery of business plan priorities.

Opportunities to improve were around:

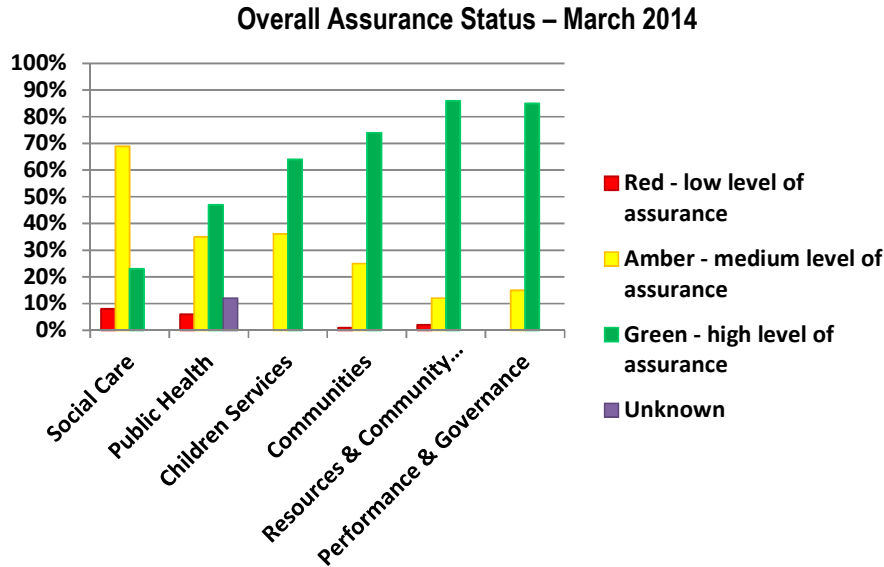
- Reports to decision makers should clearly articulate the risks associated with the recommendation/proposal; actions and controls to manage risks were rarely included in reports.
 - Decisions may, therefore, be made without full knowledge and understanding of the risks involved and how these will be managed - decision makers are not in a position to effectively consider the level of risk they are prepared to take.
16. An action plan in place with high priority actions, all to be completed by 31st December 2014.

Counter Fraud

17. Our counter fraud work has identified a number of areas where internal control processes have failed. These have resulted in fraud or loss to the Council estimated to be in the region of **£460k**. The Council continues to fight against the risk of fraud - taking appropriate recovery and redress action. Steps are also taken to improve systems.

Combined Status Reports

18. In January and March 2014, Executive Directors produced their Combined Assurance reports. The diagrams below provide more detailed information of the level of assurances given:



Note – unknown are areas where we have either not had the opportunity to coordinate assurance or there is a gap.

19. Overall there is a high level of positive assurance on our critical systems, key risks and projects. The areas where concerns have been raised are being addressed through the Council's governance, assurance and performance frameworks.

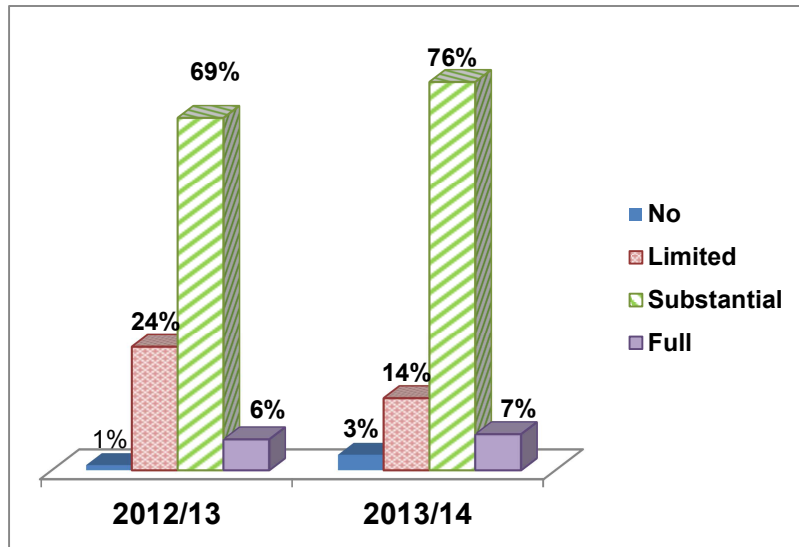
Financial Control

20. 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:
- Income
 - Creditors
 - Procurement Card
 - Pension Fund
 - Pension Admin
 - Public Health – due diligence
 - Tax Compliance – Fire and Rescue
 - Establishment visits – schools (29) & non schools (5)
21. The Council has good financial management processes in place – that generally work well. Our work did identify some areas of improvement over compliance with systems and controls. However, these are not significant enough to influence the overall opinion. Our key control testing on all fundamental financial systems during the year also gave substantial assurance as a result of our work.
22. It has been acknowledged by the Council that 'maintaining financial resilience' in the current uncertain economic and reduced funding environment is a strategic risk facing the Council. Although this strategic risk is being managed effectively – given its significance it continues to be included in Annual Governance Statement 2014 (capacity to deliver). On this basis we have assessed finance as **green** – performing well.
23. The content of the annual report has informed the development of the Council's Annual Governance Statement.

Benchmarking – Comparison of Assurances

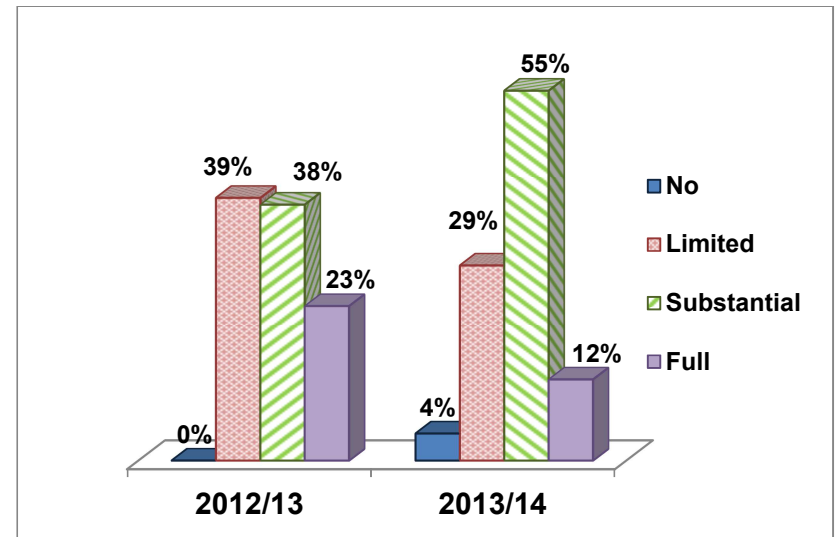
24. The charts below show the assurance opinions given in 2013/14 compared to those in 2012/13. Our audit plan includes different activities each year – it is therefore not unexpected that these vary; however, the assurance levels do give an insight on the application of the Council's control environment.

Service Areas – Assurance Levels



25. We can see from the charts that there were a small number of areas with no assurance opinions given in 2013/14. However, the overall assurance levels have improved for both service areas and schools. This mirrors the positive picture identified by Executive Directors as part of their combined assurance reports (see para 18). Details of systems and schools reviewed can be found in Appendices 1 & 2:

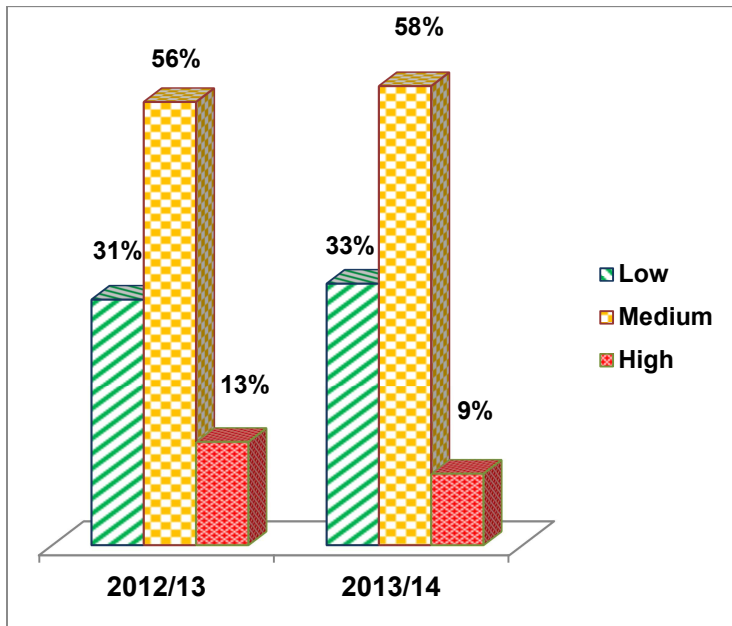
Schools – Assurance Levels



Benchmarking – Comparison of Recommendations

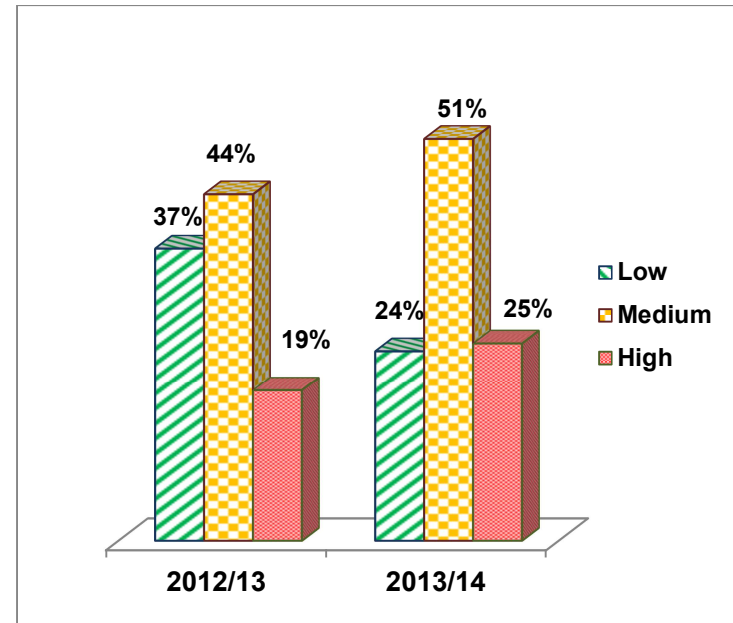
26. The charts below show the comparison of internal audit recommendations made 2012/13 and 2013/14. Details of systems reviewed can be found in Appendix 1.

Service Areas – Recommendations by Priority



27. We track the implementation of agreed management actions. Over the past year management have implemented **86%** recommendations due by the 31st March 2014.

Schools – Recommendations by Priority



SCOPE OF WORK

Delivery of internal audit plan 2013/14

28. The Audit Committee approved the 2013/14 audit plan on the 22nd April 2013. We have delivered **98%** of the revised plan by the end of the year.
29. Internal Audit's performance is measured against a range of indicators. The table below shows our performance on key indicators at the end of the year. We are pleased to report successful achievement against our targets – one area of improvement is around contemporary reporting:

Performance Indicator	Target	Actual for 2013/14
Productivity & Efficiency		
Actual audits versus planned (by no of audits)	100%	98%
Financial Systems	100%	100%
% of Reports issued within 2 weeks of closure meeting	100%	67%
Quality of Service		
Client questionnaire scoring better than average for all categories	Good to Excellent	Good to Excellent

Restrictions on Scope / Disagreements

30. 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.

31. During the year there was one area where we disagreed with management over the level of assurance given. This related to the Debtors system and was around different views on the level of risks and controls associated with our findings. Management agreed our recommended actions and the matter was drawn to the attention of the Audit Committee.

Other Areas of Audit Activity

32. During the year we have undertaken the following work:
- Supporting the Police and Crime Panel task group
 - Audited and certified a number of grant claims
 - Moderated the Library Services expression of interest
 - Adult Services – serious case review
 - Specific audit for Lincolnshire Police
33. The County Council has five significant external clients:
- North Kesteven District Council
 - South Holland District Council
 - West Lindsey District Council
 - Newark and Sherwood District Council
 - Lincolnshire Academies
34. The net income generated from this arrangement is £100,080.

Quality Assurance

35. 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.
36. Our commitment to quality begins with ensuring that we recruit develop and assign appropriately skilled and experienced people to undertake your audits.
37. 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.
38. 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 and the annual review of the effectiveness of the Internal Audit Function by the Council.
39. 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.
40. Audit Lincolnshire conforms to the UK Public Sector Internal Audit Standards. Our quality assurance framework has however identified the following areas of improvement:
 - 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 Senior Management Team.
 - Reviewing the effectiveness of our audit report follow up process.
 - Working with managers to help us review our process for obtaining feedback about the results of our work – improving survey return rates.
41. A quality assurance improvement plan is in place to help us continually improve and develop.
42. The Council has undertaken its annual assessment of the effectiveness of its Internal Audit service. We are pleased to report that this assessment concluded that County Council has an effective system of internal audit.
43. 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.

Effectiveness of Internal Audit

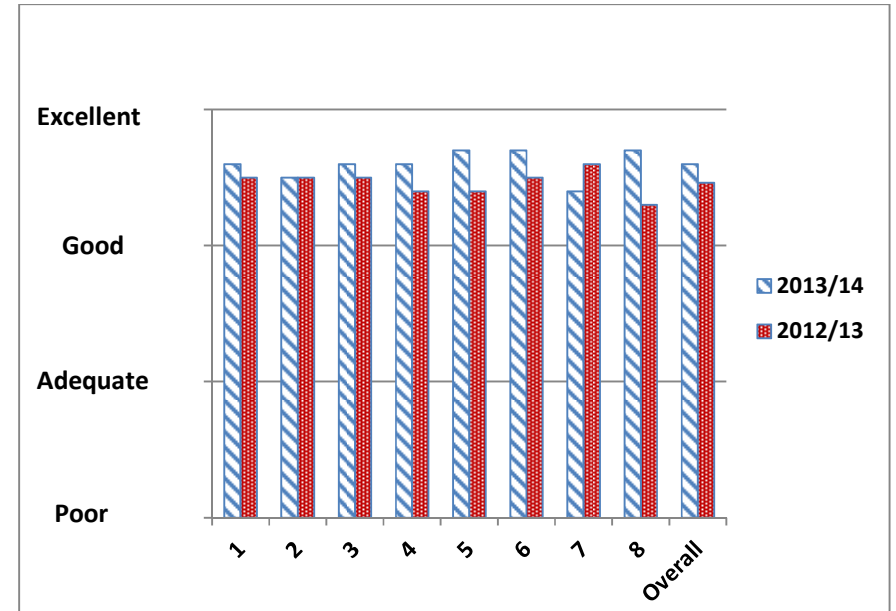
44. We regularly canvass opinions on audit planning, report and communication from management responsible for activities under review. They score the effectiveness of our service as excellent, good, adequate or poor.

The table in **Figure 1** outlines the responses by management on our service. For 2013/14 there was a 64% questionnaire return rate, the overall average rating for the service was good to excellent.

45 The net cost to the Council for the Service is:

- Audit £386,177
- Counter Fraud & Investigations £236,891
- Risk Management £ 61,677

Figure 1 - 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

Appendix 1

Assurances Given 2013/14

Activity	Assurance	Total Recs	Priority of Recommendations		
			High	Medium	Low
Performance & Governance					
People Management	Substantial	4	0	2	2
Broadband in Lincolnshire	Substantial	1	1	0	0
Corporate Governance	On-going ²	N/A			
Project & Programme Management	Limited	10	4	4	2
Performance Management	Substantial	7	0	3	4
Performance & Governance Assurance Map	Complete ³	N/A			
Total		22	5	9	8
Adult Services					
Customer Finance & Direct Payments Team	Substantial	6	1	4	1
Brokerage	Substantial	3	0	3	0
Organisational Learning	Postponed to 2014/15	N/A			
Quality Assurance	Substantial	Third party assurance			
Performance Management	Substantial	3	0	3	0
Reablement Service	Cancelled	N/A			
Transformation Programme	On-going	N/A			
Pro-active Support	On-going	N/A			
Case Management System	On-going	N/A			
Contract Management – Older People	Substantial	6	0	3	3
Adult's Assurance Map	Complete	N/A			
Total		18	1	13	4

² Ongoing involvement in this area by audit / risk team

³ Audit activity that did not generate an opinion report

Activity	Assurance	Total Recs	Priority of Recommendations		
			High	Medium	Low
Public Health					
Contract Management	Limited	6	2	3	1
Public Health Assurance Map	Complete	N/A			
Total		6	2	3	1
Children's Services					
Supported Childcare Allocations	Substantial	7	1	5	1
Child Poverty Strategy	Substantial	1	0	1	0
Additional Needs	No	2	2	0	0
Legal Changes to Schools	Cancelled	N/A			
Domestic Abuse	Substantial / Limited ⁴	6	1	5	0
Families Working Together	Substantial	4	0	3	1
Case Management System	On-going	N/A			
Access Databases	Included in above	N/A			
Contract Management	Effective	2		1	1
Birth to Five Service / CfBT	Ongoing	N/A			
Children's Assurance Map	Complete	N/A			
Total		22	4	15	3
Communities					
Carbon Reduction Commitment	Substantial	3	0	0	3
Flood Management	Full	1	0	0	1
Customer Service Centre	Limited	6	2	4	0
Civil Parking Enforcement	Substantial	3	0	3	0
Adult Services Transport	Postponed to 2014/15	N/A			
Spalding Western Relief Road	Cancelled	N/A			

⁴ The Audit opinion was split to acknowledge distinct activities / control environment in a system

Activity	Assurance	Total Recs	Priority of Recommendations		
			High	Medium	Low
Castle Revealed	Substantial	4	1	3	0
Contract Management	Substantial / Limited	6	1	5	
Communities Assurance Map	Complete	N/A			
Total		23	4	15	4
Resources & Community Safety					
Registrars	Full	0	0	0	0
Fire & Rescue Fleet Provision	Substantial	2	0	2	0
Youth Offending Service – U-18s Single Remand Order	Substantial	6	1	3	2
Trading Standards	Limited	4	3	1	0
Category Management	Substantial	3	2	1	0
MIMS System	No	10	4	4	2
Coroners – Use of Resources / Financial Management	Major improvement needed	39	21	18	0
Resource & Community Safety Assurance Map	Complete	N/A			
Total		64	31	29	4
Resources & Community Safety – Due Diligence					
Finance Systems					
Income	Full/Limited	8	1	6	1
Creditors	Sub/Limited	6	2	4	0
Debtors	Limited	18	5	6	7
Procurement Card	Sub/Limited	7	4	1	2
Pension Fund	Full	0	0	0	0
Pension Admin	Substantial	1	1	0	0
Public Health Due Diligence	Substantial	5	0	4	1
Tax Compliance	Limited	8	2	4	2

Activity	Assurance	Total Recs	Priority of Recommendations		
			High	Medium	Low
Quarterly testing x 4	Substantial	17	0	8	9
<i>Establishment visits</i>					
Boston Registrars	Full	1	0	0	1
The Beacon, Grantham	Substantial	6	0	2	4
Horncastle Business Centre	Limited	13	3	6	4
Eventus	Substantial	5	0	3	2
Lincolnshire Archives	Substantial	4	0	1	3
The Collection	Substantial	5	0	2	3
<i>Other</i>					
Risk Management	Substantial / Limited	4	1	3	0
Total		108	19	50	39
ICT					
ICT Strategy	On-going due to FDSS	N/A			
ICT Assurance Map	In-progress	N/A			
Total for LCC		263	66	134	63
Due by 31 March 2014			13	53	63
Due after 31 March 2014			53	81	

End of Appendix 1

Appendix 2

Details of School Audits 2013/14

School	Assurance	Total Recs	Priority of Recommendations		
			High	Medium	Low
Alford Primary School	Substantial	7	0	4	3
Boston St Thomas CE Primary School	Substantial	11	1	6	4
Caistor Primary	Substantial	8	0	4	4
Colsterworth CE Primary School	Substantial	5	0	4	1
Grantham St Mary's RC Primary School	Full	4	0	1	3
Holbeach William Stukely CE VA Primary	Substantial	9	0	7	2
Louth Eastfield Infants & Nursery School	Substantial	13	3	5	5
Mareham-le-Fen CE Primary School	Full	4	0	2	2
Kelsey Primary School	Limited	12	3	6	3
Market Deeping William Hildyard Primary	Substantial	4	0	3	1
Morton CE Primary School	Substantial	10	0	7	3
Osournby Primary School	Substantial	9	0	6	3
Osgodby Primary School	Substantial	9	0	5	4
Potterhanworth CE Primary School	Limited	24	2	10	12
Reepham CE Primary School	Substantial	11	2	5	4
Ropsley CE Primary School	Substantial	7	0	5	2
Ruskington Winchelsea Primary School	Substantial	7	0	6	1
Skegness Seathorne Primary	No	26	9	11	6
Sleaford Church Lane Infant School	Substantial	15	1	11	3
South Hykeham School	Substantial	10	0	7	3
Spalding St John The Baptist Primary Sch	Substantial	12	0	7	5
Spalding St Norbert's RC Primary School	Limited	19	3	10	6
Stickney CE Primary School	Substantial	10	0	7	3
Sutton St James Primary School	Substantial	15	2	11	2

School	Assurance	Total Recs	Priority of Recommendations		
			High	Medium	Low
Tattershall Curzon CE Primary School	Substantial	5	0	4	1
Thurlby Community Primary School	Substantial	8	0	5	3
Saxilby Primary School	Limited	20	4	6	10
Shepeau Stow Primary School	Substantial	13	0	12	1
Spalding Special Schools Federation	Substantial	22	1	13	8
Total for Schools		329	31	190	108

End of Appendix 2

Appendix 3

Outstanding Audit Recommendations at 31/03/14

Data is for audits completed 2013/14 where recommendations were due to be implemented by 31st March 2014.

Activity	Issue Date	Assurance	Total Recs	Recs Imp	Recommendations Outstanding			Recs not due
					High	Med	Low	
Communities								
Civil Parking Enforcement	Feb 14	Substantial	3	1		1		1
Children's Services								
Supported Childcare Allocations	Jan 14	Substantial	7	4	1	1		1
Resources & Community Safety								
Youth Offending Service – U-18s Single Remand Order	Aug 13	Substantial	4	3		1		
Due Diligence								
Income	Jan 14	Full / Limited	8	3		1	1	3
The Beacon	Mar 14	Substantial	6	1		1		4
Total			28	12	1	5	1	9

End of Appendix 3



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 improvement plan - HIA reporting to Audit Committee on the outcome of Quality Assurance – with improvement action plan and any significant non-conformance included in the Annual Report / Annual Governance Statement



Ongoing monitoring – quality built into the audit process

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 on-going assurance that 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.

