

**Lincolnshire County Council**

**Internal Audit Plan  
2015/16**



*Public Sector Auditing.... Private sector Thinking*





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## Introduction

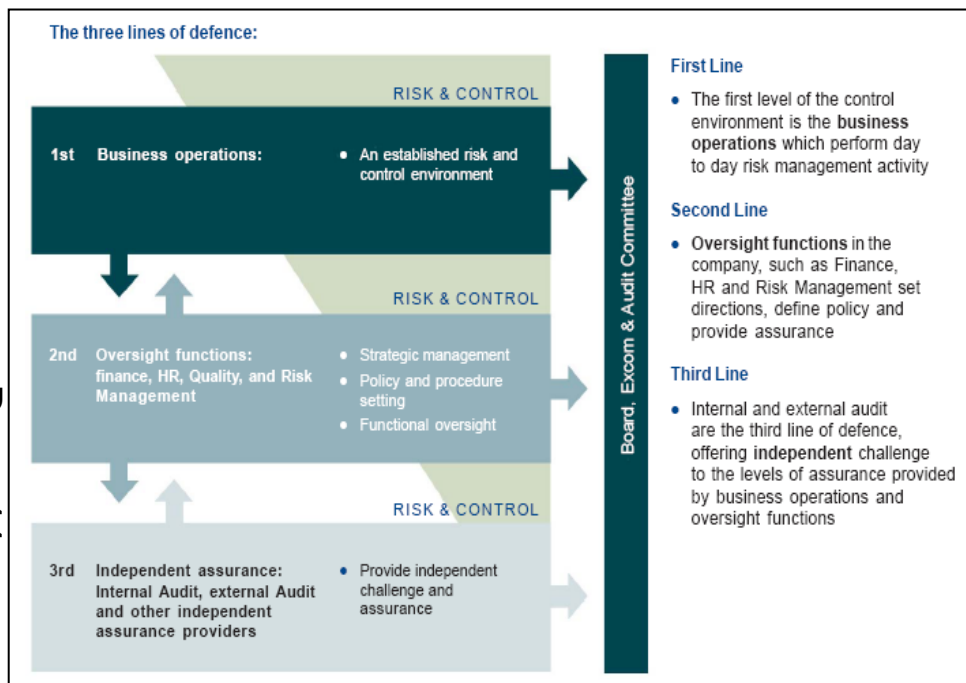
1. This report summarises the proposed work of Internal Audit for 2015/16. The aim is to give a high level overview of areas we are likely to cover during the year – giving you an opportunity to comment on the proposals.
2. The audit plan has been developed to enable us to respond to changes during the year. Whilst every effort will be made to deliver the plan, we recognise that we need to be flexible and prepared to revise audit activity – responding to changing circumstances or emerging risks. The plan is therefore a statement of intent – our liaison meetings with senior management will enable us to firm up audit activity during the year
3. Internal Audit is a statutory service required under the Account and Audit regulations 2011. We provide independent assurance designed to add value and improve how the Council operates. We help the Council achieve its priorities and objectives by bringing a systematic, disciplined approach to evaluate and improve the management of risk, control and governance processes.
4. Our work is carried out in conformance with the UK Public Sector Internal Audit Standards. These require that the scope of Internal Audit covers the whole range of the Council activities - seeking to provide an annual internal audit opinion on the governance, risk and internal control environment of the Council, which has been established to:
  - Achieve strategic objectives
  - Ensure effective and efficient operational systems and programmes
  - Safeguard assets and interests of all kinds (including risks that relate to work it undertakes through partnerships)
  - Ensure the reliability and integrity of financial and operational information
  - Ensure economic, efficient and effective use of council resources

- Ensure compliance with established policies, procedures, laws, regulations and contracts

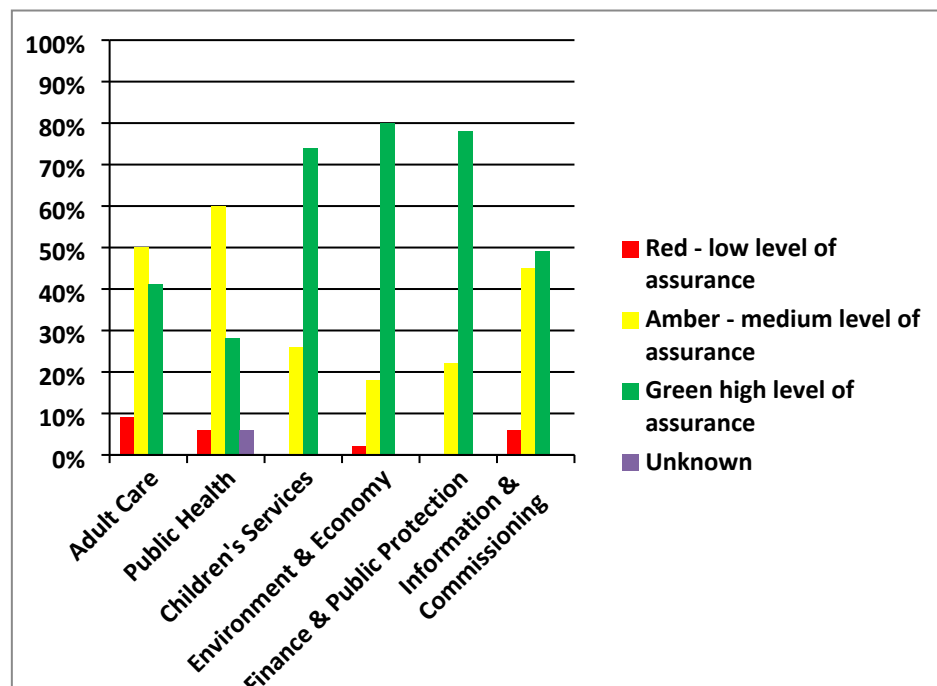
## Our Internal Audit Strategy

5. Our Internal Audit strategy has been developed to take into account management's assessment of risk (including those set out in strategic and operational risk registers) and the assurances present on the Council's critical systems and key projects (the Council's assurance map).
6. We also use our own risk assessment against each activity assessing their significance, sensitivity and materiality – ranking the activity as high, medium or low risk. This allows us to prioritise possible areas to be included in the plan on the basis of risk. A copy of our risk assessment methodology is attached in Appendix A.
7. Our aim is to align our work with other assurance functions – seeking to look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council.
8. We intend to leverage assurance from these other sources to enable the Head of Internal Audit to provide their Annual Audit Opinion on the Council's governance, risk and control framework for 2016.
9. We have identified the level of assurances in place by using the 'Three lines of defence (assurance)' model – see Figure 1.
10. The combined assurance map shows us where we can co-ordinate our assurance work across the whole Council, not just those from Internal Audit. Figure 2 below shows the current assurance levels for each Executive Director.

**Figure 1: The three lines of defence (assurance) model**



**Figure 2: Overall Assurance Levels 2015**



11. Although we undertake a risk assessment each year to develop our risk based audit plan – there are a number of key processes that are fundamental to the running of the Council which we review on a cyclical basis – usually once every 3 years. These systems are shown in Appendix B.

12. Analysing the assurance map may identify a number of specific critical and low risk activities - which we do not have the resources to review. The Audit Committee can specifically request management to provide

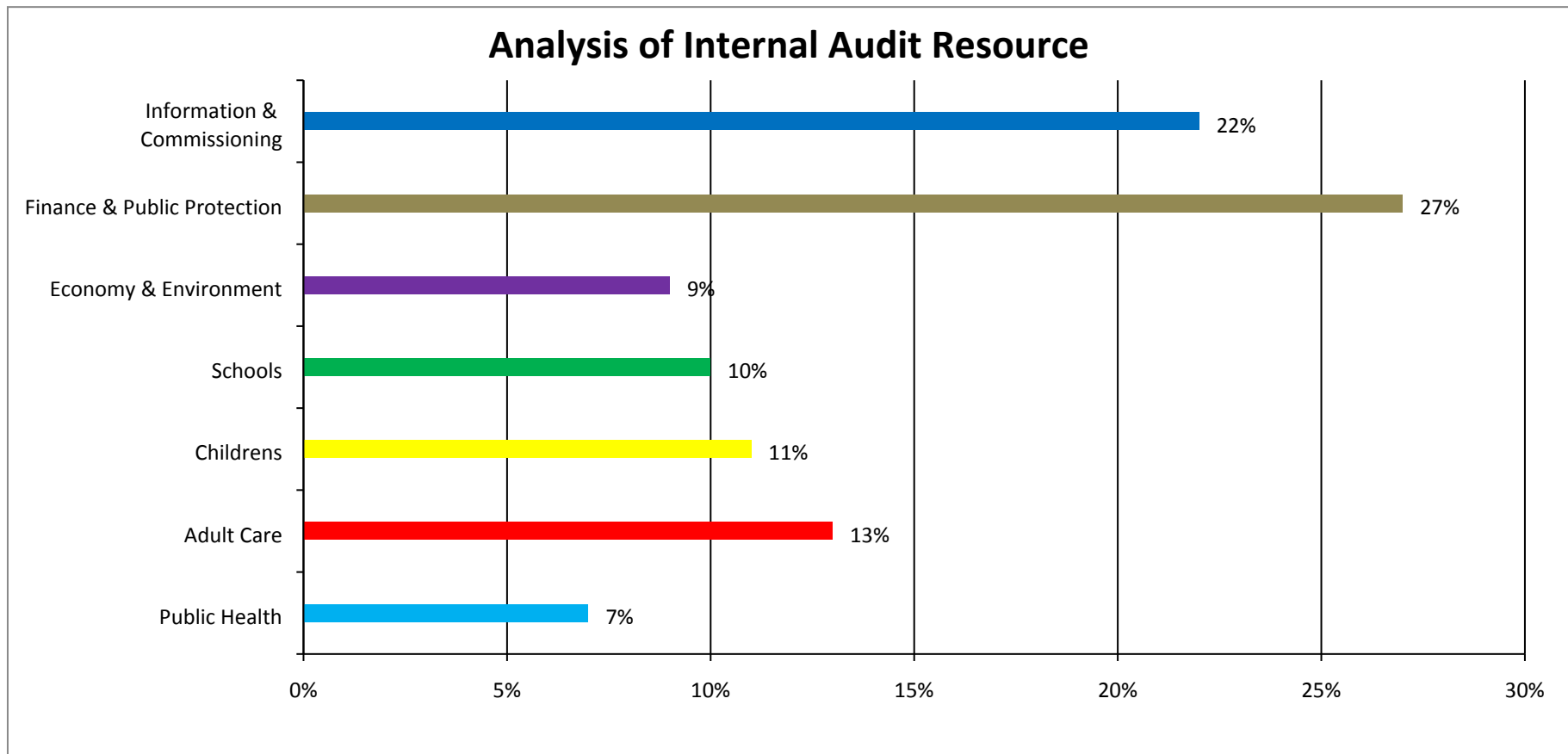
assurance on these areas. Once the assurance map has been agreed we will provide a further report to Audit and Accounts Committee with more details.

13. We co-ordinate our work on key financial systems with the Council's External Auditors, KPMG. We work to a joint working protocol which sets out where the External Auditor seeks to place reliance on our work. This ensures that the Council gets the most out of its combined audit resource – keeping audit fees low.

# Draft Internal Audit Plan 2015/16

- 14. We propose to allocate our audit resources across each Executive Director area as shown in Figure 3 with the proposed audits detailed in Appendix C. The audit plan identifies some specific areas that will be delivered but also shows potential areas which will be considered and agreed with management during the year. This will enable the audit team to respond to any new emerging risks that arise during the year where management require independent assurance.
- 15. The Council's Internal Audit Plan is 1230 days – a reduction of 9% compared to last year.

**Figure 3 – Analysis of Internal Audit Resource (showing % split)**



# Our Performance & Quality Assurance Framework

16. Audit Lincolnshire operates in conformance with standards of best practice applicable to Internal Audit - in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. Our audit team offer a wide depth of knowledge and experience gained across different organisations. We promote excellence and quality through our audit process, application of our Quality Assurance Framework (Appendix D) and our training and development programme.

17. Our Quality Assurance Framework includes all aspects of the Internal Audit Activity – including governance, professional practice and communication.

18. Our Internal Audit Charter sets out the nature, role, responsibilities and authority of the Internal Audit service within the Council – this was

19. approved by the Audit Committee. Internal Audit remains sufficiently independent of the activities that it audits to enable auditors to perform their duties in such a way that allows them to make impartial and effective professional judgements and recommendations.

20. We use a number of ways to monitor our performance, respond to feedback and seek opportunities to improve. Evidence of the quality of our audits is gained through feedback from auditees and the results of supervision and quality assurance undertaken as part of our audit process.

21. Our performance measures are set out below in Figure 4 for information:

**Figure 4 – Our performance measures**

Performance Indicator	Target
Percentage of plan completed.	100% (revised plan)
Percentage of key financial systems completed.	100%
Percentage of recommendations agreed.*	100%
Percentage of recommendations implemented.*	100%
Timescales	<ul style="list-style-type: none"> <li>▪ Draft report issued within 10 working days of completing audit.</li> <li>▪ Final report issued within 5 working days of closure meeting / receipt of management responses.</li> <li>▪ Period taken to complete audit – 80% completed within 2 months from fieldwork commencing to the issue of the draft report.</li> </ul>
Client Feedback on Audit (average)	Good to excellent

\* Achievement of the performance measures on recommendations agreed and implemented are not within our control. These are reported so the Audit Committee can see what actions management have taken. The details of any recommendations not agreed will be included in the executive summary and report to Committee.

## Audit Lincolnshire Partnership – Resources

22. The County Council works in partnership with the City of Lincoln for the provision of internal audit services to their own authorities and authorities with whom they have contractual or other agreements.

23. By working together the partnership aims to be:

*‘the best audit assurance provider for Lincolnshire public sector agencies’.*

24. The partners deliver 6 of the 8 Lincolnshire local authority internal audit functions - plus Newark and Sherwood District Council. We have developed excellent relationships, demonstrating the relevant skills and expertise to deliver a comprehensive audit service to our clients. By working together we improve the overall quality of the service provided through:

- Sharing of knowledge and experience
- Adoption of leading audit techniques and methods
- Pooling resources across the organisations to make savings, improve efficiency and offer greater value for money to our clients through streamlining our audit plans to audit / research specific areas of common interest.

25. 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

The net income generated from this arrangement is £119,435. Our budget also includes income of £10,200 for fraud recoveries – we usually exceed this target. **Figure 5** below shows how our resources are distributed across our clients

26. The delivery model for the Internal Audit Service is mixed – a combination of in-house staff and external resources. This enables the service to be responsive to changing demand and buy in specialist resources as required eg ICT Audit.

27. There are sufficient resources to support the Section 151 Officer. This helps ensure the Council meets the requirements of the Accounts and Audit Regulations for maintaining an adequate and effective internal audit function and governance, risk and internal control environment.

28. The net budget for the Internal Audit Service, including Counter Fraud for 2015/16 is £551,574 - a reduction of £87,726 (14%).

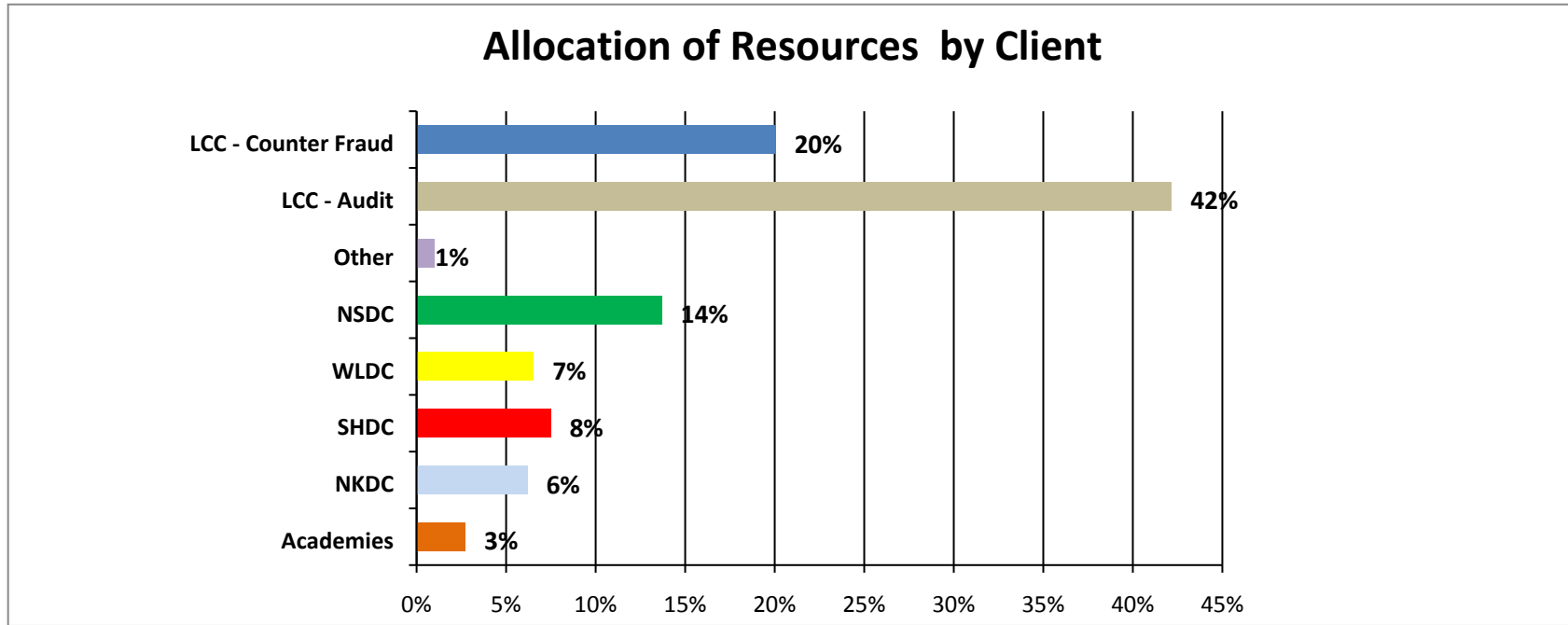
29. The service will be reviewed during 2015. This review will seek to maximise the use of audit resources – balancing the provision of an effective internal audit service with what the Council can afford.

30. This review will inevitably have some impact on the delivery of the plan during the year due to organisational change.

31. The service also generates income of £48,000 through providing an Academies Insurance product and risk management services.

32. The above initiatives minimise the overall cost of the Audit and Risk Service to the Council with any underspends and fraud recoveries being made available to other Council priorities / services.

Figure 5 – Resource Allocation across our Client Base





# Appendix A – Audit Lincolnshire – Planning Risk Assessment Methodology

## Value / Volume

This assessment is based on either the cost to the council, the volume of transactions that the activity is handling or a combination of the two

- 0 – Not material
- 1 – Minor importance (up to £100k<sup>1</sup> budget and approx. weekly transactions)
- 2 – Important (up to £1m<sup>2</sup> budget and up to daily transactions)
- 3 – Material (over £1m budget and multiple transactions daily)

## Audit rating

- 0 – recent review no significant findings (full / substantial)
- 1 – Recent review with findings (limited)
- 2 – Not recently reviewed (3 years)
- 3 – Recent review – number of significant findings (No assurance)

## Sensitivity / Profile (Risk)

This assessment is about the impact if things went wrong, how much interest would there be and how much would this impact on reputation

- 0 – low (internal system)
- 1 – Medium profile
- 2 – High profile

## Significance

This assessment reflects how important the activity is to the authority and its residents

- 0 – not significant
- 1 – Minor significance
- 2 – Significant
- 3 – Very significant

## Changes to people / systems

- 0 – no changes
- 1 – Minor changes
- 2 – Significant changes
- 3 – New system or team

## Other assurance

Other assurances we have identified during the mapping process and how much reliance we can place on these.

- 0 – high level of assurance – e.g. Snr mgmt. oversight / management reporting / activities / external review / scrutiny
- 1 – Moderate level of assurance – management assurance
- 2 – Low level of assurance – new area – assurance unknown – emerging risk

Risk score		Risk score		Risk score	
1	<b>Low</b>	7	<b>Med</b>	12	<b>High</b>
2		8		13	
3		9		14	
4		10		15	
5		11			
6					

<sup>1</sup> £500k for County

<sup>2</sup> £5m for County

## Appendix B – Cyclical Due Diligence Plan

System	Opinion	Last audited	System Changes	Year 1 2014/15	Year 2 2015/16	Year 3 2016/17
<b>Due Diligence</b>						
<b>Payroll</b>	Substantial	2012/13	Yes – in 2015/16		✓	
<b>Creditors</b>	Limited - LCC Substantial - Mouchel	2013/14	Yes – in 2015/16		✓	
<b>Procurement Card</b>	Limited	2013/14	No			✓
<b>Income</b>	Full – centrally controlled Limited – Business Support	2013/14	Yes – in 2015/16		✓	
<b>Debtors</b>	Limited	2013/14	Yes – in 2015/16			✓
<b>General Ledger</b>	See Key Control Testing		Yes – in 2015/16			✓
<b>Bank Reconciliation</b>	Full	2012/13	Yes – in 2015/16		✓	
<b>Treasury Management</b>	Full	2012/13	Yes – in 2015/16		✓	✓
<b>VAT</b>	Full	2006/07	?			

System	Opinion	Last audited	System Changes	Year 1 2014/15	Year 2 2015/16	Year 3 2016/17
Pensions Admin	Substantial	2013/14	Yes – in 2015/16			✓
Pensions Fund	Full	2013/14	Yes – in 2015/16			✓
Budget Preparation /Management	Some improvement needed	2014/15	Yes – in 2015/16	✓		
Capital Programme	Full	2012/13	?		✓ ?	
Tax Compliance	Limited	2013/14				✓
<b>KEY CONTROL TESTING</b>						
<b>Payroll</b> Starters Leavers Changes Time claims Travel Claims Signals Reports Exception Reports Payroll Runs/BACS Returned Claims	Substantial	Throughout 2014/15	Yes – in 2015/16	✓	✓	✓
<b>Debtors</b> Write offs Amendment & Cancellations Customer Masterdata	Substantial	Throughout 2014/15	Yes – in 2015/16	✓	✓	✓

<b>System</b>	<b>Opinion</b>	<b>Last audited</b>	<b>System Changes</b>	<b>Year 1 2014/15</b>	<b>Year 2 2015/16</b>	<b>Year 3 2016/17</b>
<b>Creditors</b> Payment Runs Exception Reports Vendor Masterdata	Full	Throughout 2014/15	Yes – in 2015/16	✓	✓	✓
<b>Pensions Admin</b>	Full	Throughout 2014/15	Yes – in 2015/16	✓	✓	✓
<b>Pensions Fund</b>	Full	Throughout 2014/15	Yes – in 2015/16	✓	✓	✓
<b>General Ledger</b>	Full	Throughout 2014/15	Yes – in 2015/16	✓	✓	✓
<b>Bank Reconciliations/Cash</b>	Full	Throughout 2014/15	Yes – in 2015/16	✓	✓	✓
<b>Property, Plant and Equipment</b> Reconciliations Additions Disposals Revaluations	Full	2014/15	Yes – in 2015/16	✓	✓	✓

Financial Due Diligence audits are conducted on a 3 year cycle, Other Due Diligence are conducted of a 5 year cycle

## Appendix C – Draft Internal Audit Plan 2015/16

Area	Indicative Scope
<b>Critical Service Areas</b> Those areas identified by senior management as having the most impact on successful delivery of Council priorities or whose failure could result in significant damage to reputation, financial loss, impact on people (risks)	
<b>Executive Director – Pete Moore</b>	
Emergency Planning and Business Continuity	Review the Council's arrangements and resilience to respond and recover to a major event / incident.
Review of Coroner's Officers	To provide assurance in the following areas: <ul style="list-style-type: none"> <li>■ the structure is fit for purpose</li> <li>■ demand and case management</li> <li>■ IT use</li> <li>■ agile working</li> <li>■ leadership, governance and cultural</li> <li>■ local working practice</li> </ul>
<b>Executive Director – Richard Wills</b>	
Joint waste management strategy	Review to provide assurance on arrangements and progress for the district waste strategy. To include assessment of financial benefits and district engagement.
Adult Learning	Review of the financial arrangement in to confirm adequate financial control and sustainability

Joint Policy working / Joint Local Plan	<p>Review of joint policy working arrangements to ensure that LCC is clear of its role and responsibilities and is an active partner in managing the risks (link to JPU and Wind farm policies).</p> <p>Provide assurance on the revised delivery arrangements for the central Lincolnshire joint local plan and provide support and advice at key stages through gateway review.</p>
<b>Director of Children Services – Debbie Barnes</b>	
Families Working Together	To provide audit support as per the requirements of the grant
People Management	<p>Review the effectiveness, quality and compliance of the People Strategy launched in 2012 and the strands underpinning delivery of the Council's people management arrangements.</p> <p>Areas not previously reviewed in 2013/14:</p> <ul style="list-style-type: none"> <li>■ Resource &amp; Talent Management</li> <li>■ Capability and Disciplinary</li> <li>■ Managing Employee Performance &amp; Development</li> </ul>
Schools	Periodic audits of maintained schools.
<b>Director of Adult Services – Glen Garrod</b>	
Transformation Programme	<p>Review, advice and guidance around the transformation programmes within Social Care, including the Case Management System and Lincolnshire Health and Adult Care - considering the design and application of the governance structure.</p> <p>To provide proactive advice and support on governance, managing key risks and effective internal control.</p>
Lincolnshire Quality Assurance Framework (safeguarding)	Co-ordinate a self-assessment using the framework to provide positive assurance to the Lincolnshire Adult Safeguarding Board
Workforce Development	A review of training planning and delivery arrangements.

<b>Director of Public Health – Tony Hill</b>	
Joint Commissioning Board	Review of Joint Commissioning Governance and decision making processes.  (Co-ordinate audit with Director of Adult Services & Director of Children Services )
<b>Chief Information and Commissioning Officer – Judith Hetherington-Smith</b>	
EU procurement changes	Review of the procurement regulations to ensure that the necessary changes have been implemented.
ICT Infrastructure and service delivery	Work is underway to finalise ICT assurance map and status report – this will inform the choice of audits in this section of the plan.  Scheduling of individual ICT audits will be agreed when the assurance map is finalised.
<b>Due Diligence</b>	
- Those systems that support the running of the Council and ensure compliance with key policies	
Human Resources – SERCO	To provide assurance that the approach to managing the contract and transfer of staff is adequate to ensure continued support for the business
Key Control Testing	Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment.
Bank Reconciliation	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.  How often Internal Audit review these activities depends on previous assurance opinions, when we last examined the activity and if there has been any significant changes to the system or senior management. We also consider the requirements of External Audit.
General Ledger	
Payroll	
Income	
Creditors	
Budget Management – Agresso reporting	
Treasury Management	
People Management	
<b>ICT audit</b>	
ICT plays a vital role in supporting the Council's business and customer interface. Possible areas identified on the assurance map include: <ul style="list-style-type: none"> <li>■ ICT strategy</li> <li>■ Disaster recovery &amp; resilience</li> </ul>	

- Key Application Audit – Agresso and Case Management System (MOSIAC)

### Emerging Issues and Key Risks

To enable Internal Audit to respond to changes during the year we will meet regularly with Senior Management to agree which areas to focus our audit assurance work.

The following areas have been identified through our risk assessment and on the assurance map as possible areas to focus audit activity:

#### **Executive Director – Pete Moore**

- Youth Offending
- Trading Standards

#### **Executive Director – Richard Wills**

- Flood Management
- Lincolnshire Supported Bus Service
- Capital Projects
- Highways Maintenance – Revenue Contract

#### **Director of Children Services – Debbie Barnes**

- Exclusions
- Special Educational Needs and Disabilities Reform
- 14-19 Strategy
- Closing the Gap
- Social care and SEND transport

#### **Director of Adult Services – Glen Garrod**

- Mental Health Services
- Carers

#### **Director of Public Health – Tony Hill**

- Customer Service Centre
- Health Improvement, prevention and self-management



- Integrated & Equipment Service

**Chief Information and Commissioning Officer – Judith Hetherington-Smith**

- Procurement Cards
- Procurement Lincolnshire - Governance

**Other relevant Areas**

Combined Assurance	Updating assurances on the Council's assurance map with senior managers and helping to co-ordinating the annual status report.
Follow up of Recommendations	Audit Reports issued during 2014/15 where an audit opinion of 'major improvement' or 'inadequate' will be followed to establish progress in implementing agreed management actions.

**Non-Audit**

Advice & Liaison	
Annual Report	
Annual Governance Statement	
Audit Committee	
<b>Total Planned Days 1230</b>	

# Appendix D – Quality Assurance Programme



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.