



County Offices  
Newland  
Lincoln  
LN1 1YL

17 September 2021

**Audit Committee**

A meeting of the Audit Committee will be held on **Monday, 27 September 2021** in the **Council Chamber, County Offices, Newland, Lincoln LN1 1YL** at **10.00 am** for the transaction of business set out on the attached agenda.

Yours sincerely

A handwritten signature in black ink that reads 'Debbie Barnes'.

Debbie Barnes OBE  
Chief Executive

**Membership of the Audit Committee**

**(7 Members of the Council and 2 Non-Voting Added Members)**

Councillors Mrs S Rawlins (Chairman), M G Allan (Vice-Chairman), S Bunney, P E Coupland, J L King, P A Skinner and A N Stokes

**Non-Voting Added Members**

Mr I Haldenby, Independent Added Member  
Mr A Middleton, Independent Added Member



**AUDIT COMMITTEE AGENDA  
MONDAY, 27 SEPTEMBER 2021**

<b>Item</b>	<b>Title</b>	<b>Pages</b>
<b>1</b>	<b>Apologies for Absence</b>	
<b>2</b>	<b>Declarations of Members' Interests</b>	
<b>3</b>	<b>Minutes of the meeting held on 12 July 2021</b>	5 - 12
<b>4</b>	<b>Updated Draft Statement of Accounts 2020/21</b> <i>(To receive a report from Michelle Grady, Assistant Director - Finance, which updates the Committee on the changes made so far to the draft Statement of Accounts 2020/21)</i>	13 - 16
<b>5</b>	<b>Update on Progress of External Audit of Accounts 2020/21</b> <i>(To receive a report from Mazars, External Auditors, which updates the Committee on the progress they have made on both the Lincolnshire County Council and Pension Fund audits)</i>	17 - 44
<b>6</b>	<b>Internal Audit Progress Report</b> <i>(To receive a report from Lucy Pledge, Head of Internal Audit and Risk Management, which provides the Committee with details of the audit work completed to 31 July 2021 and updates on the progress of the audit plan)</i>	45 - 68
<b>7</b>	<b>Risk Management Progress Report</b> <i>(To receive a report from Debbie Bowring, Principal Risk Officer, which provides the Committee with assurance that the systems and processes in place to enable decision makers to understand the level of risk being taken and the Council is prepared to accept)</i>	69 - 84
<b>8</b>	<b>Internal Audit – External Quality Assessment</b> <i>(To receive a report from Lucy Pledge, Head of Internal Audit and Risk Management, which invites the Committee to confirm conformance to the PSIAS, therefore ensuring that the Council maintains an effective internal audit function, supporting continuous improvement)</i>	85 - 150
<b>9</b>	<b>Work Programme</b> <i>(To receive a report by Lucy Pledge, Head of Internal Audit and Risk Management, which invites the Committee to consider its work programme for the upcoming year)</i>	151 - 160

### **Democratic Services Officer Contact Details**

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**Please Note:** for more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting

- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details set out above.

Please note: This meeting will be broadcast live on the internet and access can be sought by accessing [Agenda for Audit Committee on Monday, 27th September, 2021, 10.00 am \(moderngov.co.uk\)](#)

All papers for council meetings are available on:  
<https://www.lincolnshire.gov.uk/council-business/search-committee-records>



**AUDIT COMMITTEE  
12 JULY 2021**

**PRESENT: COUNCILLOR M G Allan (Vice-Chairman)**

Councillors, S Bunney, P E Coupland, P A Skinner and A N Stokes

Also in attendance: Mr I Haldenby (Independent Added Member) and Mr A Middleton (Independent Added Member)

Councillors: M Whittington attended the meeting as observers

Officers in attendance:-

Rob Close (Democratic Services Officer), Michelle Grady (Assistant Director – Finance), Lucy Pledge (Head of Internal Audit and Risk Management) and Matthew Waller (Internal Audit Manager)

The following officers joined the meeting remotely via Teams:-

David Coleman (Chief Legal and Monitoring Officer), Dianne Downs (Team Leader - Counter Fraud and Investigations), David Ingham (Head of Information Assurance), Sue Maycock (Head of Finance (Corporate))

10 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors S Rawlins and J L King.

11 DECLARATIONS OF MEMBERS' INTERESTS

No declarations of interest were made with respect to any items on the agenda.

12 MINUTES OF THE MEETING HELD ON 28TH JUNE 2021

That the minutes of the meeting held on 28 June 2021 be confirmed and signed by the Chairman as a correct record.

13 INTERNAL AUDIT ANNUAL REPORT 2020/21

Lucy Pledge (Head of Internal Audit and Risk Management) introduced a report that presented the Internal Audit Annual Report which gave her opinion on the adequacy of the Council's Governance, Risk and Control environment and delivery of the Internal Audit plan for 2020/21.

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**12 JULY 2021**

The Committee asked what sort of efficiencies SMARTER working could result in. The Head of Internal Audit and Risk Management suggested that efficiencies came from time saved from travelling by using Microsoft Teams for meetings for example. However, she noted that face to face conversations still had a place within the process. In a follow up point, the Committee noted that the preservation of efficiencies hadn't get been proven. The Head of Internal Audit and Risk Management explained that at the 14th June meeting of the Audit Committee, she offered to bring forward a report on the control environments for smarter working, this was still the intention. However, she stated that the Council had been operating over the last year from home; the governance framework was considered to be robust enough to adapt.

Referring to the overdue actions, the Committee asked if some of these, dated back to January 2019, were any closer to being completed. The Head of Internal Audit and Risk Management explained that these were tracked every quarter with their continued relevance was being considered. The Audit Manager suggested that an update be given at the next progress report to give more of an overview with expected completion dates

The Committee noted that there seemed to be gaps in the delivery of the ICT Audit, they sought further explanation. The Head of Internal Audit and Risk Management explained that the majority of the audits were delivered. There were, however, some challenges in delivery when the IT service is provided by an external partner. The Audit Manager offered assurance that the Audit Team continually look forward and liaise on issues of ICT. The Committee appreciated that, particularly with IT, resources often had to be focused on delivery rather than assurance.

**RESOLVED**

That the Internal Audit Annual Report 2020/21 report be noted.

**14**      **REVIEW OF COUNCIL'S GOVERNANCE ARRANGEMENTS AND APPROVAL OF ANNUAL GOVERNANCE STATEMENT**

The Head of Internal Audit and Risk Management introduced a report that presented the Council's Annual Governance Statement and explained that the Council was required to reflect on how well its governance framework had operated during the year and to identify any governance issues that needed to be drawn to the attention of Lincolnshire's residents.

While appreciating the impact of Covid-19, the Committee were disappointed that the Council weren't assessed as performing well on all four key areas. They asked if officers have a plan, with time scales, as to how to address this. The Head of Internal Audit and Risk Management explained that the statement that the Council was performing adequately on these areas was her opinion, for which she received questions from senior officers. However, she stressed that her opinion was likely more cautious than other's. Action plans for improvement were identified through the performance framework; Corporate Leadership Team had separate action plans to address this. She expected some of these would be completed within 2021. In addition, she stressed that 'performing adequately' was in fact a

reasonable technical term within assurance and audit language and meant that the Council was performing reasonably.

The Committee felt that direction of travel had differed significantly over the past year, thus, the Head of Internal Audit and Risk Management's suggestion of adequate assurance was likely accurate, particularly that of financial and internal controls. They asked if any feedback had been received challenging the structure of this. The Head of Internal Audit and Risk Management explained that this statement had been endorsed by the Corporate Leadership Team who took full responsibility. The statement had also been shared with the Leader of the Council. In a follow up questions, the Committee asked if working from home resulted in reduced performance for staff. The Head of Internal Audit and Risk Management acknowledged the Council's delivery model had changed, resulting in both positivity and areas of improvement. Councillor Whittington, Executive Support Councillor for Resources, Communications and Commissioning, offered to pass the smarter working apprehensions onto the Leader of the Council.

Referencing a number of limited assurances identified within the report, the Committee sought assurance that the safeguards were sufficient. The Head of Internal Audit and Risk Management stressed assurance indicators had been put in place by accountable managers rather than herself as the Head of Audit and Assurance. She suggested the work programme be indicated to invite accountable managers to offer assurance to the Committee on those risks.

RESOLVED

1. That the Committee agree that the Annual Governance statement accurately reflects how the Council is run.
2. That the statement included the significant governance issues/key risks it would have expected to be published.
3. That the statement be approved by the Committee and its adoption is recommended for approval by Council.

15     DRAFT STATEMENT OF ACCOUNTS 2020/21

Michelle Grady (The Assistant Director – Finance) introduced the draft Statement of Accounts for 2020/21 financial year. The final Statement of Accounts for 2020/21 would be presented to the Audit Committee on 27<sup>th</sup> September 2021 following the external audit process.

The Committee asked how accurate the property asset values identified within the report were after the impact of the Covid-19 pandemic. The Assistant Director – Finance explained

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12 JULY 2021**

that the Council had a five year rolling programme to revalue all of the Council's assets. Last year, under the guidance of surveyors, the external auditors included a note of caution in the accounts. The Council's property assets had in fact increased in value over the past year. If there was a drop in value, it would be detailed in the unuseable reserves.

While appreciating why employee annual leave may have not been taken in the past year, the Committee asked for further detail on this. The Assistant Director – Finance explained that a survey was carried out across staff but would have increased during 2020/21 as staff possibly couldn't take leave due to increased Covid work demands. From 2020/21 to 2021/22 staff had temporarily been allowed to carry over additional leave to normal.

The Committee sought confirmation that controls for purchasing had been maintained throughout the past year. The Assistant Director – Finance stressed all standard controls continued throughout the Covid-19 pandemic. Some procurement had been delayed as it wasn't considered appropriate in the middle of the pandemic. All extensions or unexpected purchases had been carried out through the authority of the normal governance structure.

The pandemic had resulted in a decreased demand in services; the Committee asked how the Council intended to deal with a demand resurgence coming back in a future. The Assistant Director – Finance stated that some services hadn't been delivered, resulting in underspend. While such underspend would be reviewed, she noted that demand for services such as public health, would likely return in the future.

Other commercial organisations were considering less accommodation for staff to work in, the Committee asked if the Council were looking at redistributing resources to support a more digital way of working. The Assistant Director – Finance explained that, within the smarter working agenda, a reduction in the Council's property was expected.

Appreciating the risks and liabilities that could arise when operating trading companies, the Committee sought further clarity on their governance and intents. The Assistant Director – Finance gave an overview of the Council's current trading companies and offered assurance in their governance. Transport Connect was a passenger transport company which the Council took ownership of because of failure in the market. The intent behind the creation of Transport Connect was to provide a transportation service to residents rather than to make profit. Lincolnshire Future and Lincolnshire Property hadn't traded since their creation. Any decision to make them operational would have to go through the Executive. Legal Services offered a shared service with Lincolnshire's District Councils. In addition, the liabilities of these companies were detailed within their accounts.

The Committee noted that the Council's reserves were fairly similar to previous years<sup>1</sup>; they asked if they were still considered sufficient as the Council moved out of the pandemic. The Assistant Director – Finance explained that the Council had to complete a going concern



statement which set out its financial position. This would be considered by the external auditors as part of the Council's accounts. The Council's reserves, which currently sat at just over 3 per cent, were within its policy of maintaining a level of 2.5 to 3.5 per cent.

The Committee noted that they would have preferred if the narrative report could include more detail for forward looking consideration. The Assistant Director – Finance understood their preference and agreed.

Making reference to the short and long term provisions detailed within the report, the Committee asked if the usage that hadn't been replenished, had been specifically depleted from a provision. The Assistant Director – Finance explained that the insurance claims provisions were based on claims that the Council already had in the system; the insurance reserves had in fact increased.

Referring to the increase in senior officers' remuneration, the Committee felt that further narrative explanation would be of benefit. The Assistant Director – Finance explained that this had been addressed in previous years. She added that narrative complied with the CIPFA code reporting requirements and the Council didn't typically have enquires about this. However, this approach would be revisited if more of an interest was taken. In a follow up question, the Committee asked if the Council had a maximum on staffing costs as they do in the NHS. The Assistant Director – Finance stated that there was nothing in particular detailing how the Council had to spend its budget; as this was a local decision for elected members.

The Committee noted that inflation had particularly hit the construction industry's material costs, how was the Council taking this into account. The Assistant Director – Finance explained that the Council were indeed seeing a growth in tender prices. The Capital Programme budget was set in January; prices had increased since then. This was be considered during the budget setting process when the whole programme needed to be reviewed.

The Committee sought clarity on the cause of the underspend for service areas. The Assistant Director – Finance explained that it resulted from a combination of reduced demand, resources being redirected into the Covid response which was covered by grant funding for example Adult Care and Community Wellbeing.

**RESOLVED**

That the comments of the Committee on the draft Statement of Accounts 2019/20 be noted.

**16      INFORMATION ASSURANCE ANNUAL REPORT 2020/21**

David Ingham (Head of Information Assurance) presented the Information Assurance Annual Report 2020/21. The report focused on data protection, records management and information security.

The Committee sought confirmation that officers working from home wouldn't result in any intentional, or unintentional, data breaches or fraud. The Head of Information Assurance explained that the Information Assurance team worked closely with colleagues to ensure adherence to data protection with clear policies and controls in place. He was confident that current arrangements were capable of reducing risk.

Making reference to the suggestion that the timeframe for the project to tackle legacy records would be extended, the Committee sought further detail to what extent this would be. The Head of Information Assurance confirmed the extension came within a new four year project which sought to address the displacement of records as working accommodation was rearranged, as well as tackling on going legacy records and offsite storage. Sensitive records were prioritised and addressed first.

Registering their concern of the reference to 'unknown historic records', the Committee sought assurance that this issue was being effectively managed. The Head of Information Assurance explained that as working accommodation was being rearranged, legacy records were being identified. When a building was identified for decommissioning, Information Assurance Officers worked with Property and the relevant service area to ensure records were recovered. While the project was large and challenging, the Head of Information Assurance assured the Committee that it was achievable and would reduce holdings. He offered to circulate a report which would set out the planned approach. . In a follow up question, the Committee sought confidence that buildings that had been historically decommissioned by the Council, had gone through the same rigorous decommissioning process. The Head of Information Assurance suggested a key indicator of such an issue would be breaches being highlighted by new occupants or members of the public. No such breaches were raised.

**RESOLVED**

1. That the Information Assurance activity for 2020/21 be noted.
2. That key activity demonstrating that the Information Assurance function remains effective and relevant to the council's needs be noted.
3. That the Committee receive a report providing them with further detail of data protection for decommissioned buildings.

17     MONITORING OFFICER'S ANNUAL REPORT

David Coleman (Chief Legal and Monitoring Officer) presented the Monitoring Officer's Annual Report for 2020/21.

The Committee asked, for the areas identified as faults by the Local Government Ombudsman, for more detail about how internal processes had been changed in response to the Ombudsman's findings. The Monitoring Officer offered to circulate further detail to the Committee.

RESOLVED

That the Monitoring Officer's Annual Report 2020/21 be received.

18     COUNTER FRAUD ANNUAL REPORT 2021/22

Dianne Downs (Team Leader - Counter Fraud and Investigations) presented information on the overall effectiveness of the Council's arrangements for counter fraud and corruption.

Of the internal cases found and dismissed, the Committee asked if the opportunities for fraud been identified and addressed. The Team Leader – Audit stated that in larger corporate fraud cases, controls could effectively be looked at; this was more difficult in smaller and less resourced environments. She offered to circulate a detailed breakdown of the 2021/22 fraud cases to the Committee.

Referencing the bench marking undertaken with alternative authorities, the Committee sought further detail on the extent its effectiveness. The Team Leader – Audit noted that bench marking was particularly difficult to undertake because the data differed so significantly. Some County Councils undertook fraud investigations on behalf of District Councils, in addition, the nature of the fraudulent activity differed dependant on the local authority. The Lincolnshire County Council statistics presented within the report were solely LCC investigations; however, the costs also included the support offered to District Councils. The Head of Internal Audit and Risk Management stated that officers had been asked by the Committee previously to provide some benchmarking statistics. This was why the data had been included, even though it was difficult to make comparisons. She added the Council had invested in its county fraud services saving approximately £12.2 million in the last 10 years.

RESOLVED

That the Counter Fraud Annual Report for 2020/21 be noted.

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**AUDIT COMMITTEE**

**12 JULY 2021**

19 ANNUAL WHISTLEBLOWING REPORT

The Team Leader - Counter Fraud and Investigations presented a report which gave an overview of the Council's whistleblowing arrangements.

RESOLVED

That the Committee note the whistleblowing activity for 2020/21 and the on going work to raise awareness and provide assurance on the effectiveness of the Council's arrangements for whistleblowing.

20 WORK PROGRAMME

The Head of Internal Audit and Risk Management introduced the Work Programme which provided the Committee with core assurance activities currently scheduled for the 2021 work programme.

She suggested that a deeper drive into some of the limited risks on the strategic risk register appeared to be to the interest of the Committee. In addition, a further update on paper records management and smart working control environments.

RESOLVED

That the Committee's work plan be noted.

The meeting closed at 1.39 pm



**Open Report on behalf of Andrew Crookham, Executive Director of Resources**

Report to:	<b>Audit Committee</b>
Date:	<b>27 September 2021</b>
Subject:	<b>Updated Draft Statement of Accounts 2020/21</b>

**Summary:**

The Council's draft Statement of Accounts 2020/21 presented to the Audit Committee on 12 July is currently being audited by the Council's external auditor, Mazars. A number of changes have been made to the Statement of Accounts. This report brings members up to date with the changes made so far.

The updated draft Statement of Accounts for Lincolnshire County Council for the financial year 2020/21 is attached to this report as Appendix A.

A list of changes to the draft Statement of Accounts 2020/21 presented to the Audit Committee on 12 July 2021 is attached to this report as Appendix B

The final Statement of Accounts for 2020/21 will be presented to the Audit Committee following the conclusion of the external audit process.

**Actions Required:**

Members of the Audit Committee are asked to comment on the changes made to the Updated Statement of Accounts 2020/21.

**1. Background.**

1.1 The Audit Committee scrutinised the Council's draft statement of Accounts 2020/21 at its meeting held on 12 July 2021. Since that time the external audit process has been progressing and a number of minor changes have been made to the Accounts.

1.2 An updated Statement of Accounts 2020/21 has now been produced and a copy of this document can be found in Appendix A.

1.3 A list of all the changes made to the Statement of Accounts 2020/21 can be found in Appendix B. To date, there are very few significant changes made, the main one to note relates to the Pension Fund Accounts and is described below:

- The Pension Accounts presented to the Audit Committee in July included all 31 March asset valuation information received by the Fund to the end of June. Pension Fund Officers have proactively tracked updated asset information over the summer and have adjusted the financial statements to include these valuations. There are still a number of 31 March valuations due from investment managers. When these are received they will be reviewed, and if considered material, incorporated into the final version of the accounts.

1.4 The audit is not yet complete and a final Statement of Accounts will be reported to this committee once the audit process has concluded. Mazars will provide an update on their audit progress to date as part of another item on this agenda.

## 2. Conclusion

2.1 The audit process is currently going well with no major issues highlighted as yet. Some minor changes have been made and the updated Statement of Accounts 2020/21 reflect these.

## 3. Consultation

### d) Risks and Impact Analysis

N/A

## 4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Updated Draft Statement of Accounts 2020/21 (available on <a href="https://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=133&amp;MId=5719">https://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=133&amp;MId=5719</a> )
Appendix B	Changes To Draft Statement of Accounts 2020/21 (presented to 12 July Audit Committee)

## 5. 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
12 July 2021 Audit Committee - Draft Statement of Accounts 2020/21	<a href="https://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=133&amp;MId=5718">https://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=133&amp;MId=5718</a>

This report was written by Michelle Grady, Assistant Director - Finance, who can be contacted on 01522 553235 or [michelle.grady@lincolnshire.gov.uk](mailto:michelle.grady@lincolnshire.gov.uk)

## **Amendments to Statement of Accounts 2020-21**

### Amendments Initiated by External Auditor

1. Private Finance Initiatives (PFI) and similar contracts Note 26 – Page 88. Correction to financial years in table under section d as not sequential.
2. Officers Remuneration Note 35 – Page 113. Amended figures within Pension contribution column for several Executive Directors to reflect updated information in the working paper.
3. Recommendations following Mazars' technical review of the Statements have resulted in some minor changes within the Statements.
  - Movement in Reserves Statement – Page 29. Removed the Schools Reserves column from the 2019/20 table as the requirement to show Schools Reserves separate from Earmarked Reserves only applies from 2020/21.
  - Cash flow statement – Page 31. Amended date column to show full year as figures represent cash flows throughout the whole year and not just at the reporting date.
  - Note 16 Heritage Assets – Page 67. Removed the 5 year summary table (was section D) as this is no longer a requirement of the Code.
  - Note 44 Accounting Policies section 34 employee benefits – Page 142. Updated reference to specific service lines within 2nd bullet point to be consistent with Comprehensive Income and Expenditure Statement.

### Amendments to Lincolnshire Pension Fund Accounts

#### Initiated by Officers:

1. Updated illiquid asset valuations – including: alternatives, private equity, infrastructure and property venture. Reflected in the Fund Account, Net Asset Statement and Notes: 5, 12, 14, 15, 16 and 17.

#### Initiated by the External Auditor:

1. Changes have been made to the accounts based on the recommendations following the Mazars review of the Statements. These include some minor changes to disclosures and headings to improve clarity and compliance with the Code guidance and best practice.
  - Note 1 Description of the Pension Fund – page 160. Grand total added to membership table.
  - Note 4 Critical Judgements in Applying Accounting Policies – page 166. Clarification to wording around pension fund liability.

- Note 12 Investments, 12A Reconciliation of Movements in Investments – pages 173 and 174. Inclusion of Long Term Investments within this table.
- Note 16 Nature and Extent of Risks Arising from Financial Instruments – page 185. Removal of sensitivity table.
- Note 26 Post Balance Sheet Events – page 200. Addition of new note.



**Open Report on behalf of Andrew Crookham, Executive Director of Resources**

Report to:	<b>Audit Committee</b>
Date:	<b>27 September 2021</b>
Subject:	<b>Update on Progress of External Audit of Accounts 2020/21</b>

**Summary:**

The Council's draft Statement of Accounts 2020/21 presented to the Audit Committee on 12 July is currently being audited by the Council's external auditor, Mazars. The audit is ongoing and this report describes the progress Mazars have made both on the County Council audit and Pension Fund audit.

Mazars will be in attendance at the meeting to present their reports and answer questions on them.

A progress report on the County Council audit 20/21 is attached to this report as Appendix A.

A progress report on the Pension Fund audit 2020/21 is attached to this report as Appendix B.

**Actions Required:**

Members of the Audit Committee are asked to comment on the progress made on both audits.

**1. Background.**

1.1 A progress report on the County Council audit, provided by Mazars, is attached at Appendix A. The key points to note are described below:

- No material adjustments identified to date;
- No material internal control recommendations identified to date;
- A small number of minor changes have been identified and made to the Accounts.

1.2 A progress report on the Pension Fund audit, provided by Mazars, is attached at Appendix B. The key points to note are described below:

- The review of management override of controls has not highlighted any issues to bring to the Committee's attention;
- Valuation of investments within level 3 of the fair value hierarchy: the accounts presented to the Audit Committee in July included all 31 March asset valuation information received by the Fund to the end of June. Pension Fund Officers have proactively tracked updated asset information over the summer and have adjusted the financial statements to include these valuations. There are still a number of 31 March valuations due from investment managers. When these are received they will be reviewed, and if considered material, incorporated into the final version of the accounts. Details of this are set out in section 4 and 6 of the Pension Fund Progress Report;
- No material internal control recommendations have been identified to date; and
- A small number of minor disclosure amendments have been identified and made to the Accounts.

1.3 Colleagues from Mazars will be in attendance to present both progress reports and answer questions on them.

1.4 The progress of the external audit process has highlighted a number of minor changes that are required to the Council's Statement of Accounts 2020/21. These have been made and are reflected in the Updated Statement of Accounts 2020/21 agenda item also reported to this committee.

## 2. Conclusion

2.1 The audit process is currently going well with no major issues highlighted as yet.

## 3. Consultation

### d) Risks and Impact Analysis

N/A

## 4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Mazars Progress Report on Lincolnshire County Council Audit 2020/21
Appendix B	Mazars Progress Report on Pension Fund Audit 2020/21

## 5. Background Papers

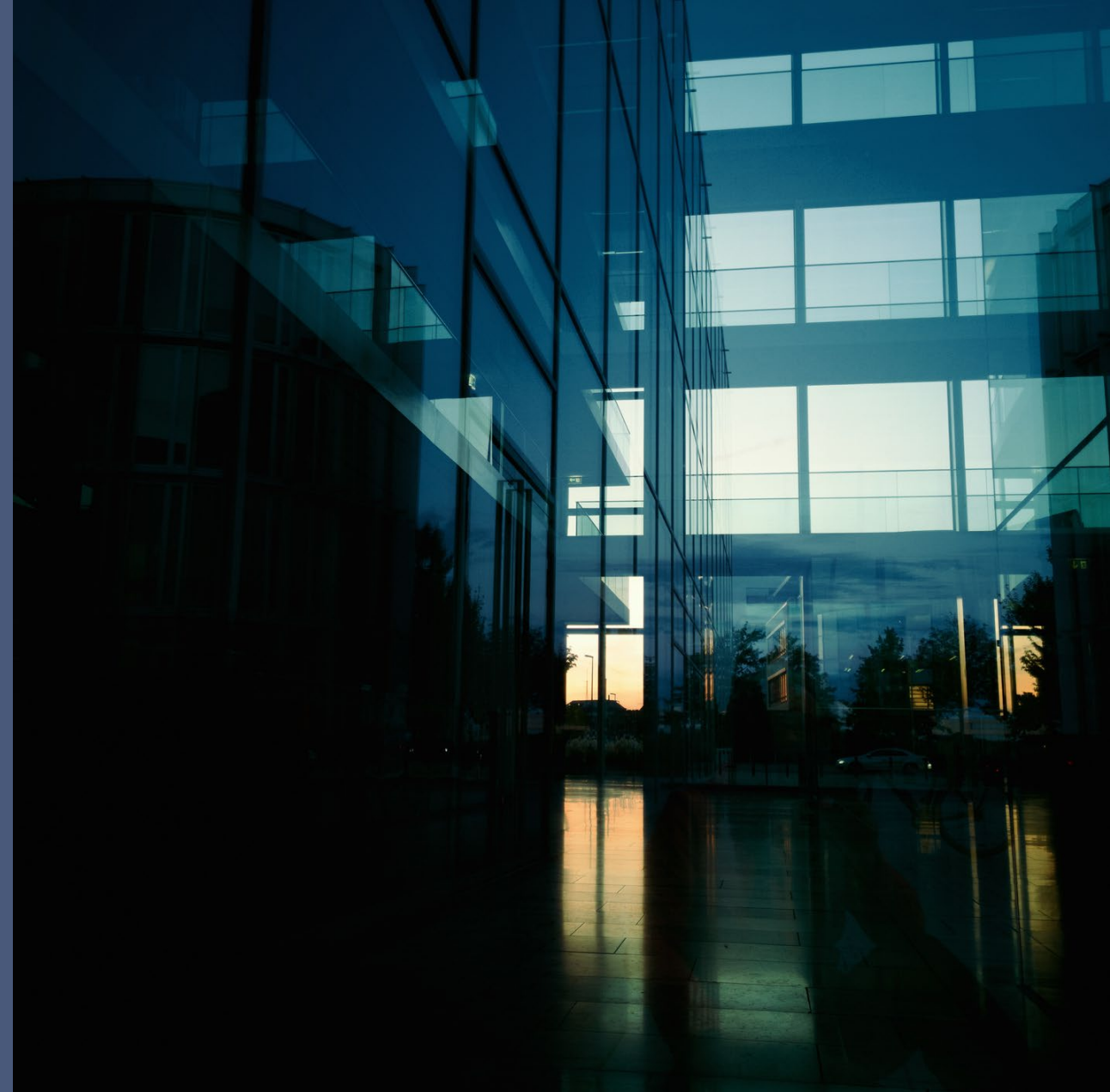
No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Michelle Grady, Assistant Director - Finance, who can be contacted on 01522 553235 or [michelle.grady@lincolnshire.gov.uk](mailto:michelle.grady@lincolnshire.gov.uk)

# Audit Progress Report

Lincolnshire County Council – Year  
ended 31 March 2021

September 2021  
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# Status of the audit

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

During the course of the audit, we have had the full co-operation of management. We continue to work with management to complete any remaining audit work and resolve audit queries and are grateful for the co-operation and support provided.

## Significant audit risks

As part of our planning procedures, we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process, and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks.

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No new risks have been identified since we issued our Audit Strategy Memorandum, with a reminder of those significant risks and work undertaken to date are set out in the table below.

The work undertaken to date is subject to Audit Quality Control, including ongoing and final stages of review by the Engagement Lead, Engagement Quality Control Reviewer as well as further quality and compliance checks designed to support audit quality.

	Significant audit risks: description	Fraud	Error	Judgement	Work undertaken to date
1	<p><b>Management override of controls</b></p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	-	-	<p>No significant issues have been identified to date as part of work undertaken on journal entries included within the financial statements.</p> <p>A number of queries remain open and are currently being discussed with management, but nothing that needs to be brought to the attention of members.</p>

# Status of the audit

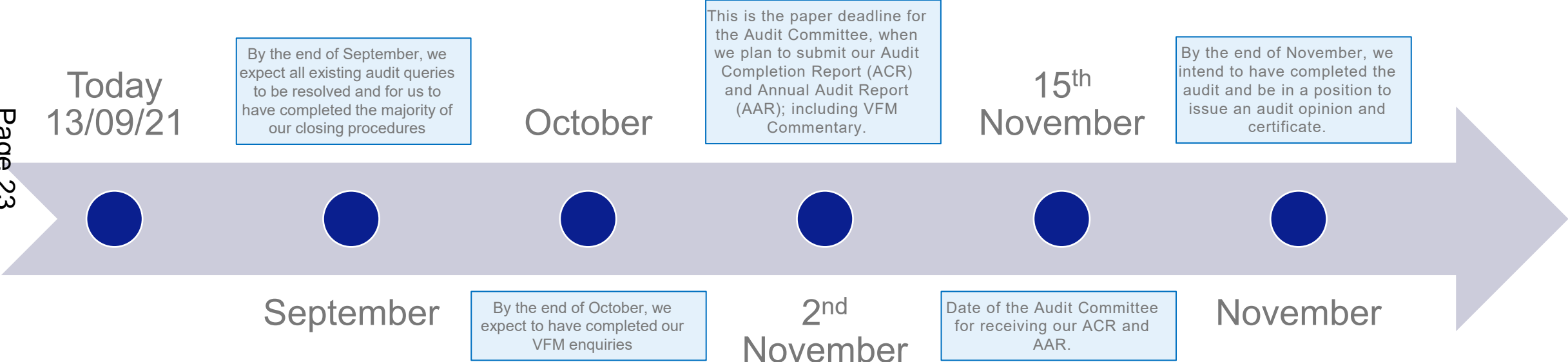
	Significant audit risks: description	Fraud	Error	Judgement	Work undertaken to date
2	<p><b>Net defined benefit liability valuation</b></p> <p>The defined benefit liability relating to the Local Government pension scheme represents a significant balance on the Council's balance sheet.</p> <p>The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits.</p> <p>Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p> <p>Relevant Account Balances (taken from the 2019/20 draft financial statements):</p> <ul style="list-style-type: none"> <li>• £857m – Note 28 (Net pension liability), made up from:</li> <li>• Local Government Pension Scheme - £617m</li> <li>• Fire-Fighters Pension Scheme - £240m</li> </ul>	-	●	●	<p>We have undertaken a number of key substantive tests to date, these include:</p> <ul style="list-style-type: none"> <li>• critically assessing the competency, objectivity and independence of the Pension Fund's Actuary;</li> <li>• liaising with the auditors of the Lincolnshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate;</li> <li>• agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.</li> </ul> <p>We are aware of a potentially material movement in the pension fund asset carrying values, that would lead to a change in the Council's financial statements. This is continually being monitored by the audit team and updates provided to management on a timely basis.</p>
3	<p><b>Property Valuation</b></p> <p>Property related assets are a significant balance on the council's balance sheet.</p> <p>The valuation of these properties is complex and is subject to a number of management assumptions and judgements. Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p> <p>At the planning stage of the audit, this risk covers (figures have been taken from the draft 2019/20 financial statements):</p> <ul style="list-style-type: none"> <li>• Land &amp; Buildings (£535m - Note 15)</li> <li>• Investment Properties (£106m – Note 17)</li> </ul>	-	●	●	<p>We have undertaken a number of key substantive tests to date, these include:</p> <ul style="list-style-type: none"> <li>• critically assessing the scope of work, qualifications, objectivity and independence of the Council's valuer to carry out the required programme of revaluations;</li> <li>• engaging our internal valuation expert to support our testing, including performing a detailed review of the County Farms which has a carrying value of £106m within the balance of Investment Property in the financial statements;</li> <li>• challenged key assumptions to both management and management's expert over the methodology used and considered whether valuation movements in line with wider market trends.</li> </ul> <p>The work undertaken on the County Farms has not identified any significant concerns that may have led adjustments to the financial statements.</p> <p>Valuation is complex and we do have a number of queries outstanding with management's expert. There have been delays caused by both Covid-19 and annual leave.</p>

# Status of the audit

	Significant audit risks: description	Fraud	Error	Judgement	Work undertaken to date
4	<p><b>Expenditure recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council (FRC), which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular whether cut-off (recognition in the correct financial year) is materially accurate. From our consideration of the Council's expenditure streams, we believe the risk is focused on Premises, transport, and supplies &amp; services (being £632m per Note 10 of the draft 2019/20 financial statements).</p>	●	●	-	<p>No significant issues have been identified to date as part of work undertaken on the expenditure recognition risk identified.</p> <p>A number of queries remain open and are currently being discussed with management, but nothing that needs to be brought to the attention of members.</p>
5	<p><b>Covid-19 Grants recognition</b></p> <p>Over March and April 2020, the government provided £3.2 billion of emergency grant funding and over £5 billion of cashflow support to support local authorities through COVID-19. Throughout 2020/21, the Government has continued to provide substantial sums of financial support to local authorities, including Lincolnshire County Council.</p> <p>Management have had to exercise a level of judgement in relation to these specific COVID-19 grants, including:</p> <ul style="list-style-type: none"> <li>• the extent to which the Council is acting as an agent or principal and therefore whether to account for the grant income on a gross or net basis; and</li> <li>• whether conditions associated with the grants have been met at the reporting date.</li> </ul> <p>Overall therefore, we believe there is a significant audit risk relating to the completeness and accuracy of Covid-19 grant income in the 2020/21 financial statements.</p>	●	●	-	<p>Our work has commenced, but we are awaiting further working papers from the Council for us to complete our substantive testing. Management are fully aware and are supporting our requests and we do not currently expect any further impact to the timeline on the following page.</p>

# Status of the audit

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# Status of the audit

## Internal controls

The purpose of our audit is to express an opinion on the financial statements. As part of our audit, we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

Based on the audit work carried out to date, we have not identified any significant control deficiencies in 2020/21 that we are required to report to you.

## Errors and misstatements

We are pleased to report that no material misstatements have been identified during our audit work to date.

A small number of disclosure amendments to the notes to the Statement of Accounts have been agreed with management to correct minor errors. None of these are significant and we are not required to highlight them in this report.

## Value for Money

We continue to review the Council's board papers and meet with management and review reports by regulators to inform our 2020/21 value for money risk assessment, this process is ongoing throughout the audit year. In addition, and as part of the new VFM approach, management have kindly agreed to complete a self-assessment against the new VFM criteria and to provide supporting evidence, which we will reflect on in our risk assessment.

Our evaluation is ongoing, but no significant weaknesses have been identified that need to be brought to the attention of members.

## Delay in the audit certificate

The issue of the Audit Certificate confirms that we have discharged all of our audit responsibilities and that the audit is formally 'closed'. The Audit Certificate would normally be published in our Auditor's Report on the Statement of Accounts. We expect to issue the audit report but delay the issue of the Audit Certificate until the following procedures are complete:

- Value for Money - We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2021 (as previously stated) and expect to report our findings in the 2020/21 Annual Auditors Report. At the time of preparing this report, we have not identified any significant weaknesses in the Council's arrangements that require us to make a recommendation.
- Whole of Government Accounts - The NAO has not yet issued its Group Instructions for local authority audits.

We will update the Audit Committee when more information is known.



# Appendix A

Lincolnshire County Council  
County offices  
Newland  
Lincoln  
LN1 1YL

Dear Committee Members

## **Audit letter – Delay in issuing the Auditor’s Annual Report**

The 2020 Code of Audit Practice requires us to issue our Auditor’s Annual Report, which includes our commentary on the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources (our VFM commentary) within 3 months of issuing our opinion on the financial statements, and before 30<sup>th</sup> September. Where this is not possible, we are required to write to you setting out the reasons for the delay in an ‘audit letter’. For the purposes of compliance with the Code of Audit Practice, this letter constitutes the ‘audit letter’.

As a result of the ongoing pandemic, the National Audit Office updated its guidance to auditors in April 2021 to allow auditors to delay the completion of their work on VFM arrangements. The revised guidance requires auditors to complete their work and issue their Auditor’s Annual Report no more than three months after the date of the date of the opinion on the financial statements.

In line with the National Audit Office guidance, we have not yet issued our Auditor’s Annual Report including our VFM commentary. We expect to publish the Auditor’s Annual Report no later than 30<sup>th</sup> November 2021.

Yours sincerely

Mark Surridge

For and on behalf of Mazars LLP

# Mark Surridge, Key Audit Partner

[mark.surridge@mazars.co.uk](mailto:mark.surridge@mazars.co.uk)

## Mazars

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Birmingham  
B3 3AX

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\*where permitted under applicable country laws.

Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

# Audit Progress Report

Lincolnshire Pension Fund – Year ended  
31 March 2021

September 2021  
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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Pension Fund are prepared for the sole use of the Pension Fund and we take no responsibility to any member or officer in their individual capacity or to any third party. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

# 01

Section 01:

**Executive summary**

# 1. Executive summary

## Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit work to date. This section includes our conclusions so far on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

Page 30 Management override of controls; and

Valuation of investments within level 3 of the fair value hierarchy.

Based on the audit work completed to date there are no identified significant control deficiencies and no unadjusted misstatements envisaged that we are required to report to the Audit Committee.

## Status and audit opinion

To-date we have completed a substantial proportion of our fieldwork on the financial statements for the year ended 31 March 2021. At this present time we envisage giving our opinion in November 2021 in line with the proposed timeframe for issuing our audit report on Lincolnshire County Council's financial statements.

At the time of preparing this report, there are some matters outstanding as outlined in section 2. We will provide an update to you in relation to the matters outstanding through our Audit Completion Report. Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



### Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements.



### Consistency report

We anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of Lincolnshire County Council.



### Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Fund and to consider any objection made to the accounts. No objections or questions from local electors have been received.

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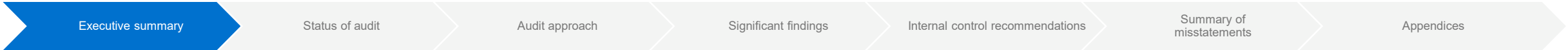
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# 1. Executive summary

## COVID-19 impacts

The implications of the pandemic required remote working in relation to this audit. Whilst auditing on a remote basis was challenging, we have been able to work in liaison with the finance team to deliver the audit and wish to thank them for their support.



# 02

Section 02:





**Status of the audit**




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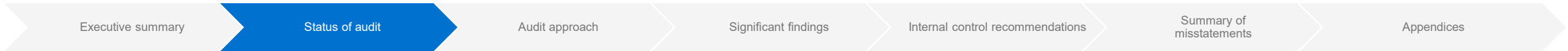
# 2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Investments		Some information remain outstanding from fund managers. Our review of third party confirmations received to-date is not yet complete.
Consistency opinion		We have received a draft of the Pension Fund Annual Report. However, we have not yet compared the revised Pension Fund financial statements (within the Statement of Accounts of the Council) with the revised Pension Fund financial statements within the Pension Fund's Annual Report.
Finalised financial statements		The Pension Fund is revising its financial statements to reflect updated valuations it receives from fund managers. Following consideration of the revised valuations we will then complete our checks on the finalised financial statements before giving our opinion.
Audit Quality Control and Completion Procedures		Our audit work, including the specific procedures carried out in relation to the significant audit risks identified, is yet to undergo the final stages of review by the Engagement Lead. In addition, there are residual procedures to complete, including completing our internal technical consultations on the proposed audit opinion and the updated financial statements, updating post balance sheet event considerations to the point of issuing the opinion and obtaining final management representations.

-  Likely to result in material adjustment or significant change to disclosures within the financial statements.
-  Potential to result in material adjustment or significant change to disclosures within the financial statements.
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements.

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# 03

## Section 03: **Audit approach**

# 3. Audit approach

## Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in May 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

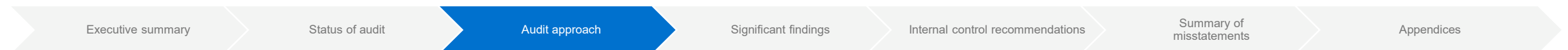
## Materiality

Our provisional materiality at the planning stage of the audit was set at £26.6 million using a benchmark of 1% of net assets available to pay benefits. We also set a separate provisional specific materiality for the fund account of £10.4 million at the planning stage of the audit using a benchmark of the higher of 10% of contributions receivable and 10% of benefits payable.

Our final assessment of materiality, based on the final financial statements and qualitative factors was set using the same benchmarks:

- Statement materiality £27.4 million.
- Fund account specific materiality £11.4 million.

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# 04

## Section 04: **Significant findings**

# 4. Significant findings

In this section we outline the significant findings from our audit work to date. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. We currently envisage concluding that the financial statements have been prepared in accordance with the financial reporting framework; and
- any significant difficulties we experienced during the audit.

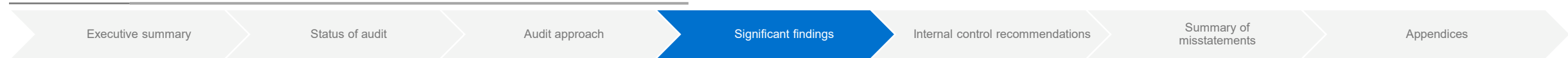
## Significant risks

Management override of controls	Description of the risk
	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	<b>How we addressed this risk</b> We addressed this risk through performing audit work over: <ul style="list-style-type: none"><li>• Accounting estimates impacting amounts included in the financial statements;</li><li>• Consideration of identified significant transactions outside the normal course of business; and</li><li>• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li></ul>
	<b>Audit conclusion</b> Our work to date has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.

# 4. Significant findings

<b>Valuation of investments within level 3 of the fair value hierarchy</b>	<p><b>Description of the risk</b></p> <p>At 31 March 2021 the Pension Fund held investments which were not quoted on an active market with a fair value of £344.0 million, accounting for 12.5 per cent of the Fund's net investment assets. This included: Alternatives (£274.3 million), Property (£6.9 million), Infrastructure (£50.4 million) and Private Equity (£12.4 million). Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.</p> <p>As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances for 2020/21 due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.</p>
<p><b>How we addressed this risk</b></p> <p>We addressed this risk by completing the following additional procedures:</p> <ul style="list-style-type: none"> <li>• agreeing the valuation included in the Pension Fund's underlying financial systems to supporting documentation including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation;</li> <li>• agreeing holdings from fund manager reports to the custodian's report;</li> <li>• agreeing the investment manager valuation to audited accounts or other independent supporting documentation, where available;</li> <li>• reviewing the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager, where required;</li> <li>• where audited accounts are available, check that they are supported by a clear opinion; and</li> </ul>	

<b>Valuation of investments within level 3 of the fair value hierarchy (cont'd)</b>	<p><b>How we addressed this risk (cont'd)</b></p> <ul style="list-style-type: none"> <li>• where available, reviewing independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Pension Fund's financial statements.</li> </ul> <hr/> <p><b>Audit conclusion</b></p> <p>Subject to completion of the outstanding matters on page 7, our work has provided the assurance we sought in the above areas. It has however highlighted a material difference between the valuation of investments in the initial set of accounts prepared and the final version of the accounts on which we will be giving our opinion. This difference resulted from the timing of valuations received from fund managers. The adjusted misstatement involved is detailed on page 17 of this report.</p>
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## 4. Significant findings

### Qualitative aspects of the Fund's accounting practices

We have reviewed the Fund's accounting policies and disclosures and our work to date has concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Fund's circumstances..

In line with our expectations, there have been no significant changes to accounting policies for the year ended 31 March 2021.

Draft accounts were received from the Fund on 22 June and were of a good quality.

### Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. It is however worth noting that our audit work has been completed through remote working arrangements as a result of the constraints imposed by the COVID-19 pandemic. Whilst challenging at times, through the effective use of technology and close liaison with finance and other officers of the Fund these challenges were overcome.

### Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not to date exercised any of these powers as part of our 2020/21 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such objections have been raised.

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# 05

## Section 05: **Internal control recommendations**



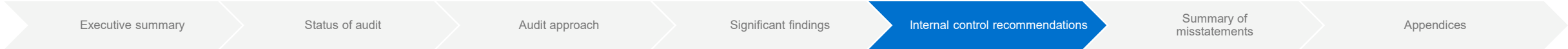
# 5. Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported in this section are limited to those deficiencies and other control recommendations that we identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our work to date has not identified any internal control issues to bring to your attention. Should any issues arise during the completion of our audit, these will be reported to the Audit Committee in a follow-up letter.

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# 06

Section 06:

## **Summary of misstatements**

## 6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit to date, above the trivial threshold for adjustment of £0.8 million. Where the draft accounts are formally signed and published in accordance with the Regulations any subsequent amendments are referred to as misstatements. This is the case even if such amendments are inevitable and result from the timing of the information available from investment fund managers as is the case this year. The change to the accounts detailed below was identified and proposed by officers from proactively tracking the asset changes from the information received. Last year we did our audit on the basis of a later set of accounts which already incorporated such changes. This explains why these valuation changes are highlighted in our report this year. It is our current understanding that there will be no unadjusted misstatements in relation to the Pension Fund's 2020/21 financial statements. The table below outlines our current understanding of the misstatements that are to be adjusted by management.

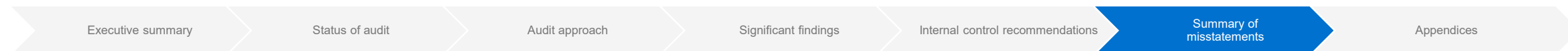
### Adjusted misstatements

		Fund Account		Net Assets Statement	
		Dr (£m)	Cr (£m)	Dr (£m)	Cr (£m)
1	Dr: Investments – Managed Funds Cr: Change in Market Value Difference between valuation of unquoted investments per pension fund accounts and third party confirmations received after the year-end		37.725	37.725	
<b>Total adjusted misstatements</b>			37.725	37.725	

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### Disclosure amendments

A number of minor disclosure amendments have been made in response to the review of the Pension Fund's financial statements by our technical team. All such matters have been addressed in the final version of the Pension Fund's financial statements.



# Cameron Waddell

## Mazars

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\*where permitted under applicable country laws.



**Open Report on behalf of Andrew Crookham, Executive Director of Resources**

Report to:	<b>Audit Committee</b>
Date:	<b>27 September 2021</b>
Subject:	<b>Internal Audit Progress Report</b>

**Summary:**

The purpose of this report is to:

- Provide details of the audit work completed to 31st July 2021.
- Advise on progress of the audit plan
- Raise any other matters that may be relevant to the Audit Committee role.

**Recommendation(s):**

That the Committee note the outcomes of Internal Audit's work and identify any necessary actions that need to be taken.

**Background**

This paper covers the period 01<sup>st</sup> May 2021 to 31<sup>st</sup> July 2021 and reports on progress made in our audit plans.

Our progress report is attached in appendix A and shows:

- Reports issued
- Assurance opinions including a summary
- Benchmarking information in performance indicators
- Other matters of interest
- Outstanding audit recommendations via our tracker report
- 2021/22 audit work to date
- Low/limited assurance reports

The outcome of our work shows some governance & risk issues – with 1 of our assurance opinions being limited. This relates to:

- Debtors

We have invited the Operations and Financial Advice Manager to attend the Audit Committee to give an update to members on the limited assurance review for Debtors.

We have issued 5 substantial assurance opinions, with a further 4 audits in progress. Additional grant work is also continuing for which the submissions are due by the end of September.

We have completed 24% of the audit plan for 2021/22. Progress and delivery continues to be made difficult by the on-going impact of Covid-19 on Council teams and staff capacity issues within our team. Earlier in the year we were successful in recruiting two Senior Auditors and over the autumn we will be looking to recruit a number of apprenticeships into the Audit and Counter Fraud teams. All actions designed to build capacity and capability.

To ensure we have sufficient auditor resource to deliver our audit plans we continue to use experienced external resources and engage specialist resources for complex ICT audits.

As part of our regular follow up around implementation of recommendations from previous audits we have used our audit tracker report to monitor progress at 31 July 2021. We found that 61% of the actions have been completed, with 21% not yet due at this date. Management responses established that the remaining 18% have been deferred for a number of reasons.

There is one audit with outstanding actions for which we originally reported a Limited Assurance opinion:

- Cyber Security

There are 2 outstanding actions for this audit, one is not due to be completed until December 2021 and the other is in progress with an anticipated completion date of the end of October.

There are no high priority actions within the 18% deferred.

Appendix A – shows our Internal Audit Progress Report September 2021.

**Appendices**

These are listed below and attached at the back of the report	
Appendix A	Internal Audit Progress Report

**Background Papers**

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, Head of Internal Audit and Risk Management, who can be contacted on 01522 553692 or [lucy.pledge@lincolnshire.gov.uk](mailto:lucy.pledge@lincolnshire.gov.uk)

# Internal Audit Progress Report



Images Courtesy of the Official UK Photo Club

## Lincolnshire County Council September 2021

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- 2 Tracker Report – all outstanding audit actions due 31/7/21
- 3 2021/22 Audits to date
- 4 Low / Limited assurance reports

**Lucy Pledge CMIIA QIAL** - Head of Internal Audit & Risk Management  
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The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.



# Introduction

The purpose of this report is to:

- Provide details of the audit work during the period 30<sup>th</sup> April 2021 to 31st July 2021
- Give an update on outstanding management actions from previous audits
- Raise any other matters that may be relevant to the Audit Committee role

## Key Messages

### Assurances

The following audit work has been completed

#### Substantial:

- Payroll
- Accounts Payable
- ICT Mobile Devices / Agile Working
- General Ledger
- Lincolnshire Fire and Rescue reimbursement of expenses

#### Limited:

- Debtors

#### Audit reports at draft

- Better Care Fund (Indicative Assurance – High)
- Property (Consultancy)



Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1.

# Introduction

The purpose of this report is to:

- Provide details of the audit work during the period 30<sup>th</sup> April 21 to 31<sup>st</sup> July 2021
- Give an update on outstanding management actions from previous audits
- Raise any other matters that may be relevant to the Audit Committee role

## Key Messages

### **Business World – Project Status RED\***

Assurance work around the Business World redesign has paused since our last update to Committee as the **project is currently being reviewed by external consultants EntecSi Ltd**. They have been engaged to assess and advise on project readiness and timescales for go-live. Their interim report will be shared with the Council's senior management in August 21 with a final report due September 21.

### **Outstanding Recommendations**

We follow up implementation of recommendations from previous audits to monitor progress. At the 31<sup>st</sup> July 2021 we found that:

- **61%** of the actions have been **completed**
- **21% not yet due** at this date.
- Management responses established that the remaining **18% have been deferred**. There were **no High priority actions included within the 18% deferred**.

The reasons include the need for decisions to be formally made and the impact of project delays and workloads. Full details can be found in Appendix 2 of this report.

- **Project red status definition** – Successful delivery of the project appears to be unachievable. There are major issues with the project scope, schedule, budget required, quality or benefits delivery, which do not appear to be manageable or resolvable. The project may need re-base-lining and or overall viability reassessment.

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- Raise any other matters that may be relevant to the Audit Committee role

## Progress and Delivery

We have completed **24%** of the plan up to the 31<sup>st</sup> July 2021.

To ensure we have sufficient auditor resource to deliver our audit plans we continue to use experienced external resources and engage specialist resources for complex ICT audits.

Progress and delivery continues to be made difficult by the on-going impact of Covid-19 on Council teams and staff capacity issues within our team. We have had members of the team:

- leaving to take up positions in other Councils
- one of our Principal Auditors being seconded to support the BWON project
- one of our Principal Auditors going on maternity leave.

We have recently recruited two new senior auditors which has helped with capacity and are looking to recruit a further Senior auditors to the team. Over the autumn we will be looking to recruit a number of apprenticeships into the Audit and Counter Fraud teams. All actions designed to build capacity and capability within the teams.

## Service Review

The Team Leader – Counter Fraud and Investigations left the Council in September 2021. This provided us with an opportunity to review management arrangements and to refocus our Internal Audit and Counter Fraud plans – looking to make the best use of our existing resources, skills and experience – improving efficiency in delivering assurance on common cross cutting areas eg contracts, corporate systems.

We will report to the November Audit Committee an updated audit and counter fraud plan that has been realigned to focus on the key areas that require assurance.

A Corporate Audit & Risk Management service review is planned (1/4/2022) to ensure the service is fit for purpose to achieve the Council's strategic aims and lead a motivated and productive workforce within the agreed budget.

# Substantial Assurance

## Payroll

Our testing confirmed that sound processes and controls remain in place. We found evidence of authorisation around contractual payments, segregation of duties in processing transactions, continued checking of various exception reports and that documents are being retained electronically.

The majority of actions raised in the previous audit have been addressed - where these are outstanding there is a link to the ongoing Business World Redesign project or restricted access to LCC buildings.

## Accounts payable

Our review of the Accounts Payable functions found that overall the processes are well controlled and operating effectively.

During 2020-21 there was an instance where procedures to validate bank details were not followed which led to a fraudulent payment nearly being made. Procedures have since been strengthened through the implementation of an additional control within the Accounts Payable processes which acts as an additional check of any changes prior to the daily payment run.

## Lincolnshire Fire and Rescue reimbursement of expenses

Overall we can provide a substantial level of assurance around the effectiveness and efficiency of the employee expense reimbursement process at Lincolnshire Fire & Rescue Service. We can confirm that claims submitted are compliant with policies, procedures, and guidelines and that there is a consistent approach to the reimbursement of expenses across the Service.

Submission of claims does however require some improvement. Instances were also identified where some mileage claims had not been checked and approved. These claims also raised a query as to whether the mileage claimed for one specific regular journey was overstated. These claims have been passed to the Area Manager, Service Development for further investigation.

# Substantial Assurance

Mobile Device Management is an important tool to help an organisation manage information security risks associated with the use of devices, which include mobile phones, tablets and remote access laptops. The Council and Serco understand the need for a strong MDM solution and the majority of the required steps for this are already in place.

However there are still some improvements needed in the application of the controls to manage the associated risks. Whilst none of these control improvements have a high priority, several areas of medium priority are identified. These include no formal project plan for the transition to MDM software which sets out clear objectives and milestones, and a lack of formally documented security configurations (secure baselines) that describe how the Council's mobile devices should be configured.

Our review of key controls found that they are in place and generally working effectively.

There are still issues outstanding with sales invoices being raised on one control account and being paid on a different account resulting in an imbalance on individual accounts. A solution to this is still being worked through between Finance & Income colleagues.

ICT Mobile  
Devices/  
Agile  
Working

General  
ledger

# Limited Assurance

We found that debt recovery arrangements were not working effectively due to the significant increases in disputed debts.

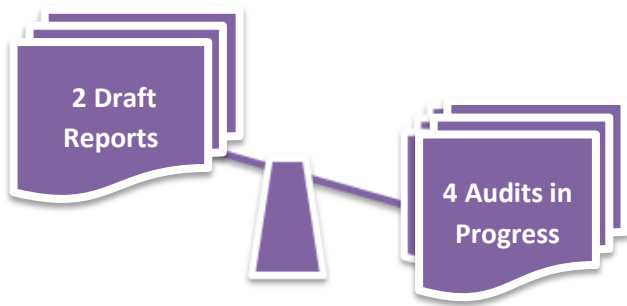
The Councils' outstanding debt had increased from approximately £9.5m at January 2018 to £23.8m by March 2021.

Whilst total outstanding debt had only increased from £21m to £23.8m since March 2020, there had been a significant increase in the value of disputed debts (£9.6m to £14.2m). The majority of this debt related to 'LCC decision pending' which had almost doubled in the year to £8.5m at the end of March 2021.

Whilst debt remains classified as 'LCC Decision Pending' (awaiting a decision on court action or write off), recovery activity will be limited.

Where there are delays in taking action to recover debt there is an increasing risk that the debt will need to be written off by the Council. LCC and Serco need to work together to review the process for raising and recovering debt to identify potential improvements.

## Debtors



## Audits in Progress

We have 4 audits at fieldwork stage:

- Safeguarding Adults
- Trade Union Facility Time Review
- ICT Privileged Account Management
- Transport Connect

## Other Significant Work

### Grants

Grant audits work is in progress to ensure that funds have been used in line with grant conditions. Two grants (Bus Service Operators' grant and the Highways' grant for road maintenance) are due for submission by the end of September 21.

### Supporting Families Work

Quarters 1 and 2 have been completed, and we reported no issues. The 3rd quarter review is due to start in September. We were also asked to attend a meeting in June with Northampton Council to share our practices .

## Business World Redesign

The BW Redesign Project has at present 3 critical risks:

- The Hoople Service Design and plan is still unknown and there is a risk this will not be delivered for go live in November 21
- The ability to complete data cleanse activity – in particular dis-established positions
- There is a risk the consultant resources which are currently in place will not be available post November 2021 as a result of the contracts ending.

This has resulted in 'red status' for the project. Given the above risks and unknown status of the anticipated 'go live' date, the move to the Hoople Service Design is an area of key assurance concern at present.

We continue to provide advice and insight to the project on risk and control. The project continues to progress:

- Shareholder agreement has been signed at end of July 21
- The 1st of three planned parallel payroll runs have reached sign-off stage for Fire payroll. The Corporate payroll is due to be completed by the end of August and Schools payroll by early September. A number of adjustments to the Hoople system build have been identified and actioned through this process and this should support smoother progress going forward.



Delivery has been re-planned and additional resources added to the project team.

- User Acceptance Testing was due to be completed on 23rd July – work has carried on to finalise testing on 20th August. Further UAT have been highlighted and a phased two is due to take place in Sept / Oct partly due to the engagement required from Schools
- The project continues to raise the impact of the movement to the Hoople Service Design and liaising with service leads to agree how they adapt and adopt the new solution. This includes full understanding of process and differences in approach and service areas being ready and capable to use the new system.
- A Training strategy has been produced and approved by the Business change steering group. Additional resource has been identified to plan and record the production of all training and guidance material. Initial prototypes have been shared for feedback and the day by day production of training materials will be completed by the end of August. The work has started on the detailed delivery plan in understanding how many sessions will need to take place and how they will be managed, the use of Lincs2learn to track the attendance at mandatory training and the day by day delivery of training prior to going live.
- Data migration, reconciliation and cleanse activities continue to work in cycles with data migration and reconciliation phase 4 due to take place late October/ early November. Service areas continue to cleanse identified data sets throughout the process. Decision taken by Head of HR to remove vacant positions from the migration piece due to the significant volume and effort involved in

closing them down manually. Efforts will need to be made in the services to maintain data once cleansed and where possible the project are supporting in this.

## Transformation Programme

We continue to attend all the Transformation Steering Board meetings as we support the programme and provide regular assurance reports to management and the Audit Committee on progress.

We are refreshing the audit terms of reference (TOR) as we enter the second year of the programme. Updates will be sought from all board members to ensure effective audit coverage continues.

Based on the status of a number of projects and the assurance rating following the recent audit - the Programme Assurance status has been amended from Green to **Green/Amber**.

The only project in the programme to report a Red status is the BW Redesign Project. It is reported that overall the project is running behind plan, and 1st November go-live date is under review. The Entec Si review of the project continues and will include recommendations for the project going forward including any changes to the go-live date. The report from Entec Si is expected w/c 16th August 2021.







Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

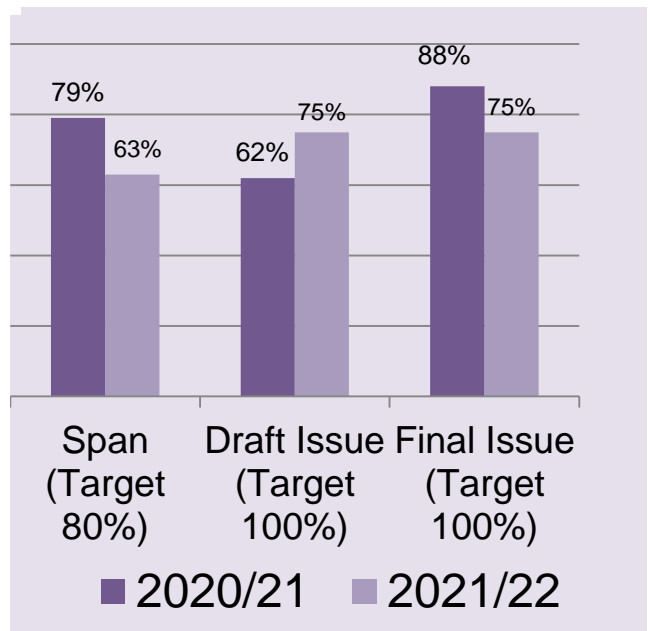
## Performance on Key Indicators



**Positive feedback has been received**



**Plan completed 24%**





# Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

## **Please find below some of the key extracts from the CIPFA Audit Committee Update Issue 35 (July 2021):**

### **Supporting improvements to risk management arrangements**

The Better Governance Forum held two discussion groups with members in April 2021 to discuss the experience of the pandemic and what it meant for risk management. The groups discussed how their arrangements had fared in supporting the organisation's management through the pandemic. The key areas for improvement identified by the groups were as follows:

- better integration with plans and management processes
- consistency across the organisation, and
- a focus on action.

When asked how improvements to risk management arrangements could be achieved both groups were consistent in their choice of the best action to take – investment in staff training and awareness of risk management.

The detailed results of the discussions are available in a briefing, the link to which can be found within the CIPFA Audit Committee Update Issue 35 (July 2021). The paper contains a summary of the findings identifying strengths and areas for improvement.

### **Audit Committee Guidance**

In July the Ministry of Housing Communities and Local Government (MHCLG) issued a further update on progress against the Redmond Review recommendations. One of the areas reviewed as part of the consultation was guidance for Audit Committees which the MHCLG has recommended to be strengthened and updated to support effective audit committee arrangements. The consultation asks for comments on this proposal and whether it is agreed.

The updated guidance is likely to include the following:

- structure
- role of independent members
- how the committee interacts with full council
- reporting to those charged with governance
- core functions
- knowledge, expertise and training of audit committee members
- facility to meet privately with auditors.



# Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

## **Reporting to full council/those charged with governance**

MHCLG is proposing to amend the Accounts and Audit Regulations so that the full council should receive the auditor's annual report from the local auditor. The purpose of this is to improve transparency to the public and ensure all members are aware of issues raised by the auditor and recommendations. It is also proposed that it is accompanied by a report from the audit committee containing its responses to the auditor's annual report.

The full CIPFA Audit Committee Update Issue 35 (July 2021) can be found using this link:

<https://www.cipfa.org/services/networks/better-governance-forum/audit-committee-update>

**High**

Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.

The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.

**Substantial**

Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.

**Limited**

Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.

The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.

**Low**

Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

## Tracker Report – all outstanding audit actions due 31/07/21

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Cyber Security	March 19	Limited	6	4	0	2	0	0
	<p>There are two outstanding actions that relate to Network and Monitoring Strategy. The Network action is not due until 31/12/21 and will be followed up by a future tracker. Following discussion with the key contact for the Monitoring Strategy they stated that the monitoring that is now in place since the initial audit in 2018 has grown. There are also setbacks which include slow progress to complete ongoing in-flight projects that is reducing the usefulness of the new tooling. Once the LCC projects are completed then LCC monitoring abilities will be at a standard that would allow better governance. Currently multiple monitoring reports are shared with LCC monthly. This is expected to be replaced using the upcoming system Azure where practicable. The action has progressed 80% and should be complete by 30/10/21 pending LCC projects and for LCC to decide if they want a managed Security Operations Centre.</p>							
Transformation	June 21	Amber/Green (Highlight report)	7	2	0	0	0	5
	<p>The two actions that were due have been completed.</p>							
Implementation of Mosaic Finance	March 21	Low	8	7	0	0	0	1
	<p>All actioned apart from one which is not yet due.</p>							
Education Health Care Plans	Dec 20	Substantial	1	1	0	0	0	0
	<p>The action that was due has been completed</p>							
LSAB Peer Review	Dec 19	High	2	0	0	2	0	0
	<p>First draft of the Policy and Procedures is still under construction and expected to be completed by the end of July 2021. Awaiting Executive Board where the Policies and Procedures will go for full sign off. New deadline set for 08/09/2021</p>							
Bank Reconciliation Key Control Testing	April 21	High	1	0	0	1	0	0
	<p>The recommendation has not been actioned as yet given time pressures on all concerned and the Hoople implementation Project. It is hoped to progress this by 30/9/2021</p>							

## Tracker Report – all outstanding audit actions due 31/07/21

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Safeguarding – Covid-19 Measures	March 21	Substantial	2	2	0	0	0	0
	Both actions have been completed							
Spalding Relief Road Follow Up Audit	March 21	Substantial	1	1	0	0	0	0
	The action has been completed							
<b>Total</b>			28	17	0	5	0	6

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Supporting Families 1	Review and validation of periodic claims for the Troubled Families programme.	12/04/21	12/04/21	14/04/21	Completed
ICT Privileged Access Management	Review to confirm that the allocation and use of privileged access rights is restricted and controlled.	06/05/21	28/06/21		Fieldwork stage
Supporting families 2	Review and validation of periodic claims for the Troubled Families programme.	14/06/21	14/06/21	15/06/21	Completed
Highways grant	To confirm compliance with Grant funding criteria	09/07/21	09/07/21		Fieldwork stage
BSOG grant	To confirm compliance with Grant funding criteria	15/07/21	15/07/21		Fieldwork stage
Adults Safeguarding response to Covid	Review how government guidance was been complied with and provide assurance that the Council has maintained robust safeguarding arrangements through the Covid 19 Pandemic.	18/08/21	18/08/21		Fieldwork stage
Trade Union Facility Time Review	Assurance that the raising, approving, recording and reporting of time taken off for trade union activities is operating as intended.	01/08/21	16/08/21		Fieldwork stage
Transformation programme – Transformation Steering Board	Support and advice to the project overseeing the future Transformation developments	01/04/21	01/04/21		Ongoing work over the year
Fire and Rescue Expenses	To provide assurance around the effectiveness and efficiency of the employee expense reimbursement process at Lincolnshire Fire & Rescue Service, to ensure it is compliant with policies, procedures, and guidelines.	01/04/21	27/04/21	20/07/21	Completed Substantial Assurance

## Debtors – Limited Assurance

ISSUED AUGUST 2021

### Background and Context

The Council's AR processes involve staff at LCC (raising and approving debtor accounts) and the Serco AR team is responsible for issuing the debtor accounts, processing amendments and debt recovery arrangements. The Serco Master Data team sets up customer details on the Business World ERP system.

The previous full audit of Accounts Receivable (AR) was undertaken in 2016/17 and given a Limited Assurance opinion. Further key control testing has been completed since evidencing improvements to systems and processes with the opinion rated as High Assurance in the audit report issued April 2019 but reducing to Substantial in June 2020 due to identifying areas where improvements were needed in debt recovery to avoid the need for large value write-offs. This is still an area of increasing concern.

Reports on debt levels and debt recovery performance are provided to LCC Finance each month. Reports at the end of March 2021 have a total outstanding debt of £23,830,178. Adult care make up £15m of this debt. The debts older than 365 days total £9.37m.

### Scope

To provide independent assurance that the processes and controls in place for raising, collecting and recovering debts are appropriate and robust..

We sought to provide assurance around systems to ensure:

- Debtor invoices are raised promptly and accurately
- Amendment/cancellation of debtor invoices is approved
- Debt recovery procedures are effective
- Debt levels are monitored and managed effectively with reporting to stakeholders
- All debts written off are processed and authorised in line with procedures

Our review included the use of data analytics to identify outliers in debt recovery information.



## Executive Summary

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
Debtors invoices raised are incorrect / inappropriate	Low	0	0
Invoice amendments/cancellations are incorrect/fraudulent	Low	0	0
Debt recovery arrangements are not effective	High	1	1
Information on debt collection/recovery is inaccurate/incomplete	Medium	0	4
Fraud risks are not managed	Low	0	0
Staffing resources are insufficient or do not have appropriate knowledge/skills	Low	0	0
The debtors system fails to produce the required outputs	Low	0	0
Previously agreed actions remain outstanding.	Low	0	0
<b>TOTAL</b>		<b>1</b>	<b>5</b>

Aged debt reporting reflects that over the last few years the level of the Councils' outstanding debt has been increasing, from approximately £9.5m at January 2018 to £23.8m by March 2021. Whilst total outstanding debt has only increased from £21m to £23.8m since March 2020 there has been a significant increase in the value of disputed debts (£9.6m to £14.2m). The majority of this debt relates to 'LCC decision pending' which has almost doubled in the year to £8.5m at the end of March 2021. Whilst debt remains classified as 'LCC Decision Pending' (awaiting a decision on court action or write off), recovery activity will be limited. Where there are delays in taking action to recover debt there is an increasing risk that the debt will need to be written off by the Council. On this basis we cannot report that debt recovery arrangements are working effectively and our assurance is Limited. The introduction of payment for Residential & Nursing placements as gross due from April 2022 and the new legislation around 'debt breathing space' introduced in May 2021 are both likely to cause a further increase in debts and debt recovery activity. Whilst the Strategic Finance team have undertaken significant work focussed on Adult Care debt, the Council and Serco need to work together to identify process improvements to support recovery activity. For LCC this includes ensuring that a more robust and timely approach is put in place to review and take decisions on recovery action once debts are referred to the Council for a decision if debt levels are to be controlled.

### **Significant Increase in Decisions Pending**

In addition to the £8.5m classified as 'LCC decision pending', a further £1.3m is recorded as probate cases and incorrect financial assessments £1.2m. Review determined that the 'LCC pending decision' debt is not due to one or two large debts but numerous smaller debts. This means 61% debts are disputed and of these 60% are awaiting decisions about whether they should be taken to court or written off. This represents a 77% increase since last year when this issue was highlighted in our audit report.

### **Adult Care Write-offs**

Due to the concerns around the high level of Adult Care debt awaiting recovery or to be written off an Adult Care Debt Recovery Programme, headed by the Executive Director, Adult Care and Community Wellbeing, was introduced in 2020/21 by Adult Care Finance to strengthen the debt recovery processes. The remit of the debt recovery programme was to understand why the debt had not been repaid, whether any legal processes were in place and if over 6 years old identify those debts that needed to be written off.

Some improvements have been put in place to help improve the decision making by budget holders in Adults with the aim to improve the debt recovery process by speeding up the decision making by budget holders. However this is an on-going process and controls need to be strengthened further especially when the Council moves to paying Residential & Nursing placements as gross (April 22) and the new legislation around 'breathing space' coming into effect in May 21 where anyone who has a debt can require a delay in their payment period. A more robust credit control process needs to be in place to ensure these changes do not significantly impact on debtors.

Our review determined that a number of actions highlighted in the previous audit report remain outstanding. For three of these progress has been impacted by the change freeze on the BW system which has stopped development activity.

## Managers Response

### LCC Finance: Tony Warnock - Operations and Financial Advice Manager

The Council's finance managers have for a long time held the view that considerably more needs to be done to improve debt recovery and reduce the age of outstanding debt. The team has managed to carve out a considerable amount of time from existing resource over the last five years to improve the position. I am proud of the improvements made over last year in particular, because of: the limited additional resource available; the numerous challenges presented by Covid-19, including home working; the need to administer an additional £100m of government grants, and; the considerable commitment of time needed to the help secure a smooth transition to Hoople's BW system; etc. Nevertheless, we are clear that much more needs to be done and we have therefore developed a comprehensive, 22 point action plan to drive the improvements required. The plan will be shared with the audit team to help inform its scoping of Accounts Receivable reviews in future years, and with the Director and Assistant Director of Resources.

The action plan aims to:

- increase awareness of the importance of debt collection and clarify roles and responsibilities;
- promote alternative payment mechanisms to avoid raising invoices where possible;
- ensure all debt raised is accurate;
- improve the matching of payments to invoices;
- ensure more effective systems are in place to deal with disputes;
- ensure all relevant debts are secured on property legally and in a timely manner;
- establish effective systems to address debts that may fall 'out of time' and become irrecoverable; continue to develop plans to recover payroll related debts due from existing and former employees; review debts at customer, not invoice level;
- focus greater attention on the highest value debts in each directorate;
- review the frequency of reminders and whether statements can be produced with Hoople's version of BW;
- seek clarification regarding Serco's charges for its credit control function;
- promote consideration of the resource levels required to manage the size and age of debt;
- seek a review of how performance is measured under the Key Performance Indicator;
- benchmark performance with similar local authorities;
- review the debt write-off process to ensure it is effective

- review Serco's monthly management reports to ensure the contents remain relevant;
- increase reporting to the Council's senior management, to promote debt recovery;
- seek to capitalise on improvements available through the move to Hoople's BW system;
- assist Serco in staying up-to-date with changes in government policy, particularly around Adult Social Care, and;
- participate in the Council's review of longer term opportunities for improvement in debt collection performance and other exchequer functions, etc.

The Finance team's objective is to improve debt recovery and reduce considerably the age of outstanding debt. Progress against the 22 point plan will be reviewed on a regular basis and the results will be shared with the Audit team, to assist the shaping of future reviews of the Accounts Receivable function.'

### **Serco: Ian Blindell - Serco Transactional Services Manager**

This year's debtors audit has identified a number of new and previously highlighted recommendations including one in the high risk category.

Although it has been demonstrated that continued progress has been made over the past few years, it is clear that the budget holder decision making process remains a significant issue and continues to be the priority area for improvement. Despite guidance notes being issued to budget holders explaining their roles and responsibilities, it is evident that further work is required to engage budget holders and ensure that the decision making process is reviewed and expedited within desired timescales.

We'd like to thank the audit team's focus and attention on this audit review which only had a minimal impact on our operational team's resource time this year.



**Open Report on behalf of Andrew Crookham, Executive Director of Resources**

Report to:	<b>Audit Committee</b>
Date:	<b>27 September 2021</b>
Subject:	<b>Risk Management Progress Report</b>

**Summary:**

The Committee is responsible for overseeing the effectiveness of the Council's risk management arrangements, challenging risk information and escalating issues to the Executive.

The Committee needs to gain assurance that the systems and processes in place to enable decision makers to understand the level of risk being taken and the Council is prepared to accept.

In addition, the Committee have responsibility to monitor effective development and operation of risk management and corporate governance in the Council.

This report assists the Committee in fulfilling that role, by providing an update on how well the Council's biggest risks are being managed.

**Recommendation(s):**

1. That the Committee notes the current status of the strategic risks facing the Council.
2. To make recommendations on any further scrutiny required.

**Background**

In accordance with the risk management strategy and to ensure effective monitoring, all the strategic risks have been reviewed with risk owners and assurances obtained that the strategic risks are being managed effectively.

The report also provides an update on the activities being undertaken to support the Council in developing a culture of being 'creative and aware of risk' in line with the agreed appetite along with the key strategic and operational issues facing the Council since the last update in March 2021.

## Conclusion

Overall, the Council's strategic risks continue to be managed pro-actively. There is a good level of awareness of the current and emerging risks, with positive action being taken, where appropriate.

Activity on the action plan from the Governance review is progressing well and we continue to work through these.

To maintain high levels of assurance, all risks, strategic and operational need to be regularly reviewed by the risk owners and updates provided.

## Consultation

### a) Risks and Impact Analysis

Any changes to services and projects are subject to an Equality Impact Analysis. The considerations of the contents and subsequent decisions are all taken with regard to existing policies.

## Appendices

These are listed below and attached at the back of the report	
Appendix A	Risk Management Progress Report
Appendix B	Strategic Risk Register - September 2021

## Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Debbie Bowring, Principal Risk Officer, who can be contacted on 01522 553772 or [debbie.bowring@lincolnshire.gov.uk](mailto:debbie.bowring@lincolnshire.gov.uk)

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# Risk Management

## Progress Report – September 2021



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Appendix 1 – Strategic Risk Register – September 2021



# Introduction

The purpose of this report is to provide an update on:

- The activities being undertaken to support the Council in developing a culture of being 'Creative & Aware of Risk'<sup>1</sup> in line with the agreed risk appetite.
- The key strategic and operational risks facing the Council.

It is also to provide assurance on the effectiveness of the Council's risk management arrangements.

## Key messages

### Progress on Governance review

Key actions completed / implemented since the last report in March 2021 are as follows;

- ✓ Continuation of reporting quarterly to CLT on risk management including high risks and issues relating to the pandemic which are reducing.
- ✓ Facilitated a session with CLT and Assistant Directors on revisiting the risk appetite in July 21 which will feed into the risk management strategy review.
- ✓ Highlight reports produced from the Directorate Risk & Safety groups (DRSG) to the Corporate Risk & Safety Steering group (CRSSG) with key messages on both Risk Management and Health & Safety with no risks requiring escalation. This continues on a quarterly basis.

1. The Council wishes to be creative and open to considering all potential delivery options, with well measured risk taking whilst being aware of the impact of its key decisions

# Key messages continued..

- ✓ Updates of relevant Health & Safety policies being worked through following the delay due to Covid19.
- ✓ Completion of a snap survey on risk management which involved responses from members of the CRSSG and DRSG. Further feedback has been obtained and is being worked through.
- ✓ Work is on-going with updating the risk management software system called Sharp Cloud for Resources directorate and their risk registers.
- ✓ Work continues with supporting the Transformation Programme and projects and better sight of risk management.

The remaining priorities and essential actions continue to be worked through and these will be monitored through CRSSG.

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## **Strategic risk register – See Appendix 1**

Overall the strategic risks continue to be managed pro-actively. We have reviewed the effectiveness of the control actions – focusing on those that can be measured such as KPIs, external sources etc. This will help us to measure their impact in managing the risk.

There is a high level of awareness of current and emerging risks that could impact services.

5 risks

Page 75  
SUBSTANTIAL  
ASSURANCE

### Safeguarding Adults (2)

**Safeguarding Adults** remains **substantial assurance**, however it is a watching brief as the full impact and implications of the last 18 months is still unclear.

### Resilience (Business Continuity) (3)

No changes to **assurance levels** since last report (March 2021)

### Budget – LCC (6)

No changes to **assurance levels** since last report (March 2021)

### Recruitment / Staffing (7)

**Recruitment and retention issues** and **risks** to delivery are arising given the current professional and vocational employment market – both in **commissioned services** and **directly employed staff**. This risk will be reviewed in light of this data.

### IT infrastructure (10)

No changes to **assurance levels** since last report (March 2021)

**Safeguarding Children (1)**

No changes to **assurance levels** since last report (March 2021).

**Market Supply – Adult Care (4)**

**Market supply** remains at **limited assurance** due to the difficulties around capacity / workforce in Lincolnshire to pick up demand for health & social care. This is the same across the Country.

**Transformation Programme – (5)**

**Ability to deliver our Transformation. Programme** has changed to **limited assurance** due to redefining the programme and linking it to the Corporate Plan. This is work in progress.

**Strategic Contracts – (8)**

No changes to **assurance levels** since last report (March 2021)

**Cyber Security – (9)**

No changes to **assurance levels** since last report (March 2021)

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**5** risks  
**LIMITED ASSURANCE**

# Our Operational Risks

We work on a frequent basis with Directorate Risk & Safety Groups in identifying the top risks for each directorate.

To support reporting of risks and issues more dynamically, we populate the up to date risks and controls on to our risk management system, Sharp Cloud. This will enable us to have even richer data around these and will improve the risk intelligence.

Going forward, we will be working with services to redefine the controls where necessary to be more measurable and more aligned with other services.

## Looking Forward

Over the coming months, we aim to:

- Report regularly to CLT for as long as is required with the red risks & issues
- Work with services in getting either up to date risk registers or ensuring that they are aware of their operational risks and report to risk management on a regular basis
- Populate and use the new risk management software system Sharp Cloud to improve reporting.
- Work through any outstanding actions from the Governance review.
- Work on updating and refreshing the risk management pages on the LCC intranet, Share Point which will include revising our guidance.
- Review of the risk management strategy.

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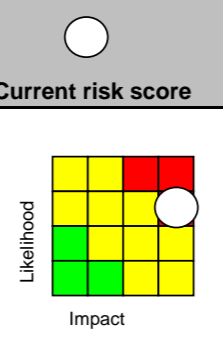
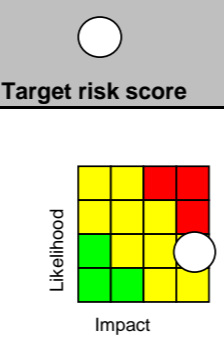
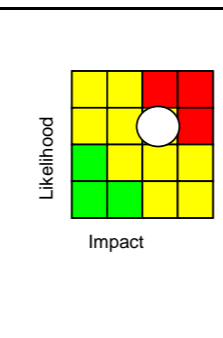
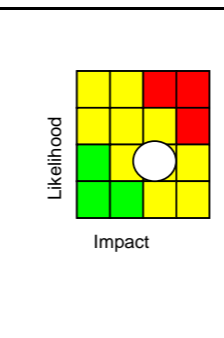
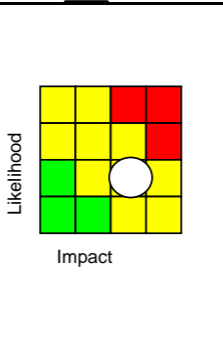
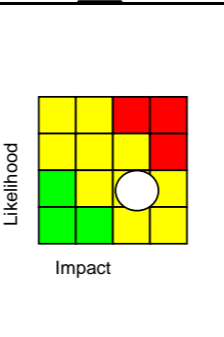
# Strategic Risk Register

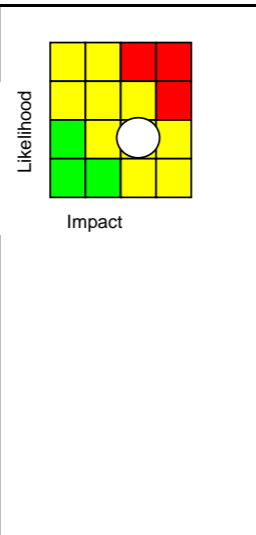
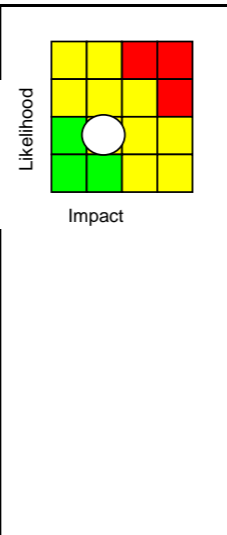
Version: 1.8

Reviewed: August 2021 links to Corporate Strategies (2020)

Owner: Chief Executive

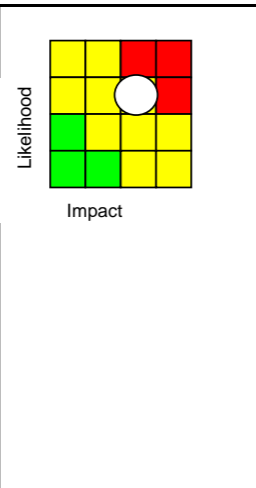
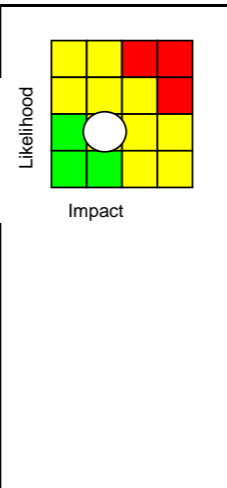
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No of Risk	Risk Owner	Corporate Strategy	Risk description	Current risk score	Target risk score	Assurance Status (Full, Substantial, Limited, No)	Direction of Travel (Improving, Static, Declining)	Actions
1	Heather Sandy	Enable everyone to enjoy life to the full	<b>Safeguarding</b> Safeguarding children			Limited	Static	<b>Existing Controls</b> <ul style="list-style-type: none"> <li>Annual review of health Assessments reaching 90% &amp; over</li> <li>Registration with GPs reaching 95% &amp; over</li> <li>Registration with dentists reaching 95% &amp; over</li> <li>Immunisations up to date reaching 95% &amp; over</li> <li>No of children on child protection plan is below all England &amp; stat neighbours</li> </ul> <b>New and Developing Controls</b>
2	Glen Garrod	Provide good value Council services	<b>Safeguarding</b> Safeguarding adults			Substantial	Improving	<b>Existing controls</b> <ul style="list-style-type: none"> <li>Prevention Strategy agreed and being implemented</li> <li>LSAB risk register in place</li> <li>Multiagency Safeguarding Policy &amp; local procedures in place</li> <li>Rolling programme of training for staff development in place</li> <li>Quality Performance Unit</li> <li>The Team around the Adult Initiative</li> <li>Quality practice audits</li> <li>LSAB Prevention Strategy in place and embedded</li> </ul> <b>New / Developing controls</b> <ul style="list-style-type: none"> <li>Number of safeguarding cases supported by an advocate</li> <li>Concluded enquiries</li> <li>Actions arising from the "Strategic Plan"</li> </ul>
3	Mark Baxter	Create thriving environments	<b>Resilience (Business Continuity)</b> Capacity and resilience to respond to, and recover from, wider area and prolonged emergencies and business disruption (e.g. coastal flooding / pandemic flu) impacting on public safety, continuity of critical functions and normal service delivery.			Substantial	Static	<b>Existing controls</b> <ul style="list-style-type: none"> <li>Deliver Emergency Planning and Business Continuity training to Elected Members.</li> <li>Ensure commanders are available and briefed</li> <li>Continue to develop LCC business continuity management system</li> <li>Ensure new guidance and good practice is disseminated</li> <li>To ensure awareness of the partnership is maintained nationally with proactive engagement regionally and nationally in key policy developments.</li> <li>Provided command and control training to LCC strategic, tactical and operational managers.</li> <li>Taking advantage of new ways of working ie. Microsoft Teams and Zoom</li> <li>More resilience built around Business Continuity with Tactical Command Team</li> <li>Substantially improved facility within County Emergency Centre to share and support response and recovery for emergencies</li> <li>Multiagency debrief in November 2020 for Covid19 work</li> </ul> <b>New and Developing</b> <ul style="list-style-type: none"> <li>Reviewing plans for core teams and command locations</li> <li>Interim operational review C19 National Foresight Group completed January 21 with recommendations being worked through</li> <li>Pilot around LRFs which are looking at the Civil Contingencies Act with a view to this being updated</li> <li>Developing new training courses for commanders and LRFs</li> <li>A further debrief on recovery will take place later on in 2021 and coincide with operation Silver Siren</li> <li>Looking at more resilience during national prolonged emergencies</li> </ul>

4	Glen Garrod	Provide good value Council services	<b>Market Supply</b> Adequacy of Social Care market supply to meet eligible needs as defined in the Care Act			Limited	Static	<b>Existing controls</b> <ul style="list-style-type: none"> <li>• Monitoring of CQC ratings</li> <li>• DToC (Delayed Transfer of Care) Performance</li> <li>• Loss of Provider process</li> <li>• Contract Management of Commissioned Services</li> <li>• Multi-agency Service Quality Review overseeing high risk provision</li> <li>• Reablement service pilot broadening eligibility</li> <li>• Additional payments relating to Covid-19</li> <li>• Reprourement of Homecare contracts</li> <li>• Workforce Development Group</li> <li>• Market stimulation / engagement</li> <li>• Intervention work programme</li> </ul> <b>New / Developing controls</b> <ul style="list-style-type: none"> <li>• Development of the housing strategy including extra care development</li> <li>• New specification for Residential Care</li> <li>• Support to Covid-19 vaccination programme for all social care workers</li> <li>• Assessment of impact on Care Home sector in relation to forthcoming regulation regarding mandatory Covid-19 vaccination for all staff</li> </ul>
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No of Risk	Risk Owner	Corporate Strategy	Risk description	Current risk score	Target risk score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static, Declining)	Actions
5	James Drury	Create thriving environments	<b>Projects</b> Ability to deliver our Transformation programme			Limited	Static	<p><b>Existing controls</b></p> <ul style="list-style-type: none"> <li>● Routine reporting to Overview &amp; Scrutiny Management Board (OSMB)</li> <li>● A number of key corporate projects are on the Transformation Programme.</li> <li>● Dedicated SharePoint site with updated standardised project templates</li> <li>● Implemented interim management structure to oversee the programme.</li> <li>● Governance in place for strategic, tactical and operational project levels.</li> </ul> <p><b>New and Developing</b></p> <ul style="list-style-type: none"> <li>● Developing a new Transformation Team to lead key areas of activity</li> <li>● Priority projects being revised and reconsidered in line with Corporate Plan priorities</li> <li>● Further governance arrangements being reviewed in line with corporate priorities to manage impact on corporate support services.</li> <li>● Gateway review process being tested.</li> <li>● Aligning transformation programme to Corporate Plan and Political Manifesto</li> </ul>
6	Andrew Crookham	Provide good value Council services	<b>Budget - LCC</b> Funding and maintaining financial resilience			Substantial	Static	<p><b>Existing controls</b></p> <ul style="list-style-type: none"> <li>● Balanced budget proposed for 2020/21 with modest surplus transferred to reserves</li> <li>● Refinements to the revenue budget monitoring process including monthly exception reporting to CLT, and a further public report to be introduced in 2020/21, to increase timeliness and accuracy of figures.</li> <li>● Introduction from February 2020 of a new, clearer Medium Term Financial Strategy, setting out the council's financial context and steps to longer term financial sustainability.</li> <li>● Assessment of our Financial Resistance.</li> </ul> <p><b>New and Developing</b></p> <ul style="list-style-type: none"> <li>● Identification of deep dive reviews as part of the process, and introduction of benefits realisation for the transformation programme, to support longer term sustainability</li> <li>● Improvements to the management of the capital programme including a 10 year affordable programme, introduction of a new challenge process for 2020/21 and dedicated monitoring reports</li> <li>● Post Covid Economic Landscape - Brexit, Shipping, material costs etc.</li> <li>● Reform of Property Taxes</li> <li>● Health &amp; Social Care White Paper</li> </ul>
7	Andrew Crookham	Support high aspirations	<b>Recruitment / Staffing</b> Ability to recruit & retain staff in high risk areas			Substantial	Improving	<p><b>Existing controls</b></p> <ul style="list-style-type: none"> <li>● Corporate Employee Health &amp; Wellbeing strategy and enhanced corporate offer introduced during the Covid-19 pandemic</li> <li>● Listening and responding to employee feedback through Smarter Working and other surveys and staff engagement events informing corporate actions</li> <li>● Shorter and more user friendly employment policies located on the new web platform enabling easier access and search by employees and prospective applicants</li> <li>● Corporate recruitment and retention measures established including new employer branding/social media campaigns</li> <li>● Apprenticeship campaigns embedded including hard to recruit and retain posts</li> <li>● Launch of Smarter working guidance module developed as part of Smarter working</li> <li>● Assessment and selection toolkit launched</li> </ul> <p><b>New / Developing controls</b></p> <ul style="list-style-type: none"> <li>● Launch Employer of Choice - Our People Strategy 2021 – 24 to support the delivery of our formal programme supported by project management and formal governance including reporting through the Transformation Programme - focussed on recruiting and retaining skills to enable current and future delivery of services including; <ul style="list-style-type: none"> <li>- Expansion of current enhanced health and well-being offer including launch of Mental Health First Aiders</li> <li>- Introduction of Smarter Working and associated changes to performance appraisal and working flexibly policies</li> <li>- Embedding all new employment policies to support cultural shift to more collaborative ways of working and early resolution of issues</li> <li>- Complete, review and validation of hard to recruit posts of the People Strategy</li> </ul> </li> </ul>

8	James Drury	Provide good value Council services	<b>Strategic contracts</b> Ensuring contracts and markets (other than adult care) are fit for purpose & are managed effectively			Limited	Static	<b>Existing controls</b> <ul style="list-style-type: none"> <li>• Business cases</li> <li>• Options appraisals</li> <li>• Access to legal advice and support</li> <li>• Use of industry standard contracts e.g. NEC</li> <li>• Project decision making and governance including accountable decision maker</li> <li>• Contract and procurement procedure rules (CPPR)</li> <li>• Commercial Board</li> </ul> <b>New / Developing controls</b> <ul style="list-style-type: none"> <li>• Commercial awareness training</li> <li>• Commissioning review (Sept 2020 - September 2021)</li> <li>• Developing reporting back to CLT</li> <li>• Putting together a Contract Management Toolkit which promotes good practice</li> </ul>
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No of Risk	Risk Owner	Corporate Strategy	Risk description	Current risk score	Target risk score	Assurance Status (Full, Substantial, Limited, No)	Direction of Travel (Improving, Static, Declining)	Actions
9	James Drury	Provide good value Council services	<b>Cyber</b> The risk of a successful cyber-attack against the council with significant / critical impact			Limited	Improving	<b>Existing controls</b> <ul style="list-style-type: none"> <li>Email filtering tool to protect from malicious email</li> <li>Internet security tool to identify and block internet born threats.</li> <li>Improved intruder detection and prevention software implemented.</li> <li>Cyber security training and awareness in place.</li> <li>Adoption of National Cyber Security Centre Active Cyber Defence tools</li> <li>Back up regime confirmed as in place by service provider</li> <li>Independently certified information security management system across ICT environment.</li> <li>Serco Security Operations team FTE increased.</li> </ul> <b>Developing controls</b> <ul style="list-style-type: none"> <li>Unsupported Windows operating systems continue to be removed from our network</li> <li>Continued improvements to vulnerability management (internal scanning).</li> <li>Microsoft 365 security controls deployed in line with project deployment</li> </ul>
10	James Drury	Provide good value Council services	<b>IT</b> IT Infrastructure - ability to implement transformational aspirations and deliver BAU.			Substantial	Improving	<b>Existing controls</b> <ul style="list-style-type: none"> <li>Portfolio of remedial projects is progressing with all projects in the build stages</li> <li>The infrastructure in Q1 2020 will be able to support the foreseeable aims of the council</li> <li>The infrastructure in Q1 2020 will be readily extensible by virtue of comprising current technologies</li> <li>No firm transformational challenges have been defined by the council and therefore it cannot be determined to what extent that infrastructure would need to change, if at all, to support that challenge.</li> <li>The ability to support transformational agendas will be commensurate with most modern organisations and will present no particular or elevated risk unique to LCC.</li> <li>The ability to support transformational challenges will be better than most County Councils by virtue of the extent of the recent refit LCC required.</li> <li>Significant level of investment in Mosaic programmes which leads to additional funding from external sources</li> </ul> <b>New &amp; Developing</b> <ul style="list-style-type: none"> <li>New Cloud platforms (Amazon and Azure) being brought into the Architecture will deliver agility in the delivery of new systems at an unprecedented scale and capacity</li> <li>Delivery of the Office 365 program will deliver new tools and methods for the councils business areas to self help, with greater agility and collaboration, often not needing the IMT professional services</li> <li>New device management strategy is being put into effect which reduces reliance on LCC infrastructure</li> </ul>

## Issues log - July 2018

ID	Status	Priority	Issue / Description	Owner	Escalation neededY/N
1	Closed	Low	Maintenance of effective governance arrangements including the way we implement tranformational change and decisions affecting service delivery	James Drury	No
2	Closed	Medium	Sucession planning, in particular CLT	Debbie Barnes	No
3	Work in progress	Medium	Increasing complexity of demand for ASC & Childrens Services	Glen Garrod / Debbie Barnes	No
4	Closed	Low	GDPR	James Drury	No
5	Closed	Low	Change in Leadership and the uncertainty / distrubance this may cause in the short term	Debbie Barnes	No
6	Closed	Low	Not being able to obtain adequate insurance	Andrew Crookham	No



**Open Report on behalf of Andrew Crookham, Executive Director of Resources**

Report to:	<b>Audit Committee</b>
Date:	<b>27 September 2021</b>
Subject:	<b>Internal Audit - External Quality Assessment 2021/22</b>

**Summary:**

Internal Audit within the public sector in the UK is governed by the Public Sector Internal Audit Standards (PSIAS) - which have been in place since 2013 (updated 2017).

The Standards require a periodic self-assessment and an external assessment at least every 5 years as part of Internal Audits Quality Assurance Framework.

The purpose of the external quality assessment is to confirm conformance to the PSIAS - ensuring that the Council maintains an effective internal audit function, supporting continuous improvement.

This report provides the Committee with the proposed scope for undertaking the external quality assessment.

**Recommendation(s):**

The Committee is asked to:

1. Consider and endorse the proposal to undertake a full external quality assessment of the Council's Internal Audit function in 2021/22.
2. Approve the Chairman of the Audit Committee and the Assistant Director - Financial Strategy to be project sponsors.

**Background**

1. The Public Sector Internal Audit Standards (PSIAS) – which have been in place since April 2013 consist of the following elements:
  - Definition of Internal Auditing
  - Code of Ethics

- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).
2. In local government the PSIAS are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015.
  3. The PSIAS aim to promote further improvement in the professionalism, quality and effectiveness of internal audit across both the public and private sectors. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide Executive Director – Resources (the Section 151 officer) with the key assurances he needs in managing the council finances and in producing the annual governance statement. A copy of the PSIAS is attached in Appendix 1.
  4. In April 2019, CIPFA updated its Local Government Application Note for the PSIAS (the Standards) – this has been used to undertake our self-assessment to demonstrate conformance with the Standards.
  5. The Standards require an external assessment at least once every 5 years as part of the Quality Assurance Framework. A summary of Assurance Lincolnshire's Quality Assurance Framework is attached in Appendix 2.

#### External Assessment – The Requirements

6. The standards require that:
  - external assessments must be conducted by a qualified, independent assessor or assessment team from outside the organisation.
  - the Head of Internal Audit should discuss with the Audit Committee the form of the External Assessment and the qualification of the external assessor or assessment team, including any potential conflicts of interest.
  - The scope of the external assessment must be agreed with the appropriate sponsor of the project / work. We are recommending that the Chairman of the Audit Committee and the Assistant Director – Strategic Finance are project sponsors.

#### External Assessment – Approach

7. There are two options for the format of the assessment – a full assessment and an externally validated self-assessment.
8. The advantage of a full assessment is that it has potentially greater value and independence. Conformance is assessed by a qualified assessor who determines the approach of the assessment, the evidence and information they seek and the people to see. They take between 10 – 25 days. They provide suggestions for improvement against best practice and benchmark data.

9. On the other hand, a validated self-assessment is likely to be of a shorter duration, take less time (5 – 8 days), be less disruptive and cost less. They provide development opportunities for internal audit staff and strengthen awareness of quality assurance. Conformance is assessed based on the self-assessment with limited benchmarking data and interviews with stakeholders. They provide suggestions for improvement against the standards / best practice.

#### External Assessment – who should undertake the assessment

10. The Standards specify that a qualified assessor / team should undertake the assessment and be able to demonstrate the following:

Competencies – professional practice in internal auditing and the external assessment process.

Experience – gained in organisations of similar size, complexity and sector is considered more valuable than less relevant experience.

Independence – not having either a real or apparent conflict of interest and not being part of; or under the control of, the organisation(s) to which the internal audit activity belongs.

11. We propose to undertake a full external quality assessment – approaching 5 external organisations to provide a quote to:

- Assess how we conform with the standards
- Evaluate our effectiveness in meeting and exceeding client expectations in light of the Audit Charter
- Identify opportunities / suggestions where we can improve
- Benchmark our activities and practice against best practice and our best performing peers – both in and outside our sector
- Provide a report and suggested action plan as a result of the quality assessment.

12. In providing the quote we will request information on:

- Approach
- Deliverables and Outcome
- Timescales - days and span
- Competency, experience and independence to deliver a full assessment
- Price

The evaluation model will be 60% quality and 40% cost. Quality being assessed on approach to delivery – implementation – added value – output – innovation.

13. The external assessment will involve:

- Project Sponsors approving the appointment of the External Assessor – in consultation with the Head of Internal Audit and Risk Management
- Planning & co-ordinating delivery of the project – with project oversight by the project sponsors and Head of Internal Audit and Risk Management
- Conducting the review of the Internal Audit Arrangements – reviewing resources and delivery, our practice, the self-assessment supporting evidence/documents, discussions with key stakeholders (including the audit committee, senior managers and the internal audit team) and reviewing a sample of audit engagements.
- Benchmarking to self-assessment and best practice
- Draft Report - discussed with Head of Internal Audit and Risk Management and Project Sponsors
- Final Report – presented to Audit Committee and Corporate Leadership Team.

Planning for the External Quality Assessment has commenced.

## Conclusion

The external quality assessment of Internal Audit is a requirement under the Public Sector Internal Audit Standards. The deadline for completion is 31<sup>st</sup> March 2022.

It helps the Councils Internal Audit function to continually improve and demonstrate how it adds value to the organisation as a key assurance provider – particularly important as the Council continues to go through major change and transformation in delivering its Corporate Plan ambitions.

## Appendices

These are listed below and attached at the back of the report	
Appendix A	Public Sector Internal Audit Standards - Updated 2017
Appendix B	Assurance Lincolnshire's Quality Assurance Framework

## Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, Head of Internal Audit and Risk Management, who can be contacted on 075574 98932 or [lucy.pledge@lincolnshire.gov.uk](mailto:lucy.pledge@lincolnshire.gov.uk)



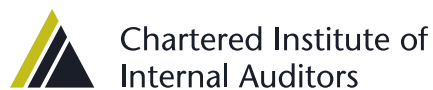
# Public Sector Internal Audit Standards

Applying the IIA International Standards to  
the UK Public Sector

**Issued by the Relevant Internal Audit Standard Setters:**



**In collaboration with:**



# Public Sector Internal Audit Standards

Applying the IIA International Standards to  
the UK Public Sector

Updated March 2017

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## SECTION 1

# Introduction

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A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

This document is therefore addressed to accounting officers, accountable officers, board and audit committee members, heads of internal audit, internal auditors, external auditors and other stakeholders such as chief financial officers and chief executives.

## Framework overview

The Relevant Internal Audit Standard Setters (RIASS)<sup>1</sup> have adopted this common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2017. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing
- *Code of Ethics*, and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

Additional requirements and interpretations for the UK public sector have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF.

The overarching principle borne in mind when all potential public sector interpretations and/or specific requirements were considered was that only the minimum number of additions should be made to the existing IIA Standards. The criteria against which potential public sector requirements were judged for inclusion were:

- where interpretation is required in order to achieve consistent application in the UK public sector
- where the issue is not addressed or not addressed adequately by the current IIA Standards, or
- where the IIA standard would be inappropriate or impractical in the context of public sector governance (taking into account, for example, any funding mechanisms, specific legislation etc).

At the same time, the following concepts were also considered of each requirement or interpretation being proposed:

- materiality
- relevance
- necessity, and
- integrity (the additional commentary does not cause inconsistency elsewhere).

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<sup>1</sup> The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

Wherever reference is made to the International Standards for the Professional Practice of Internal Auditing, this is replaced by the PSIAS. Chief audit executives are expected to report conformance on the PSIAS in their annual report.

## Purpose of the PSIAS

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

Additional guidance is a matter for the RIASS.

## Scope

The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced.

All internal audit assurance and consulting services fall within the scope of the Definition of Internal Auditing (see section 3). The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Consulting services are advisory in nature and are generally performed at the specific request of the

organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.

The *Code of Ethics* promotes an ethical, professional culture (see section 4). It does not supersede or replace internal auditors' own professional bodies' Codes of Ethics or those of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.

In common with the IIA IPPF on which they are based, the PSIAS comprise Attribute and Performance Standards. The Attribute Standards address the characteristics of organisations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. While the Attribute and Performance Standards apply to all aspects of the internal audit service, the Implementation Standards apply to specific types of engagements and are classified accordingly:

- Assurance (A) and
- Consulting (C) activities.

The *Standards* employ terms that have been given specific meanings that are included in the Glossary.

## Key governance elements

Within the PSIAS, the terms 'board' and 'senior management' need to be interpreted in the context of the governance arrangements within each UK public sector organisation, as these arrangements vary in structure and terminology between sectors and from one organisation and the next within in the same sector.

It is also necessary for the chief audit executive to understand the role of the accounting or accountable officer, chief financial officer, chief executive, the audit committee and other key officers or relevant decision-making groups as well as how they relate to each other. Key relationships with these individuals and groups are defined for each internal audit service within its charter.



# Applicability

The Relevant Internal Audit Standard Setters for the various parts of the UK public sector are shown below, along with the types of organisations in which the PSIAS should be applied.

SECTOR / RELEVANT INTERNAL AUDIT STANDARD SETTER	Central Government	NHS	Local Government
<b>CIPFA</b>			<p><b>UK</b> Local authorities.</p> <p><b>England and Wales only</b> The Office of the Police and Crime Commissioner, constabularies, fire authorities, fire and rescue services, National Park authorities, joint committees and joint boards in the UK.</p> <p><b>Scotland only</b> Integration joint boards and Strathclyde Partnership for Transport.</p>
<b>HM Treasury</b>	<p><b>UK*</b> Government departments and their executive agencies and non-departmental public bodies.</p>		
<b>Department of Health</b>		<p><b>England</b> Clinical Commissioning Groups. NHS Trusts.</p>	

SECTOR / RELEVANT INTERNAL AUDIT STANDARD SETTER	Central Government	NHS	Local Government
<b>Scottish Government</b>	<p><b>Scotland</b></p> <p>The Scottish Government, the Crown Office and Procurator Fiscal Service, Executive Agencies and non-ministerial departments, non-departmental public bodies, public corporations, the Scottish Parliament Corporate Body and bodies sponsored / supported by the Scottish Government and the Scottish Parliament Corporate Body.</p>	<p><b>Scotland</b></p> <p>NHS Boards, Special NHS Boards, NHS Board partnership bodies in the public sector (eg joint ventures, Community Health Partnerships etc), NHS Board subsidiaries.</p>	
<b>Welsh Government</b>	<p><b>Wales</b></p> <p>The Welsh Government, executive agencies and non-ministerial departments, Welsh Government sponsored bodies, public corporations, the National Assembly for Wales and bodies sponsored/supported by the Welsh Government and the National Assembly for Wales.</p>	<p><b>Wales</b></p> <p>Health Boards and Trusts.</p>	
<b>Northern Ireland Executive: Department of Finance (NI)</b>	<p>Government departments, executive agencies, non-ministerial departments, non-departmental public bodies, NI health and social care bodies and other relevant sponsored bodies.</p>		

\* Unless the body falls under the jurisdiction of the devolved governments.

# Mission of Internal Audit

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The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission.

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

## SECTION 4

# Definition of Internal Auditing

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Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

# Core Principles for the Professional Practice of Internal Auditing

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The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organisation to organisation, but failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit's mission (see Mission of Internal Audit).

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

## SECTION 6

# Code of Ethics

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### Public sector requirement

Internal auditors in UK public sector organisations (as set out in the Applicability section) must conform to the *Code of Ethics* as set out below. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The purpose of The Institute's *Code of Ethics* is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's *Code of Ethics* extends beyond the definition of internal auditing to include two essential components:

### Components

- 1 Principles that are relevant to the profession and practice of internal auditing.
- 2 Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The *Code of Ethics* provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

## Applicability and Enforcement

This *Code of Ethics* applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the *Code of Ethics* will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

### Public sector interpretation

The 'Institute' here refers to the IIA. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this *Code of Ethics*.

## 1 Integrity

### Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

### Rules of Conduct

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

## 2 Objectivity

### Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

### Rules of Conduct

Internal auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

## 3 Confidentiality

### Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

### Rules of Conduct

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

## 4 Competency

### Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

### Rules of Conduct

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3 Shall continually improve their proficiency and effectiveness and quality of their services.

#### Public sector requirement

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*, information on which can be found at [www.public-standards.gov.uk](http://www.public-standards.gov.uk)



# Standards

## 1000 Purpose, Authority, and Responsibility

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Mission of Internal Audit* and the mandatory elements of the International Professional Practices Framework (the *Core Principles for the Professional Practice of Internal Auditing*, the *Code of Ethics*, the *Standards* and the *Definition of Internal Auditing*). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

### *Interpretation:*

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

### **Public sector requirement**

The internal audit charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity
- cover the arrangements for appropriate resourcing
- define the role of internal audit in any fraud-related work, and
- describe safeguards to limit impairments of independence or objectivity if internal audit or the chief audit executive undertakes non-audit activities.<sup>2</sup>

### **1000.A1**

The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

### **1000.C1**

The nature of consulting services must be defined in the internal audit charter.

<sup>2</sup> These requirements should be read in conjunction with Standards 2030 Resource Management and 1112 Chief Audit Executive Roles Beyond Internal Auditing.

## 1010 Recognising Mandatory Guidance in the Internal Audit Charter

The mandatory nature of the *Core Principles for the Professional Practice of Internal Auditing*, the *Code of Ethics*, the *Standards* and the *Definition of Internal Auditing* must be recognised in the internal audit charter. The chief audit executive should discuss the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework with senior management and the board.

## 1100 Independence and Objectivity

The internal audit activity must be independent and internal auditors must be objective in performing their work.

### *Interpretation:*

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organisational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels.

## 1110 Organisational Independence

The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.

### *Interpretation:*

Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- approving the internal audit charter
- approving the risk based internal audit plan
- approving the internal audit budget and resource plan
- receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters
- approving decisions regarding the appointment and removal of the chief audit executive
- approving the remuneration of the chief audit executive, and
- making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

### **Public sector requirement**

The chief audit executive must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

### **Public sector interpretation**

Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.

### **1110.A1**

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.

### **1111 Direct Interaction with the Board**

The chief audit executive must communicate and interact directly with the board.

### **1112 Chief Audit Executive Roles Beyond Internal Auditing**

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

#### *Interpretation:*

The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organisational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.

### **Public sector interpretation**

When asked to undertake any additional roles/responsibilities outside of internal auditing, the chief audit executive must highlight to the board any potential or perceived impairment to independence and objectivity having regard to the principles contained within the *Code of Ethics* as well as any relevant requirements set out by other professional bodies to which the CAE may belong.

The board must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity (see also Standard 1000 Purpose, Authority and Responsibility).

## **1120 Individual Objectivity**

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

### *Interpretation:*

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

## **1130 Impairment to Independence or Objectivity**

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

### *Interpretation:*

Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

### **1130.A1**

Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

### **1130.A2**

Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

### **1130.A3**

The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.

### **1130.C1**

Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

### **1130.C2**

If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

### **Public sector requirement**

Approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

## **1200 Proficiency and Due Professional Care**

Engagements must be performed with proficiency and due professional care.

### **1210 Proficiency**

Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

#### *Interpretation:*

Proficiency is a collective term that refers to the knowledge, skills, and other competencies required of internal auditors to effectively carry out their professional responsibilities. It encompasses consideration of current activities, trends and emerging issues, to enable relevant advice and recommendations. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organisations.

### **Public sector requirement**

The chief audit executive must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

#### **1210.A1**

The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

#### **1210.A2**

Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

#### **1210.A3**

Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

#### **1210.C1**

The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

## 1220 Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

### 1220.A1

Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives
- Relative complexity, materiality or significance of matters to which assurance procedures are applied
- Adequacy and effectiveness of governance, risk management and control processes
- Probability of significant errors, fraud, or non-compliance, and
- Cost of assurance in relation to potential benefits.

### 1220.A2

In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

### 1220.A3

Internal auditors must be alert to the significant risks that might affect objectives, operations or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

### 1220.C1

Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing and communication of engagement results
- Relative complexity and extent of work needed to achieve the engagement's objectives, and
- Cost of the consulting engagement in relation to potential benefits.

## 1230 Continuing Professional Development

Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.

## 1300 Quality Assurance and Improvement Programme

The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

### *Interpretation:*

A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the *Standards* and an evaluation of whether internal auditors apply the *Code of Ethics*. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The chief audit executive should encourage board oversight in the quality assurance and improvement programme.

### 1310 Requirements of the Quality Assurance and Improvement Programme

The quality assurance and improvement programme must include both internal and external assessments.

### 1311 Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

*Interpretation:*

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Code of Ethics* and the *Standards*.

Periodic assessments are conducted to evaluate conformance with the *Code of Ethics* and the *Standards*.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

### 1312 External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- The form of external assessments.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

*Interpretation:*

External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the *Code of Ethics* and the *Standards*; the external assessment may also include operational or strategic comments.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

#### Public sector requirement

The chief audit executive must agree the scope of external assessments with an appropriate sponsor, eg the accounting/accountable officer or chair of the audit committee as well as with the external assessor or assessment team.

### 1320 Reporting on the Quality Assurance and Improvement Programme

The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board. Disclosure should include:

- The scope and frequency of both the internal and external assessments.
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- Conclusions of assessors.
- Corrective action plans.

*Interpretation:*

The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

#### Public sector requirement

The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

### 1321 Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"

Indicating that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* is appropriate only if supported by the results of the quality assurance and improvement programme.

*Interpretation:*

The internal audit activity conforms with the *Code of Ethics* and the *Standards* when it achieves the outcomes described therein. The results of the quality assurance and improvement programme include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

### 1322 Disclosure of Non-conformance

When non-conformance with the *Code of Ethics* or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.

#### Public sector requirement

Such non-conformances must be highlighted by the chief audit executive to be considered for inclusion in the governance statement.



# Performance Standards

## 2000 Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.

*Interpretation:*

The internal audit activity is effectively managed when:

- It achieves the purpose and responsibility included in the internal audit charter.
- It conforms with the *Standards*.
- Its individual members conform with the *Code of Ethics* and the *Standards*.
- It considers trends and emerging issues that could impact the organisation.

The internal audit activity adds value to the organisation and its stakeholders when it considers strategies, objectives and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance.

## 2010 Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

*Interpretation:*

To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls.

### Public sector requirement

The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.

### 2010.A1

The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

### 2010.A2

The chief audit executive must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions.

### 2010.C1

The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan.

## 2020 Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

## 2030 Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

### *Interpretation:*

Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

### **Public sector requirement**

The risk-based plan must explain how internal audit's resource requirements have been assessed.

Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.

## 2040 Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

### *Interpretation:*

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

## 2050 Coordination and Reliance

The chief audit executive should share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.

### *Interpretation:*

In coordinating activities, the chief audit executive may rely on the work of other assurance and consulting service providers. A consistent process for the basis of reliance should be established, and the chief audit executive should consider the competency, objectivity and due professional care of the assurance and consulting service providers. The chief audit executive should also have a clear understanding of the scope, objectives and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the chief audit executive is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

## 2060 Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan and on its conformance with the *Code of Ethics* and the *Standards*. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the board.

*Interpretation:*

The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

The chief audit executive's reporting and communication to senior management and the board must include information about:

- The audit charter.
- Independence of the internal audit activity.
- The audit plan and progress against the plan.
- Resource requirements.
- Results of audit activities.
- Conformance with the *Code of Ethics* and the *Standards*, and action plans to address any significant conformance issues.
- Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organisation.

These and other chief audit executive communication requirements are referenced throughout the *Standards*.

## **2070 External Service Provider and Organisational Responsibility for Internal Auditing**

When an external service provider serves as the internal audit activity, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity.

*Interpretation:*

This responsibility is demonstrated through the quality assurance and improvement programme which assesses conformance with the *Code of Ethics* and the *Standards*.

## **2100 Nature of Work**

The internal audit activity must evaluate and contribute to the improvement of the organisation's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.

### **2110 Governance**

The internal audit activity must assess and make appropriate recommendations to improve the organisation's governance processes for:

- making strategic and operational decisions
- overseeing risk management and control
- promoting appropriate ethics and values within the organisation
- ensuring effective organisational performance management and accountability
- communicating risk and control information to appropriate areas of the organisation, and
- coordinating the activities of and communicating information among the board, external and internal auditors other assurance providers and management.

### **2110.A1**

The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.

### **2110.A2**

The internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

## **2120 Risk Management**

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

### *Interpretation:*

Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- organisational objectives support and align with the organisation's mission
- significant risks are identified and assessed
- appropriate risk responses are selected that align risks with the organisation's risk appetite, and
- relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

### **2120.A1**

The internal audit activity must evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the:

- achievement of the organisation's strategic objectives
- reliability and integrity of financial and operational information
- effectiveness and efficiency of operations and programmes
- safeguarding of assets, and
- compliance with laws, regulations, policies, procedures and contracts.

### **2120.A2**

The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

### **2120.C1**

During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

### **2120.C2**

Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes.

### **2120.C3**

When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

### **2130 Control**

The internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

#### **2130.A1**

The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- achievement of the organisation's strategic objectives
- reliability and integrity of financial and operational information
- effectiveness and efficiency of operations and programmes
- safeguarding of assets, and
- compliance with laws, regulations, policies, procedures and contracts.

#### **2130.C1**

Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes.

## **2200 Engagement Planning**

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations. The plan must consider the organisation's strategies, objectives and risks relevant to the engagement.

### **2201 Planning Considerations**

In planning the engagement, internal auditors must consider:

- The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.
- The significant risks to the activity's objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level.
- The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model.
- The opportunities for making significant improvements to the activity's governance, risk management and control processes.

#### **2201.A1**

When planning an engagement for parties outside the organisation, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

#### **2201.C1**

Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations. For significant engagements, this understanding must be documented.

## 2210 Engagement Objectives

Objectives must be established for each engagement.

### 2210.A1

Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

### 2210.A2

Internal auditors must consider the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives.

### 2210.A3

Adequate criteria are needed to evaluate governance, risk management and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board.

*Interpretation:*

Types of criteria may include:

- Internal (eg policies and procedures of the organisation).
- External (eg laws and regulations imposed by statutory bodies).
- Leading practices (eg industry and professional guidance).

#### Public sector interpretation

In the public sector, criteria are likely to include value for money.

### 2210.C1

Consulting engagement objectives must address governance, risk management and control processes to the extent agreed upon with the client.

### 2210.C2

Consulting engagement objectives must be consistent with the organisation's values, strategies and objectives.

## 2220 Engagement Scope

The established scope must be sufficient to satisfy the objectives of the engagement.

### 2220.A1

The scope of the engagement must include consideration of relevant systems, records, personnel and physical properties, including those under the control of third parties.

### 2220.A2

If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

### **2220.C1**

In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

### **2220.C2**

During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

## **2230 Engagement Resource Allocation**

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.

### *Interpretation:*

Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the engagement. Sufficient refers to the quantity of resources needed to accomplish the engagement with due professional care.

## **2240 Engagement Work Programme**

Internal auditors must develop and document work programmes that achieve the engagement objectives.

### **2240.A1**

Work programmes must include the procedures for identifying, analysing, evaluating and documenting information during the engagement. The work programme must be approved prior to its implementation and any adjustments approved promptly.

### **2240.C1**

Work programmes for consulting engagements may vary in form and content depending upon the nature of the engagement.

## **2300 Performing the Engagement**

Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.

### **2310 Identifying Information**

Internal auditors must identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives.

### *Interpretation:*

Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.

### **2320 Analysis and Evaluation**

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

## **2330 Documenting Information**

Internal auditors must document sufficient, reliable, relevant and useful information to support the engagement results and conclusions

### **2330.A1**

The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

### **2330.A2**

The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

### **2330.C1**

The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

## **2340 Engagement Supervision**

Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff is developed.

### *Interpretation:*

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

## **2400 Communicating Results**

Internal auditors must communicate the results of engagements.

### **2410 Criteria for Communicating**

Communications must include the engagement's objectives, scope and results.

#### **2410.A1**

Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

#### *Interpretation:*

Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

#### **2410.A2**

Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.



### **2410.A3**

When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results.

### **2410.C1**

Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

## **2420 Quality of Communications**

Communications must be accurate, objective, clear, concise, constructive, complete and timely.

### *Interpretation:*

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy and wordiness. Constructive communications are helpful to the engagement client and the organisation and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

### **2421 Errors and Omissions**

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

## **2430 Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"**

Indicating that engagements are "conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*" is appropriate only if supported by the results of the quality assurance and improvement programme.

### **2431 Engagement Disclosure of Non-conformance**

When nonconformance with the *Code of Ethics* or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle(s) or rule(s) of conduct of the *Code of Ethics* or the *Standard(s)* with which full conformance was not achieved.
- Reason(s) for non-conformance.
- Impact of non-conformance on the engagement and the communicated engagement results.

### **2440 Disseminating Results**

The chief audit executive must communicate results to the appropriate parties.

### *Interpretation:*

The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.

#### **2440.A1**

The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

#### **2440.A2**

If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organisation the chief audit executive must:

- assess the potential risk to the organisation
- consult with senior management and/ or legal counsel as appropriate, and
- control dissemination by restricting the use of the results.

#### **2440.C1**

The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

#### **2440.C2**

During consulting engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the organisation, they must be communicated to senior management and the board.

### **2450 Overall Opinions**

When an overall opinion is issued, it must take into account the strategies, objectives and risks of the organisation and the expectations of senior management, the board and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant and useful information.

#### *Interpretation:*

The communication will include:

- the scope including the time period to which the opinion pertains
- scope limitations
- consideration of all related projects including the reliance on other assurance providers
- a summary of the information that supports the opinion
- the risk or control framework or other criteria used as a basis for the overall opinion, and
- the overall opinion, judgment or conclusion reached.

The reasons for an unfavourable overall opinion must be stated.

#### **Public sector requirement**

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

## **2500 Monitoring Progress**

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

### **2500.A1**

The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

### **2500.C1**

The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

## **2600 Communicating the Acceptance of Risks**

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

### *Interpretation:*

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

# Glossary

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## Add Value

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

## Adequate Control

Present if management has planned and organised (designed) in a manner that provides reasonable assurance that the organisation's risks have been managed effectively and that the organisation's goals and objectives will be achieved efficiently and economically.

### Public sector definition: Assurance Framework

This is the primary tool used by a board to ensure that it is properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.

## Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.

### Public sector definition: Audit Committee

The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

## Board

The highest level governing body (eg a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organisation's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the *Standards* refers to a group or person charged with governance of the organisation. Furthermore, "board" in the *Standards* may refer to a committee or another body to which the governing body has delegated certain functions (eg an audit committee).

## Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

## Chief Audit Executive

Chief audit executive describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the chief audit executive may vary across organisations.

## Code of Ethics

The *Code of Ethics* of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing and Rules of Conduct that describe behaviour expected of internal auditors. The *Code of Ethics* applies to both parties and entities that provide internal audit services.

The purpose of the *Code of Ethics* is to promote an ethical culture in the global profession of internal auditing.

## Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

## Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

## Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

## Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

## Control Environment

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

## Control Processes

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organisation is willing to accept.

## Core Principles for the Professional Practice of Internal Auditing

The Core Principles for the Professional Practice of Internal Auditing are the foundation for the International Professional Practices Framework and support internal audit effectiveness.

## Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

## Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

## Engagement Opinion

The rating, conclusion and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

## Engagement Work Programme

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

## External Service Provider

A person or firm outside of the organisation that has special knowledge, skill and experience in a particular discipline.

## **Fraud**

Any illegal act characterised by deceit, concealment or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organisations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.

## **Governance**

The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

### **Public sector definition: Governance Statement**

The mechanism by which an organisation publicly reports on its governance arrangements each year.

## **Impairment**

Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).

## **Independence**

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

## **Information Technology Controls**

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure and people.

## **Information Technology Governance**

Consists of the leadership, organisational structures and processes that ensure that the enterprise's information technology supports the organisation's strategies and objectives.

## **Internal Audit Activity**

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

## International Professional Practices Framework

The conceptual framework that organises the authoritative guidance promulgated by The IIA. Authoritative guidance is composed of two categories – (1) mandatory and (2) recommended.

### Public sector interpretation

Only the Mission and the mandatory elements apply for the purposes of the Public Sector Internal Audit Standards.

### Public sector interpretation: International Standards for the Professional Practice of Internal Auditing

The Public Sector Internal Audit Standards take the place of the International Standards where applicable.

## Must

The *Standards* use the word “must” to specify an unconditional requirement.

## Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

## Overall Opinion

The rating, conclusion and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

## Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

## Risk Appetite

The level of risk that an organisation is willing to accept.

## Risk Management

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation’s objectives.



## **Should**

The *Standards* use the word should where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

## **Significance**

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

## **Standard**

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

## **Technology-based Audit Techniques**

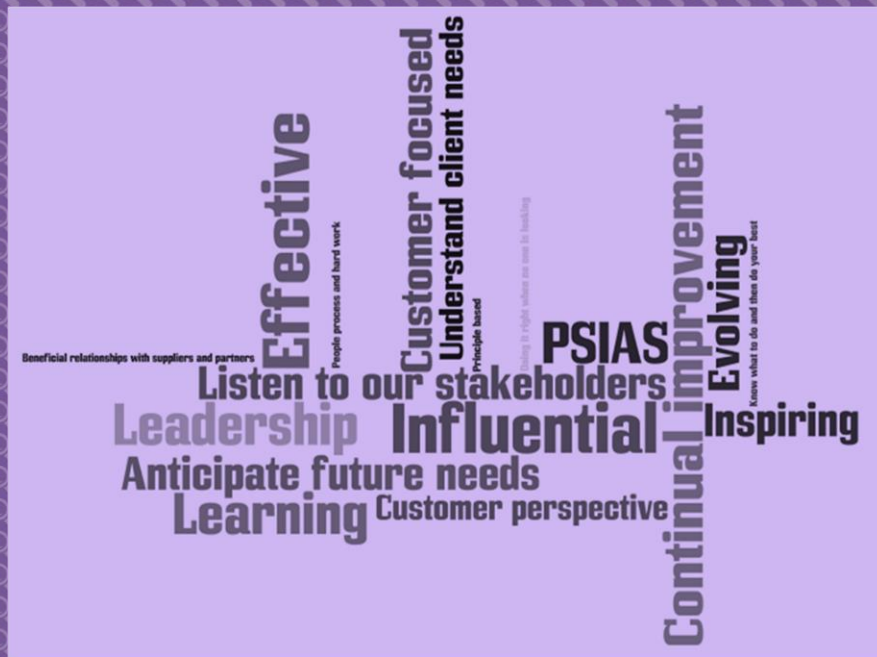
Any automated audit tool, such as generalised audit software, test data generators, computerised audit programmes, specialised audit utilities and computer-assisted audit techniques (CAATs).



# Quality Assurance Framework

 Assurance  
LINCOLNSHIRE  
For All Your Assurance Needs

2018-2021



## OUR VISION

*“To deliver excellent and innovative services that help support delivery of our clients’ objectives and priorities”*

*“Work together to be the public sector assurance provider of choice for the region”*

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## Excellence and Innovation

We recognise that to effectively support our clients in the delivery their objectives and priorities, we need to provide an internal audit service driven by:

- continuous improvement
- a rigorous approach to quality
- a desire to not only conform with the **Public Sector Internal Audit Standards (PSIAS)**, but to exceed them

At the heart of Assurance Lincolnshire is the core internal audit service – an experienced, competent and innovative provider which strives to maintain and develop its service by embedding quality in all elements of internal audit activity.

Our internal audit service benefits from the diversity of services which sit within the wider Assurance Lincolnshire portfolio – this complements and strengthens the depth of knowledge, skills and experience of our internal auditors.

## Our Purpose

The International Professional Practices Framework (IPPF)<sup>1</sup> provides a combination of mandatory and recommended guidance for internal auditors. The **Public Sector Internal Audit Standards (PSIAS)**, which govern how we carry out internal audit in the UK public sector, incorporate the mandatory elements of the IPPF and include:

- Definition of Internal Auditing
- Code of Ethics
- Core Principles
- Standards

The content within the IPPF is underpinned by a **Mission Statement** which describes what

internal audit aims to achieve within an organisation.

*To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight*

This Mission Statement outlines our primary purpose and overarching goal – we recognise this, together with the mandatory elements of the IPPF, within our **Internal Audit Charter**.

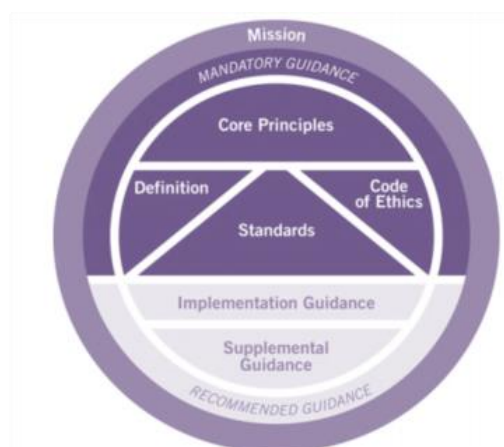
## Our Standards

Ten **Core Principles** set out what we must do to be considered effective – all principles must be present and operating effectively to achieve our mission. The purpose of our Quality Assurance Framework is to:

- provide a system for monitoring and evaluating our effectiveness and conformance with the PSIAS
- ensure continuous improvement within the internal audit service
- meet client expectations / demonstrate our importance to the business
- facilitate the Head of Audit’s statement on conformance with the International Standards for the Professional Practice of Internal Auditing

Diagram 1

International Professional Practices Framework



<sup>1</sup> Developed by the Chartered Institute of Internal Auditors



## Code of Ethics

Our **Code of Ethics** promotes an ethical, professional culture and is specific to the profession and practice of internal auditing. It defines a set of principles and rules governing the conduct of internal auditors. All our internal auditors must comply with this and any other Code relevant to their professional body or employing organisation – we also expect our auditors to apply the **Seven Principles of Public Life**.

## The Principles

**Integrity** – the integrity of internal auditors establishes trust and this provides the basis for reliance on their judgement.

**Objectivity** – internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal Auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

**Confidentiality** – internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

**Competency** – internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

## Values

Our values are those promoted by our host client – Lincolnshire County Council:

**Professional** – by being open, honest, accountable and displaying integrity

**Respectful** – listen and adopt an inclusive approach

**Resourceful** – seek to always to achieve the best outcomes

**Reflective** – learn from both our successes and mistakes

## Vision

As an internal audit provider, Assurance Lincolnshire strives to achieve a high performing culture, recruiting the right people with the right skills, knowledge and experience and commitment. These, together with strong processes and procedures, will help ensure a quality internal audit service which is effective, meets our clients' expectations, adds value and conforms to the Public Sector Internal Audit Standards.

We aim to deliver excellent and innovative services that help support delivery of our clients' objectives and priorities – to achieve this we:

- focus on what matters (audit plans)
- have robust processes and procedures
- conform with the PSIAS
- embed quality in all aspects of our internal audit activity
- provide assurance on internal audit efficiency and effectiveness
- deliver value by meeting stakeholder (client) expectations

## Business Planning

Assurance Lincolnshire is a partnership between local government internal audit providers but also draws on the expertise within the wider service area covering **Risk, Health and Safety, Counter Fraud and Insurance**. We have associate partnering arrangements with a range of other partners to deliver more capacity over a wider geographic area. This collaborative approach is the strength of the partnership.

The service is guided by a protocol, providing a framework which optimises the benefits of working together, whilst enabling the partners to deliver their respective responsibilities to their host organisations and clients. It maximises capacity through partnership and focuses on efficiencies, sustainability and resilience.

Our priorities are articulated in a **Business Plan** – a key aim is to be the public sector assurance provider of choice for the region – the Assurance Lincolnshire partnership is principle driven:

- sharing knowledge and experience
- adopting and devising leading audit techniques and methods
- pooling resources to provide cost effective services, improve efficiency and offering greater value for money to clients
- streamlining methodologies, synchronising audit plans, providing wider assurance services and opportunities for research in areas of common interest

The performance of Assurance Lincolnshire is linked to the success of the partnership and delivery of individual client audit plans. We monitor our performance and service quality throughout the year – this is independently

assessed by client Audit Committees and reported in individual client **Annual Reports**. Our internal auditors have individual objectives linked to Assurance Lincolnshire priorities and outcomes associated with the delivery of client audit plans – individual performance is continuously assessed through our Quality Assurance arrangements and appraisal processes.

## Client Internal Audit Plans

We focus our audit activities on risks that matter most to our clients – those that affect the successful delivery of services and strategic objectives – at the heart of this is our **Assurance Map**.

Through our **Internal Audit Strategy**, we look at different ways of leveraging assurance by aligning our work with that of other assurance functions. We maximise the best use of the internal audit resource and use the Assurance Map to establish our annual Internal Audit Plans – the level of assurance and resource allocation is also influenced by client risk appetite<sup>2</sup>.

Our innovative **Combined Assurance** process, not only informs our audit plans but also:

- supports the Audit Committees through annual **Combined Assurance Status Reports** – stimulating the “watchdog” role and effective challenge
- provides information for our clients’ Annual Governance Statements
- feeds into the **Head of Audit’s annual audit opinion**
- streamlines and avoids assurance duplication
- encourages managers to lead and own assurance activity in their areas

<sup>2</sup> Amount of risk clients are prepared to accept, tolerate or be exposed to at any point in time

## Quality – Definition

*“It is not enough to do your best. You must know what to do, and then do your best.”*  
Edwards Deming

We judge the quality of our internal audit service by the degree to which we:

- meet our clients’ expectations
- are fit for purpose
- conform to the UK Public Sector Internal Audit Standards (PSIAS)

The PSIAS define quality by the extent we conform with the:

- Definition of internal auditing
- Standards
- Code of Ethics

We must also be able to demonstrate the **efficiency** and **effectiveness** of our internal audit activities and identify opportunities for improvement.

Our commitment to quality begins with ensuring that we recruit, develop and assign appropriately skilled and experienced people to deliver the audit services to our clients.

We continually focus on delivering high quality audit services to our clients – seeking opportunities to improve where we can.

**Definition of Internal Auditing** – an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

**Code of Ethics** – statement of principles and expectations governing the behaviour of

internal auditors under the four key headings of Integrity, Objectivity, Confidentiality and Competency.

**Standards** – the standards are principles-focused and consist of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance. The **core principles**, taken as a whole, must be present and operating effectively for our internal audit service to be considered effective:

- 1 *demonstrates integrity*
- 2 *demonstrates competence and due professional care*
- 3 *is objective and free from undue influence (independent)*
- 4 *aligns with the strategies, objectives and risks of the organisation*
- 5 *is appropriately positioned and adequately resourced*
- 6 *demonstrates quality and continuous improvement*
- 7 *communicates effectively*
- 8 *provides risk based assurance*
- 9 *is insightful, proactive and future focused*
- 10 *promotes organisational improvement*

The principles-based approach requires **conformance** – it is about achieving the spirit of the standard rather than complying with the letter of the standard.



# Quality Assurance – Our Approach

**Quality** is built into the way we operate – we have designed our processes and procedures to conform to the PSIAS.

Internally we assess quality at two levels:

## Engagement Level

- Translating audit plans into properly resourced audit assignments
- Planning, fieldwork and reporting conforms to PSIAS
- Follow up (management actions in response to audit recommendations)
- Completion of client feedback forms, lessons learnt, self-assessments and other mechanisms supporting continuous improvement

## Activity Level

- Policies and procedures which guide our staff on conformance with PSIAS
- Audit work follows our policies and procedures

- Audit work achieves the purpose and responsibility defined in our [Internal Audit Charter](#)
- Audit work conforms to PSIAS
- Our work meets stakeholder expectations
- We add value and improve client operations
- Our resources are used efficiently and effectively

Our internal assessments must be supported by an [external assessment](#) once every five years – the assessor must be independent and hold a suitable internal audit qualification.

Our [Quality Assurance Improvement Programme](#) (QAIP) incorporates both the internal (self) and external assessments – this is a mandatory requirement and the Head of Audit reports annually on the results and areas for improvement. Our internal assessments must cover all aspects of internal audit activity – diagram 2 shows how we structure our internal assessments to ensure appropriate coverage:

Diagram 2 – Scope of Quality Assurance Improvement Programme

Internal Audit Activity		
<p><b>Governance</b></p> <ul style="list-style-type: none"> <li>IA Charter</li> <li>PSIAS</li> <li>Legislation</li> <li>Independence &amp; Objectivity</li> <li>Risk Management</li> <li>Resourcing</li> </ul>	<p><b>Professional Practice</b></p> <ul style="list-style-type: none"> <li>Roles and Responsibilities</li> <li>Risk-based Audit Planning</li> <li>Other Assurance Providers</li> <li>Audit Engagement Planning</li> <li>Performing the Engagement</li> <li>Proficiency &amp; Due Professional Care</li> <li>Quality Assurance</li> </ul>	<p><b>Communication</b></p> <ul style="list-style-type: none"> <li>Communicating Results</li> <li>Follow Up</li> <li>Stakeholder Communications</li> </ul>

# Quality Assurance – Our Approach

## Purpose and Structure

Our quality assurance framework is designed to promote continuous improvement – we have adopted Deming’s model to provide structure to our quality process:

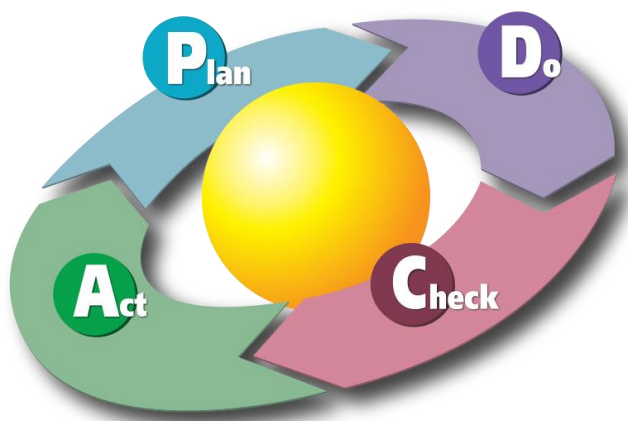


Diagram 3 – Deming’s Model (KG Bulsuk)

### Plan

- Document Audit Practice Notes
- Quality built into our processes
- Develop Quality Assurance Framework

### Do

- Build staff awareness of quality standards & expectations
- Ongoing quality assurance to prevent service failure or non-conformance

### Check

- Periodic self-assessments
- External assessment

### Act

- Record lessons learnt
- Identify improvement opportunities
- Develop / implement Improvement Plan
- Communicate QAIP results

## Ongoing Monitoring

Our *Principal Auditors*, on an audit by audit basis, are responsible for ensuring our audit practice notes are consistently applied and are working effectively.

## Periodic Self Assessments

Our *Audit Team Leaders* will periodically select a sample of audit engagements and assess the level of compliance with our Audit Practice Notes.

The degree to which we conform to the Internal Audit Charter, Definition of Internal Auditing, Code of Ethics and Standards will be assessed annually by the *Head of Internal Audit*. We will report the results to our clients’ Audit Committees, along with ways our internal audit service adds value.



Diagram 4 – Quality Assurance Framework

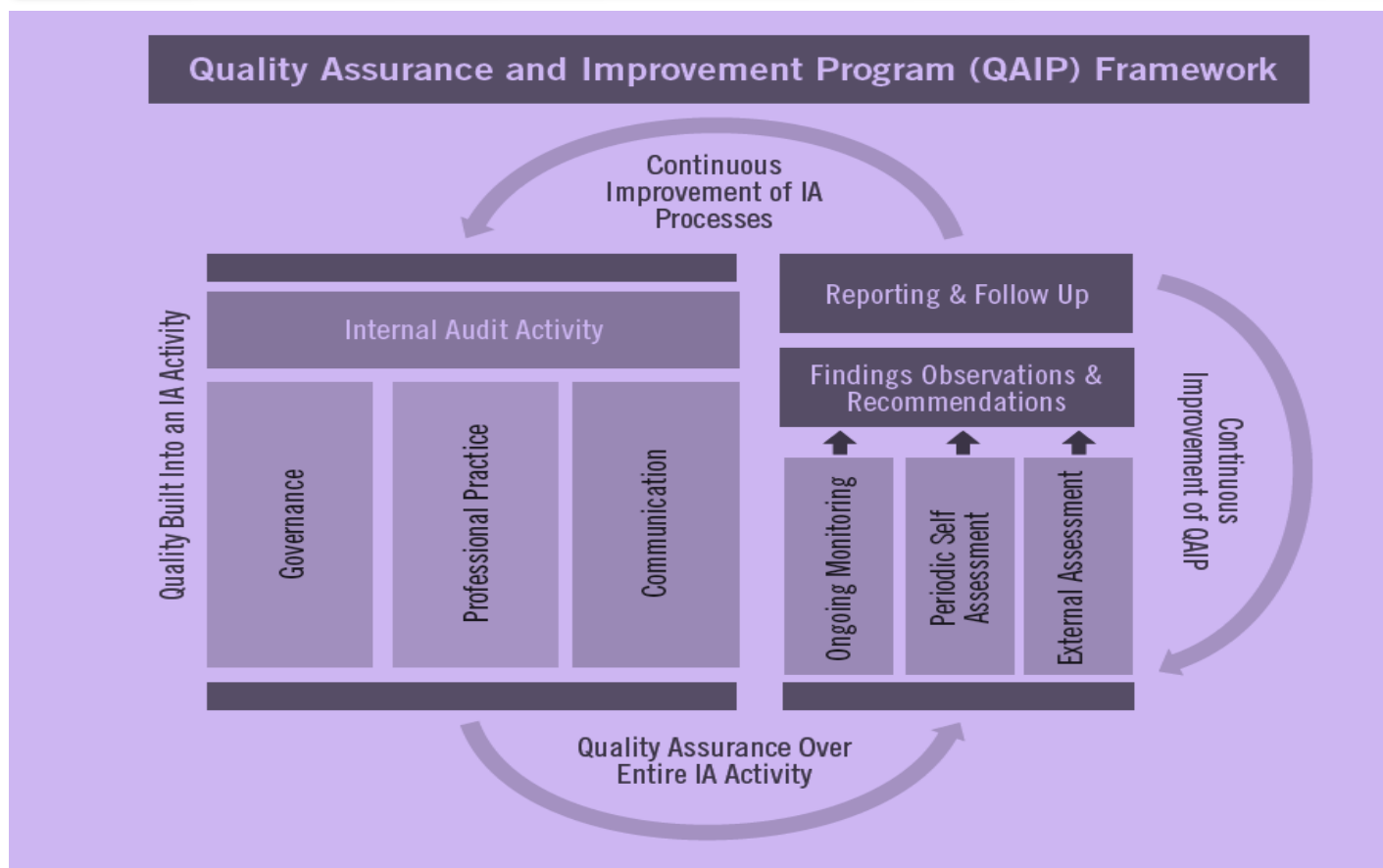


Diagram 5 – Quality Assurance Improvement Programme

Our quality assurance improvement programme (QAIP) will enable us to move away from conformance to focus on new and innovative ways to improve our service – our results should also inform external assessments and provide more opportunity for new ideas to improve quality, efficiency and effectiveness.

We have defined the **roles and responsibilities** of both management and staff within Assurance Lincolnshire (Appendix 1) – this ensures all auditors understand their contribution to the overall quality assurance process.

Throughout the year the results of our ongoing monitoring, periodic self-assessments and external assessments will feed into our QAIP and resulting **Action Plan** of improvements. Our QAIP will provide a structure for continuous assessment and will deliver the

requisite assurance information over our entire internal audit activity (governance, professional practice and communication). The Management Team will monitor the QAIP throughout the year.

## Assessment Scale

Our QAIP incorporates a rating scale (Appendix 4) – to assess the level of conformance with the International Professional Practices Framework (IPPF) and the PSIAS, we have adopted the **Path to Quality Scale (Maturity Model)** which includes three levels of conformance:

- Beyond Conforming (leading and leveraging)
- Conforming
- Non-conforming (emerging and beginning)

### Internal Assessment

Using the CIPFA's PSIAS Application Note we will complete an annual self-assessment, evaluating the degree of conformance with:

- Internal Audit Charter
- Definition of Internal Auditing
- Code of Ethics
- Standards

Responsibility for the annual self-assessment rests with the Head of Audit, who will generally be assisted by Audit Team Leaders.

The self-assessment will also be informed by the results of scheduled reviews of selected audit engagements carried out at least quarterly by Assurance Lincolnshire's Audit Team Leaders. These quality assurance reviews will cover (as a minimum):

- engagement planning
- quality of supervision
- achievement of performance standards
- quality of working papers and evidence
- quality of communicating our audit results and the final report

Over the year the work of each auditor will be assessed under this quality assurance process.

Audit Team Leaders may carry out additional reviews – these may be triggered by concerns raised by Principal Auditors, negative client feedback, consistent failure to achieve performance indicators or common themes arising out of scheduled quarterly reviews.

Lessons learnt, areas for improvement or practice changes will be including in an Action Plan and monitored by the Management Team.

### External Assessment

The IPPF and PSIAS standards require the quality of the internal audit service to be independently assessed once every 5 years. The assessor must be suitably qualified in internal audit practice and must be external to the organisation.

The standards provide two approaches to the external assessment:

- full assessment
- self-assessment with external validation

The external assessor will provide an opinion on the full spectrum of assurance and consulting activity – it will cover:

- conformance with the standards
- a conclusion on efficiency and effectiveness
- how management could be improved
- how the internal audit activity could add value to the organisation

Our preferred approach to external assessment is **full external assessment**.

This approach was approved by our client Audit Committees – after agreeing the scope of the assessment with client S151 Officers and Audit Committee Chairs we appointed an External Assessor.

The assessment was completed September 2016 and the external assessor produced an outcome report verifying our conformance to PSIAS. This was presented to client Audit Committees and the minor recommendations for improvement included in our **Quality Assurance Improvement Plan** – implementation is monitored by the Audit Lincolnshire Management Team and client Audit Committees.

### Performance Indicators

Assurance Lincolnshire has developed a range of performance indicators (Appendix 5) – our achievement is measured regularly and may be reported quarterly to our client Audit Committees through our [Internal Audit Progress Reports](#) and/or the [Internal Audit Annual Report](#).

Our progress reports also include the results of any ongoing monitoring where areas for improvement have been identified.

All team members monitor progress and delivery of their work plans and receive feedback through their monthly 1:1 and the appraisal process. Standard [1:1 and appraisal templates](#) are used.

### Internal and External Assessment

The results of our internal self-assessments (QAIP) will be reported annually, by the Head of Audit, to our host Divisional Management Team (DMT) and our client Audit Committees (as required by [PSIAS 1320](#)).

The report will include the Head of Audit's assessment of the level of conformance with the:

- Definition of internal auditing
- Code of Ethics
- Standards

We, or the appointed External Assessor, will present the outcome report from the External Assessment to our client Audit Committees when available (every 5 years). This report will also include an opinion of the degree of our conformance with the standards.

To provide a positive statement that our internal audit activity “conforms with the *International Standards for the Professional Practice of Internal Auditing*”, we must have a QAIP that fully supports this. Our QAIP will

therefore include the results of both internal and external assessments.

### Non-conformance

When the level of non-conformance impacts on the overall scope or operation of the internal audit activity, the Head of Audit must disclose this (and the impact) to Assurance Lincolnshire's host DMT and our client Audit Committees. Any significant deviation from the standards must be included in client Annual Governance Statements.

### QAIP – Review and Reporting

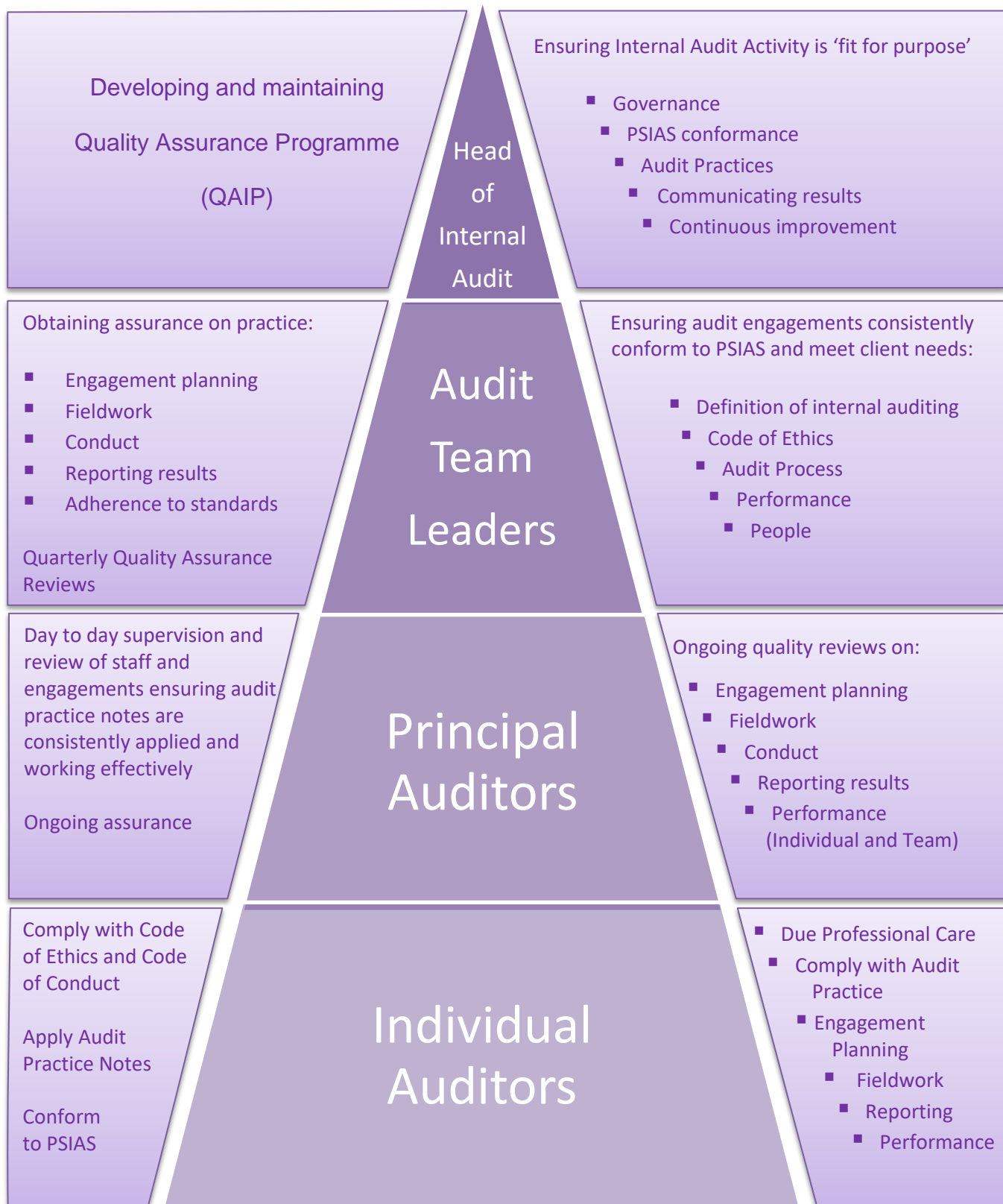
The performance (efficiency and effectiveness) of our internal audit service will be reviewed each year by our client Audit Committees, client S151 officers and the External Auditor. We will be monitoring and updating our QAIP throughout the year but will carry out a formal review annually to facilitate the evaluation of our service.

Our annual QAIP review will include:

- results from our quality assurance
- client feedback
- status of our improvement action plans
- follow up of actions from previous assessments
- changes affecting our quality management system
- recommendations for improvement
- any new and revised standards, policies and procedures

Our QAIP is reported to the Audit Committee and monitored through the Audit Management Team on a quarterly basis,







**Periodic Quality Assurance**

- Obtain periodic assurance that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Provide HIA with highlight report on outcome of reviews



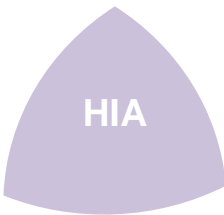
- Obtain on-going assurance that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Undertake engagement supervision and review

Quality outcomes / process designed to deliver a consistently high quality audit service to our clients - fit for purpose / meet client expectations / conform to PSIAS

**Ongoing monitoring – quality built into the audit process**

Quality checks and oversight are undertaken throughout the audit engagement ensuring processes and practice are consistently applied and working well

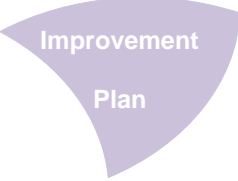
- Conduct all audit engagements in accordance with audit practice standards / PSIAS
- Behave at all times in accordance with the Code of Ethics / Code of Conduct
- Promote the standards and their use throughout the Internal Audit activity
- Commitment to delivering quality services



**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

Quality Improvement Plan - HIA reports 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



Periodic Quality Assurance – DD/MM/YY				
<b>Audit Team Leader</b>		<b>Client</b>		
<b>File Reviewed</b>				
<b>Auditor</b>			<b>Time Spent – Days</b>	
<b>Principal / Supervisor</b>			Budget:	Actual:
<b>Audit On Time / Within Budget</b>	<b>Yes</b>	<b>No</b>	<b>Key dates</b>	
Comment / Reason for variation:  <i>Note: to be effective the audit should aim to be completed from start to draft report within 3 months</i>			<b>Actual</b>	
	Start (Brief)			
	Fieldwork End			
	Draft Report			
	Final Report			
<b>Performance Targets Met</b>			<b>Yes</b>	<b>No</b>
Comment / Reason for variation: <ul style="list-style-type: none"> <li>■</li> <li>■</li> <li>■</li> <li>■</li> </ul>				
<b>Compliance with Audit Process</b>			<b>Yes</b>	<b>No</b>
Engagement Planning				
Engagement Work Programme, incl. testing strategy				
Fieldwork, including working paper standards				
Analysis and Evaluation				
Engagement Supervision				
Reporting				



Periodic Quality Assurance – DD/MM/YY								
<b>Areas of Improvement (Individuals)</b>								
<b>Auditor</b>	<ul style="list-style-type: none"> <li>▪</li> <li>▪</li> <li>▪</li> <li>▪</li> </ul>							
<b>Supervisor</b>	<ul style="list-style-type: none"> <li>▪</li> <li>▪</li> <li>▪</li> <li>▪</li> </ul>							
<b>Quality of Report</b>				<b>Score</b>				
How well did our final report communicate the audit results to the client (1 = very poor / 5 = excellent)				1	2	3	4	5
<b>Client Satisfaction</b>				<b>Score</b>				
How well did the audit meet customer expectations – overall feedback from Customer Satisfaction Survey				1	2	3	4	5
<b>Areas of Improvement (Service)</b>								
<ul style="list-style-type: none"> <li>▪</li> <li>▪</li> <li>▪</li> </ul>								
				<b>Date</b>				
Review								
Feedback to Supervisor								
HIA Quarterly Highlight Report								

**Path to Quality**



Periodic Quality Assurance – DD/MM/YY				
<b>Audit Team Leader</b>		<b>Client</b>		
<b>File Reviewed</b>				
<b>Auditor</b>			<b>Time spent – Days</b>	
<b>Principal / Supervisor</b>			Budget:	Actual:
<b>Audit On Time / Within Budget</b>	<b>Yes</b>	<b>No</b>	<b>Key dates</b>	
Comment / Reason for variation:  <i>Note: to be effective the audit should aim to be completed from start to draft report within 3 months</i>			<b>Actual</b>	
	Start (Brief)			
	Fieldwork End			
	Draft Report			
	Final Report			
<b>Performance Targets Met</b>			<b>Yes</b>	<b>No</b>
Comment / Reason for variation: <ul style="list-style-type: none"> <li>■</li> <li>■</li> <li>■</li> </ul>				
<b>Compliance with Audit Process</b>			<b>Yes</b>	<b>No</b>
Engagement Planning				
Engagement Work Programme, incl. testing strategy				
Fieldwork, including working paper standards				
Analysis and Evaluation				
Engagement Supervision				
Reporting				
<b>Areas of Improvement (Individuals)</b>				

Periodic Quality Assurance – DD/MM/YY								
<b>Auditor</b>	<ul style="list-style-type: none"> <li>▪</li> <li>▪</li> <li>▪</li> <li>▪</li> </ul>							
<b>Supervisor</b>	<ul style="list-style-type: none"> <li>▪</li> <li>▪</li> <li>▪</li> <li>▪</li> </ul>							
<b>Quality of Report</b>				<b>Score</b>				
How well did our final report communicate the audit results to the client (1 = very poor / 5 = excellent)				1	2	3	4	5
<b>Client Satisfaction</b>				<b>Score</b>				
How well did the audit meet customer expectations – overall feedback from Customer Satisfaction Survey				1	2	3	4	5
<b>Areas of Improvement (Service)</b>								
<ul style="list-style-type: none"> <li>▪</li> <li>▪</li> <li>▪</li> </ul>								
				<b>Date</b>				
Review								
Feedback to Supervisor								
HIA Quarterly Highlight Report								

\* Achievement of the performance measures on recommendations agreed and implemented are not within our control.

These are reported so our Audit Committees can see what actions management have taken. The details of any recommendations not agreed are included in Audit Report executive summaries which are reported to Committees.

Note: Some clients may have different Performance Indicators

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**Open Report on behalf of Andrew Crookham, Executive Director of Resources**

Report to:	<b>Audit Committee</b>
Date:	<b>27 September 2021</b>
Subject:	<b>Work Programme</b>

**Summary:**

This report provides the Committee with information on the core assurance activities currently scheduled for the 2021 work plan.

**Recommendation(s):**

1. To review and amend the Audit Committee's work plan ensuring it contains the assurance areas necessary to approve the Annual Governance Statement 2021.
2. Consider the actions identified in the Action Plan.

**Background**

The work plan, as attached at Appendix A, has been compiled based on the core assurance activities of the Committee as set out in its terms of reference and best practice.

Appendix B – keeps track of actions agreed by the Committee and future potential agenda items.

**Conclusion**

The work plan helps the Audit Committee effectively deliver its terms of reference and keeps track of areas where it requires further work and/or assurance.

**Consultation**

**a) Have Risks and Impact Analysis been carried out?**

No

**b) Risks and Impact Analysis**

N/A

### **Appendices**

These are listed below and attached at the back of the report	
Appendix A	Work Programme
Appendix B	Action Plan

### **Background Papers**

No Background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, Head of Audit and Risk Management, who can be contacted on 01522 553692 or [lucy.pledge@lincolnshire.gov.uk](mailto:lucy.pledge@lincolnshire.gov.uk) .



## Appendix A - Audit Committee Work Plan 2021/22

27 September 2021 – 10.00 am		
Item	Contributors	
Statement of accounts 2020/21 – Update on Audit	Sue Maycock (Head of Finance – Corporate) Mike Norman / Michael Butler / John Pressley (Mazars)	<p>Ensure that the explanatory forward to the accounts help the public understand the authority's financial management of public funds.</p> <p>Consider the outcome of the External Audit and the appropriateness of management responses.</p> <p>Consider any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council</p> <p>Consider the proposed Value for Money Conclusion and any matters arising.</p>
Internal Audit Progress Report	Lucy Pledge (Head of Internal Audit and Risk Management)	Gain an understanding of the level of assurances being provided by the Head of Internal Audit over the Council's governance, risk and internal control arrangements and why.

<b>27 September 2021 – 10.00 am</b>		
Risk Management Progress Report – September 2021	Debbie Bowring (Principal Risk Officer)	Seek assurance that risk-related issues are being addressed.
Fraud Risk Register - <i>Deferred to 2022</i>	Matt Drury (Principal Investigator) advise	<p>Confirm that the Council's counter fraud activity is targeted and effective.</p> <p>Ensure that appropriate progress is being made on the delivery of the Counter Fraud plan.</p> <p>Ensure that lessons have been learnt – understand fraud risks facing the Council and actions being taken to reduce the risk.</p>
Internal Audit – External Quality Assessment	Michelle Grady – Assistant Director Strategic Finance / Lucy Pledge – Head of Internal Audit and Risk Management	Assurance over Internal Audit conformance with the Public Sector Internal Audit Standards.

<b>15 November 2021 – 10.00 am</b>		
<b>Item</b>	<b>Contributors</b>	<b>Assurances Required/ Sought</b>
Statement of accounts 2020/21 2020/21 – Lincolnshire County Council & Pension Fund	Representatives of Mazars	Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.

**15 November 2021 – 10.00 am**

<b>Item</b>	<b>Contributors</b>	<b>Assurances Required/ Sought</b>
Counter Fraud Progress Report	Matt Drury (Principal Investigator)	Gain assurance that the Council has effective arrangements in place to fight fraud locally.  Ensure that counter fraud resources are effectively targeted to the Council's key fraud risks.
Draft Audit Committee Annual Report 2020/21	Lucy Pledge (Head of Internal Audit and Risk Management)	Provide assurance that the Committee has adequately discharged its terms of reference and has positively contributed to how well the Council is run.
Revised Counter Fraud Policies	Lucy Pledge – Head of Internal Audit and Risk Management	Gain assurance that the Council has effective arrangements in place to fight fraud locally.  Ensure that counter fraud resources are effectively targeted to the Council's key fraud risks.
Procurement of External Auditor	Michelle Grady – Assistant Director Strategic Finance / Sue Maycock	Assurance over effective engagement of External Auditors for the Council's financial accounts and Value for Money opinion
External Auditors Annual Report 2020/21	Michelle Grady – Assistant Director Strategic Finance / Sue Maycock	Assurance over effective engagement of External Auditors for the Council's financial accounts and Value for Money opinion.
Internal Audit Plan – up to 31st March 2022	Lucy Pledge – Head of Internal Audit and Risk Management / Matthew Waller – Team Leader – Audit	That the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion.  Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year.  Ensure that the Internal Audit Resource has sufficiently capacity and

<b>15 November 2021 – 10.00 am</b>		
<b>Item</b>	<b>Contributors</b>	<b>Assurances Required/ Sought</b>
		<p>capability to deliver the plan.</p> <p>Seek an understanding of what assurances Internal Audit will be providing the Committee to help it discharge its terms of reference.</p>
Smarter Working Update	Tony Kavanagh	To provide members with an update on the smarter working project and assurance on how performance and productivity will be monitored and managed for home working.

<b>7 February 2022 – 10.00 am</b>		
<b>Item</b>	<b>Contributors</b>	<b>Assurances Required/ Sought</b>
Combined Assurance Status Reports – 2021/22	Chief Executive, Executive Directors and Chief Fire Officer	<p>Understand the level of assurances being provided on the Council's critical systems, key risks and projects and how they link to the Committees role and remit and the Annual Governance Statement.</p> <p>Seeking assurance that they are working well and that any significant risk and issues are being actively managed.</p>
Horizon Scanning	Lucy Pledge (Head of Internal Audit and Risk Management)	To provide early signs of potentially important developments – identifying potential treats, risks, emerging issues and opportunities.

<b>28 March 2022 – 10.00 am</b>		
<b>Item</b>	<b>Contributors</b>	<b>Assurances Required/ Sought</b>
External Audit Strategy – Lincolnshire County Council 2021/22	Representatives of Mazars	Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.

**28 March 2022 – 10.00 am**

<b>Item</b>	<b>Contributors</b>	<b>Assurances Required/ Sought</b>
External Audit Quality	Sue Maycock (Head of Finance – Corporate)	Effectiveness of the External Auditors Quality Assurance Framework / processes following the 2020/21 audit experience, changes in audit resources and the October 2020 publication of the report by the Financial Reporting Council on Major Local Audits - Audit Quality Inspection.
Statement of Accounts 2021/22 – Accounting Policies	Sue Maycock (Head of Finance – Corporate)	Confirm that the appropriate accounting policies are being applied and understand the impact of any material changes that affect the Council's or Pension fund accounts.
Internal Audit Progress Report	Lucy Pledge (Head of Internal Audit and Risk Management)	<p>Gain an understanding of the level of assurances being provided by the Head of Internal Audit over the Council's governance, risk and internal control arrangements and why.</p> <p>The Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion.</p> <p>Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year.</p>
Risk Management Progress Report - March 2022	Debbie Bowring (Principal Risk Officer)	Seek assurance that risk-related issues are being addressed.

28 March 2022 – 10.00 am

Item	Contributors	Assurances Required/ Sought
International Standards on Auditing - Response to Management Processes Questions	Dianne Downs (Team Leader – Audit)	Each year the External Auditors are required to obtain an understanding of the Council’s management processes in a number of areas. The International Auditing Standards specify the areas concerned – with the aim to support risk assessment around fraud, error or a material mis-statements in the County Council and Pension Fund financial statements. This report sets out the management responses to those questions.
Counter Fraud Plan 2022/23	Dianne Downs (Team Leader – Audit)	On the overall effectiveness of the Authority's arrangements to counter fraud and corruption.

**Items to be programmed:**

- **Integration of Health and Social Care (including IMT)** – Glen Garrod (Executive Director of Adult Care and Community Wellbeing) – Date TBC.

## Appendix B

Audit Committee Action Plan 2021/22			
Action	Terms of Reference Outcome	Key Delivery Activities	When
The Committee was to receive additional information around reported cases which had resulted in staff dismissals. Counter Fraud Annual Report considered at 12 <sup>th</sup> July Audit Committee			Before 27 September 2021
Lessons Learned From Public Interests Reports Workshop		Working Effectively Together / Moving Forward Our Joint Working	March 2022

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