

SUBJECT:	REVIEW OF INTERNAL AUDIT AND AUDIT COMMITTEE EFFECTIVENESS
DIRECTORATE:	CHIEF EXECUTIVE & TOWN CLERK
REPORT AUTHOR:	AUDIT MANAGER/CHIEF FINANCIAL OFFICER

1. Purpose of Report

- 1.1 To review the effectiveness of Internal Audit and the Audit Committee benchmarking against best practice and audit standards.

2. Executive Summary

- 2.1 The report provides an assessment of effectiveness for both Internal Audit and the Audit Committee.
- 2.2 A review group consisting of the Chair of Audit Committee, the Independent Member, Cllr Tom Dyer, the Chief Finance Officer and the Audit Manager met in June 2021.
- 2.3 The assessment is summarised within the report and the appendices. Improvement plans are attached for both Internal Audit and the Audit Committee

3. Background

- 3.1 A member/officer review group was established to review background documents in detail and provide summary feedback to the Audit Committee.
- 3.2 The review was split into different areas covering:

Internal Audit

- Audit standards and quality
- Audit performance
- Resources
- Feedback
- Improvement
- Summary and conclusions

Audit Committee

- CIPFA audit committee assessments
- Core self-assessment
- Knowledge and skills
- Summary and conclusions

4. Internal Audit Review of Effectiveness

4.1 Audit Standards

Public sector internal audit standards (PSIAS) set out a number of core principles for internal audit. 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

Compliance against these core principles is set out in a summary assessment attached at Appendix A. This includes some improvement actions which are outlined in the Quality and Improvement Plan (QAIP) and cross referenced on the Appendix B.

4.2. Quality review/supervision

All audits are supervised by the Audit Manager and the Principal Auditor.

This covers terms of reference (TOR), audit research and risk assessment, working papers and draft and final reports.

Feedback is provided and recorded through the audit work system, or through the Council network (where audits are undertaken outside the audit work system). There have been a small number audits completed by County Council staff (Assurance Lincolnshire) in the past and work is reviewed by LCC line managers; draft and final reports reviewed by CoIC.

Any contract staff / agency staff (such as IT auditors) work is reviewed by the Audit Manager / Principal auditor and where appropriate the respective Contract Manager.

4.3. Quality checks are undertaken which review:

- Planning and research
- Identification of risks
- Terms of reference
- Controls and tests completed/documentation
- Evaluation of findings
- Report review / adherence to house style and original terms of reference
- Appropriate assurance – overall and on individual risks
- Agreed actions supported by findings
- Management feedback – comments and questionnaire

There were no significant issues from reviews undertaken.

4.4 Terms of Reference/Charter

The Audit Charter follows best practice (CIPFA/IIA) and was recently reviewed by the Committee in February 2021. No changes were required

4.5 Audit performance

The following table shows the key performance indicators for 2020/21 and 2019/20

Table A

Performance Indicator	Target	Actual 2020/21	Actual 2019/20
Percentage of (revised) plan completed.	100%	89%	96%
Percentage of key financial systems	100%	100%	75%
Percentage of recommendations agreed.	100%	100%	98%
Percentage of recommendations due implemented.	100%	100%*	83%
Timescales:			
Draft report issued within 10 working days of completing audit	100%	100	100
Final report issued within 5 working days of closure meeting / receipt of all management responses.	100%	100	100
Period taken to complete audit within 2 months from fieldwork commencing to the issue of the draft report.	80%	30%	90%
Client Feedback on Audit (average)	Good to excellent	Good to excellent	Good to excellent

- 4.6 The 2020/21 internal audit plan was reduced due to Covid and re-prioritisation of resources towards Covid mitigation actions. A revised plan was presented to the Audit Committee in September 2021.
- 4.7 Completion of the revised 20-21 plan was not as expected due to the further national restrictions which were announced following agreement of the revised plan in September 2020. This meant that officer resources were again diverted to the emergency response.
- 4.8 There were delays on some audits in 20-21 which is linked to the lower percentage of audits being completed within expected timescales (fieldwork to draft report), again this was primarily due to officer capacity whilst responding to the pandemic.
- 4.9. Due to the late start on audits few (new) recommendations have fallen due for implementation for the 20-21 year.
- 4.10 The speed at which some agreed actions are implemented can still be improved. We will find a more consistent way to ensure these are covered through

Performance management in 21-22 and where appropriate escalated to Assistant Directors or Directors.

4.11 Skills and Resources

The service currently has 2.43 FTE's and a budget of £90K including IT and other non-staffing budgets heads. This equates to 300 days for CoIC and 145 days for BBC/ELDC (Assurance Lincolnshire).

4.12 Audit days have been reduced from 21-22, to help contribute to the Council's savings targets, reflecting a proportionate reduction in comparison to the reduction in total council services. Resources levels have been assessed over Lincolnshire and Notts (12 authorities) where the average is audit days is 245, we are 5th highest.

4.13 The annual planned days still represents a "good" level of audit resource for an authority of this size and allows the Head of Internal Audit sufficient resources to comply with standards and provide an appropriate annual opinion. This includes work across key financial systems, other governance and due diligence areas as well as critical systems, ICT and counter fraud.

Planned audit days in 21-22 are 275 as April is being used to complete some 20-21 work delayed due to Covid.

4.14 Assurance Lincolnshire

The Assurance Lincolnshire Partnership continues to add value, this includes access to a computerised audit system, shared audit practices and training. It also helps with access to specialists (Risk, Health & Safety, insurance, counter fraud, ICT) and resilience.

The Audit Committee Forum is provided through the partnership, usually annually.

We are providing more direct audit services through the partnership from 21-22 due to Boston's management integration with ELDC. From 21-22 LCC will be the contracting authority to BBC and CoIC audit staff will provide audit services through Assurance Lincolnshire to BBC and ELDC.

4.15 Training and membership of groups

We are members of the Midlands Internal audit group and part of the Assurance Lincs partnership (City of Lincoln, LCC and Notts County Council). We have access to the Midland Counties Internal audit group. We are members of the CIPFA better governance forum (BGF) which provides monthly updates on governance, risk, audit and finance. This includes training.

4.16 Training is covered through a range of events

- Through the Assurance Lincs partnership (training days/sessions)
- BGF training seminars
- BGF updates
- City of Lincoln Council training (such as safeguarding, recruitment, training)
- Cascaded training internally or via colleagues

4.17 Training is recorded in training logs / CPD and skills matrices are completed

A new audit skills matrix will be completed in 21-22 (this is being completed across Assurance Lincolnshire)

Some training requirements are captured in the QAIP (Appendix B)

4.18 Feedback

4.19. Generally, feedback is good to excellent and shows us that key areas for auditees are effective communication, explaining our process, not too time consuming, added value recommendations, flexible and working around commitments.

4.20 One off" views from managers / AD's have been sought and received which highlighted some areas for improvement, including:

- Communication can be improved around the planning/timing of audits; whilst these are communicated at the start of the year to agree the quarter in which they will take place, more regular reminders will be given to both Assistant Directors and Managers.
- Officers not always clear around Audit Committee reporting – for example which meeting the audit report goes to and if there was any feedback.
- Officers may not be clear on the role of the Audit Committee (or perhaps Internal Audit) and may only be asked to attend where there is a limited assurance report or other matters outstanding.
- Profile of audit recommendations could be improved – linked to corporate dashboard.
- Prioritisation of recommendations against other workload. The status of audit recommendations could mean they are prioritised over other work and there is insufficient resource to manage and complete all of the areas of work.

4.21 Other points:-

- Reviews undertaken are always undertaken professionally and that the audit team listen and reflect accurately to what officers have said.
- Responding to requests for advice – no issues, very professionally and quickly done
- In summary the service provided by the audit team is a good one, often in difficult circumstances.
- Audit are amenable to moving the timing audits if necessary (for operational reasons)
- Happy with the current arrangements.
- Does a good job, especially with low numbers of staff.
- Audit needs to retain its flexible approach to the work programme
- Audit's contribution to the AGS is valued
- Balanced and add value.
- I think the Internal Audit Service on the whole is good. It has a generally balanced view and is helpful to my service area. I think the staff are very approachable and easy to deal with.

4.22 Improvement

There are a range of improvement areas and these are captured within the attached QAIP as well as other improvement points contained within this report. The QAIP will be monitored and updated accordingly.

5. Internal Audit Summary and Conclusions

5.1 Audit standards and quality

- The team meet the requirements of standards and audit quality is satisfactory. There are some areas for improvement which are included within the QAIP. These include engagement supervision (review) and ensuring audit work system full sign off.
- There are areas of training staff would benefit from and again some of these are included within the QAIP.
- There are good audit processes, practice notes, templates and audit work system.
- Staff follow ethical standards, as well as those internally and professionally.
- Planned work includes a broad coverage to provide the annual opinion on governance, risk and control. Core governance areas including risk management, performance, ICT, finance, projects, contracts, service specific, due diligence, emerging risks, savings and transformation, counter fraud are covered.
- The Combined Assurance model (three lines of assurance) is seen as best practice and is key to the audit strategy and audit planning and provides assurance to senior management and the Audit Committee and feeds into the AGS.
- The internal audit plan/strategy is updated annually - there will be a separate strategy in 2021-22.

5.2 Audit performance

- 20-21 was affected by Covid which reduced the overall plan. The delivery of the revised plan however still enabled an audit opinion across governance risk and control.
- The span of audits was affected, and they took longer overall to complete.
- There were some audits on the revised plan that were affected, and these have been carried over to 2021/22.
- The timely implementation of some agreed actions/recommendations can still improve.

- Feedback overall was good.
- As the effects of Covid reduce, it is hoped that performance against plan and other indicators will improve for 21-22.

5.3 Resources

Resources overall (and costs) are still at a satisfactory level with an experienced team. The assurance Lincolnshire partnership continues to provide benefits (and an income) to the service. There are a range of training opportunities and these are managed within a limited budget. Key areas of training are outlined in the QAIP. IT skills are bought in as required and there is budget for this.

5.4 Feedback

General feedback both post audit and within management comments remains good. There are good client relationships. We have obtained some additional feedback for this review which has identified some further improvements but also mirrors the good feedback received after audit completion.

5.5 Improvement Plan

The QAIP outlines the main improvement areas and this will be updated to take account of this current review.

6. **Audit Committee Effectiveness review**

6.1 Terms of reference review (TOR)

The TOR were last reviewed against the CIPFA guidance in February 2021 and reported to this Committee. The work programme for the Committee is also reviewed against the TOR to ensure all areas are included within the programme.

6.2 Core CIPFA self-assessment

An assessment against the CIPFA Audit Committee self-assessment is attached at Appendix C.

The review group identified some changes/improvements linked to the assessment as follows:

- Further guidance to officers will be provided to ensure understanding of the committee role is clear. Communicate with managers on role of committee and encourage attendance
- New Chair and other new members of the Audit Committee in 2021. This will be reflected in further training to members around skills and knowledge. A training plan will be developed
- Promote work/benefits of the Committee.
- Any changes to the committee work programme will be clearly identified within the covering report.

- Review report recommendation wording - consider/comment and feedback rather than “note”.
- Teams/Zoom not quite as effective as in person meetings, however the circumstances of the pandemic could not have been avoided.
- To consider whether “providing oversight of other public reports, such as the annual report” is included within the TOR.

6.3 Knowledge and skills

The review group considered appendices D and E linked to CIPFA guidance on knowledge and skills. The group noted that audit committee training is not mandatory and whether this was something to pursue or ensure it is strongly advised to attend. Training is either given before meetings or a few days before to allow for members to consider further any issues (such as statement of accounts).

6.4 The review group commented on Core skills

- Comment that longer standing/experienced members had helped to coach new members which was helpful
- A general checklist of questions or question types would be useful
- Statement of accounts training (for example) provided prompts to members on areas / questions to focus on
- The Lincolnshire Audit Committee forum (Assurance Lincolnshire) had been useful in the past
- Would be useful to clarify, from the terms of reference, in terms of what the committee can /can't do. The TOR could be attached to each agenda (could be attached to the work programme at each meeting)
- Training is best “little and often”
- One member mentioned that agendas were discussed at political group meetings and this was helpful
- Mazars webinar was useful
- University of Lincoln may be able to assist on some linked training (offered in the past)

6.5 Summary and conclusions

The Audit Committee was working well, with a new Chair and new members future training was key to ensuring the effectiveness of the committee was maintained.

A new training plan will be developed following this review and as a minimum will include:

- Existing training – Statement of accounts/Treasury
- Training on Core knowledge and skills
- Access to the Lincolnshire Audit Committee forum
- Better Governance Forum internal audit updates
- Counter fraud

6.6 An updated action plan, at Appendix F, to reflect the review comments has been drafted for comments.

7. Strategic Priorities

- 7.1 Ensuring that the Council has effective arrangements in place for its Internal Audit Services and Audit Committee is a key part of the Council's overall governance framework.

8. Organisational Impacts

- 8.1 Finance (including whole life costs where applicable)

There are no direct financial implications arising as a result of this report.

- 8.2 Legal Implications including Procurement Rules

The review of effectiveness ensures best practice is met and compliance with the Accounts and Audit regulations.

- 8.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

Due to the nature of this report there are no direct equality, diversity or human rights implications.

9. Recommendation

- 9.1 Members should consider the points raised from the review of effectiveness of internal audit and the audit committee.
- 9.2 Note and comment on actions for Internal audit including the QAIP (appendix B)
- 9.3 Note and comment on actions for the Audit Committee included within the action plan (Appendix F)

Is this a key decision?

No

Do the exempt information categories apply?

No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?

No

How many appendices does the report contain?

6

List of Background Papers:

None

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