

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

INTERNAL AUDIT PROGRESS REPORT

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To inform members of key issues arising from Internal Audit's work.
- 1.2 Regular reporting on Internal Audit issues is an important source of assurance for Members to fulfil their role and provides supporting evidence for the annual approval of the Governance Statement.

2. BACKGROUND INFORMATION

- 2.1 Audit resources have been prioritised towards audit plan preparation and the completion of fundamental financial systems reviews since the last progress report in January. The audit plan for 2010/2011 has been drafted and is reported elsewhere on this agenda. All financial fundamental systems reviews are progressing well and are nearing completion. Early indications show that there are no significant control failings and testing has been carried out in accordance with the protocol agreed with External audit. Interim results have been discussed with external audit to inform their risk assessment work and no significant concerns have been raised so far. An evaluation of all fundamental financial systems will be provided in Internal Audit's Annual Report presented to the Committee in June.
- 2.2 The Audit and Risk Manager provides a coordination lead on the Use of Resources evaluation which is currently underway. A self assessment has been prepared to capture development areas and demonstrable outcomes from the arrangements in place. Supporting evidence has been provided and interviews have been arranged with key officers. The outcome of this work will not be known until September and the result will be reported to the Committee.
- 2.3 An analysis of the Internal Audit Plan progress was provided in the last report to Members and this highlighted the adjustments necessary to reprioritize work in response to shortfalls in resources and demands for unplanned work from service areas. A further update is given in appendix A. This shows a small number of audits will be deferred to next years plan. Some audits are deferred to allow significant changes to be fully realized and evaluated e.g. new IT suite. Other audits have been deferred as either assurance is available from other sources or

delay in completing the work does not compromise Internal Audit's ability to provide its opinion on the adequacy of the council's control environment.

- 2.4 Whilst recommendations have been made to improve controls as a result of the audit reviews completed throughout the year there are no significant control weaknesses to be brought to the attention of the committee.
- 2.5 Counter fraud work is an important feature in the audit plan. An update on counter fraud work was reported at the last meeting and a further report will be provided in June. Some important developments to report in the meantime include:
- The council's first newsletter has been drafted and will be distributed shortly as part of our campaign to raise awareness and deter fraud.
 - A fraud awareness survey (which also covered governance issues) has been distributed to all staff on email. An analysis of the findings will be reported to members in June and used to inform targeted fraud awareness publicity.
 - The Internal Audit Plan for 2010/2011 includes a separate fraud plan for the first time. Regular updates will be provided on progress to provide members with clear assurance on the adequacy of counter fraud arrangements. More details on the audit plan are provided in a separate report elsewhere on this agenda.
- 2.6 There has been significant progress on FMSiS assessments from the primary schools in particular since the last audit committee. The current position is:
- 50 out of 80 schools have valid certificates - 10 secondary schools 2 special schools & 38 primary schools
 - 4 primary schools have yet to contact Internal Audit to arrange a date for their assessment (Hibaldstow, Bowmandale, Ulceby & Wooton schools)
 - Evaluations of 24 primary schools' self assessments are either in progress or have booked in
 - Accreditation for 2 secondary schools has expired (Baysgarth & Vale of Ancholme). Vale of Ancholme School has booked a date for reassessment
 - St Bede's has not lapsed yet but has booked a date for their second assessment.
- 2.7 There is a notable increase in the number of requests for financial advice and guidance in financial administration. There is also an increase in the number of investigations into non compliance with Finance Manual requirements although there is no evidence of fraudulent activity. Details have been passed to the service managers concerned to provide appropriate training and support.
- 2.8 Response to audit recommendations is an area that has been targeted for improvement. All audit recommendations are appropriately followed up. Responses from some service managers are slow and non

response is highlighted through quarterly reports to service directors. Retesting shows approximately 65% of audit recommendations are implemented although high risk areas receive closer attention.

- 2.9 A follow up review of partnership governance arrangements has been completed. This was undertaken to ensure appropriate progress had been made to implement audit recommendations in this area of strategic importance to the council. The outcome of the work showed that progress had been made and further work was carried out in response to the audit and all recommendations have been addressed. Further audit work is planned for 2010/2011 and the impact of audit recommendation response will be evaluated.
- 2.10 Roll out of the audit management system has commenced and 2010/2011 audit plan work will be managed using this software. Some benefits the software will introduce include:
- Integrated time recording and audit planning modules
 - Electronic working papers
 - Automated recommendation tracking
 - Automated performance management information.
- Further updates will be provided through the audit plan year.

3 OPTIONS FOR CONSIDERATION

- 3.1 The Committee is asked to consider whether this update provides sufficient assurance on the adequacy of internal control arrangements detailed in this report. The Committee are invited to consider the report and seek clarification on its contents as necessary.
- 3.2 The Committee may consider that the report does not provide sufficient assurance on the adequacy of internal control arrangements detailed in this report or may seek further clarification.

4. ANALYSIS OF OPTIONS

- 4.1 The progress reports on key internal control issues and complies with statutory requirements and professional guidance available and designed to provide this Committee with the assurance required. Members should ask sufficient questions to ensure adequate assurance is provided.
- 4.2 The option set out in paragraph 3.2 represents an opportunity missed to receive an important source of assurance to assist the Committee to fulfil its role effectively if adequate clarification is not provided.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY.IT)

- 5.1 Resources are met from Internal Audit and Risk Management budget.
- 5.2 Regular reviews of internal control should safeguard the council's assets and ensure that value for money is achieved in the use of resources. There are no staffing, property or IT implications.

6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 – CRIME AND DISORDER, RISK AND OTHER)

- 6.1 The Chief Financial Officer has a statutory duty under the provisions of the Local Government Act 1972 to ensure the proper administration of the council's financial affairs. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The requirement for an internal audit function is set out in the Accounts and Audit (Amendment) (England) Regulations 2006. Internal Audit will continue to assist the Chief Financial Officer discharge his statutory duty.
- 6.2 The evaluation of the council's arrangements will help to promote good corporate governance. Internal audit is a key source of assurance to support the Annual Governance Statement.

7. OUTCOMES OF CONSULTATION

- 7.1 The council's external auditors the Audit Commission support the risk-based approach to audit planning. Consultation takes place with Service Directors and key staff at all stages of audit work and comments made are incorporated wherever possible.

8. RECOMMENDATIONS

- 8.1 The Audit Committee should consider whether the Internal Audit progress report provides a sufficient level of assurance on the adequacy of internal control arrangements detailed.

SERVICE DIRECTOR FINANCE

Pittwood House
Ashby Road
SCUNTHORPE
North Lincolnshire
DN16 1AB

Author: Carol Andrews

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Background Papers used in the preparation of this report

Internal Audit Plan 2009-2010

Appendix A

Audit Area	Planned Days	Actual Days to 12/3/10	Work completed (√) Work in Progress (WIP)	Comments
Fundamental Financial Systems (Payroll, Creditors, Debtors, Cash Receipting, Main Accounting Ledger, Council Tax and Housing Benefits, Council Tax, NNDR, Treasury Management, Fixed Asset Register, CareFirst)	189	218	Fundamental financial systems reviews for 2008/09 plus queries and additional testing required completed satisfactorily (√) WIP on all fundamental financial systems reviews for 2009/2010 (wip)	All reviews will be completed earlier than in previous years to consider the findings and any potential impact on the Annual Governance Statement. There will be a resource impact due to the re profiling of this work
CAA work	10	22	Use of resources self assessment for 2008/09 (√) Monitoring action plans for improvement for 2009/2010 (WIP). Liaison with external audit and process for 2009/2010 submission agreed (WIP)	Self assessment for 2009/2010 was completed early March
Annual Governance Statement and Audit Committee work	25	20	In year monitoring and compilation of the Statement (WIP) Preparing reports and Committee attendance (WIP)	Forward plan and assurance map of reports has been introduced to assist the Committee. Reporting format has been strengthened.
Corporate Governance	33	35	In year monitoring and advice. Evaluation of council arrangements against best practice standards. Revision of the council's Code of Corporate Governance (WIP)	2009/2010 review nearing completion
Risk Management	50	47	In year monitoring and advice (WIP) Strategic Risk Management work (WIP) Annual review of risk management arrangements, strategic and key operational risk controls completed for 2008/09 (√) 2009 review of operational risk registers (84%) complete (WIP) 2009 review of strategic risk register position statements (WIP) Audit review of overall arrangements will take place in	

			March	
Performance Management, Performance Review & Improvement Plans (Strategic Development)	35	15	Performance (Performance indicators) (WIP) Performance Management system (√)	Improvement Planning work has been cancelled
IT Audit	131	94	Disaster Recovery and Back Ups (√) IS/IT Strategy (√) Budgetary Control (√) Project Management Controls(√) Government Connect (√) Application Controls – (WIP)	Physical and Environmental Controls – deferred new computer suite to be evaluated Charging Policy – deferred to allow for new system to be embedded Overview and Governance (superseded by Government Connect work)
Contract Audit	67	6	Contracts (WIP) Highways Alliance (WIP)	IT procurement – deferred
Fraud Prevention and Detection	85	197	Whistleblowers Hotline (ongoing) National Fraud Initiative (Data Matching) (√) Allowances - Direct Payments (WIP) Anti Money Laundering Policy and awareness raising (√) Fraud Risk profile reassessment (√) Anti Fraud Theft and Corruption Strategy refresh (√) Home Improvement Loans (√) Licensing (√) Leisure Grants (√) Income audits – Meals on Wheels (√), Plowright Theatre (√), Car parking (√)	Additional preventative counter fraud work has been carried out to evaluate and strengthen arrangements if necessary in response to professional guidance on the potential risk of fraud as a result of financial and economic pressures. Targeted counter fraud audits were carried out (no instances of fraudulently activity were identified). Counter fraud arrangements were evaluated against both CIPFA best practice (Risk of Fraud – Red Book) and Audit Commission advice (Protecting the Public Purse). The evaluations and action taken have been reported to the Audit Committee throughout the year.

Environmental Audits	15	2		EMAS (Environmental Management Accreditation Scheme) – deferred due to long-term illness of lead officer
Council-wide Systems	147	77	Partnership Arrangements (√) Budgetary Control (report drafted) New Legislation Corporate Manslaughter– (wip) Grant Claims (√) Local Area Agreement (draft) Diversity (assigned but not yet started) Health and Safety (√)	Impact Assessment – deferred
Adult Social Care Services	93	32	Learning Disability (√) Pooled Budgets – Draft report Mental Health Services – (wip)	Lone working cancelled Safeguarding Adults - deferred Single Assessment Process – deferred Transport – cancelled
Children and young people	600	512	25 School Audits (√), 2 Schools Audit (report drafted) 3 Schools Audits to carry forward into 2010/11 Building Schools for the Future – (wip) 23 Financial Management Standards in Schools assessment completed , 14 assessments (report drafted), 6 assessments to carry forward 2010/11 Issues from schools (√) Schools Balances (√) Budgetary Control (√) Integrated Youth Support Service (WIP) Policies for the Protection of Children (WIP) Residential Care (√) Children's Centres – (wip) Maintenance of Schools – (wip)	Adult Ed. – deferred Children's Trust work - not yet assigned
Finance – Other	15	10	Financial Regulations (√)	Insurance (deferred)
Highways & Planning	15	17	Building Control(√)	
Human Resources	50	27	Sickness Policy (√) Casual and Agency staff (√) Recruitment and Selection (wip)	Working Time Directive – deferred to enable the new policy to be evaluated Lone Working – cancelled

Legal & Democratic Services	40	24	Councillors Allowances (WIP) Delegated Powers (assigned but not yet started) Democratic Services(report drafted)	Civic Office – audit deferred
Neighbourhood & Environment	56	56	Catering (√) Budgetary Control (√) Document Imaging (WIP)	
Strategic Regeneration	70	57	External Funding including Area Renaissance (√) Strategic Housing (draft report) Investment and Marketing (√) Bees Knees (WIP)	Spatial Planning –deferred
Asset Management and Culture (excluding IT)	101	81	Maintenance of Buildings(draft report) Commercial Buildings (WIP) Asbestos Management (draft report) Management of Standing Lists (draft report) Markets (√) Policies for the protection of children (√)	Out of hours calls/ Security Centre – deferred Disabled Access – cancelled Professional Fees and Charges – audit not yet assigned Traveller Service Liaison – cancelled
Community Planning and Resources	46	33	Crime and Disorder Section17 (√) Council website (√) Consultation and Engagement (WIP) LPSA (√)	Homelink – deferred
Consultancy, Advice	191	245	Advice and unplanned work as requested including investigations	
Other	90	100	Follow up work. Audit plan and performance monitoring and reporting	
TOTAL	2154	1927		

Resources are expected to be sufficient to complete the prioritised audit plan.