

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**INTERNAL AUDIT - ANNUAL REPORT 2009/2010**

**1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 The object of this report is to advise Members of Internal Audit's work during 2009/2010 and to provide an audit opinion on the adequacy of the council's control environment. This provides the Audit Committee with an important source of assurance to fulfil their role.
- 1.2 The Internal Audit Annual report complies with the CIPFA Code of Practice for Internal Audit in Local Government in the UK.

**2. BACKGROUND INFORMATION**

- 2.1 As part of the requirements of the CIPFA Code of Practice 2006, Internal Audit must produce an annual report to those charged with governance summarising their work for the year. This report gives a brief description of the role of Internal Audit, the control environment within which Internal Audit operates, and also provides a summary of work carried out during the year to 31 March 2010.
- 2.2 The requirement for Internal Audit is supported by statute in the Accounts and Audit Regulations 1996 (amended 2006) and the Local Government Act 1972. The Accounts and Audit Regulations state that a "relevant body shall maintain an adequate and effective system of internal audit of their accounting records and control systems." Each year the section provides an independent appraisal of internal control as a contribution to the proper economic, efficient and effective use of resources.
- 2.3 All audit work is risk assessed to ensure it is properly prioritised and targets areas of highest risk. The work of Internal Audit is to appraise and review:
- The controls in place to manage the council's principal risks
  - The adequacy of the council's corporate governance arrangements

- The effectiveness of risk management, improvement planning and performance management arrangements
- The completeness, reliability and integrity of information, both financial and operational
- The systems established to ensure compliance with policies, plans and procedures, laws and regulations
- The means of safeguarding assets
- Anti fraud and corruption measures
- The economy, efficiency and effectiveness with which resources are employed.

2.4 The level of audit coverage during the year is considered sufficient to be able to offer an opinion on the overall adequacy and effectiveness of the organisation's control environment. Notwithstanding that some of the planned reports for the year have yet to be finalised, the fieldwork for the outstanding reports has been completed, and there is nothing within the reports that would cause the overall opinion to change.

2.5 Based on our knowledge of the council's systems and procedures, the extent of work undertaken by Internal Audit, and as a result of the responses to audit recommendations, the overall assessment is that Internal Audit can provide assurance that the council has adequate control and governance arrangements in place. It must however be acknowledged that this statement is given to provide reasonable and not absolute assurance of the effectiveness of the system of control.

2.6 The report format for internal audit reviews was revised during 2009/2010 to provide clarity on the level of assurance that can be given following each audit. The levels of assurance are categorized as :

<b>Significant Assurance</b>	<b>The system of internal control is designed to support the council's corporate and service objectives and controls are consistently applied in all the areas reviewed.</b>
<b>Adequate Assurance</b>	<b>There is generally a sound system of control designed to support the council's corporate and service objectives. However some improvements to the design or application of controls is required.</b>
<b>Partial Assurance</b>	<b>Weaknesses are identified in the design or inconsistent application of controls which put the achievement some of the council's corporate and service objectives at risk in the areas reviewed.</b>
<b>No Assurance</b>	<b>There are weakness in control, or consistent non-compliance which places corporate and service objectives at risk in the areas reviewed.</b>

2.7 In reaching our opinion the following factors were taken into particular consideration:-

### **Risk Management**

We can give adequate assurance that the system for managing risk within the council is sound. The risk management framework has developed over several years for example: the risk management strategy is regularly reviewed and has been enhanced for 2010/11, risk registers are maintained and reviewed; training is in place for relevant staff and members; key business risks are being monitored and managed and reported to the Audit Committee. Further improvements identified include training for staff where gaps have been identified through the generic competencies and the counter fraud survey and targeted training with QPR service leads

### **Corporate Governance**

Corporate governance review arrangements are generally adequate (audit evaluation provided adequate assurance) and the council has procedures and policies in place to demonstrate good corporate governance. The audit concluded that no aspects of the 57 requirements are entirely unmet that make up the framework to achieve the core principles of the best practice framework.

The council's Annual Governance Statement (AGS) is reported elsewhere on this agenda. The AGS supports the findings of the audit review that governance arrangements are generally good. A number of opportunities for improvement have been identified along with issues highlighted as a result of recent audits and inspections; these are included in the statement's action plan.

### **Fundamental Systems**

Fundamental financial systems (agreed with external audit) were reviewed during 2009/2010. Extended audit coverage was achieved on fundamental financial system reviews through better use of analytical review without additional resource. External audit look to place reliance on our work wherever possible to minimise duplication of effort and maximise the overall audit resources available. In order to achieve this, the level of testing carried out complies with the Internal Audit/ External Audit protocol.

The fundamental financial systems comprise of:

- Payroll
- Creditors

- Sundry debtors
- Local Taxation (Council and NNDR)
- Council Tax and Housing Benefits
- Accounting system (eFinancials)
- Cash Receipting
- Treasury Management
- Asset Management
- CareFirst

We can provide adequate assurance on internal controls for each of the fundamental systems with the exception of treasury management whereby significant assurance can be given. Some recommendations for improvement were identified and agreed with relevant service managers. The key findings are:

eFinancials - Interface controls were adequate however improvements to access controls are necessary in respect of the CareFirst feeder system.

-Journals, internal accounts and transaction transfers were correctly actioned but improvement to authorisation procedures and supporting documentation is required.

- 2.8 A risk-based approach is adopted to prioritise the work undertaken. This involves evaluating the controls in place to reduce high impact / high likelihood risks. This replaces the traditional approach, which concentrates solely on financial risk and consequences. The audit plan is flexible to respond to changing circumstances and emerging risks and work is re prioritised accordingly. The 2009/2010 audit plan contained 123 planned audit assignments of which 96 were substantially completed (all other audits were deferred). In addition 42 unforeseen audit assignments and 42 FMSiS assessments were also completed. These are listed in appendix A.
- 2.9 Although recommendations for improvements were identified and agreed with relevant service managers no significant control weaknesses were identified affecting the overall audit opinion. All recommendations are followed up to ensure there is an appropriate management response to audit reports. Generally appropriate action is taken however, if necessary, slow or inadequate action in response to audit recommendations is reported to relevant service directors through Internal Audit's quarterly reports. There are no examples of poor response to audit recommendations to report to the Committee.
- 2.10 Twenty two per cent of the audits completed were schools audits (27 completed). The audits showed that overall adequate assurance could be given on internal control arrangements although recommendations for improvements were identified at each school. There were no schools where no assurance could be given. The majority of recommendations relate to compliance with council procedures in relation to procurement and financial administration. Information is passed to key service officers

to incorporate in newsletters and raise awareness through the schools forum of representative head teachers.

Overall there has been a better response from schools to Financial Management Standards in Schools (FMSiS) and no school has failed to achieve the standard to date. All secondary schools achieved the standard in the first tranche of assessments and a number are beginning to be reassessed to renew their accreditation. Primary schools were slow in submitting their self assessments however with the support of the Audit Committee reminders were sent to schools and all but one school have indicated when their self assessment will be ready for audit.

- 2.11 Internal audit provides the focus for the council's Anti Fraud, Theft and Corruption Strategy. It promotes awareness with service managers through individual assignments, control risk assessment questionnaires and fraud warning bulletins via the internal communication network. Each year proactive and reactive counter fraud work is identified within the audit plan and during 2009/2010 the council's arrangements were strengthened following an evaluation against best practice as defined by CIPFA. The outcome of this work included:
- A formal risk assessment was completed showing the council is a low fraud risk
  - A review of the Anti Fraud, Theft & Corruption strategy and strengthened commitment of zero tolerance of fraud
  - The development of the council's Anti Money Laundering Policy; supported by targeted training delivered jointly with the police
  - A separate counter fraud plan was identified as part of the 2010/11 Internal Audit Plan and regular updates will be provided on progress to provide members with clear assurance on the adequacy of counter fraud arrangements
  - Enhanced publicity on new and emerging risks of fraud through the introduction of a quarterly counter fraud newsletter (Fraud Focus)
  - Analysis of a council wide fraud awareness survey to provide more targeted and effective publicity (further details are provided in the report on counter fraud work elsewhere on this agenda) .
- 2.12 Internal audit operates the council's dedicated telephone hotline for whistle blowers. The hotline details were re-advertised with the revised strategy and this is believed to be a contributory factor to the significant increase in calls received. The total number of calls received during 2009/2010 was 256, which was an increase on the previous year of 32%. All referrals are either investigated by Internal Audit or information is passed on to the Benefits Fraud Team for investigation.
- 2.13 The council participates in the Government's National Fraud Initiative (NFI). Internal audit co-ordinates the data matching and mismatches are investigated The National Fraud Initiative (Data Matching) exercise 2008-2010 was completed ahead of the reporting deadline. The

objective of the exercise is to highlight and address the following potential frauds:

- Fraudulent benefit claims
- Fraudulent pension payments
- Fraudulent claims to social housing by those not approved to receive such benefit
- Payments made to those not eligible to reside or work in the UK
- Overpaid VAT
- Duplicate creditor payments
- Multiple insurance claims
- Blue badges and concessionary fares cards held by the deceased, and residential care payments made in respect of the deceased.

The investigations carried out, found the following;

- To date approximately £18,000 benefit fraud has been identified
- One payroll pension match identified an overpayment of £3,244 which is being recovered (the match was not fraudulent)
- Two cases of possible pension abatement are still to be queried
- Creditor matches highlighted no overpayments that had not already been identified and credit notes received or reduced future payments made
- No residential care home fraud has been identified
- There are no asylum seekers without a UK visa, working for the council, residing in supported housing or claiming benefits
- Blue badges are still held by deceased individuals due to a lack of notifications and poor quality data, both control issues have been addressed
- Concessionary fares cards are still held by the deceased but cannot be used by other individuals and therefore have no value

These findings suggest that internal controls in all areas, but blue badges and concessionary fares, are sufficient, evident and working effectively to reduce the risk of fraud or overpayment. Further targeted audit work has been carried out to improve control arrangements in those areas. The level of benefit fraud identified this year has been less than in previous years, it has been suggested that this is as a result of more fraud preventative work and successful campaigns to deter benefit fraud.

- 2.14 Twenty seven fraud and irregularity assignments were carried out during 2009/2010. These resulted in recommended improvements to cash handling and imprest procedures, better timesheet checking and authorisation procedures, improved procurement arrangements and

monitoring the use of/safeguarding council assets. Appropriate management action was recommended. These also included 6 internal audit investigations of potential internet abuse in 2009/2010, of which; 1 case resulted in the resignation of the member of staff concerned; in the other 5 cases management action/ disciplinary action was taken.

- 2.15 The internal audit section constantly strives to improve the service they provide. The section also participates in national and local benchmarking exercises. Most performance targets were met for 2009/2010. More details are provided in Internal Audit's effectiveness report elsewhere on this agenda.
- 2.16 The section provided internal audit services for the Humberside Police Authority during 2009/2010 although the contract was terminated with effect from 31/03/10 after a decision was taken to join an extended regional in service audit consortium. The contract generated additional income and has provided the opportunity for professional development by carrying out work in another area of the public sector. The Police Authority's Audit Committee sent their thanks for the valuable work and support provided by Internal Audit over several years.

### **3. OPTIONS FOR CONSIDERATION**

- 3.1 The Committee is asked to consider whether Internal Audit's Annual Report provides sufficient assurance on the adequacy of the council's internal control environment in 2009/2010. Members may wish to ask questions and seek clarification as necessary. If it concludes that it does provide sufficient assurance the Committee is invited to approve the Internal Audit Annual Report for 2009/2010.
- 3.2 The Committee may decide not to approve Internal Audit's Annual Report for 2009/2010.

### **4. ANALYSIS OF OPTIONS**

- 4.1 The Internal Audit Annual Report 2009/2010 complies with professional guidance available and is designed to provide this Committee with the assurance required. Members should ask sufficient questions to ensure the report provides sufficient assurance to fulfil their role as set out in the Committee's terms of reference.
- 4.2 The option set out in 3.2 represents an opportunity missed to receive an important source of assurance to assist the Committee to fulfil its role effectively.

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

5.1 The work of the internal audit section enhances control over the use of the council's resources through the recommendations made in audit reports.

5.2 There are no additional staffing, property or IT implications

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

6.1 The requirement for an internal audit function is set out in the Accounts and Audit Regulations 2003. Internal audit will continue to assist the Chief Financial Officer discharge his statutory duty under the provisions of the Local Government Act 1972.

6.2 Internal audit's work is an important component of the Annual Governance Statement and promotes good corporate governance.

## **7. OUTCOMES OF CONSULTATION**

7.1 Consultation takes place at all stages of audit work. It affects the scope of audit work undertaken, the risk assessment of audit work, audit practices and products. There is also feedback to individual staff forming part of their employee development review.

## **8. RECOMMENDATIONS**

8.1 The Audit Committee should consider the assurance provided by the Internal Audit Annual Report for 2009/2010 on the adequacy of the council's internal control environment.

8.2 The Audit Committee approves the Internal Audit Annual Report for 2009/2010.

SERVICE DIRECTOR FINANCE

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**Background Papers used in the preparation of this report**  
**Internal Audit Plan 2009/2010**



## Appendix A

Audit Areas	Audits carried out		Audits not carried out	
	Planned	Unplanned	Deferred <sup>1</sup>	Cancelled <sup>2</sup>
<b>Fundamental Financial Systems</b>	<ul style="list-style-type: none"> <li>• Payroll</li> <li>• Creditors</li> <li>• Debtors</li> <li>• Cash Receipting</li> <li>• Main Accounting Ledger</li> <li>• Council Tax and Housing Benefits</li> <li>• Local Taxation</li> <li>• Treasury Management</li> <li>• CareFirst</li> </ul>	<ul style="list-style-type: none"> <li>• Extended benefits testing</li> <li>• Audit Commission additional testing</li> <li>• Fixed Asset Register</li> </ul>		
<b>Annual Governance Statement</b>	<ul style="list-style-type: none"> <li>• In year monitoring and compilation of the Statement</li> </ul>			
<b>Corporate management</b>	<ul style="list-style-type: none"> <li>• Audit Committee</li> <li>• CPA/CAA</li> </ul>			
<b>Corporate Governance</b>	<ul style="list-style-type: none"> <li>• In year monitoring and advice. Evaluation of council arrangements against best practice standards. Revision of the council's Code of Corporate Governance</li> </ul>			
<b>Risk Management</b>	<ul style="list-style-type: none"> <li>• In year monitoring and advice, Strategic Risk Management Group work. Annual review of risk management arrangements, strategic and key operational controls.</li> </ul>			
<b>Performance Management, Performance Review &amp; Improvement Plans</b>	<ul style="list-style-type: none"> <li>• Performance Management Framework and System</li> </ul>	Performance Indicators/ Data Quality	<ul style="list-style-type: none"> <li>• Improvement Planning</li> </ul>	
<b>IT Audit</b>	<ul style="list-style-type: none"> <li>• Application Controls</li> <li>• IT strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Misuse of mobile phones (counter fraud)</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement of IT</li> <li>• Physical and</li> </ul>	

<sup>1</sup> Deferred Audits at the request of the relevant service manager or reprioritised

<sup>2</sup> Cancelled audits by agreement with the client

Audit Areas	Audits carried out		Audits not carried out	
	Planned	Unplanned	Deferred <sup>1</sup>	Cancelled <sup>2</sup>
	<ul style="list-style-type: none"> <li>IT Project Management</li> <li>Overview of Governance arrangements</li> <li>IT Budgetary Control</li> <li>Government Connect</li> </ul>		<ul style="list-style-type: none"> <li>environment controls</li> <li>IT charging Policy</li> </ul>	
<b>Contract Audit</b>	<ul style="list-style-type: none"> <li>Contracts</li> </ul>			
<b>Fraud Prevention and Detection</b>	<ul style="list-style-type: none"> <li>Responding to cases received via Whistleblowers Hotline and email</li> <li>National Fraud Initiative (Data Matching)</li> <li>Proactive Counter Fraud to assess and revise arrangements against best practice</li> <li>Define the council's approach to Anti Money Laundering policy and establish associated policy and procedures</li> </ul>			
<b>Environmental Audits</b>			<ul style="list-style-type: none"> <li>Environmental Issues</li> </ul>	
<b>Council-wide Systems</b>	<ul style="list-style-type: none"> <li>Corporate Manslaughter Act</li> <li>Budgetary control</li> <li>Partnership governance arrangements</li> <li>Local Area Agreement</li> <li>Health and Safety</li> <li>Worksmart</li> </ul>	<ul style="list-style-type: none"> <li>Imprest accounts</li> <li>Debit Cards</li> <li>Staff Hospitality</li> <li>Car Hire (all counter fraud)</li> </ul>	<ul style="list-style-type: none"> <li>Diversity</li> <li>Impact Assessments</li> </ul>	
<b>Adult Social Care Services</b>	<ul style="list-style-type: none"> <li>Pooled Budgets</li> <li>Mental Health</li> <li>Meals on Wheels</li> <li>Direct Payments</li> <li>Transformation Agenda</li> </ul>	<ul style="list-style-type: none"> <li>Supporting People Grant</li> </ul>	<ul style="list-style-type: none"> <li>Lone Working</li> <li>Safeguarding Adults</li> <li>Single Assessment Process</li> <li>Transport</li> </ul>	
<b>Children &amp; Family Services</b>	<ul style="list-style-type: none"> <li>Budgetary Control</li> <li>Integrated Youth Service</li> <li>Issues from school audits</li> <li>Policies for the protection of children</li> <li>Building schools for the Future</li> <li>Children's Centres</li> <li>Maintenance of school buildings</li> <li>Children's Trust</li> </ul>	<ul style="list-style-type: none"> <li>Use of IT company at schools</li> </ul>	<ul style="list-style-type: none"> <li>Adult Education</li> </ul>	

Audit Areas	Audits carried out		Audits not carried out	
	Planned	Unplanned	Deferred <sup>1</sup>	Cancelled <sup>2</sup>
<b>Education Learning &amp; Achievement</b>	<ul style="list-style-type: none"> <li>• 27 School Audits</li> <li>• 42 Financial Management Standards in Schools</li> <li>• School Balances</li> </ul>	<ul style="list-style-type: none"> <li>• 2 follow up school audits</li> </ul>	<ul style="list-style-type: none"> <li>• 3 schools</li> <li>• 8 FMSiS</li> </ul>	
<b>Finance – Other</b>			<ul style="list-style-type: none"> <li>• Insurance</li> </ul>	
<b>Highways &amp; Transport</b>	<ul style="list-style-type: none"> <li>• Car Parking Income</li> <li>• Building Control</li> <li>• Strategic Alliance</li> </ul>			
<b>Human Resources</b>	<ul style="list-style-type: none"> <li>• Sickness Policy</li> <li>• Casual and Agency workers</li> <li>• Recruitment</li> </ul>		<ul style="list-style-type: none"> <li>• Working Time Directive</li> <li>• Loneworking</li> </ul>	
<b>Legal &amp; Democratic Services</b>	<ul style="list-style-type: none"> <li>• Member training</li> <li>• Delegated Powers</li> <li>• Councillors Allowances</li> </ul>		<ul style="list-style-type: none"> <li>• Civic Office/Mayoral support</li> </ul>	
<b>Neighbourhood &amp; Environment</b>	<ul style="list-style-type: none"> <li>• Schools catering</li> <li>• Budgetary Control</li> <li>• Licensing – Gambling</li> <li>• Home Improvement Loans</li> <li>• Use of DIP</li> </ul>	<ul style="list-style-type: none"> <li>• Taxi Licensing</li> </ul>		
<b>Strategic Regeneration</b>	<ul style="list-style-type: none"> <li>• Economic Development</li> <li>• Bees Knees</li> <li>• Strategic Housing (s106)</li> </ul>	<ul style="list-style-type: none"> <li>• Bidding Process</li> </ul>	<ul style="list-style-type: none"> <li>• Spatial planning</li> <li>• Area Renaissance</li> </ul>	
<b>Property &amp; Leisure Services</b>	<ul style="list-style-type: none"> <li>• Building Maintenance</li> <li>• Asbestos Management</li> <li>• Standing Lists</li> <li>• Markets</li> <li>• Plowright Theatre</li> <li>• Voluntary Grants</li> </ul>		<ul style="list-style-type: none"> <li>• Out of Hours call centre</li> <li>• Traveller Liaison service</li> <li>• Disabled Access</li> <li>• Professional Fees</li> </ul>	

Audit Areas	Audits carried out		Audits not carried out	
	Planned	Unplanned	Deferred <sup>1</sup>	Cancelled <sup>2</sup>
			and Charges • Commercial property	
<b>Community Planning and Resources</b>	<ul style="list-style-type: none"> <li>• Consultation and Engagement</li> <li>• LPSA</li> <li>• Council's Website</li> </ul>		• Homelink	

In addition to the above resources were deployed on :

- 27 cases of advice /irregularity work
- Follow up work
- Audit plan performance monitoring and reporting