

**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 The Audit and Risk Manager coordinated the council's Use of Resources submission and members were informed of progress on this year's evaluation in April. Results were expected in September and scores would have reported to the Committee. Use of Resources work has been cancelled by the government and auditors scored judgments are not longer available. Outcomes of this work are used to support external audit's VFM conclusion and we have received feed back on improvements areas which are detailed in external audit's VFM report elsewhere on this agenda.
- 2.2 Another significant change to report to the committee is the government's decision to disband the Audit Commission. Not all details are known yet but some of the main points are:
  - The Audit Commission's responsibilities for overseeing and delivering local inspections and research work will stop
  - Audit functions will move to the private sector
  - Councils will be free to appoint their own independent external auditors with effect from April 2012.
- 2.3 Audit resources have been reduced as a result of a senior auditor vacancy since 31<sup>st</sup> July. The post is 'frozen' in accordance with the council's vacancy management procedure however permission is being sought to obtain temporary cover until 31<sup>st</sup> March 2011. Planned audit has reduced in the last quarter due to annual leave commitments (taken in account in audit planning) and higher than anticipated level of unforeseen and irregularity work.

2.4 Internal Audit Plan progress has been affected by the high level of unforeseen and irregularity work requested. The original allocation for this type of work identified in the audit plan was 181 days. To date 161 days have been spent or have been allocated to complete this work. Some examples of the work undertaken are provided in the following bullet points:

- The Benefits and Council Tax subsidy claim is audited by external audit each year. The 2008/09 claim was qualified for minor input errors in respect of child benefits cases. This resulted in DWP threatening to withhold £239k subsidy payments until further work was carried to quantify and correct any errors. Internal audit worked with benefits staff to check all child benefits and established the overall error to be £2k which will be adjusted in this years claim. External audit have independently verified these results and confirmed them with DWP. Confirmation has now been received that no subsidy payment will be withheld.
- Eighteen other investigations are ongoing or have been completed during the year so far. This compares with a total of 27 investigations for the year 2009/2010. The increase in referrals may be the result of:
  - An overall increase in risk of fraud nationally recognized as a result of the economic climate
  - Better promotion and publication of counter fraud reporting arrangements
  - Or a combination of both.

The cases mainly represent small scale cash anomalies, all are investigated and appropriate action is taken by human resources where appropriate and improvements to control issues have been recommended. Other issues investigated are inappropriate use of email and internet in works time, changes to laptop configuration, timesheet anomalies, using council facilities without paying for them, potential under declaration of income and savings, and poor school fund record keeping. Several cases have not yet been concluded however 1 member of staff was dismissed, 2 officers have resigned, an agency worker is no longer employed by the council and 4 officers have received verbal warnings. We also work closely with HR colleagues and 14 further cases of timesheet or mileage anomalies have been or are being investigated by them. Two council wide communications were issued:

- One as a result of an investigation into unsuccessful fraudulent attempts to obtain bank details from residents falsely claiming to represent council tax staff wishing to action refunds.
- The second following an investigation into bogus recruitment advertising.

- Other unforeseen work include:
    - Audit and certification of ContactPoint following the governments decision to with draw its use
    - Strokes Grant audited as part of the certification process.
    - Government grant for changes in information requirements (Efficiency Information and Council Tax Demand Notices) was audited as part of the certification process.
- 2.4 An exercise to revise and reprioritize planned audit work has been undertaken for the second half of the audit plan period to ensure adequate resources are allocated to cover all key systems to provide an adequate level of assurance to the committee. A summary is provided in appendix A. An estimate has been made on resource requirements for unforeseen work for the rest of the year. Based on that estimate sufficient resources are available to meet the reprioritized plan. If more unforeseen work is identified sufficient resource to meet the plan will be met from within the Finance Service budget. Any audits that are deferred to next years plan will not compromise Internal Audit's ability to provide its opinion on the adequacy of the council's control environment.
- 2.5 All reports issued this year so far have included recommendations to improve controls however there are no significant control weaknesses to be brought to the attention of the committee and no examples of systems with controls so poor to be judged as providing no assurance.
- 2.6 Counter fraud work is an important feature in the audit plan. An update on counter fraud work was reported in June and a further report will be provided in January. Some important developments to report in the meantime as part of our campaign to raise awareness and deter fraud include:
- Two counter fraud newsletters have been distributed (Appendix B)
  - PC screensavers have carried details on how to report suspected fraud (Appendix C)
  - A detailed article was included in Direct to highlight the council's determination to stamp out fraud (Appendix D).
- 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:
- 70 out of 80 schools have valid certificates - 10 secondary schools 2 special schools & 58 primary schools
  - Only 1 primary school (Hibaldstow) has not yet submitted a self assessment
  - Evaluations of 9 schools' self assessments are either in progress or have booked in
- 2.7 Response to audit recommendations continues to be an area targeted for improvement and the introduction of the audit management software has made the task easier. All audit recommendations are

appropriately followed up and reminders are sent as necessary. Responses from some service managers are slow and non response is highlighted through quarterly reports to service directors. Retesting levels have improved and show approximately 80% of audit recommendations are implemented although high risk areas receive closer attention.

- 2.8 CIPFA is developing a statement on the role of chief internal auditors in public sector organizations and consultation on a draft document ends this month. Further details will be reported to the Committee when the statement has been finalized.

### **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**

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**Background Papers used in the preparation of this report**  
Internal Audit Plan 2010-2011