

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 Internal Audit Plan has been reprioritised as a result of reduced resources and the impact of unforeseen work. A summary is provided in appendix A. The level of unforeseen work slowed down in the 3rd quarter which released more resources to complete planned audit work, Mobile working and hot-desking arrangements worked well during the recent adverse weather conditions. There was however some disruption to planned work largely due to unavailability of service staff or access to buildings such as schools. The Audit Plan is progressing well at this stage of the year to ensure there is a sufficient level of completion of planned work to provide an opinion on the adequacy of the control environment. Any audits that are deferred to next years plan will not compromise Internal Audit's ability to provide its opinion to the Committee.
- 2.2 Although the level of unforeseen work has reduced overall the original allocation for this type of work identified in the audit plan was 181 days. To date 203 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 outcome of additional work to successfully verify the 2008/09 Benefits and Council Tax subsidy claim and release £239k withheld by DWP was reported to the Committee in September. Additional internal audit work has been completed to clarify external audit's qualification of the 2009/10 subsidy claim. Internal Audit was successful in avoiding claim clawback by DWP and confirmation was received in December that no subsidy payment will be withheld.

- Additional work with external audit successfully removed £38k qualification on the Surestart grant letter. This was achieved by chasing up information available; identifying other supporting evidence that can be provided and clarifying some of the qualification criteria
 - Other unforeseen work include:
 - Baysgarth School Sports Grant audited as part of the certification process
 - Payroll to professional personnel validation review
 - Blue badges data cleansing work to support the NFI data matching exercise.
 - 25 other unforeseen investigations are reported in the counter fraud report elsewhere on this agenda
- 2.3 A review of strategic risk controls is underway. Members will recall the strategic risk register was refreshed in September and lead officers were agreed with SRMG in November. The outcome of the review will be reported to the Committee in April.
- 2.4 Most reports issued this year so far have included recommendations to improve controls. Only one report – the review of insurance services – highlighted no recommendations for improvements. There have been 2 areas reviewed where we could provide no assurance, namely: leisure facilities and Normanby Hall and Kingsway golf clubs. Both highlighted poor cash handling procedures which had resulted in small cash anomalies and in one case fraudulent activity. In both cases an appropriate management response has been received to all audit recommendations and procedures have been revised and strengthened. Follow up work is scheduled to ensure internal control has improved.
- 2.5 Counter fraud work is an important feature in the audit plan. An update on counter fraud work is reported elsewhere on this agenda.
- 2.6 On 15th November the Government announced the scrapping of Financial Management Standard in Schools (FMSiS) with immediate effect. The position as FMSiS was cancelled was:
- 78 out of 80 schools have valid certificates - 11 secondary schools
2 special schools & 65 primary schools
 - Only 1 primary school (Hibaldstow) had not yet submitted a self assessment
 - One school's self assessment is in progress.
- The Government also announced that it recognises the importance of ensuring schools have the right arrangements in place to manage their budgets effectively and consequently intend to replace the FMSiS with a simpler way of doing this. It is hoped that a replacement system will be introduced next year.
- 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 and increased response rates. All

audit recommendations are appropriately followed up and reminders are sent as necessary. Responses from a small number of service managers are slow and in those cases none response is highlighted through quarterly reports to service directors. Retesting levels show approximately 73% of audit recommendations are implemented although high risk areas receive closer attention.

- 2.8 In September Members were advised that CIPFA had issued a statement on the role of chief internal auditors in public sector organizations for consultation. The finalized document was issued in November. It identifies the important role the Head of Internal Audit has by helping the organization achieve its objectives by giving assurance on internal control arrangements and playing a key role in promoting good corporate governance. The statement sets out the principles that define the core activities and behaviours that belong to the role of the Head of internal Audit in public sector organizations and the organizational arrangements to support them. In addition CIPFA has developed a local government specific version and issued a draft consultation document in December. The consultation period ends on 19th January and the finalized document is expected in February. Further details and an evaluation of current arrangements against best practice guidance will be reported to the Committee in April.

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.

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

Appendix A

Audit Area	Key audit work which will be completed by 31st March to provide the audit committee with assurance needed	Lighter Touch Audits	Audit may be deferred due to system or organisational change
Fundamental Financial Systems	Fundamental financial systems as agreed with external audit are: Payroll, Creditors, Debtors, Cash Receipting, Main Accounting Ledger, Council Tax and Housing Benefits, Council Tax, NNDR, Treasury Management, Fixed Asset Register, CareFirst		
CAA work	Use of resources meetings, self assessment, interviews, monitoring etc.		
Annual Governance Statement and Audit Committee work	In year monitoring and compilation of the Statement Preparing reports and Committee attendance		
Corporate Governance	In year monitoring and advice. Evaluation of council arrangements against best practice standards. Revision of the council's Code of Corporate Governance		
Risk Management	In year monitoring and advice. Strategic Risk Management work. Annual review of risk management arrangements, strategic and key operational risk controls		
Performance Management	Performance, Data Quality		

IT Audit	Change Control, Physical & Environment Controls, Inventory, Internet/email Controls, , Disaster Recovery and Business Continuity		IT charging policy Network Management and Control
Contract Audit	Contracts, Highways Alliance, IT procurement, Adults – Commissioning and Procurement		
Fraud Prevention and Detection	Whistleblowers Hotline, National Fraud Initiative (Data Matching), Money Laundering, Income audits – Car Parking, Bereavement Services, Golf clubs		
Environ-mental Audits	Audit of the council’s approach to environmental issues e.g EMAS, sustainability, mechanisms to record and reduce the environmental footprint		
Council-wide Systems	Partnership Arrangements, Local Area Agreement, Budgetary Control , Diversity, Impact Assessments, Worksmart. New legislation (Bribery ACT), Grant Claims		
Adult Social Care Services	Mental Health Services, Single Assessment Process, Pooled Budgets, Transport., Long Term Conditions, Assessment & Support Planning, Transformation Agenda, Client Reviews,		Older People, Safeguarding Adults, Grants to Voluntary Bodies
Children & Young People	Children’s Centres, Integrated Youth Support Service, Policies for the Protection of Children, Contact Point, School Audits, Financial Management Standards in Schools, Building Schools for the Future, CRB Checks, Music Support, Youth Service Financial Systems	Children’s Trust, Capita One & SIMS, Training 16-19 years	Audit & Review team, Bilingual Support 5 primary schools External Funding Youth Funds

Finance – Other	Financial Regulations, Insurance, Taxation		
Highways & Planning	Transport, Emergency Planning,		
Human Resources	Training & Development, Re-deployment Policy, Pay policy, Recruitment and Selection, Disciplinary Procedures, Delegated Powers, Professional Personnel system, Workforce Planning, Driver Document Checks		Special Leave,
Legal & Democratic Services	Councillors Allowances, Legal Services, Data Protection & Freedom of Information		Democratic Services Delegated Powers,
Neighbourhood & Environment	Document Imaging, Area Teams, Homelessness, Use of Servitor, Disabled Facilities Grants, Neighbourhood Enforcement Team, Fleet Management		
Strategic Regeneration	Bidding Process, Bees Knees, South Humber Bank project,	Lincolnshire Lakes project	
Asset Management and Culture (excluding IT)	Maintenance of Buildings, Commercial Buildings, Out of hours calls/ Security Centre, Professional Fees and Charges, Disabled Access, Asbestos Management, Management of Standing Lists, Markets, Traveller Service Liaison, Leisure Grants		
Community Planning and Resources	Consultation and Engagement, Customer Services, Public Relations & Communications, LSP,		Adult Education
Consultancy, Advice	Advice and unplanned work as requested		
Other	Follow up work. Audit plan and performance monitoring and reporting		