

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**INTERNAL AUDIT PROGRESS REPORT**

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

1.1 The Internal Audit Section delivers an annual programme of audit work designed to raise standards of governance, risk management and internal control across the Council.

1.2 This work culminates in the Internal Audit's Annual Report that is used to inform the Annual Governance Statement. This report summarises key issues arising from work undertaken in the 2012/13 audit plan year.

**2. BACKGROUND INFORMATION**

**2012/13 Audit Plan Progress**

2.1 Completion of the Internal Audit Plan is monitored and reported regularly to this Committee. The latest position is provided in appendix A. Overall there is adequate plan cover to ensure there will be a sufficient level of completed planned work to provide an opinion on the adequacy of the control environment.

2.2 Additional temporary cover has been secured to offset some of the shortfall in resources due to vacancies and serious illness suffered by one of the team, through a secondment placement from one of the accountancy teams and a temporary auditor appointment until the end of March.

**Significant Audit Findings**

2.3 Work on 2012/13 fundamental systems, risk management and corporate governance reviews has been started and the outcome will be reported Internal Audit's Annual Report in June 2013.

Corporate Governance arrangements have been evaluated against the CIPFA/SOLACE 'The Framework Delivering Good Governance in Local Government', since its publication in 2007. The framework was reviewed and re published in December and will be used to evaluate current governance arrangements. The outcome of the review is an important component of the Annual Governance Statement and promotes transparency in the council's arrangements.

- 2.4 Ongoing audit work on income collection procedures for the Adult services was reported to the Committee in September. An initial overview report provided partial assurance and highlighted further audit necessary. More detailed audit work on financial assessments has now been completed and a draft report on direct payments is being considered by Adult service management. The financial assessment review provided partial assurance and highlighted control weaknesses in areas such as; performance monitoring; assessment procedures invoicing and debt recovery. The Improvement Board chaired by the Director of People has ensured prompt implementation of the audit action plans. Further updates will be reported to the Committee on completion of all the audit work.
- 2.5 Internal control arrangements are evaluated in each audit review and all reports issued this year so far have included recommendations to improve controls. In September the Committee was informed of one review in which internal control arrangements were evaluated as providing no assurance. This related to poor imprest account handling procedures in one establishment. Members were concerned about the lack of improvement to arrangements found at the follow up audit in September. As a result the Committee requested 'that the Director of Policy and Resources write to the Chairman informing him of the up to date position on the outcome of further work being taken by the relevant Assistant Director to improve arrangements for imprest account handling procedures at one establishment, as summarised in paragraph 2.4 of the report.' An update on specific action taken was provided to the Committee on 25 October. This showed appropriate action had been taken and management checks had been introduced to ensure proper administration of the imprest account.
- 2.6 The external audit of the Benefits Subsidy claim for 2011/12 has been successfully completed. Additional testing completed by internal audit showed no significant errors that would impact on the claim and there would be no claw back on subsidy. Further details of external audit's work on the certification of grants and returns 2011/12 is reported elsewhere on this agenda.

#### **Unplanned work**

- 2.7 The volume of unforeseen and irregularity work has increased and the allocation set aside in the 2012/13 Audit Plan of 165 days has been exceeded (202 days spent). This is due in part to additional work carried out on income collection procedures in Adults services. An update of the counter fraud work is provided in the counter fraud report elsewhere on this agenda.

Four school fund audits have also been carried out on a chargeable basis as specified in the Services to Schools brochure.

#### **Implementation of audit recommendations**

- 2.8 Overall 68% of recommendations retested between April 2012 and November 2012 have been successfully fully implemented this is comparable with retest levels in 2011/12. Further analysis shows that

the implementation rate is lower in schools (64%). We consider this is in part due to changes in personnel or systems operated in schools and/or lapses in procedures. We will continue to liaise with schools to try to embed the requirement to fully comply with council procedures and audit recommendations.

### **Draft Local Audit Bill**

- 2.9 The Department for Communities and Local Government (DCLG) published the Draft Local Audit Bill in July 2012 for consultation. Over 160 organisations responded to the consultation, which closed at the end of August. DCLG has produced a summary of the responses received on its website ([DCLG report](#)).
- 2.10 The summary showed that there is still concern and uncertainty amongst respondents about the role of the Auditor Panel in the appointment of the external auditor. The Government indicates that this will be considered further and that there will be a need for guidance in this area.
- 2.11 The consultation had also asked for views about which Department should host the operation of the National Fraud Initiative in the future. The most popular suggestion was for the National Fraud Authority to take this on.

### **Public Sector Internal Audit Standards**

- 2.12 At the last meeting Members were informed of the development of Public Sector Internal Audit Standards (PSIAS). The new PSIAS will apply from 1 April 2013, and will replace the Code of Practice for Internal Audit in Local Government in the United Kingdom.
- 2.13 The standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They have been revised to take account of comments received during the consultation and reaffirm the importance of robust, independent and objective internal audit arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.
- 2.14 Additional guidance for local authorities will be included in CIPFA's Local Government Application Note on the PSIAS, which is expected to be published in March 2013. The Application Note will supplement the PSIAS by providing more detailed guidance where required for local government circumstances.

### **Audit Planning**

- 2.15 2013/14 audit planning begins in January 2013 and meetings are being scheduled with Directors/ Assistant Directors and key financial officers. Useful discussions have also taken place with the council's new external auditors KPMG to ensure reliance on internal audit's work

continues to be maximised. The 2013/14 audit plan will be presented to the April Committee meeting.

### **3 OPTIONS FOR CONSIDERATION**

- 3.1 The Committee is asked to consider whether or not the report provides sufficient assurance on the adequacy of internal control arrangements. The Committee is invited to consider the report and seek clarification on its contents as necessary.
- 3.2 If the Committee considers that the report does not provide sufficient assurance on the adequacy of internal control arrangements further clarification may be sought and appropriate action considered.

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

- 4.1 The progress report provides the Committee with an update on key internal control issues. It complies with professional guidance and is designed to provide the Committee with the assurance required.
- 4.2 The option set out in paragraph 3.2 indicates an opportunity missed to provide 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 the Audit and Risk budget.
- 5.2 Regular reviews of internal control help safeguard the council's assets and ensure that value for money is achieved in the use of resources.

### **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 (England) Regulations 2011. 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 support the risk-based approach to audit planning. Consultation takes place with Directors and key staff at all stages of audit work and comments made are incorporated wherever possible.

## **8. RECOMMENDATION**

8.1 That the Audit Committee consider the level of assurance provided by this report on the adequacy of internal control arrangements.

DIRECTOR OF POLICY AND RESOURCES

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**Background Papers used in the preparation of this report**  
Internal Audit Plan 2012/13

## Appendix A

Audit Areas	Audit Reviews Completed During 2012/13		
	Planned	Unplanned	Deferred
<b>Fundamental Financial Systems</b>	<ul style="list-style-type: none"> <li>• All 2011/12 fundamental audits completed</li> <li>• Payroll (in progress)</li> <li>• Creditors (in progress)</li> <li>• Debtors (in progress)</li> <li>• Income Receipting (in progress)</li> <li>• Main Accounting Ledger (in progress)</li> <li>• Council Tax and Housing Benefits (in progress)</li> <li>• Local Taxation (in progress)</li> <li>• Treasury Management (in progress)</li> <li>• Asset Management (not yet due)</li> <li>• CareFirst (not started)</li> <li>• Benefits Subsidy testing (completed)</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>• Preparing reports and Audit Committee attendance</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 (in progress)</li> <li>• Revised Governance Arrangements (authorisations)</li> </ul>		
<b>Risk Management</b>	<ul style="list-style-type: none"> <li>• In year monitoring and advice. Risk Management Group work. Annual review of risk management arrangements, strategic and key operational controls. (in progress)</li> </ul>		
<b>IT Audit</b>	<ul style="list-style-type: none"> <li>• IT Governance 11/12 (completed)</li> <li>• I S / I T Strategy (in progress)</li> <li>• IT charging policy</li> <li>• Network Management and Control (draft report)</li> <li>• Disaster Recovery and Business Continuity (in progress)</li> <li>• Government Connect (in progress)</li> <li>• Remote access 11/12 (completed)</li> </ul>		<ul style="list-style-type: none"> <li>• Project Management Controls (unable to resource)</li> </ul>

Audit Areas	Audit Reviews Completed During 2012/13		
	Planned	Unplanned	Deferred
<b>Contract Audit</b>	<ul style="list-style-type: none"> <li>Adults – Commissioning and Procurement (in progress)</li> <li>Children’s service – Commissioning and Procurement (completed)</li> <li>Contracts/Procurement/E-procurement (in progress)</li> <li>Highways Alliance (completed)</li> </ul>		
<b>Fraud Prevention and Detection</b>	<ul style="list-style-type: none"> <li>Responding to cases received via Whistleblowers Hotline and email (in progress)</li> <li>Publicity/ training/ updating the counter fraud strategy (in progress)</li> <li>Income audits - leisure facilities (completed), Markets (completed), Car parking &amp; Enforcement (in progress), Building Control, Commercial Property, Registrars (in progress), Fresh Start</li> <li>Data Matching - NFI/IDEA (in progress)</li> </ul>	<ul style="list-style-type: none"> <li>Direct Payments (draft report)</li> </ul>	
<b>Council-wide Systems</b>	<ul style="list-style-type: none"> <li>Performance Management</li> <li>Data Quality (in progress)</li> <li>Environmental Issues - CRC Energy Efficiency Scheme Return &amp; evidence pack (phase 1 complete- phase 2 in progress)</li> <li>Partnerships (completed)</li> <li>Partnership follow up (not started)</li> <li>New Legislation (Bribery Act completed – Localism in progress)</li> <li>Budgetary Control (Efficiencies completed)</li> <li>Health &amp; Safety (draft report)</li> <li>Grant Claims (in progress)</li> <li>Data Protection and FOI (completed)</li> <li>Worksmart (ongoing)</li> <li>Social Media (in progress)</li> <li>Lone Working arrangements</li> <li>Income and Corporate Charging Policy (action taken on previous recommendations followed up)</li> </ul>	<ul style="list-style-type: none"> <li>Bribery Act –follow up</li> </ul>	<ul style="list-style-type: none"> <li>Information Management (assurance provided in Performance Management/ Data Quality reviews and Data Protection Follow up)</li> <li>Project Management(council wide approach not required)</li> </ul>
<b>People General</b>	<ul style="list-style-type: none"> <li>Children and Young People Budgetary Control 11/12 (completed)</li> <li>Adults Budgetary Control 11/12 (completed)</li> </ul>		

Audit Areas	Audit Reviews Completed During 2012/13		
	Planned	Unplanned	Deferred
<b>People – Adult Services</b>	<ul style="list-style-type: none"> <li>• Advice, Assessment &amp; Affairs (Financial Assessments complete)</li> <li>• Mental Health (completed)</li> <li>• Meals on wheels (completed)</li> <li>• Pooled Budgets/Partnering</li> <li>• Receiverships 11/12 (completed)</li> </ul>	<ul style="list-style-type: none"> <li>• Adult Income issues (complete)</li> <li>• Assessment and Review follow up</li> </ul>	<ul style="list-style-type: none"> <li>• Older People – Rehabilitation (service review taking place)</li> </ul>
<b>People – Specialist</b>	<ul style="list-style-type: none"> <li>• Child protection - compliance with Public Law (in progress)</li> <li>• Children in care – foster care (in progress)</li> <li>• Independent Review Team (completed)</li> <li>• Policies for Protection of Children (completed )</li> <li>• Section 17 11/12 (completed)</li> </ul>		<ul style="list-style-type: none"> <li>• Social Work Service (assurance provided in Child Protection /Independent Review Team reviews)</li> <li>• Education Welfare (unable to resource)</li> </ul>
<b>People – School Improvement</b>	<ul style="list-style-type: none"> <li>• Early Years (completed)</li> <li>• Issues from School Audits (11/12 completed – 12/13 draft report)</li> <li>• Schools audits (21 completed.)</li> <li>• Alternatives to Schools Education (in progress)</li> <li>• Schools Balances - surpluses and deficits (draft report)</li> <li>• Free Schools Meals (draft report)</li> <li>• Training for 16-19 year olds (11/12 completed)</li> </ul>	<ul style="list-style-type: none"> <li>• 4 school funds</li> </ul>	<ul style="list-style-type: none"> <li>• 6 schools (4 converted to academies)</li> <li>• Integrated Youth Support (external assurance provided)</li> </ul>
<b>People – Commissioning and Localities</b>	<ul style="list-style-type: none"> <li>• Capita one &amp; SIMS (completed)</li> </ul>		<ul style="list-style-type: none"> <li>• School Admissions</li> </ul>
<b>Policy &amp; Resources - Finance</b>	<ul style="list-style-type: none"> <li>• ElIncome (completed)</li> <li>• Housing benefits - transition to Universal credit (draft report)</li> <li>• Bank Account Changes (in progress)</li> <li>• Finance Manual, Regs. &amp; S.O.s (ongoing)</li> <li>• Partnership working PANNEL</li> </ul>	<ul style="list-style-type: none"> <li>• Pensions assurance (completed)</li> <li>• Final Accounts work (completed)</li> </ul>	
<b>Policy &amp; Resources - Human Resources</b>	<ul style="list-style-type: none"> <li>• Recruitment Verifications (in progress)</li> <li>• Casual &amp; Agency workers</li> <li>• Working time directive 11/12 (completed)</li> </ul>		<ul style="list-style-type: none"> <li>• Professional Personnel system (deferred due to eform migration)</li> </ul>



Audit Areas	Audit Reviews Completed During 2012/13		
	Planned	Unplanned	Deferred
<b>Policy &amp; Resources - Legal Services</b>	<ul style="list-style-type: none"> <li>• Councillors' Allowances (completed)</li> <li>• Legal services – Child Protection (in progress)</li> </ul>		<ul style="list-style-type: none"> <li>• Democratic services (assurance provided in corporate governance and revised governance reviews)</li> </ul>
<b>Places - General</b>	<ul style="list-style-type: none"> <li>• Infrastructure budgetary control 11/12 (completed)</li> </ul>		
<b>Places – Customer Services</b>	<ul style="list-style-type: none"> <li>• Complaints Procedures</li> <li>• Grants - Leisure</li> <li>• Contract Management – Leisure facilities</li> <li>• Transport – Concessionary fares</li> </ul>	<ul style="list-style-type: none"> <li>• Leisure facilities timesheets follow up (completed)</li> </ul>	
<b>Places – Technical &amp; Environment</b>	<ul style="list-style-type: none"> <li>• Health Improvement 11/12 (completed)</li> <li>• Trading Standards – test purchases (completed)</li> <li>• Contaminated Land (in progress)</li> <li>• Home improvements &amp; disabled adaptations (completed )</li> <li>• Home Choice Lincs (completed)</li> </ul>	<ul style="list-style-type: none"> <li>• Trading Standards – seizure of assets under POCA (completed)</li> </ul>	<ul style="list-style-type: none"> <li>• Safer Neighbourhoods (deferred due to service review)</li> <li>• Civica AP document imaging system - system controls (unable to resource)</li> </ul>
<b>Places – Planning and Regeneration</b>	<ul style="list-style-type: none"> <li>• Leader Programme (completed)</li> <li>• Bees Knees (on hold)</li> <li>• Economic Development (in progress)</li> <li>• BDUK Project (ongoing)</li> <li>• Regional Growth Grant (completed)</li> <li>• LEP Activity</li> </ul>		<ul style="list-style-type: none"> <li>• Development Control (unable to resource)</li> <li>• Maintenance of Council Buildings (other than schools) (unable to resource)</li> </ul>
<b>Places- Community Services</b>	<ul style="list-style-type: none"> <li>• Fleet Management – legislative requirements (draft report)</li> <li>• Street Lighting (completed)</li> <li>• Flood Management</li> <li>• Highways Maintenance 11/12 (completed)</li> <li>• Adult Education 11/12 (completed)</li> </ul>		<ul style="list-style-type: none"> <li>• Area improvement initiatives - Advance Crosby (unable to resource)</li> </ul>

Audit Areas	Audit Reviews Completed During 2012/13		
	Planned	Unplanned	Deferred
In addition to the above resources were deployed on : <ul style="list-style-type: none"> <li>• Advice /irregularity work</li> <li>• Follow up work</li> <li>• Audit plan performance monitoring and reporting</li> </ul>			