

Report of the: Director of Policy and  
Resources

Agenda  
Item No: 7  
Meeting: 15 April 2014

## **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 2013/14 audit plan year.

### **2. BACKGROUND INFORMATION**

#### **2013/14 Audit Plan Progress**

- 2.1 An effective Internal Audit Service, and the delivery of the audit plan, is a key aspect in obtaining assurance that a reliable control environment is in place. Completion of the Internal Audit Plan is monitored and reported regularly to this Committee. The latest position is provided in appendix A. Although some additional audits were required during the year due to emerging risks, there were other planned audits which were no longer required in 2013/14 due to the lessening of the risk or changes in implementation dates of key changes to the control environment. However there is adequate plan cover overall to ensure there will be a sufficient level of completed planned work to provide an opinion on the adequacy of the control environment.

#### **2014/15 Audit Plan**

- 2.2 Audit planning meetings with Directors/Assistant Directors have taken place and useful discussions with the council's external auditors KPMG have helped to develop the plan for 2014/15 and ensure reliance on internal audit's work continues to be maximised. The draft audit plan is presented elsewhere on this agenda for Members to consider.

### **Significant Audit Findings – 2013/14 Audit Plan**

- 2.3 Audits of fundamental financial systems, risk management and corporate governance are nearing completion and the outcome will be reported in Internal Audit's Annual Report in June 2014. No significant issues have been identified so far other than improvements necessary to recording and maintaining partnership risk registers which was brought to the attention of this Committee in January and is referred to again in the Risk Management Strategy and Action Plan 2014/15 report.
- 2.4 The outcome of audit work is reported at each meeting of this Committee. Since the last report in January, there have been no reports issued that highlighted control weaknesses and an overall assessment of no assurance. Four audit reviews of aspects of key systems (Security of Mobile Devices, Flood Risk Management, Gifts & Hospitality and Pecuniary Interests, Data Quality) were assessed as providing partial assurance. The issues highlighted included; outstanding work on policies and procedures; improvements to records maintained; opportunities to strengthen security; raising awareness of policy and procedure requirements. It is important to note that partial assurance means that some controls were confirmed as working well e.g. as demonstrated by the council's response to the tidal surge; however there are some developments in progress that require completion.

In each case actions have been agreed with managers and implementation will be confirmed.

### **Unplanned work**

- 2.5 Requests for unforeseen and irregularity work continue to be received and the allocation set aside in the 2013/14 Audit Plan of 165 days has been exceeded (285 days spent). Since April 2013 internal audit has received 35 referrals. These have been investigated by officers within the service or in conjunction with HR colleagues and/or the police. Key themes in the period are similar to the previous quarter and include the following:
- Inappropriate use of internet and mobile phone during working hours
  - Failure to safeguard assets
  - Potential theft of stock
  - Cash /income anomalies
  - Flexi/timesheet discrepancies
  - Misuse of council data.

- 2.6 Referrals received via the Whistleblowers' hotline have increased steadily over the last few years:

Year	Referrals received	Inadequate info/ Redirected call
2009/10	256	67
2010/11	221	34
2011/12	373	78
2012/13	378	81
2013/14	645	282

All referrals are either investigated by Internal Audit or information is passed on to the Benefits Fraud Team for investigation. Over £41k Council Tax or Housing Benefits overpayments were referred through the whistleblowers' hotline.

### **Proactive work**

- 2.7 Proactive counter fraud work has included the following income reviews: Building Control, Commercial Property, Fresh Start, Search Fees, Normanby Hal and Waters Edge. Good progress is being made to investigate matches received via the National Fraud Initiative (NFI) data matching exercise. So far 6076 out of a total of 7079 matches received have been investigated and closed and has identified £65k benefit fraud and £4k creditor overpayments. Further reports will be provided when the exercise has been completed.

### **Future of Local Audit**

- 2.8 In January the Audit Committee was informed about progress on the Local Audit and Accountability Bill. From November to December 2013, the Government consulted interested parties on draft regulations and policy statements that will give effect to provisions contained in the Local Audit and Accountability Bill. The consultation covered the following areas:
- Modification of the Bill for smaller authorities
  - Audit panels and appointment of auditors
  - Eligibility and regulations of auditors
  - Policy questions on Account and Audit regulations and regulations on the consideration of Public Interest Reports prior to redraft and further consultation later in the year.

The consultation closed on 20 December 2013 and the Government's response has now been published and can be accessed via the following web link:

<https://www.gov.uk/government/consultations/future-of-local-audit-consultation-on-secondary-legislation>

- 2.9 CIPFA through their Better Governance Forum has prepared a useful update (appendix B) on the Local Audit and Accountability Act which has just received Royal Assent. It is likely that further consultation on regulations will be issued in 2014 and further information will be provided to the Committee to monitor the likely impact on the council.

On 1<sup>st</sup> April it was announced that the Local Government Association would take over management of the Audit Commission's outsourced audit contracts following abolition. The decision by the Department for Communities and Local Government will see the LGA create an independent private company to act as the transitional authority for the contracts. These are due to end in 2017, but could be extended for three years after which time local public bodies will be required to appoint their own auditors and manage their contracts individually or collectively.

### **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.

### **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 to fulfil its role effectively.

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

5.1 There are no additional resources implications however regular reviews of internal control help safeguard the council's assets and help ensure that value for money is achieved in the use of resources.

### **6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)**

6.1 An Integrated Impact Assessment is not required.

### **7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED**

7.1 Consultation takes place with Directors and key staff at all stages of audit work and comments made are incorporated wherever possible.

7.2 There are no conflicts of interests to declare.

## **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:** None

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## Appendix A

Audit Areas	Audit Reviews Completed During 2013/14		
	Planned	Unplanned	Deferred
<b>Fundamental Financial Systems</b>	<ul style="list-style-type: none"> <li>• All 2012/13 fundamental audits completed (see Asset Management)</li> <li>• Payroll (draft report)</li> <li>• Creditors (draft report)</li> <li>• Debtors ( draft report)</li> <li>• Income Receipting (completed)</li> <li>• Main Accounting Ledger (draft report)</li> <li>• Council Tax and Housing Benefits (in progress)</li> <li>• Local Taxation (completed)</li> <li>• Treasury Management (completed)</li> <li>• Asset Management (in progress incorporating External Audit work)</li> <li>• CareFirst (draft report)</li> <li>• Benefits Subsidy testing (completed)</li> </ul>	<ul style="list-style-type: none"> <li>• TLMS (leisure income system) (completed)</li> <li>• CareFirst – follow up (completed)</li> <li>• Implementation of new income receipting system (draft report)</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 (completed)</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. (2012/13 completed – 2013/14 in progress)</li> </ul>		

Audit Areas	Audit Reviews Completed During 2013/14		
	Planned	Unplanned	Deferred
<b>IT Audit</b>	<ul style="list-style-type: none"> <li>• I S / I T Strategy (completed)</li> <li>• Disaster Recovery and Business Continuity (completed)</li> <li>• Government Connect (completed)</li> <li>• Project Management Controls (draft report)</li> <li>• IT Charging Policy (in progress)</li> <li>• Remote Access – follow up (completed)</li> <li>• Internet/ E Mail Controls – follow up (completed)</li> <li>• Security of Mobile Devices (completed)</li> <li>• Procurement of IT (completed)</li> </ul>		<ul style="list-style-type: none"> <li>• Change Control (new servicedesk system currently being implemented, which will include a change control module)</li> </ul>
<b>Contract Audit</b>	<ul style="list-style-type: none"> <li>• Commissioning – e auctions (draft report)</li> </ul>		
<b>Fraud Prevention and Detection</b>	<ul style="list-style-type: none"> <li>• Responding to cases received via Whistleblowers Hotline and email (on going)</li> <li>• Publicity/ training/ updating the counter fraud strategy (completed for 2014/15 )</li> <li>• Income audits - Building Control (completed), Commercial Property (completed), Fresh Start (completed), Search Fees (completed), Normanby Hall (completed), Waters Edge (completed)</li> <li>• Data Matching - NFI/IDEA (complete for 2013/14 matches received for 2014/15)</li> </ul>	Procurement fraud review of expenditure (in progress) Card fraud NAFN Alert (completed)	

Audit Areas	Audit Reviews Completed During 2013/14		
	Planned	Unplanned	Deferred
<b>Council-wide Systems</b>	<ul style="list-style-type: none"> <li>• Performance Management (completed)</li> <li>• Data Quality (2012/13 &amp; 2013/14 completed)</li> <li>• Environmental Issues - CRC Energy Efficiency Scheme Return &amp; evidence pack (completed)</li> <li>• Partnerships (completed)</li> <li>• New Legislation - Localism (completed)</li> <li>• Budgetary Control (in progress)</li> <li>• Data Protection and FOI (completed)</li> <li>• Social Media (completed)</li> <li>• Income and Corporate Charging Policy (draft report)</li> <li>• Information Governance – NHS self-assessment framework (completed)</li> <li>• Public Health Responsibilities – Get Going Programme (completed) &amp; National Child Measurement Programme (in progress)</li> <li>• Self Service Portal (in progress)</li> <li>• Payment Card Industry – Data Security Standard (in progress)</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>• Information governance framework (completed)</li> </ul>	<ul style="list-style-type: none"> <li>• Integrated Impact Assessments– (assurance obtained through risk management work)</li> <li>• Information Governance – Records Management _new procedures currently being implemented following participation in a national project)</li> </ul>
<b>People – Adult Services</b>	<ul style="list-style-type: none"> <li>• Safeguarding Adults (completed)</li> <li>• Assessment of Care (in progress)</li> <li>• External Residential Care (in progress)</li> <li>• Adult Income Procedures – follow up (complete)</li> <li>• Financial Assessment and Review - follow up (complete)</li> <li>• Personal budgets – follow up (complete)</li> </ul>	Adult Budget issues (draft report)	
<b>People – Specialist</b>	<ul style="list-style-type: none"> <li>• Child protection - compliance with Public Law (completed)</li> <li>• Children in care – foster care (completed)</li> <li>• Allegation Management Policy (in progress)</li> <li>• Youth Offending Team (completed)</li> <li>• Imprest accounts <ul style="list-style-type: none"> <li>- The Groves (completed)</li> <li>- St Hughs (completed)</li> <li>- St Lukes (completed)</li> <li>- Cambridge House (completed)</li> </ul> </li> </ul>		

Audit Areas	Audit Reviews Completed During 2013/14		
	Planned	Unplanned	Deferred
<b>People – School Improvement</b>	<ul style="list-style-type: none"> <li>• Issues from School Audits (draft report)</li> <li>• Schools audits (all site visits completed)</li> <li>• Alternatives to Schools Education (completed)</li> <li>• Education Welfare (Fines) (completed)</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement declaration (completed)</li> <li>• SFVS assurance (completed)</li> <li>• St Hughs school fund (completed)</li> <li>• Winterton school fund (completed)</li> <li>• Brumby Junior school fund (completed)</li> <li>• Burton Stather school fund (completed)</li> <li>• Willoughby Road school fund (completed)</li> </ul>	<ul style="list-style-type: none"> <li>• St Hughs school deferred due to sickness at the school</li> </ul>
<b>People – Commissioning and Localities</b>	<ul style="list-style-type: none"> <li>• Budgetary Control (in progress)</li> <li>• Maintenance of School Buildings ( draft report )</li> <li>• Integrated Youth Support (Grants) (in progress)</li> <li>• Troubled Families Programme (completed)</li> </ul>	<ul style="list-style-type: none"> <li>• Supporting people commissioning (in progress)</li> </ul>	<ul style="list-style-type: none"> <li>• Personal Budget Calculation (delayed until 2014/15 plan at clients request)</li> </ul>
<b>Policy &amp; Resources - Finance</b>	<ul style="list-style-type: none"> <li>• Bank Account Changes (completed)</li> <li>• Finance Manual, Regs. &amp; S.O.s – Procedures for updating Finance Manual (completed)</li> <li>• Car Plan (completed)</li> <li>• Efficiencies (completed)</li> <li>• Welfare Reforms (draft report)</li> <li>• Pensions assurance (completed)</li> <li>• CT discounts/ NNDR reliefs and appeals - budget implications (draft report)</li> </ul>	<ul style="list-style-type: none"> <li>• Exemptions from e-procurement orders (draft report)</li> <li>• Use of security firms (completed)</li> </ul>	<ul style="list-style-type: none"> <li>• LT&amp;B Shared Service Governance Arrangements (assurance obtained through NELC's review)</li> </ul>
<b>Policy &amp; Resources - Human Resources</b>	<ul style="list-style-type: none"> <li>• Casual &amp; Agency workers (completed)</li> <li>• Professional Personnel System (completed)</li> <li>• Training and Development (completed)</li> <li>• Pay Policy/ Allowances &amp; Supplements (completed)</li> <li>• Disciplinary Procedures (completed)</li> </ul>		
<b>Policy &amp; Resources - Legal Services</b>	<ul style="list-style-type: none"> <li>• Councillors' Allowances (completed)</li> <li>• Legal services – Child Protection (completed)</li> <li>• Gifts and Hospitality / Pecuniary Interests Procedures (completed )</li> <li>• Private Law Cases (completed)</li> <li>• RIPA (completed)</li> <li>• VCS Funding (in progress)</li> </ul>		

Audit Areas	Audit Reviews Completed During 2013/14		
	Planned	Unplanned	Deferred
<b>Policy and Resources – Business Support</b>	<ul style="list-style-type: none"> <li>PANNEL (completed)</li> </ul>		
<b>Places – Customer Services</b>	<ul style="list-style-type: none"> <li>Transport – Concessionary fares (completed)</li> <li>Complaints (completed)</li> <li>Community Grants (completed)</li> </ul>	Church Square House Imprest (completed)	<ul style="list-style-type: none"> <li>Contract Management – Leisure (unable to resource. Other work completed in Leisure Services – TLMS)</li> </ul>
<b>Places – Technical &amp; Environment</b>	<ul style="list-style-type: none"> <li>Contaminated Land (completed)</li> <li>Home improvements &amp; disabled adaptations – follow up (completed)</li> <li>Countryside Stewardship (in progress)</li> <li>Emergency Planning and Business Continuity (completed)</li> <li>Homelessness (draft report)</li> <li>Civica AP Document/ Imaging System (completed)</li> </ul>	Grant work – Contaminated land (completed)	<ul style="list-style-type: none"> <li>Safer Neighbourhoods (unable to resource)</li> </ul>
<b>Places – Planning and Regeneration</b>	<ul style="list-style-type: none"> <li>Economic Development (completed)</li> <li>BDUK Project (ongoing)</li> <li>Regional Growth Grant (completed)</li> <li>Bees Knees (availability records examined prior to winding up of NLD)</li> </ul>	Planning & Regeneration Imprest (completed)	<ul style="list-style-type: none"> <li>Procurement framework (due deferred tendering)</li> <li>Advance Crosby (housing development to be undertaken by Guinness Northern Counties)</li> <li>Development Control (unable to resource)</li> </ul>
<b>Places- Community Services</b>	<ul style="list-style-type: none"> <li>Flood Management (completed)</li> <li>Waste Management – commercial waste income (completed)</li> <li>Community Transport (Wheels to work) (completed)</li> <li>Building Cleaning – Commercialism (completed)</li> <li>Schools Catering – Commercialism (completed)</li> </ul>	<ul style="list-style-type: none"> <li>Household recycling centres income collection (completed)</li> <li>Grant work – Local Transport Capital Block Funding (completed)</li> <li>Emergency flood payments (completed)</li> </ul>	<ul style="list-style-type: none"> <li>Waste Management contract – watching brief (procurement terminated)</li> <li>Highways Alliance – closedown (contract extended)</li> </ul>

Audit Areas	Audit Reviews Completed During 2013/14		
	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>			

## **Local Audit and Accountability Act**

### **Introduction**

The Local Audit and Accountability Act received Royal Assent on 30 January 2014. The Act concerns the abolition of the Audit Commission and arrangements for establishing a new regime of local audit for local authorities, police bodies, NHS trusts and clinical commissioning groups in England. The Act also includes provisions relating to council tax referendum and the code of practice on local authority publicity. This article will outline the key points that will be of interest to audit committee members:

- Overview of the local audit arrangements.
- Role of auditor panels.
- Impact on the role of the audit committee.
- Future developments.

### **Overview of the New Local Audit Arrangements**

The Audit Commission will be closed on 31 March 2015. The monitoring of existing audit contracts that are set to run until 2017 (but may be extended until 2020) will be passed to a transitional body from 1 April 2015.

From 2017 (unless existing audit contracts are extended) organisations will be able to appoint their own external audit provider. There are provisions in the Act about who can be an external audit provider and the regulation of audit providers. Further regulations will be issued on these. These will not be the direct concern of the audit committee so I will not go into further detail here.

All local audit providers will have to work to the Code of Audit Practice which will now be written by the National Audit Office (NAO). The code will set out the scope of the audit and the work and reports that the audit providers will need to provide. The NAO is currently working with the Audit Commission on a plan for taking on the Code of Audit Practice. The current code was approved in March 2010.

The procurement process provides options for different approaches to procurement: individual organisation procurement and joint procurement (for example a regional group of authorities). In addition the Act gives powers to the secretary of state to make regulations concerning collective sector-led procurement. This is one of the late changes to the Act. Smaller authorities (typically town and parish Councils) are likely to use a collective procurement option as it would not be cost effective to operate separate procurements. It is also possible that an offer of a collective procurement service will be offered by the Local Government Association (LGA), or similar, which other authorities can choose to buy into.

### **Role of Auditor Panels**

Unless a local authority is using a collective procurement service, it will be required to establish an auditor panel. The role of the panel is to safeguard independence in the appointment of the external auditor. Health and police bodies will use their existing audit committees to fulfil this role as the committees have a majority of

independent members. The same option is also open to local authorities, so long as the audit committee fulfils the criteria for independence:

- The committee should be chaired independently of local authority councillors or officers.
- It must have a majority of independent members.
- Panel members should meet the requirements of independence, as set out in the Act or other regulations.

The panel can be completely separate from the audit committee or it could include some joint membership. For example it could be a sub-committee of the audit committee which only includes the independent members. It is also possible to set up a joint panel to facilitate a joint procurement exercise. For example, four neighbouring authorities could set up a joint panel, each providing a representative. Again this may or may not involve joint membership of each council's audit committee. Another option would be for the auditor panel of one authority to operate as the panel on behalf of others.

The primary responsibility of the panel (or audit committee if it is acting as the panel) will be to advise the authority on the selection and appointment of a local auditor to audit its accounts. The final choice and power of appointment will not lie with the panel but with the authority, police or health body as appropriate.

Another important role for the panel is to advise the organisation on the maintenance of an independent relationship with their external auditor. Ensuring independence is an important principle in external audit. It is built into the ethics followed by auditors and in the private sector it is monitored and reported on by the audit committee. Usually this role includes policies on non-audit or consultancy work being awarded to the external auditor.

The panel will also have a role in the event of the resignation or removal of the external auditor and this will be set out in regulations from the secretary of state. CIPFA is planning to issue guidance on auditor panels later in 2015, assuming a significant lead-in to bodies making their first local appointment by December 2016. Discussions are ongoing with Department for Communities and Local Government (CLG) as to the nature of any proposed guidance.

### **Impact on the Audit Committee**

A key consideration here is whether the audit committee will be taking on the panel role directly or whether it will be working alongside a panel. If the committee is taking on new roles and responsibilities then it will need to amend its terms of reference accordingly and is likely to require additional training and guidance in the role. If the current make-up of the audit committee does not fit the requirements of the panel then changes will need to be made before the committee can operate as a panel. Forthcoming regulations and guidance will be important for informing these developments.

Where the committee is working alongside the panel then consideration needs to be given to how the two will interact. The existing audit committee will retain its current role of liaison with the external auditor, receiving the results and recommendations from the external audit work, overseeing the relationship between external auditor

and the finance team and the internal audit service. The audit committee will have a view therefore of how successfully the audit contract is being fulfilled. This should be communicated to the panel. The panel's guidance on maintaining an independent relationship may need to be monitored by the audit committee.

### **Future Developments**

The Act will be supported by regulations issued by CLG. These provide more detail on the operation of the Act in practice. The first set of regulations was issued for consultation in November 2013 and further consultation on regulations is expected during 2014. The NAO will also be consulting on the Code of Practice. Further detail will also follow on the monitoring arrangements of existing contracts.

The full text of the Act is available on the Parliament website:

<http://services.parliament.uk/bills/2013-4/localauditandaccountability/documents.html>