

Report of the: Director of Policy and  
Resources

Agenda  
Item No: 4  
Meeting: 27 September 2016

## **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 2016/17 audit plan year.
- 1.3 The report also refers to the arrangements for the appointment of external audit for the audit year beginning April 2018.

### **2. BACKGROUND INFORMATION**

#### **2016/17 Audit Plan Progress**

- 2.1 An effective Internal Audit service contributes to the achievement of strategic objectives by assessing, providing comment and where relevant recommending improvement to, the council's assurance and control frameworks. The Internal Audit Plan 2016/17 was approved by the Audit Committee on 12 April 2016; completion of the Plan is monitored and reported regularly to this Committee. The latest position is provided in appendix A. To date, no audits have been cancelled or deferred to next year; however, there have been some deferrals within the year for operational reasons in service areas and the level of resource available has been impacted by some long term sickness absence. This may impact on completion of the plan later in the year, though the plan is flexible to cope with changing workloads. Some work has been brought forward and other work added to ensure resources are used to best effect.
- 2.2 It is anticipated that there will be adequate plan coverage overall to ensure there will be a sufficient level of completed planned work to provide an opinion on the adequacy of the control environment.

### **Significant Audit Findings**

- 2.3 There are no significant control weaknesses to bring to the Committee's attention. Appendix B shows 2016/17 completed audits where an audit opinion on the control environment was provided. Two unplanned audits highlighted control weaknesses in discrete areas and an audit opinion of no assurance was given in respect of one and limited assurance for the other. Issues relate to non-compliance with ordering and invoicing procedures, non-compliance with Contract Procedure Rules and inadequate monitoring of outputs for a grant. Action has been agreed with service managers to improve controls.
- 2.4 The Internal Audit service continues to engage in the council's commercial policy and explores income generating opportunities as appropriate. An independent assurance service has been provided at two academies and three school fund audits have been completed. In addition we have provided assurance work on grants relating to Humber LEP projects carried out in Hull and East Riding of Yorkshire under reciprocal arrangements. Discussions concerning further work are ongoing; for example, grant certification work for funding from the Homes and Communities Agency.

In accordance with PSIAS the Audit Committee should approve consultancy work (if significant) and be assured there will be no detrimental impact on delivering the audit service to the council. The work undertaken so far has been completed within existing resources as the scale of the work was relatively small (approximately 15 days). Other opportunities under consideration to date do not represent a significant level of consultancy work and should not therefore have any detrimental impact on achieving the audit plan for the council. The Committee is asked therefore to note these requests for work.

### **Advisory and support work**

- 2.5 Other areas of work and support which Internal Audit have committed time to during the period, in addition to the delivery of the audit plan, include:
- working with the other Humber authorities to bring together our working practices on fundamental audits, reporting and data analytics;
  - representation on the Information Security Assurance Board and providing advice on data breaches;
  - representation on the Change Agent Group;
  - providing an independent opinion in respect of a complaint about a taxi licensing application;
  - requests for advice from services relating to the control environment in their specific area e.g. management arrangements for a contaminated land site and monitoring of outputs for a grant.

### **Follow up work**

- 2.6 Limited assurance was given in respect of a small number of audits in 2015/16. Follow up audits have been assigned to test progress in each of these areas. Two audits are nearing completion and improvements have been made resulting in an audit opinion of satisfactory:
- Construction framework – Highways
  - Imprest – Strategic Regeneration

### **Shared Service Development**

- 2.7 The audit teams from both councils have fully integrated and are working as a single team. All auditors are using the same audit management IT system and supporting procedures. Already, auditors have completed audits at both councils, increasing their knowledge, improving resilience and sharing best practice.

### **External Audit Appointment for the audit year beginning April 2018**

- 2.8 The arrangements for the appointment of external auditors from April 2018 are laid down in the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. The appointment from April 2018 must take place by 31 December 2017.

The Act provides for two principal routes:

- The council leads the appointment process, either independently or in collaboration with other authorities. For this they need to appoint an independent auditor panel to advise on the process. The final decision is made by Full Council; or
  - Appointment via the approved sector-led body acting as “appointing person”. Public Sector Audit Appointments Ltd (PSAA) has been appointed to this role. PSAA, which is owned by the Local Government Association, is the company managing the current external audit contracts since the Audit Commission closed.
- 2.9 In July, PSAA announced its timetable for those authorities which wish it to act as its “appointing person”. The timetable is broadly summarised as follows:
- establish an overall strategy for procurement - by 31 October 2016;
  - achieve ‘sign-up’ of scheme members - by early January 2017;
  - invite tenders from audit firms - by 31 March 2017;
  - award contracts - by 30 June 2017;
  - consult on and make final auditor appointments - by 31 December 2017; and
  - consult on, propose audit fees and publish fees - by 31 March 2018.

2.10 The council has not yet determined whether it will “sign up” as a scheme member but should this be the preferred option then approval will need to be obtained from Full Council by 31 December 2016. However, the view of the Director of Policy and Resources is that the PSAA option is likely to be the best for the council, based on the effectiveness of current arrangements, savings made to date and likely further savings from procurement 'at scale'. Although a joint procurement with North East Lincolnshire Council could lead to savings due to the shared services arrangements, it is considered unlikely that they will exceed those available via the PSAA route. The Committee is therefore asked to consider supporting use of the PSAA route, subject to a further report to Council in December.

### **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 In relation to the appointment of external audit, paragraphs 2.8 – 2.10 layout the options available.

### **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.
- 4.2 As per paragraph 2.10, the Director of Policy and Resources is minded to support the option of using PSAA for the appointment of external audit.

### **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.

8.2 That the Audit Committee, subject to a more detailed report to be produced for the council meeting on 31 December 2016, support the appointment of external audit via the PSAA.

### **DIRECTOR OF POLICY AND RESOURCES**

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Date: 19 September 2016

**Background Papers used in the preparation of this report:** None

## Internal Audit Plan 2016/17

| Audit Area/planned days              | Audit Areas (*unplanned)                               | Complete | Draft report | Work in Progress | Not started | Deferred |
|--------------------------------------|--|----------|--------------|------------------|-------------|----------|
| <b>Fundamental Financial systems</b> |  |          |              |                  |             |          |
| 185 days                             | 2015/16 Fundamentals                                   | 10       | 1            |                  |             |          |
|                                      | 2016/17 Fundamentals:                                  |          |              |                  |             |          |
|                                      | • Payroll  |          |              |                  | •           |          |
|                                      | • Creditors  |          |              |                  | •           |          |
|                                      | • Debtors  |          |              |                  | •           |          |
|                                      | • Cash Receipting                                      |          |              |                  | •           |          |
|                                      | • Main Accounting Ledger                               |          |              |                  | •           |          |
|                                      | • Council Tax Reduction Scheme and Housing Benefit     |          |              |                  | •           |          |
|                                      | • Council Tax/NNDR                                     |          |              |                  | •           |          |
|                                      | • Treasury Management                                  |          |              |                  | •           |          |
|                                      | • Fixed Asset Register                                 |          |              |                  | •           |          |
|                                      | • CareFirst (Adult Social Care payments feeder system) |          |              |                  | •           |          |
|                                      | • Housing Benefit Subsidy claim                        |          |              |                  | •           |          |
|                                      | • Pensions assurance                                   | •        |              |                  |             |          |
| <b>Corporate Governance</b>          |  |          |              |                  |             |          |
| 35 days                              | 2015/16 Corporate Governance evaluation                | •        |              |                  |             |          |
|                                      | 2016/17 Corporate Governance evaluation                |          |              |                  | •           |          |

| Audit Area/planned days               | Audit Areas (*unplanned)                                | Complete | Draft report | Work in Progress | Not started | Deferred |
|---------------------------------------|---|----------|--------------|------------------|-------------|----------|
|                                       | Shared service evaluation                               |          |              | •                |             |          |
| <b>Risk Management</b>                |   |          |              |                  |             |          |
| 10 days                               | Annual review of risk management arrangements           |          |              |                  | •           |          |
| <b>IT Audit</b>                       |   |          |              |                  |             |          |
| 65 days                               | Email Controls (2015/16)                                | •        |              |                  |             |          |
|                                       | IT Governance   |          |              |                  | •           |          |
|                                       | IT Project Management                                   |          |              |                  | •           |          |
|                                       | Security of Mobile Devices                              |          |              | •                |             |          |
|                                       | Public Sector Network                                   |          |              |                  | •           |          |
|                                       | Remote Access   |          |              | •                |             |          |
|                                       | Inventory   |          |              | •                |             |          |
| <b>Commissioning / Contract Audit</b> |   |          |              |                  |             |          |
| 40 days                               | Contract monitoring – use of self-assessment            |          | •            |                  |             |          |
|                                       | Compliance with corporate contracts                     |          |              |                  | •           |          |
|                                       | Compliance with CPRs – use of extensions and exceptions |          |              | •                |             |          |
|                                       | Commissioning – Kaleidoscope                            |          |              | •                |             |          |
| <b>Fraud Prevention and Detection</b> |   |          |              |                  |             |          |
| 98 days                               | National Fraud Initiative (Data Matching)               |          |              |                  | •           |          |
|                                       | Fraud Preventative Measures                             |          |              |                  | •           |          |
|                                       | Income audits/ misuse of public funds:                  |          |              |                  |             |          |
|                                       | • Preloaded cards                                       |          |              |                  | •           |          |

| Audit Area/planned days      | Audit Areas (*unplanned)   | Complete | Draft report | Work in Progress | Not started | Deferred |
|------------------------------|--|----------|--------------|------------------|-------------|----------|
|                              | <ul style="list-style-type: none"> <li>Deferred payments</li> </ul>  |          |              | •                |             |          |
|                              | <ul style="list-style-type: none"> <li>Brigg Tourist Information Centre (changed from Waters Edge Visitor Centre)</li> </ul> |          |              | •                |             |          |
|                              | <ul style="list-style-type: none"> <li>Car Parking</li> </ul>  | •        |              |                  |             |          |
|                              | <ul style="list-style-type: none"> <li>Trading Standards fees and charges</li> </ul>   | •        |              |                  |             |          |
|                              | <ul style="list-style-type: none"> <li>Contracts – counter fraud and corruption</li> </ul>                                   |          |              | •                |             |          |
|                              | Data analytics (Humber Authorities)  |          |              |                  | •           |          |
| <b>Council Wide Systems</b>  |  |          |              |                  |             |          |
| 58 days                      | Grant claims   |          |              | •                |             |          |
|                              | Public Health – Contract monitoring  |          |              |                  | •           |          |
|                              | Public Health – NHS self-assessment  |          |              |                  | •           |          |
|                              | New legislation  |          |              |                  | •           |          |
|                              | Health & safety  |          |              |                  | •           |          |
| <b>Other Strategic risks</b> |  |          |              |                  |             |          |
| 276 days                     | External funding – SSE (2015/16)   | •        |              |                  |             |          |
|                              | Better Care Fund   |          |              |                  | •           |          |
|                              | Carer support  |          |              | •                |             |          |
|                              | Services for older people  |          |              |                  | •           |          |
|                              | Assessment, planning & review  |          |              |                  | •           |          |
|                              | Special guardianships  |          |              |                  | •           |          |
|                              | Children leaving care  |          |              |                  | •           |          |
|                              | Protocol for children missing from   |          |              |                  | •           |          |



| Audit Area/planned days      | Audit Areas (*unplanned)                            | Complete | Draft report | Work in Progress | Not started | Deferred |
|------------------------------|---|----------|--------------|------------------|-------------|----------|
|                              | home/care   |          |              |                  |             |          |
|                              | Troubled Families Initiative                        |          |              | •                |             |          |
|                              | Special schools funding                             |          |              |                  | •           |          |
|                              | NEETs   |          |              | •                |             |          |
|                              | Education – partnership governance                  |          |              |                  | •           |          |
|                              | Financial assessment process                        |          |              |                  | •           |          |
|                              | Emergency planning                                  |          |              | •                |             |          |
|                              | Environmental Health – Food safety                  |          |              | •                |             |          |
|                              | External Funding – Heritage Lottery Isle of Axholme |          |              |                  | •           |          |
|                              | External Funding – Tata Challenge growth fund       |          |              |                  | •           |          |
|                              | Strategic assessment                                |          |              | •                |             |          |
|                              | Humber LEP  | •        |              |                  |             |          |
|                              | Greater Lincolnshire LEP                            |          |              | •                |             |          |
|                              | Economic development                                |          |              | •                |             |          |
|                              | Compliance with HR Policies:                        |          |              |                  |             |          |
|                              | - pay policy  |          |              |                  | •           |          |
|                              | - training and development                          |          |              |                  | •           |          |
|                              | - disciplinary policy                               |          |              | •                |             |          |
|                              | Information Governance – records management         |          |              | •                |             |          |
|                              | Performance management                              |          |              |                  | •           |          |
| <b>Key operational Risks</b> |   |          |              |                  |             |          |
| 237 days                     | Commercialism (2015/16)                             |          |              | •                |             |          |

| Audit Area/planned days | Audit Areas (*unplanned)   | Complete | Draft report | Work in Progress | Not started | Deferred               |
|-------------------------|--|----------|--------------|------------------|-------------|------------------------|
|                         | Short breaks (2015/16)   | •        |              |                  |             |                        |
|                         | Specialist learning (2015/16)                                    | •        |              |                  |             |                        |
|                         | Councillors allowances (2015/16)                                 | •        |              |                  |             |                        |
|                         | Extra care housing   |          |              | •                |             |                        |
|                         | School visits  |          |              |                  | •           |                        |
|                         | Schools assurance work:  |          |              |                  |             |                        |
|                         | - Financial compliance   |          |              |                  | •           |                        |
|                         | - eSafety  |          |              |                  | •           |                        |
|                         | - Information Governance   |          |              |                  | •           |                        |
|                         | Council-run nurseries  |          | •            |                  |             |                        |
|                         | Home improvements – non-DFGs                                     |          |              | •                |             |                        |
|                         | Licensing – taxis  |          | •            |                  |             |                        |
|                         | Adult Community Learning   | •        |              |                  |             |                        |
|                         | Grant certification – Highways and Bus Service Operators funding | •        |              |                  |             |                        |
|                         | Transport – Call Connect   |          |              | •                |             | On hold until December |
|                         | Highways and Neighbourhood budgetary control                     |          |              |                  | •           |                        |
|                         | Self-service portal  |          |              | •                |             |                        |
|                         | Schools catering   |          |              | •                |             |                        |
|                         | Community meals  | •        |              |                  |             |                        |
|                         | Fleet management   | •        |              |                  |             |                        |
|                         | Customer Services management system                              |          | •            |                  |             |                        |

| Audit Area/planned days       | Audit Areas (*unplanned)   | Complete | Draft report | Work in Progress | Not started | Deferred |
|-------------------------------|--|----------|--------------|------------------|-------------|----------|
|                               | Democratic Services  |          |              | •                |             |          |
|                               | Search fees  |          |              |                  | •           |          |
| <b>Consultancy and Advice</b> |  |          |              |                  |             |          |
| 194 days                      | Advice and unplanned work as requested including commercial work:      |          |              |                  |             |          |
|                               | Services to schools e.g. school fund audits, responsible officer role. | 5        |              |                  |             |          |
|                               | *5 internal investigations   | 4        | 1            |                  |             |          |
|                               | *Contaminated land – Conesby Quarry                                    | •        |              |                  |             |          |
|                               | *Imprest – Church Square House   |          |              | •                |             |          |
|                               | *Imprest – Central Administration                                      |          |              | •                |             |          |
|                               | *Imprest – Kingfisher Lodge  |          |              | •                |             |          |
|                               | *Imprest – Hewson House  |          |              | •                |             |          |
|                               | *Imprest – Adult Community Learning                                    |          |              | •                |             |          |
|                               | *Taxi licence complaint  | •        |              |                  |             |          |
|                               | *Community meals – additional work                                     |          |              | •                |             |          |
| <b>Other work</b>             |  |          |              |                  |             |          |
| Other<br>119 days             | Follow up work. Audit plan and performance monitoring and reporting    |          |              |                  |             |          |
|                               | Commercial properties (15/16)  | •        |              |                  |             |          |
|                               | Contaminated land  |          |              |                  | •           |          |
|                               | Continuing healthcare  |          |              |                  | •           |          |

| Audit Area/planned days | Audit Areas (*unplanned)           | Complete | Draft report | Work in Progress | Not started | Deferred |
|-------------------------|------------------------------------|----------|--------------|------------------|-------------|----------|
|                         | Housing related support            |          |              |                  | •           |          |
|                         | *Social media                      |          |              | •                |             |          |
|                         | *Duty of care                      |          |              | •                |             |          |
|                         | *Construction framework = Highways |          | •            |                  |             |          |
|                         | *Strategic regeneration imprest    |          |              | •                |             |          |
|                         | *TLMS debtors                      |          |              |                  | •           |          |
|                         |                                    |          |              |                  |             |          |
|                         |                                    |          |              |                  |             |          |
| <b>TOTAL<br/>1317</b>   |                                    |          |              |                  |             |          |

## Internal Audit Plan 2016/17 – Completed Audits

## Planned Audits:

| <b>Service</b>              | <b>Audit</b>                       | <b>Opinion</b> |
|-----------------------------|------------------------------------|----------------|
| Places - Planning & Regen   | Car Parking                        | Satisfactory   |
| Places - Community Services | Community Meals                    | Satisfactory   |
| Places - Tech & Env         | Trading Standards - Fees & Charges | Substantial    |
| Places - Planning & Regen   | Adult Community Learning           | Substantial    |
| Places - Community Services | Fleet Management                   | Satisfactory   |
| People - Education          | NEETs - elective home education    | Substantial    |

## Other

| <b>Service</b>            | <b>Audit</b>                       | <b>Opinion</b> |
|---------------------------|------------------------------------|----------------|
| Places - Planning & Regen | RGF claim                          | No assurance   |
| Places - Planning & Regen | Contaminated Land - Conesby Quarry | Limited        |
| P&R - Finance             | Imprest - Hewson House             | Substantial    |