

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 Audit resources have been prioritised towards audit plan preparation and the completion of fundamental financial systems reviews since the last progress report in January. The audit plan for 2011/2012 has been drafted and is reported elsewhere on this agenda. All financial fundamental systems reviews are progressing well and are nearing completion. Early indications show that there are no significant control failings and testing has been carried out in accordance with the protocol agreed with External audit. An evaluation of all fundamental financial systems will be provided in Internal Audit's Annual Report presented to the Committee in June.
- 2.2 The Internal Audit Plan continues to be reprioritised as a result of reduced resources and the impact of unforeseen work. A summary is provided in appendix A. 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.
- 2.3 The level of unforeseen work has risen in the last quarter of the year. The original allocation for this type of work identified in the audit plan 181 days whilst to date 467 days have been spent or have been allocated to complete this work. Resources have been met through planned work either being completed below allocation or reviews being deferred/cancelled in agreement with the client due to changes in systems/procedures. Some examples of the work undertaken were provided in the progress report reported to Members in January and further details are provided in paragraph 2.4. In addition 42 unforeseen investigations have been undertaken. These investigations mainly

relate to email/ internet usage abuse, cash handling anomalies and timesheet or allowances discrepancies. These cases support the council's zero tolerance of all fraud as despite the low sums involved all cases are investigated, appropriate management action is recommended where fraud is identified (including police action where appropriate) and any improvements to internal control arrangements are identified and agreed with managers.

2.4 Counter fraud work is an important feature in the audit plan. An update on counter fraud plan work is summarized in appendix B. Some key features include:

- Work is still ongoing to capture all savings from the council tax/ electoral registrations data matches. A total of 1,196 matches were provided by the audit commission and action has been taken on 1,003 resulting in Single Residence Discount benefit of £89k being stopped (although the net figure is around £40k after taking into consideration other benefits and disregard discounts attracted). Work is ongoing to finalise the remaining cases.
- National Fraud Initiative (NFI) matches were received in January 2011, earlier than expected. Fifty seven reports were received containing 8,082 matches, 4,925 have been processed resulting in savings of £9,795 (mainly housing benefits cases). Work is ongoing to address the remaining matches in the coming months.
- The NFI exercise identifies some but not all duplicate payments. Leeds City Council provided training to two members of staff to identify further potential duplicate payments using audit interrogation software. Matches are being investigated as well as those identified through the NFI exercise
- Proactive counter fraud work included in the last quarter of the year, included; car allowance, overtime payments and a review of unusual items included in the transparency reports; in all cases no issues were identified.

2.5 The strategic risk register was refreshed in September and a review of strategic risk controls has been completed. The outcome of the review is summarized in appendix C. The evaluation of strategic risk controls has been enhanced by introducing a definition of the adequacy of controls to provide greater clarity to Members on the level of assurance provided. The review shows all strategic risks are managed to an acceptable level as there are no risks where no assurance is provided. All strategic risks have been evaluated as having significant or adequate controls in place with the exception of risk 21 'Failure of Major Partnerships' which is assessed as partial control assurance. Further work to improve controls has been identified and will be followed up.

2.6 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 4 areas reviewed where we could provide no assurance. Two were previously reported (poor cash handling procedures at leisure facilities and Normanby Hall and Kingsway golf clubs). Two further reports

provided no assurance; namely SEN contracting procedures and HR Procedures (Annual Leave) at Riddings Leisure Centre. These reviews highlighted none compliance with Contract Procedure Rules and poor authorisation and monitoring of leave entitlement. In all 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.

- 2.7 In November the Government announced the scrapping of Financial Management Standard in Schools (FMSiS) with immediate effect. Consultation is currently underway on a new Standard, provisionally named the Schools Financial Value Standard (SFVS), will be introduced in Summer 2011 and become operational from September 2011. Schools will be expected to conduct an assessment against SFVS once a year, which means that the first reports from schools will be due before September 2012. However, those schools which never attained FMSiS will be expected to report against SFVS before April 2012. The Standard will involve a self assessment from schools and reports signed by the Chair of Governors will be sent to the local authority. With effect from the financial year 2011-12 SFVS are expected to be included in the outturn statement in regard to DSG which is signed by Chief Finance Officers. Further details will be provided when they are finalised.
- 2.8 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 70% of audit recommendations are implemented although high risk areas receive closer attention.
- 2.9 In January Members were advised that CIPFA had issued a Local Government specific statement on the role of chief internal auditors for consultation. The finalized document has been delayed and is due to be published in May. Further details and an evaluation of current arrangements against best practice guidance will be reported to the Committee in June.

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 (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 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.(Adult Social Care payments feeder system) Unplanned work – benefits subsidy		
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), Income audits – Car Parking, Bereavement Services, Golf clubs Unplanned counter fraud work- overtime, car mileage, transparency reporting, National Fraud Initiative – Data Matching (2010/11), Creditor duplicate payments (data matching using IDEA – audit interrogation software)		Money Laundering – refresher training
Environmental Audits	Audit of the council's approach to environmental issues e.g EMAS (Eco-management & audit scheme) Sustainability, Mechanisms to record and reduce the council's environmental footprint		
Council-wide Systems	Partnership Arrangements, Local Area Agreement, Budgetary Control, Diversity, Impact Assessments, Worksmart. New legislation (Bribery Act), Grant Claims		Project Management
Adult Social Care Services	Mental Health Services, Single Assessment Process, Pooled Budgets, Transport, Long Term Conditions/ Assessment & Support Planning/client reviews,		Safeguarding Adults*, Grants to Voluntary Bodies*

	Transformation Agenda, Services for Older People		
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, Music Support, Youth Service Financial Systems, Supply Teaching	Capita One & SIMS (schools administration and finance system) Training 16-19 years	Children's Trust, Audit & Review team, Bilingual Support 6 primary schools External Funding Youth Funds* CRB checks*
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 Delegated powers*
Legal & Democratic Services	Councillors Allowances, Data Protection & Freedom of Information, Delegated Powers		Democratic Services Legal Services*
Neighbourhood & Environment	Document Imaging, Area Teams, Homelessness, Use of Servitor, Disabled Facilities Grants, Neighbourhood Enforcement Team, Fleet Management, Bereavements Services		
Strategic Regeneration	Bidding Process		Business start up loans administration
Asset Management	Town Centre management, Energy Management, commercial properties, Leisure Facilities, Normanby		

and Culture (excluding IT)	Hall, Golf clubs		
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		

*indicates work deferred/cancelled agreed with client due to changes in systems/procedures

Internal Audit Plan 2010/11 Counter Fraud Summary

Area	Scope	Planned Days	Progress
Creating and maintaining the anti fraud culture			
Publicity	Continued development of system, promotional and awareness raising activities, refresh to risk assessments, and strategy	10	The counter fraud survey results showed some areas of further publicity required, webpages were revised, and the fraud focus included further detail on what is fraud and how to report it. A payslip leaflet has been designed which further reiterates the reporting mechanism and a summary of the counter fraud strategy this was issued in February. Posters were redesigned to raise awareness of the whistleblowing arrangements
Counter Fraud Strategy (previously the Anti Fraud Theft and Corruption Strategy)	Ensure it is fit for purpose and in line with best practice	5	The strategy has been renamed as the counter fraud strategy the refresh was submitted for approval to the Audit Committee and relaunched to coincide also with the above leaflet
Joint reporting	Ensure co-operation across all departments to be able to accurately assess fraud risk for the council	5	HR provide records of disciplinary action and there is joint working and reporting on fraud related cases. The protocol previously issued was relaunched as part of the recommended actions of the disciplinary procedures audit. Agreement was reached on all actions
Prevention			
Designing out fraud	Advice in areas where changes to systems are proposed - i.e. cheque printing in 2010/11 and advice on streamlining debtors administration processes	10	A review of the localised cheque printing has recently been concluded. Advice is being sought on a frequent basis from other sections as they begin to streamline processes (for example debtors)
Deterrence			
Fraud Newsletter and Council Wide Communications	Publication of a quarterly newsletter and issue of alerts and council wide communications	10	The newsletter is now established with the fourth editions produced. Other departments are providing useful counter fraud articles, for example Trading Standards. North Lincolnshire Homes (NLH) are interested in using our media to raise awareness of their counter fraud measures. The police are also interested in provided region wide counter fraud alerts
Detection			
Data Matching – National Fraud Initiative (NFI)	Audit assistance in the annual exercise of data matching. In 2010/11 council tax matches and data submission for 2011/12 full exercise	10	Investigation of the council tax SRD/Electoral role matches are being investigated. Data for the 2010/11 exercise was submitted in October 2010 and matches were received in January work is ongoing to investigate these. The potential for data matching with NLH will be considered next year
Hotline	Audit response to allegations received via the hotline	30	There has been an increase in calls received and the hotline is continually publicised via the Fraud Focus newsletter
Money Laundering	Provision of the system set up client identification checks with services	5	Key staff have been trained, the policy has been changed to reflect changes in legislation. Refresher training will take place in next year
Investigation			
Proactive – misuse of	Rolling programme of audits of potential misuse	15	Internet use is included in the 2010/11 Audit Plan was to be carried out later in the year,

council funds audits	of council funds.		software issues mean the system itself has been reviewed and counter fraud work will be included next year Additional audits on high risk areas have been built into the plan, including mileage allowances and overtime payments. A regular review of the transparency reports has been introduced.
Proactive – investigation of high risk income collection areas	Income based audits (5 sites)	50	Audits have been carried out in leisure services, bereavement, children’s centres, and car parks.
Proactive – development of IDEA software	To identify areas where software can be used to detect and investigate fraud	10	A creditor duplicate payments exercise has been run and matches are being investigated. Staff have been trained in the software and it’s use in counter fraud work and analytical review in fundamental systems is being reviewed.
Reactive Investigations		As required	

Risk	Controls	Likelihood	Impact	Risk Assessment	Risk Assessment (after application of controls)	Evaluation of controls
1. Adoption of priorities that do not meet national or local needs	Strategy Development Unit, Strategic Policy Analysis, Strategic Engagement Plan, Regular Leadership Team meetings Cabinet / CMT workshops, Strengthened 4 year planning and budget process Service QPRs Public relations & engagement functions LSP sub group	2 ↑	2	4 ↑	Medium risk ↑	Adequate Control Assurance
2. Failure of decision making process	Member development programme Quality advice, Scrutiny, Culture, Constitution, Standing Orders, Scheme of Delegation, Public Relations Function, Risk Management in decision reports. Role of Monitoring Officer	2	2	4 ↔	Medium risk ↔	Significant Control Assurance
3. Inappropriate pace of innovation and modernization resulting in failure to meet the council's transformation plan	Leadership Team, LGA/IDEA and other national events, best practice benchmarking, Quarterly Performance Reviews (QPRs), Effective strategic planning, Staff and member development, Strategy development team, Policy tracker, Improvement framework, Transformation plan monitoring.	2 ↑	2	4 ↑	Medium risk ↑	Adequate Control Assurance
4. Abrupt policy changes resulting from changed political leadership nationally and locally	Integrated budget and strategic planning, Leadership/ cabinet member briefings / agenda meetings, SMT conferences and briefings, Staff / public engagement frameworks, Impact assessment, Human resources policies.	2 ↓	2	4 ↓	Medium risk ↓	Adequate Control Assurance
5. Recession resulting from national or local problems, including closure of a major local employer	Inward investment marketing and promotion of North Lincolnshire, Skills & workforce plan, Local Development Framework Core Strategy, Housing Investment Board, Annual monitoring report, work clubs, Recession group, Engagement in work programme, Business support events, Future jobs fund, Urban and rural renaissance programmes, Settlement survey,	2 ↓	2	4	Medium risk ↓	Adequate Control Assurance
6*. Inadequate workforce planning and management to meet current and future needs	Integrated workforce and service planning, Employee Development Reviews, Competency framework, Succession planning, Gap analysis, Human resources framework policy and training, Skills shortage identified in annual workforce plans, Skills for life support officer, Data quality checks, Corporate training programme, Employee survey, Workforce projects form part of the transformation plan, Joint working (HR & Finance) on corporate workforce issues, Key workforce planning issues regularly monitored and identified through QPR process	1	2	2	Low Risk	Significant Control Assurance

7. Reduced financial settlement resulting in inadequate resources to meet identified needs	Good knowledge of workings of government grant system and information requirements, Access to database of funding sources and conditions; Grant claim protocol; Treasury strategy; Effective risk Management process, Effective VFM and procurement process, Counter fraud strategy & internal audit work, Strategic asset management group, Clearly defined budget process including robust estimates, adequate reserves, Budget monitoring given proper priority, Procedures for recording emergency spending under Government's Bellwin Scheme, Staffing resilience and training programme, Alignment of the strategic plan with budgets..	2 ↑	2	4 ↑	Medium risk ↑	Significant Control Assurance
8. Failure to meet the needs of disaffected communities	Strategic Planning framework, Public engagement framework, Press office, Diversity policy, Diversity officer and steering group, Partnership agreement SHREC, Multi faith partnership, Strategic partnership, Research information, Impact assessment.	2 ↓	2	4 ↓	Medium risk ↓	Adequate Control Assurance
9. Low levels of education attainment	High performing LA and CYPS, Monitoring and training, Learning Plan priorities International and IIE initiatives, 11-19 Strategy, Effective education Welfare service, Effective collaborative working via Childrens Trust Board, Childrens and Young Peoples Plan, Adoption of Ofsted recommendations, Effective consultation with schools,BSF project board.	2	2	4 ↔	Medium risk ↔	Adequate Control Assurance
10. Civil disorder	Business continuity planning, Emergency planning, Lobbying national government, Police/ Safer Neighbourhoods Partnership, Licensing powers/ Nitesafe, Multi-faith Partnership/ SHREC, Regeneration Strategy, Community cohesion networks, Marketing by key public bodies. Forward planning on communications	2	1	2 ↔	Low risk ↔	Adequate Control Assurance
11.* Serious breach of information integrity, confidentiality & availability and inaccurate data	Asset registers (physical and intellectual) IT Security Strategy, Information owners risk assessment, Training, Computer Room environmental monitoring and access controls, Network monitoring, Security Forum, Firewall, Virus checker, Escrow agreements, Back ups, Internal checks and controls (access controls/ password controls), Technical standards, Succession planning, External support contracts, Audit reviews, Business continuity plans/ disaster recovery, Insurance cover,	1	2	2	Low risk	Adequate Control Assurance
12. Inadequate response to legislation (including Health and Safety and Corporate Manslaughter)	Professional advice, Targeted training, Legal advice and representation, Monitoring Officer role, Insurance cover Business continuity plans, Risk assessments, Guidance through manuals and newsletters	1 ↓	2	2 ↓	Low risk ↓	Significant Control Assurance

13. Contamination and pollution	Contaminated Land Strategy & Air Quality Review & Assessment, Monitoring regime & updating & screening assessment, Partnership arrangements, Strategic risk management group, Professional competence and government guidelines, Robust risk assessment methodology, Humber Emergency Planning Service	2	1	2 ↔	Low risk ↔	Adequate Control Assurance
14. Inadequate emergency planning and business continuity arrangements to manage the impact of major events	Statutory and multi agency emergency plans & exercises, Tactical Emergency Planning Working Group, Business continuity plans & tests, Insurance, Partnerships including Police Fire Ambulance (Road safety partnership, Flood forum, Resilience forum) Corporate Safety procedures. Statutory regulations including planning regulations, Regional aid, Bellwin Scheme, Strategic risk management group	2	3	6 ↔	Medium/High risk ↔	Adequate Control Assurance
15. *Contract failure or significant supply chain failure	Procurement framework (Corporate Procurement Manual, Contract Procedure Rules), Procurement coordination and advice, Comprehensive Contracts register, Whistleblowing policy, Training, Financial appraisals, Business continuity, Contingency planning, Contract terms and conditions including remedies, Alcatel Standstill period Legal advice.	2	2	4	Medium risk	Adequate Control Assurance
16. Adverse reports from inspectors on corporate capability or whole services & bad media relations	Executive Management Team & Council Management Team meetings, Strategic performance information team, Performance monitoring and action planner, QPR, Performance Improvement Panel, Inspection guide & protocol, LSP performance group, Publication of best practice, Media relations and press office.	2 ↑	2	4 ↑	Medium risk ↑	Adequate Control Assurance
17. Breakdown of prudent financial management including treasury risks resulting in failure to achieve the medium term financial plan	Defined procedures – Finance manual, Internal controls, Internal and external audit, Risk Management, Counter fraud strategy - internal audit & benefit fraud team work Adequate reserves Treasury policy, Financial training programme, Clearly defined budget processes, Strong budget monitoring, Authorisation levels, Limits on transaction size and spread in treasury policy Insurance cover, Experienced staff, Professionally qualified in senior positions, Effective audit committee, Financial assessment of business partners, Staff resilience.	1	2	2 ↔	Low risk ↔	Significant Control Assurance
18*. Inadequate governance and financial probity arrangements	Training, Codes of Conduct for both Members and Officers, Member/ officer protocol, Financial Regulations and procedures HR policies & procedures, Decision making processes, Corporate Governance Code, Register of Interests & Gifts, Role of the Monitoring Officer, Counter fraud strategy, Budget monitoring, Analytical review, Authorisation procedures, Internal controls IA & EA work, Effective audit committee	1	2	2	Low risk	Significant Control Assurance

19.* Failure to provide statutorily required and customer focused services and inadequate service delivery planning to meet future needs	Policy tracker, Strategic frameworks, Service planning, Leadership development framework, SMT meetings, Engagement framework, Performance framework & QPR, Strengthened 3 year planning and budget process, Public relations	1	2	2	Low risk	Adequate Control Assurance
20.* Failure to deliver major projects and capital schemes	Capital strategy, Capital asset management plan, Capital scheme planning and prioritization, Project Leads, Project Boards, Strategic Asset Management Group, Clearly defined project plans, Contract procedure rules, Professional advice, Robust contract terms and conditions, Robust contract management Reporting and authorisation requirements, Contracts register, Project risk registers, Business continuity arrangements,	2	2	4	Medium risk	Adequate Control Assurance
21. *Failure of major partnerships	Partnership Framework Partnership governance toolkit, Quarterly Performance Reviews Internal Audit reviews, LSP sub groups focus on ambitions	3	1	3	Medium risk	Partial Control Assurance

*New risks

Arrows indicate change in evaluation

Key to evaluation

Significant Assurance	Controls are designed to support the council's corporate and service objectives and are consistently applied in the areas reviewed.
Adequate Assurance	There is generally a sound system of control designed to support the council's corporate and service objectives. However some improvements to the design or application of controls are required.
Partial Assurance	Weaknesses are identified in the design or inconsistent application of controls which put the achievement some of the council's corporate and service objectives at risk in the areas reviewed.
No Assurance	There are weaknesses in control, or consistent non-compliance which places corporate and service objectives at risk in the areas reviewed.