

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**INTERNAL AUDIT PLAN, STRATEGY AND TERMS OF REFERENCE 2010/2011**

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

- 1.1 To consider and approve the internal audit plan, the audit strategy and terms of reference for 2010/2011.
- 1.2 The key points in this report are as follows:
- A risk-based approach was adopted to compile the plan. This means work is prioritised to target high- risk areas and make the best use of resources available.
  - A Managed Audit approach is adopted with external audit. Work is planned in consultation with them to avoid duplication and that the benefit from audit resources in total is maximised.
  - The plan complies with best practice and CIPFA's Code of Audit Practice for Internal Audit 2006 (the Code)
  - Internal Audit's work is a key source of assurance to the Committee and supports the council's Governance Statement.

**2. BACKGROUND INFORMATION**

- 2.1 The Accounts and Audit Regulations 2003 (as amended) place responsibility with the council for ensuring:
- Financial management is adequate and effective
  - A sound system of internal control exists
  - Arrangements are in place for the management of risk.
- The Regulations also require that the council reviews the effectiveness of its system of internal control at least once a year and prepares an Annual Governance Statement.
- 2.2 Internal Audit plays a principal role in advising the council and in particular the Audit Committee that these arrangements are in place and operating properly. This assurance and formal opinion on the adequacy of the council's system of internal control is based on the work undertaken in delivering the audit strategy and plan.

- 2.3 An important role for the Audit Committee, as set out in the terms of reference, is to assist the council by providing independent assurance on the adequacy of internal control and governance arrangements throughout the council. In undertaking this role the Committee is responsible for:
- Approving (but not directing) Internal Audit's strategy
  - Approving the annual plan of audits
  - Monitoring progress on delivery of the plan and considering the internal control issues that arise from the work undertaken
  - Considering the assurance provided by the annual opinion report.
- 2.4 Internal Audit is a key part of the council's internal assurance and governance system. This report sets out the audit strategy and plan for delivering that strategy for 2010/2011. The strategy and plan are based upon fulfilling Internal Audit's terms of reference. The Code requires that the terms of reference are considered and reviewed on an annual basis. The terms of reference for Internal Audit have been reviewed and updated to reflect their role in monitoring the new anti money laundering policy including making appropriate police referrals if necessary. The reporting section has been updated to reflect the forward plan of Audit Committee reports and map of assurances. The revised terms of reference are attached in appendix A.
- 2.5 The audit strategy is attached in appendix B. It describes how the internal audit service will be delivered and developed in accordance with the terms of reference and how it links to the council's objectives and priorities. The strategy also contains a brief description of the types of audit work to be undertaken, resourcing implications and reporting and liaison arrangements. The audit strategy has also been updated to incorporate new anti money laundering arrangements and the development of reporting forward plan.
- 2.6 The audit strategy and plan is designed to meet the agreed objectives for Internal Audit. A key objective for Internal Audit is to provide members and officers with an independent and objective opinion on the adequacy of the control environment comprising risk management, internal control and governance, by evaluating that there are systems in place to meet the council's aims and objectives and safeguard against loss, waste or unexpected risk. Clearly compliance with the council's policies and procedures is also be evaluated and managers are alerted to control weaknesses or poor procedures that could result in loss or wastage and ultimately represent poor value for money.
- 2.7 Each year internal audit produces a plan of the work to be carried out. All the council's activities are considered and prioritised based on a risk assessment. The draft plan is discussed with EMT, Service Director Finance, all Service Directors and external audit. Progress in achieving

the plan and issues arising from audit work will be reported to this Committee throughout the year.

2.8 A risk-based approach was adopted to compile the plan. Audits are prioritised to target high- risk areas and make the best use of resources available. A number of key documents have been examined, namely:

- Annual assurance statements on the adequacy of internal control submitted for the Annual Governance Statement.
- Strategic Risk Register and position statements submitted by officers with lead responsibility for managing those risks.
- Operational risk registers
- Fraud risk assessment
- The council's strategic plan and service plans
- External audit reports.
- Benchmarking data - both locally and nationally.

CiPFA's Code of Audit Practice (the Code) has been considered to ensure professional standards are met.

2.9 The audit plan is designed to evaluate the controls in place to reduce high impact/high likelihood risks. These will include non-financial risks. The Code recommends an operational plan covering one year is prepared and regularly reviewed and updated to reflect new risks and changing circumstances. The plan for 2010/2011 is summarised in appendix C For the first time a separate counter fraud plan has been identified (appendix D) and regular updates will be provided on progress to provide members with clear assurance on the adequacy of counter fraud arrangements.

2.10 The plan is discussed with external audit as part of the Managed Audit approach. This ensures that no duplication of effort takes place and that the benefit from audit resources in total is maximised. This enables external audit to rely on internal audit's work (particularly on the main financial systems) and limit the time spent in these areas.

2.11 The annual report for 2009/2010 will be presented the Audit Committee in the summer and will contain a summary of the work undertaken and significant outcomes of audit reviews. The report will include an overall audit opinion on the adequacy of the internal control environment and provides an important source of assurance for the Audit Committee. The annual report is an important component of the Annual Governance Statement which is published with the council's accounts.

2.12 The internal audit plan for 2010/2011 comprises of an evaluation of:

- The council's approach to risk management.
- Key controls to reduce the impact of strategic risks.
- Key operational risk controls.

- The council's fundamental financial systems (as agreed with external audit).
- Anti fraud, theft and corruption measures.
- Performance management and data quality.
- Corporate Governance issues.
- Sources of assurance to support the Annual Governance Statement.

In addition key issues arising from audits completed in 2009/2010 are followed up to ensure appropriate action has been taken.

### **3. OPTIONS FOR CONSIDERATION**

- 3.1 The Committee is asked to consider whether the Internal Audit plan, strategy and terms of reference will provide sufficient assurance in 2010/2011. The Committee may ask questions and seek clarification as necessary. If it concludes that it does provide sufficient assurance the Committee is invited to approve the Internal Audit plan, strategy and terms of reference for 2010/2011.
- 3.2 The Committee may decide not to approve or amend the Internal Audit plan, strategy and terms of reference.

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

- 4.1 The Internal Audit Plan for 2010/2011 is designed to target high risk areas and provides Internal Audit with an appropriate mandate to deliver a robust audit opinion and provide this Committee with the assurance required. The plan, strategy and terms of reference comply with statutory requirements and professional guidance available. Members should ask sufficient questions to ensure Internal Audit coverage will provide sufficient assurance to fulfil their role as set out in the Committee's terms of reference.
- 4.2 The option set out in 3.2 represents an opportunity missed to receive an important source of assurance to assist the Committee to fulfil its role effectively.

### **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 Regulations 2003. 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 and risk management work, as components of the council's internal control framework are key sources of assurance to support the Annual Governance Statement. The risk management framework addresses all key risks the council may face. It promotes appropriate action to manage risks to an appropriate level.
- 6.3 A Diversity Impact Assessment has been completed. There are no diversity implications to report.

## **7. OUTCOMES OF CONSULTATION**

- 7.1 The council's external auditors support this approach. The plan was discussed with EMT, Service Directors and key finance staff and their comments were incorporated wherever possible.

## **8. RECOMMENDATIONS**

- 8.1 The Audit Committee should consider whether the Internal Audit plan, audit strategy and terms of reference for 2010/2011 will provide the Committee with sufficient level of assurance to fulfil its role.
- 8.2 The Audit Committee approves the Internal Audit plan, audit strategy and terms of reference for 2010/2011.

SERVICE DIRECTOR FINANCE

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

**INTERNAL AUDIT  
TERMS OF REFERENCE**

**1. Introduction**

1.1 In accordance with the Cipfa Code of Practice<sup>1</sup> this document sets out the purpose, authority and responsibility of Internal Audit. The requirement for an internal audit function is set out in the Accounts and Audit Regulations 2003 (as amended)<sup>2</sup> in that a relevant body 'must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices in relation to internal control'.

**2. Objectives**

2.1 Internal Audit is an assurance function and its primary objective is to –

- Provide an independent and objective opinion to the council (both Members and officers) on the control environment comprising risk management, control and governance, by evaluating its effectiveness in achieving the council's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of resources.

2.2 Particular objectives of Internal Audit are to –

- Provide assurance to the Audit Committee on the adequacy of the council's control environment
- Support the Service Director Finance to discharge the duties of the Section 151 Officer
- Provide advice and support to ensure an effective control environment is maintained
- Contribute to the achievement of corporate objectives including service delivery excellence by recommending improvements in control and performance
- Supports the development of effective arrangements to prevent and detect fraud and corruption and plays a key role in investigations into allegations of fraud, corruption and irregularity in accordance with the council's Anti-Fraud, Theft and Corruption Strategy.

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<sup>1</sup> Cipfa Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

<sup>2</sup> As amended by the Accounts and Audit (Amendment) (England) Regulations 2006

### 3. Scope

- 3.1 Internal Audit's remit covers the council's entire control environment, comprising of policies, procedures and systems in place to:
- Establish and monitor the achievement of the council's ambitions and priorities
  - Identify, evaluate and manage the risk to achieving the council's ambitions and priorities
  - Facilitate policy and decision-making
  - Ensure the economical, effective and efficient use of resources
  - Ensure compliance with established policies, procedures, laws and regulations
  - Safeguard the council's assets from loss including fraud or waste
  - Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

All systems will be included in the audit planning process and be considered for review, taking account of the assurance and monitoring arrangements in place and the assessment of risk.

- 3.2 The scope of Internal Audit is unrestricted and not confined to an examination of the council's financial records and systems. As well as undertaking the role of providing an independent appraisal of the adequacy and effectiveness of the controls operated by management and that value for money is being achieved, the Internal Audit Service may also provide consultancy services, subject to the availability of appropriate skills and resources. Such consultancy services may also encompass reviews of non-financial systems and provide assurance that value for money is achieved.
- 3.3 Internal Audit will also provide assurance on services provided on behalf of other organisations by the council.

### 4. Authority

- 4.1 The requirement for internal audit is set out in legislation. Section 151 of the Local Government Act 1972, requires that authorities '*make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs*'. The Accounts and Audit Regulations 2003 more specifically require that a '*relevant body shall maintain an adequate and effective system of internal audit of their accounting records and systems of internal control in accordance with proper practices in relation to internal control. Any officer or member of that body shall, if the body requires:*
- (a) *make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit; and*
  - (b) *supply the body with such information and explanation as that body considers necessary for that purpose.*

- 4.2 The council, through its Financial Regulations, has made the following arrangements
- The Service Director Finance shall maintain an adequate and effective audit of the council's accounts, financial procedures, corporate governance arrangements and other processes and policies.
  - For this purpose he or his authorised representative shall have right of access at all reasonable times to all property, accounts and records and shall be given such explanations as he deems necessary.
  - Service Directors shall immediately notify the Service Director Finance of any circumstances suggesting irregularity affecting the finances or property of the council who shall take such action as is deemed necessary.
- 4.3 Additionally, through contracts and service level agreements, Internal Audit also has the right of access to records, assets, personnel and premises of partners/ organisations in respect of the council's transactions.

## **5. Independence**

- 5.1 Internal Audit is an independent assurance function within the council and as such has direct access to senior management and Members as considered necessary. In extreme cases the Audit and Risk Manager can also report directly to the Audit Committee in her own name if necessary.
- 5.2 All audit staff will act with due professional care ensuring they are fair and objective, free from any conflicts of interest and abide by professional standards and guidelines as issued by relevant professional institutions and the Cipfa Code of Practice<sup>1</sup>. With the exception of the Audit and Risk Manager, audit staff will not, except in exceptional circumstances, undertake any non-audit duties. The Audit and Risk Manager will also be responsible for risk management, arranging insurance cover and managing insurance claims and reports to the Service Director Finance (s151). The deployment of work undertaken will ensure conflicts of interest do not arise and independence is maintained.
- 5.3 Internal Audit forms part of the Audit & Risk Management Section, within Finance Services.

## **6. Responsibilities**

- 6.1 In order to meet its objectives Internal Audit will –
- Maintain a strategy for delivering the internal audit service to meet these terms of reference including how the assurance for the Annual Governance Statement will be demonstrated, audit resources required and their allocation.
  - In discussion with stakeholders, prepare and deliver a risk based audit plan, taking account of the council's risk management processes. The

plan will be kept under review to reflect changing priorities and emerging risks.

- Plan, manage and carry out audits to ensure that they are undertaken with due professional care, to the standards set out in the Code of Practice<sup>1</sup> and internal operating procedures.
- Provide advice on internal control.
- Maintain good relationships with managers, partners, external audit and other external review agencies to minimise duplication of effort where there are overlaps in objectives and in work undertaken and to maximise the benefits of co-operation and co-ordination through a managed audit approach.
- Support the council's corporate group to review the effectiveness of the system of internal control and compilation of the Annual Governance Statement
- Provide an annual report including a statement, based on the work undertaken, on the adequacy of internal control within the council. This also informs the council's review of the Annual Governance Statement.
- Advise on the council's counter arrangements and strategy including potential money laundering referrals
- Lead or advise, as appropriate, investigations into allegations of fraud, corruption and irregularity in accordance with council procedures.
- Maintain and develop the competence and skills of audit staff including appropriate professional development.
- Ensure an effective and efficient service is provided to the council through performance management, monitoring, benchmarking and continuous improvement.

6.2 From 1 April 2006 The Accounts and Audit (Amendment) (England) Regulations 2006 require an annual review of the effectiveness of internal audit. This will be carried out in conjunction with the council's external auditors.

6.3 Managers, and not Internal Audit, have ultimate responsibility for ensuring that internal controls throughout the council are adequate and effective. This responsibility includes the duty to review continuously internal controls and ensure they remain suitable in design and effective in operation. The existence of Internal Audit does not diminish the responsibility of management to establish and maintain systems of internal control to ensure that activities are conducted in a secure, efficient and effective manner.

6.4 Managing the risk of fraud and corruption is also the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal audit does not have responsibility for prevention and detection of fraud and corruption, however audit staff will be alert in all their work to risks and exposures that could allow fraud or corruption to occur. The roles and responsibilities of management and Internal Audit in the investigation of allegations of fraud and corruption and potential money laundering referrals are set out in the council's Anti-Fraud, Theft and Corruption Strategy.

## **7. Audit Committee**

7.1 Internal Audit is an assurance function and therefore must report to those charged with Governance, (the Audit Committee). The Audit & Risk Manager or appointed deputy will attend all meetings of the Audit Committee.

7.2 In order for the Audit Committee to fulfil its responsibilities as defined by its terms of reference Internal Audit will provide the Audit Committee with the following assurance reports –

- Internal Audit Plan, Strategy and Terms of Reference
- Interim Reports on Progress against the Audit Plan
- Annual report and opinion on the overall adequacy and effectiveness of the council's internal control environment
- Annual report on the effectiveness of the Internal Audit service
- Annual Governance Statement
- Counter Fraud reports including regular reviews of the council's Anti Fraud, Theft and Corruption Strategy
- Implementation of external audit recommendations progress reports.

The timing of these reports is set out in the forward plan and map of assurances approved by the Committee in April 2010.

7.3 The Audit & Risk Manager will maintain an effective working relationship with the Audit Committee and assist the Committee in its own review of its remit and effectiveness. Where necessary the Audit & Risk Manager will have the opportunity to meet privately with the Audit Committee.

## **8. Reporting**

8.1 A report will be produced on each assignment (and fraud investigation) giving an opinion on the system of internal control under examination, making recommendations to improve control and where appropriate improve performance, productivity and value for money. Management responses are sought and follow up work on management action is undertaken as appropriate. However responsibility for the response to advice and recommendations of Internal Audit lies with management, who either accept and implement the advice or formally reject it.

8.2 Directors will receive a quarterly report on progress against the audit plan, key issues arising from audits and the adequacy of their Service manager's responses.

8.2 Audit advice and recommendations are given without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later date.

## **9. Resources**

- 9.1 Internal Audit resources will be kept under review to ensure the section can deliver the agreed audit plan and assurances required for the Annual Governance Statement. Appropriate specialist skills will be procured to assist an audit investigation, should these be required.
- 9.2 The Audit & Risk Manager and Service Director Finance would report formally to the Audit Committee if resources were inadequate to meet the objectives of the section.

**10. Review**

- 10.1 These terms of reference will be reviewed annually and any amendments will be submitted to the Audit Committee for approval.

24 March 2010

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**Internal Audit Service**  
**Audit Strategy and Plan 2010-2011**

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## **1. Introduction**

1.1 The audit strategy is a high-level statement of how the internal audit service will be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities.

1.2 A key objective is to provide adequate assurance that systems in place to deliver services are supported with adequate controls. Clearly we will also ensure the council's policies and procedures are being followed. We will alert managers to control weaknesses or poor procedures that could result in loss or wastage and ultimately represent poor value for money.

## **2. Audit Strategy**

2.1 Internal Audit delivers a statutory service and supports the chief financial officer in his duties under the provisions of the Local Government Act 1972 and the Accounts and Audit Regulations 2003 as follows:

### *Responsibility for financial management*

*4 – (1) The relevant body shall be responsible for ensuring that the financial management of that body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.*

### *Internal Audit*

*6 - A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices....*

## **2.2 Objectives and outcomes**

Internal Audit is an assurance function and its primary objective is to –

Provide an independent and objective opinion to the council (both Members and officers) on the control environment by evaluating its effectiveness in achieving the council's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of resources.

Particular objectives of Internal Audit are to –

- Provide assurance to the Audit Committee on the adequacy of the council's control environment
- Support the Head of Finance to discharge the duties of the Section 151 Officer <sup>1</sup>

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<sup>1</sup> Local Government Act 1972

- Provide advice and support to ensure an effective control environment is maintained
- Contribute to the achievement of corporate objectives including service delivery excellence by recommending improvements in control and performance
- Supports the development of effective arrangements to prevent and detect fraud and corruption and plays a key role in investigations into allegations of fraud, corruption and irregularity in accordance with the council's Anti-Fraud and Corruption Strategy.

The key aim is to deliver an audit plan which provides assurance to both Councillors and Officers that arrangements for internal control are adequate, there are systems in place to meet the council's aims and objectives and safeguard against loss, waste or unexpected risk. To do this it is important to provide adequate reassurance that, procedures and systems in place within each service area are fit for purpose and should assist managers to continue provide high quality services.

### **2.3 Audit opinion and annual Governance Statement**

Under the Accounts and Audit Regulations 2003 Internal Audit provide part of the assurance on the council's annual assurance statement and Governance Statement. The Section 151 Officer is therefore responsible for ensuring that the internal audit plans coverage is appropriate and sufficient to meet these obligations. Internal Audit's opinion forms part of the council's assurance framework and supports the Audit Committee's role including the approval of the Annual Governance Statement.

### **2.4 Identification and management of risks**

Internal Audit work, in addition to obtaining assurance for the council, aims to identify improvements to controls within service areas in order for managers and their teams to achieve their objectives and ultimately the council its ambitions. This forms part of the council's corporate governance framework and the effective management of risks that may prevent the achievement of the council's objectives.

A risk-based approach was adopted to compile the plan. This simply means we try to target high- risk areas and make the best use of resources available. The audit plan has been developed based on the results of the council's risk management process. A number of key documents have been examined, namely:

- Annual assurance statements on the adequacy of internal control submitted for the Governance Statement
- Strategic Risk register and position statements submitted by officers with lead responsibility for managing those risks
- Operational risk registers
- Fraud Risk Assessment
- Service plans
- Benchmarking data - both locally and nationally

- Professional guidance e.g. Audit Commission
- External audit and inspection recommendations.

These provided a good indication of key systems that may be worthy of examination. However it was also important to receive the views of Service Directors to get a better understanding of the key issues for all service areas.

## 2.5 **Service provision and resources**

The internal audit service is provided internally and the team is based at Pittwood House in Scunthorpe. The section is lead by Carol Andrews, Audit & Risk Manager (ext 6045).

Audits are carried out in accordance with professional standards and in compliance with the CIPFA Code of Practice for Internal Audit in the UK 2006. All staff are professionally trained, CCAB, AAT or IIA<sup>2</sup> and are encouraged to participate in continuous professional development. Additional training is identified through regular development appraisals, workforce planning and CIPFA training framework. Audit work is assigned based on experience and knowledge of the subject area. However independence is maintained including appropriate rotation of service area responsibilities and any pecuniary interests are registered. The auditor will exercise a reasonable level of skill, care and diligence in his/her work and will at all times seek to comply with the council's policies and procedures.

## 3. **The Audit Plan 2010-2011**

3.1 The audit plan is designed to evaluate the controls in place to reduce high impact/high likelihood risks. These will include non-financial risks. The plan for 2010-2011 will be reviewed regularly to accommodate emerging risks and changing circumstances. Individual audits may be added, substituted or postponed by agreement between the Service Director and Internal Audit.

3.2 The audit plan 2010-2011 includes the following types of audits:

### **Risk Management and Performance Management**

The council's risk management arrangements are audited each year. Strategic risk and operational risk registers are reviewed to ensure key controls are adequately managed. Sources of reassurance available from independent inspections, third parties and other systems such as performance management are mapped and evaluated. Arrangements for identifying and managing emerging risks are also examined.

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<sup>2</sup> Consultative Committee of Accounting Bodies – includes Chartered Institute of Public Sector Accountancy (CIPFA), Association of Certified Accountants (ACCA), Chartered Institute of Management Accountants (CIMA)  
Association of Accounting Technicians (AAT)  
Institute of Internal Auditors (IIA)

### **Corporate Governance and Council-wide Audits**

In recognition of the increasing importance of Corporate Governance in Local Government the council's arrangements will be examined to provide assurance to the Audit Committee and senior management. In addition a number of council-wide audits (such as partnership arrangements) will be undertaken this year, based on the strategic importance to the council.

### **Governance Statement**

Some audits included in the audit plan will provide assurance to the Audit Committee and inform the council's annual Governance Statement (such as budgetary control). Service Directors also provide an annual statement on the adequacy of internal controls within their service area.

### **Fundamental Financial Systems**

Each year all major financial systems (as agreed with external audit) are reviewed. These include payroll, accounting system, creditors, debtors, council tax and NNDR collection, council tax and housing benefits, treasury management, asset management and CareFirst. The outcome of this work is reviewed and considered by external audit as part of their final accounts work and provide an important source of assurance to the Audit Committee to fulfil their role in approving the council's accounts.

### **Review of Significant Systems**

This work will review the procedures and operations, which represent a strategic control and in key operational risk areas. Examples are human resources policies and services to vulnerable clients. The work will determine whether they can be relied upon to generate accurate results, expected outcomes and to bring errors or frauds to the attention of the service management. Value for money issues will be examined as appropriate.

Any serious systems deficiencies will be reported to the Service Director and service manager upon their discovery.

### **Fraud and Irregularity Work**

Managing the risk of fraud and corruption is the responsibility of management. Internal audit does not have responsibility for the prevention and detection of fraud and corruption, however audit staff will be alert in all their work to risks and exposures that could allow fraud and corruption to occur. Both preventative and reactive anti fraud and corruption work is included in the audit plan based on the council's exposure profile and risk assessment. Internal Audit will draw any instances of fraud or irregularity to the attention of the service manager immediately upon discovery arising out of the audit work. Investigation work will be undertaken in consultation with the service manager in line with the council's fraud response plan.

Internal Audit will support the development of effective arrangements to prevent and detect fraud and corruption. Work on national initiatives such as data matching and whistle blowing facilities will support the council's commitment to preventing fraud and corruption. A dedicated whistle blowers' telephone and email facility is available. All calls received are fully investigated and appropriate action is taken.

Contacts are telephone (01724) 296666 / email [hotline@northlincs.gov.uk](mailto:hotline@northlincs.gov.uk) and referral form.

The Anti Fraud, Theft and Corruption Strategy was reviewed and updated during 2009. In important addition was the introduction of an Anti Money Laundering Policy. This includes a referral system of potential cases via Internal Audit.

### **Computer Audit**

Assurance will be provided to managers on the control and security aspects of new, existing and modified systems of computer-based applications. CIPFA computer audit guidelines will be used as standard. Business continuity and disaster recovering arrangements are also evaluated.

### **Contracts Audit**

Systems relating to the award of contracts, management and control of work done and monitoring of payments will be examined as appropriate. Significant contractual arrangements such as the Highways Strategic Alliance and major projects such as BSF, Waste Management etc., will be examined and assurance will be provided that the council's procedures have been applied and contracts provide the best value for money for the council.

### **Consultancy /Additional work**

In addition to the work outlined above Internal Audit can provide consultancy work and financial advice on request. Based on good practice the plan contains around 10% contingency to meet any unexpected work requirements or changes to resources during the year.

## **4. Responsibilities**

### **4.1 Reporting**

Internal Audit is an assurance function and therefore must report to those charged with Governance. The Audit Committee will receive as a minimum, the following assurance reports:

- Internal Audit Strategy, Terms of Reference and Plan
- Interim Reports on Progress against the Audit Plan
- Counter Fraud reports

- Progress on the implementation of external audit recommendations
- Annual report and opinion on the overall adequacy and effectiveness of the council's internal control environment
- Annual report on the effectiveness of the Internal Audit service
- Annual Governance Statement.

Further reporting arrangements are established through consultation with Service Directors. Within one month of the completion of the audit work, a report will be submitted to the nominated officer, which will:

- identify the features of the system in question and its method of operation
- identify the controls necessary for such a system
- evaluate actual controls as operated against those deemed to be necessary
- test the controls as operated
- make recommendations for amendments or improvements as necessary
- identify value for money opportunities as necessary
- identify agreed procedures for action

In addition the system in question will be recorded, documented and flow-charted (where appropriate) for audit purposes.

#### 4.2 **Service Managers' Responsibilities**

Internal Audit require access at all reasonable times to all persons, property, accounts and records and provided with explanations by the service staff as are requested. Normally notice is given of audit visits and a mutually convenient date is agreed following consultation with service managers. However in rare and exceptional circumstances Internal Audit can conduct audits without prior notice.

Reasonable accommodation and facilities will be provided during the audit. Wherever possible the audit will be conducted with minimum disruption to staff and service delivery. This depends on the co-operation of service staff and any difficulties will be referred to the Service Director to intervene.

Recommendations for improvements to control and service delivery will be made and developed into an action plan to be agreed with appropriate service managers. The risks and consequences of any actions not agreed will be highlighted in the audit report. Follow up

work will be carried out as necessary to ensure satisfactory implementation of significant audit recommendations.

Service managers will inform Internal Audit, as soon as possible, of all suspected or discovered fraud.

Procedures to be audited must be documented or known to service staff and records must be up to date prior to the audit. It is not the responsibility of Internal Audit to set up procedures where none exist or to bring records into an auditable state as part of the audit. Assistance with the setting up of systems will, however, be given at the request of service managers.

Service Managers will at all times comply with council policy, the Finance Manual, Financial Regulations, Contract Standing Orders, IT directives with regard to security, and all relevant legislation.

Any information acquired by either party in the course of providing audit services will be treated as confidential unless otherwise stated. Reasonable steps will be taken by both parties to protect such confidentiality, and to minimise the disclosure of such information to any unauthorised person.

Service managers will consider all relevant reports issued by the council's external auditor and by the Audit Commission, and report the action taken to the appropriate cabinet member.

#### **4.3 Liaison with external audit**

Audits are planned and will continue to be delivered through a managed audit approach. Internal Audit will liaise with the council's external auditors to ensure no duplication of work takes place and our work can be relied on to fulfil their statutory duties. Information regarding internal audit work will be supplied to external audit at their request.

#### **4.4 Service Delivery Standards**

All audit work will act with due professional care, free from bias and in line with professional standards and guidelines, in particular the CIPFA Code of Practice for Internal Audit 2006.

All audit work is quality controlled to ensure standards are maintained. Quality standards are set and monitored for the section and reported each month.

#### **5. External Endorsement**

The council's external auditors carry out an evaluation of the internal audit's work. This forms part of the internal control assessment, which is reported to the Audit Committee in the Annual Audit and Inspection Letter and Governance Report. The evaluation includes the quality of

work produced and adherence with professional standards as set out in the Code of Practice. The review concluded that all CIPFA standards were met and External Audit can place reliance on Internal Audit's work.

6. **Customer Satisfaction Questionnaires**

It is important to receive feedback on our work. Questionnaires are issued with each system review and establishment audit. Service managers are asked to comment on their satisfaction and added value received from the audit work. All comments are appreciated and used to improve our service delivery.

In addition an annual survey was sent to all Service Directors for comment on the adequacy of the service received and suggestions for areas of improvement.

**Appendix C**

<b>Audit Area</b>	<b>Planned Days</b>	<b>Audit Areas</b>
Fundamental Financial Systems	175	Fundamental financial systems as agreed with external audit are: Payroll, Creditors, Debtors, Cash Receipting, Main Accounting Ledger, Council Tax and Housing Benefits, Council Tax, NNDR, Treasury Management, Fixed Asset Register, CareFirst
CAA work	25	Use of resources meetings, self assessment, interviews, monitoring etc.
Annual Governance Statement and Audit Committee work	25	In year monitoring and compilation of the Statement Preparing reports and Committee attendance
Corporate Governance	27	In year monitoring and advice. Evaluation of council arrangements against best practice standards. Revision of the council's Code of Corporate Governance
Risk Management	45	In year monitoring and advice. Strategic Risk Management work. Annual review of risk management arrangements, strategic and key operational risk controls
Performance Management	33	Performance, Data Quality
IT Audit	109	Change Control, Physical & Environment Controls, Inventory, Internet/email Controls, Network Management and Control, Disaster Recovery and Business Continuity
Contract Audit	75	Contracts, Highways Alliance, IT procurement, Adults – Commissioning and Procurement
Fraud Prevention and Detection	130	Whistleblowers Hotline, National Fraud Initiative (Data Matching), Money Laundering, Income audits – Car Parking, Bereavement Services, Golf clubs

<b>Audit Area</b>	<b>Planned Days</b>	<b>Audit Areas</b>
Environ-mental Audits	13	Audit of the council's approach to environmental issues e.g EMAS, sustainability, mechanisms to record and reduce the environmental footprint
Council-wide Systems	131	Partnership Arrangements, Local Area Agreement, Budgetary Control , Grant Claims, Diversity, Impact Assessments, New Legislation, Worksmart
Adult Social Care Services	86	Mental Health Services, Single Assessment Process, Pooled Budgets, Transport. Safeguarding Adults, Older People, Long Term Conditions, Assessment & Support Planning, Transformation Agenda, Client Reviews, Grants to Voluntary Bodies
Children & Family Services	80	Children's Centres, Integrated Youth Support Service, Policies for the Protection of Children, Children's Trust, Capita One & SIMS, Contact Point
Education Learning & Achievement	488	School Audits, Financial Management Standards in Schools, Building Schools for the Future, CRB Checks, Music Support, Bilingual Support, Training 16-19 years, Youth Service Financial Systems
Finance – Other	25	Financial Regulations, Insurance, Taxation
Highways & Planning	30	Transport, Emergency Planning,
Human Resources	110	Training & Development, Re-deployment Policy, Special Leave, Workforce Planning, Driver Document Checks, Pay policy, Recruitment and Selection, Disciplinary Procedures, Delegated Powers, Professional Personnel system
Legal & Democratic Services	55	Councillors Allowances, Delegated Powers, Democratic Services, Legal Services, Data Protection & Freedom of Information
Neighbourhood &	100	Document Imaging, Area Teams, Homelessness, Use of Servitor, Fleet

Environment		Management, Disabled Facilities Grants, Neighbourhood Enforcement Team
<b>Audit Area</b>	<b>Planned Days</b>	<b>Audit Areas</b>
Strategic Regeneration	38	Bidding Process, Bees Knees, South Humber Bank project, Lincolnshire Lakes project
Asset Management and Culture (excluding IT)	30	Maintenance of Buildings, Commercial Buildings, Out of hours calls/ Security Centre, Professional Fees and Charges, Disabled Access, Asbestos Management, Management of Standing Lists, Markets, Traveller Service Liaison, Leisure Grants
Community Planning and Resources	56	Consultation and Engagement, Customer Services, Public Relations & Communications, LSP, Adult Education
Consultancy, Advice	181	Advice and unplanned work as requested
Other	90	Follow up work. Audit plan and performance monitoring and reporting
<b>TOTAL</b>	<b>2157</b>	

**Appendix D**

<b>Audit Area</b>	<b>Planned Days</b>	<b>Purpose</b>
<b>Creating and maintaining the anti fraud culture</b>		
Publicity, raising staff awareness, responding to survey results, carrying out training	10	Continued development of counter fraud arrangements, promotional and awareness raising activities, refresh to risk assessments.
Refreshing the strategy and risk assessment	5	Maintain a strategy that is fit for purpose and in line with best practice
Setting up a reporting mechanism and joined up working with all sections	5	Ensure co-operation across all departments to be able to accurately assess fraud risk for the council
<b>Prevention</b>		
Designing out fraud through input to service changes	10	Advice in areas where changes to systems are proposed – e.g.cheque printing in 2009/10 and ePayments, e revenues and ebenefits
<b>Deterrence</b>		
Fraud Newsletter and council wide communications	10	Publication of a quartely newsletter and issue of alerts and council wide communications
<b>Detection</b>		
Data Matching - NFI	10	Audit assistance in the annual exercise of data matching. In 2010/11 council tax matches and data submission for 2011/12 full exercise

Anti-fraud, Theft & Corruption - Hotline	20	Audit response to allegations received via the Whistleblowers' Hotline
Money laundering	5	Monitoring policy and set up client identification checks with services
<b>Investigation</b>		
Proactive - Misuse of council funds and assets	15	Rolling programme of audits – including misuse of the internet for 2010/2011
Proactive Investigation high risk income collection areas	30	Targeted audits based on a risk assessment of income collection
Proactive - development of IDEA	10	Interrogation software. To be used in internal data matching and to develop exception reports for further investigation
Reactive investigations	As required	Approximately 85 days based on previous years
<b>Totals</b>	<b>130</b>	