

NORTH LINCOLNSHIRE COUNCIL

AUDIT SUB-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. 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 2011/12 audit plan year.

2. BACKGROUND INFORMATION

- 2.1 Completion of the Internal Audit Plan is a key target for the section therefore progress is monitored and reported regularly to this Sub-Committee. The latest position is provided in appendix A. Overall there is adequate plan cover and there will be a sufficient level of completed planned work to provide an opinion on the adequacy of the control environment. Any audits that are deferred to next year's plan will not compromise Internal Audit's ability to provide its opinion to the Sub-Committee. Planned work has been reprioritised due to reduced resources and the impact of unforeseen work. Some reviews have also been postponed for the time being in agreement with the client due to changes in systems/procedures.
- 2.2 Additional temporary cover has been secured to offset some of the shortfall in resources through increased hours of part time staff over a planned period and a secondment placement from one of the accountancy teams until the end of September. A structural review of the Audit, Risk Management and Insurance section is planned to consider the level and mix of resource necessary to meet the future needs of the council in these disciplines.
- 2.3 Internal control arrangements are evaluated in each audit review and most reports issued this year so far have included recommendations to improve controls. Findings have been reported to the Sub-Committee by exception and systems that were evaluated as having good control arrangements in place (providing significant assurance) as well as those evaluated as providing no assurance have been previously reported to Members – there are no further instances to report.

- 2.4 Overall 67% of recommendations retested between April 2011 and February 2012 have been successfully fully implemented. This compares with 69% in 2010/11. Further analysis shows that the implementation rate is lower in schools (63%). We consider this is in part due to changes in personnel or systems operated in schools and/or lapses in procedures. We will continue to liaise with schools to try to embed the requirement to fully comply with council procedures and audit recommendations.
- 2.5 Internal Audit continues to focus on the delivery of a programme of proactive counter fraud work, including development activity and awareness raising, as well as involvement in a significant number of reactive investigations. Given the volume and nature of referrals and success of proactive fraud detection reviews the allocation set aside in the 2011/12 Audit Plan of 165 days has been exceeded and currently amounts to 278 days. An update of the counter fraud plan is provided in appendix B.

Proactive

- 2.6 Proactive counter fraud work has included the review of the timesheet payments; leave policies and income collection. In addition work is continuing to refresh fraud and related policies and procedures. Audit work on duplicate payments was reported in January 2012 and through the use of data matching software and other tools this identified a number of potential overpayments and a confirmed overpayment of £11k so far. The National Fraud Initiative (NFI) data matching exercise has identified savings in excess of £183k so far and further matches were released late February and are currently being investigated.

Reactive

In addition to ongoing investigations into cases started in 2010/11 Internal Audit has been made aware of 35 new cases of potential fraud and irregularity so far in 2011/12. These have been investigated by officers within the service or in conjunction with HR colleagues and/or the police. Key themes in the period are similar to the previous quarter and include the following:

- Inappropriate use of internet and email during working hours
- Poor stock control and sales figures
- Inappropriate use of council assets
- Attempt to fraudulently divert a creditor payment (external source)
- Potential cloning of credit cards used to pay for council services.

3 OPTIONS FOR CONSIDERATION

- 3.1 The Sub-Committee is asked to consider whether or not this update provides sufficient assurance on the adequacy of internal control arrangements. The Sub-Committee is invited to consider the report and seek clarification on its contents as necessary.

- 3.2 If the Sub-Committee considers that the report does not provide sufficient assurance on the adequacy of internal control arrangements further clarification may be sought and appropriate action considered.

4. ANALYSIS OF OPTIONS

- 4.1 The progress report updates the Sub-Committee on key internal control issues. It also complies with statutory requirements and professional guidance available and is designed to provide the Sub-Committee with the assurance required.
- 4.2 The option set out in paragraph 3.2 indicates an opportunity missed to provide an important source of assurance to assist the Sub-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 Directors and key staff at all stages of audit work and comments made are incorporated wherever possible.

8. **RECOMMENDATION**

- 8.1 The Audit Sub-Committee should consider whether the Internal Audit progress report provides a sufficient level of assurance on the adequacy of internal control arrangements.

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Background Papers used in the preparation of this report
Internal Audit Plan 2011/12

Appendix A

Audit Areas	Audit Reviews Completed During 2011/12		Audits potentially deferred or cancelled
	Planned	Unplanned	
Fundamental Financial Systems	<ul style="list-style-type: none"> • Payroll (10/11 completed 11/12 in progress) • Creditors (10/11 completed 11/12 in progress) • Debtors (10/11 completed 11/12 in progress) • Cash Receipting (10/11 completed 11/12 in progress) • Main Accounting Ledger (10/11 completed 11/12 in progress) • Council Tax and Housing Benefits (10/11 completed 11/12 in progress) • Local Taxation (10/11 completed 11/12 in progress) • Treasury Management (10/11 completed 11/12 in progress) • Asset Management (10/11 completed 11/12 in progress) • CareFirst (10/11 completed 11/12 in progress) • Benefits Subsidy testing (completed) 	<ul style="list-style-type: none"> • Pensions Assurance (completed) • Asset Management IFRS work (completed) 	
Annual Governance Statement	<ul style="list-style-type: none"> • In year monitoring and compilation of the Statement 		
Corporate management	<ul style="list-style-type: none"> • Preparing reports and Audit Committee attendance 		
Corporate Governance	<ul style="list-style-type: none"> • In year monitoring and advice. Evaluation of council arrangements against best practice standards. Revision of the council's Code of Corporate Governance (in progress) 		
Risk Management	<ul style="list-style-type: none"> • In year monitoring and advice, Strategic Risk Management Group work. Annual review of risk management arrangements, strategic and key operational controls. (in progress) 		
IT Audit	<ul style="list-style-type: none"> • Remote access/wireless (in progress) • Telephone system (completed) • Operating Systems (completed) • Service desk and incident reporting (completed) 		<ul style="list-style-type: none"> • IT charging Policy (postponed due to policy development) • Virtualisation (project cancelled) • Network

Audit Areas	Audit Reviews Completed During 2011/12		Audits potentially deferred or cancelled
	Planned	Unplanned	
	<ul style="list-style-type: none"> IT Governance (in progress) Government Connect (in progress) Disaster recovery (completed) 		Management(deferred due to system changes)
Contract Audit	<ul style="list-style-type: none"> Contracts C&YP (in progress) Highways Alliance (2010/11 completed) Adults – Commissioning and Procurement (in progress) 		<ul style="list-style-type: none"> Highways Alliance (delay in completing previous years audit)
Fraud Prevention and Detection	<ul style="list-style-type: none"> Responding to cases received via Whistleblowers Hotline and email (in progress) Publicity/ training/ updating the counter fraud strategy Income audits - leisure facilities (in progress), golf clubs (completed), bereavement services (completed), Leisure Timesheet management (completed) Direct Payments (in progress) Transparency reporting (completed) Debit cards (completed) 	<ul style="list-style-type: none"> CarPlan Analysis (completed) Overtime Analysis (completed) Creditors Analysis (10/11 completed 11/12 in progress) Extended National Fraud Initiative (Data Matching) (in progress) Imprest spot checks (completed) NFI council tax matches (in progress) 	
Council-wide Systems	<ul style="list-style-type: none"> Partnership Arrangements (in progress) Budgetary Control (in progress) Worksmart (completed) Environmental issues - CRC Energy Efficiency Scheme Return & evidence pack (completed) New legislation (Bribery Act) (10/11 completed, 11/12 in progress) Grant Claims (completed) 		<ul style="list-style-type: none"> Project Management (deferred to complete corporate system)
Adult Social Care Services	<ul style="list-style-type: none"> Assessment and Review (completed) Homecare (completed) Budgetary control (in progress) 		

Audit Areas	Audit Reviews Completed During 2011/12		Audits potentially deferred or cancelled
	Planned	Unplanned	
	<ul style="list-style-type: none"> • Receiverships (in progress) • Safeguarding adults (completed) 		
Children & Young People Services	<ul style="list-style-type: none"> • Budgetary control (completed) • Policies for the Protection of Children(in progress) • Building Schools for the Future • Early Years (completed) • Children in care (in progress) • Schools admissions (completed) • CRB/ Safer recruitment (completed) • Transport (in progress) • School Audits (in progress) • Capita one & SIMS (in progress) • Training 16- 19 years (10/11 completed, 11/12 in progress) • Audit & Review Team (completed) 	<ul style="list-style-type: none"> • 2 school follow ups (FG & SF) • Play capital grant certification 	<ul style="list-style-type: none"> • Child Protection (deferred due to availability of key staff) • Integrated youth support (deferred due to service developments) • External funding (larger regeneration projects reviewed) • Riddings Infant and Junior Schools (deferred due to federation of schools) • Grange Lane Infants (deferred due to sickness of business manager)
Finance – Other	<ul style="list-style-type: none"> • EIncome (in progress) • Debit Cards (completed) • Taxation (completed) • Financial Regs and CPRs (completed) 	<ul style="list-style-type: none"> • X Code income collection • Compensation payments (final accounts work) • Bacs NNDR/Ctax refunds project 	<ul style="list-style-type: none"> • External funding (larger regeneration projects reviewed & Regional Growth Fund scheduled for 2012/13)
Infrastructure (excluding IT)	<ul style="list-style-type: none"> • Highways Maintenance (in progress) • Project Management (completed) • Post project review (completed) • Budgetary control (in progress) • 		<ul style="list-style-type: none"> • Contract management (postponed due to re prioritisation of work) • Building control (postponed due to re prioritisation of work)
Neighbourhood & Environment	<ul style="list-style-type: none"> • Schools catering (completed) • Health Improvement (in progress) • Licensing (completed) 		<ul style="list-style-type: none"> • Contaminated land (deferred at request of service – DEFRA funding application)
Strategic Regeneration	<ul style="list-style-type: none"> • Business start up loans administration (in progress) • South Humber Bank (completed) • Lincolnshire Lakes (completed) 		

Audit Areas	Audit Reviews Completed During 2011/12		Audits potentially deferred or cancelled
	Planned	Unplanned	
	<ul style="list-style-type: none"> • Area Renaissance (in progress) • Leader Programme (in progress) 		
Community Planning and Resources	<ul style="list-style-type: none"> • Adult Education (in progress) • Data Protection and Freedom of Information Legislation (completed) • Elections and electoral registration (completed) • Sickness policy (completed) • Leave policies (completed) • Working time directive and flexible working (in progress) • Compensation for termination of employment (completed) • Councillors' allowances (in progress) 		<ul style="list-style-type: none"> • Democratic services & Scrutiny (assurance provided in corporate governance review) • Library and information services (review of information management strategy in 2012/13) • Safer Neighbourhoods (deferred until 2012/13 some assurance provided in review of partnerships) • Revisions to Professional Personnel System (assurance provided through payroll validations) • Legal services (child protection) (deferred due to availability of key staff) • Registrars –Tell us once (deferred at the request of service due to relocation)

In addition to the above resources were deployed on :

- Advice /irregularity work
- Follow up work
- Audit plan performance monitoring and reporting

Internal Audit Plan 2011/12 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	5	A publicity campaign has included PC screensavers, leaflets, posters and payslip inserts. An eLearning training package on the Bribery Act has been run and a further package covering the counter fraud strategy and anti money laundering is being developed to be supported with a new desktop campaign.
Counter Fraud Strategy/risk assessments	Keeping the strategy current, and ensuring risk assessments are up to date	5	The risk assessments were updated to reflect latest alerts, a separate Bribery risk Assessment has been produced. The Strategy has been amended and A counter Fraud eLearning package is being developed.
Joint reporting	Ensure co-operation across all departments to be able to accurately assess fraud risk for the council	5	Joint working protocols are in place with the HR and the police, both have been refreshed during the year. Information sharing is in place with other councils via the Unitary Authority Groups. Joint working with other public sector organisations such as North Lincolnshire homes is being considered.
Prevention			
Designing out fraud	Advice in areas where changes to systems are proposed	10	Audit have supported the revenues BACS refund project currently on hold. A review of the new e-Income system is also underway. Audit provide support and advice as part of system changes and the wider worksmart project on an ad hoc basis.
Deterrence			
Fraud Newsletter and Council Wide Communications	Publication of a quarterly newsletter and issue of alerts and council wide communications	5	The newsletter is now a regular item with articles covering current national and local anti fraud topics. Other departments across the council such as Benefits, Trading Standards and Insurance have provided articles. The police have also provided an article on local frauds. North Lincolnshire Homes have indicated that they would like to utilise the publication to joint benefit.
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	30	The 2010/11 exercise has been significant with extra match reports being added throughout the year. Savings to date are in excess of £183k. The council tax and electoral registration data was submitted in December and results were received in February 2012. These matches are being investigated in conjunction with the current Experian exercise taking place in Local Taxation. Controls in place to prevent benefit payments being made to individuals who are not the registered tenant in NLH properties have been evaluated. Tenancy checks have now been included in the NFI exercise.
Hotline	Audit response to allegations received via the hotline	30	There continues to be 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	0	A council wide eLearning package that will include a summary of the council's anti fraud arrangements is being developed. Targeted

			eLearning training for those staff in high risk areas is also being developed.
Investigation			
Proactive – misuse of council funds audits	Rolling programme of audits of potential misuse of council funds.	15	Internet use is now monitored via exception reports, followed up by further investigation if necessary. A regular review of transparency reports has also been introduced. A timesheet audit has been concluded which identified only minor issues. A review of leave policies highlighted errors in calculation and administration of part time staff and those working compressed hours in one directorate.
Proactive – investigation of high risk income collection areas	Income based audits (5 sites)	50	Audits of high risk income collection sites have taken place during the year. Poor controls were found in the systems for bereavement services income and the imprest at one establishment. Improvement to controls were agreed.
Proactive – development of IDEA software	To identify areas where software can be used to detect and investigate fraud	10	IDEA training was provided and a duplicate creditor exercise to compliment the NFI exercise was carried out. Savings in excess of £11k were identified on 11/12 data. A similar exercise has taken places and potential duplicate invoices are currently being investigated.
Reactive Investigations		As required	