

**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 The satisfactory conclusion of the council's fundamental financial systems audits for 2008/09 was reported at the last meeting. Supplementary transactional testing required as a result of External Audit's audit of the Benefits subsidy claim was also completed by the due deadline for the claim. No issues were found that had a monetary impact on the claim and the extended testing showed a low level of data input errors given the volume of transactions involved. However stringent DWP requirements resulted in external audit qualifying the claim on data quality grounds, in common with many other local authorities. Fundamental financial systems audits for 2009/2010 are progressing well and will be completed earlier than in previous years to provide more opportunity to consider the findings and any potential impact on the Annual Governance Statement.
- 2.2 More detail has been provided in appendix A to this report. This shows audit plan progress and where resources have been deployed. Some adjustment has been necessary to reprioritize work in response to high sickness levels (including serious illness requiring hospitalization) and demands for unplanned work from service areas and as a result a small number of audits will be deferred to next years plan. Some audits were deferred to allow significant changes to be fully realized and evaluated e.g. new IT suite. Other audits have been deferred as either assurance is available from other sources or delay in completing the work does not compromise Internal Audit's ability to provide its opinion on the adequacy of the council's control environment.
- 2.3 Whilst recommendations have been made to improve controls as a result of the audit reviews there are no significant control weaknesses to be brought to the attention of the committee. Pockets of non

compliance with council policies were noted and reported to the Internal Programme Board and CMT to seek support for full compliance with council policies across all service areas.

- 2.4 Counter fraud work has always been an important feature in the audit plan. Resources have been identified for preventative work and a contingency for responsive work such as investigations. During 2009/2010 greater emphasis has been placed on counter fraud work in response to CIPFA and Audit Commission guidance and the increased risk of fraud across the public sector as a result of the recession. The council's counter fraud arrangements have been evaluated and strengthened and the Anti Fraud Theft and Corruption Strategy has been revised. Warning bulletins of new and emerging risks of fraud have been circulated and calls received via the whistleblowers' hotline or requests for audit investigations have increased. More details are provided in the counter fraud report elsewhere on this agenda.
- 2.5 There has been a better response from schools on the submission of Financial Management Standard in Schools (FMSiS) self assessments. The latest position is:
- All secondary schools (12); both special schools and 13 primary schools have valid certificates
  - A further 13 primary schools self assessments are currently or have been booked in for audit
  - The remaining 23 primary schools have provided dates for submission (22 by the deadline date 31/03/10; 1 during April 2010).
- 2.6 Response to audit recommendations is an area for improvement. All audit recommendations are appropriately followed up. Responses from some service managers are slow and non response is highlighted through quarterly reports to service directors. Retesting shows approximately 60% of audit recommendations are implemented although high risk areas receive closer attention. Additional efforts to ensure recommendations are implemented have had a positive effect and retest rates increased to over 70% during October and November. There has been a positive response by Asset Management and Culture senior officers to audit recommendations to improve cash handling procedures in leisure facilities following a number of small cash anomalies. All recommendations have been adequately addressed and monitoring arrangements have been introduced. A further check will be carried out by audit later in the year to ensure measures have been effective.
- 2.7 Internal Audit continues to perform well against the suite of performance indicators set each year. Performance is discussed each month at section meetings to ensure continuous improvement is achieved. Management of audit resources has been highlighted as an area for improvement however it is worth noting that allocation overspends are generally marginal and justified, nevertheless must be controlled to manage the overall impact on the audit plan. The latest reported in December 2009 are:

Target	2009-10 Target	Outcome in month	Last month	Year to date	Forecast 2009-10
Percentage recommendations agreed and implemented	60%	70.4%	70.1%	62.9%	60%
Adherence to professional standards	Positive annual review	n/a	n/a	n/a	Positive annual review
Satisfaction with internal audit service	80%	100%	100%	100%	80%
Timeliness of audit reports % audit reports produced within agreed timescales	70%	84.6%	83.3%	74.7%	70%
Management of audit resources % audit reports completed within the agreed allocation	70%	53.8%	41.7%	64.8%	70%
% audit reports reviewed within 10 working days	70%	84.6%	75%	86.8%	70%

Customer feedback continues to be positive and processes are benchmarked with neighbouring authorities to identify opportunities to improve. Further details and full year position will be presented to the Audit Committee through the Effectiveness of Internal Audit Report due in June 2010.

### 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 (Amendment)(England) Regulations 2006. 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.

SERVICE DIRECTOR FINANCE

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**Background Papers used in the preparation of this report**  
Internal Audit Plan 2009-2010

**Appendix A**

<b>Audit Area</b>	<b>Planned Days</b>	<b>Actual Days to 31/12/09</b>	<b>Work completed (✓) Work in Progress (WIP)</b>	<b>Comments</b>
Fundamental Financial Systems (Payroll, Creditors, Debtors, Cash Receipting, Main Accounting Ledger, Council Tax and Housing Benefits, Council Tax, NNDR, Treasury Management, Fixed Asset Register, CareFirst)	189	180	Fundamental financial systems reviews for 2008/09 plus queries and additional testing required completed satisfactorily (✓) WIP on all fundamental financial systems reviews for 2009/2010	All reviews will be completed earlier than in previous years to consider the findings and any potential impact on the Annual Governance Statement. There will be a resource impact due to the re profiling of this work
CAA work	10	10	Use of resources self assessment for 2008/09 (✓) Monitoring action plans for improvement for 2009/2010 (WIP). Liaison with external audit and process for 2009/2010 submission agreed (WIP)	Self assessment for 2009/2010 will be completed early March
Annual Governance Statement and Audit Committee work	25	15	In year monitoring and compilation of the Statement (WIP) Preparing reports and Committee attendance (WIP)	Forward plan and assurance map of reports has been introduced to assist the Committee. Reporting format has been strengthened.
Corporate Governance	33	13	In year monitoring and advice. Evaluation of council arrangements against best practice standards. Revision of the council's Code of Corporate Governance (WIP)	2009/2010 review nearing completion
Risk Management	50	33	In year monitoring and advice (WIP) Strategic Risk Management work (WIP)) Annual review of risk management arrangements, strategic and key operational risk controls completed for 2008/09 (✓) 2009 review of operational risk registers (84%) complete (WIP) 2009 review of strategic risk register position statements (WIP) Audit review of overall arrangements will take place in March	

Performance Management, Performance Review & Improvement Plans (Strategic Development)	35	6	Performance (Performance indicators) (WIP) Performance Management system (draft report)	Improvement Planning work to be assigned
IT Audit	131	78	Disaster Recovery and Back Ups (✓) IS/IT Strategy (✓) Budgetary Control (✓) Project Management Controls(WIP) Government Connect (WIP) Application Controls – (WIP)	Physical and Environmental Controls – deferred new computer suite to be evaluated Charging Policy – deferred to allow for new system to be embedded Overview and Governance (superseded by Government Connect work)
Contract Audit	67	6	Contracts (WIP) Highways Alliance (WIP)	IT procurement – deferred
Fraud Prevention and Detection	85	166	Whistleblowers Hotline (ongoing) National Fraud Initiative (Data Matching) (report drafted) Allowances - Direct Payments (WIP) Anti Money Laundering Policy and awareness raising (WIP) Fraud Risk profile reassessment (✓) Anti Fraud Theft and Corruption Strategy refresh (draft for approval) Home Improvement Loans (WIP) Licensing (WIP) Leisure Grants (✓) Income audits – Meals on Wheels (✓), Plowright Theatre (WIP), Car parking (✓)	
Environmental Audits	15	2		EMAS (Environmental Management Accreditation Scheme) – deferred due to long-term illness of lead officer
Council-wide Systems	147	56	Partnership Arrangements ( report drafted) Budgetary Control (report drafted) Grant Claims (report drafted)	Health and Safety – to be assigned New Legislation - to be assigned

			Local Area Agreement (WIP) Diversity (assigned but not yet started) Impact Assessment (assigned but not yet started)	
Adult Social Care Services	93	19	Learning Disability (✓) Safeguarding Adults (WIP) Lone working (WIP)	Mental Health Services – not yet started Single Assessment Process – deferred Pooled Budgets – not yet started Transport – not yet started
Children and young people	600	381	16 School Audits (✓), 4 Schools Audit (report drafted) 5 Schools Audit (WIP) 14 Financial Management Standards in Schools assessment completed , 10 assessments (report drafted), 2 assessments (WIP) Issues from schools (✓) Schools Balances (WIP) Budgetary Control (report drafted) Integrated Youth Support Service (WIP) Policies for the Protection of Children (WIP) Residential Care (report drafted)	Building Schools for the Future – work not yet assigned Maintenance of Schools – work not yet assigned Adult Ed. - work not yet assigned Children's Centres - work not yet assigned Children's Trust work - not yet assigned
Finance – Other	15	2	Insurance (WIP) Financial Regulations (WIP)	
Highways & Planning	15	16	Building Control(✓)	
Human Resources	50	23	Sickness Policy (✓) Casual and Agency staff (✓) Recruitment and Selection (assigned but not yet started)	Working Time Directive – deferred to enable the new policy to be evaluated Lone Working – not yet assigned
Legal & Democratic Services	40	19	Councillors Allowances (WIP) Delegated Powers (assigned but not yet started) Democratic Services(report drafted)	Civic Office – audit deferred
Neighbourhood & Environment	56	44	Catering (WIP) Budgetary Control (report drafted) Document Imaging (WIP)	
Strategic Regeneration	70	46	External Funding including Area Renaissance (✓) Strategic Housing (WIP) Investment and Marketing (✓) Bees Knees (WIP)	Spatial Planning –deferred
Asset Management and	101	51	Maintenance of Buildings(WIP)	Out of hours calls/ Security Centre

Culture (excluding IT)			Commercial Buildings (WIP) Asbestos Management (WIP) Management of Standing Lists (WIP) Markets (√) Policies for the protection of children (√)	– deferred Disabled Access - deferred Professional Fees and Charges – audit not yet assigned Traveller Service Liaison – deferred
Community Planning and Resources	46	28	Crime and Disorder Section17 (√) Council website (√) Consultation and Engagement (WIP) LPSA (WIP)	Homelink – deferred
Consultancy, Advice	191	202	Advice and unplanned work as requested including investigations	
Other	90	62	Follow up work. Audit plan and performance monitoring and reporting	
<b>TOTAL</b>	<b>2154</b>	<b>1458</b>		

Resources are expected to be sufficient to complete the prioritised audit plan.  
The section returned to full compliment in January as sickness levels improved  
The majority of annual leave and bank holidays have been taken