

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

INTERNAL AUDIT - ANNUAL REPORT 2011/12

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 This report provides an opinion on the adequacy and effectiveness of the council's internal control environment based upon work carried out by Internal Audit in accordance with the approved 2011/12 audit plan. This provides the Audit Committee with an important source of assurance when considering the Annual Governance Statement.
- 1.2 The Internal Audit Annual report complies with the CIPFA Code of Practice for Internal Audit in Local Government in the UK.

2. BACKGROUND INFORMATION

- 2.1 This report provides Internal Audit's formal opinion on the adequacy and effectiveness of the council's internal control systems based on the work of the Internal Audit Section during 2011/12. The report ensures compliance with the Code of Practice for Internal Audit in Local Government and provides evidence to support the council's Annual Governance Statement.
- 2.2 The requirement for Internal Audit is supported by statute in the Accounts and Audit (England) Regulations 2011 and the Local Government Act 1972. The Accounts and Audit Regulations state that a "relevant body shall maintain an adequate and effective internal audit of their accounting records and control systems." Each year the section provides an independent appraisal of internal control as a contribution to the proper economic, efficient and effective use of resources.
- 2.3 All audit work is risk assessed to ensure it is properly prioritised to target areas of highest risk. The audit plan for 2012/13 was approved by the Audit Sub-Committee in April and included review to appraise and review:
- The controls in place to manage the council's principal risks
 - The adequacy of the council's corporate governance arrangements

- The effectiveness of risk management and performance management arrangements
- The completeness, reliability and integrity of information, both financial and operational
- The systems established to ensure compliance with policies, plans and procedures, laws and regulations
- The means of safeguarding assets
- Counter fraud measures
- The economy, efficiency and effectiveness with which resources are employed.

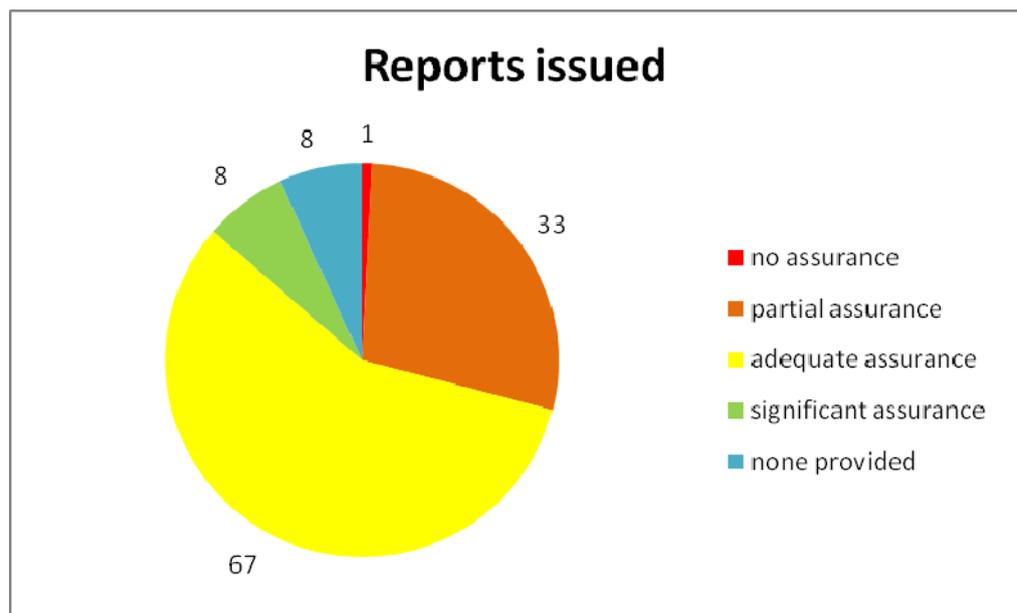
2.4 The audit plan is flexible to respond to changing circumstances and emerging risks and work is re prioritised accordingly. Revisions, updates on progress on achieving the plan and key issues arising from the work were considered by the Audit Sub-Committee at the September, January and March meetings. The 2011/12 audit plan contained 137 planned audit assignments of which 117 were substantially completed (all other audits were deferred). In addition 14 unforeseen audit assignments were completed. These are listed in appendix A. The level of audit coverage during the year is considered sufficient to be able to offer an opinion on the overall adequacy and effectiveness of the organisation's control environment. Notwithstanding that some of the planned reports for the year have yet to be finalised, the fieldwork for the outstanding reports has been completed, and there is nothing within the reports that would cause the overall opinion to change

2.5 An opinion on the level of adequacy of internal control is given on each audit to assist managers in assessing the level of reliance that can be reasonably placed on controls within systems and the coverage that they give against risk. The opinion given reflects the audit view of the appropriateness and effectiveness of controls in place and the associated compliance with those controls based on the audit work undertaken. The opinion is rated as follows:

Significant Assurance	The system of internal control is designed to support the council's corporate and service objectives and controls are consistently applied in all 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 is weakness in control, or consistent non-

compliance which places corporate and service objectives at risk in the areas reviewed.

2.6 Recommendations for improvements were identified and agreed with relevant service managers to implement. One significant control weakness was identified affecting the overall audit opinion; this relates to the CareFirst system (para 2.10 refers). In the majority of audits significant (8 audits) or adequate (67 audits) assurance could be provided that the system of internal control was effective. Information management controls concerning Data Protection and Freedom of Information arrangements were assessed as providing only partial assurance however significant effort has been made to implement the audit recommendations and further work is planned during 2012/13. Thirty three audits were assessed as providing partial assurance. The adequacy of internal control arrangements were evaluated as providing no assurance in 1 audit review. This relates to poor imprest account handling procedures in 1 establishment.



In all cases follow up work is scheduled to ensure internal control has improved.

2.7 Based on our knowledge of the council's systems and procedures, the extent of work undertaken by Internal Audit, and as a result of the responses to audit recommendations, the overall assessment is that Internal Audit can provide assurance that systems were adequate and internal control generally effective during 2011/12 except for the area identified in 2.10. It must be acknowledged that internal control systems are designed to manage rather than eliminate the risk of failure therefore this statement can only provide reasonable and not absolute assurance of the effectiveness of the system of control.

In reaching our opinion the following factors were taken into particular consideration:-

Risk Management

- 2.8 We can give adequate assurance that the system for managing risk within the council is sound. The risk management framework has developed over several years for example: the risk management strategy is regularly reviewed, risk registers are maintained and reviewed; training is in place for relevant staff and members; key business risks are being monitored and managed and reported to the Audit Committee. Further improvements necessary include clearer evidence that risks have been considered in some decision making reports and supported by completing an Integrated Impact Assessment; and improved monitoring of some partnership risk registers

The strategic risk register was reviewed and rationalized in January and a review of strategic risk controls is nearing completion. The evaluation of strategic risk controls was enhanced through the introduction of a definition of the adequacy of controls to give greater clarity to Members on the level of assurance provided.

Corporate Governance

- 2.9 Corporate governance review arrangements were assessed as providing adequate assurance. The council has procedures and policies in place to demonstrate good corporate governance. The audit concluded that no aspects of the 57 requirements are entirely unmet that make up the framework to achieve the core principles of the best practice framework.

The council's Annual Governance Statement (AGS) is reported elsewhere on this agenda. The AGS supports the findings of the audit review that governance arrangements are generally good. A number of opportunities for improvement have been identified.

Fundamental Systems

- 2.10 The effectiveness of controls within the fundamental financial systems (agreed with external audit) is assessed to provide assurance that the council's Statement of Accounts are based on accurate information and to provide assurance to the s151 Officer. External audit look to place reliance on our work wherever possible to minimise duplication of effort and maximise the overall audit resources available. In order to achieve this, the level of testing carried out complies with the Internal Audit/ External Audit protocol.
- The fundamental financial systems reviews identified the following levels of assurance:

Fundamental System	Assurance Level 2011/12	Assurance Level 2010/11
Payroll	Significant	Adequate
Creditors	Adequate	Adequate
Sundry Debtors	Adequate	Adequate
Local Taxation (Council Tax and NNDR)	Significant	Adequate
Council Tax and Housing Benefits	Adequate	Adequate
Accounting system (e Financials)	Significant	Adequate
Cash Receipting	Adequate	Adequate
Treasury Management	Significant	Significant
CareFirst (social service client database)	Partial	Adequate
Asset Management*	In progress	Adequate

*the review can only be finalised after year end procedures are completed

The Care First system was assessed as 'Partial' for the following reasons:

- The system is currently unsupported – this presents the risk of inadequate disaster recovery arrangements in the event of system failure.
- CareFirst is not compliant with the council's information security policy in respect of access and password controls.

However audit testing showed financial information generated was accurate and feeder system controls operated correctly, resulting in no material impact on the council's Statement of Accounts.

Work is ongoing on upgrading the system which should be completed by the autumn.

School Audits

- 2.11 Thirty one school audits were completed during 2011/12. This is significantly higher than the previous year when 13 audits were completed. The imbalance in the number of school audits completed each year was the result of rescheduling schools audits to meet Financial Management Standards in Schools (FMSiS) requirements. The audits showed that overall adequate assurance could be given on internal control arrangements although recommendations for improvements were identified at each school. There were no schools where no assurance could be given and there are 6 schools assessed with partial assurance. The majority of recommendations relate to compliance with council procedures in relation to procurement and financial administration, the most common recommendation is the failure to raise orders to support expenditure where necessary. Information is passed to key service officers to incorporate in newsletters and raise awareness through the schools forum of representative head teachers.

The Schools Financial Value Standard (SFVS) replaced Financial Management in Schools (FMSiS) and became operational from September 2011. All schools in North Lincolnshire achieved FMSiS accreditation with the exception of Hibaldstow Primary School which has now amalgamated with Scawby Primary School. SFVS self assessments are required for FMSiS accredited schools by 31 March 2013.

Counter fraud work

2.12 Internal audit provides the focus for the council's Counter Fraud Strategy. It promotes awareness across the council through individual assignments, control risk assessment questionnaires and fraud warning bulletins via the internal communication network. Each year proactive and reactive counter fraud work is identified within the audit plan and during 2011/12 the council's arrangements were reviewed and strengthened. Some of the work, previously reported to the Committee, includes:

- An update of the council fraud risk exposure profile for new and emerging risks
- An update of the Counter Fraud strategy
- Regular updates were provided on the separate counter fraud plan identified as part of the 2011/12 Internal Audit Plan to provide members with clear assurance on the adequacy of counter fraud arrangements
- Regular publicity on new and emerging risks of fraud through the quarterly counter fraud newsletter (Fraud Focus), posters and council wide communications.

In January Members received a report on the Audit Commission's annual fraud survey report – Protecting the Public Purse. This included recommendations for councils to improve arrangements and a checklist of best practice for 'those charged with governance' to consider. The Committee received good assurance on the adequacy of counter fraud arrangements as all recommendations had been implemented and counter fraud arrangements fully comply with best practice guidance.

2.13 Internal audit operates the council's dedicated telephone hotline, email address and web facility for whistle blowers. The details were re-advertised with the revised strategy and appear in each Fraud Focus. The total number of calls received during 2011/12 was 373, which is significantly higher than the total for 2010/11 of 221. This shows a good use of the facility. All referrals are either investigated by Internal Audit or information is passed on to the Benefits Fraud Team for investigation. Over £92k Council Tax or Housing Benefits overpayments were referred through the whistleblowers' hotline.

2.14 Thirty seven (7 led by HR) fraud and irregularity assignments were carried out during 2011/12. This is a decrease on the previous year (42 investigations). In all cases Internal Audit worked with service managers and Human Resources colleagues to ensure appropriate

action was taken and improvements to control issues were recommended. The investigations resulted in recommended improvements to cash handling; timesheet and annual leave checking and authorisation; use of equipment/stock/assets and petty cash monitoring. These figures also included 9 internal audit investigations of potential internet/email abuse. As a result of the investigations 4 staff were dismissed, 4 staff resigned and final written warnings were issued to 2 members of staff.

- 2.15 All recommendations are followed up to ensure there is an appropriate management response to audit reports. Generally appropriate action is taken however, if necessary, slow or inadequate action in response to audit recommendations is reported to relevant Directors through Internal Audit's quarterly reports. If necessary, cases of non-response would also be reported to the Audit Committee. There no examples of poor response to audit recommendations to report to the Committee.

Performance

- 2.16 The internal audit section constantly strives to improve the service they provide. The section also participates in national and local benchmarking exercises. Most performance targets were met for 2011/12. More details are provided in Internal Audit's effectiveness report elsewhere on this agenda.

3. OPTIONS FOR CONSIDERATION

- 3.1 The Committee is asked to consider whether Internal Audit's Annual Report provides sufficient assurance on the adequacy of the council's internal control environment in 2011/12. Members may wish to 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 Annual Report for 2011/12.
- 3.2 The Committee may decide not to approve Internal Audit's Annual Report for 2011/12.

4. ANALYSIS OF OPTIONS

- 4.1 The Internal Audit Annual Report 2011/12 complies with professional guidance available and is designed to provide this Committee with the assurance required. Members should ask sufficient questions to ensure the report provides 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 The work of the internal audit section enhances control over the use of the council's resources through the recommendations made in audit reports.

5.2 There are no additional staffing, property or IT implications

6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)

6.1 The requirement for an internal audit function is set out in the Accounts and Audit Regulations 2011. Internal audit will continue to assist the Chief Financial Officer discharge his statutory duty under the provisions of the Local Government Act 1972.

6.2 Internal audit's work is an important component of the Annual Governance Statement and promotes good corporate governance.

7. OUTCOMES OF CONSULTATION

7.1 Consultation takes place at all stages of audit work. It affects the scope of audit work undertaken, the risk assessment of audit work, audit practices and products. There is also feedback to individual staff forming part of their employee development review.

8. RECOMMENDATIONS

8.1 The Audit Committee should consider the assurance provided by the Internal Audit Annual Report for 2011/12 on the adequacy and effectiveness of the council's internal control environment.

8.2 The Audit Committee approves the Internal Audit Annual Report for 2011/12.

DIRECTOR OF POLICY AND RESOURCES

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Date: 31/5/12

**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 deferred or cancelled
	Planned	Unplanned	
Fundamental Financial Systems	<ul style="list-style-type: none"> • Payroll (10/11 & 11/12 completed) • Creditors (10/11 & 11/12 completed) • Debtors (10/11 & 11/12 completed) • Cash Receipting (10/11 & 11/12 completed) • Main Accounting Ledger (10/11 & 11/12 completed) • Council Tax and Housing Benefits (10/11 & 11/12 completed) • Local Taxation (10/11 & 11/12 completed) • Treasury Management (10/11 & 11/12 completed) • Asset Management (10/11 completed 11/12 in progress) • CareFirst (10/11 & 11/12 completed) • 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 (completed) 		
Risk Management	<ul style="list-style-type: none"> • In year monitoring and advice, Risk Management Group work. Annual review of risk management arrangements, strategic and key operational controls. (completed) 		
IT Audit	<ul style="list-style-type: none"> • Remote access/wireless (completed) • Telephone system (completed) • Operating Systems (completed) • Service desk and incident reporting (completed) • IT Governance (in progress) • Government Connect (completed) • Disaster recovery (completed) 		<ul style="list-style-type: none"> • IT charging Policy (postponed due to policy development) • Virtualisation (project cancelled) • Network Management(deferred due to system changes)

Audit Areas	Audit Reviews Completed During 2011/12		Audits deferred or cancelled
	Planned	Unplanned	
Contract Audit	<ul style="list-style-type: none"> Contracts C&YP (completed) 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 follow up completed) 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) Receiverships (completed) Safeguarding adults (completed) 		
Children & Young	<ul style="list-style-type: none"> Budgetary control (completed) 	<ul style="list-style-type: none"> 2 school follow ups 	<ul style="list-style-type: none"> Child Protection (deferred due

Audit Areas	Audit Reviews Completed During 2011/12		Audits deferred or cancelled
	Planned	Unplanned	
People Services	<ul style="list-style-type: none"> • 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 (comleted) • Audit & Review Team (completed) 	(FG & SF) <ul style="list-style-type: none"> • Play capital grant certification 	to availability of key staff) <ul style="list-style-type: none"> • 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"> • ElIncome (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 (completed) • Project Management (completed) • Post project review (completed) • Budgetary control (completed) 		<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 (icompleted) • South Humber Bank (completed) • Lincolnshire Lakes (completed) • Area Renaissance (completed) • Leader Programme (in progress) 		
Community Planning and Resources	<ul style="list-style-type: none"> • Adult Education (completed) 		<ul style="list-style-type: none"> • Democratic services & Scrutiny (assurance provided in

Audit Areas	Audit Reviews Completed During 2011/12		Audits deferred or cancelled
	Planned	Unplanned	
	<ul style="list-style-type: none"> • 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 (completed) • Compensation for termination of employment (completed) • Councillors' allowances (completed) 		<ul style="list-style-type: none"> • 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