

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 Members receive regular reports throughout the year to update them on important issues arising from Internal Audit's work. This provides an important source of assurance on the adequacy of internal control and governance arrangements and provides supporting evidence for the approval of the annual accounts and Governance Statement.
- 2.2 Resources have been depleted as a result of higher than anticipated levels of sickness. In particular one member of staff has been absent for over a month due to a serious illness requiring hospitalization and a second has been absent for two months following a serious accident to her young child. This is compounded during the summer months with high levels of annual leave taken.
- 2.3 A significant level of resources has been devoted to finalising Internal Audit's work on the council's fundamental financial systems following External Audit's review of this work and in response to issues arising from their audit of accounts work. No significant issues were highlighted and adequate assurance can be given across the financial systems. One area of work yet to be completed relates to supplementary transactional testing required as a result of External Audit's audit of the Benefits subsidy claim. The work will be completed by the end of October to meet the due deadline for the claim.
- 2.4 There has also been a focus on completing audit work carried forward from the 2008/09 audit plan. The following work has been completed:
 - The Risk Management audit report has been issued. This showed the council has well established arrangements in place to adequately manage risks. Areas for improvements identified were addressing small pockets of non compliance with these

arrangements (specifically in respect of reviewing operational risk registers and reviewing risks as part of service quarterly performance reviews).

- The Investment and Marketing review was issued. This showed adequate assurance could be provided in respect of the arrangements in place. Recommendations for improvements included the approval of the Marketing and Communication Plan and development of performance targets to measure achievement of the action plan; completion and approval of the Economic Regeneration Strategy; and the development of specific targets or framework for monitoring investments against outcomes.
- Two budgetary control reviews are nearing completion (Corporate system and Children's Services) and draft reports are being considered. Adequate assurance can be provided in each case and some areas of improvement have been highlighted.
- A review of sickness procedures is also nearing completion and the draft report is being considered. Further details will be provided when the work has been completed.

Six reviews are also in progress but have not yet been completed due to other resource pressures described in paragraphs 2.2, 2.3 and 2.5. The outcome of this work will be reported to the Committee on completion. Ten other audits are scheduled to be completed later in the year so that significant changes to procedures or controls can be fully evaluated. One audit (Strategic Housing) is yet to be started.

- 2.5 The level of unplanned work has also been high during the period. Several investigations have been carried out. More details are provided in the counter fraud report elsewhere on this agenda.
- 2.6 Slow progress continues on the submission of Financial Management Standard in Schools (FMSiS) self assessments. As at 10 September, 24 primary schools and both special schools have achieved FMSiS accreditation, 5 assessments are currently in progress and 37 primary schools are yet to submit their self assessments. Resources have been included in the 2009/2010 audit plan to cover the remaining submissions; however, as most schools do not provide advance warning, the timing of submissions may present audit resourcing problems and delay submission turnaround.

Children's Services Finance Team wrote to individual schools where accreditation was due by 31 March 2009. In addition the situation was also reported to the Schools Forum. Head Teachers indicated that they were aware of the FMSiS requirements.

- 2.7 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 65% of audit recommendations are implemented although high risk areas receive closer attention.

2.8 Internal Audit strives to provide an effective service on behalf of the council and looks for opportunities to improve arrangements wherever possible. Some recent examples are:

- The report format for internal audit reviews has been revised to provide clarity on the level of assurance that can be given following each audit. Action plans for improvement also incorporate the risks and implications of issues to be addressed.
- All reports are issued electronically (unless there is a specific need for a paper version). This reduces the section's printing/ consumables costs and carbon footprint as well as delivery time and costs. In addition to the report and questionnaire requesting feedback on the conduct of the audit a proforma follow up matrix is included for the service manager to complete.
- All service directors have been asked to complete a survey regarding the current service they receive; the level of assurance it provides and areas for improvement. The results will be reported to the Committee at a future meeting.

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

Pittwood House
Ashby Road
SCUNTHORPE
North Lincolnshire
DN16 1AB
Author: Carol Andrews
Date: 10 September 2009

Background Papers used in the preparation of this report

Internal Audit Plan 2009-2010