

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

INTERNAL AUDIT / RISK MANAGEMENT PROGRESS REPORT

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To inform members of key issues arising from Internal Audit and Risk Management work.
- 1.2 Regular reporting on Internal Audit and Risk Management 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 key Internal Audit and Risk Management issues. 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. Regular updates are also recognised as good practice through the Comprehensive Performance Assessment (CPA/CAA) Use of Resources criteria.
- 2.2 Significant work completed during this quarter includes the development of the 2009/2010 Internal Audit Plan and Risk Management Strategy and action plan. These documents are reported in more detail elsewhere on this agenda. The council's Anti Fraud, Theft and Corruption Strategy has also been reviewed and other counter fraud work completed (details of this work is also reported elsewhere on this agenda).
- 2.3 Audit reviews of the council's fundamental financial systems are nearing completion and the outcome will be reported in Internal Audit's Annual report in June. Progress has been made on internal control issues previously reported to in the 2007/2008 annual report. Namely:
 - Payroll /professional personnel validations are carried out more regularly – no significant overpayments have been highlighted
 - Authorised signatories lists are being reviewed and updated

- Progress is being made to address audit recommendations on IT controls. Follow up work shows that 94% of recommendations made have been fully or partially implemented or will be actioned through Government Connect requirements. Four of the recommendations not yet implemented are classified as high risk and urgent action or compensating control is being sought to address the issues raised. Internal Audit will continue to monitor progress on implementing audit recommendations.

2.4 All secondary schools have submitted Financial Management Standard in Schools self assessments; 2 require evaluation (Melior – delayed submission due date and Sir John Nelthorpe – resubmitted self assessment). Primary schools have not submitted their self assessments in accordance with the agreed timetable. Forty-four primary schools and special schools were due to submit their assessments during the two years ending on 31 March 2009. As at 7 April, 22 schools have submitted 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.

A return stating progress made as at 31 March 2009 will be sent to the DCSF after year-end. If the DCSF are not satisfied with progress, they may contact the council to discuss appropriate action. Children's Services Finance staff have written to individual schools where accreditation was due by 31 March 2009.

2.5 A follow up audit of governance arrangements for partnerships showed that the council's governance toolkit was being applied to all significant service partnerships to review and evaluate the adequacy of arrangements in place. Resources are included in the 2009/2010 audit plan to measure the impact of this work.

2.6 All audits are appropriately followed up and adequate responses have been received and there are no significant issues to report to the committee other than shown in paragraph 2.3.

2.7 Good progress has been made on implementing the External Audit review of Internal Audit action plan. Details will be provided as part of the review of effectiveness of Internal Audit and will be reported to the Committee in June.

2.8 The Risk Management Strategy and action plan 2009/2010 shows work carried out and progress made against the action plan for 2008/2009. An update to the January 2009 Strategic Risk Controls report is provided in appendix A. All strategic risk position statements have now been received and an update position statement for risk 'Serious breach of information integrity, confidentiality and availability' has been produced in response to improvements made to controls. The position statement relating to risk 9 'Low levels of educational attainment' which was missing from the January 2009 report has been recently submitted. In addition a

new strategic risk on 'Data Quality' has been approved by the Strategic Risk Management Group on 18 March and is included in the updated register shown in appendix A. Improvements in IT controls include the installation in uninterrupted power supply across all IT suites, cabinet approval of the IT Strategy, Information Security Policy Manual and Information Management Policy currently undergoing approval and a review of technical standards. This has resulted in a re evaluation in controls from red/ amber to amber and movement to satisfactory control mechanism.

- 2.9 The council's Use of Resources self-assessment has been evaluated against the new requirements for 2008/09. The self assessment highlighted adequate internal control arrangements in place and good risk management arrangements against recognised best practice. The outcome of external audit's evaluation will be reported back later in the year.

3 OPTIONS FOR CONSIDERATION

- 3.1 The Committee is asked to consider whether this update provides sufficient assurance on the adequacy of internal control and risk management arrangements detailed in this report and the progress of work intended to deliver that assurance. 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 and risk management arrangements detailed in this report and may seek further information in order to receive a satisfactory level of assurance.

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.

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 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.

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. The Strategic Risk Management Group is made up of representatives from all services and is therefore risk management outcomes are the result of a comprehensive consultation process.

8. RECOMMENDATIONS

- 8.1 The Audit Committee should consider the assurance provided by the Internal Audit/ Risk Management progress report on the adequacy of internal control and risk management arrangements.

SERVICE DIRECTOR FINANCE

Pittwood House
Ashby Road
SCUNTHORPE
North Lincolnshire
DN16 1AB
Author: Carol Andrews
Date: 20 March 2009

Background Papers used in the preparation of this report

Internal Audit Plan 2008-2009
Risk Management Strategy 2008-2009
Internal Audit Annual Report 2007-08

Appendix A

Risk	Controls	Likelihood	Impact	Risk Assessment	Risk Assessment (after application of controls)	Evaluation of controls	Comments
1. Adoption of priorities that do not meet national or local needs	Strategy Development Unit, Strategic Policy Analysis, Strategic Engagement Plan, Regular Leadership Team meetings Cabinet / CMT workshops, Strengthened 3 year planning and budget process Service QPRs	1	2	2	Low risk	Amber	Control mechanism - satisfactory
2. Failure of decision making process	Training, Quality advice, Scrutiny, Culture, Constitution, Standing Orders, Scheme of Delegation, CPA Improvement Planning Public Relations Function, Inspection, Audit, Full briefing of opposition, Risk Management in decision report. Role of Monitoring Officer	2	2	4	Medium risk	Green	Control mechanism - good
3. Inappropriate pace of innovation and modernisation	Leadership Team sessions, LGA/IDEA and other national events, best practice benchmarking, QPRs, dedicated project teams as required, effective strategic planning, CPA/CAA improvement planning, structured staff and member development, strategy development team and Performance Improvement Panel work.	1	2	2	Low risk	Green/ Amber	Control mechanism - Good/ satisfactory
4. Abrupt policy changes resulting from changed political leadership nationally and locally	Integrated 3 yr budget and strategic planning, Leadership/ cabinet member briefings / agenda meetings, SMT conferences and briefings, Public relations function, Staff / public engagement frameworks.	2	2	4	Medium risk	Amber	Control mechanism - satisfactory

5. Recession resulting from national or local problems, including closure of a major local employer	Inward investment marketing and promotion of North Lincolnshire, Skills strategy in partnership with the Learning Skills Council, Yorkshire Forward, local industry and higher education, Housing Employment Land Allocations development plan, Local Development Framework Core Strategy, Regeneration and Community Investment initiatives, Housing Investment Board	1	2	2	Low Risk	Green/ Amber	Control mechanism - Good/ satisfactory
6. Inability to recruit and retain key staff, effects of industrial action	Use of new and emerging recruitment methods, Quarterly monitoring reports, Mandatory training, Workforce planning, Salary supplements, Employee benefits, Liaison with schools and colleges, Leavers reviews and Points of View surveys, Good industrial relations, Mediation service, Consultation protocol, Joint Consultative Committees, Culture and communications group, Business continuity planning	1	2	2	Low Risk	Green	Control mechanism - good
7. Available resources inadequate to meet identified needs, e.g. from inability to access external funding	Effective external funding arrangements including knowledge of workings of government grant system and information requirements; External funding group and strategy; Access to database of funding sources and conditions; Grant claim protocol; Budget and Treasury guidelines; Risk Management process.	1	2	2	Low risk	Green	Control mechanism - good

8. Failure to meet the needs of disaffected communities	Strategic Planning framework, Public engagement framework, Good consultation/dialogue, Press office, Diversity policy, Diversity officer and steering group, Partnership agreement SHREC, Multi faith partnership, Strategic partnership.	2	2	4	Medium risk	Green/ Amber	Control mechanism - Good/satisfactory
9. Low levels of education attainment	High performing LA and LSC, Monitoring and training, Learning Plan priorities, International & IIE Initiatives, 11-19 Strategy, Education Welfare service, Collaborative working via Children's Trust Board, Children's and Young People's Plan, Eatly LA intervention.	2	2	4	Medium risk	Green	Control mechanism - Good
10. Civil disorder	Business continuity planning, Emergency planning, Lobbying national government, Police/ Safer Neighbourhoods Partnership, Public engagement processes, Licensing powers/ Nitesafe, Multi-faith Partnership/ SHREC, Regeneration Strategy, Community cohesion networks, Marketing by key public bodies.	2	1	2	Low risk	Amber	Control mechanism - satisfactory

11. Serious breach of information integrity, confidentiality & availability	Asset registers (physical and intellectual) IT security policy, Security risk assessment, Training, Computer Room environmental monitoring, Network monitoring, Security Forum, Firewall, Virus checker, Intruder detection, Escrow agreements, Back ups, Internal checks and controls, Audit reviews, Business continuity plans & Disaster recovery Uninterrupted power supply, Lightning conductors, Generators, Equipment replacement policy, Insurance cover	2	2	4	Medium risk	Amber	Control mechanism - satisfactory
12. Inadequate response to legislation	Professional advice, Subscription to legal information providers and attendance at approved seminars, Training, Networking, Access to expert advice through partnership agreement, role of Monitoring Officer, Complaints procedures	2	2	4	Medium risk	Green	Control mechanism - good
13. Contamination and pollution	Humber emergency planning, Monitoring and screening assessment, Routine inspection and testing, Contaminated land strategy, Air quality review, Partnerships.	2	1	2	Low risk	Green/Amber	Control mechanism – Good/ satisfactory
14. Major events severe weather, flooding, flu pandemic etc	Statutory and multi agency emergency plans & exercises, Business continuity plans & tests, Insurance, Partnerships including Police Fire Ambulance (Road safety partnership, Flood forum, Resilience forum) Corporate Safety procedures. Statutory regulations including planning regulations, Regional aid, Bellwin Scheme	2	3	6	Medium/ High risk	Green/ Amber	Control mechanism - Good/ satisfactory

15. Failure of a major partner, supplier, contractor or other public sector body	Procurement framework (Corporate Procurement Manual, Contract Procedure Rules), Procurement coordination and advice, Comprehensive Contracts register, Whistleblowing policy, Training, Financial appraisals, Business continuity, Contingency planning, Contract terms and conditions including remedies, Alcatel Standstill period, Partnership governance arrangements including toolkit, Internal Audit, Legal advice.	1	2	2	Low risk	Amber	Control mechanism - satisfactory
16. Adverse reports from inspectorates on corporate capability or whole services & bad media relations	EMT & CMT meetings, Strategic performance team, Performance monitoring and action planner, QPR, PIP, Internal/external audit, Benchmarking, Inspection guide & protocol, LSP performance group. Media relations and press office.	1	2	2	Low risk	Amber	Control mechanism - satisfactory
17. Breakdown of prudent financial management including Treasury risks	Defined procedures, Internal controls, Internal and external audit, Risk Management, Adequate reserves Treasury guidelines, Training, Quality & quality staff, Clearly defined budget processes, Strong budget monitoring, Authorisation levels, Insurance cover.	1	2	2	Low risk	Green	Control mechanism - good
18. Inappropriate officer and member relationships/ conduct	Training, Codes of Conduct for both Members and Officers, Member/ officer protocol, Policies Procedures, Decision making processes, Corp Governance Code, Register of Interests, Role of the Monitoring Officer, Expert advice available from the Standards Board.	2	2	4	Medium risk	Green	Control mechanism - good

19. Breach of Health & Safety Legislation, good Practice and Duty of Care	Qualified and trained staff, Risk Assessment system, Mandatory training for new managers, Internal communication network and newsletters, Effective working relationship with HSE, Legal advice and representation, Insurance cover, BCP, Professional advice and standards.	1	2	2	Low risk	Green	Control mechanism - good
20. Data Quality	Data Quality Protocol, Performance Management Framework and system, Performance Working Group, Regular Internal Audits of Data Quality, Programme of Indicator Audits, Partnership Information Sharing Protocol, Process Mapping, Agreements with third-party suppliers, Verification Form, Monitoring of Definition Changes, Service Data Quality Champions, Quarterly Performance Reviews, Data Benchmarking, Audit Committee, Annual Governance Statement, Corporate QPR/scrutiny	1	2	2	Low risk	Green/ Amber	Control mechanism – good/ satisfactory