

Report of the: Director of Policy and
Resources

Agenda
Item No: 9
Meeting: 24 June 2014

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

INTERNAL AUDIT - ANNUAL REPORT 2013/14

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 2013/14 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 Public Sector Internal Audit Standards (PSIAS).

2. BACKGROUND INFORMATION

- 2.1 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.
- 2.2 All audit work is risk assessed to ensure it is properly prioritised to target areas of highest risk. The annual audit plan is approved by the Audit Committee in April. 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 2013/14 plan and key issues arising from the work were considered by the Audit Committee at the September, January and April meetings. The 2013/14 audit plan contained 134 planned audit assignments of which 107 were substantially completed and 14 were in progress at year end (all other audits were deferred or cancelled). In addition 21 unplanned audit assignments were

completed and a further two were in progress. 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 audits for the year have yet to be finalised, the fieldwork for these audits has not raised any findings that would cause the overall opinion to change

- 2.3 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 was rated as follows during 2013/14:

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 of 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.

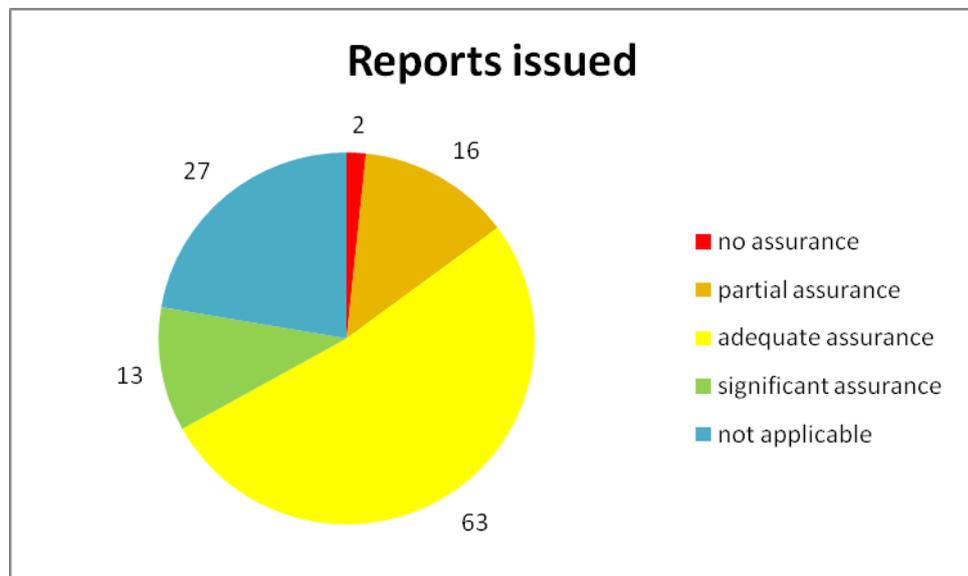
- 2.4 The opinion classifications have been revised for 2014/15 based on feedback from clients. The classifications are now: Significant Assurance, Satisfactory Assurance, Limited Assurance and No Assurance. The definitions remain unchanged.

- 2.5 Recommendations for improvements were identified and agreed with relevant service managers to implement. In the majority of audits issued (81% of audits where an assurance level was applicable) significant (13 audits) or adequate (63 audits) assurance could be provided that the system of internal control was effective. Aspects of eight key systems were assessed as providing only partial assurance:

- Audit follow up work on partnership governance arrangements did not demonstrate improvement in controls and the assurance level remains as partial. A full audit will be carried out in 2014/15.
- Four audits relating to IT were assessed as providing partial assurance: disaster recovery and business continuity, email and Internet controls, security of mobile devices and project management controls. A follow up audit of IT disaster recovery arrangements is planned to evaluate progress with ongoing works to improve resilience.
- Flood risk management, arrangements for gifts and hospitality and pecuniary interests and data quality management checks were also assessed as providing partial assurance. A full audit of data management checks on system data is planned.

Further details have been reported to previous meetings of this Committee. It is important to note that partial assurance means that some controls were confirmed as working well; however, there are some gaps or weaknesses in controls that require improvement.

Eight other areas were assessed as providing partial assurance (17% partial assurance in total). Two audit areas (2%) were assessed as providing no assurance on the adequacy of internal control arrangements; however, these related to time recording in specific service areas and improvements to controls have been confirmed.



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

- 2.6 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 2013/14. 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

- 2.7 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. There has been improvement in the supporting evidence that risks have been considered in decision making reports through the completion of Integrated Impact Assessments, though further improvement is required. Work is on-going to confirm risk owners, implement monitoring arrangements for newly created KPIs and ensure new managers have completed training. The strategic risks were reviewed during the year and approved by this Committee in January 2014.

Corporate Governance

- 2.8 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 58 requirements to achieve the core principles of the best practice framework are entirely unmet.

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

- 2.9 The effectiveness of controls within the fundamental financial systems 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 2013/14	Assurance Level 2012/13	Assurance Level 2011/12
Payroll	Adequate	Adequate	Significant
Creditors	Adequate	Significant	Adequate
Sundry Debtors	Adequate	Adequate	Adequate
Local Taxation (Council Tax and NNDR)	Significant	Significant	Significant
Council Tax and Housing Benefits	Significant	Adequate	Adequate
Accounting system (e Financials)	Significant	Significant	Significant
Cash Receipting	Adequate	Adequate	Adequate
Treasury Management	Significant	Significant	Significant
CareFirst (social service client database)	Adequate	Partial	Partial
Asset Management*	In progress	Assurance provided by external audit work	Adequate

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

Improvements have been made to the CareFirst system to raise assurance from partial to adequate. Access controls have been strengthened, improving compliance with the council's information security policy.

School Audits

2.10 Thirteen school audits were completed during 2013/14. This is lower than the previous year when 21 audits were completed; reducing numbers are partially due to conversions to academy. As with other audit reviews, there will be greater intervals between the reviews as a result of reducing resources. Schools Financial Value Standard (SFVS) self assessments were required for all schools by 31 March 2013. The audits for all 13 schools showed that overall adequate assurance could be given on

internal control arrangements although recommendations for improvements were identified at each school. 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 promptly 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 governors and head teachers.

Counter fraud work

2.11 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 2013/14 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, including an update to the Whistle Blowers' Charter to reflect the provisions of the Enterprise and Regulatory Reform Act
- Regular updates were provided on the separate counter fraud plan identified as part of the 2013/14 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 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.

2.12 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 number of referrals received during 2013/14 was 363, which is an increase from the total for 2012/13 of 297. This shows a good use of the facility. This increase may be partially due to the hotline number being quoted prominently on housing benefit and council tax notification letters. In addition, the number of misdirected calls increased significantly from

the previous year: 282 in 2013/14 compared to 81 in 2012/13, often relating to queries prompted by the letters. All referrals are either investigated by Internal Audit or information is passed on to the Benefits Fraud Team for investigation. Over £42k Council Tax or Housing Benefits overpayments were referred through the whistleblowers' hotline.

- 2.13 There was a similar number of new investigations during 2013/14 (35 cases; 21 lead by audit) compared to 2012/13 (36 cases). In addition internal audit completed 7 investigations reported in the previous year. 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; mileage claims, timesheet, overtime and flexi time checking and authorisation; use of equipment/stock/assets and data access. These figures also included 9 new internal audit investigations of potential internet/email abuse; one member of staff was investigated twice. As a result of the investigations completed in 2013/14, 3 staff were dismissed, 7 staff resigned and disciplinary warnings were issued to 9 members of staff, including 5 instances of management counselling.
- 2.14 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.

Savings

- 2.15 In some cases audit reviews highlight savings that can be made by the council. During 2013/14 audit work identified £181k savings. Adult income reviews highlighted £169k, NFI investigations identified £4k in duplicate payments and other investigations identified £8k. In addition, the Whistleblowers' fraud hotline calls provided savings of £42k relating to benefit/council tax.

Performance

- 2.16 An assessment of the requirements set out in CIPFA's PSIAS and Local Government Application Note showed internal audit to be broadly compliant with the Standards. The internal audit section constantly strives to improve the service they provide and has a quality assurance and improvement programme (QAIP) as required by PSIAS which includes national and local benchmarking results. All performance targets were met for 2013/14, other than the number of agreed

recommendations implemented in schools. More details are provided in Internal Audit's effectiveness report elsewhere on this agenda and should be considered in conjunction with this report.

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 2013/14. 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 2013/14.

3.2 The Committee may decide not to approve Internal Audit's Annual Report for 2013/14.

4. ANALYSIS OF OPTIONS

4.1 The Internal Audit Annual Report 2013/14 complies with professional guidance available and is designed to provide this Committee with the assurance required.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1 Internal audit recommendations enhance internal control over the use of the council's resources.

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

6.1 An Integrated Impact Assessment is not required.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

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.

7.2 There are no conflicts of interests to declare.

8. RECOMMENDATIONS

- 8.1 That the Audit Committee considers the assurance provided by the Internal Audit Annual Report for 2013/14 on the adequacy and effectiveness of the council's internal control environment.
- 8.2 That the Audit Committee approves the Internal Audit Annual Report for 2013/14.

DIRECTOR OF POLICY AND RESOURCES

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Background Papers used in the preparation of this report: None

Appendix A

Audit Areas	Audit Reviews Completed During 2013/14		
	Planned	Unplanned	Deferred
Fundamental Financial Systems	<ul style="list-style-type: none"> • All 2012/13 fundamental audits completed (see Asset Management) • Payroll (draft report) • Creditors (draft report) • Debtors (draft report) • Income Receipting (completed) • Main Accounting Ledger (draft report) • Council Tax and Housing Benefits (in progress) • Local Taxation (completed) • Treasury Management (completed) • Asset Management (in progress incorporating External Audit work) • CareFirst (draft report) • Benefits Subsidy testing (completed) 	<ul style="list-style-type: none"> • TLMS (leisure income system) (completed) • CareFirst – follow up (completed) • Implementation of new income receipting system (draft report) 	
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) • Revised Governance Arrangements – authorisations (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. (2012/13 completed – 2013/14 in progress) 		

Audit Areas	Audit Reviews Completed During 2013/14		
	Planned	Unplanned	Deferred
IT Audit	<ul style="list-style-type: none"> • I S / I T Strategy (completed) • Disaster Recovery and Business Continuity (completed) • Government Connect (completed) • Project Management Controls (draft report) • IT Charging Policy (in progress) • Remote Access – follow up (completed) • Internet/ E Mail Controls – follow up (completed) • Security of Mobile Devices (completed) • Procurement of IT (completed) 		<ul style="list-style-type: none"> • Change Control (new servicedesk system currently being implemented, which will include a change control module)
Contract Audit	<ul style="list-style-type: none"> • Commissioning – e auctions (draft report) 		
Fraud Prevention and Detection	<ul style="list-style-type: none"> • Responding to cases received via Whistleblowers Hotline and email (on going) • Publicity/ training/ updating the counter fraud strategy (completed for 2014/15) • Income audits - Building Control (completed), Commercial Property (completed), Fresh Start (completed), Search Fees (completed), Normanby Hall (completed), Waters Edge (completed) • Data Matching - NFI/IDEA (complete for 2013/14 matches received for 2014/15) 	Procurement fraud review of expenditure (in progress) Card fraud NAFN Alert (completed)	

Audit Areas	Audit Reviews Completed During 2013/14		
	Planned	Unplanned	Deferred
Council-wide Systems	<ul style="list-style-type: none"> • Performance Management (completed) • Data Quality (2012/13 & 2013/14 completed) • Environmental Issues - CRC Energy Efficiency Scheme Return & evidence pack (completed) • Partnerships (completed) • New Legislation - Localism (completed) • Budgetary Control (in progress) • Data Protection and FOI (completed) • Social Media (completed) • Income and Corporate Charging Policy (draft report) • Information Governance – NHS self-assessment framework (completed) • Public Health Responsibilities – Get Going Programme (completed) & National Child Measurement Programme (in progress) • Self Service Portal (in progress) • Payment Card Industry – Data Security Standard (in progress) • 	<ul style="list-style-type: none"> • Information governance framework (completed) 	<ul style="list-style-type: none"> • Integrated Impact Assessments– (assurance obtained through risk management work) • Information Governance – Records Management _new procedures currently being implemented following participation in a national project)
People – Adult Services	<ul style="list-style-type: none"> • Safeguarding Adults (completed) • Assessment of Care (in progress) • External Residential Care (in progress) • Adult Income Procedures – follow up (complete) • Financial Assessment and Review - follow up (complete) • Personal budgets – follow up (complete) 	Adult Budget issues (draft report)	
People – Specialist	<ul style="list-style-type: none"> • Child protection - compliance with Public Law (completed) • Children in care – foster care (completed) • Allegation Management Policy (in progress) • Youth Offending Team (completed) • Imprest accounts <ul style="list-style-type: none"> - The Groves (completed) - St Hughs (completed) - St Lukes (completed) - Cambridge House (completed) 		

Audit Areas	Audit Reviews Completed During 2013/14		
	Planned	Unplanned	Deferred
People – School Improvement	<ul style="list-style-type: none"> • Issues from School Audits (draft report) • Schools audits (all site visits completed) • Alternatives to Schools Education (completed) • Education Welfare (Fines) (completed) 	<ul style="list-style-type: none"> • Procurement declaration (completed) • SFVS assurance (completed) • St Hughs school fund (completed) • Winterton school fund (completed) • Brumby Junior school fund (completed) • Burton Stather school fund (completed) • Willoughby Road school fund (completed) 	<ul style="list-style-type: none"> • St Hughs school deferred due to sickness at the school
People – Commissioning and Localities	<ul style="list-style-type: none"> • Budgetary Control (in progress) • Maintenance of School Buildings (draft report) • Integrated Youth Support (Grants) (in progress) • Troubled Families Programme (completed) 	<ul style="list-style-type: none"> • Supporting people commissioning (in progress) 	<ul style="list-style-type: none"> • Personal Budget Calculation (delayed until 2014/15 plan at clients request)
Policy & Resources - Finance	<ul style="list-style-type: none"> • Bank Account Changes (completed) • Finance Manual, Regs. & S.O.s – Procedures for updating Finance Manual (completed) • Car Plan (completed) • Efficiencies (completed) • Welfare Reforms (draft report) • Pensions assurance (completed) • CT discounts/ NNDR reliefs and appeals - budget implications (draft report) 	<ul style="list-style-type: none"> • Exemptions from e-procurement orders (draft report) • Use of security firms (completed) 	<ul style="list-style-type: none"> • LT&B Shared Service Governance Arrangements (assurance obtained through NELC's review)
Policy & Resources - Human Resources	<ul style="list-style-type: none"> • Casual & Agency workers (completed) • Professional Personnel System (completed) • Training and Development (completed) • Pay Policy/ Allowances & Supplements (completed) • Disciplinary Procedures (completed) 		
Policy & Resources - Legal Services	<ul style="list-style-type: none"> • Councillors' Allowances (completed) • Legal services – Child Protection (completed) • Gifts and Hospitality / Pecuniary Interests Procedures (completed) • Private Law Cases (completed) • RIPA (completed) • VCS Funding (in progress) 		

Audit Areas	Audit Reviews Completed During 2013/14		
	Planned	Unplanned	Deferred
Policy and Resources – Business Support	<ul style="list-style-type: none"> • PANNEL (completed) 		
Places – Customer Services	<ul style="list-style-type: none"> • Transport – Concessionary fares (completed) • Complaints (completed) • Community Grants (completed) 	Church Square House Imprest (completed)	<ul style="list-style-type: none"> • Contract Management – Leisure (unable to resource. Other work completed in Leisure Services – TLMS)
Places – Technical & Environment	<ul style="list-style-type: none"> • Contaminated Land (completed) • Home improvements & disabled adaptations –follow up (completed) • Countryside Stewardship (in progress) • Emergency Planning and Business Continuity (completed) • Homelessness (draft report) • Civica AP Document/ Imaging System (completed) 	Grant work – Contaminated land (completed)	<ul style="list-style-type: none"> • Safer Neighbourhoods (unable to resource)
Places – Planning and Regeneration	<ul style="list-style-type: none"> • Economic Development (completed) • BDUK Project (ongoing) • Regional Growth Grant (completed) • Bees Knees (availability records examined prior to winding up of NLD) 	Planning & Regeneration Imprest (completed)	<ul style="list-style-type: none"> • Procurement framework (due deferred tendering) • Advance Crosby (housing development to be undertaken by Guinness Northern Counties) • Development Control (unable to resource)
Places- Community Services	<ul style="list-style-type: none"> • Flood Management (completed) • Waste Management – commercial waste income (completed) • Community Transport (Wheels to work) (completed) • Building Cleaning – Commercialism (completed) • Schools Catering – Commercialism (completed) 	<ul style="list-style-type: none"> • Household recycling centres income collection (completed) • Grant work – Local Transport Capital Block Funding (completed) • Emergency flood payments (completed) 	<ul style="list-style-type: none"> • Waste Management contract – watching brief (procurement terminated) • Highways Alliance – closedown (contract extended)

Audit Areas	Audit Reviews Completed During 2013/14		
	Planned	Unplanned	Deferred
In addition to the above resources were deployed on : <ul style="list-style-type: none"> • Advice /irregularity work • Follow up work • Audit plan performance monitoring and reporting 			