

## **NORTH LINCOLNSHIRE COUNCIL**

### **AUDIT COMMITTEE**

#### **INTERNAL AUDIT - ANNUAL REPORT 2012/13**

#### **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 2012/13 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 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 2012/13 plan and key issues arising from the work were considered by the Audit Committee at the September, January and April meetings. The 2012/13 audit plan contained 143 planned audit assignments of which 111 were substantially completed (all other audits were deferred). In addition 12 unplanned 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

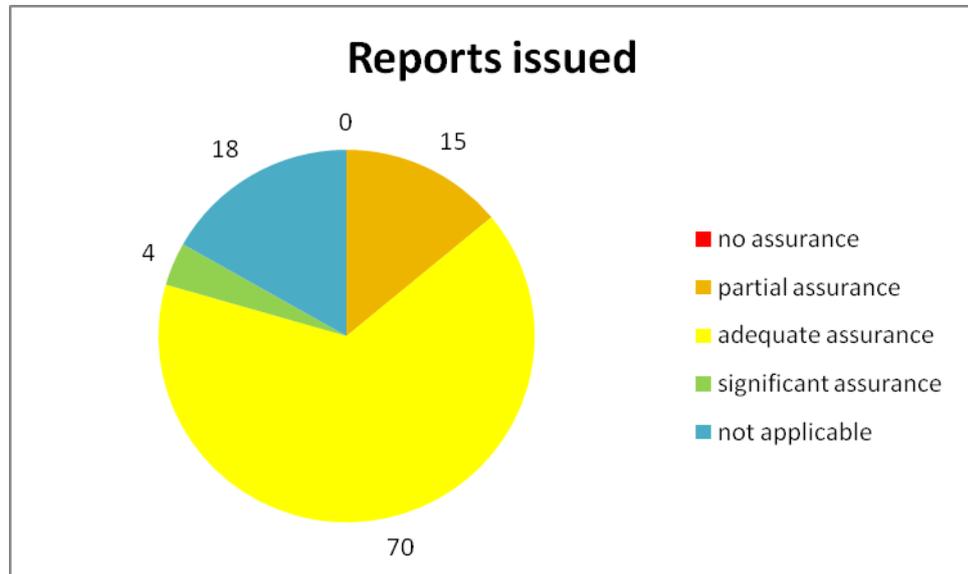
effectiveness of the organisation's control environment. Notwithstanding that some of the planned reports for the year have yet to be finalised, the fieldwork for the outstanding reports has been completed, and there is nothing within the reports that would cause the overall opinion to change

- 2.3 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 is rated as follows:

<b>Significant Assurance</b>	<b>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.</b>
<b>Adequate Assurance</b>	<b>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.</b>
<b>Partial Assurance</b>	<b>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.</b>
<b>No Assurance</b>	<b>There is weakness in control, or consistent non-compliance which places corporate and service objectives at risk in the areas reviewed.</b>

- 2.4 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 2.8 refers). In the majority of audits issued (83%) significant (4 audits) or adequate (70 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 follow up work is currently underway to re evaluate the level of internal control assurance provided. Partnership governance arrangements were also evaluated as providing partial assurance. There is a partnership governance framework in place however the toolkit is not fully applied and there is a lack of understanding of requirements. Significant effort has been made to improve the level of compliance with governance arrangements and a

follow up audit is currently underway to re -evaluate the level of internal control. Overall 15 audits (17%) were assessed as providing partial assurance. There are no audit areas evaluated as providing no assurance on the adequacy of internal control arrangements.



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

- 2.5 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 2012/13 except for the area identified in 2.8. 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**

- 2.6 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 updating of some operational risk registers.

The strategic risk register was reviewed and rationalised in January and a review of strategic risk controls was completed.

## Corporate Governance

- 2.7 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

- 2.8 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 2012/13	Assurance Level 2011/12	Assurance Level 2010/11
Payroll	Adequate	Significant	Adequate
Creditors	Significant	Adequate	Adequate
Sundry Debtors	Adequate	Adequate	Adequate
Local Taxation (Council Tax and NNDR)	Significant	Significant	Adequate
Council Tax and Housing Benefits	Adequate	Adequate	Adequate
Accounting system (e Financials)	Significant	Significant	Adequate
Cash Receipting	Adequate	Adequate	Adequate
Treasury Management	Significant	Significant	Significant
CareFirst (social service client database)	Partial	Partial	Adequate

Asset Management*	In progress	Adequate	Adequate
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\*the review can only be finalised after year end procedures are completed

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

- CareFirst is not compliant with the council's information security policy in respect of access and password controls.
- The system upgrade was due to take place in the autumn. The main Care First package was upgraded but the finance module was delayed until 31 May 2013. Testing is currently underway and progress will be followed up July/August.

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.

### **School Audits**

- 2.9 Twenty one school audits were completed during 2012/13. This is lower than the previous year when 31 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 Schools Financial Value Standard (SFVS) replaced Financial Management in Schools (FMSiS) from September 2011 therefore school audits can be more evenly scheduled. SFVS self assessments were required for all schools by 31 March 2013. 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 1 school 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 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**

- 2.10 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 2012/13 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 2012/13 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.

- 2.11 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 2012/13 was 378, which is similar to the total for 2011/12 of 373. 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 £54k Council Tax or Housing Benefits overpayments were referred through the whistleblowers' hotline.
- 2.12 There was a similar number of new investigations during 2012/13 (36 cases; 15 lead by audit) compared to 2011/12 (37 cases). In addition internal audit completed 11 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 and flexi time checking and authorisation; use of equipment/stock/assets and data access. These figures also included 12 internal audit investigations of potential internet/email abuse. As a result of the 2012/13 investigations 3 staff were dismissed, 4 staff resigned and disciplinary warnings were issued to 2 members of staff.
- 2.13 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**

- 2.14 In some cases audit reviews highlight savings that can be made by the council. During 2012/13 audit work identified £196.4k savings. Whistleblowers'/ fraud hotline calls account for £54.7k (mainly benefit related). Adult income reviews highlighted £133.5k and an internal data matching exercise identified £5.9k in duplicate payments.

## **Performance**

- 2.15 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 2012/13. 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 2012/13. 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 2012/13.
- 3.2 The Committee may decide not to approve Internal Audit's Annual Report for 2012/13.

## **4. ANALYSIS OF OPTIONS**

- 4.1 The Internal Audit Annual Report 2012/13 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 2012/13 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 2012/13.

### **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 2012/13		
	Planned	Unplanned	Deferred
<b>Fundamental Financial Systems</b>	<ul style="list-style-type: none"> <li>• All 2011/12 fundamental audits completed</li> <li>• Payroll (in progress)</li> <li>• Creditors (in progress)</li> <li>• Debtors (in progress)</li> <li>• Income Receipting (in progress)</li> <li>• Main Accounting Ledger (in progress)</li> <li>• Council Tax and Housing Benefits (in progress)</li> <li>• Local Taxation (in progress)</li> <li>• Treasury Management (in progress)</li> <li>• Asset Management (not yet due)</li> <li>• CareFirst (in progress)</li> <li>• Benefits Subsidy testing (completed)</li> </ul> <p>All awaiting year end transaction testing.</p>		
<b>Annual Governance Statement</b>	<ul style="list-style-type: none"> <li>• In year monitoring and compilation of the Statement</li> </ul>		
<b>Corporate management</b>	<ul style="list-style-type: none"> <li>• Preparing reports and Audit Committee attendance</li> </ul>		
<b>Corporate Governance</b>	<ul style="list-style-type: none"> <li>• In year monitoring and advice. Evaluation of council arrangements against best practice standards. Revision of the council's Code of Corporate Governance (in progress)</li> <li>• Revised Governance Arrangements – authorisations (in progress)</li> </ul>		
<b>Risk Management</b>	<ul style="list-style-type: none"> <li>• In year monitoring and advice. Risk Management Group work. Annual review of risk management arrangements, strategic and key operational controls. (in progress)</li> </ul>		
<b>IT Audit</b>	<ul style="list-style-type: none"> <li>• IT Governance 11/12 (completed)</li> <li>• I S / I T Strategy (in progress)</li> <li>• Network Management and Control (completed)</li> <li>• Disaster Recovery and Business Continuity (in progress)</li> <li>• Government Connect (completed)</li> <li>• Remote access 11/12 (completed)</li> </ul>		<ul style="list-style-type: none"> <li>• Project Management Controls (unable to resource)</li> <li>• IT charging policy (unable to resource)</li> </ul>

Audit Areas	Audit Reviews Completed During 2012/13		
	Planned	Unplanned	Deferred
<b>Contract Audit</b>	<ul style="list-style-type: none"> <li>• Adults – Commissioning and Procurement (completed)</li> <li>• Children’s service – Commissioning and Procurement (completed)</li> <li>• Contracts/Procurement/E-procurement (in progress)</li> <li>• Highways Alliance (completed)</li> </ul>		
<b>Fraud Prevention and Detection</b>	<ul style="list-style-type: none"> <li>• Responding to cases received via Whistleblowers Hotline and email (in progress)</li> <li>• Publicity/ training/ updating the counter fraud strategy (in progress)</li> <li>• Income audits - leisure facilities (completed), Markets (completed), Car parking &amp; Enforcement (completed), Building Control (in progress), Commercial Property (in progress), Registrars (completed)</li> <li>• Data Matching - NFI/IDEA (in progress)</li> </ul>	<ul style="list-style-type: none"> <li>• Direct Payments (draft report)</li> </ul>	<ul style="list-style-type: none"> <li>• Fresh Start (unable to resource)</li> </ul>
<b>Council-wide Systems</b>	<ul style="list-style-type: none"> <li>• Performance Management (in progress)</li> <li>• Data Quality (completed)</li> <li>• Environmental Issues - CRC Energy Efficiency Scheme Return &amp; evidence pack (completed)</li> <li>• Partnerships (completed)</li> <li>• New Legislation (Bribery Act completed – Localism in progress)</li> <li>• Budgetary Control (Efficiencies completed)</li> <li>• Health &amp; Safety (completed)</li> <li>• Grant Claims (completed)</li> <li>• Data Protection and FOI (completed)</li> <li>• Worksmart (ongoing)</li> <li>• Social Media (in progress)</li> <li>• Income and Corporate Charging Policy (action taken on previous recommendations followed up)</li> </ul>	<ul style="list-style-type: none"> <li>• Bribery Act –follow up</li> </ul>	<ul style="list-style-type: none"> <li>• Information Management (assurance provided in Data Protection/FOI Follow up and Performance Management/ Data Quality reviews)</li> <li>• Project Management(council wide approach not required)</li> <li>• Lone Working Arrangements (unable to resource)</li> <li>• Partnership follow up (unable to resource)</li> </ul>
<b>People General</b>	<ul style="list-style-type: none"> <li>• Children and Young People Budgetary Control 11/12 (completed)</li> <li>• Adults Budgetary Control 11/12 (completed)</li> </ul>		

Audit Areas	Audit Reviews Completed During 2012/13		
	Planned	Unplanned	Deferred
<b>People – Adult Services</b>	<ul style="list-style-type: none"> <li>• Advice, Assessment &amp; Affairs (Financial Assessments complete)</li> <li>• Mental Health (completed)</li> <li>• Meals on wheels (completed)</li> <li>• Receiverships 11/12 (completed)</li> </ul>	<ul style="list-style-type: none"> <li>• Adult Income issues (complete)</li> <li>• Assessment and Review follow up</li> </ul>	<ul style="list-style-type: none"> <li>• Older People – Rehabilitation (service review taking place)</li> <li>• Pooled Budgets/Partnering</li> </ul>
<b>People – Specialist</b>	<ul style="list-style-type: none"> <li>• Child protection - compliance with Public Law (draft report)</li> <li>• Children in care – foster care (in progress)</li> <li>• Independent Review Team (completed)</li> <li>• Policies for Protection of Children (completed )</li> <li>• Section 17 11/12 (completed)</li> </ul>		<ul style="list-style-type: none"> <li>• Social Work Service (assurance provided in Child Protection /Independent Review Team reviews)</li> <li>• Education Welfare (unable to resource)</li> </ul>
<b>People – School Improvement</b>	<ul style="list-style-type: none"> <li>• Early Years (completed)</li> <li>• Issues from School Audits (11/12 completed – 12/13 draft report)</li> <li>• Schools audits (21 completed.)</li> <li>• Alternatives to Schools Education (draft report)</li> <li>• Schools Balances - surpluses and deficits (completed)</li> <li>• Free Schools Meals (draft report)</li> <li>• Training for 16-19 year olds (11/12 completed)</li> </ul>	<ul style="list-style-type: none"> <li>• 4 school funds</li> </ul>	<ul style="list-style-type: none"> <li>• 6 schools (4 converted to academies)</li> <li>• Integrated Youth Support (external assurance provided)</li> </ul>
<b>People – Commissioning and Localities</b>	<ul style="list-style-type: none"> <li>• Capita one &amp; SIMS (completed)</li> </ul>		<ul style="list-style-type: none"> <li>• School Admissions</li> </ul>
<b>Policy &amp; Resources - Finance</b>	<ul style="list-style-type: none"> <li>• ElIncome (completed)</li> <li>• Housing benefits - transition to Universal credit (completed)</li> <li>• Bank Account Changes (in progress)</li> <li>• Finance Manual, Regs. &amp; S.O.s (ongoing)</li> </ul>	<ul style="list-style-type: none"> <li>• Pensions assurance (completed)</li> <li>• Final Accounts work (completed)</li> </ul>	<ul style="list-style-type: none"> <li>• Partnership working PANNEL (unable to resource)</li> </ul>
<b>Policy &amp; Resources - Human Resources</b>	<ul style="list-style-type: none"> <li>• Recruitment Verifications (completed)</li> <li>• Casual &amp; Agency workers (in progress)</li> <li>• Working time directive 11/12 (completed)</li> </ul>		<ul style="list-style-type: none"> <li>• Professional Personnel system (deferred due to eform migration)</li> </ul>

Audit Areas	Audit Reviews Completed During 2012/13		
	Planned	Unplanned	Deferred
<b>Policy &amp; Resources - Legal Services</b>	<ul style="list-style-type: none"> <li>• Councillors' Allowances (completed)</li> <li>• Legal services – Child Protection (in progress)</li> </ul>		<ul style="list-style-type: none"> <li>• Democratic services (assurance provided in corporate governance and revised governance reviews)</li> </ul>
<b>Places - General</b>	<ul style="list-style-type: none"> <li>• Infrastructure budgetary control 11/12 (completed)</li> </ul>		
<b>Places – Customer Services</b>	<ul style="list-style-type: none"> <li>• Transport – Concessionary fares (in progress)</li> </ul>	<ul style="list-style-type: none"> <li>• Leisure facilities timesheets follow up (completed)</li> </ul>	<ul style="list-style-type: none"> <li>• Complaints Procedures (service review in progress)</li> <li>• Grants – Leisure (unable to resource)</li> <li>• Contract Management – Leisure facilities (unable to resource)</li> </ul>
<b>Places – Technical &amp; Environment</b>	<ul style="list-style-type: none"> <li>• Health Improvement 11/12 (completed)</li> <li>• Trading Standards – test purchases (completed)</li> <li>• Contaminated Land (draft report)</li> <li>• Home improvements &amp; disabled adaptations (completed )</li> <li>• Home Choice Lincs (completed)</li> </ul>	<ul style="list-style-type: none"> <li>• Trading Standards – seizure of assets under POCA (completed)</li> </ul>	<ul style="list-style-type: none"> <li>• Safer Neighbourhoods (deferred due to service review)</li> <li>• Civica AP document imaging system - system controls (unable to resource)</li> </ul>
<b>Places – Planning and Regeneration</b>	<ul style="list-style-type: none"> <li>• Leader Programme (completed)</li> <li>• Economic Development (in progress)</li> <li>• BDUK Project (ongoing)</li> <li>• Regional Growth Grant (completed)</li> <li>• LEP Activity (watching brief)</li> </ul>		<ul style="list-style-type: none"> <li>• Development Control (unable to resource)</li> <li>• Maintenance of Council Buildings (other than schools) (unable to resource)</li> <li>• Bees Knees (external review in progress)</li> </ul>

Audit Areas	Audit Reviews Completed During 2012/13		
	Planned	Unplanned	Deferred
<b>Places- Community Services</b>	<ul style="list-style-type: none"> <li>• Fleet Management – legislative requirements (completed)</li> <li>• Street Lighting (completed)</li> <li>• Highways Maintenance 11/12 (completed)</li> <li>• Adult Education 11/12 (completed)</li> </ul>		<ul style="list-style-type: none"> <li>• Area improvement initiatives - Advance Crosby (unable to resource)</li> <li>• Flood Management (unable to resource)</li> </ul>

<p>In addition to the above resources were deployed on :</p> <ul style="list-style-type: none"> <li>• Advice /irregularity work</li> <li>• Follow up work</li> <li>• Audit plan performance monitoring and reporting</li> </ul>	
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