

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**INTERNAL AUDIT PROGRESS REPORT**

**1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 The Internal Audit Section delivers an annual programme of audit work designed to raise standards of governance, risk management and internal control across the Council.
- 1.2 This work culminates in the Internal Audit's Annual Report that is used to inform the Annual Governance Statement. This report summarises key issues arising from work undertaken in the 2012/13 audit plan year.

**2. BACKGROUND INFORMATION**

**2012/13 Audit Plan Progress**

- 2.1 Completion of the Internal Audit Plan is monitored and reported regularly to this Committee. The latest position is provided in appendix A. Overall there is adequate plan cover to ensure there will be a sufficient level of completed planned work to provide an opinion on the adequacy of the control environment.
- 2.2 Additional temporary cover has been secured to offset some of the shortfall in resources through a secondment placement from one of the accountancy teams until the end of September. A request to extend the placement until the end of March has been made to cover serious illness suffered by one of the team. In addition another member of the team has recently resigned.

**Significant Audit Findings**

- 2.3 Audit reviews of the council's fundamental financial systems were reported in the annual report in June 2012. One audit (Asset Management) could not be concluded until year end accounting procedures were completed. The work has now been completed and internal controls were assessed as providing adequate assurance. 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	Adequate	Adequate

Work will commence shortly on 2012/13 fundamental systems reviews and the outcome will be reported Internal Audit's Annual Report in June 2013.

- 2.4 Internal control arrangements are evaluated in each audit review and all reports issued this year so far have included recommendations to improve controls. Internal control arrangements were evaluated as providing no assurance in one audit review. This relates to poor imprest account handling procedures in one establishment. The outcome of this audit has been reported to the relevant Director and Assistant Director as this follow up audit showed no improvement to manage the imprest account effectively. The Assistant Director will be asked to confirm what action has been taken to improve arrangements.
- 2.5 Work is ongoing to review financial assessments and income collection procedures for the Adult Social Care service. An initial overview report provided partial assurance and highlighted control weaknesses in aspect of financial assessment work, income recovery and reconciliation of income collected. Further audit work needs to be completed. An Improvement Board chaired by the Director of People has been established to ensure prompt implementation of the audit action plan. Further updates will be reported to the Committee on completion of the audit work.
- 2.6 Overall 67% of recommendations retested between April 2012 and July 2012 have been successfully fully implemented this is comparable with retest levels in 2011/12. Further analysis shows that the implementation rate is lower in schools (64%). We consider this is in part due to changes in personnel or systems operated in schools and/or lapses in procedures. We will continue to liaise with schools to try to embed the requirement to fully comply with council procedures and audit recommendations.

### **Counter Fraud Work**

- 2.7 Internal Audit continues to focus on the delivery of a programme of proactive counter fraud work, including development activity and awareness-raising, as well as involvement in a significant number of reactive investigations. The volume of unforeseen and irregularity work remains steady and similar to last year - 94 days against the allocation set aside in the 2012/13 Audit Plan of 165 days. An update of the counter fraud plan is provided in appendix B.

### **Proactive work**

- 2.8 Proactive counter fraud work has included the following income reviews; community meals, markets, and registrars. In addition work is continuing to refresh fraud and related policies and procedures. The National Fraud Initiative (NFI) data matching exercise has identified savings in excess of £194k so far (£173k benefits related; £8.7k council tax single residents discount; and £12.3k duplicate payments). Further matches were released late February and are currently being investigated.

### **Reactive work**

- 2.9 In addition to ongoing investigations into cases started in 2011/12 Internal Audit has been made aware of 15 new cases of potential fraud and irregularity so far in 2012/13. These have been investigated by officers within the service or in conjunction with HR colleagues and/or the police. Key themes in the period are similar to the previous quarter and include the following:
- Inappropriate use of internet and mobile phone during working hours
  - Inappropriate use of council assets
  - Potential theft of stock
  - Poor imprest/cash handling procedures
  - Timesheet anomalies
  - Misuse of council data.

### **Response to External Audit Recommendations**

- 2.10 Progress in implementing external audit recommendations are regularly reported to this Committee. In April Members received confirmation that all external audit recommendations had been implemented. No further reports have been issued containing recommendations for the council to consider.

### **Future of Local Audit Consultation**

- 2.11 In June 2011 the Committee received a report on the council's response to consultation on a new audit regime published by the Department for Communities and Local Government. The Government's response to the consultation was published in January 2012 and the draft Bill was published in July for further consultation with a closing date of 31 August. The main provisions in the draft bill are:

- The repeal of legislation setting up the Audit Commission (the Audit Commission Act 1998) and provision to transfer assets, liabilities and continuing functions to other bodies.
- A requirement on local public bodies to appoint an external and independent auditor on the advice of an independent auditor panel.
- The creation of a new regulatory framework for local public audit, whereby the Financial Reporting Council and professional accountancy bodies would regulate the provision of local public audit services.
- The transfer of responsibility for setting the high level Code of Audit Practice to the National Audit Office.
- Powers for the National Audit Office to undertake studies of thematic value for money issues relating to local government, and to access information needed to do so.
- The draft local audit bill also includes consultation on who will operate the NFI (data matching exercise) in the future. The draft Bill transfers the Commission's current data-matching powers to the Secretary of State, who in practice will delegate them to the new operational owner of the National Fraud Initiative which will transfer to a new organisation. The National Fraud Authority, the Department for Work and Pensions and the Cabinet Office (Efficiency and Reform Group) have expressed an interest in taking on operational ownership of the National Fraud Initiative.

2.12 A response to the consultation has been sent reiterating the views of the Chairman and Director of Policy and Resources concerning the extent of increased independent membership on audit committees and the level of local determination available to councils. The main points made were:

- Members of the Audit Committee have an important role and desire to maintain high standards of governance and 'put things right' wherever necessary.
- There may be merits in having "independent" members, though these should not necessarily be in the majority.
- Majority independent membership on audit committees (including the key positions of chairman and vice chairman) removes the opportunity for Members to directly influence and promote high standards of governance as elected leaders of the council.
- Authorities should be given some discretion to determine audit committee structures locally.

### **Public Sector Internal Audit Standards**

2.13 The Chartered Institute of Internal Auditors (IIA) has collaborated with the Chartered Institute of Public Finance and Accountancy (CIPFA) on the development of public sector internal audit standards. A draft set of

standards has now been produced and have been issued for consultation. These standards cover:

- The definition of Internal Auditing
- Code of Ethics
- Internal audit's authority and responsibility
- Independence and objectivity
- Proficiency and due professional care
- Quality assurance arrangements
- Performance standards

Our response to the consultation exercise was largely supportive of the proposals however more detail is required in some areas on interpretation in a local government context.

### **3 OPTIONS FOR CONSIDERATION**

- 3.1 The Committee is asked to consider whether or not the report provides sufficient assurance on the adequacy of internal control arrangements. The Committee is invited to consider the report and seek clarification on its contents as necessary.
- 3.2 If the Committee considers that the report does not provide sufficient assurance on the adequacy of internal control arrangements further clarification may be sought and appropriate action considered.

### **4. ANALYSIS OF OPTIONS**

- 4.1 The progress report provides the Committee with an update on key internal control issues. It complies with professional guidance and is designed to provide the Committee with the assurance required.
- 4.2 The option set out in paragraph 3.2 indicates an opportunity missed to provide 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 the Audit, Risk and Insurance budget.
- 5.2 Regular reviews of internal control help safeguard the council's assets and ensure that value for money is achieved in the use of resources.

### **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 (England) Regulations 2011. 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 Directors and key staff at all stages of audit work and comments made are incorporated wherever possible.

## **8. RECOMMENDATION**

- 8.1 That the Audit Committee consider the level of assurance provided by this report on the adequacy of internal control arrangements.

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**Background Papers used in the preparation of this report**  
Internal Audit Plan 2012/13

## Appendix A

Audit Areas	Audit Reviews Completed During 2012/13	
	Planned	Unplanned
<b>Fundamental Financial Systems</b>	<ul style="list-style-type: none"> <li>• 2011/12 fundamental audits completed</li> <li>• Payroll</li> <li>• Creditors</li> <li>• Debtors</li> <li>• Income Receipting</li> <li>• Main Accounting Ledger</li> <li>• Council Tax and Housing Benefits</li> <li>• Local Taxation</li> <li>• Treasury Management</li> <li>• Asset Management</li> <li>• CareFirst</li> <li>• Benefits Subsidy testing (in progress)</li> </ul>	
<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</li> <li>• Revised Governance Arrangements (authorisations)</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.</li> </ul>	

Audit Areas	Audit Reviews Completed During 2012/13	
	Planned	Unplanned
<b>IT Audit</b>	<ul style="list-style-type: none"> <li>• IT Governance (11/12 completed)</li> <li>• Project Management Controls</li> <li>• I S / I T Strategy</li> <li>• IT charging policy</li> <li>• Network Management and Control (in progress)</li> <li>• Disaster Recovery and Business Continuity</li> <li>• Government Connect (in progress)</li> </ul>	
<b>Contract Audit</b>	<ul style="list-style-type: none"> <li>• Adults – Commissioning and Procurement (11/12 in progress)</li> <li>• Contracts/Procurement/E-procurement</li> <li>• Highways Alliance</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</li> <li>• Income audits - leisure facilities (11/12 in progress), Markets (in progress), Car parking &amp; Enforcement (in progress), Building Control, Commercial Property, Registrars (in progress), Fresh Start</li> <li>• Data Matching - NFI/IDEA (in progress)</li> </ul>	<ul style="list-style-type: none"> <li>• Direct Payments (picking up 11/12 work)</li> </ul>

Audit Areas	Audit Reviews Completed During 2012/13	
	Planned	Unplanned
<b>Council-wide Systems</b>	<ul style="list-style-type: none"> <li>• Performance Management</li> <li>• Data Quality</li> <li>• Environmental Issues - CRC Energy Efficiency Scheme Return &amp; evidence pack (in progress)</li> <li>• Partnerships (11/12 completed)</li> <li>• New Legislation</li> <li>• Budgetary Control (11/12 Efficiencies completed)</li> <li>• Health &amp; Safety</li> <li>• Grant Claims</li> <li>• Information Management</li> <li>• Data Protection and FOI</li> <li>• Worksmart</li> <li>• Project Management</li> <li>• Social Media</li> <li>• Income and Corporate Charging Policy</li> <li>• Lone Working arrangements</li> </ul>	
<b>People – Adult Services</b>	<ul style="list-style-type: none"> <li>• Advice, Assessment &amp; Affairs (in progress)</li> <li>• Mental Health (draft report)</li> <li>• Meals on wheels (in progress)</li> <li>• Pooled Budgets/Partnering</li> <li>• Older People - services for independent living</li> </ul>	<ul style="list-style-type: none"> <li>• Adult Income issues (in progress)</li> </ul>
<b>People – Specialist</b>	<ul style="list-style-type: none"> <li>• Social Work Service</li> <li>• Child protection - compliance with Public Law</li> <li>• Children in care – foster care (in progress)</li> <li>• Education Welfare</li> <li>• Independent Review Team (in progress)</li> <li>• Policies for Protection of Children (11/12 in progress)</li> </ul>	

Audit Areas	Audit Reviews Completed During 2012/13	
	Planned	Unplanned
<b>People – School Improvement</b>	<ul style="list-style-type: none"> <li>• Early Years (11/12 completed)</li> <li>• Issues from School Audits (11/12 completed)</li> <li>• Schools audits (11/12 completed. 12/13 in progress)</li> <li>• Alternatives to Schools Education</li> <li>• Schools Balances - surpluses and deficits (in progress)</li> <li>• Free Schools Meals</li> <li>• Integrated Youth Support</li> </ul>	
<b>People – Commissioning and Localities</b>	<ul style="list-style-type: none"> <li>• Capita one &amp; SIMS (11/12 in progress)</li> <li>• School Admissions</li> </ul>	
<b>Policy &amp; Resources - Finance</b>	<ul style="list-style-type: none"> <li>• EIncome (11/12 completed)</li> <li>• Housing benefits - transition to Universal credit</li> <li>• Bank Account Changes (in progress)</li> <li>• Finance Manual, Regs. &amp; S.O.s (in progress)</li> <li>• Partnership working PANNEL</li> </ul>	<ul style="list-style-type: none"> <li>• Pensions assurance (completed)</li> <li>• Final Accounts work (completed)</li> </ul>
<b>Policy &amp; Resources - Human Resources</b>	<ul style="list-style-type: none"> <li>• Professional Personnel system</li> <li>• Recruitment Verifications</li> <li>• Casual &amp; Agency workers</li> </ul>	
<b>Policy &amp; Resources - Legal Services</b>	<ul style="list-style-type: none"> <li>• Democratic services</li> <li>• Councillors' Allowances</li> <li>• Legal services</li> </ul>	
<b>Places – Customer Services</b>	<ul style="list-style-type: none"> <li>• Complaints Procedures</li> <li>• Grants - Leisure</li> <li>• Contract Management – Leisure facilities</li> <li>• Transport</li> </ul>	<ul style="list-style-type: none"> <li>• Leisure facilities timesheets follow up (completed)</li> </ul>

Audit Areas	Audit Reviews Completed During 2012/13	
	Planned	Unplanned
<b>Places – Technical &amp; Environment</b>	<ul style="list-style-type: none"> <li>• Health Improvement (11/12 completed)</li> <li>• Safer Neighbourhoods</li> <li>• Trading Standards – test purchases (in progress)</li> <li>• Contaminated Land (in progress)</li> <li>• Home improvements &amp; disabled adaptations (in progress)</li> <li>• Home Choice Lincs (in progress)</li> <li>• Civica AP document imaging system - system controls</li> </ul>	<ul style="list-style-type: none"> <li>• Trading Standards – seizure of assets under POCA (in progress)</li> </ul>
<b>Places – Planning and Regeneration</b>	<ul style="list-style-type: none"> <li>• Leader Programme (11/12 completed)</li> <li>• Bees Knees</li> <li>• Economic Development</li> <li>• BDUK Project (in progress)</li> <li>• Regional Growth Grant (in progress)</li> <li>• LEP Activity</li> <li>• Development Control</li> <li>• Maintenance of Council Buildings (other than schools)</li> </ul>	
<b>Places- Community Services</b>	<ul style="list-style-type: none"> <li>• Fleet Management – legislative requirements (in progress)</li> <li>• Area improvement initiatives - Advance Crosby</li> <li>• Street Lighting (in progress)</li> <li>• Flood Management</li> </ul>	

In addition to the above resources were deployed on :

- Advice /irregularity work
- Follow up work
- Audit plan performance monitoring and reporting

## Internal Audit Plan 2012/13 Counter Fraud Summary

Area	Scope	Planned Days	Progress
<b>Creating and maintaining the anti fraud culture</b>			
Publicity	Continued development of system, promotional and awareness raising activities, refresh to risk assessments, and strategy	5	An eLearning package and desktop campaign is being designed. However the National Fraud Authority (NFA) has indicated that an eLearning package will be made available to all councils in the near future. This will be used instead of or incorporated into our campaign. The NFA training on 'What's new in fraud', has been disseminated to all audit staff; used to refresh fraud risk assessments and new areas of risk have been included in the 2012/13 audit plan.
Counter Fraud Strategy/risk assessments	Keeping the strategy current, and ensuring risk assessments are up to date	5	The Housing Benefits Prosecution Policy has been amended. The NFA are developing a central repository of good practice, when available, the Counter Fraud Strategy will be assessed against information available. In the meantime the NFA's online toolkit shows that our counter fraud arrangements are in the 71 <sup>st</sup> percentile of all public bodies that have used the toolkit. The results also identify areas for improvement. Meetings will be held with key service contacts update the fraud risk assessment.
Joint reporting	Ensure co-operation across all departments to be able to accurately assess fraud risk for the council	5	Joint working protocols are in place with HR and the police and are working well. Information sharing is in place with other councils via the Unitary Authority Groups. Joint working with other public sector organisations such as North Lincolnshire Homes (NLH) has been raised. This is encouraged by the NFA especially to tackle tenancy fraud. A meeting has been held with senior finance staff at NLH and joint information sharing opportunities and awareness raising campaigns are being considered.
<b>Prevention</b>			
Designing out fraud	Advice in areas where changes to systems are proposed	10	Audit have supported the revenues BACS refund project currently on hold. A review of the new e-Income system has been completed. Audit provide support and advice as part of system changes and the wider worksmart project on an ad hoc basis. This year, arrangements in place to manage the transfer of the council's main bank account provider are being reviewed.
<b>Deterrence</b>			
Fraud Newsletter and Council Wide Communications	Publication of a quarterly newsletter and issue of alerts and council wide communications	5	The newsletter is now a regular item with articles covering current national and local anti fraud topics. Other departments across the council such as Benefits, Trading Standards and Insurance have provided articles. The police have also provided an article on local frauds. North Lincolnshire Homes have indicated that they would like to utilise the publication to joint benefit, a recent article covers working together to tackle

			tenancy fraud.
<b>Detection</b>			
Data Matching – National Fraud Initiative (NFI)	Audit assistance in the annual exercise of data matching. In 2010/11 council tax matches and data submission for 2011/12 full exercise	30	The 2010/11 exercise has been significant with extra match reports being added throughout the year. Savings to date are in excess of £192k. The council tax and electoral registration data was submitted in December and results were received in February 2012. These matches are being investigated in conjunction with the current Experian data matching exercise taking place in Local Taxation. Controls in place to prevent benefit payments being made to individuals who are not the registered tenant in NLH properties have been evaluated. Tenancy checks have now been included in the NFI exercise. The Audit Commission indicated recently that a real time service will be offered in the future to carry out point of access checks, and also ad hoc matching in currently unsupported areas. The new service is currently being piloted and the benefits and costs to the council will be considered when further details are available. The data requirements for the October submission are being prepared.
Hotline	Audit response to allegations received via the hotline	30	There continues to be good use of Whistleblowers facilities (an average of 20-30 calls a month are received), The hotline is continually publicised via the Fraud Focus newsletter.
Money Laundering	Provision of the system set up client identification checks with services	0	The council wide eLearning package will include a summary of the council's anti money laundering arrangements. Targeted eLearning training for those staff in high risk areas is also being developed.
<b>Investigation</b>			
Proactive – misuse of council funds audits	Rolling programme of audits of potential misuse of council funds.	15	Internet use is now monitored via exception reports, followed up by further investigation if necessary. An audit on compliant use of Social Media has been planned for this year
Proactive – investigation of high risk income collection areas	Income based audits (5 sites)	50	Areas for audits this year include, Freshstart, Community Meals*, Markets*, Building Control and Registrars* (* indicates in progress).
Proactive – development of IDEA software	To identify areas where software can be used to detect and investigate fraud	10	An annual review using IDEA has been introduced to identify duplicate payments. Savings in 2011/12 (which looked at invoices over two years) were in excess of £11k. To date the 2012/13 exercise (which covered 2011/12 invoices) has identified over £7k in duplicate payments.
Reactive Investigations		As required	