

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**INTERNAL AUDIT - ANNUAL REPORT 2007/2008**

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

- 1.1 The object of this report is to advise Members of Internal Audit's work during 2007/08 and to provide an audit opinion on the adequacy of the council's control environment.
- 1.2 The Internal Audit Annual report complies with the CIPFA Code of Practice for Internal Audit in Local Government in the UK.
- 1.4 Key points in this report are as follows:
- Based on the work completed, the audit opinion is that internal control and corporate governance arrangements are generally sound although some areas for improvements are highlighted in the report.
  - Work completed in the year targeted areas of high risk to the council
  - Internal audit continues to provide the focus for the council's Anti Fraud and Corruption Strategy
  - Most performance targets were achieved.
  - Audits of the fundamental financial systems for 2007-2008 have been completed.

**2. BACKGROUND INFORMATION**

- 2.1 The requirement for internal audit is supported by statute in the Accounts and Audit Regulations 1996 (and amended 2006) and the Local Government Act 1972. The Accounts and Audit Regulations state that a "relevant body shall maintain an adequate and effective system of 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 Based on the work completed during the year the audit opinion is that:

- Fundamental systems (these are the main accounting and financial systems agreed with external audit) are generally sound and reasonable assurance on the adequacy of most internal controls can be given. However two significant controls were evaluated as inadequate namely:

- Personnel/payroll systems had not been reconciled at the time of the audit – remedial action has been taken and a full reconciliation of the two systems is nearing completion, no significant discrepancies in pay have been highlighted so far.

- Authorised signatory lists had not been fully reviewed for payroll and creditor payments – an exercise to review and update all signatory lists is almost complete.

Good budgetary control provides a compensating control in both cases as significant anomalies would be highlighted through the budget monitoring process.

Other recommendations for system improvements have been suggested through audit work throughout the year.

- The current Corporate Governance audit has not yet been finalised, however based on audit work to date and the previous review, corporate governance arrangements are generally adequate and the council has procedures and policies in place to show good corporate governance. Most aspects of the best practice framework are in place however an action plan of improvements will be agreed. The outcome of the review will be reported to the Audit Committee on completion. The council's first Annual Governance Statement (AGS) is reported elsewhere on this agenda (this replaces the Statement of Internal Control). The AGS supports the findings of the audit review that governance arrangements are generally good. A number of opportunities for improvement have been identified along with issues highlighted as a result of recent audits and inspections; these are included in the statement's action plan.
- The risk management review shows the council has a comprehensive risk management framework, which has been developed over a number of years. Arrangements generally comply with best practice and strategic and operational risk registers are reviewed regularly. The review also highlighted some areas for improvement, such as; better use of the performance management system to evidence the review of risk registers; and more structured and regular risk management training opportunities for all members.
- There has been a slow response by some secondary schools to the DCSF Financial Management Standard in Schools requirements. Members have received reports throughout the year and members have added their support to urge Head Teachers and Chairs of Governors to give this their urgent attention. All self-assessments due have now been submitted.

- Follow up audit work highlighted a poor response to the several audit reports on IT controls. Whilst some delays can be attributed to disruption caused by storm damage to IT facilities, some significant recommendations were not addressed promptly enough. Urgent management action is now being taken and progress is being closely monitored.
- 2.3 External Audit adopts a 'Managed Audit' approach. They look to rely, where possible, on management controls and the internal audit's work, rather than carrying out work themselves, to maximise overall audit effectiveness and efficiency. The assessment of Internal Audit's performance is reported in the effectiveness of Internal Audit report elsewhere on the agenda.
- 2.4 A risk-based approach is adopted to prioritise the work undertaken. This involves evaluating the controls in place to reduce high impact / high likelihood risks. This replaces the traditional approach, which concentrates solely on financial risk and consequences. Several non-financial systems were reviewed during the year including health and safety, security of buildings, emergency planning, HR policies, overview and governance of IT, elections and electoral registration, neighbourhood services, post project review, services for independent living and child protection policies.
- 2.5 The storm damage to Pittwood House during June caused disruption to planned audit work and assignments were reprioritised to ensure adequate cover of all high-risk areas. In addition the council's response to the live emergency was evaluated through a review of business continuity arrangements. Internal Audit also reviewed recovery arrangements and reconciliation of all fundamental financial systems to provide assurance to both external audit and Members on these crucial systems. Overall business continuity arrangements were generally good and disruption to service delivery was minimised as far as possible. Some aspects of the Business Continuity Plans did not work as well as anticipated (for example inadequate disaster recovery arrangements for the disruption to council telephones). The opportunity has been taken to revise and improve these arrangements.
- 2.6 Internal audit provides the focus for the council's Anti Fraud, Theft and Corruption Strategy. It promotes awareness with service managers through individual assignments, control risk assessment questionnaires and fraud warning bulletins via the internal communication network. The Anti Fraud, Theft & Corruption strategy was reviewed during 2007-2008 and promoted through posters, leaflets and a newsletter article. Internal audit operates the council's dedicated telephone hotline for whistle blowers. The total number of calls received was 164, which was an increase on the previous year of 12%. The hotline details were re-advertised with the revised strategy.

- 2.7 A number of fraud and irregularity assignments were carried out during the year. These resulted in recommended improvements to cash handling procedures, procurement procedures and warnings about fraudulent emails requesting invoice payment or council debit card details. Some abuse of the use of the Internet/ email was detected and referred to internal audit for investigation. This resulted in management counselling with ten members of staff, disciplinary action taken or being considered in three other cases in accordance with council policy and one officer left the council. In addition all council staff have been reminded of their responsibilities in respect of internet/ email policies and access to social networking sites has been removed.
- 2.8 The council participates in the Government 's National Fraud Initiative (NFI). Internal audit co-ordinates the data matching and mismatches are investigated. The 2006/07 NFI exercise was extended to include more potential matches including none financial risks such as ineligible workers and criminal activity which bypass CRB checks. An inspection carried out by the Audit Commission concluded that the coverage of the NFI exercise was satisfactory and suitable progress had been made in most areas. The outcome of the inspection was reported to the Audit Committee in April 2008.
- 2.9 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 2007/2008. More details are provided in Internal Audit's effectiveness report elsewhere on this agenda.
- 2.10 The section provided internal audit services for the Humberside Police Authority and Humber Connexions for 2007/08; extended until 31/03/09. Both of these contracts generate additional income and the opportunity for professional development by carrying out work in another area of the public sector.

### **3. OPTIONS FOR CONSIDERATION**

- 3.1 Options are limited in this type of report. Audit committee members are invited to consider internal audit's annual report and seek clarification on its contents as necessary.

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

- 4.1 The report complies with professional and statutory requirements governing external audit and inspection work. This means that work will be targeted to have its greatest effect and helps the council to continue to improve.

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

5.1 The work of the internal audit section enhances control over the use of the council's resources through the recommendations made in audit reports.

5.2 There are no additional staffing, property or IT implications

**6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)**

6.1 The requirement for an internal audit function is set out in the Accounts and Audit Regulations 2003. Internal audit will continue to assist the Chief Financial Officer discharge his statutory duty under the provisions of the Local Government Act 1972.

6.2 Internal audit's work is an important component of the Annual Governance Statement and promotes good corporate governance.

**7. OUTCOMES OF CONSULTATION**

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. There is also feedback to individual staff forming part of their employee development review.

**8. RECOMMENDATIONS**

8.1 The Audit Committee receives the Internal Audit Annual Report for 2007/08 and notes the audit opinion is that internal control and corporate governance arrangements are generally sound.

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**Background Papers used in the preparation of this report**