

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 The key points in this report are as follows:
 - Regular reporting on Internal Audit and Risk Management issues provides Members with supporting evidence for the annual approval of the Governance Statement.
 - The audits of fundamental financial systems for 2007/08 have been completed
 - The Risk Management Strategy action plan is closely monitored and progress is reported to SRMG regularly

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 supporting evidence for the approval of the Governance Statement and is recognised as good practice through the Comprehensive Performance Assessment (CPA) Use of Resources criteria.
- 2.2 Internal audit has worked closely with external audit throughout the period. Information has been provided to external audit to enable them to complete their risk assessment of the council. In addition substantial evidence has been provided to support the self-assessment used as the basis of external audit's review of Internal Audit. Other work requiring substantial levels of evidence include; the Annual Governance Statement; Comprehensive Performance Assessment-Use of Resources and Corporate Governance Review (reported elsewhere on this agenda).
- 2.3 The outcome of the audits of the council's fundamental financial systems was reported in Internal Audit's Annual report on 30th June 2008 and external audit have confirmed satisfaction with the work carried out and the results reported. This provided assurance to external audit for their audit work on the council's accounts. Progress has been made on the key issues raised in the Annual Report:

- A full validation between payroll and professional systems highlighted no significant overpayments
- Authorised signatory lists have been updated.
- Progress has been made on IT controls recommendations.

- 2.4 External audit's review of internal audit is nearing completion and a draft report has been prepared for consideration. The review concludes that the council's Internal Audit function has met the requirements of all standards set out in the Audit Code of Practice for Internal Audit in Local Government in the UK. This also provides assurance that external audit can rely on the work of Internal Audit for their audit responsibilities. The review highlighted some opportunities for improvement and the recommendations made will be discussed and appropriate action will be agreed. The finalised report will be presented to the Audit Committee in December.
- 2.5 The council's Use of Resources self-assessment for 2007/08 highlighted good internal control arrangements in place and strong risk management arrangements against recognised best practice. The outcome of external audit's evaluation will be reported back in December.
- 2.6 Notifications of new data matching categories (including blue badge holders, insurance claimants, taxi/ street traders/ alcohol licenses and concessionary fares) have been actioned through an article in Direct Magazine and incorporated on relevant application forms (where possible) to comply with NFI data matching protocols and 'Fair Notice' requirements.
- 2.7 Audit recommendations are followed up using a risk-based approach. Follow up audits are carried out where significant control weakness is identified and on a random sample basis. Managers are required to update action plans and provide supporting evidence as appropriate and implementation of agreed actions is reported in quarterly reports to Service Directors. Poor response and inadequate progress on agreed actions is also reported through quarterly reports. Serious concerns of failure to take appropriate action to address significant control weaknesses or poor response to audit recommendations are reported to the Audit Committee. For example, the slow response to a number of audit reports on IT Controls was reported to the Committee in June and good progress can now be reported. Performance indicators are maintained of the percentage of audit recommendations implemented when retested. For 2007/08 64% of agreed actions tested had been fully implemented. The installation of new audit management software during 2008/09 will provide better management information for progress monitoring and provide greater analytical facilities, including the implementation of high-risk recommendations. In a further development, recently agreed with external audit, audit recommendations will make clear the impact of any control failures on the council's control environment.

Examples of audit recommendations retested and verified as implemented are shown in appendix A for the period May to July 2008 for illustration. This shows that appropriate action has been taken in respect of high-risk recommendations. Some recommendations were either no longer applicable or were superseded by other actions.

- 2.8 A number of grant audits and certification has been carried out including the Local Area Agreement and notification was received that the Statement of Grant Usage meets Government Office requirements.
- 2.9 Workforce plan competencies for risk management have been defined and agreed. The inclusion of risk management as a core competency for work force planning will ensure that all staff receive guidance and training appropriate to the needs of their role and help embed risk management throughout the council.
- 2.10 Staffing resources have been strengthened through the appointment of a full-time insurance/ risk management officer. This is a new post and replaces the insurance officer post (20 hours) and will provide resources for more analytical work to support the Strategic Risk Management Group.

3 OPTIONS FOR CONSIDERATION

- 3.1 Options are limited in this type of report. Audit committee are invited to consider the report and seek clarification on its contents as necessary.

4. ANALYSIS OF OPTIONS

- 4.1 The progress report the key internal control issues and complies with statutory requirements and professional guidance available.

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 Statement on internal Control. 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. **RECOMMENDATION**

- 8.1 To note this progress report.

SERVICE DIRECTOR FINANCE

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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

Report	Overall Assessment	No. of agreed actions followed up	No. of agreed actions fully implemented	Comments
Local Taxation	The key controls operating within the Local Taxation section are working effectively	11	10	One low risk agreed action is nearing completion
Creditors	The creditors system is working effectively and the majority of controls are being met. There were concerns expressed over the operation of the authorised signatories process.	13	13	Authorised signatory lists have been updated in all service areas Audit checks carried out have confirmed that all invoices examined were authorised by an appropriate officer and expenditure was valid.
Cashiers	The Cash Receipting system is working effectively and controls are sufficient to ensure the key objectives of the system are met. Although concern was expressed around certain security arrangements	22	22	Security arrangements have now been resolved.
Council Tax and Housing Benefits	The Housing and Council Tax Benefits system is working effectively and controls are sufficient to ensure	7	6	One minor action for improvement has not been fully implemented.

Appendix A

Report	Overall Assessment	No. of agreed actions followed up	No. of agreed actions fully implemented	Comments
	the key objectives of the system are met.			
Payroll	Key controls operated by the Payroll function are generally working effectively and the system is considered to be sound. Controls over the maintenance of the establishment and lack of periodic validations, operated by HR have not been properly or fully operated. There were concerns expressed over the operation of the authorised signatories process.	10	9	Good progress has been made only one action remains and is in progress. A full reconciliation has been carried out and no significant discrepancies have been highlighted and a process has been identified to regularly update validations. Authorised signatory lists have been updated for all service areas.
Payroll contract arrangements with East Riding	The audit concluded that controls provided by ERYC were working effectively. A few minor weaknesses were highlighted.	12	9	Work on the remaining outstanding actions are in progress.

Appendix A

Report	Overall Assessment	Audit	No. of agreed actions followed up	No. of agreed actions fully implemented	Comments
Debtors	Audit assurance was given that the security and integrity of the system is sound		15	13	There was a good level of response and action had been taken in respect of all agreed actions. Two had not been fully implemented but work is in progress to address all the agreed actions.
Treasury Management	The controls operating within the Treasury Management function are working effectively and in accordance with the CIPFA Code of Practice for Treasury Management in Local Authorities.		5	5	All agreed actions were fully implemented
Epworth Primary School	Records were in good order and well maintained		(19) 18	6	3 low risk actions were not tested and 1 is no longer applicable High-risk actions have been followed up – no significant issues have been highlighted
Kirton Lindsey Primary School	Records were in good order and well maintained		19	5	6 low risk actions were not tested High-risk actions have been followed up – no significant issues have been highlighted

Appendix A

Report	Overall Assessment	Audit	No. of agreed actions followed up	No. of agreed actions fully implemented	Comments
Riddings Junior School	The system of financial control was found to be sound. Records were well maintained and in good order.		19	9	5 low risk actions were not tested High-risk actions have been followed up – no significant issues have been highlighted
Scunthorpe Church of England Primary School – school audit & bank account audit	The system of financial control was found to be sound.		(31) 30	22	2 low risk actions were not tested; 1 action is longer applicable High-risk actions have been followed up – no significant issues have been highlighted
St. Hugh’s Communication & Interaction Specialist College	The system of financial control was found to be sound. Records were well maintained and in good order.		5	4	There are no high-risk actions outstanding
Ulceby St Nicholas Cof E Primary	The system of financial control was found to be sound. Records were well maintained and in good order		20	7	6 low risk actions were not tested High-risk actions have been followed up – no significant issues have been highlighted
St. Norbert’s Catholic Primary School	The system of financial control was found to be sound. Records were very well maintained and of a particularly		18	13	High-risk actions have been followed up – no significant issues have been highlighted.

Appendix A

Report	Overall Assessment	Audit	No. of agreed actions followed up	No. of agreed actions fully implemented	Comments
	good standard				
High Ridge Specialist Sports College	A number of control weakness within the financial administration of the school were identified.		46*	26	Six low risk actions were not tested. The audit was carried out prior to transfer to become an academy and the school is now closed. The report was sent key officers involved in the handover.
Westwoodside C of E Primary School	Records were in good order and excellently maintained		11	6	High-risk actions have been followed up – no significant issues have been highlighted.
Winterton C of E Infant School	The system of financial control was found to be sound. Records were well maintained and in good organised.		(29) 23	16	Six actions are no longer applicable High-risk actions have been followed up – no significant issues have been highlighted.
TOTAL			304	201 (66%)	

*previous two audits followed up