

## NORTH LINCOLNSHIRE COUNCIL

### AUDIT SUB-COMMITTEE

#### INTERNAL AUDIT PROGRESS REPORT

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

- 1.1 To inform the Audit Sub-Committee of key issues arising from Internal Audit's work.
- 1.2 Regular reporting on Internal Audit issues is an important source of assurance for Members to fulfil their role and provides supporting evidence for the annual approval of the Governance Statement.

##### 2. BACKGROUND INFORMATION

- 2.1 Delivering of the Internal Audit Plan is a key target for the section therefore progress is monitored regularly. Overall there is adequate plan progress at this stage of the year to ensure there is a sufficient level of completed planned work to provide an opinion on the adequacy of the control environment. Any audits that are deferred to next years plan will not compromise Internal Audit's ability to provide its opinion to the Sub-Committee. The Internal Audit Plan continues to be reprioritised as a result of reduced resources and the impact of unforeseen work. A summary is provided in appendix A. The level of unforeseen work continues to be higher than anticipated. More detail is provided in the counter fraud report elsewhere on this agenda. Some reviews have also been postponed for the time being in agreement with the client due to changes in systems/procedures.
- 2.2 During December the section experienced some minor disruption due to office relocation as part of the Worksmart initiative and resulted in 29 productive days lost in total. Savings realised through reduced office space and number of desks is being managed through increased flexible working (on site working, hot desking and homeworking).
- 2.3 Additional temporary cover has been secured to offset some of the shortfall in resources through increased hours of part time staff over a planned period and a secondment placement from one of the accountancy teams until the end of March. A structural review of the Audit, Risk Management and Insurance section is planned to consider the level and mix of resource necessary to meet the future needs of the council in these disciplines.

- 2.4 Internal control arrangements are evaluated in each audit review and most reports issued this year so far have included recommendations to improve controls. The Taxation Audit (PAYE) showed good control arrangements were in place and was evaluated as providing significant assurance. Internal control arrangements were evaluated as providing no assurance in one audit review. This relates to poor petty cash handling procedures at one establishment. In all cases management are required to confirm appropriate is taken in response to audit recommendations to ensure procedures are revised and strengthened. Responses are monitored and follow up work is also scheduled where necessary to ensure internal control has improved.
- 2.5 At the Sub Committee meeting in September External Audit highlighted that six officers had accessed the council's network after they had left. This related to general network access not the council's financial systems where passwords controls were adequate. Internal Audit has confirmed that this was reasonable in all but one case. This indicated an isolated case of one officer accessing the network on one specific day, 19 days after leaving. No explanation was available from his manager.  
As a result Internal Audit has carried out a review and further testing of these arrangements and found no cases of inappropriate access by officers that have left the council. Improved controls for deleting access when system users leave are also being investigated.
- 2.6 The section has contributed to the 'Services to Schools' brochure. In addition to current service details and service standards; the brochure sets out additional services available to maintained schools as well as potential services that could be provided under academy status. Academies are not required to have internal audit reviews, however an independent responsible officer should be appointed to evaluate and report on the adequacy of internal control arrangements. Internal audit would have the skills and expertise necessary to provide this service to academies if required.

### .3 OPTIONS FOR CONSIDERATION

- 3.1 The Sub-Committee is asked to consider whether or not this update provides sufficient assurance on the adequacy of internal control arrangements. The Sub-Committee is invited to consider the report and seek clarification on its contents as necessary.
- 3.2 If the Sub-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 updates the Sub-Committee on key internal control issues. It also complies with statutory requirements and professional guidance available and is designed to provide the Sub-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 Sub-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 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 (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 The Audit Sub-Committee should consider whether the Internal Audit progress report provides a sufficient level of assurance on the adequacy of internal control arrangements.

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**Background Papers used in the preparation of this report**  
Internal Audit Plan 2011-2012

## Appendix A

| Audit Areas                          | Audit Reviews To Be Completed During 2011/12   |  | Audits potentially deferred or cancelled   |
|--------------------------------------|--|--|--|
|                                      | Planned  | Unplanned  |  |
| <b>Fundamental Financial Systems</b> | <ul style="list-style-type: none"> <li>• Payroll (in progress)</li> <li>• Creditors (in progress)</li> <li>• Debtors (in progress)</li> <li>• Cash 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</li> <li>• CareFirst (Adult Social Care Payments Feeder System (in progress)</li> <li>• Benefits Subsidy testing (completed)</li> </ul> | <ul style="list-style-type: none"> <li>• Pensions Assurance (completed)</li> <li>• Asset Management IFRS work (completed)</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.</li> <li>• Revision of the council's Code of Corporate Governance</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>  |  |  |
| <b>IT Audit</b>                      | <ul style="list-style-type: none"> <li>• Remote access/wireless</li> <li>• Telephone system (completed)</li> <li>• Operating Systems (completed)</li> <li>• Service desk and incident reporting (completed)</li> </ul>   |  | <ul style="list-style-type: none"> <li>• IT charging Policy</li> <li>• Virtualisation</li> <li>• Network management and control</li> </ul> |

| <b>Audit Areas</b>                    | <b>Audit Reviews To Be Completed During 2011/12</b>  |  | <b>Audits potentially deferred or cancelled</b>                        |
|---------------------------------------|--|--|--|
|                                       | <b>Planned</b>   | <b>Unplanned</b>   |  |
|                                       | <ul style="list-style-type: none"> <li>• IT Governance (in progress)</li> <li>• Government Connect (ad hoc)</li> <li>• Disaster recovery (completed)</li> </ul>  |  |  |
| <b>Contract Audit</b>                 | <ul style="list-style-type: none"> <li>• Contracts C&amp;YP (in progress)</li> <li>• Highways Alliance (completed)</li> <li>• Adults – Commissioning and Procurement (in progress)</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, golf clubs (in progress), bereavement services (completed),</li> <li>• Leisure Timesheet management (completed)</li> <li>• Direct Payments</li> <li>• Transparency reporting (in progress)</li> <li>• Debit cards (in progress)</li> </ul> | <ul style="list-style-type: none"> <li>• CarPlan Analysis (completed)</li> <li>• Overtime Analysis (completed)</li> <li>• Creditors Analysis ( in progress)</li> <li>• Extended National Fraud Initiative (Data Matching) (in progress)</li> <li>• Imprest spot checks (completed)</li> <li>• Network access by leavers (in progress)</li> </ul> |  |
| <b>Council-wide Systems</b>           | <ul style="list-style-type: none"> <li>• Partnership Arrangements</li> <li>• Budgetary Control (in progress)</li> <li>• Worksmart (in progress)</li> <li>• CRC Energy Efficiency Scheme Return (completed)</li> <li>• New legislation (Bribery Act) (completed)</li> <li>• Grant Claims (completed)</li> <li>• Diversity (completed)</li> <li>• Environmental issues (completed)</li> </ul>  |  | <ul style="list-style-type: none"> <li>• Project Management</li> </ul> |
| <b>Adult Social Care Services</b>     | <ul style="list-style-type: none"> <li>• Assessment and Review (completed)</li> <li>• Homecare (completed)</li> <li>• Budgetary control (in progress)</li> <li>• Receiverships</li> <li>• Safeguarding adults (completed)</li> </ul>   |  |  |

| <b>Audit Areas</b>                                | <b>Audit Reviews To Be Completed During 2011/12</b>   |   | <b>Audits potentially deferred or cancelled</b>   |
|---|---|---|---|
|   | <b>Planned</b>  | <b>Unplanned</b>  |   |
| <b>Children &amp; Young People Services</b>       | <ul style="list-style-type: none"> <li>• Budgetary control (in progress)</li> <li>• Policies for the Protection of Children( in progress)</li> <li>• External funding</li> <li>• Building Schools for the Future (completed)</li> <li>• Early Years (in progress)</li> <li>• Child Protection</li> <li>• Children in care</li> <li>• Schools admissions (completed)</li> <li>• CRB/ Safer recruitment (in progress)</li> <li>• Transport (completed)</li> <li>• 38 School Audits (in progress)</li> <li>• Capita one &amp; SIMS (in progress)</li> <li>• Training 16- 19 years (completed)</li> <li>• Audit &amp; Review Team (completed)</li> <li>• Section 17 payments</li> <li>• Issues from schools audits (completed)</li> </ul> | <ul style="list-style-type: none"> <li>• 2 school follow ups (FG &amp; SF)</li> <li>• Play capital grant certification</li> </ul> | <ul style="list-style-type: none"> <li>• Integrated youth support</li> <li>• 2 schools</li> </ul> |
| <b>Finance – Other</b>                            | <ul style="list-style-type: none"> <li>• EIncome (in progress)</li> <li>• Taxation (completed)</li> <li>• Financial Regs and CPRs (in progress)</li> </ul>  | <ul style="list-style-type: none"> <li>• X Code income collection (completed)</li> </ul>  | <ul style="list-style-type: none"> <li>• External funding</li> </ul>                              |
| <b>Infrastructure (excluding IT)</b>              | <ul style="list-style-type: none"> <li>• Highways Maintenance (in progress)</li> <li>• Project Management (in progress)</li> <li>• Post project review (completed)</li> <li>• Budgetary control (in progress)</li> <li>• Contract management - leisure</li> </ul>   | <ul style="list-style-type: none"> <li>• Carlton Street Car Park (completed)</li> </ul>   | <ul style="list-style-type: none"> <li>• Building Control</li> </ul>                              |
| <b>Neighbourhood &amp; Environmental Services</b> | <ul style="list-style-type: none"> <li>• Schools catering (in progress)</li> <li>• Licensing (completed)</li> <li>• Contaminated land</li> <li>• Health Improvement</li> </ul>  |   |   |

| <b>Audit Areas</b>                           | <b>Audit Reviews To Be Completed During 2011/12</b>   |                  | <b>Audits potentially deferred or cancelled</b>   |
|--|---|------------------|---|
|  | <b>Planned</b>  | <b>Unplanned</b> |   |
| <b>Strategic Regeneration &amp; Planning</b> | <ul style="list-style-type: none"> <li>• Business start up loans administration (completed)</li> <li>• South Humber Bank (completed)</li> <li>• Lincolnshire Lakes (completed)</li> <li>• Area Renaissance (completed)</li> <li>• Leader Programme (completed)</li> </ul>   |                  |   |
| <b>Corporate &amp; Community Resources</b>   | <ul style="list-style-type: none"> <li>• Adult Education (in progress)</li> <li>• Data Protection and Freedom of Information Legislation (completed)</li> <li>• Elections and electoral registration (completed)</li> <li>• Legal services (child protection)</li> <li>• Sickness policy (in progress)</li> <li>• Leave policies (completed)</li> <li>• Working time directive and flexible working (in progress)</li> <li>• Compensation for termination of employment (in progress)</li> <li>• Councillors' allowances (in progress)</li> </ul> |                  | <ul style="list-style-type: none"> <li>• Democratic services</li> <li>• Scrutiny</li> <li>• Library and information services</li> <li>• Safer Neighbourhoods</li> <li>• Revisions to Professional Personnel System</li> <li>• Registrars</li> </ul> |

In addition to the above resources were deployed on :

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