

Report of the: Director of Policy and  
Resources

Agenda  
Item No: 5  
Meeting: 23 September 2014

## **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 2014/15 audit plan year.

### **2. BACKGROUND INFORMATION**

#### **2014/15 Audit Plan Progress**

- 2.1 An effective Internal Audit Service, and the delivery of the audit plan, is a key aspect in obtaining assurance that a reliable control environment is in place. Completion of the Internal Audit Plan is monitored and reported regularly to this Committee. The latest position is provided in appendix A. Changes to the original plan are shown as a result of additional audits required during the year due to emerging risks and other planned audits which were no longer required in 2014/15 due to the lessening of the risk or changes in implementation dates of key changes to the control environment. It is anticipated that there will be adequate plan cover overall to ensure there will be a sufficient level of completed planned work to provide an opinion on the adequacy of the control environment.

#### **Significant Audit Findings**

- 2.2 The outcome of audit work is reported at each meeting of this Committee. There are no significant control weaknesses to bring to the Committee's attention and there are no reports issued that highlighted control weaknesses and an overall assessment of no assurance.

- 2.3 Audit checks of the 2013/14 housing benefit subsidy claim have highlighted no errors. This informs external audit's claim certification process.
- 2.4 In April and June members were informed about audit work on Adult Services income procedures. The work has not yet concluded as some of the agreed actions have not been addressed and deadlines have been put back as a result of significant restructure within the service. Internal audit will continue to work with the service to ensure appropriate action is taken.
- 2.5 The Internal Audit service continues to engage in the council's commercial policy and explores income generating opportunities as appropriate. An independent assurance service has been completed at a Grimsby academy and discussions concerning further work are ongoing.

In accordance with PSIAS the Audit Committee should approve consultancy work (if significant) and be assured there will be no detrimental impact on delivering the audit service to the council. The work undertaken so far has been completed within existing resources as the scale of the work was relatively small (approximately 5 days). Other opportunities under consideration to date do not represent a significant level of consultancy work (5 to 15 days) and should not therefore have any detriment impact on achieving the audit plan for the council. The Committee is asked therefore to note these requests for work.

#### **Unplanned work**

- 2.6 Requests for unforeseen and irregularity work continue to be received. 108 days have been used against the allocation set aside in the 2014/15 Audit Plan of 185 days. Since April 2014 internal audit has received 11 referrals. These have been investigated by officers within the service or in conjunction with HR colleagues. Key themes in the period include the following:
- Inappropriate use of internet during working hours
  - Inappropriate use of council assets
  - Flexi/timesheet/mileage discrepancies.
- 2.7 Referrals received via the Whistleblowers' hotline have increased steadily over the last few years:

Year	Referrals received	Inadequate info/ Redirected call
2010/11	221	34
2011/12	373	78
2012/13	378	81
2013/14	645	282
2014/15 (April to Aug)	238	98

All referrals are either investigated by Internal Audit or information is passed on to the Benefits Fraud Team for investigation. Over £14k Council Tax or Housing Benefits overpayments were referred through the whistleblowers' hotline.

### **Proactive work**

- 2.8 Proactive counter fraud work has included the following reviews:
- Leisure - gym membership
  - Handyman service
  - Bereavement services
  - Markets.
- 2.9 Two bids for DCLG counter fraud funding has been made in association with neighbouring councils. One bid is for 2 year funding of a data analysis hub (comprising of software and a member of staff) for the benefit of the council in partnership with ERYC, Hull CC and NELC. Data held by all the council's will be matched against other information sources such as credit reference agency data and investigated as appropriate. The second bid will enhance the existing shared insurance management arrangement that NLC and NELC have with ERYC. Funding will provide additional resources to investigate public liability claims across the 3 councils.
- 2.10 During the summer CIPFA invited comments on a Code of Practice on Managing the Risk of Fraud and Corruption. The Code aims to establish common principles for managing the risk of fraud and corruption. The principles provide a set of standards which can be applied in all public bodies, regardless of sector or size. They emphasise the importance of managing the risks of fraud and corruption in order to secure good governance and financial stewardship.
- Feedback provided welcomed the introduction of the Code but suggested that the voluntary status may reduce effectiveness. Reference to compliance to the Code could be included in the Annual Governance Statement to improve effectiveness.

### **DCLG consultation**

- 2.11 The Audit Committee has received updates about progress on the Local Audit and Accountability Act. In June/July DCLG consulted on further proposals including changes to the Accounts and Audit regulations. The two key changes proposed in the draft regulations are:
- An earlier timetable for the preparation and publication of the statements of accounts; and
  - Reform of the rules on the exercise of the public's rights to inspect the accounting records and to put objections and questions to the auditor.
- Under these proposals accounts are required to be prepared and certified by the responsible financial officer by 31 May instead of 30 June and approved and published by 31 July instead of 30 September. The council's response included concern about whether an earlier timetable is achievable given the complexity, volume and level of coordination required to complete the work across large multi-purpose organisations that councils represent. A further concern is the level of resource required to achieve the earlier timetable and the impact on overall quality of the accounts. It was also noted that there is little take up for inspection of the

accounts by the public and the volume of the accounts and supporting notes does not encourage public understanding and scrutiny and therefore make transparency difficult to achieve.

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

Progress in implementing external audit recommendations is regularly reported to this Committee. All recommendations made have been addressed to date. The recent issue raised in the ISA 260 report (reported elsewhere on this agenda) regarding 'The analysis of the council's provisions between short term provisions, due within one year and long term was not adequately evidenced' will be addressed through changes made to the Council's closure of accounts process for 2014/15 to ensure this issue is not repeated.

### **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.

### **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 to fulfil its role effectively.

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

5.1 There are no additional resources implications however regular reviews of internal control help safeguard the council's assets and help ensure that value for money is achieved in the use of 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 with Directors and key staff at all stages of audit work and comments made are incorporated wherever possible.

7.2 There are no conflicts of interests to declare.

## **8. RECOMMENDATION**

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

### **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 2014/15		
	Planned	Unplanned	Deferred
<b>Fundamental Financial Systems</b>	<ul style="list-style-type: none"> <li>• All 2013/14 fundamental audits completed (see Asset Management)</li> <li>• Payroll</li> <li>• Creditors</li> <li>• Debtors</li> <li>• Income Receipting</li> <li>• Main Accounting Ledger</li> <li>• Housing Benefits</li> <li>• Local Taxation</li> <li>• Treasury Management</li> <li>• Asset Management (2013/14 - in progress)</li> <li>• CareFirst</li> <li>• Benefits Subsidy testing (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 (2013/14 completed). 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 (2013/14 completed).</li> </ul>		

Audit Areas	Audit Reviews Completed During 2014/15		
	Planned	Unplanned	Deferred
<b>IT Audit</b>	<ul style="list-style-type: none"> <li>• IT Charging Policy 2013/14 (completed)</li> <li>• Change Control</li> <li>• Network Management and Control</li> <li>• Disaster Recovery and Business Continuity follow up</li> <li>• Physical and Environmental Controls</li> <li>• Operating Systems</li> <li>• PC and Laptop Security</li> <li>• Public Services Network (ad hoc)</li> </ul>		
<b>Contract Audit</b>	<ul style="list-style-type: none"> <li>• Commissioning – Public Health</li> <li>• Commissioning – Dynamic Purchasing System (in progress)</li> <li>• Commissioning – CCTV system (in progress)</li> <li>• Compliance with Procurement Framework</li> </ul>		
<b>Fraud Prevention and Detection</b>	<ul style="list-style-type: none"> <li>• Responding to cases received via Whistleblowers Hotline and email (on going)</li> <li>• Publicity/ training/ updating the counter fraud strategy</li> <li>• Income audits – Leisure Health and Fitness Membership (completed), Golf Clubs (in progress), Markets (in progress), Bereavement Services (completed)</li> <li>• Data Matching - NFI/IDEA</li> </ul>	Procurement fraud review of expenditure 2013/14 (completed)	

Audit Areas	Audit Reviews Completed During 2014/15		
	Planned	Unplanned	Deferred
<b>Council-wide Systems</b>	<ul style="list-style-type: none"> <li>• Budgetary Control Capital 2013/14 (completed)</li> <li>• Self Service Portal 2013/14 (in progress)</li> <li>• Payment Card Industry – Data Security Standard 2013/14 (in progress)</li> <li>• Income and Corporate Charging Policy 2013/14 (completed)</li> <li>• Public Health Responsibilities – National Child Measurement Programme 2013/14 (completed), Outcomes Fund (in progress), Grant Compliance (in progress)</li> <li>• Performance Management</li> <li>• Data Quality</li> <li>• Partnerships</li> <li>• Grant claims</li> <li>• Information Governance – Records Management</li> <li>• Integrated Impact Assessments</li> </ul>		
<b>People – Adult Services</b>	<ul style="list-style-type: none"> <li>• Assessment of Care 2013/14 (complete )</li> <li>• External Residential Care 2013/14 (complete )</li> <li>• Homecare Commissioning – Community Support 4 You</li> <li>• Effectiveness of Rehabilitation and Reablement (CST and Lilacs) (in progress)</li> <li>• Receiverships</li> <li>• Preloaded Cards (personal budgets)</li> <li>• Adult Income Issues (in progress)</li> </ul>	Adult Budget issues 2013/14 (complete)	
<b>People – Specialist</b>	<ul style="list-style-type: none"> <li>• Allegation Management Policy 2013/14 (in progress)</li> <li>• Children in Care – Adoption Consortium &amp; Fostering Allowances (complete)</li> <li>• Staff led Social Enterprise Accommodation Support</li> </ul>	<ul style="list-style-type: none"> <li>• Fostering Reform Grant (complete)</li> <li>• Section 17 follow up (in progress)</li> <li>• Fostering payments follow up (in progress)</li> </ul>	
<b>People – School Improvement</b>	<ul style="list-style-type: none"> <li>• Issues from School Audits (2013/14 completed)</li> <li>• Schools audits (in progress)</li> <li>• Specialist Learning</li> <li>• Music Support Services</li> </ul>	<ul style="list-style-type: none"> <li>• St Barnabas at the request of the Head (Draft report)</li> </ul>	<ul style="list-style-type: none"> <li>• High Needs Education</li> </ul>

Audit Areas	Audit Reviews Completed During 2014/15		
	Planned	Unplanned	Deferred
<b>People – Commissioning and Localities</b>	<ul style="list-style-type: none"> <li>Budgetary Control 2013/14 (draft report)</li> <li>Maintenance of School Buildings 2013/14 (completed )</li> <li>Integrated Youth Support (Grants) 2013/14 (completed)</li> <li>Personal Budget Calculation</li> <li>Early Years</li> <li>Service to Schools</li> </ul>	<ul style="list-style-type: none"> <li>Supporting people commissioning 2013/14 (draft report)</li> <li>Capita 1 &amp; SIMS follow up</li> </ul>	
<b>Policy &amp; Resources - Finance</b>	<ul style="list-style-type: none"> <li>Welfare Reforms 2013/14 (draft report)</li> <li>CT discounts/ NNDR reliefs and appeals - budget implications 2013/14 (completed)</li> <li>Pensions Assurance (completed)</li> <li>Finance Manual (in progress)</li> <li>Taxation (in progress)</li> <li>Debit cards / Imprest Accounts (in progress)</li> <li>Insurance</li> <li>Timesheets</li> </ul>	<ul style="list-style-type: none"> <li>Exemptions from e-procurement orders 2013/14 (completed)</li> <li>New Payroll System (in progress)</li> </ul>	
<b>Policy &amp; Resources - Human Resources</b>	<ul style="list-style-type: none"> <li>Sickness Policy</li> <li>Working Time Directive &amp; Flexible Working</li> <li>Compensation for Termination of Employment</li> <li>Re-deployment Policy</li> <li>Driver Document Checks</li> </ul>		
<b>Policy &amp; Resources - Legal Services</b>	<ul style="list-style-type: none"> <li>VCS Funding 2013/14 (completed)</li> <li>Democratic Services – Standards Arrangements</li> <li>Legal Services – Compliance with Public Law Outline</li> <li>Community Engagement and Consultation</li> </ul>		
<b>Policy and Resources – Business Support</b>	<ul style="list-style-type: none"> <li>Commercialism</li> </ul>		
<b>Places - General</b>	<ul style="list-style-type: none"> <li>Budgetary Control</li> </ul>		
<b>Places – Customer Services</b>	<ul style="list-style-type: none"> <li>Contract Management – Leisure (draft report)</li> <li>Transfer of facilities to Community Management</li> <li>Duty of Care</li> <li>Customer Services – Local Links (completed)</li> </ul>	<ul style="list-style-type: none"> <li>TLMS follow up (in progress)</li> </ul>	

Audit Areas	Audit Reviews Completed During 2014/15		
	Planned	Unplanned	Deferred
<b>Places – Technical &amp; Environment</b>	<ul style="list-style-type: none"> <li>• Countryside Stewardship 2013/14 (completed)</li> <li>• Homelessness 2013/14 (draft report)</li> <li>• Disabled Facilities Grants</li> <li>• Licensing – Alcohol &amp; Entertainments (completed)</li> <li>• Handyman Service (completed)</li> <li>• Safer Neighbourhoods Partnership (completed)</li> </ul>		
<b>Places – Planning and Regeneration</b>	<ul style="list-style-type: none"> <li>• BDUK Project (ongoing)</li> <li>• Regional Growth Fund</li> <li>• Vacant Land &amp; Property (in progress)</li> <li>• South Humber Bank</li> <li>• Leader Programme</li> <li>• Humber University Technical College (watching brief)</li> <li>• Development Control (draft report)</li> </ul>		
<b>Places- Community Services</b>	<ul style="list-style-type: none"> <li>• Highways Alliance – Closure (in progress)</li> <li>• Grant Certification – Bus Operators Grant (in progress), Local Transport Capital Block / Additional Highways Funding (in progress)</li> <li>• Universal Infant Free School Meals (in progress)</li> </ul>	<ul style="list-style-type: none"> <li>• Traffic Income Procedures (completed)</li> <li>• CIC/CIN Transport follow up (draft report)</li> </ul>	

In addition to the above resources were deployed on : <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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