

June 2011

Lincolnshire County Council Internal Audit Annual Report 2010/11

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Distribution List			
Audit Committee Executive Director – Pete Moore External Audit			

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AUDIT LINCOLNSHIRE

Working in Partnership



Lincolnshire County Council
Annual Internal Audit Report

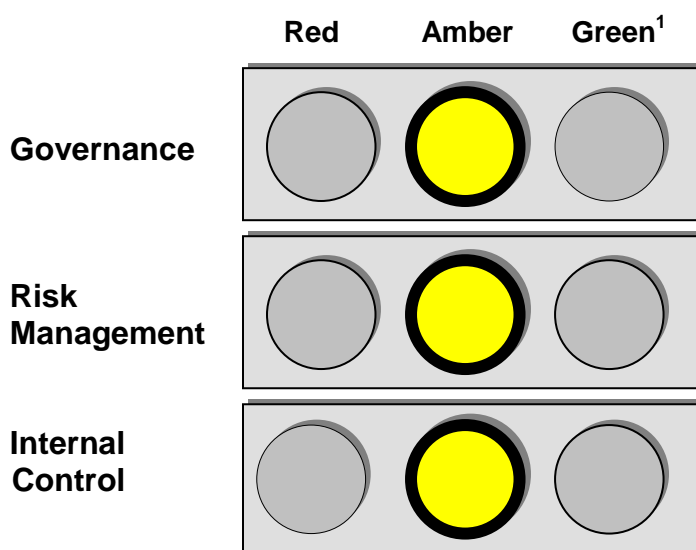
MANAGEMENT SUMMARY

Purpose of Annual Report

- 1 The Annual Internal Audit Report of Lincolnshire County Council aims to present a summary of the audit work undertaken over the past year. In particular:
 - Include an opinion on the overall adequacy of and effectiveness of the governance framework and internal control system and the extent to which the Council can rely on it;
 - Inform how the plan was discharged and of overall outcomes of the work undertaken;
 - Draw attention to any issues particularly relevant to the Annual Governance Statement.

Opinion on the Governance Framework and Internal Control Environment

- 2 For the 12 months ended 31 March 2011, based on the work we have undertaken and information from other sources of governance my opinion regarding the adequacy and effectiveness of Lincolnshire County Council's arrangements for governance, risk management and control is **Limited**.



How we came to our opinion.

- 3 We took account of the outcome of our internal audit work during the year. A number of areas were given no (6%) or limited assurance (20%). Of these the following areas continue to have outstanding actions by management which have been designed to improve the system and manage potential risks:

¹ Red Critical action required by management throughout the Council to ensure a high risk areas are managed effectively.
Amber Performing adequately with some improvement required to manage a high risk in a specific business area and medium risks across the Council.
Green Performing well - No concerns that significantly affect the governance framework and successful delivery of the Council priorities.

Adult Social Care – We reported:

- A backlog of cases in Older People contact, referral and assessment. The Management Board are currently implementing corrective action.
- A number of failings in process, judgement, compliance and capability that has affected how well we managed contracts in adult social care. Management have implemented an improvement plan which will be presented to the Audit Committee on the 11th July 2011.
- Compliance issues that undermine the assurance we can provide that the resource allocation system used to calculate the amount of money an individual will have for their care is accurate. Management have agreed actions for improvements.
- That the way we manage Direct Payments need to be reviewed to ensure appropriate financial checks are performed and minimise over/surplus payments.
- We were unable to provide assurance that all the proposed savings could be delivered and that the service will not overspend. Actions are being taken to validate delivery of savings and improve performance monitoring and accountability.

Development – Section 106 agreements

- We found that there was no co-ordinated approach to making submissions to Local Planning Authorities and that requests for funding are not adequately supported by a clear and well justified statement on an adopted County Council approach.

Development – Historic Lincoln Programme

- We recommended improvements around funding arrangements, financial and project management processes. The Audit Committee is monitoring implementation of agreed actions.

Development – Concessionary Fares

- We reported good progress had been made in preparing for the County Council to administer this scheme. However, a number of issues have arisen around the data accuracy and budget pressures associated with this scheme. This area has been included in the Internal Audit plan for 2011/12.

Resources – Creditors Master Data

- We continue to report on control issues around the authorising of creditor masterdata. This poses a risk that inappropriate vendors could be set up and exposes the Council to the risk of fraud.

Resources – Business Continuity

- Workforce and service changes has had an impact on the effectiveness of our business continuity arrangements and how

much reliance can be placed on the plans in place. A work plan is in place to update our critical services business continuity plans, with the Audit Committee keeping an oversight on this activity.

Counter Fraud

- Our counter fraud work has identified a number of areas where internal control processes have failed. These have resulted in fraud or loss to the Council estimated to be in the region of £1.67m. The Council continues to fight against the risk of fraud taking appropriate recovery and redress action. Steps are also taken to improve systems.
- 4 Our work identified areas of high risk around processes within Adult Social Care. As a result the Audit Committee has referred this to the Executive to enable them to take appropriate action and monitor improvement. They continue to work constructively with management to improve systems and accountability.
 - 5 We track the implementation of agreed management actions. Over the past year management have implemented **50%** of our high priority and **52%** of our medium priority recommendations due by the 31st March 2011. This shows a reduction compared to last year – 72% and 83% respectively. Where action has not been taken we have escalated the activity to the Audit Committee. We will continue to work with the Audit Committee to monitor implementation of recommended action during 2011/12.
 - 6 Taking all of the above information together we have assessed the control environment as **amber** – performing adequately – some improvement required. Improvement plans are tracked through the Councils performance management systems and the *Audit Committee*.
 - 7 We have taken account of structures and processes, which have been put in place to ensure that the Council promotes good governance in the way it operates.
 - 8 The *Audit Committee* helps ensure that these arrangements are working effectively. The Audit Committee regularly review the governance framework and consider draft and final versions of the Annual Governance Statement.
 - 9 The Council is currently facing some significant challenges – how we deliver services to the people of Lincolnshire will change. A new management structure has been put in place and we are currently undertaking significant workforce change to deliver the reduced budget agreed by the Council. The Councils governance framework and assurance arrangements will need to adapt and respond to these changes and different ways of working. Based on this we have assessed the governance framework as **amber** – performing adequately – some improvement required. A review of our governance framework is planned in 2011/12.

- 10 Overall, the Council continues to adequately demonstrate that it has mature systems and processes for managing risk at a strategic level. However, as the business is changing our risk management processes need to adapt to change the way we think about risk. Our processes need to support and promote well measured risk taking decisions to maximise innovation and opportunities to improve our services. This is the reason why we have assessed risk management as **amber** – performing adequately – some improvement required. A review of our risk management strategy is planned for 2011/12.

Delivery of internal audit plan 2010/11

- 11 The Audit Committee approved the 2009/2010 audit plan on the 22nd March 2010. We had delivered **89%** (target 85%) of the revised plan by the end of the year.

Effectiveness of Internal Audit

- 12 The Council reviewed the system of Internal Audit and assessed it as *effective*. Key improvement areas implemented during the year were:
- Development of the Audit Lincolnshire Partnership
 - Implementation of the new web-based audit software
 - Improving efficiency through new initiatives, such introduction of Health Checks.
 - Reviewing the Audit and Risk strategy in light of the new economic climate and workforce changes facing the Council.
- 13 This assessment will be updated in June 2011 and reported to the Audit Committee in July 2011.

Counter Fraud

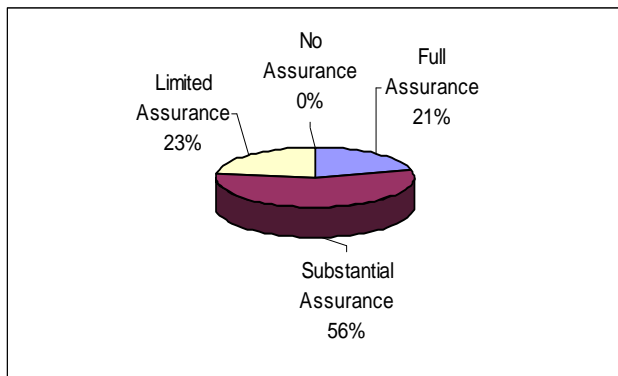
- 14 The Council has put in place good arrangements to help reduce the risk of fraud and error. The outcome of this is detailed in a separate annual report.

SCOPE OF WORK
Benchmarking

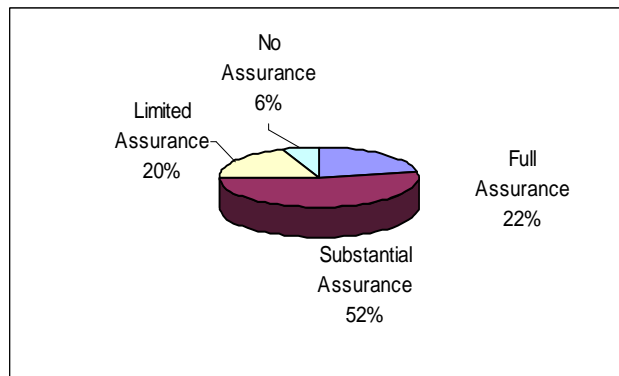
Comparison of Assurances

15 The charts below show the assurance opinions given in 2009/10 compared to those in 2010/11. It shows an increase in areas where we could place reliance. Details of systems reviewed can be found in Appendix 1:

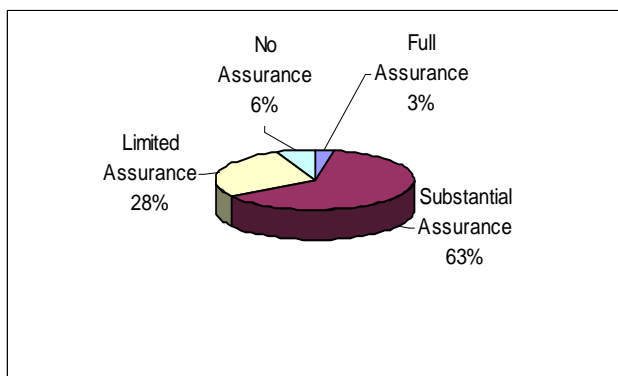
Service Areas Assurance levels 2009/10



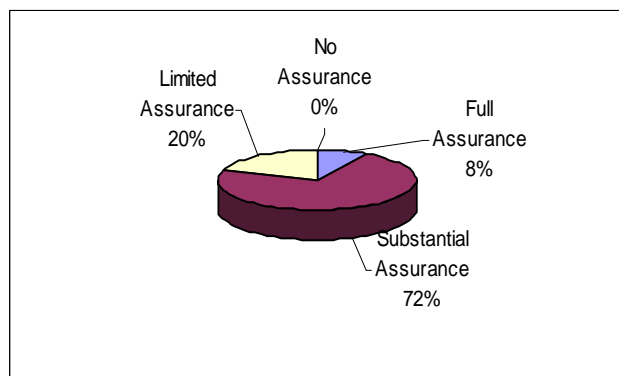
Service Areas Assurance levels 2010/11



Schools Assurance Levels 2009/10



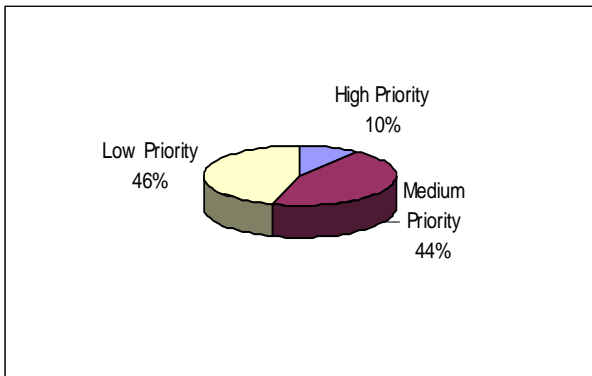
Schools Assurance Levels 2010/11



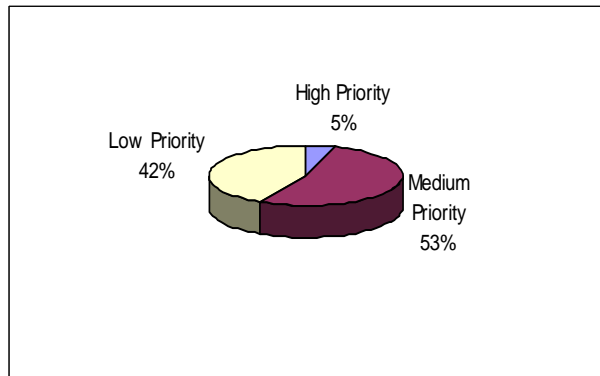
Comparison of Recommendations

16 The charts below show the comparison of internal audit recommendations made 2009/10 and 2010/11. It shows an increase in the significance of actions being recommended. Details of systems reviewed can be found in Appendix 1:

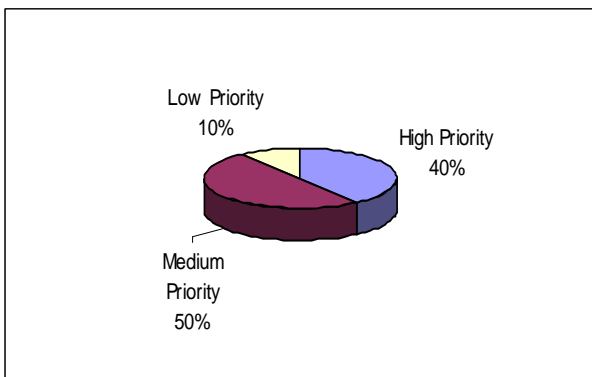
Schools Recommendations 2009/10



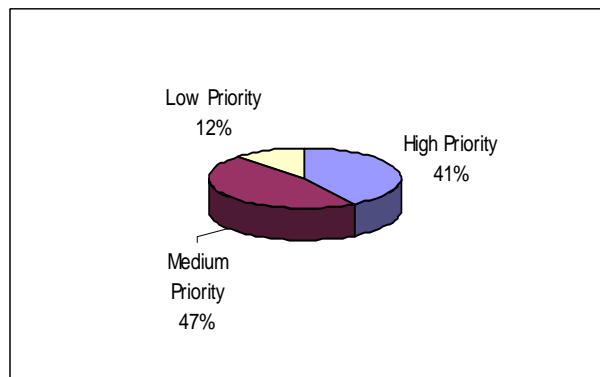
Schools Recommendations 2010/11



Service Areas Recommendations 2009/10



Service Areas Recommendations 2010/11



Restrictions on Scope / Disagreements

17 In carrying out our work we identified no unexpected restrictions to the scope of our work. We have had difficulties in gaining access to staff which resulted in some delay or inability to deliver planned work within the expected timescales.

Other Areas of Audit Activity

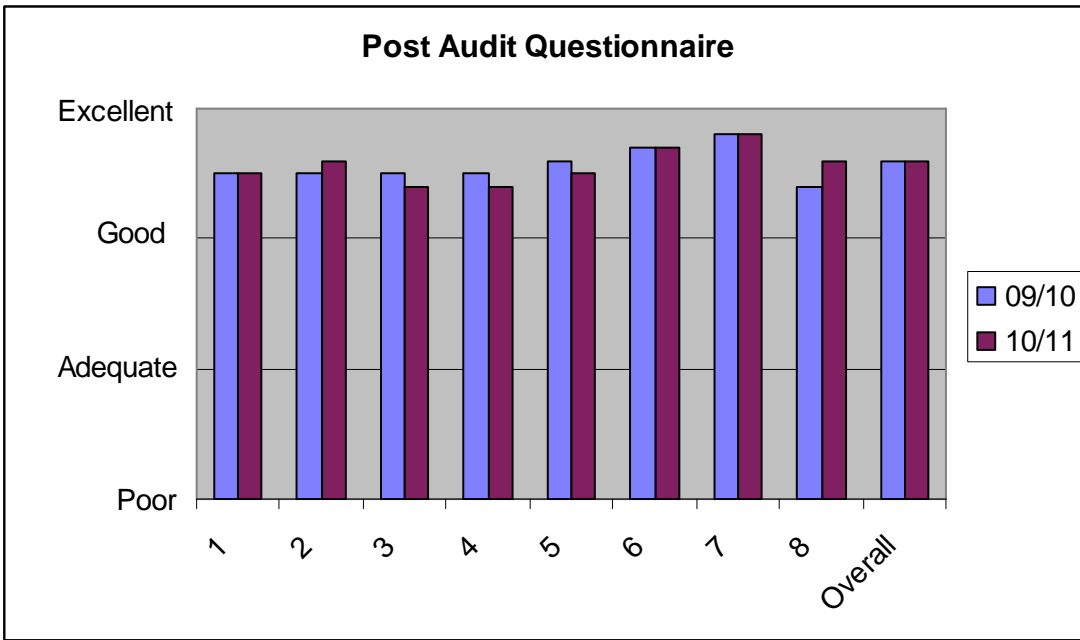
18 During the year audit provided help on identification of risks and controls on a number of key developments. These included:

- Putting people first
- Waste treatment facility
- Certification work on grant claims

- 19 Training has been given to the Audit Committee to provide members with knowledge and information on key areas in its terms of reference.

Quality Assurance

- 20 Internal Audit operates in accordance with the standards of best practice applicable to Internal Audit (particularly the CIPFA Code of Practice for Internal Audit in Local Government). During the year Internal Audit have continued to strive to improve services and have undertaken a number of internal reviews to look at working practices, automation of routines, approach and compliance with professional good practice. The County Council's External Auditors continue to place reliance on our work where appropriate.
- 21 Although internal and external auditors carry out their work with different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will place reliance and assurance upon internal audit work.
- 22 There is a financial commitment for training and developing staff. Training provision is continually reviewed through the appraisal process and regular one to one meetings. A training programme has been developed to ensure that staff are kept up to date with the latest technical / professional information and to ensure that they are equipped with the appropriate skills to perform their role.
- 23 We regularly canvass opinions on audit planning, report and communication from management responsible for activities under review. They score the effectiveness of our service as excellent, good, adequate or poor. The table below outlines the responses by management on our service. For 2010/11 there was a 56% questionnaire return rate, the overall average rating for the service was good to excellent.



Questions

A. Audit Planning

- 1. Consultation on audit coverage
- 2. Fulfilment of scope and objectives

B. Audit Report

- 3. Quality of report
- 4. Accuracy of findings
- 5. Value of report

C. Communication

- 6. Feedback of findings during audit
- 7. Helpfulness of auditor(s)
- 8. Prompt delivery of the audit report

Area	Assurance Provided	Priority of Recommendations			
		Total Recs.	High	Medium	Low
Chief Executives Office					
Corporate Governance	C/Fwd	0			
Community Strategy	Cancelled	0			
New Ways of Working	Substantial	0			
Countywide Performance Framework	Cancelled	0			
Information Management	Cancelled	0			
Local Area Agreement Delivery Plans	Cancelled	0			
Performance Framework	Cancelled	0			
Programme Office	Substantial	1	1		
Strategic Service Reviews	Cancelled	0			
Transformation Programme	Cancelled	0			
Learning & Development	Cancelled	0			
Investors in People (health check)	Full	0			
Recruitment & Retention		0			
Member Development (health check)	Substantial	4		3	1
Adult Education	Substantial	5		4	1
Total		10	1	7	2
ICT					
Government Connects	Substantial	8		5	3
SAP Security	C/Fwd	0			
Software Licensing	C/Fwd	0			
Disaster Recovery	C/Fwd	0			
Managed Service	Cancelled	0			
Swift System	Substantial	2		1	1
Fire Services ICT arrangements	Substantial	1		1	
Total		11	0	7	4
Adult Services					
Transformation/Putting People First Programme (PPF)	Substantial	0			
Contract management	No	17	17		
Contact, Referral & Assessment (PPF)	No	8	7	1	
Resource Allocation system- data (compliance)	Substantial (Limited)	14	7	7	

Area	Assurance Provided	Priority of Recommendations				
		Total Recs.		High	Medium	Low
Direct Payments	Limited	8		2	6	
Integrated Equipment Service	C/Fwd	0				
Financial Management	Limited	5		1	3	1
Safeguarding	Cancelled	0				
Supporting People	Full	0				
First Contact	Substantial	2		2		
Brokerage	Cancelled	0				
Finance & Benefits Team	Substantial	11		4	7	
Court of Protection	Substantial	6		1	5	
Total		71		41	29	1
Children's Services						
Monitoring of financial management in schools (additional)	Substantial - Indicative	19		10	5	4
Criminal Injury Compensation Claims	No	10		8	2	
Wolds East Education Trust (Wolds College)	Limited	5		3	2	
Budget Allocation	Substantial	6		2	3	1
Integrated Children's System	Cancelled	0				
Contact Point	Cancelled	0				
Learning Skills Council	Cancelled	0				
Resource Allocation System	Substantial	5		0	3	2
Total		45		23	15	7
Development						
Strategic Planning (health check)	Full	0				
Performance Management (health check)	Full	0				
Risk Management	Cancelled	0				
Lincolnshire Tourism	Limited	7		5	2	
Lincolnshire Enterprise	Full	1				1
Economic Infrastructure & Regeneration	Cancelled	0				
Grantham & Lincoln New Growth Points	Full	0				
Joint Municipal Waste Strategy	Substantial	3			1	2
Climate Change Management	Substantial	4		3	1	
Energy from Waste	Substantial	5		3	2	

Area	Assurance Provided	Priority of Recommendations			
		Total Recs.	High	Medium	Low
Section 106/CIL	Limited	3	2	1	
Network Management (health check)	Substantial	2		1	1
Highways Maintenance & Inspections (health check)	Full	0			
Term Maintenance Contract	Substantial	4		4	
Highways Asset Management System	Indicative - Substantial				
Countryside Access & Rights of Way (health check)	Full	0			
Lincolnshire Network Management Plan	Substantial	2		1	1
Flood Management (addition)	Substantial	2		2	
Concessionary Fares (addition)	Limited	0			
Total		33	13	15	5
Resources - Finance					
Income	Full	4		3	1
Payroll	Indicative - substantial	7		5	2
Creditors (master data)	Substantial (limited)	6	1	4	1
Treasury Management	Cancelled	0			
International Financial Reporting Standards (additional)	Substantial	4		1	3
Pensions Administration	Full	0			
Budget Management/Preparation	Cancelled	0			
Pension Fund Management	Cancelled	0			
Total		21	1	13	7
Resources – Other					
Key Strategic Contract					
Property Infrastructure	Cancelled	0			
Legal Shared Service	Substantial	5	4	1	
Fire Service	Full	1			1
Business Continuity	Indicative - Limited	10	2	8	
Youth Offending Service	Substantial	13	6	7	
Totals		29	12	16	1
Grand Total Services		220	91	102	27
Due at 31/3/11		113	43	54	16
Not Due at 31/3/11		107	48	48	11

Area	Assurance Provided	Priority of Recommendations				
		Total Recs.		High	Medium	Low
Schools						
Lincoln Kingsdown Nursery	Substantial	8			6	2
Allington with Sedgebrook	Substantial	8			5	3
Ancaster CE	Limited	15		2	8	5
Barkston & Syston CE	Substantial	7			2	5
Barrowby CE	Substantial	10			7	3
Billinghay CE	Substantial	9		1	5	3
Boston Staniland	Substantial	10			4	6
Butterwick Pinchbeck CE	Substantial	7		1	2	4
Caythorpe	Substantial	8		1	5	2
Coningsby St Michaels	Substantial	8			3	5
Eagle Community Primary	Substantial	14			4	10
Friskney All Saints	Substantial	30		1	18	11
Gainsborough Benjamin Adlard	Substantial	25			9	16
Gainsborough Charles Baines	Substantial	24		1	9	14
Gainsborough Hillcrest	Substantial	22			8	14
Gainsborough North County	Substantial	18			8	10
Gipsey Bridge	Substantial	10			4	6
Gonerby Hill Foot	Substantial	7			4	3
Grasby All Saints CE	Substantial	11			3	8
Great Steeping	Full	0				
Harlaxton	Limited	13			11	2
Holton le Clay	Substantial	17			13	4
Kirkby La Thorpe CE	Substantial	9		1	5	3
Lincoln Manor Leas	Substantial	11			8	3
Lincoln Leslie Manser	Substantial	14			6	8
Lincoln St Faiths CE	Limited	20		1	8	11
Lincoln St Hughs RC	Substantial	9		1	3	5
Lincoln St Peter at Gowts	Substantial	9			5	4
Lincoln St Peter in Eastgate	Full	12			5	7
Lincoln Westgate	Substantial	5			3	2
Louth St Michael's CE	Limited	26		1	11	14
Market Rasen CE	Limited	34		3	25	6
Moulton John Harrox	Substantial	11			9	2
North Hykeham Ling Moor	Substantial	18		1	8	9
Skegness Richmond	Substantial	26		1	15	10
Sleaford St Botolph's	Substantial	9		1	6	2

Area	Assurance Provided	Priority of Recommendations			
		Total Recs.	High	Medium	Low
Schools					
Spalding Parish CE	Limited	19	2	10	7
Spilsby Primary	Substantial	8		7	1
Stamford Malcolm Sargent	Substantial	10		7	3
Sturton by Stow	Substantial	7		5	2
Sutton on Sea	Substantial	32	1	14	17
Thorpe on the Hill St Michael's	Substantial	16		9	7
Wragby Primary	Substantial	7		2	5
Bourne Robert Manning	Substantial	15		8	7
Donington Thomas Cowley	Full	10			10
Horncastle Banovallum	Limited	8	3	4	1
Lincoln St Peter & St Paul	Substantial	14	2	8	4
Long Sutton the Peele	Full	2		1	1
Lincoln Christ Hospital	Substantial	14	1	5	8
Spalding High	Limited	22	4	11	7
Welbourn Sir William Robertson	Limited	27	5	12	10
Lincoln Queen's park	Substantial	11	1	4	6
Spilsby Eresby	Full	8		3	5
Kelsey	Substantial	25	1	11	13
Ingoldmells	Substantial	22	1	8	13
Nettleham Junior	Substantial	21	1	11	9
Wainfleet Magdalen	Limited	35	3	25	7
Welton St Mary's	Substantial	15		11	4
Kesteven & Grantham Girls School	Substantial	16	1	11	4
William Lovell, Stickney	Limited	36	3	22	11
Waddington All Saints	Limited	28	1	22	5
Total Schools		922	47	486	389
Grand Total Services & Schools		1142	138	588	416

End of Appendix 1

SUMMARY

Appendix 2

OUTSTANDING AUDIT RECOMMENDATIONS AT 31/03/11

Audit Area	Issue Date	Assurance	Implemented	Outstanding Recommendations		
				High	Medium	Low
Chief Executives						
Adult Education	Sept 2010	Substantial	4		1	
Member Development	Sept 2010	Substantial	0		3	1
Adult Services						
Court of Protection	June 2010	Substantial	3	1	2	
Finance & Benefits Team	Jan 2011	Substantial	4	2	5	
Contact, Referral & Assessment	Feb 2011	No	0	7	1	
Commissioning 09/10	June 2010	Substantial	3	1	1	
Financial Management	Feb 2011	Limited	3	2		
Development						
Lincolnshire Tourism	Jan 2011	Limited	0	5	2	
Network Management	Oct 2010	Substantial	1		1	
Term Maintenance	March 2011	Substantial	1		3	
Winter Maintenance	Jan 2010	Substantial	1		1	
Carbon Management Action Plan	June 2010	Substantial	0	3	1	
Energy from Waste	July 2010	Substantial	2	2	1	
Lincolnshire Network Management Plan	Oct 2010	Substantial	1		1	
Resources						
Capital Contracts 09/10	Nov 2010	Substantial	0		3	
Income	Sept 2010	Full	2		2	
Total			25	23	28	1

End of Appendix 2