Lincolnshire County Council Internal Audit Annual Report 2012/13

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Head of Audit & Risk Management

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Audit Committee Executive Director – Pete Moore External Audit Governance Group			

Lincolnshire County Council
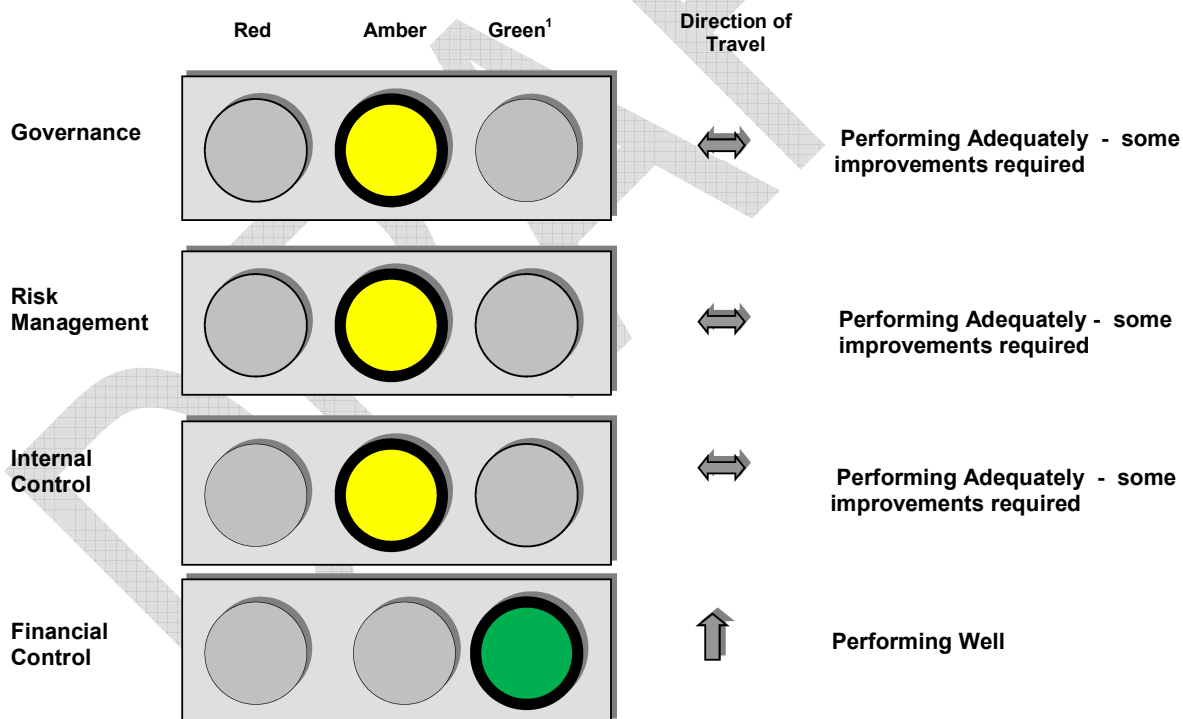Annual Internal Audit Report

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 2013, 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 are as follows:

	Red	Amber	Green[1]	Direction of Travel	
Governance		●		⬌	Performing Adequately - some improvements required
Risk Management		●		⬌	Performing Adequately - some improvements required
Internal Control		●		⬌	Performing Adequately - some improvements required
Financial Control			●	⬆	Performing Well

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[1] Red   **Inadequate Performance** - Critical action required by management throughout the Council.
   Amber   **Performing Adequately** - 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.

Direction of Travel - ⬌ No change / stable   ⬆ Improving   ⬇ Reducing

3   Our work provides an important element to the Councils' assurance arrangements and supports the District Auditor's opinion on the Council's Financial Statements.

How we came to our opinion.

Internal and Financial Control Arrangements

4   Whilst we are satisfied that the overall standard of internal control for the financial year ending 31st March 2013 is 'performing adequately' - our work did identify some areas of improvement.

5   My opinion has taken into account of the outcome of our internal audit work during the year. There were no areas receiving a no assurance opinion this year. There were a number of areas that were limited (39) of which the following have outstanding actions by management which have been designed to improve the system and manage potential risks:

Adult Care

We continue to work with Adult Care to strengthen the assurance arrangements on their critical activities. We are currently completing an audit on case management – interim findings have identified areas for improvement around:

- Referrals
- Assessment process
- Case management and recording
- Risk assessment

Adult safeguarding is also one of the Council's strategic risks.

This area has been included in the Annual Governance Statement for 2013 as an area where further work is required to improve systems or monitor how the key risks facing the Council are being managed.

Performance & Governance - Maintaining ICT Resilience

 A number of Internal Audit Reviews gave limited assurance – actions remain outstanding on:
- Software licencing
- Data Management
- IT Disaster Recovery (in progress – indicative assurance Limited)

IT Disaster Recovery continues to be raised as an area of concern by the Audit Committee. The Committee remains uncertain over assurances that can be provided over the Councils resilience in the event of a disaster - balancing the risk / resilience / recovery / affordability.   Audit Committee has requested more in depth insight on the current position for their 22 July 2013 meeting.

This area has been included in the Annual Governance Statement for 2013 as an area where further work is required to improve systems or monitor how the key risks facing the Council are being managed.

Resources and Community Safety - Fire & Rescue Fuel

In 2012 an investigation identified mis-use of fuel. Our audit reviewed the system to provide assurance that system improvements had been implemented to prevent this from happening again and that there were procedures in place to effectively manage fuel stock and compliance with agreed polices. Limited assurance was provided and recommendations remain outstanding at the end of March 2013.

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 **£690k**. The Council continues to fight against the risk of fraud - taking appropriate recovery and redress action. We have recovered **£160k.** Steps are also taken to improve systems.

Combined Status Reports

6   In November 2012 and January 2013 Executive Directors produced their first Combined Assurance reports. The diagrams below provide more detailed information of the level of assurances given:

LCC _ Overall Assurance Status
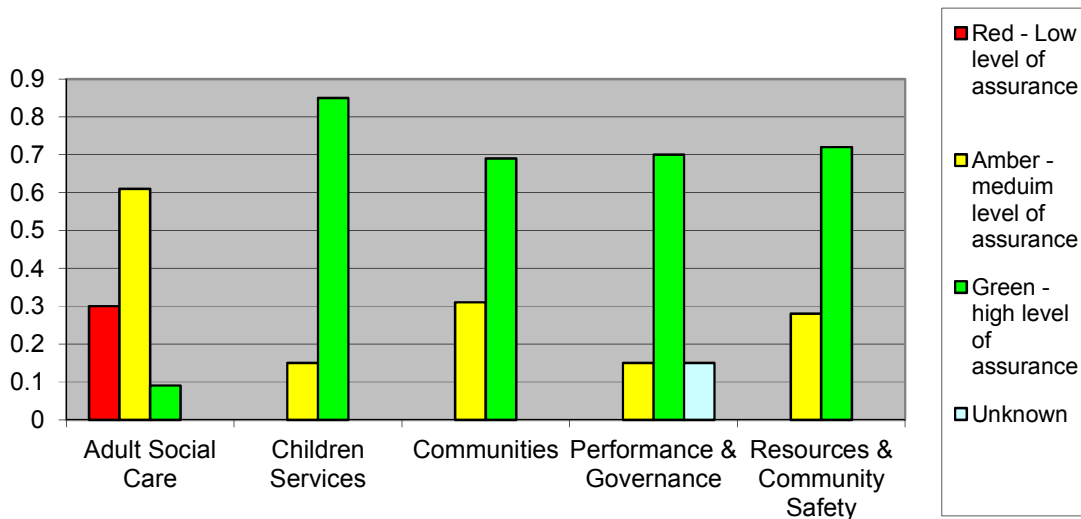
Overall there is a high level of positive assurance on our critical systems, key risks and projects. The area where concerns have been raised is Adult Care – these are being addressed through the Council's governance, assurance and performance frameworks. The Audit Committee also continues to monitor the assurance in Adult Care's – an update is scheduled for its July meeting.

Note – unknown are areas where we have either not had the opportunity to co-ordinate assurance or there is a gap.

7   Councils Governance Group and Executive Directors have undertaken the annual review of the Councils governance framework.   They have identified a number of areas where further work is required to improve systems or monitor how the key risks facing the Council are being managed, namely:
- Maintaining good governance
- Workforce and management capacity
- Public Health integration and transition
- Adult Care – change (pace and scale)
- Adult Care – safeguarding vulnerable adults
- Children Services – safeguarding children
- Children Services – Education and skills
- Maintaining financial resilience
- Procurement and contracting
- Becoming a commissioning organisation
- Maintaining ICT resilience

8   The Council has good financial management processes in place – that generally work well. It has been acknowledged by the Council that 'maintaining financial resilience' in the current uncertain economic and reduced funding environment is a strategic risk facing the Council. Although this strategic risk is being managed effectively – given its significance it has been included in Annual Governance Statement 2013.   Based on this my opinion over the Council's financial control environment is **green** – performing well.

9   We track the implementation of agreed management actions. Over the past year management have implemented **38%** of our 16 high priority and **73%** of our 40 medium priority recommendations due by the 31st March 2013. These figures have been skewed by outstanding actions for ICT systems and Fire and Rescue fuel. 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 2013/14.

10   Taking all of the above information together we have assessed the internal control environment as **amber** – performing adequately – some improvement required. Improvement plans are tracked through the Councils performance management systems and the *Audit Committee.*

Governance

11   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.

12   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.

13   Good governance in included on the Council's Strategic Risk Register. It recognises that our governance framework and assurance arrangements need to adapt and respond to the major changes and different ways of working.   The new

administration of the Council will affect our governance arrangements and consequently the Executive Director – Performance and Governance has included 'Maintaining Good Governance' in the Annual Governance Statement 2013. The key areas under review are:
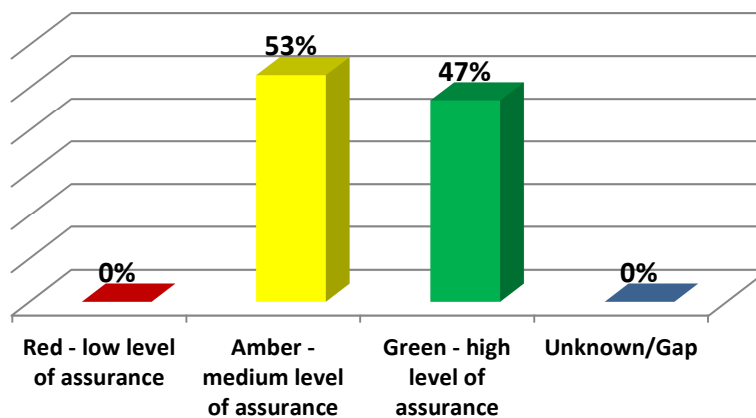
- Balancing good governance, risk and flexibility
- Informed decision making
- Working relationships and the political interface

14   Based on this I have assessed the governance framework as **amber** – performing adequately – some improvement required. A review of our governance framework is planned in 2013/14.

Risk Management

15   Overall, the Council continues to adequately demonstrate that it has mature systems and processes for managing risk at a strategic level. We have reviewed or Strategic Risk Management Strategy and the management arrangements in place to ensure that these are effective. Further work is required to update the tools available to help councillors and managers take well measured risk decisions and manage operational risks. The diagram below shows the current assurance levels on the Councils Strategic risks:

Assurance on Your Key Risks

Red - low level of assurance	Amber - medium level of assurance	Green - high level of assurance	Unknown/Gap
0%	53%	47%	0%

This is the reason why I have assessed risk management as **amber** – performing adequately – some improvement required.

16   The Councils' *Audit Committee* continues to help ensure that effective risk management arrangements are in place.

Delivery of internal audit plan 2012/13

17   The Audit Committee approved the 2012/13 audit plan on the 24th April 2012. We have delivered **87%** of the revised plan by the end of the year.

18   The table below shows our performance on key indicators. We are pleased to report successful achievement against our targets:

Performance Indicator	Target	Actual for 2012/13
Productivity & Efficiency		
Actual audits versus planned (by no of audits)	100%	87%
Financial Systems	100%	100%
% of Reports issued within 2 weeks of closure meeting	100%	100%
Quality of Service		
Client questionnaire scoring better than average for all categories	Good to Excellent	Good to Excellent

Effectiveness of Internal Audit

19 The Council reviewed the system of Internal Audit and assessed it as *effective.* A number of planned improvements were delivered in 2012/13:

- Further development of the Audit Lincolnshire Partnership

- Improved efficiency through pooling resources and sharing good practice.

- Successful development of the Combined Assurance model to help the Council to obtain wider assurance across its critical activities and key risks. This initiative has been recognised by CIPFA for its 'innovation and excellence' in public sector auditing – Audit Lincolnshire were the winners of the Cliff Nicholson Award 2012.

20 This assessment will be updated in June 2013 and reported to the Audit Committee in July 2013.

Counter Fraud

21 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

22 The charts below show the assurance opinions given in 2012/13 compared to those in 2011/12. Our audit plan includes different activities each year – it is therefore not unexpected that these vary however the assurance levels do give an insight on the application of the Councils control environment. We can report that there were no instances of a 'no assurance' opinion this year. Details of systems reviewed can be found in Appendix 1:

Service Areas

Assurance levels 2011/12

No 5%
Full 15%
Limited 30%
Substantial 50%

Assurance levels 2012/13

No 0%
Full 23%
Limited 39%
Substantial 38%
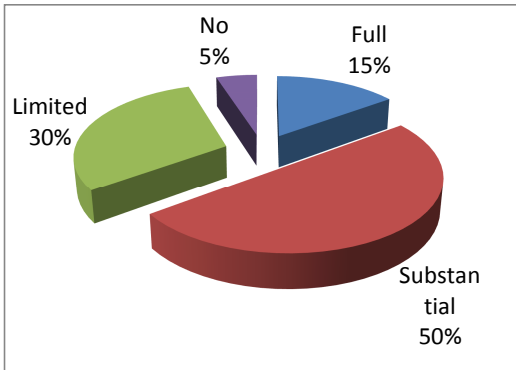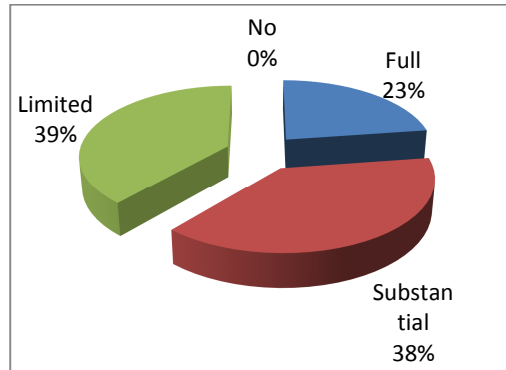
Schools

Assurance Levels 2011/12

Limited 17%
No 2%
Full 17%
Substantial 64%

Assurance Levels 2012/13

Limited 24%
No 1%
Full 6%
Substantial 69%
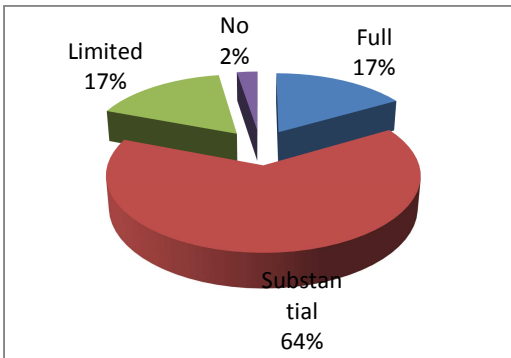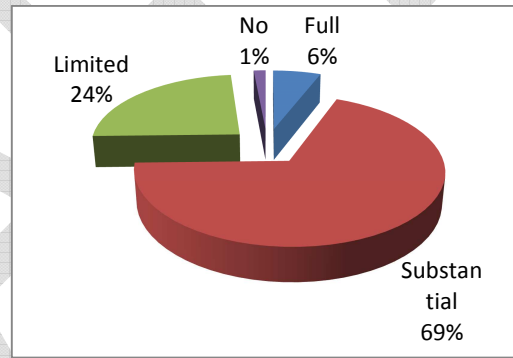
Benchmarking - Comparison of Recommendations

23   The charts below show the comparison of internal audit recommendations made 2010/11 and 2011/12.   Details of systems reviewed can be found in Appendix 1:

Service Areas

Recommendations 2011/12

Low Priority 22%
High Priority 42%
Medium Priority 36%

Recommendations 2012/13

Low Priority 37%
High Priority 19%
Medium Priority 44%

Schools

Recommendations 2011/12	Recommendations 2012/13

High Priority 10%
Low Priority 44%
Medium Priority 46%

High Priority 13%
Low Priority 31%
Medium Priority 56%

Restrictions on Scope / Disagreements

24   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. This is a common issue with the delivery of our work however the impact of the level of uncertainty and change in the Council has made this more acute.
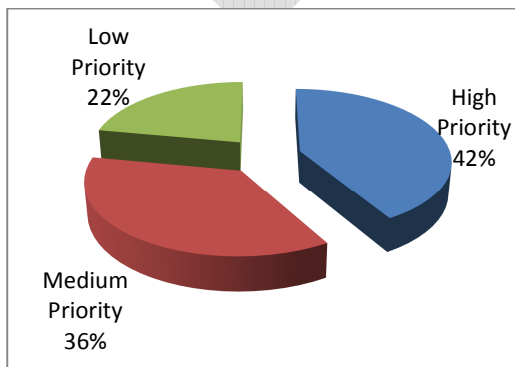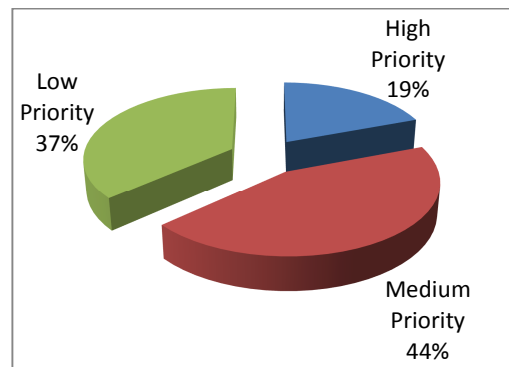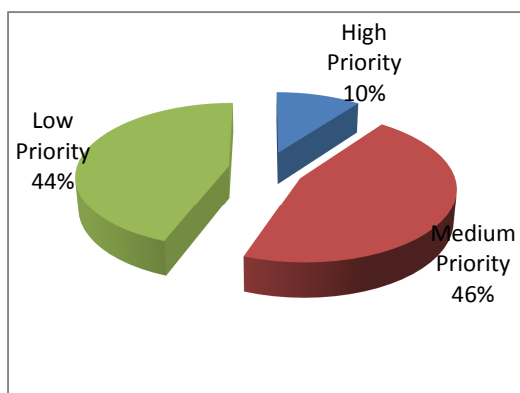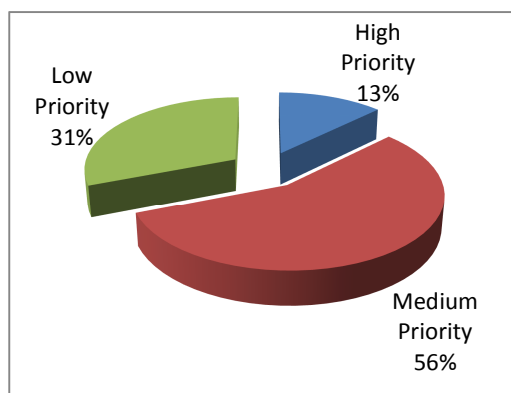
Other Areas of Audit Activity

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

- Working with Adult Care to undertake an Individual Management Review in relation to a serious case review.
- Certification work on grant claims

26   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

27   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).

28   Our audit practice includes quality reviews for all our assignments. These reviews examine all areas of the work undertaken, from initial planning through to completion and reporting. Key targets have been specified - that the assignment has been completed on time, within budget and to the required quality standard.

29   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. KPMG has undertaken a 'light

touch' review of our audit practice and we are pleased to report that no issues have been identified.

30   New Public Sector Internal Audit Standards came into effect from the 1st April 2013 – a self- assessment is currently being undertaken by Audit Lincolnshire on behalf of the Council. The outcome of this assessment will identify any changes / actions that may be required to ensure compliance.

31   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.

32   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 2012/13 there was a **52%** questionnaire return rate from service areas and a **31%** return rate from schools, the overall average rating for the service was good to excellent.

Post Audit Questionnaire LCC
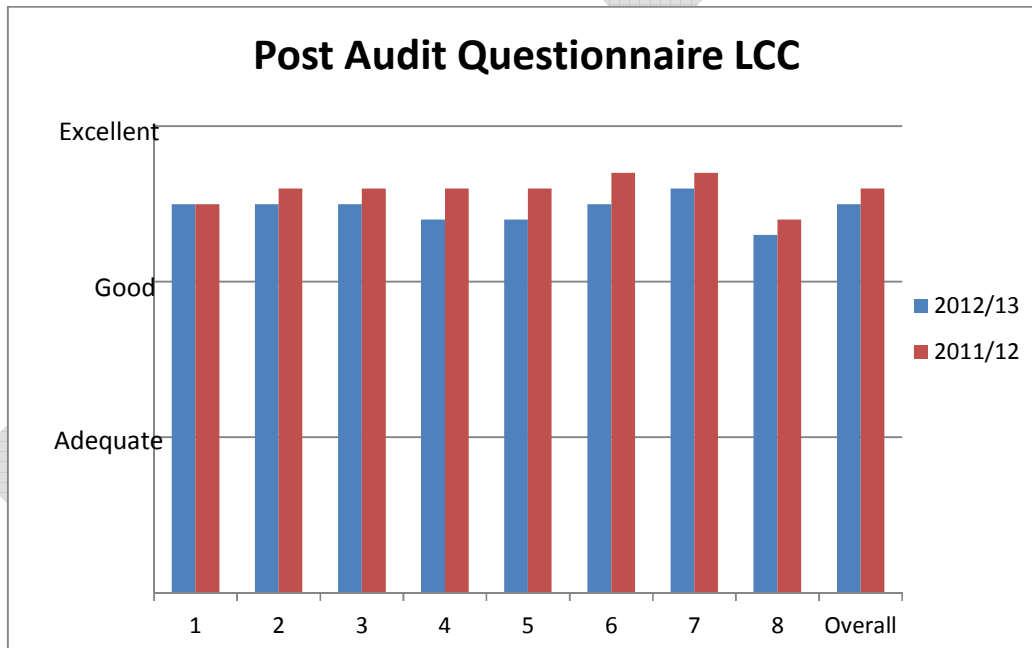
Questions

A. Audit Planning	B. Audit Report	C. Communication
1. Consultation on audit coverage	3. Quality of report	6. Feedback of findings during audit
2. Fulfilment of scope and objectives	4. Accuracy of findings	7. Helpfulness of auditor(s)
	5. Value of report	8. Prompt delivery of the audit report

Assurances Given 2012/13

Activity	Assurance	Total Recs	Priority of Recommendations		
			High	Medium	Low
Performance & Governance					
Strategic Communications	Substantial	5		4	1
Software Licensing	Limited	3	3		
Electronic Data Management	Limited	6	2	4	
Asset Management	Limited	6		6	
Disaster Recovery	Limited final report being agreed				
Mobile Computing & Remote Access	Substantial final report being agreed				
Total		**20**	**5**	**14**	**1**
Performance & Governance – Due Diligence					
Corporate Governance	c/f 2013/14				
Programme Office	In progress				
Performance Management	In progress				
Big Society Members Grant	Limited	4	1	3	
People Strategy	c/f 2013/14				
Total		**4**	**1**	**3**	
Adult Services					
Process Improvement Project	Support provided	N/A			
Project risk management	Limited	3	2	1	
Contract management	Cancelled				
Case management	In progress additional testing agreed				
Referrals & contact management					
Night Support service	Cancelled				
Emergency Duty Team	Cancelled				
Total		**3**	**2**	**1**	
Children's Services					
Early Intervention	Substantial	8	1	2	5
Children Centres	Substantial	17	2	6	9
Child Protection Plans	Limited	9	2	3	4
Adoption	Cancelled				
Out of County Provision	Substantial	2	1	1	
Police Notification of Domestic Violence	Cancelled				
Quality Assurance Performance System	Substantial	7		7	
Total		**43**	**6**	**19**	**18**
Communities					
Business Centres	Substantial	11		5	6

Activity	Assurance	Total Recs	Priority of Recommendations		
			High	Medium	Low
Local Enterprise Partnership	Full	3		2	1
Teal Park Project	Substantial final report being				
Carbon Reduction Commitment	Substantial	3	1	1	1
Grantham Relief Road	Substantial	4	1	3	
Energy from Waste	Substantial	1		1	
Total		**22**	**2**	**12**	**8**
Resources & Community Safety					
Fire & Rescue Fuel Management	Limited	7	3	2	2
Fire & Rescue Project & Partnership Management	Limited	7	4	3	
Legal Lincolnshire	Full	9			9
Procurement Lincolnshire Category Management	Substantial	3rd party assurance			
Property Strategy	Postponed to Summer 2013				
Property Rationalisation Project	Substantial final report being agreed				
Coroner's Office	Limited	14	3	8	3
Registrars	In progress				
Safer Communities	Limited	9	6	3	
Youth Offending Safeguarding	Full	3rd party assurance			
Youth Offending Case Management	Full	0			
Total		**46**	**16**	**16**	**14**
Resources & Community Safety – Due Diligence					
Development & implementation of data analytics / continuous audit	N/A	Completed			

Activity	Assurance	Total Recs	Priority of Recommendations		
			High	Medium	Low
Financial Systems – revised plan					
▪ Treasury Management	Full	1			1
▪ Bank Reconciliation	Full	1			1
▪ Pensions Administration	Limited	5	3	1	1
Quarterly testing Q1/2 – key financial systems (Creditors / Payroll / Debtors / Pensions)	Substantial	5		1	4
Q3/4 testing covering: cash, non- current assets, general ledger, pension fund /pensions admin	Full	0			
Financial and contract regulations - LCC establishment visits:					
▪ 33 Northolme	Substantial	2			2
▪ 91 Eastgate	Substantial	7		5	2
▪ Lincoln Registrars	Full	2			2
▪ Haven cottage	Substantial	4		2	2
▪ Gainsborough Old Hall	Substantial	4		1	3
▪ Battle of Britain Museum	Full	3			3
▪ Lincoln Castle	Substantial	5	1	4	
▪ Lincoln Library	Substantial	5		1	4
Capital Programme	Full	1			1
Tax Compliance	Substantial	3		2	1
Contract Management Review of contracts across directorates	In progress				
Total		**48**	**4**	**17**	**27**
Total for LCC		**186**	**36**	**82**	**68**
Due by 31 March 2013			**16**	**40**	**68**
Due after 31 March 2013			**20**	**42**	

Details of School Audits 2012/13

School	Assurance	Total Recs	Priority of Recommendations		
			High	Medium	Low
Boston Nursery School	Limited	25	5	12	8
Billingborough Primary School	Limited	9	3	5	1
Boston Hawthorn Tree School	Substantial	16	1	8	7
Boston St Mary's Catholic Primary School	Limited	17	4	8	5
Bucknall Rural Villages School	Limited	9	2	4	3
Chapel St Leonards Primary School	Substantial	13		8	5
Coleby CE Primary School	Substantial	13		7	6
Corby Glen Community Primary School	Limited	15	2	10	3
Cowbit St Mary's CE Primary School	Substantial	2	1	1	
Cranwell Primary School	No	32	10	18	4
Denton CE School	Substantial	7	1		6
Digby CE School	Substantial	8		3	5
Donington Cowley Endowed Primary School	Substantial	3		2	1
Dunholme St Chad's CE Primary School	Substantial	12		10	2
Faldingworth Community Primary School	Limited	12	3	5	4
Gainsborough Parish Church Primary School	Substantial	8	2	3	3
Gedney Hill CE (CTD) Primary School	Limited	9	2	5	2
Gedney Drove End School Holbeach St Mark's CE Primary School Sutton Bridge Westmere Community Primary School	Substantial	18	1	14	3
Gosberton Clough & Risegate Primary School	Substantial	8	1	6	1
Grantham St Anne's CE Primary School	Substantial	17	1	7	9
Grantham The Isaac Newton Primary School	Substantial	9		5	4
Grimoldby Primary School	Limited	15	5	10	0
Harlaxton CE Primary School	Limited	9	1	3	5
Holbeach St Marks CE Primary School	Substantial	Federated with Gedney Drove End			
Ingham Primary school	Substantial	7		5	2
Ingoldsby Primary School	Limited	17	1	14	2
Keelby Primary School	Substantial	6		1	5
Leasingham St Andrew's CE Primary School	Limited	14	4	7	3

School	Assurance	Total Recs	Priority of Recommendations		
			High	Medium	Low
Legbourne East Wold Primary School	Substantial	13	1	7	5
Lincoln The Lancaster Primary School	Substantial	7		4	3
Lincoln Bracebridge Infant School	Substantial	7		5	2
Manor Leas Junior School	Substantial	12		7	5
Lincoln Chad Varah Primary School	Limited	18	3	7	8
Lincoln Woodlands Infant School	Substantial	10		5	5
Lincoln Sir Francis Hill Parish School	Substantial	6	1	4	1
Louth Lacey Gardens Primary School	Limited	19	4	10	5
Martin Mrs Mary King's CE Primary School	Substantial	6		5	1
Navenby CE Primary School	Substantial	6		4	2
New York Primary School	Full	0			
Old Leake Primary & Nursery School	Substantial	10	2	5	3
Pinchbeck East CE Primary School	Full	2		2	
Pinchbeck St Bartholomew's CE Primary School	Substantial	6	1	3	2
Quadring Cowley & Brown's Primary School	Substantial	5	2	3	
Scotter Primary School	Substantial	12		5	7
Saltfleetby Primary School	Substantial	4		2	2
Skellingthorpe St Lawrence CE Primary School	Limited	8	3	4	1
Skellingthorpe The Holt Primary School	Substantial	15		10	5
South Witham Community Primary School	Substantial	11	1	9	1
Spalding St Paul's Parish & Nursery School	Substantial	12		8	4
Spalding Parish CE Day School	Substantial	3		3	
Stamford St George's CE Primary School	Substantial	8		8	
Sutton Bridge Westmere Community Primary School	Substantial	Federated with Gedney Drove End			
Tattershall Clinton Park Primary School	Substantial	6		4	2
Tetford the Edward Richardson Primary	Substantial	8	1	5	2
Tydd St Mary CE Primary	Substantial	7	1	6	0

School	Assurance	Total Recs	Priority of Recommendations		
			High	Medium	Low
School					
Uffington CE Primary School	Substantial	1		1	
Waddingham Primary School	Substantial	5		3	2
Whaplode CE Primary School	Substantial	10	2	3	5
Willoughby St Helena's CE Primary School	Substantial	11	1	6	4
Wyberton Primary School	Limited	20	5	7	8
Cherry Willingham Community School	Limited	17	4	7	6
Kirton Middlecott School	Substantial	7	0	4	3
Louth King Edward VI Grammar School	Full	5	0	2	3
Louth Cordeaux School	Substantial	8	0	8	0
Spalding Grammar School	Substantial	11	2	5	4
Tattershall Gartree Community School	Full	2	0	1	1
The Gainsborough Federation	Substantial	16	1	11	4
Total for Schools		**664**	**85**	**374**	**205**

End of Appendix 1

OUTSTANDING AUDIT RECOMMENDATIONS AT 31/03/13

Activity	Issue Date	Assurance	Recs Imp	Recommendations Outstanding		
				High	Medium	Low
ICT						
SAP Security & Licensing	March 2012	Limited	24	5		
Data management	Jan 2013	Limited	2	2	2	
Asset management	Jan 2013	Limited	2		4	
Software Licensing	Jan 2013	Limited	0	3		
Communities						
Carbon Reduction	Jan 2013	Substantial	0		2	
Children's Services						
Section 139a Assessments	June 2012	Substantial	0	1	1	
Resources & Community Safety						
Budget Management	July 2012	Substantial	7		2	
Fire & Rescue Fuel	Feb 2013	Limited	0	4	2	
Safer Communities	July 2012	Limited	7	1	1	
Due Diligence						
Lincoln Castle	Oct 2012	Substantial	4		1	
Big Society Fund	Sept 2012	Limited	3	1		
Total				**17**	**15**	

End of Appendix 2