City of Lincoln Council

Progress Report – November 2018

Contents   Para

Contact Details:
John Scott
Audit Manager

Assurance LINCOLNSHIRE

For all your assurance needs
City Hall, Beaumont Fee, Lincoln, LN1 1DD
☎: 01522 553692   🖥 john.scott@lincoln.gov.uk

Introduction

1. The purpose of this report is to:

   - Advise of progress made with the Audit Plan
   - Provide details of the audit work undertaken since the last progress report.
   - Provide details of the current position with agreed management actions in respect of previously issued reports
   - Raise any other matters that may be relevant to the Audit Committee role

Key Messages

2. The 2018/19 audit plan is progressing well; at the end of October 58% has been completed, which is on target. The Plan is attached at Appendix 2 and shows progress to date.

3. At its last meeting Committee requested additional information on some overdue recommendations and this is attached as a separate report.

Internal Audit Reports Completed September - November

4. The following final reports have been issued since the last progress report;

High Assurance	Substantial Assurance	Limited Assurance	Low Assurance	Consultancy / Advice
None	Commercialisation	IT Applications	None	City Lottery

Note: The Audit Committee should note that the assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. Definitions levels are shown in Appendix 4.

Below are summaries of the audit reports issued.

Commercialisation – Substantial Assurance

As funding from Central Government continues to reduce the Council has identified as part of its Strategic Plan – Vision 2020 - how it will deliver the Towards Financial Sustainability (TFS) Programme. Vision 2020 identifies one of the opportunities as generating new income streams and commercial opportunities. Three strands have been identified for the overall TFS programme;

- Property Acquisition
- Commercialisation
- Savings/Shared Services

The Council manages these strands through the TFS Board and Programme Team and development of an annual programme of projects with income saving targets.

This review provides assurance on the commercialisation activities, and also included a follow up of the actions made in the 2017/18 Property Acquisition audit.

The following risks were reviewed;

- Public Sector legislation and/or public sector ethics are breached in developing a commercial opportunity
- Forecasted financial targets for individual commercialisation projects are not achieved
- Delivery of individual commercialisation projects are not managed effectively – including capacity of service areas to respond to requirements of projects and service delivery

We examined these risks by considering the following areas;

- Project management including business case & process for agreeing a project
- Risk management around the activity
- Due diligence and involvement of the right advice in delivering the activity
- Management and delivery arrangements

Our review of how the Council is managing commercialisation provides substantial assurance on service delivery arrangements and controls in place.

The majority of larger commercialisation projects identified for 2018/19 are at an early stage in the project management cycle, with feasibility and business cases still being developed. A smaller project for maximising advertising income has been developed and is now operating. Current commercialisation projects are;

- Plans for retaining bereavement services income levels
- Development of strategy action plans for Lincoln Market
- Plans to deliver new all-weather pitches

We found that a number of controls were operating effectively including;

- Involvement of legal and finance staff in developing projects to ensure the right advice is obtained
- Corporate Social Responsibility built into the Lincoln Project Management Model
- Regular monitoring & reporting of financial targets and progress for individual commercialisation projects
- External advice on individual projects where required

We also reviewed the City of Lincoln Council projects and processes against Rushcliffe Borough Council who recently won an award for best commercial council. We found that City of Lincoln had identified and implemented similar commercial opportunities.

Rushcliffe identified good practices in developing a commercial approach and our review identified that many of these good practices are operating in the City of Lincoln Council;

- Council Executive and Senior Officers working together to have a strategic approach
- Developing robust business cases
- A flexible and open-minded approach
- A strong commercial team
- Providing commercial training
- Understanding risk appetite

We identified some areas where controls could be strengthened;

- Developing a commercial strategy for the Council – a peer review report to the Council in February 2017 recommended careful consideration on whether a strategy is required, they did identify that publishing a standard definition which crystallises the importance of commercialisation would be beneficial. We are recommending development of a strategy to give clarity on what commercialisation means to the Council, support to Officers in identifying appropriate projects and to help embed the ethos and mind set of commercialisation across the Council.
- Linking the commercial strategy to organisational development to ensure the right training is available to relevant staff
- Increasing communication on commercialisation, particularly at Team Leader level and below to develop a commercial mind-set and ethos across the organisation
- Updating the Towards Financial Sustainability risk register which has not been updated since March 2017. Implementing on-going monitoring and cross referencing to the Strategic Risk Register

Our follow up of the seven agreed actions in Property Acquisition audit found that;

- Four had been implemented as agreed
- Two were extended to the end of October 2018;
  - Update of the Asset Rationalisation Strategy
  - Development of a single filing structure
- One was superseded - management identified that they did not want a separate asset acquisition risk register, but that risk would be covered as part of updating the strategy and the risk assessment of each suggested project.

IT Applications – Limited Assurance

See Appendix 1 for full details.

City Lottery - Advice

A review of the governance and administration of the Lincoln Community Lottery (LCL) has been undertaken to provide assurance that good cause applications are being approved in accordance with the terms and conditions approved by Executive, and that the process is fully transparent and compliant with the Gambling Commission requirements.

Our focus has been on the following areas;

- Declaration of interest
- Assessment of good cause applications to the lottery
- Financial administration
- Contract arrangements

We found that;

- A gambling licence has been approved which included a declaration of interest by the two named responsible officers
- The licence holders, project manager, project sponsor and those on the Member Panel all abstain from purchasing tickets.
- A two year contract is in place with an External Lottery Manager (ELM) for the administration of the lottery
- There is a record of the assessment of good cause applications against the terms and conditions.
- The ELM set up a lottery page for each good cause to enable them to monitor ticket sales and promote their cause.
- The LCL website includes all relevant information for players, ie terms and conditions, how to complain and also promotes responsible gambling as required by the Gambling Commission.
- Payment for the purchase of lottery tickets is paid directly to the ELM who have safeguards in place to ensure ticket purchases are not excessive.
- The draw process is based on the results of the Australian National Lottery Super 66 game so is fully transparent and independent of both the ELM and COLC. The criteria for winning is clearly detailed on the website and includes how alternative numbers will be selected if the Super 66 draw is declared void.
- Payment of prize funds is made by the ELM directly to a player's nominated bank account.
- The ELM make payments to good causes monthly
- Returns are submitted to the Gambling Commission as required.

We suggested that the following improvements could be made; all have all been accepted and implemented;

- The assessment of good cause applications should record which officer made the assessment or if the application had to be referred to the panel for approval
- Applications that are turned down and the reason why should be formally recorded
- This voting criteria used by the Good Cause Approval Panel has been informally agreed and should be formally documented in the Terms of Reference.

Other Significant Work

5. Updates on other significant work;

De Wint Court

Internal Audit continue to provide project risk management support for the feasibility group.

Culture Review

At the previous meeting Members requested some information on the focus of this review.

Part of the Committee's role is to consider the Council's arrangements for corporate governance, including the Code of Corporate Governance and agreeing necessary actions to ensure compliance with best practice. The Council's governance arrangements are evaluated against the CIPFA/SOLACE guidance on Good Governance.

This Culture review focuses on Good Governance Principal A – Integrity and Values – "behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law".

Ethical Governance refers to the processes and procedures, cultures and values that ensure high standards of behavior. To meet this principle and to operate effectively the Council needs robust structures, policies and procedures to be in place. But good governance isn't just about rules and procedures, but also about values and behaviours. The Council needs to have the right culture in place which is supported by appropriate values and behaviours.

This review aims to provide the Council with some insight on not only the policies and procedures but how the governance arrangements work in practice for Members and Officers. In addition it was also a requirement of the PSIAS 2016 external standards review of Internal Audit that this type of review should be undertaken.

In conjunction with colleagues in Assurance Lincolnshire we have developed a 'model' using good practice to enable us to evaluate culturally where the Council is against a number of strands;

- Leadership & management
- People
- Processes and Procedures
- Culture, Values & Consistency
- Assurance & Accountability

Our approach has been to:

- Undertake data analysis through information such as Human Resources data, registers of gifts and hospitality, complaints and reviewing supporting policies and procedures
- Hold meetings with the Leader, Statutory Officers and Senior Management
- Consider approaches taken by other Council's

Once we have finalised our work we will produce a draft report and the findings will be initially tested with Statutory Officers and the Corporate Management Team. We will work with these officers to develop any actions required to support embedding the culture that the Council wants to see.

Dynamic Planning

To ensure that audit work is carried out on those areas where there is a current need some work has been done to find out if there are any new areas that should be considered for review since the Audit Plan was produced in January. A small number of potential audits were identified but none are considered to be urgent and they will be considered as part of the audit planning process for 2019/20.

The formal dynamic planning approach will be considered for the 2019/20 audit year

Counter Fraud

The following work is being done;

- National Fraud Initiative – the submission of the required data sets has been completed
- Housing Tenancy Fraud – a review using a credit checking agency is being arranged
- Counter Fraud training – an e-learning tool has been obtained through the Assurance Lincolnshire partnership and is being rolled out to all levels of management (team leaders & above)
- Updating the Corporate fraud strategy
- Updating the anti-money laundering policy
- Updating the corporate fraud risk register

Northamptonshire County Council – Financial Issues

Some work is being done to identify the governance weaknesses at NCC and determine if they are all included in the Combined Assurance map. Further information will be provided at the next Committee meeting in February 19.

Private Sector Housing HMO Licensing & Hazards – Follow Up

The 2017/18 audit was given Limited assurance and 13 recommendations were made and agreed (5 High priority and 8 Medium priority), which were to be delivered through 20 action points.

A recent follow up of these action points found that good progress is being made;

- 14 are completed (3 are High priority); some of which will be subject to detailed testing
- 3 are overdue and have been extended (2 are High priority)
- 3 are current (not yet due)

Since the audit was undertaken the HMO licensing regime has been widened and a new IT system installed to deal with the increased level of licence applications.

As the back office part of the system will not be fully operational until the beginning of December it has been agreed that detailed testing on the areas of weakness identified would be postponed until January 2019. A further update will then be brought back to this Committee.

Audit Plan Changes

6. There have been some changes to the Audit Plan which have been agreed with the Chief Finance Officer;

- Work Based Learning – postponed to 19/20
- ICT Strategy - postponed to 19/20 due to delays producing the Strategy

Audits in Progress

7. The following audits are in progress;

- Values & Culture – fieldwork in progress
- Health & Safety (Housing Fire risk) – draft report
- Transport Hub (final account) – draft report
- Fees & Charges VFM – fieldwork in progress
- Council House Sales - fieldwork in progress
- Commercial Property Income - fieldwork in progress
- Bank (key controls) – being prepared
- Combined Assurance Mapping – being prepared

Audit Recommendations

8. There is a formal process for tracking Internal Audit recommendations; they are recorded on a monitoring spreadsheet which management can record progress updates on at any time. Performance DMT's and Portfolio Holders monitor progress quarterly. On a monthly basis Internal Audit monitor recommendations becoming due. Prior to each Audit committee Internal Audit will obtain a status report and review progress with management.

Internal Audit undertake formal follow up on all High priority recommendations and all recommendations made in audits where the overall assurance is Limited or Low; evidence of implementation will be requested and examined.

The table below shows a summary of all audits where recommendations are implemented, overdue / extended and not yet due.

At the previous meeting Members requested verbal and written updates from management on the progress with recommendations that have been overdue for more than one year – this is provided in a separate report.

Recommendations Update (at 23rd November 2018)

Audit Area	Date	Assurance	No of Recs	Implemented	Outstanding (extended or overdue)	Not Yet Due	Comments / Progress since previous Committee
2012/13							
Vehicle Fuel Management	Feb 2013	Limited	8 (1 High)	7 (1 High)	1		Driver code to be rolled out across the whole fleet and not just HRS
2015/16							
Accountancy	June 15	Effective	2	2			The outstanding rec has been downgraded to an Advisory point, and won't be tracked any further.
ICT Mobile Devices	Mar 16	Substantial	6 (1 High)	4	2 (1 High)		
2016/17							
Control Centre	Oct 16	Substantial	8 (2 High)	8 (2 High)			1 completed
Malware	Nov 16	Substantial	8 (3 High)	7 (3 High)	1		
Revs & Bens – Information Governance	Feb 17	Limited	15 (8 High)	14 (7 High)	1 (High)		
Recovery	Mar 17	Substantial	11	10	1		
2017/18							
Transport Hub	April 17	Substantial	8	8			The outstanding rec has been superseded by an action point in a current piece of work.
Responsive Repairs	Jun 17	Substantial	6	5		1	
Boultham Park Refurbishment	Jun 17	High	2	1	1		

Audit Area	Date	Assurance	No of Recs	Implemented	Outstanding (extended or overdue)	Not Yet Due	Comments / Progress since previous Committee
Corporate Governance	Oct 17	Substantial	6	6			1 completed.
IT Disaster Recovery	Oct 17	Substantial	19	8	11		
Customer Experience Strategy	Nov 17	Substantial	10 (2 High)	10			2 completed.
IT Applications	Nov 17	Substantial	6	3	3		The outstanding rec has been superseded by an action point in a current piece of work.
Tenancy Services	Jan 18	Substantial	9 (3 High)	1 (1 High)	8 (2 High)		
Asset acquisitions	Feb 18	Substantial	9	6			3 recs have been superseded
Procurement	Apr 18	Substantial	6 (1 High)	5 (1 High)		1	1 completed
Car parking	Mar 18	Substantial	7	6	1		
HMO Licensing and Hazards	Jun 18	Limited	20 (5 High)	14 (3 High)	3 (2 High)	3	See section 5 for a detailed update. Some of the implemented recs are subject to testing in January 2019.
Housing Investment	Jun 18	Substantial	23 (4 High)	8	9	6 (4 High)	5 completed.
Council Tax	Jul 18	Substantial	6	4	1	1	
2018/19							
Risk Management	Jul 18	Substantial	8	6		2	6 completed
Sincil Bank Regeneration	Aug 18	Substantial	10 (1 High)	3 (1 High)		7	
Commercialisation	Oct 18	Substantial	4 (1 High)			4 (1 High)	

Performance Information

9. Our performance is measured against a range of indicators and is shown at Appendix 4. There are no concerns in any areas.

Other Matters of Interest

10. **Monitoring the Quality of External Audit**

Public Sector Audit Appointments (PSAA) publish quarterly compliance monitoring reports on the external audit contracts they oversee. The annual report summarises these results together with audit quality review findings. Audit committee members should be aware of any audit quality or compliance issues relating to their appointed external audit firm.

The combined regulatory compliance and audit quality performance scores (Principal Audits) 2018;

Firm	Score
BDO / EY / GT / KPMG	Amber
Mazars	Green

Appendix 1 – Details of Limited / Low Assurance Reports

IT Applications (Limited assurance)

This risk based review focused on key application security controls linked to the Council's main IT security policy across the following (minor) systems:

- Jontek (Emergency call receiving system)
- Gower (Cemetery and cremation records)
- P2 Concerto (Property management system)
- Chubb (Door access system)
- IDOX (Electoral Registration)
- Modern Gov /Mindset (Committee management system)

This follows on from a review of 5 applications during 2017/18 and 3 in 14/15

Two previous application audits (2014/15 and 2017/18) were both substantial assurance, and covered some key applications – APP (Public Protection), Universal Housing (Housing), Northgate (Revenues and Benefits) and Agresso (Finance), as well as other more minor systems managed by IT.

This review (18/19) has covered a range of six minor systems managed through Directorates. There are two high priority agreed actions and several detailed action points for system administrators to implement. These selected systems generally do not have the same level of system administrator expertise as other larger systems which has contributed to some areas of non-compliance.

A re-issue of System Admin guidance and relevant training will remind system all administrators of their obligations and responsibilities.

Many of the actions points are similar across systems and include:

- Ensuring appropriate contracts / annual maintenance agreements are in place
- Improvements related to data protection – reviewing privacy policies / retention and disposal arrangements
- Event logging and exception reporting
- Ensuring licensing compliance
- Following IT security policy and system admin guidance (the latter once re-issued)
- Reviewing and updating system administration and user access, including strong passwords

Internal Audit will undertake a follow up review in three and six months. The level of non-compliance resulted in this being (overall) a limited assurance report however there are areas of good practice.

Appendix 2 – Audit Plan Schedule

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Chief Executive - Critical Activities					
Human Resources (10)	Workbased learning – financial and operational risks	Q3-4			*Moved to 19/20 due to changes in the service (AC advised Dec 18)*
Human Resources (3)	Attendance management follow up	Q3			
Human Resources	*Implementation of the new people strategy*				*Potential audit – if time allows*
Human Resources (10)	Recruitment process	Q4			
Commercial Property & Business Support (10)	Commercial property & workspace income	Q3	Oct		In progress
Business Strategy (Vision 2020) (10)	Management of key projects	Q4			
Partnerships (10)	Governance and effectiveness.	Q4			
Commercialisation (10)	Review of strategy / projects	Q2-3	July	Oct	Completed – Substantial assurance
Housing and Regeneration - Critical Activities					
Housing Allocations / Choice Based Lettings (10)	Migration of data Data accuracy	N/A	N/A	N/A	Used for risk management support to Working Groups – Completed
Housing Voids, Aids & Adaptations, Rechargeable repairs	*Management arrangements*	*TBA*			*Potential audit – if time allows*
Council house sales (5)	Sales / discounts and income.	Q3	Oct		In progress
New Build / Housing Company (10)	Contracts and links to the housing company	TBA			Used for risk management support to the De Wint Court project group
Health and Safety (10)	Housing fire risk - governance arrangements	Q3	Sept		In progress
Communities & Environment - Critical Activities					
Planning (10)	Community Infrastructure Levy & S106. Local plan delivery and monitoring.	Q4			Possibly in conjunction with Assurance Lincolnshire
CCTV	*Management / monitoring of CCTV*				*Potential audit – if time allows*
Private Sector Housing (5)	DFG / Arrangements for the new Heating scheme	Q2	N/A		Background work has found that the audit is no longer required. The days will be used for existing audits (AC advised Dec 18).

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Major Developments - Critical Activities					
Growth (10)	Economic & Growth agenda - strategies, investment, partnerships, infrastructure.	N/A			Moved to 19/20 as the strategies are being developed during 18/19. The days will be used for the Values & Culture review (AC advised Sept 18)
Transport Hub (8)	Closedown of works and final account	Q2-3	Sept		Draft report
Chief Executive - Financial & Governance					
Benefits (10)	Universal Credit roll out incl Housing impact.	Q4			
Counter Fraud (20)	Liaise with the Lincolnshire Counter fraud partnership, undertake a Counter fraud healthcheck, engage with NFI, build on work from Fraud risk assessment, continue to roll out the fraud e-learning training.	Q1-Q4			In progress; • NFI data submitted. • Housing Tenancy Fraud review organized • Fraud e-learning training rolled out to team leaders & above
NNDR (5)	Business Rates Growth Policy/Reliefs	TBA			
Bank (5)	Banking arrangement key controls	Q3			
Procurement (10)	Review of frameworks & OJEU procurement plus social value policy.	Q4			
City Lottery (3)	Governance arrangements	Q2	Aug	Oct	Completed – Advice work No significant issues
Governance (10)	The Council's cultural framework	Q1	May		In progress
Governance (5)	Governance key controls for annual assurance.	Q1	April	May	Completed – no issues.
Risk Management (5)	Council's risk management arrangements	Q1	April	July	Completed – Substantial assurance
Information Governance (10)	General Data Protection Regulations	Q3/Q4			
ICT Audit (30)	Applications	Q1	July	Oct	Completed – Limited assurance
	Cyber risks	Q2-3	Sept	Oct	Draft report stage
	ICT Strategy implementation & ICT	Q3			Moved to 19/20 – Strategy delayed (AC advised Dec 18)

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
	project / programme management				Will support IT in the actions related to It applications and the recent Cyber Security Stocktake
IT DR/Business Continuity (3)	Follow up of the Business Continuity Group actions from the 2017/18 IT DR audit	Q4			
Western Growth (15)	To review project management arrangements	Q1-4			Progress is being monitored and work will be undertaken at the appropriate time
Programmes and Projects (13)	Sincil Bank Regeneration Review of project / programme governance arrangements, incl SPIT replacement	Q1 Q4	June	Aug	Completed – Substantial assurance
Consultancy / VFM (10)	Fees & Charges review	Q3-4	Sept		In progress
Emerging Legislation (2)	Arrangements for forthcoming legislation	Q4			
Other work					
Audit follow up work (10)	Assurance that actions from previous key audits have been implemented	Q1-Q4	Q1-4		Progress information is provided to every Audit committee
Combined Assurance (10)	Update the integrated assurance map Provide information on equality & diversity pending a review in 19/20	Q3/4			Preparation started.
Contingency and Emerging risks (30)	Contingency for any brought forward work and emerging risks	Q1-Q4			Part used for completion of 17/18 audits.
Advice and liaison, management, reactive investigations (35)	As area	Q1-Q4			Ongoing
Annual Internal Audit Report (3)	As area	Q1	April	May	Completed. To Audit cttee June 18
Audit Committee –(20)	Audit Committee support	Q1-Q4			Ongoing

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Housing Benefit Subsidy (50)	Testing on behalf of External Audit	Q1-2	May		Detailed testing completed – awaiting EA review
Review IA Strategy and Planning – (5)	New Plan for 2019/20	Q4			

Appendix 3- Assurance Definitions[1]

High Assurance	Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.
Substantial Assurance	Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance. There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.
Limited Assurance	Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.
Low Assurance	Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

---

[1] These definitions are used as a means of measuring or judging the results and impact of matters identified in the audit. The assurance opinion is based on information and evidence which came to our attention during the audit. Our work cannot provide absolute assurance that material errors, loss or fraud do not exist.

Appendix 4 - Performance Details 2018/19 Planned Work

Performance Indicator	Annual Target	Profiled Target	Actual
Percentage of plan completed.	100%	25% end June 50% end Sept 75% end Dec 100% end Mar	58% at end of October
Percentage of key financial systems completed.	100%	100% end Mar	0% (none due)
Percentage of recommendations agreed.	100%	100%	100%
Percentage of High priority recommendations due implemented.	100% or escalated	100% or escalated	100%
Timescales: Draft report issued within 10 working days of completing audit.	100%	100%	75% (3 out of 4)
Final report issued within 5 working days of closure meeting / receipt of management responses.	100%	100%	100% (4 out of 4)
Period taken to complete audit –within 3 months from fieldwork commencing to the issue of the draft report.	80%	80%	75% (3 out of 4)
Client Feedback on Audit (average)	Good to excellent	Good to excellent	Good to excellent. Average score – 31 out of 32. (4 issued and 4 returned)

Appendix 5 – Recommendations Overdue / Extended

Separate report produced.