

Internal Audit Progress Report



**City of Lincoln Council
December 2019**

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The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period September to November
- Advise on progress with the 2019/20 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

During the period we have finalised three consultancy pieces of work;

- Fire Safety
- Values & Behaviours
- Healthcheck against Northamptonshire County Council failings

Audit Plan progress is at 53%, against a target of 66%.

Assurances

No assurance work has been finalised in this period.

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1.



Consultancy

Fire Risk

Our report and agreed actions on High Rise accommodation have fed into a wider corporate action plan addressing the key points from the Hackitt report and external fire risk assessments.

Good progress is being made and Corporate Health and Safety are maintaining an overview of this progress.

Further details will be provided at the next meeting.

We undertook a review on values and behaviours. The Executive and Corporate Management Team have prime responsibility for establishing the governance framework and for defining and analysing organisational culture by promoting good core values and behaviours. Specifically, we focussed on five 'strands' that support effective values & behaviours, namely:

- Leadership & Management
- People
- Culture Values & Consistency
- Processes and procedures
- Assurance and accountability

Under each strand are a range of good practice measures and each has been assessed for existing and any developing processes. Overall we found that the Council performed well against the strands. We found many examples of good practice including an established set of core values, strategic plan training, up to date codes of conduct & induction for members and staff and updated staff appraisal process linked to core values and behaviours, a successful health & wellbeing programme for staff, whistleblowing and anti-fraud & corruption policies, protocol on member/officer relations. Agreed actions to further enhance values and behaviours are included below:

Leadership and Management

- Behaviours to support the core values are contained in the code of conduct but a new draft staff charter (the Lincoln Way) sets out overall expectation of behaviours for employees and managers which is now part of remit of the One Council Organisational Development pillar. This charter will support managers and employees to take a more effective approach to performance and behaviours. These expectations relate to mutual respect, training and regular one to one meetings.

Values & Behaviours

Consultancy

Values & Behaviours

People

- Further development and communication of core values and conduct - effectively what this means in practice and examples of the types of behaviour expected is planned through the staff charter/Lincoln Way. The employee engagement strategy will also support ongoing engagement.
- A staff survey was previously undertaken in 2017 and in 2019/20 there will be feedback/consultation on “where the organisation is now” linked to the new “Lincoln Way” and points from the values and behaviours review will also inform. The arrangements for any future staff surveys will be considered as part of the engagement action plan once the “Organisational Development” pillar work is concluded.
- As part of leadership development managers (through a new “Lincoln Leader” model) will be given further training on dealing with /managing poor behaviours

Culture, Values and Consistency

- This commitment will be further enhanced through the roll out of the Staff Charter/Lincoln Way which will demonstrate a commitment to compliance. This will cascade down through recruitment, appraisals and leadership training.

Processes and Procedures

- The Council has got clear policies and procedures for standards of conduct. Ensuring appropriate access to these through City People (intranet) and Net Consent (policy/guidance repository) will help further and a review of these systems is currently underway to ensure there is no duplication and access is straightforward.
- Further promotion/communication to employees that the whistleblowing policy is not just about reporting fraud will help embed this policy alongside disciplinary, dignity at work and grievance policies.
- The Monitoring Officer will review and enhance existing guidance around gifts and hospitality. There will be specific ongoing communication on the importance of declaring gifts and hospitality and interests and an increase in review frequency by the Monitoring Officer and CX.

Assurance and Accountability

- Some aspects around culture, core values and behaviours are still developing and this includes assurance mechanisms linked to the Staff Charter/Lincoln Way.

Consultancy

Background

In March 2018 a Best Value (BV) Inspection report was issued concerning the financial issues that had affected Northamptonshire County Council (NCC).

Although the issues were as a result of budget pressures in services which District Councils do not provide (Adult Social Care and Children, Families & Education) there are still lessons to be learned about how the issues were handled.

In conjunction with Assurance Lincolnshire colleagues at the County Council we have turned the findings of the Best Value Inspection into a healthcheck, which we have used to highlight if there are any areas missing from the Council's Combined Assurance Map and whether they have been recently reviewed.

Following the issue at NCC other Local Authorities have also experienced severe financial difficulties. Birmingham City Council were issued with a Section 24 notice by their External Auditor, acting as a warning shot to get its finances in order, and seen by many as a precursor to a Section 114 notice. In addition a number of other authorities, primarily upper tier at this stage, announced that they were stripping back services to statutory services only in response to increasing service demands and funding reductions.

NCC Best Value Inspection findings

The BV Inspection reviewed the period 2013/14 -2017/18 and found that there were plenty of warning signs which NCC did not act on;

- an inadequate Ofsted report in August 2013
- adverse External Audit VFM opinions in 2015/16 and 2016/17
- the findings of an LGA Finance Peer Review in September 2017
- a Section 114 notice by the Council's S151 officer in February 2018
- a KPMG Advisory Notice on the Budget in February 2018

The Inspection identified a number of causes of failure;

- Budget setting & monitoring;
 - Weak budgetary control
 - No strong & effective scrutiny of budget setting
 - Did not address regular budget overspends
 - Lack of accurate financial data (Adult Services)
 - Forecasting of demographic growth was very basic

Healthcheck
against
Northants
County
Council
failings

Consultancy

Healthcheck against Northants County Council failings

- Lack of understanding of the difference between a budget pressure (that needs to be managed), contingency sums, spending where there is a choice and what is truly inescapable
- Took until 2018 to introduce appropriate advice in setting & managing budgets and the necessary control mechanisms to ensure compliance with the law and best practice
- Use of one-off resources
 - Made extensive use of one-off resources to support its on-going revenue expenditure, primarily reserves
- Savings delivery / Transformation
 - Fell well short on delivering its planned savings
 - No business plan and no clear link to the MTFS
 - Used capital receipts to fund transformation
 - No specific (project by project) transformation plan approved – this is non-compliance with Statutory Guidance, which puts in doubt the use of capital receipts for this purpose
 - No reports on the outcomes of transformation work (first one went to Cabinet in March 2018)
- Structure / Culture;
 - Silo working
 - poor internal communication
 - lack of working together on common objectives
- Goals & outcomes;
 - Ambitious goals, lack of measurable outcomes and unclear how the approved budget will support these goals (Children's Services)
- Skills;
 - Lack of commissioning expertise
- Scrutiny;
 - Lack of effective scrutiny by Scrutiny committees
 - Lack of effective scrutiny by Audit committee
 - Challenge and criticism was discouraged
 - Refusing to provide information to councillors when requested
 - No action (by Cabinet / Council) on the adverse VFM opinions in either ISA 260 reports after consideration by Audit committee
 - No strategic action (by Cabinet / Council) on the LGA report after consideration by Audit committee
- Risk management;
 - Poor risk management at the Council & Audit committee unable to get it taken seriously

Consultancy

- Internal Audit - Lack of flexibility in internal audit due to the way it is provided
- Complaints - Poor approach to complaint handling, learning from mistakes and remedying injustice

COLC Healthcheck findings

The healthcheck looked at the areas of failure at NCC and considered if they were in the 2019 Combined Assurance Map for COLC and when they were last examined.

Cause of Failure (at NCC)	In COLC Assurance Map	Management Assurance (2019)	Audit Coverage
Governance	Yes	Green	Within last 3 years
Budget setting (MTFS)	Yes	Amber	None in last 5 years
Budget monitoring	Yes	Green	Within last 3 years
Transformation	Yes	Amber	Within last 3 years
Scrutiny	Yes	Green	None, but in 20/21 Plan
Risk Management	Yes	Green	Within last 3 years
Complaints	Yes	Green	None in last 5 years, but annual report to Audit cttee
Procurement	Yes	Green	Within last 3 years
Values & Behaviour	Yes	Amber	Audit in 19/20
Performance management	Yes	Green	Within last 3 years and in 19/20 Plan

Healthcheck
against
Northants
County
Council
failings

Consultancy

Summary and Way forward

All of the causes of failure at NCC are in the Assurance Map for COLC and have a Green or Amber assurance.

The majority of the causes of failure at NCC have been subject to audit at COLC within the last three years. There are three areas that have not had any audit coverage in the last five years; Budget setting / Medium Term Financial Strategy, Complaints and Scrutiny.

Scrutiny was in the 19/20 Plan but has been moved into 20/21 and the other two will be considered for audit in 2020/21.

CIPFA have recently produced a Financial Management Code and a Financial Resilience Index and these would be included in the Budget setting/MTFS review.

An update on the Financial Management Code and a Financial Resilience Index will be provided by the Chief Finance Officer at the February 2020 meeting.

- The CIPFA Financial Management Code (CIPFA FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The CIPFA FM Code therefore sets the standards of financial management for local authorities.
- CIPFA's Resilience Index, released to finance directors of English councils in December 2018, is a tool that enables authorities to view their positions, relative to others, on a range of measures linked to financial risk.
- The latest version of the Index follows a consultation which received over 180 responses and will be made publicly available online in December 2019.

Internal Audit will continue to review the frequency at which the key areas are audited to ensure that it is appropriate.

The healthcheck areas are indicators of good governance but a positive assessment does not guarantee that the Council will not have any financial issues in the future.

**Healthcheck
against
Northants
County
Council
failings**

Election Expenses

The claim for the European elections held in May has been checked and no issues were found.

Partnership Governance

Internal Audit have worked with officers to review Partnership guidance. Assistant Director Group and Service Managers will now review and update the Partnership Register with the aim of identifying the key partnerships so that they can be assessed at the end of the year. The results will be included in an annual Partnership assurance report which will be presented to this Committee.

HMO Licensing Follow up

A 2017/18 HMO Licensing audit gave Limited assurance and made 13 recommendations (5 High & 8 Medium).

We have undertaken a detailed follow up (including testing) and found that;

- 9 recommendations (2 High & 7 Medium) have been fully implemented
- 4 recommendations (3 High & 1 Medium) require some further action to ensure that procedures are being consistently applied

We are happy with the progress that has been made – the further action required is not significant. The target date for these actions will be set at March 2020, at which time management will be asked to confirm if they are complete.

Management response from the Environmental Health & Corporate Safety Manager;

Following the HMO audit the private sector housing team have worked together to successfully implement many of the audit recommendations which has significantly improved how we manage and monitor licenced HMO's in the City. There are some further improvements to the operational procedures that we are aware of and we will look to complete these in the next few months, however, none of the improvements identified are a risk to the licencing framework.

Project Management

Our draft report has fed into a current post implementation review (PIR) of the Lincoln Project Management Model (LPMM) due to report January / February 2020.

Further details will be provided at the next meeting.

Audit reports at draft stage

There are three audit reports at draft report stage;

- Housing Rents – with management for approval
- Recruitment – with management for approval
- Project Management

Work in Progress

The following audit's are in progress;

- Payroll
- Licensing
- Treasury Management
- ICT Anti-Malware arrangements
- Sports Pitches improvements
- Homelessness
- Efficiency Savings
- Western Growth

Quarter 4 Audits

- Economic Development/Growth
- Performance management (AL)
- Website security/Office 365 projects
- IT Combined Assurance – ISO27001
- Governance / Risk management
- Refuse contract
- De Wint Court contract / project management

Other work Q3/Q4

- Combined Assurance
- Audit strategy and plan 2020/21

Counter Fraud

- Risk register update (December)
- Policy review (Bribery/Whistleblowing) (December)
- NFI completion - Ongoing
- Tenancy fraud - Ongoing
- Counter fraud training - December
- Fraud Health check – Quarter 4
- Money Laundering risk assessment - Ongoing
- Identity fraud – Quarter 4
- Friends against scams - Ongoing



Changes to the Audit Plan

Following discussions with the Chief Executive and Chief Finance Officer two audits in the Plan are being removed;

- Housing Repairs (10) - focussing on the interaction between the maintenance and investment teams. The Assistant Director Investment is undertaking some work on this over the next 18 months so the audit will be postponed until 21/22.
- Housing Allocations (5) - focussing on the New Build allocations process. This piece of work was requested by the CX but since then a Post Implementation Review report has been produced which has covered everything

Community Safety audit. The scope was originally City Centre intervention, safeguarding and licensing but following discussion with officers the audit focus was agreed as licensing only (with safeguarding aspects) .



Benchmarking



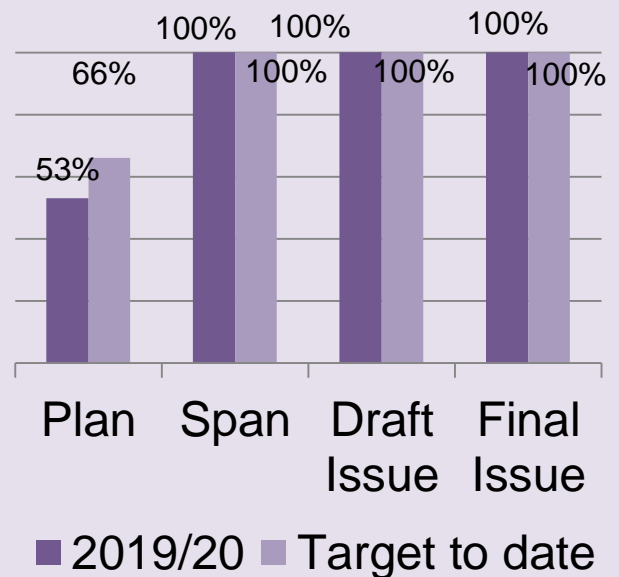
Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators

100%

Rated our service Good to Excellent

Good achievement of Audit KPI's to date



Lincolnshire Audit Committee Forum

A Lincolnshire Audit Committee forum took place on 1st October.

Agenda items were;

- Cyber Psychology / Security (Information Governance Officer, LCC)
- Audit Update (Chief Executive, Public Sector Audit Appointments)
- Risk in focus – Horizon scanning (Manager, Mazars)
- Assessment on Risk Register and Annual Governance Statements (Head of Internal Audit, LCC)
- View from the Chair (Chair of the Joint Independent Audit Committee, Lincolnshire Police & Crime Commissioner)

The presentations were emailed to members after the meeting.

Audit Committee Forum - Public Sector Audit Appointments update

No opinion at 31 July in 214 out of 497 local government bodies.

Three main reasons;

- Technical issues not resolved
- Audit resources shortfall
- Issues with accounts and working papers.....

Additionally, group issues is an emerging issue.

Need to complete them as soon as possible & plan for 19/20

Draft new NAO Code of Audit Practice: Move to VFM arrangements commentary. Commentary aims to make better use of the work auditors already do and change the focus of how they report their findings to help bodies understand what they need to do.

Commentary to cover three areas

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services

There are none.

High

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

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

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

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.

See separate report

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Chief Executive – Critical Activities					
Recruitment	Internal promotions and external recruitment	Q1	June		In progress
Treasury Management	Investments & borrowing	Q2	Nov		In progress
Efficiency Savings	Programme & project arrangements	Q4			Prepared
Payroll	Risk Based Audit	Q3	Nov		In progress
Scrutiny	Scrutiny committee operation & Member training	N/A			Deferred Q1 20/21
Apprentice scheme	Financial arrangements	N/A			Deferred Q1 20/21
Housing & Regeneration – Critical Activities					
Housing ASB	Advice work – budgets	Q1	April	June	Completed
Rental income	Risk Based Audit, to include Universal Credit impacts	Q2	July	Nov	Draft report
Housing Allocations	New Build allocations process	Q2			PIR done – no longer required
Housing Repairs	Interaction between reactive repairs & planned maintenance	N/A			Deferred 21/22
Homelessness	Implementation of the Homeless Reduction Act	Q3			In progress
Housing Strategy	Implementation of the Housing Strategy including links with Major Development	N/A			Deferred Q1 20/21
Housing Allocations	Accuracy and processing arrangements on the new IT system	Q4			

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Communities & Environment – Critical Activities					
Sport & Leisure pitches	Contract and operation review	Q2-3	June		In progress
Private Sector Housing follow up	Follow up of 17/18 HMO audit plus Private Sector Housing in general	Q2	Oct	Nov	Completed
Community Safety	Licensing	Q2-3	Oct		In progress
Performance management	Operation of the new PM system	Q4			
Major Developments – Critical Activities					
Growth & Regeneration	Strategies, investment, partnerships, infrastructure	Q4			Prepared
Financial & Governance					
Counter Fraud	Fraud Strategy actions	Q1-4			In progress
Counter Fraud	Tenancy Fraud data matching	Q1-4			In progress
Counter Fraud	NFI data matching	Q1-4			In progress
Counter Fraud	Friends against Scams	Q1-2			In progress
Counter Fraud	Fraud Training	Q1-2			In progress
Counter Fraud	Identity fraud	Q2			In progress
Welfare Reform	UC rollout and Welfare Advice	N/A			Deferred Q1 20/21
Counter Fraud	Fraud risk register update	Q3			In progress
Counter Fraud	Counter Fraud healthcheck	Q3-4			
Counter Fraud	Money Laundering risk assessment	Q3-4			

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Financial & Governance (cont'd)					
Counter Fraud	6 & 12 month reports	July 19			12 mth report in July 19
		Dec 19			Completed
Counter Fraud	Policy reviews	Q3-4			
Governance & Risk					
Governance	Key controls for annual assurance	Q4			
Risk Management	Key controls for annual assurance	Q4			
Information Management & Technology					
ICT	Assurance mapping and plan	Q1-2			Completed
ICT	IT map follow up and Strategy actions	Q4			
ICT	Anti-Malware arrangements	Q3	Oct		In progress
ICT	New Website	Q4			
ICT	Mobile Working/Office 365 Pilots	Q4			
Projects					
Western Growth	Programme governance and project management	Q3-4			Being prepared
De Wint Court	Project and contract arrangements	Q3-4			RM support Contract audit Q3-4

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Consultancy / VFM / No opinion work					
Emerging Legislation	Preparation for new and emerging legislation & policy (merged with 18/19 work)	Q1		May	Completed Full assurance
Brexit	Assist with risk and control issues as part of working group	Q1	Q1	Q4	In progress
Refuse & Recycling	Procurement arrangements	Q4			
Other work					
2018/19 audits	Complete audits from previous year	Q1	April		At draft report
Annual IA report	Report for 2018/19	Q1	April	May	Completed
Housing allocations	Serious offenders risk assessment	Q1	June	June	Completed
De Wint project	Risk management support	Q1-4	April		Ongoing
Follow up	Review progress on audit recommendations	Q1-4			Ongoing
Advice, Management	Advice & management, reactive investigations	Q1-4			Ongoing
Combined Assurance	Update the assurance map	Q3-4			
IA Strategy & Plan	New Plan for 2020/21	Q4			
Housing Benefit Subsidy					
2018/19 Subsidy claim	2018/19 HB Detailed testing on behalf of External Audit	Q1-2	May	July	Completed