Internal Audit
Progress Report

City of Lincoln Council
March 2020

Assurance
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CITY OF
Lincoln
COUNCIL

Contents

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Introduction

The purpose of this report is to:

- Provide details of the audit work during the period February to March
- 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 four assurance reviews.

Progress against the revised Audit Plan progress is 87%, against a target of 92%.

Assurances

The following audit work has been completed and a final report issued;
- Treasury Management – High
- Payroll - High
- Licensing – Substantial

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.

2
HIGH ASSURANCE

1
SUBSTANTIAL ASSURANCE

0
LIMITED ASSURANCE

0
LOW ASSURANCE

0
CONSULTANCY

High Assurance

Treasury Management

Treasury Management is an important part of the overall financial management of the Council's affairs. Previous audits in 2015 and 2017 on traditional TM activities gave high assurance and following the Council's decision to adopt a commercial approach to generate new income streams this audit has examined TM activities linked to property / commercial investments.

Current commercial investments are spread across differing sectors (car park, tourism, retail park); all the agreements include rent reviews. Risks associated with each proposal were identified and alternative options explored if the tenant should go into liquidation.

CIPFA have recently published a new Financial Management Code. Guidance notes that accompany it have been delayed so a full assessment against it will be undertaken in 20/21. The first full year of compliance with the code is 2021/22.

We found that;

- Commercial investments & property acquisitions (former council houses) have been bought in accordance with approved strategies / policies and authorised at the correct level.
- A minimum net yield has been set for the return on investments; this has been revised from 4% to 5-8% following the introduction of the Commercial Property Investment strategy in March 2019.
- Proposals for the purchase of investment properties include estimated costs of borrowing and identified annual net income; all agreements include rent reviews at fixed points.
- The return on investment properties is being reported in the Capital Strategy
- Long term borrowing is in accordance with the strategy; loans have been secured with the PWLB at favourable rates and prior to the 1% increase.
- Minimum Revenue Provision has been considered as part of each property investments; the method of calculation has been reviewed and approved by external audit.

We did not identify any areas requiring improvement and no recommendations have been made.

High Assurance

Payroll

The objective of the audit was to review the operation and management of the payroll processing service level agreement with NKDC to ensure that a timely, accurate and complete payroll service is delivered.

We found that;

- There is a good separation of duties
- Access to the I-Trent system for staff in HR and Payroll is appropriate, however there needs to be a formal process to record authorisation of users by the manager – this will be put in place
- The Authorised Signatory schedule (which includes payroll documentation) needs to be refreshed and this will be facilitated by Internal Audit.
- A robust process is in place for changing bank account details to manage the risk of fraudulent requests
- The processing timetable is being adhered to so that payments are made on the correct date
- Detailed testing found that;
    - Standing data is correct
    - Additional payments and starters and leavers are supported by authorised documentation and accurately input
    - An independent officer authorises the BACS file to be processed
- There is an up to date SLA in place and delivery of the service is monitored at periodic liaison meetings
- The SLA was extended in 2018 to include pension administration and this is operating as expected
- The SLA contains requirements to handle data in accordance with the requirements of the Data Protection Act 2018 and General Data Protection Regulations and processes are in place (at COLC & NKDC) to comply with these requirements. Data handling isn't discussed at SLA liaison meetings but this will be introduced going forwards.

Substantial Assurance

Licensing

Licensing is an important statutory service for the Council and its residents, helping to ensure that relevant activities and businesses are licensed. The Licensing team that ensure that licensed individuals and businesses conform to the legal conditions and requirements of the license awarded.

We found that systems and controls on the whole are operating effectively.

There is an established staff structure with experience across licensing and enforcement processes. A Licensing committee is in place, along with sub-committees with a clear delegation of functions agreed. The Statement of Licensing Policy is updated so that it can be taken into account when considering applications.

Time is spent by officers at the beginning of the process offering advice to ensure all relevant information is captured and conditions set.

Enforcement is currently reactive rather than proactive. It was agreed that proportionate enforcement action will be taken and a strategy will be developed.

Safeguarding is a key element of the licensing process. We found that the service has robust application controls in place which provide assurance that only bona fide driver and vehicle applications are processed. Despite the varied controls, safeguarding will always be an area of risk due to the impact of any one incident. The service are aware of the risk and have learnt lessons from others both nationally and locally.

Formal complaints are captured within the council complaints process, however we found that informal complaints are not consistently captured on the APP system. These will be logged more consistently on the software in future.

Individual officers specialise in areas of licensing. For transparency and appropriateness it was agreed supervisors would complete more formal quality control of license processing. Also any conflicts of interests (if they arise) would also be clearly documented.

In terms of performance measures consideration will be given to developing more meaningful KPI's for the service and an annual report for the Licensing Committee.

Other work

Audit Recommendations
A review of recommendations due and overdue has been undertaken and a Recommendation Follow Up report is attached as a separate item.

Work in Progress
- Sports Pitches improvements
- Homelessness
- Efficiency Savings
- Housing Allocations (Choice Based Lettings)
- Western Growth
- Partnerships (Consultancy)
- De Wint Extra Care Facility
- Performance Management (PIMS)
- ICT Assurance Map
- Governance / Risk Management
- ICT Anti-Malware

Other work
- Combined Assurance Map update – the Map has been refreshed and is presented as a separate report
- Audit Strategy and Plan 2020/21 – a Draft Plan has been produced and is presented as a separate report
- Bribery / Whistleblowing Policy review – in progress
- NFI completion - Ongoing
- Tenancy fraud – Ongoing
- Money Laundering risk assessment – in progress

Work to start in Quarter 4
- Counter fraud training (continuation)
- Fraud Health check

Audit Plan changes
The Growth audit will be completed in 20/21 – timing
Work on the Refuse / Recycling contract is not currently required
The allocations for Brexit and Reactive Investigations have been reduced.

6

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

	Plan	Span	Draft Issue	Final Issue
2019/20	87%	100%	100%	100%
Target to date	92%	100%	100%	100%

■ 2019/20 ■ Target to date
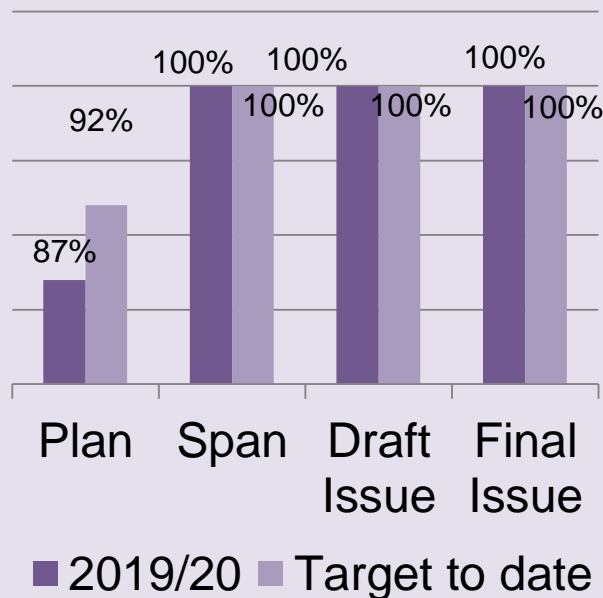
CIPFA Financial Management Code 2019

CIPFA have updated their financial management code for UK Local Authorities to acknowledge the pressures of a tightening fiscal landscape. The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code therefore for the first time sets the standards of financial management for local authorities. The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- Financially manage the short, medium and long-term finances of a local authority
- Manage financial resilience to meet unforeseen demands on services
- Manage unexpected shocks in their financial circumstances

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team.

The first full year of implementation of the CIPFA FM code is from 21/22 and that an assessment against the requirements of the code will be undertaken during 20/21 with an action plan developed if necessary to ensure compliance.

The Redmond Review

The Redmond review is an independent review to determine whether the requirements of the Local Audit and Accountability Act 2014 are being fulfilled. It will look to test the assurance processes in place with regard to the value for money arrangements together with financial resilience in local councils and the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England.

A consultation exercise was undertaken in late 2019 and the consultation paper can be found at:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/850638/Redmond_Review_Call_for_Views_-_Extended.pdf

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.

A Recommendation Follow Up report is attached as a separate item.

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	Dec	Completed Substantial
Treasury Management	Investments & borrowing	Q2	Nov	Feb	Completed High
Efficiency Savings	Programme & project arrangements	Q4	Feb		In progress
Payroll	Risk Based Audit	Q3	Nov	Mar	Completed High
Scrutiny	Scrutiny committee operation & Member training	N/A			Deferred to 20/21
Apprentice scheme	Financial arrangements	N/A			Deferred to 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	Completed Substantial
Housing Allocations	New Build allocations process	Q2			PIR done– no longer required
Housing Repairs	Interaction between reactive repairs & planned maintenance	N/A			Deferred to 21/22
Homelessness	Implementation of the Homeless Reduction Act	Q3	Nov		In progress
Housing Strategy	Implementation of the Housing Strategy including links with Major Development	N/A			Deferred to 20/21
Housing Allocations	Accuracy and processing arrangements on the new IT system	Q4	Jan		In progress

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	Q2-4	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	Q3-4	Oct	Feb	Completed Substantial
Performance management	Operation of the new PM system	Q4	Feb		In progress
Major Developments – Critical Activities					
Growth & Regeneration	Strategies, investment, partnerships, infrastructure	Q4			Deferred to 20/21
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			Complete
Counter Fraud	Fraud Training	Q4			In progress
Counter Fraud	Identity fraud	Q4			May defer to 20/21
Welfare Reform	UC rollout and Welfare Advice	N/A			Deferred Q1 20/21
Counter Fraud	Fraud risk register update	Q3			Complete
Counter Fraud	Counter Fraud healthcheck	Q3-4			May defer to 20/21
Counter Fraud	Money Laundering risk assessment	Q4			

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 Dec 19			12 mth report in July 19 Completed
Counter Fraud	Policy reviews	Q3-4			Anti-bribery – complete Whistleblowing – Feb
Governance & Risk					
Governance	Key controls for annual assurance	Q4	Feb		In progress
Risk Management	Key controls for annual assurance	Q4	Feb		In progress
Information Management & Technology					
ICT	Assurance mapping and plan	Q1-2			Completed
ICT	IT assurance map follow up and Strategy actions	Q4	Feb		In progress
ICT	Anti-Malware arrangements	Q3	Oct		Draft report
ICT	New Website	Q4			Health Check
ICT	Mobile Working/Office 365 Pilots	Q4			Likely move to 20/21
Projects					
Western Growth	Programme governance and project management	Q4	Jan		In progress
De Wint Court	Project and contract arrangements	Q4	Jan		In progress

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			No longer required
Other work					
2018/19 audits	Complete audits from previous year	Q1	April	Dec	Completed
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	Dec		In progress
IA Strategy & Plan	New Plan for 2020/21	Q4	Jan		In progress
Housing Benefit Subsidy					
2018/19 Subsidy claim	2018/19 HB Detailed testing on behalf of External Audit	Q1-2	May	July	Completed