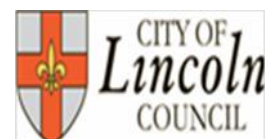


Internal Audit Progress Report



City of Lincoln Council
July 2021



Contents

Key Messages

Page 2

Introduction
Summary
Assurances

Internal Audit work completed

Page 3

Overview of Assurances
Audit Reports at Draft
Work in Progress

Benchmarking

Page 11

Key Performance Indicators

Other Matters of Interest

Page 12

Appendices

Page 13

-
- 1 Limited / Low Assurance Reports (None)
 - 2 Assurance Definitions
 - 3 Audit Recommendations
 - 4 2021/22 Audit Plan

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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 audit work during the period April – June 2021
- Advise on progress with the 2020/21 and 2021/22 Plans
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

In this period we have completed seven assurance reviews and produced the 2021/22 Annual IA Report.

The 2020/21 Plan was scheduled to run to the end of April 21, and at this point it was 89% complete. Since then all outstanding pieces of work have been finalised except for the Western Growth review, which is with management for approval.

Work on the 2021/22 Plan has commenced and is on track. Details can be found in Appendix 4.

Assurances

Seven assurance reviews have been completed in this period;

Governance – High Assurance
Risk Management - Substantial Assurance
Office 365 – Substantial Assurance
NNDR - High Assurance
Accountancy Key Controls - High Assurance
Creditors Key Controls - High Assurance
Debtors Key Controls – High Assurance

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.

5
HIGH
ASSURANCE

2
SUBSTANTIAL
ASSURANCE

0
LIMITED
ASSURANCE

0
LOW
ASSURANCE

0
CONSULTANCY

High Assurance

We found that;

- Management rated Corporate Governance as Green in the 2021 Combined Assurance map.
- The Council's Code of Corporate Governance was last updated in 2018 and is currently being refreshed, and will include any changes brought about by Covid / working from home. The refreshed version will be presented to Audit committee for approval, hopefully in July.
- An assessment against the current Code is being done to inform the AGS, and it will include any changes identified by the refresh.
- In previous years the AGS layout and content has been in accordance with good practice and the new guidance issued by CIPFA on the content of the AGS (including reference to Covid and the CIPFA Financial Management Code) will be taken into account.
- The process to produce the AGS and identify any potential significant governance issues is robust. A wide range of intelligence is gathered and the Council's senior management and statutory officers are interviewed. Two different officer groups consider and refine potential significant issues before they are considered by CLT and CMT, and finally Audit Committee.
- Interviews with the CX, Directors, Chief Finance Officer and the Monitoring Officer did not raise any significant concerns about the Council's governance arrangements during 2020/21.
- During 2020/21 Audit Committee received quarterly monitoring reports on the three significant issues in the 2019/20 AGS.
- CIPFA's Financial Management Code is applicable in shadow form during 2020/21 with compliance expected from 2021/22. The guidance suggests a self-assessment against the FM Code and this has already been done and reported to Executive and Audit committee, in March. Some actions have been identified which will be included in the 20/21 AGS and monitored through the Audit committee.

We did not identify any areas for improvement, although there a few areas that are still in progress.

**Governance
2020/21**

High Assurance

Debt recovery has been significantly affected by the lockdown. In accordance with Government requirements all recovery was suspended for the period March to August 2020. Reminders restarted in September 2020 but the initial closure of magistrate's courts due to the pandemic meant that there were only two court dates in 2020/21. The Courts have now fully reopened.

The 12-month payment holiday (100% reduction in liability) was applied in accordance with Government guidance on Retail, Hospitality & Leisure businesses and qualifying Nursery businesses.

Government support initiatives for the business sector reduced the gross collectable income due to each Council. However, the collection of income during a global pandemic, with businesses remaining in lockdown and subsequent impact of closures has been and will remain a challenge for the team. Despite these difficulties the year end collection figures that have been achieved for 20/21 are 98.97% for COLC (0.08% up on previous year),

We also found that;

- All payment methods continue to operate with appropriate controls in place.
- There is an adequate separation of duties between the between day to day NNDR work and income collection.
- Income is posted daily and reconciled; suspense accounts are regularly reviewed
- There is a process in place to guard against fraudulent refunds; refunds are reconciled and appropriately authorised
- Write offs are authorised and actioned in accordance with each Council's Financial Procedure Rules.
- Claims for reliefs and discounts are correctly processed and reflected in Northgate - supporting evidence is obtained where required.

One recommendation was made to introduce a quarterly supervisory review of accounts where recovery action is on hold – this has been accepted and will also be implemented in respect of Council Tax accounts.

**NNDR
2020/21**

High Assurance

We found that the expected key controls are in place and operating as expected;

- Access to the Main Accounting System (MAS) is restricted
- Budget roles and responsibilities are clearly defined
- There is an effective and robust process in place to monitor budgets, any variances are identified , explained and reported.
- Financial impact of Covid is closely monitored and reported to members
- Capital programme is effectively monitored and reported; member approval to capital schemes (and changes) is obtained where required.
- Virements and changes to the budget are authorised and reported in accordance with financial procedure rules
- There is a regular reconciliation of cash receipting to the general ledger and review of the suspense account.

We identified one area for improvement; Financial Services are not always notified when agency staff leave the Council and need to be deleted from Agresso; a bi-annual review of users should be undertaken to address this issue.

**Accountancy
Key Controls
2020/21**

High Assurance

We found that the expected key controls are in place and operating as expected;

- System parameters are set at an appropriate level and access is restricted to user needs.
- The Creditors system enforces a separation of duties through user roles and permissions.
- The ability to set up and amend creditor data (such as bank account details) is restricted and well controlled.
- The Agresso system is able to recognise and produce a system alert for potential duplicate payments; additional checks are also undertaken by the Exchequer Officer.
- A reconciliation is undertaken between Creditor and BACS payment reports
- An audit trail supports all actions taken when processing creditor payments, including Covid Business Grants and Track & Trace payments.
- A reconciliation is undertaken between Creditor and BACS payment reports

We have identified one area for improvement; a list of authorising officers needs to be reviewed and approved by Assistant Directors to comply with Financial Procedure Rules.

Creditors Key Controls 2020/21

High Assurance

Debtors Key Controls 2020/21

We found that the expected key controls are in place and operating as expected;

- Ability to set up and amend customer master file data (eg bank accounts) is limited to relevant staff; anti fraud checks are undertaken.
- Automated double entry posting to debtors and ledger is now an automated part of the debtors system.
- Authorisation of sales and credit invoices is set at the correct level.
- The reconciliation of debtor income and clearing of the suspense account is undertaken regularly
- Write off have been authorised and administered in accordance with financial procedure rules.

We have identified one area for improvement; consider whether low value amounts due to the Council can be recovered in a more cost effective / efficient way.

Substantial Assurance

The purpose of the review is provide assurance that the design and implementation of the controls for managing Microsoft Office 365 are adequate to maintain the confidentiality, integrity and availability of data and meet organisational needs. The Council, with assistance from a specialist supplier, have deployed Office 365 to 652 users, some with different licence types. The Council are aware that they are reaching capacity with Office 365 licences and intend to procure more as and when needed.

Full scale migration of data is yet to be completed. Some key documentation for users has been migrated and users are storing newly created documents on SharePoint. The main bulk of data still exists on the on-premises network and only files that are specifically required are intended to be migrated. There are no detailed plans for full scale migration at the current time. There are still further actions to be completed, particularly the implementation of Data Loss Prevention (DLP) prior to migrating the main bulk of data. Standard operating procedures to support the day-to-day operational management and administration of the Office 365 tenant have not yet been documented.

We reviewed technical configurations and noted other improvement areas.

In terms of project management, overall responsibility rests with the Organisational Change Lead and the project team includes members of Business Development and IT. Microsoft planner is used to manage the deployment of Office 365 to new users. There are regular reports into the One Council Technology Board, as well as Corporate Management Team. The Lincoln Project management model is followed. A DPIA has been completed and an EHRA is in progress. This is a complex project involving software and new hardware being rolled out in a relatively short timescale across the Council and CMT have recently requested that this roll out should be brought forward to September 2021 from the previous December target. Officers are looking at resource options to meet this new target.

We identified a small number of areas for improvement relating to project management including updating project plan lists and risk registers, formal financial reporting to Board and consideration of 365 migration as a separate project.

**Office 365
2020/21**

Substantial Assurance

There is a current Risk Management Strategy, which states that the Council's risk appetite is 'Creative and Aware'. The Strategy sets out the responsibilities for risk management at strategic and operational levels.

The Strategic risk register is being actively reviewed each quarter by CMT and presented to the Executive. Strategic risks have an owner and any actions have a target date. In the past year five new risks have been added (mostly connected to Covid) and three risks have been re-scored. The SRR does not currently include a specific Cyber Security or associated ICT risk, but this already due to be included in the next update.

Directorate risk registers are, on the whole, being updated on a quarterly basis. However, the Major Developments risk register was last updated in May 2020. Whilst it is appreciated that the work of this directorate is largely project based and there were significant other pressures during 2020/21 the same issue of infrequent reviews has been found for the last three years and a high priority recommendation has been made to introduce a robust process to ensure that regular reviews are undertaken in all directorates.

The Fraud risk register was refreshed in December 2020 and presented to the Audit committee in February 2021.

Risk management is operating in other areas such as ICT, programme and project management, Medium Term Financial Planning, Brexit preparation and committee reporting.

Due to Covid and the need to prioritise resources some actions due in 2020/21 were postponed to 2021/22;

- A review of the Risk Management Strategy and Framework
- Communication and training on the RM Framework

Other work

Audits in Progress

- Housing Benefits & Council Tax Support – fieldwork in progress

Other work

- Housing Benefit Subsidy testing – work has commenced and is approximately 50% complete
- Elections – Police & Crime Commissioner claim reviewed (there are two further claims to review)
- Counter Fraud
 - National Fraud initiative- ongoing work
 - Fraud policies – fraud strategy completed
 - Money Laundering risk assessment – in progress
 - Scam awareness – linking into national schemes (June)
 - Annual fraud report - completed
 - LCFP liaison - ongoing
- Grants
 - Assistance as required

Non-Audit Work

Partnership Governance – IA will continue to liaise with the Chief Finance Officer and Assistant Director's on this area assisting with assurance reviews and Audit Committee reporting.

Audit Plan changes

It was agreed with the S151 officer that the VFM audit would be replaced by a Housing Benefit & Council Tax Support audit that couldn't be undertaken in 2020/21. The VFM audit was to support External Audit's annual VFM commentary required under the new code of practice and the CIPFA Financial Code, but as EA have started their work it was felt this would be a duplication.



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

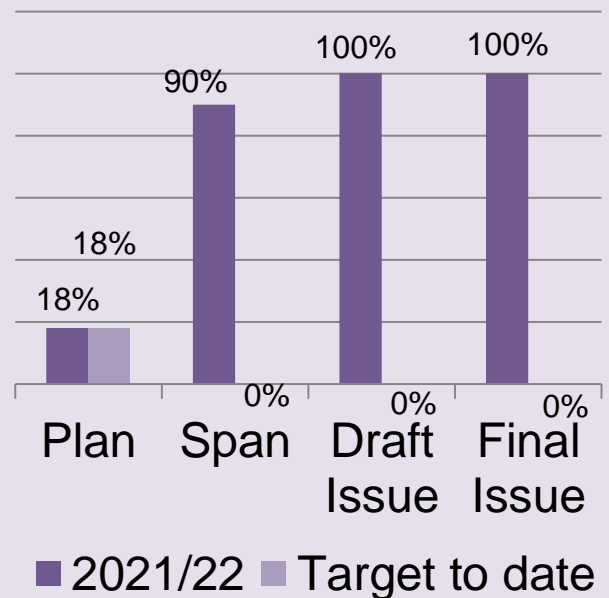
Performance on Key Indicators (2021/22)

No audits have been completed yet so only plan completion data is available

Rated our service Good to Excellent

18% Plan Completed

Achievement of Audit KPI's to date



Other matters of interest

A summary of matters that will be of particular interest to Audit Committee Members.

External Audit providers

PSAA launches consultation on its plans for the second appointing period for the national scheme for local auditor appointments. PSAA will issue invitations later in 2021 to all eligible local bodies to join the national auditor appointment scheme for the next appointing period commencing in April 2023.

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.

An update is provided in a separate report.

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Annual IA Report	Audit opinion & coverage for 2020/21	Q1	May	June	Completed
Partnership Governance	Consultancy to assist in providing assurance for management & Audit cttee	Q1-2			In progress
Housing Benefit Subsidy	Detailed testing on behalf of External Audit	Q1-2	May 21		In progress
Housing Benefit & CTS	Assurance that HB, CTS, DHP & CTS Hardship Fund are administered correctly	Q1	May 21		In progress
Leisure Centres	Assurance that appropriate contingency planning is being undertaken	Q2			
Planned Maintenance	Assurance on the closedown of the Kier contract and the establishment of new arrangements	Q2			
Elections / Electoral Registration	Review of the 2021 expenses claim & maintenance of the electoral register	Q2	May 21		PCC claim completed
Safeguarding	Review of Protecting Vulnerable People processes during Covid	Q2			
Visitor Information Centre	Assurance on the operation of the service	Q2-3			
Western Growth Corridor	Assurance on partnership governance and programme management arrangements for Phase 1a	Q3			
Rogue Landlord	Consultancy work on the PIR	Q3			
Health & Safety	Risk assessment processes	Q3			
Income	Assurance on income controls in key areas	Q3			
Stores	Assurance on the changeover of contractor	Q3			

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Combined Assurance	Update the assurance map and produce a 2022 Combined Assurance report	Q4			
IA Strategy & Planning	Produce a 2022/23 Audit Plan	Q4			
Town Deal	Assurance on governance, programme & project management arrangements	Q4			
ICT – Projects & Programmes	Assurance on general project management plus specific projects for PSN and IT security training	Q4			
ICT – Disaster Recovery	Assurance on IT DR planning, incident response & infrastructure resilience	Q4			
Medium Term Financial Strategy	Assurance that assumptions, reserve levels, etc are appropriate and there is integration with other strategic documents	Q4			
Performance Management	Assurance that the revised PM Framework enables the Council's performance to be effectively monitored.	Q4			
Housing Repairs	Assurance on the operation of the new repairs process and the void repairs process	Q4			
Counter Fraud	Consultancy / advice work on strategy, training, NFI, money laundering, identity fraud, business grants	Q1-4	April		In progress