

Internal Audit Progress Report



City of Lincoln Council
March 2023

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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 from November 2022 to February 2023
- Advise on progress with the 2022/23 Plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

Progress is being made on the current 2022/23 plan (Appendix 3). We have now completed 61% of the revised plan to date. The aim remains to complete all work to at least draft report before the end of April.

We have completed two pieces of work since the previous report. The Stores Audit received a limited level of assurance and the summary is attached to this report – Appendix 1. We also completed the Combined Assurance work, the results of which will be reported in the Annual Audit Report.

We have eleven pieces of work in progress, one at draft report stage, six in progress and the remaining ones currently agreeing the scope (Appendix 3). We are also involved in the co-ordination of the National Fraud Initiative which is taking place this year.

The benchmarking figures are currently showing that the span and management response times are significantly below target. There are a number of reasons for this, including staffing levels within the team and client engagement. We have now appointed a Principal and are currently considering how we can improve client engagement going forward with the aim of reducing the delays.

The new Principal started on 20 February and is currently going through the induction process and taking on audit work. The team currently has one vacancy which we have not been able to recruit to but will shortly be re-advertising. We continue to employ a temporary Auditor on a casual contract to cover some of the work as well as further resources from Assurance Lincolnshire. This will enable us to cover the work remaining within the work plan for this Financial year. We continue to monitor resources to ensure that the 2022/23 plan can be completed before the Annual Opinion is required in June.



Limited Assurance

Our review focussed on the changeover of contractor and the new contractual arrangements in place for the management of the Stores function. The audit has identified a number of weaknesses which, 16 months into the contract, collectively impacts on the potential effectiveness of the current arrangements; it is for this reason that a 'Limited' assurance opinion has been awarded.

The key findings are as follows:-

- An element of our review has been to provide assurance around the changeover of the contractor which took effect from 1st April 2021. The transfer of stock was effectively managed between the outgoing and incoming contractors, however, in terms of the wider arrangements we have been unable to fully demonstrate the effectiveness of the exercise or the Council's involvement and sign off.
- Whilst monthly operational meetings take place between the Council's Contract Manager and Contract Support Officer and, representing the new contractor, the Partnership Account Manager and Stores Manager, the planned quarterly Strategic Review meetings which include Directors/Management from both parties have not taken place.
- The contract between the Council and the new contractor for the provision of building supplies (management of the stores) incorporates a number of requirements that have not yet been fully embedded.
- Improvements in the reporting of KPIs has been seen over the period of the contract, however, there are still some measures that are not formally reported, and the method in which they are reported and to whom still need to be addressed.

The full summary of the report can be found in Appendix 1.

Stores

Work
Completed
/ In
Progress

Audits in Progress

- De Wint Court – Draft report
- Staff Welbeing – Fieldwork in progress
- Climate Change – Fieldwork in progress
- Income – Bank Reconciliation – Fieldwork in Progress
- Organisational Development - Fieldwork in progress
- General Ledger – Fieldwork in progress
- Housing IT – First gateway review completed, others to be completed throughout the process.
- Housing Repairs – Terms of Reference
- IT Asset Management – Terms of Reference
- IT Disaster Recovery – Terms of Reference
- Western Growth Corridor – Initial scoping meeting

Other work

- Combined Assurance work has been completed.
- Audit Plan 2023/24 completed.
- NFI – co-ordination and returns.

Amendments to the Audit Plan

There has been no further amendments made to the plan.

Audit work undertaken for Assurance Lincolnshire

Covering the Principal role for the South East Lincolnshire Partnership.
One Audit completed - Levelling up Fund.

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

Rated our service Good to Excellent

61%
Plan Completed





Other matters of interest

A summary of matters that will be of particular interest to Audit committee members

Croydon Council Governance Failings – Publication of Independent Report

Following the publication of a public interest report in October 2020, Croydon Council commissioned local government expert Richard Penn, through the Local Government Association to compile an independent report on the issues at the council. His report, completed in March 2021, but only just published in February 2023 found that the dysfunctional leadership and poor governance arrangements contributed to the authority's financial collapse.

Fairfield Hall is an arts, entertainment and conference centre situated in Croydon. Refurbishment of this building was agreed by Croydon Council and work was undertaken between June 2016 and September 2019. It was delivered late and cost substantially more than the original £30m budget agreed by cabinet. Originally a Value for Money review, this became a Report in the Public Interest by their Internal Auditors Grant Thornton which highlighted failings of financial control and governance of this project.

The report found that the 'governance gaps' at the time 'prevented scrutiny and challenge that may have allowed corrective action to have been taken.' The report found that the statutory officers and chief officers throughout the time of the refurbishment failed to fulfil their statutory duties. All have since left the council. An action plan will be put in place to address the recommendations arising from this report.

This has led the Council putting in place new measures to address the findings. The Council has overhauled and strengthened its financial, legal, decision-making and other governance processes, and through its Croydon Renewal Plan is creating a new culture of good decision-making, transparency, accountability, and value for money.

It also led the council to undertake an external independent review of its companies and company structures. Following that review, the council's intention is to wind down its development company Brick by Brick once it has completed its outstanding building work. The Fairfield Halls refurbishment contracts were taken back under direct Council control. The full report can be seen here:

[Report in the Public Interest Fairfield Halls | Croydon Council](#)

Stores

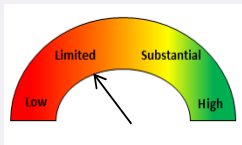
Scope

This review provides assurance on the changeover of the contractor and the management of the new stores contract with JPS.

We have reviewed the new contract and the arrangements in place to provide assurance that it supports the service to deliver reactive repairs on time and to required standards. The review has considered:

1. Delivery of the contract including roles & responsibilities
2. Performance management
3. Transfer from the legacy contract to the new contract
4. Management of fraud risks

Executive Summary



**Limited
Assurance**

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
Risk 1 – The Stores contract is not managed effectively	Red	2	0
Risk 2 – The contract fails to deliver the contracted outputs.	Red	0	5
Risk 3 – Stores are used fraudulently.	Amber	0	1

Our review focussed on the changeover of contractor and the new contractual arrangements in place for the management of the Stores function. The audit has identified a number of weaknesses which, 16 months into the contract, collectively impacts on the potential effectiveness of the current arrangements; it is for this reason that a 'Limited' assurance opinion has been awarded.

Executive Summary

We have encountered some delays and difficulties in carrying out the audit, in terms of engagement and obtaining documentation where required. We acknowledge there has been absence of key personnel and, more recently, the Contract Manager has left the Council, with interim arrangements now in place. Clear responsibility for the contract, along with adequate management oversight and reporting, is crucial in ensuring the contract is operating effectively going forward.

An element of our review has been to provide assurance around the changeover of the contractor for the supply of building materials, which took effect from 1st April 2021. The transfer of stock was effectively managed between the outgoing and incoming contractors, however, in terms of the wider arrangements we have been unable to fully demonstrate the effectiveness of the exercise or the Council's involvement and sign off.

There is potentially a lack of formal strategic management oversight. Whilst monthly operational meetings take place between the Council's Contract Manager and Contract Support Officer and, representing the new contractor, the Partnership Account Manager and Stores Manager, the planned quarterly Strategic Review meetings which include Directors/Management from both parties have not taken place. Without the quarterly strategic management meetings, issues including contractual, strategic and efficiency may not be captured and resolved.

The contract between the Council and the new contractor for the provision of building supplies (management of the stores) incorporates a number of requirements that have not yet been fully embedded; the Business Continuity Plan has not been tested every 12 months and stock takes have not been formally reported. Monitoring compliance with the contract requirements by the Council will ensure that any gaps in processes can be addressed; the introduction of the quarterly management meetings will also assist in capturing any shortfalls.

Improvements in the reporting of KPIs has been seen over the period of the contract, however, there are still some measures that are not formally reported, and the method in which they are reported and to whom still need to be addressed. We acknowledge that the Contract Support Officer is working with the Contractor to address the gaps and streamline the way in which KPI information is reported. Without a structured approach to the measuring and reporting of KPI data, any shortfalls in performance may not be promptly identified or addressed.

Management Response

The transfer of managed stores contract happened during the Covid-19 Pandemic. As with many other areas of the Council's operations this had a huge impact on the resources available for day-to-day service delivery. During this time the nominated contract manager, Business Services Manager (BSM), was assigned tasks outside of their normal remit which were to assist in the council's Covid 19 response. Organising related activities to help the most vulnerable tenants and co-ordinating the efforts in response for housing and the wider council. This took up a significant majority of their work time and as accepted corporately their business-as-usual tasks took a back seat.

Within the first year of the new contract, there were staff absences and the BSM left the organisation in the summer of 2022. This had a significant impact on the service's ability to operate optimally. An Interim BSM was not appointed until middle of October 2022.

The above circumstances clearly affected the management of the contract especially in the important transitional phase and may have resulted in some potential gaps in record keeping. This situation has now been corrected and we are not aware of any potential disadvantage to the service and the Council.

It was noted within the audit that certain tasks, in the absence of the BSM, were maintained by the Contract Support Officer (CSO). To this end, Interim Maintenance Manager instructed CSO to manage the day to day running of the contract, including holding the monthly operational meetings, until a replacement BSM could be confirmed. Effectively, measures were put in place in the interim.

During this time, this ensured KPI reporting was maintained and published to higher management. Monthly operational meetings were continued, and the strategic quarterly meetings were reinstated at the end of November 2022 with the next one planned for 1st week of March 2023.

The new contractor understands the importance of business continuity planning and in recognition of this are currently planning to test their Business Continuity Plan by end of March 2023.

Management Response

Whilst no formal communication was received, the new contractor did undertake a stock take in January 2022. They are currently conducting 2023 stock take in February and will be reporting outcome in line with contracted timescales.

To address potential for fraud within the stores, the new contractor completed a new office counter build in November 2022, which limits the traffic of unsupervised operatives within the warehouse. Additionally, staffing levels within the new contractor have now been bolstered up to the specified contract level of 4 full time employees and an apprentice.

In summary it is accepted that, due to circumstances beyond the control of the service area, some initial weaknesses have been noted in the initial period of management of the new stores arrangements. These have now been rectified as the Council has gradually moved back to a normal operating environment.

Maintenance Manager

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.

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
21/22 Performance Management	Assurance that the PM Framework enables the Council's performance to be effectively monitored.	Q4	Mar 22	Aug 2022	Limited
21/22 Stores	Assurance on the changeover of the contractor.	Q4	Apr 22	Feb 2023	Limited
21/22 ICT Programme & Project Management	Assurance on general programme and project management.	Q4	Feb 22	Oct 2022	Substantial
21/22 Medium Term Financial Strategy	Assurance that assumptions, reserve levels, etc are appropriate and there is integration with other strategic documents	Q4	Mar 22	July 22	High
Annual IA Report	Audit opinion & coverage for 2021/22	Q1	May 22	June 22	Completed
Housing Benefit Subsidy	Detailed testing on behalf of External Audit	Q1-2	May 22	Sept 2022	Substantial
Staff Wellbeing	Review of the impact of changes to working practices on staff and action being taken. Covering areas such as homeworking, health and safety and the impact on sickness, grievances, turnover.	Q1	Sept 22 Start delayed until September by auditee.		Fieldwork in Progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
De Wint Court	To review the proposed arrangements in place for the Rent, allocations, staffing and other income in respect of De Wint Court .	Q1			Draft Report
Housing IT	System Implementation Gateway reviews on the project to upgrade the Universal Housing system	Q1-3			First gateway review completed
IT Disaster Recovery (IT Consultant)	Assurance on IT DR planning, incident response & infrastructure resilience.	Q1-2			Terms of Reference
Christmas Market	There are plans in place setting out the aims and objectives for the market measuring it's performance. Processes are in place for the secure collection of income and procurement of goods and services to support the operation of the market.	Q2			Removed.
Economic Recovery – Post Covid	Work to be carried out on the Covid related grants - potential to look at third party providers, possible frauds, lessons learned.	Q2			Removed.
Climate Change	Review of the Councils climate action plan to ensure that it links to the Councils vision and aspirations, sets clear targets for achievement and is embedded within the Council.	Q2-3			Fieldwork in progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Members	Review of the processes in place to ensure that Members receive the resources (kit & expenses) and development required including their responsibilities and communication especially via social media.	Q2-3			Removed.
Electoral Registration	Review of the maintenance of the electoral register.	Q3			Removed.
Fleet	Review to ensure that the fleet is procured & managed in accordance with the policies and procedures. There are controls in place to ensure that fuel and consumables are used on council fleet vehicles and policies on private use of fleet vehicles are in place.	Q3			Removed
Housing Repairs	To provide assurance on the operation of the new repairs process and the void repairs process	Q3			Terms of reference
Health & Safety	Review operation of new risk assessment process.	Q3			Removed.
Insurance	Processes in place ensure that the responsibility for insurance is clearly defined and sustainable, adequate cover is in place, compliance with internal procedures and claims are dealt with promptly.	Q3			Removed.

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Property, Plant & Equipment (Asset Control)	Review of the processes in place to ensure that the assets register held by accountancy is accurate (additions / disposals, valuations & reconciliation of the register).	Q3			Fieldwork progress
Organisational Development	To provide assurance that there is an effective workforce plan in place which meets the changing needs of the council in order to serve its communities. To consider the demographic and skills of staff and to ensure that key risks have been identified.	Q3-4			Fieldwork n progress
Corporate Asset Management	There is an up-to-date Strategic Asset Management plan in place which is appropriately communicated.	Q3-4			Removed.
Western Growth Corridor	To provide assurance that appropriate partnership governance and programme management arrangements are in place for the construction of Phase 1a.	Q3-4			Initial meeting
Housing Strategy & New Build / New Homes	The Council has a plan in place that includes the delivery of new homes which is realistic and adequately resourced. There are processes in place which ensure that any conditions of funding are adhered with.	Q4			Removed.

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
General Ledger (Journals, Control Accounts & Suspense Accounts)	Review to ensure that there are controls in place to ensure that journals made are appropriate, control accounts are reconciled and suspense accounts cleared promptly.	Q4			Fieldwork in progress
CCTV	Review of the processes in place to ensure that the service complies with the regulatory requirements, is appropriately resourced and has processes in place for maintaining and sharing information in response to incidents. Equipment is maintained and secure.	Q4			Removed.
IT Asset Management	Review of the processes and policies in place regarding the control of IT assets (Including mobile devices) including asset management, responsibility, use and the security of the devices to protect against unauthorised use, access to information and loss of assets.	Q4			Terms of Reference
Income – Bank Reconciliation	Processes in place ensure that bank reconciliations are carried out promptly, accurately, reviewed and any discrepancies are rectified.	Q4			Fieldwork in progress
Combined Assurance	Update of the Combined Assurance Map	Q4			Completed
Audit Strategy & Plan	Audit Strategy & Plan for 2023/24	Q4			Completed