

City of Lincoln Council

DRAFT - Report to the Audit Committee

VFM risk assessment for the year ending 31 March 2024

May 2024

Introduction

To the Audit Committee
of City of Lincoln Council

We are pleased to have the opportunity to meet with you on 04 June 2024 to discuss our audit of City of Lincoln Council for the year ending 31 March 2024.

We have been appointed as your auditors by Public Sector Audit Appointments Ltd. The audit is governed by the provisions of the Local Audit and Accountability Act 2014 and in compliance with the NAO Code of Audit Practice. The NAO is consulting on a new Code of Audit Practice for 2023/24, therefore this risk assessment will remain draft until the finalisation of that Code.

This report outlines our risk assessment for our VFM responsibilities. We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

| Contents | Page |
|----------------------------|------|
| Value for money | 3 |
| Summary of risk assessment | 5 |
| VFM arrangements | 6 |

The engagement team

Rashpal Khangura is the engagement director on the audit. He has over 20 years experience in public sector audit.

Rashpal Khangura shall lead the engagement and is responsible for the audit opinion.

Other key members of the engagement team include engagement manager John Blewett and in-charge Dominic Kular with 7 years and 3 years of experience respectively.

Yours sincerely,

RS Khangura

Rashpal Khangura

Director - KPMG LLP

xx May 2024

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We depend on well planned timing of our audit work to avoid compromising the quality of the audit. This is also heavily dependent on receiving information from management and those charged with governance in a timely manner. We aim to complete all audit work no later than 2 days before audit signing. As you are aware, we will not issue our audit opinion until we have completed all relevant procedures, including audit documentation.

Restrictions on distribution

This report is intended solely for the information of those charged with governance of City of Lincoln Council and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Value for money

For 2023/24 our value for money reporting requirements have been designed to follow the guidance in the Audit Code of Practice.

Our responsibility to conclude on significant weaknesses in value for money arrangements is unchanged.

The main output remains a narrative on each of the three domains, summarising the work performed, any significant weaknesses and any recommendations for improvement.

We have set out the key methodology and reporting requirements on this slide and provided an overview of the process and reporting on the following page.

Risk assessment processes

Our responsibility remains to assess whether there are any significant weaknesses in the Council's arrangements to secure value for money. Our risk assessment will continue to consider whether there are any significant risks that the Council does not have appropriate arrangements in place.

In undertaking our risk assessment we will be required to obtain an understanding of the key processes the Council has in place to ensure this, including financial management, risk management and partnership working arrangements. We will complete this through review of the Council's documentation in these areas and performing inquiries of management as well as reviewing reports, such as internal audit assessments.

Reporting

As with the prior year our approach to value for money reporting aligns to the NAO guidance and includes:

- A summary of our commentary on the arrangements in place against each of the three value for money criteria, setting out our view of the arrangements in place compared to industry standards;
- A summary of any further work undertaken against identified significant risks and the findings from this work; and
- Recommendations raised as a result of any significant weaknesses identified and follow up of previous recommendations.

The Council will be required to publish the commentary on its website at the same time as publishing its annual report online.

Financial sustainability

How the body manages its resources to ensure it can continue to deliver its services.

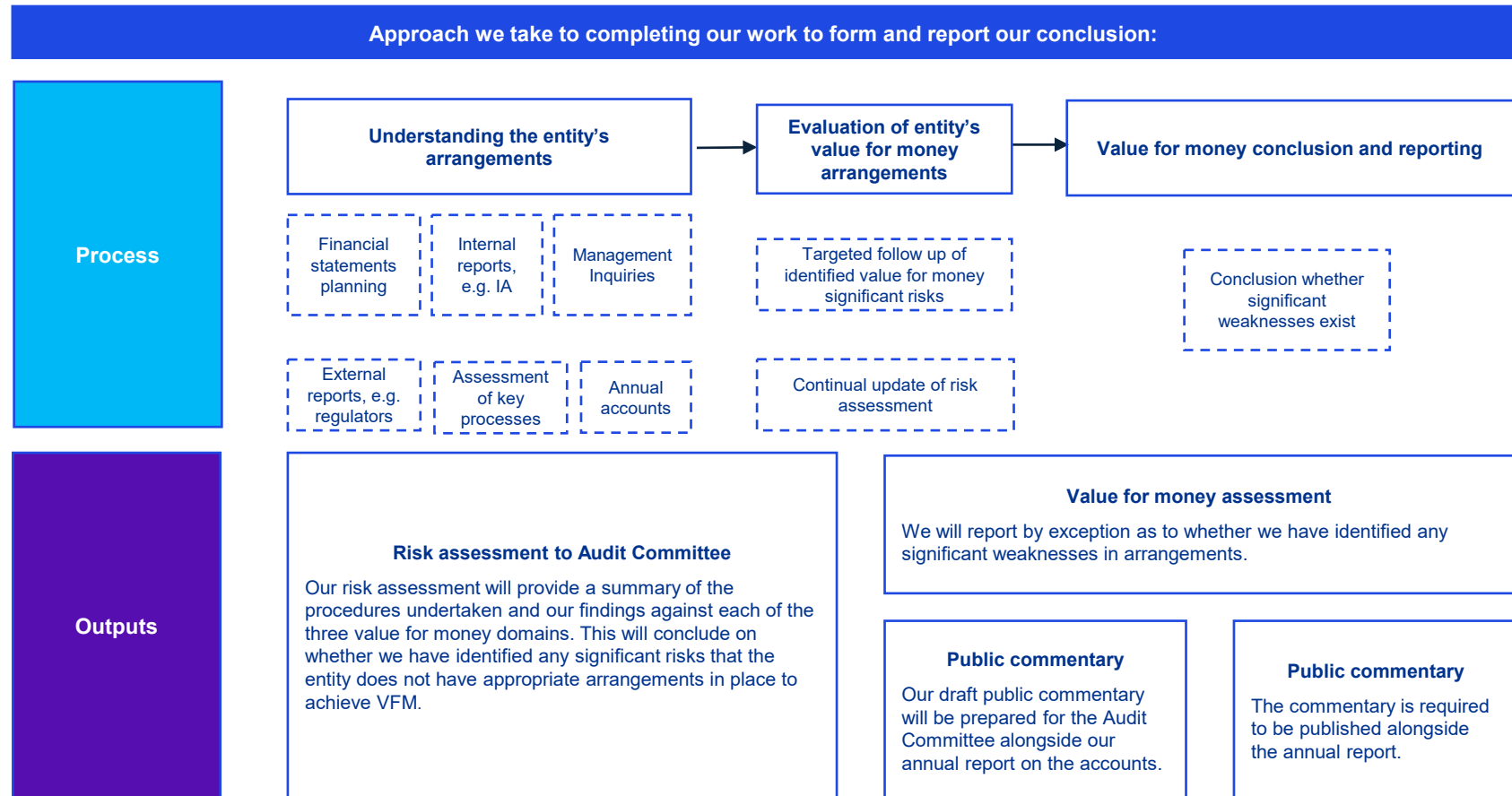
Governance

How the body ensures that it makes informed decisions and properly manages its risks.

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.

Value for money



Summary of risk assessment

Summary of risk assessment

As set out in our methodology we have evaluated the design of controls in place for a number of the Council's systems, reviewed reports from external organisations and internal audit and performed inquiries of management.

Based on these procedures the table below summarises our assessment of whether there is a significant risk that appropriate arrangements are not in place to achieve value for money at the Council for each of the relevant domains:

| Domain | Significant risk identified? |
|---|--------------------------------|
| Financial sustainability | No significant risk identified |
| Governance | No significant risk identified |
| Improving economy, efficiency and effectiveness | No significant risk identified |

As a result of our draft risk assessment to date, we have not identified any significant risks at this stage.

Value for money arrangements

Financial sustainability

In assessing whether there was a significant risk of financial sustainability we reviewed:

- The processes for setting the 2023/24 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the 2023/24 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2023/24 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year to date against the financial plan

Summary of risk assessment

- The budget setting process is a rolling process as part of the Medium Term Financial Strategy, this usually starts in the autumn of the previous year. For 2023-24, the preparation of the budget began in October 2022 with draft budgets approved January 2023. A detailed timetable is agreed by Executive and Council to ensure appropriate scrutiny and challenge can occur throughout the process. Budgets are initially prepared at a service level with budget managers producing initial expectations of requirements using their knowledge of the directorate through ongoing budget planning meetings. Discussions with finance teams in both these services identified that detailed analysis on both demographic pressures and inflationary pressures (specifically with regard to external providers) are considered during the initial budget preparation stage. It is during this initial preparation at the service level that potential savings programmes are also identified and reviewed.
- Service budgets are directorate driven and an iterative process of budget proposals considered by each of the Assistant Directors for their services. This is then presented to the Directorate Management Team (DMT) for challenge by the Director. Agreed Directorate proposals are then presented to Corporate Management Team (CMT) for challenge and agreement or not for inclusion in the budget. The Finance Team are involved in all of these stages and also provide independent challenge to the Directorates. CMT consider, and challenge, the CFO's proposals for underlying assumptions and resources assumptions. Budget Scrutiny Review Group provide cross party challenge of the budget and MTFS proposals. Communications take place prior to setting the budgets to allow review and challenge of any assumptions.
- Budget monitoring is performed quarterly, with reports provided to Directorate Management Teams, Corporate Management Teams, Executive, Council and these reports set out the current situation relative to budget and movements since the previous reports. They also cover the forecast for the remainder of the year. The Finance Team meet with budget holders to agree forecast outturn positions these are then agreed with ADs. These are detailed through quarterly monitoring reports which are completed by the DMTs. The overall position is then presented to CMT for agreement prior to reporting to Members

(Continued)

Value for money arrangements

Financial sustainability

In assessing whether there was a significant risk of financial sustainability we reviewed:

- The processes for setting the 2023/24 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the 2023/24 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2023/24 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year to date against the financial plan

- For 2023-24, the Council set a balanced budget, with a small planned surplus of £191k in General Fund. At quarter three, the Council forecasted an underspend of £290k which was a further improvement on £118k underspend as at quarter two. The key drivers of these positive movements in the forecast were increased invest income due to high interest rates (£504k) and increased car park income (£122k). These were offset by some cost increases in areas such as the National Pay Award of £440k. Overall the Council is expecting closing General Fund reserves of £2.52m, which is above the Council's stated prudent minimum range of c.£1.5-£2m.
- As part of the Council's Toward Financial Sustainability Programme (TFS), the 2023-24 plan included the requirement to deliver savings of £185k. Savings plans are developed as part of the overall budget setting process and therefore encounter the same levels of challenge, scrutiny and approval as detailed above. Performance against the TFS target is monitored by CMT and reported quarterly to Performance Scrutiny as part of the monitoring process. Actions identified where projects fall behind plan are done through CMT as well as by individuals through project management. At quarter three, the Council was reporting secured savings total £126k for the General Fund, with a further £122k identified, resulting in a planned over-achievement of £62k in year. This demonstrates the Council's arrangements are operating effectively.
- Under TFS, the Council has then identified outstanding savings total for each of the coming years in the 4 year plan. The Council has a continuous process to identify savings and we will update our risk assessment as the audit progresses.
- The Council's Risk Management Policy details a clear process and reporting structure in how the entity is to respond and manage risks. The Council maintains a Strategic Risk Register (SRR) to identify and assess risks – including those relating to financial sustainability. The SRR is reviewed on a quarterly basis by Performance Scrutiny Committee and the Audit Committee has overall responsibility for oversight of the register, receiving assurance through the annual report on risk management. Various risks relating to financial sustainability have been identified by the Council including risks related to future financial deficits and continued inflationary pressures.

Risk assessment conclusion

Based on the risk assessment procedures performed to date, we have not identified a significant risk associated with financial sustainability.

Value for money arrangements

Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2023/24 financial plan by the Authority, including how financial risks were communicated;
- Processes for monitoring performance against budgets and taking actions in response to adverse variances;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

Summary of risk assessment

- Risks are identified in line with the Council's Risk Management Strategy. This includes quarterly reviews of Strategic and Directorate registers where new risks are considered and escalated where necessary. Assessing the impact and likelihood of each risk is done as through a matrix which uses a likelihood/impact model to calculate a risk score. The score is assigned as per the strategy guidance. Challenge comes through a range of officer involvement through project boards. Support is also bought in from the County Council Risk Management Service as required to provide further support and challenge.
- The Strategic risk register is presented to Performance Scrutiny and Executive on a Quarterly Basis. During the Q2 monitoring there were 14 risks contained within the strategic risk register; 6 were rated high (almost certain/critical) and 8 were rated medium (probable/major). The development of actions is completed using the Risk management strategy Toolkit. Actions use the avoid/modify/transfer/retain matrix to evaluate responses to the risk depending on the severity and likelihood. Monitoring is undertaken through either project management teams or boards. The Strategic Risk Register is presented to Performance Scrutiny on a quarterly basis who are asked to consider the register and report any comments/issues to the Executive who also receive the register. Committee reports for all key decisions are required to set out the key risk associated with the proposed decision. This is a mandatory requirement.
- The Council undertake a number of measures to prevent and detect fraud. There is a Counter Fraud policy and strategy which complies with the requirements of the code, this sets out key actions for the Council to ensure compliance. We note a review is currently underway of the policy and strategy. The Council also receives assurance through the work of internal audit, and all staff are required to complete the e-learning on fraud which is held centrally. An annual fraud report is presented to the Audit Committee including the counter fraud action plan and fraud risk register. The Council is also part of the Lincolnshire Counter Fraud Partnership which shares good practice and provides advice.
- The 2023-24 financial plan, as part of the MTFs, went through several levels of review prior to approval by the Council in February 2023. The MTFs includes a risk assessment of the key financial risks that the Council faces over the 5-year period. These risks are modelled to include inflation, council tax base, business rates base, pay inflation, interest rates etc. The MTFs also includes a section on Financial Resilience/Scenario Planning and Reserves.

(Continued)

Value for money arrangements

Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2023/24 financial plan by the Authority, including how financial risks were communicated;
- Processes for monitoring performance against budgets and taking actions in response to adverse variances;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

- Financial performance is monitored against budget regularly as outlined in the Financial Sustainability section. As part of reporting to Performance and Scrutiny Committee, variances against budget are clearly identified and explained. Any mitigating actions are also identified. During 2023/24 the Council has been able to manage increases in costs with increased income and continues to report an underspend for the year.
- The City Solicitor, in the role of Monitoring Officer, is responsible for monitoring compliance with all relevant/applicable legal requirements. All Executive reports are subject to mandatory consultation with Legal Services and Financial Services, with those more contentious decisions seeking sign off by the Section 151 officer and Monitoring Officer. Where required Executive Reports are supported by Equality Impact Assessments. Management inquiries have confirmed there have been no breaches of legislation or regulatory standards that has led to an investigation by any legal or regulatory body during the year.
- The Council's Code of Conduct communicates values and expected behaviours of staff, this is covered through the Code of Conduct, Disciplinary Policy, Dignity and Work Policy and Probation Policy. This is communicated to staff as part of the recruitment process and is available on the staff intranet. This also covers requirements with regard to gifts and hospitality and the register of interests. There are a number of other policies available to view on the Council's website as well as the Constitution.
- Our risk assessment procedures and management inquiries confirm the Council has appropriate arrangements in place to ensure scrutiny, challenge and transparency of decision making. Key decision making is subject to discussion and scrutiny at executive team level and relevant sub-committees such as Audit and Performance and Scrutiny, followed by formal approval by the Council. All key decision records are available to view on the Council's website.
- A key project at the Council is the Western Growth Corridor project. The project involves plans for a major housing development in the city in partnership with the adjoining landowner with whom there is a Delivery Agreement outlining key milestones and targets. Given the scale of this project the Council has established further governance arrangements for this project. The Council has individual and joint project Boards, with clear terms of reference, detailing the instruments through which compliance and is ensured and enforced. There are suitable risk registers in place, designed as described earlier, which are reviewed and monitored by the joint and individual project Boards. These Boards also report regularly through the year to CMT. As this project proceeds, the level of activity, and potential risk, will increase and the Council will need to develop and change its governance processes to ensure it's arrangements remain appropriate.

Risk assessment conclusion

Based on the risk assessment procedures performed to date, we have not identified a significant risk associated with governance.

Value for money arrangements

Improving economy, efficiency and effectiveness

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- How the performance of services is monitored and actions identified in response to areas of poor performance;
- How the Council has engaged with other stakeholder and wider partners in development of the organisation;
- How the performance of those partnerships is monitored and reported; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

Summary of risk assessment

- We have found appropriate arrangements and processes in place to support the Council in using information about costs and performance to improve the way services are managed and delivered, with a focus on the level of value for money being achieved. This is reported quarterly through Performance and Scrutiny Committee and Executive.
- The Council's performance framework includes regular service monitoring of detailed performance trends covering Performance measures, Volumetric measures and Customer satisfaction. The most recent performance reports is that of the Q3 Monitoring reports. At the end of Q3 of the 85 performance measures 58 were either acceptable of meeting/exceeding the target. 7 were below and 20 were volumetric. Where performance does not meet target, key actions are identified.
- Performance Scrutiny Committee reviews service and financial performance (against cost, performance, and satisfaction) on a quarterly basis and periodically reviews key (off target) services. Quarterly reports are also presented to the Executive. The performance framework also includes regular monitoring of Portfolios with annual reports from Portfolio Holders with a key focus on performance, these are presented to the Performance Scrutiny Committee. The Council reviews its corporate performance measures annually through a target setting process. The process is co-ordinated by the Corporate Policy and Transformation team, with input from all directorates. Target setting incorporates benchmarking, assessment of local conditions, and national indicators/reporting requirements. Key examples of this are found in financial performance monitoring where management use regional and national data to give context to the Council's current position.
- The Council undertakes benchmarking exercises to support decision making, a recent example being for the Council's fees and charges, in addition to more routine benchmarking of service area costs. Benchmarking information will also be gathered as part of any service reviews that are being undertaken. The Council is also considering the new Oflog metrics and the future use of such data, it has recently undertaken some assessment of the financial metrics in comparison to other authorities.

(Continued)

Value for money arrangements

Improving economy, efficiency and effectiveness

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- How the performance of services is monitored and actions identified in response to areas of poor performance;
- How the Council has engaged with other stakeholder and wider partners in development of the organisation;
- How the performance of those partnerships is monitored and reported; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

- The Council works closely with other organisations locally to support delivering economy, efficiency and effectiveness, for example the Council shares its Revenue and Benefits operations team with other councils in Lincolnshire under service level agreements. It has also worked with Lincolnshire County Council as part of the Western Growth Corridor project and with the Police and Crime commissioner to manage the Safer Streets plan. The Council has a partnership with a third party for the Western Growth Corridor and this is managed through a Delivery Agreement and joint Board, as detailed in the Governance section.

Risk assessment conclusion

Based on the risk assessment procedures performed to date, we have not identified a significant risk associated with improving economy, efficiency and effectiveness.



kpmg.com/uk

Some or all of the services described herein may not be permissible for KPMG audited entities and their affiliates or related entities.

© 2024 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.