Internal Audit Progress Report

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Introduction

1. The purpose of this report is to:

   - Advise of progress being made with the Audit Plan 2012/13
   - Provide details of the audit work during the period
   - Provide details of the current position with agreed management actions in respect of previously issued reports
   - Raise any other matters that may be relevant to the Audit Committee role

Key Messages

2. Good progress has been made on the delivery of the Internal Audit plan for 2012/13. Performance of 23% up to August is not unexpected at this time of year – our schedule has been agreed which helps ensure we are on track to deliver the plan by the end of the year.   Further information on our performance targets can be found in paragraph 12.

3. Audit and Due Diligence – update:

   We have completed twenty-five school audits and finalised ten County Council audits since our last progress report, five of which have resulted in limited assurance. A further eleven County Council audits are in progress and work is underway to improve our data analytics capabilities. Other significant work in this period includes our organisation wide assurance mapping activities and a review of the Superfast Broadband project. See points 5 through to 10 for more information.

4. At the request of the Committee we have provided detail of our scheduling arrangements for the year and progress against the Internal Audit Plan (Appendix 4). We can continue with this comprehensive monitoring document or provide a summary version focusing on: Audit Area, Planned Start date, Final Report issued (date) and Status/Assurance Opinion. We propose to continue providing information on our scheduling, progress and overall status / assurance opinions but require direction on the level of detail required.

5. Counter Fraud and investigations – update:

   - Pro-active work ongoing:
     - Counter fraud risk assessment (research element)
     - Data analytics development
     - Direct Payments
     - Preparations for 2012/13 NFI data upload
     - Revised Counter Fraud Policy – re-launch Sept/Oct 2012
   - Internal Investigations (3 cases):

- Funding irregularities / misuse of resources / bias in award of contracts & conflict of interest – estimated value £175k
- Bias in the award of contracts – estimated value £13k
- Financial Abuse (4 x cases) – vulnerable adults – low value

■ Police Investigations (8 cases):

- 1 x school
- 2 x insurance
- 1 x payments

- 2 x contractor fraud
- 1 x pensions
- 1 x financial abuse (vulnerable adult)

■ Results since June 2012:

- Treasurer of a pre-school group was charged with 3 counts of theft and was sentenced to 18 months imprisonment after pleading guilty to receiving money transfers totalling £30k. The Economic Crime Unit are pursuing recovery under the Proceeds of Crime Act (POCA).
- The group had received various early years funding and grant awards from the Council – at the time the fraud was discovered there had been no impact on service delivery. The irregularities were spotted by the new committee chair, who notified the Council and the Police.
- The Council issued fraud warnings to all voluntary sector childcare providers – highlighting the risks and the need for rigorous financial monitoring by the responsible trustees.

Internal Audit work completed from April 1st to August 31st 2012

6. The following audit work has been completed and a final report issued:

Full Assurance	Substantial Assurance	Limited Assurance	No Assurance
■ Legal Lincolnshire	■ Mouchel Contract ■ Historic Lincoln ■ Highways Alliance ■ Section 139a Assessments	■ ICT Starters and Leavers ■ ICT Management Arrangements ■ Safer Communities ■ Contract Tendering ■ Councillor Big Society Fund	■

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

7. We are reporting 5 limited assurance audits in this quarter the management summaries are at Appendix 2. Management will update progress on implementing agreed actions for these reports.

8. Progress with the implementation of agreed management action on recommendations for audits resulting in 'No' or 'Limited' assurance is followed up and reported in Appendix 3. A separate report provides more detail in respect of high priority outstanding recommendations. Our follow up indicates that good progress has been made on implementing actions once the final report has been agreed.

9. In the audits given Full and Substantial Assurance, we confirmed that the Council has sound processes in place:

Legal Lincolnshire
This audit review we looked to ensure that service standards are met, there is effective stakeholder engagement, and the service is delivering value for money. We found that the service has achieved Lexcel accreditation, and clients are happy with the service. There were a small number of low priority recommendations.

Mouchel Contract
This audit reviewed how the contract with Mouchel is managed and the plans being made to re-let the contract in 2015. We found that on the whole managers are of the opinion that Mouchel have performed well in their areas and provide an adequate or satisfactory service. Problems have arisen with the quality of service Mouchel provide in some areas, however management have agreed to concentrate on addressing these issues with the new contract from 2015. We found that the plans being made for re-letting the contract are good and the arrangements being put in place are what we would expect.

Historic Lincoln
This review sought to provide assurance that the findings from the previous audit in respect of the lottery bid, project and programme management have been addressed. We found that management have taken action to minimise the risks identified in our previous audit, with good progress made on establishing appropriate project and financial management arrangements.

Highways Alliance
This audit focussed on the effectiveness of the Alliance's performance management arrangements and the processes for the management of contract related issues. We found that a comprehensive performance management framework is in place and arrangements have been established to identify operational and contract related issues and develop response actions. There

have been issues with some aspects of the performance management framework, which are being addressed within the Alliance's overall action plan.

Section 139a Assessments

The purpose of this audit was to provide assurance that where appropriate children receive an effective and informed Section 139a Assessment to enable them to secure a provision of education and training. We found that overall effective arrangements are in place to both manage and undertake Section 139a Assessments, and identified 2 areas where we felt improvements could be made.

Other Significant Work

10. Other work undertaken during the period includes:

Superfast Broadband Project

We reviewed the readiness of the Council to proceed to Gateway B1 of Broadband Delivery UK's (BDUK) assurance model. This review was at the request of David O'Connor, Executive Director Performance & Governance.

Combined Assurance Model

We have advanced our work on the Council's combined assurance model. The Head of Audit and Risk is currently evaluating the results for each Directorate and the Council. Reports will be presented to Senior Management and the Audit Committee at a future meeting (November 2012). The outcome of this work will help inform our Internal Audi plan for 2013/14 and the Annual Governance Statement 2013.

School Audits

In the first four months of the year, we have completed eleven school audits and fourteen, shorter, assurance visits. We assessed 68% with either Full or Substantial assurance and eight schools had Limited assurance. The key areas of improvement are:

- Calculating outturn projections to the end of the year to improve financial planning
- Strengthening reporting to governors so that they have sufficient and up to date information on which to base their decisions
- Keeping better records of monies collected in school and ensuring there is management supervision over income received.

In July, we followed up the implementation of recommendations from audit visits during 2011/12. We have received responses from 51% of schools contacted, and we are pleased to report that 96% recommendations have been implemented by these schools. We will follow up outstanding recommendations again later in the year.

ICT Audit Strategy

We are working with Management to help develop our ICT Audit Strategy. The Strategy has been agreed – the next steps is to complete a risk and assurance

assessment on the critical ICT activities and applications of the Council. As part of External Audits work they recommended some improvements over ICT activities – we will ensure that these are picked up as part of this work.

We have also joined a number of framework arrangements from September 2012 which enables us to engage specialist IT Audit skills when needed.

Audits in Progress

11. The following audits are currently in progress:

SAP Licensing & Security
The draft report has been issued and the indicative assurance is Limited. The recommendations and in some cases actions have been agreed, however there are a number of actions where discussions are still ongoing between the parties concerned as to the most appropriate, and practical, action to take.

Children's Services Quality Assurance System
The draft report has been agreed and the indicative assurance is Limited.

Software Licensing Management
The draft report has been agreed and the indicative assurance is Limited.

Electronic Data Management
The draft report has been agreed and the indicative assurance is Substantial.

IT Asset Management
The draft report has been agreed and the indicative assurance is Limited.

Local Enterprise Partnership
Fieldwork completed.

Carbon Reduction Commitment
The work on this audit is planned for 2 phases, the first phase is complete and the second phase is to commence in November 2012.

Treasury Management (due diligence)
Fieldwork completed and report is at draft stage – indicative assurance is Substantial.

Key Financial Systems – Quarter 1 Testing (due diligence)
Fieldwork completed – no material findings.

Establishment Visit – Lincoln Castle (due diligence)
Fieldwork completed and report is at draft stage – indicative assurance is Substantial.

Tax Compliance (due diligence)
Fieldwork is ongoing.

Data Analytics – development and testing of results (due diligence / fraud)
Project is designed to enhance compliance testing on key financial systems and support counter fraud proactive work. Project is currently underway.

Performance Information

12. Our current performance against targets is shown below:

Performance Indicator	Target	Actual @ 31/08/12
Percentage of plan completed (excl. key financial).	100% (revised plan)	23%
Percentage of key financial systems completed.	100%	21%
Percentage of recommendations agreed.	100%	100%
Percentage of recommendations implemented.	100% or escalated	Annual Report
Timescales	Draft report issued within 10 working days of completing audit.	100%
	Final report issued within 5 working days of closure meeting / receipt of management responses.	100%
	Period taken to complete audit – by exception	
Client Feedback on Audit (average)	Good to excellent	Good to exellent

13. To date we have completed 23% of the audit plan (excluding key financial areas). This is less than one might have expected at this stage of the year. Contributory factors include:

   ▪ It has not been practical to commence work in Adult Services
   ▪ During August many staff have taken annual leave
   ▪ There have been a number of 2011/12 audits carried over into 2012/13
   ▪ There has been a focus on completing the assurance map.

   Additional resources have been engaged to ensure delivery of the plan. All our work has been scheduled, which increases successful delivery.

14. We are on-track to complete the key financial systems work by February 2013, with the exception of the quarter 4 key control testing which will take place in April 2013, following the year end closure. Over the coming months we will work with

KPMG (the Councils new External Auditors) to ensure that the Council gets the best use out of its combined audit resource and clarity where they may wish to seek to place reliance on our work.

Other Matters of Interest

15. **Audit Committee Forum – 3rd October 2012**

It is recognised that networking provides an invaluable opportunity for people to share and develop good practice and experiences amongst a peer group.

We have set up an Audit Committee Forum where audit committee members can meet, share experiences and work together to promote good governance and accountability across the public sector bodies.

Information, shared learning and knowledge all helps enhance the effectiveness of audit committees. A meeting has been arranged for the afternoon of the 3rd October – start 1 pm (including working lunch) – at the Think Tank Lincoln. Topics include:

- New Public Audit Arrangements (we hope KPMG can attend)
- Getting the most out of your assurance arrangements
- Changing face of good governance - trusting people to deliver and holding them to account

Members of this Committee are invited – please contact Sue Wilson email sue.wilson@lincolnhire.gov.uk if you wish to attend.

16. **National Fraud Initiative**

The National Fraud Initiative (NFI), the Audit Commissions data matching exercise, helps the Council fight against fraud. Attached in Appendix 5 is a briefing paper from the Audit Commission for Council Members', which outlines the benefits of NFI and includes a checklist to help members to understand how NFI is used in the Council.

17. **Institute of Internal Auditors and CIPFA collaboration**

The two Institutes are working together through the Internal Audit Standards Advisory Board to improve the quality of internal audit in the public sector. The collaboration focus is on the development of unified Internal Audit Standards for the public sector and joint - education, training and development.

The consultation on the new UK Public Sector Internal Audit Standards ends on the 14th September 2012.   The new code of practice / standards should be published in December 2012 and come into practice from 1st April 2013.

18. **The developing Internal Audit agenda**

Working with CIPFA, Grant Thornton undertook a survey of UK heads of internal audit at local authorities, police, fire and NHS bodies. The survey covered:
- Provision, skills and professionalism
- The head of internal audit role
- Service delivery

The outcome of this survey provides good benchmarking / comparative information.

19. Local Government Governance Review 2012 – High Pressure System

Grant Thornton undertook a survey of Local Government governance arrangements. The survey recognises that how local government operates will change and good governance arrangements are vital if Councils are to meet the challenges ahead in this 'high pressure environment'.   The survey aims to sound warning alarms where they believe governance arrangements are failing to cope, to suggest areas in need of improvement and provide realistic and practical guidance where local council arrangements can be made stronger and more effective.

The report in the survey outcome provides a useful insight for an Audit Committee in discharging its role on Good Governance.

http://www.grant-thornton.co.uk/en/Publications/2012/The-developing-internal-audit-agenda/
http://www.grant-thornton.co.uk/en/Publications/2012/What-does-the-market-make-of-the-Green-Deal1/

20. CIPFA / SOLACE Delivering Good Governance in Local Government – A Framework and Guidance

CIPFA / SOLACE are currently revising their good practice guidance on good governance. This acknowledges that whilst the principles may not have changed - the guidance needs updating to reflect the current environment. Consultation on the new guidance is planned over the summer with new guidance due to be published in December 2012.

An Addendum to 'Delivering Good Governance in Local Government: Framework 2007 consultation was issued in August 2012.   The purpose of the addendum sets out updated guidance on the development of the Annual Governance Statement. The consultation ends on the 21st September 2012 and also seeks views on any other issues which should be included in the guidance note to 'Delivering Good Governance in Local Government: Framework.

21. Draft Local Audit Bill consultation process

Last year, the Government consulted on its proposals for a new local public audit framework and published its response in January 2012. The draft Local Audit Bill is now published for consultation and pre-legislative scrutiny. Alongside the draft bill, the Department for Communities and Local Government have also published a policy overview including a range of further consultation questions. The deadline for

responses to this was the 31st August 2012. The Local Government Association will also respond.

The Draft Local Audit Bill is a lengthy document encompassing 208 pages, and contains an overall introduction/summary, the legislation itself which has been divided into 8 parts and 5 schedules, explanatory notes and detailed annexes.   The Bill analyses potential new arrangements on the:

- Abolition of the existing audit regime,
- Basic requirements and concepts,
- Appointment of auditors,
- Eligibility and regulation of auditors,
- Conduct of audit,
- Data matching,
- Inspections, studies and information; and,
- General provisions.

Consultation comments are generally supporting of the Bill but still raise concerns or comments on the following key areas:

- Whilst acknowledging the need for appropriate safeguards the new approach should avoid becoming over regulated and prescribed through Government Guidance – sufficient flexibility should be provided to enable councils to explore opportunities for joint procurement.

- One of the main areas of concern continues to be on the requirement of an independent audit panel. Local Government view is that independence around audit arrangements can be maintained through existing arrangements eg Audit Committees. Independent audit panel are unnecessary. Issues around the capacity and capability of independent audit panels were also raised.

- The Draft bill provides for the National Audit Office to undertake "value for money" studies similar to those undertaken in the past by the Audit Commission. This was the other main area of concern - clarification has been requested on the role and remit, agreement of programme, payment for these studies etc.

Appendix 1 - Assurance Definitions1

Full Assurance	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. As a guide there are a few low risk / priority actions arising from the review.
Substantial Assurance	Our critical review or assessment on the activity gives us a reasonable level of confidence 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 are in place and operating sufficiently so that the risk to the activity not achieving its objectives is medium to low. As a guide there are low to medium risk / priority actions arising from the review.
Limited Assurance	Our critical review or assessment on the activity identified some concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the risks are not always being operated or are inadequate. Therefore, the risk of the activity not achieving its objectives is medium to high. As a guide there are medium and a few high risk / priority actions arising from the review. Our work did not identify system failures that could result in any of the following: - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements
No Assurance	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. Our work identified system failures that could result in any of the following: - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements The controls to manage the risks are not being operated or are not present. Therefore the risk of the activity not achieving its objectives is high. As a guide there are a large number of medium and high risks / priority actions arising from the review.

[1] The assurance opinion is based on information and evidence which came to our attention during the audit. Our work cannot provide absolute assurance that material errors, loss or fraud do not exist.

Appendix 2 – Audits where assurance is assessed as 'No' or 'Limited'

ICT Starters and Leavers – Limited Assurance

Assurance Opinion Limited

The Managing Workforce Change programme was a large and complex process that had to be implemented in a timely manner to deliver a controlled way of actioning large amounts of staff leaving employment.

A sample of those leavers were tested against expected controls and records to provide assurance on the process. In our opinion limited assurance applies based on the following results.

Testing could not confirm that ICT systems access was always cancelled straight away for leavers. The risk to the Council is that systems and information could be accessed by staff that no longer worked for the Council.

The master spreadsheet used by the County to record leavers' details had approximately 134 outstanding cases, where details had not been received to confirm what ICT assets leavers had. These should be followed up and cleared.

Invoices were received from Mouchel for processing the leavers, these were not accurately verified to actual work carried out. Management should retrospectively check the charges, to ensure the correct fees were applied.

We were unable to confirm that all computers were collected from leavers. Some were kept by services and reallocated to new users. So we could not verify that previous data information had been managed or wiped.

Management could have considered agreeing detailed timescales between Mouchel and County for ICT access cancellation and kit collection. Performance reports then would have highlighted any issues during the process.

A sample of leavers was tested to provide our assurance opinion. Of the seventeen tested two had not had their systems access cancelled on their last working day.

Equipment collection could not be verified for all the leaver's tested. For some the service has kept the equipment and reallocated to new users. This became apparent to Mouchel when they received a service request for a new user to be set up against the old asset number.

Smaller mobile devices were collected by County staff. Testing on the sample against spreadsheets held could not verify that all had been recovered.

There are around 134 outstanding leavers, recorded on the County master spreadsheet where details and responses on IT assets had not been supplied.

The risks to the County are that access was not stopped for all leavers on their last day. We also cannot confirm that all equipment was collected, including laptops, mobiles, Blackberries and CITRIX tokens. There is a risk that staff continued to have access after they had left.

Targets and performance measures may have picked up on these but there were no detailed targets agreed around ICT access cancellation and kit collection.

As the large number of leavers represented extra work for Mouchel over and above their normal workloads, extra fees were agreed for the work done. Invoices were presented to the Council but we could not confirm that all the invoices had been verified to individual records to confirm the charge was correct. A reasonableness test was applied to see that the figures looked reasonable for leavers and charges. The outcome is that we cannot verify that the Council has been charged correctly. A fee was agreed for each individual collection of a leaver's computer equipment. In any future similar work force change projects, management should consider any alternatives ways that ICT kit could be collected and returned to Mouchel without incurring individual costs, in order to reduce costs.

Management Response

The Managing Workforce Change Programme was the largest and most complex change programme ever embarked upon by the Council. It involved virtually every employee. We put a robust HR end to end process in place that was overall hugely successful in being able to realise the Council targeted savings.

The IT Recovery work was one of the processes within the end to end process. Whilst the ongoing process in 2011 was underway the county was in constant dialogue with Mouchel regarding the process, together with all other complex processes. We were assured that the closure of accounts and recovery of equipment was fully operational.

However we recognise through this audit review which has highlighted cases where this may not have been so, and some managers have not provided the information to Mouchel to carry out the process. Indeed some managers may have reallocated the IT equipment to other staff thus bypassing the process.

Overall management of the process, with all its complexities, was managed with great care and planning so this internal audit review has highlighted some areas which will add robustness to any future process.

Management Actions	No	All to be completed by:
High Priority	2	31 October 2012
Medium Priority	2	31 July 2012

ICT Management - Limited Assurance

Assurance Opinion Limited

Our review identified that there are improvements required in key areas:

- The monitoring and management of Mouchel can be strengthened by ensuring that contract requirements, including the key performance measures and targets, are relevant to current business needs.

- Timely and appropriate information is required from Mouchel to satisfy the Council that the contract charges are correct and to enable the core payments for the new financial year to be agreed as early as possible.

- Setting out the strategy of the service will clarify the direction and aims of the service and how it will support delivery of the Council's strategic aims and priority outcomes.

The contract specification, including the service level agreement and performance measures, has not been reviewed and does not reflect the service and quality requirements. The service to be delivered by Mouchel needs to be clear to enable effective monitoring of contract performance and payments.

The contractual performance measures are deemed to be easily achieved and do not necessarily measure what is important to the business.   There are more meaningful measures in place, but these are not underpinned by the contract. There are no penalties if these targets are not met. Relevant contractual performance measures and targets will strengthen the management of Mouchel's performance.

The core contract payments to Mouchel are based on lump sum payments or unit rates on volumes to be delivered throughout the year. There has been insufficient visibility around the contract charges and agreement has not been reached in some areas. Further information and clarification is still required.

The ICT revenue budget has been based on assumed volumes and charges. It also includes significant savings to be delivered from NGP from 2013/14. Effective budget management is required to ensure that any necessary corrective action is taken if the agreed core payments vary from those budgeted for, or if there is any potential slippage in progress of NGP which is likely to impact on delivery of savings.

The vision and aims of the service have not yet been documented in an IT strategy and signed off by the ICT Governance Board.

The review also identified other areas where improvements could be made including:

- Seeking assurance from Mouchel that the necessary resources will be available to meet service requirements, for example in respect of minor works,

- and securing the necessary action to address any issues such as backlogs, customer dissatisfaction.
- Monitoring the new arrangements to ensure the budget holder is aware of any system changes, which impact on revenue support costs, to ensure they are effective.
- Completing the Information Management and Technology Service Plan and measuring the service against the intended outcomes.

We found areas of good practice, including:

o An ICT Governance Board is in place and there are clear terms of reference identifying functions, roles and responsibilities and decision making protocols
o Weekly service delivery meetings and monthly strategic meetings are held and attended by key officers of LCC and Mouchel.
o Performance information is provided on a weekly basis for discussion at the service delivery meetings.
o Knowledge sharing and focused management of Mouchel following the organisational structure change to bring LCC ICT staff together.

Detailed findings, recommendations and agreed actions are shown in the attached Action Plan seeking to further strengthen management of the IT service.

Management Response

The performance measures for the IT service delivery within the Mouchel contract were not changed when the contract was extended in 2000 and they remain too weak to enforce appropriate service delivery standards.

Service delivery performance is currently pro-actively managed and reported through a non-contractual agreement with Mouchel.

Mouchel have agreed to revise the IT element of the contract as part of NGP and new performance measures and commercial terms will be in place from April 2013.

Mouchel failed for a number of months to deliver information regarding charging questions which impact on the Council's budget requirement for IT services in 2012/13. This issue was escalated within Mouchel, most of this information has now been delivered and the remainder is expected by 31 July 2012.

The CIO has drafted an IMT strategy which is currently being discussed with Members and is expected to be presented for approval at the September meeting of the Executive.

The concerns about shortage of Mouchel resource to support the IT contract has been raised with the new Managing Director of Mouchel and Mouchel have committed to increase resources to improve service delivery

Management Actions	No	All to be completed by:
High Priority	3	30 April 2013
Medium Priority	4	30 September 2012

Safer Communities – Limited Assurance

Assurance Opinion Limited

In our opinion limited assurance can be given. We found that a review of current board structures had been ongoing for 18 months, uncertainty around future funding and the proposed introduction of a Police Crime Commissioner have affected some of the normal procedures and business as usual of the partnership.

The strategic and delivery boards could have been operating more effectively over the last 12 months, improvements can be achieved by,
- Completing the 2012/13 Community Safety Agreement which is a statutory required for the strategic board,
- Agreeing the delivery plans for 2012/13,
- Raising attendance at the board meetings,
- There has been ongoing discussion on a new board structure and this has just been agreed.
- Addressing the 2010 partnership review, which reported low levels of satisfaction.

We note that plans are being put into place to agree a new board structure and membership to address changes in funding and to ensure performance and delivery can be maintained and improved. This is responding to the imminent introduction of the Police Crime Commissioner.

In our opinion the imminent introduction of a Police Crime Commissioner and the lengthy negotiations around a restructure of the partnerships boards and groups has had an effect on the progress of the Safety Partnership.

There should be a Community Safety Agreement in place each year, which sets out the priorities of the County Community Safety Board and how the board will achieve these. These are achieved through delivery plans which are managed by four Strategic Boards. For the first quarter of 2012/13 these are not in place.
The Partnership should ensure that agreements and delivery plans are in place and provide continuity of plans and objectives. It is one of the County Community Safety Boards main roles to ensure this is in place.

Terms of reference for the Strategic Management Boards show that groups should meet four times per year. The ASB Board has not met since October 2011 and there are no minutes from that meeting.

Overall attendance for the County Community Safety Boards and Strategic is about 60%. One of the Strategic Boards had an average non attendance of 49% over a years worth of meetings.

In 2010 an internal review was carried out on the partnership. This reported a low level of satisfaction from a selection of partners questioned. An action plan on the report made recommendations to improve the partnership. We could not confirm that all these had been implemented.

Management should consider the format of performance reports presented to the County Community Safety Board. Current reports contain a lot of detail but it is not easy to see the key messages or to see how performance and actions are prioritised. Future reports could contain less text and make greater use of graphics, plain English and comparisons with previous year's performance.

Areas of good practice include budget and commissioning processes within Community Safety. There were no improvement actions to come from these areas of testing. We noted that;
- Budgets and the changes and reduction in budgets have been discussed and documented,
- Commissioning arrangements and reductions in commissioning have been discussed in detail through the County Community Safety Board and are well documented.

Management Response
The audit was helpful in focussing attention on what is critical to the success of the partnership and highlighting actions which management were already aware of. It has been a useful process at the current point of transition and an essential benchmark to measure the effectiveness of the partnership.

Management Actions	No	All to be completed by:
High Priority	6	31 December 2012
Medium Priority	3	31 December 2012

Contract Tendering – Limited Assurance (Due Diligence)

Assurance Opinion – Limited

We found variances between the contracts held on the Corporate Contracts Register and those recorded within Directorates. There are also completeness and accuracy issues with some of the registers held at Directorate level – this can impact on planning and may lead to more exceptions.

The quantity and value of exceptions held on the Council's central database was high for 2011/12 – we also found discrepancies between this database and the exception information held at Directorate level. We noted uncertainty over the validity of some of the reported exceptions i.e. whether they were in fact "emergency situations" which raises doubts around regulatory compliance and value for money.

We have also identified that Mouchel do not report the contracts and exceptions they handle on behalf of the Council – at the time of the audit we were unable to quantify this but it is another area affecting the completeness of the central databases.   Although not specifically covered in this audit, we are aware of that work is still underway to populate the directorate contracts register for Adult Social Care.

The Corporate Management Board has oversight of the exceptions to the tendering rules but the last quarterly report submitted was over a year ago. Given our findings in this area, any past reporting is unlikely to have been accurate.

We found examples of good practice, with comprehensive guidance and recent developments which should improve procurement practice. However, the uncertainties over the contracts register and use of exceptions impacts on the current level of assurance.

Direction of Travel   ⬆ Improving

Actions are being taken to address the recommendations and these are reflected in the action plan. The updated CPPR's, once completed, will also assist with implementation of agreed actions.

Procurement Lincolnshire provide detailed procedures for contract tendering - responsibility for compliance lies within the Directorates.

The FireFly system is a recently introduced system; Project and Communication Plans are in place to support its full implementation. Activity reports from the system will identify non-compliance for reporting to management.

Directorates are being encouraged to produce Procurement Plans which should reduce the number of exceptions in the future.

FireFly was introduced in January 2012 as the contract management system for the Council; a key function of the system is to provide the Corporate Contracts Register. The central register does not currently hold all Council contracts – we could only trace approximately 83% of directorate contracts to the FireFly system. This is compounded by the inaccuracies we noted on certain directorate registers – we cannot therefore rely on some of the information uploaded to FireFly.

Transport was unclear about the responsibility for updating the Corporate Register and consequently their contract activity had not been updated centrally since the initial upload in December 2011. This update process needs to be clarified, documented and communicated to all Directorates. Consideration should be given to reporting non-compliance to the Corporate Management Board to prevent future discrepancies.

Procurement Lincolnshire record all exceptions to the Contract and Procurement Procedure Rules on a central database. Regular reports on the number, value and nature of exceptions should be provided for the Corporate Management Board. This monitoring had lapsed over the year – the last report submitted covered the period January to March 2011.

We noted significant use of exceptions over 2011/12 – the central database recorded 138 exceptions with a total value of £126m. There are uncertainties over the accuracy of this database as some directorates are not reporting all approved exceptions. The database is skewed by a contract extension for Adult Services of £81m – this was approved retrospectively in 2011/12 but relates to an 8 year extension (2004 to 2012) – the value per annum should be £10.1m.

There is also uncertainty over the validity of some of the exceptions, in particular whether they are valid 'emergency situations'. This reduces the overall confidence we have that Directorates are complying with the Contract Regulations and achieving value for money.

Our findings show large differences between the exceptions recorded within Public Health and Children's Services and those recorded on the central database. We found little monitoring in this area – consequently the extent of the discrepancies are unknown. We therefore have no assurance over the completeness and accuracy of previous Management Board reporting.

The contracts administered by Mouchel are not recorded on the Corporate Contracts Register and there was no information on the exceptions they process on behalf of the Council. At the time of our audit we were unable to establish the quantity and value of contracts and exceptions handled by Mouchel.

We found of areas of good practice:

- The contract rules are comprehensive and provide clear guidance on procurement arrangements
- Procurement Lincolnshire support and train Heads of Service on the procurement process and contract rules

- Contracts are advertised in line with the contract regulations
- Delta, the e-tendering system, introduces a clear audit trail and tight controls around the issue, receipt and opening of tenders
- There has been significant investment by Children's Services into the implementation and expansion of Firefly
- The letting of contracts is in line with the approved financial thresholds

Management Response

Head of Procurement Lincolnshire – I am satisfied that the audit has covered all appropriate areas and I support the recommendations.

LCC currently operates a devolved structure for procurement including contract tendering and this report has highlighted a number of issues that are exacerbated by this approach. The Council has already recognised the need to develop its commercial capabilities and strengthen the overall contract management arrangements which in turn will strengthen compliance – this work is being progressed as part of the council wide Commissioning Review. I am pleased that the report acknowledges the proactive work through Procurement Lincolnshire, for example, implementation of a single Council wide Contracts Register (Firefly) which when fully implemented will help to deliver a robust central register.

The management actions set out in this report will help to ensure that Management Board receive full assurance in this important area.

Management Actions	No.	All to be completed by:
High Priority	Seven	31st December 2012 (3 already implemented)
Medium Priority	Three	30th September 2012 (2 already implemented)

Councillor Big Society Fund – Limited Assurance (Due Diligence)

Limited Assurance

Whilst the award and payment of grants is operating effectively, there is no post monitoring of projects or assurance that funds have been appropriately spent.

To safeguard the Council's reputation, the authority, on behalf of Councillors, should strengthen scheme monitoring and request evidence from grant recipients that funds have been spent in line with the intended purpose and have achieved positive outcomes.

Direction of Travel   ⬆   Improving

Scheme rules and system guidance have improved since this initiative started but there is a need for closer monitoring of expenditure, together with information from grant recipients, to strengthen the level of assurance in this area.

The terms and conditions of the scheme state that assurance may be obtained from organisations to demonstrate that funds have been managed appropriately, proper records have been retained and that projects acknowledge the funding provided by the Council. Scheme terms and conditions also require surplus funds to be returned to support other projects; there is currently no mechanism to identify project underspends.

To give assurances that the fund has been properly managed from application of award to the completion of the scheme, monitoring needs to be strengthened to ensure that the awards have been made in line with the agreed purpose and funds have been used appropriately to make a positive change in the local area and benefit the wider community.

LCC, on behalf of Councillors, should request evidence of spend from grant recipients and information that expenditure is in line with the intended purpose and has achieved positive outcomes for the local community. This information can then be used in the post scheme evaluation with any lessons learned and good practice taken forward and applied to future initiatives.

We identified awards within our sample where Councillors declared interests in certain groups receiving funding. Consideration should be given to a more robust approval process where there is a known personal interest to ensure that such awards stand up to public scrutiny.

During the audit we noted several areas of good practice, in particular:

- There was a clear separation between the input and authorisation of awards.
- Updates are given to Councillors following each award request, providing information of the projects already supported and funds available to use

before the scheme ends. Regular updates were also presented to each councillor prior to Full Council meetings.
- Reporting on the overall progress of the fund had been made to Full Council by the lead councillor.
- The lead councillor for the fund had been informed where Councillors had not used any of their available allowance.
- We found the processing and administration of grant awards to be effective.

Management Response

We are satisfied that the findings of the audit are an accurate reflection of the operation of this scheme in its first period of activity. Indeed, the scheme was designed to be very low intervention from a governance view point, putting the onus on the member making the grant award to satisfy themselves that their proposals are good value for money and good use of public funds.

We accept that in some cases some further checks and balances could improve the integrity of the scheme without materially changing the intention for it to be fleet footed, low cost in operation and easy for members and grant recipients to use.

An action plan has been agreed, which when complete, we are reassured will result in full assurance.

Management Actions	No.	All to be completed by:
High Priority	One	30th September 2012
Medium Priority	Three	31st October 2012

Appendix 3 - Outstanding recommendations as at 31st August 2012

Audit Area	Date	Assurance	Number of Recs	Implem'd	Outstanding			Not Due Date
					H	M	L	
Communities								
Carbon Reduction Commitment	Mar 2012	No	7	6	1			
Resources & Community Safety								
Creditors	June 2012	Limited	5	0	1			4

Appendix 4 – Internal Audit Plan & Schedule 2012/13

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Performance & Governance						
Strategic Communications	10	Review of the arrangements in place for communication internally and externally, for managing the media, and engaging with our partners.	Oct 2012			
ICT Systems - Software Licensing - Electronic Data management - IT Asset management - ICT Strategy - DR - Application	100	Individual audits of a selection of ICT management arrangements, the ICT infrastructure and applications	Jul 2012 Jul 2012 Jul 2012 Jan 2013 Jan 2013 Oct 2012	Jul 2012 Jul 2012 Jul 2012		Draft report Draft report Draft report
Key Projects - Grantham Relief Road - Energy from Waste Plant - Property Rationalisation	30	Working with Programme Office to provide assurance that our key programmes and projects are being managed effectively to deliver successful results.	Sept 2012 Sept 2012 Sept 2012			Client brief Client brief Client brief
Sub Total	**140**					
Performance & Governance - Due Diligence						
Corporate Governance	10	Review the framework in light of changing environment – to ensure fit for purpose	Dec '12			
Programme Office	10	Assess effectiveness of	Feb '13			

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		process following the Head of Service review of arrangements				
Performance Management	15	Gain assurance on the effectiveness of the performance management arrangements to measure successful delivery of Council priorities.	Jan '13			
Big Society Members Grant	5	Assurance on the application and operation of the grant process including compliance and outcomes.	June 2012	July 2012	Sept '12	Limited
People Strategy	5	Understand & assess how the strategy supports the business to achieve an agile, skilled and motivated workforce	Dec '12			
Sub Total	**45**					
Adult Services						
Public Health	30	Identifying level of assurance available on critical services and emerging risks. A review of the joint working arrangements with Adult Social Care.				

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Transformation Programme	20	Attendance of Board meetings and other key meetings. Working with Adult Social Care to help provide assurance in the successful delivery and advice on delivery of outcomes.				
Adult Social Care – Systems and Operational Processes	40	To provide assurance on process design and compliance in the following areas: ▪ Referrals & Assessment ▪ Case Management ▪ Direct Payments ▪ Reviews ▪ Management and performance information ▪ Customer experience (feedback / complaints etc)				It has not been practical, or appropriate, to commence the audits in Adult Services. These audits are subject to change, and we are awaiting further information from Adult Services.
Contract Management	10	Working with the due diligence team to review and provide assurance on contract management compliance, performance, provider service				

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		delivery & contract payments				
Safeguarding Vulnerable Adults	10	Follow-up of 2011/12 limited assurance report.				
Adults Emergency Duty Team	10	Review to ensure emergencies are dealt with promptly and with the correct priority, and partnership arrangements are robust, ensuring that clients receive the necessary response.				
Performance/Quality Assurance Systems	15	To review the checks the quality assurance team complete over compliance with policy, and standards for maintaining records. We are seeking to place assurance on the work of this team as part of the Council's combined assurance arrangements.				
Advice	10					
Sub Total	**145**					
Children's Services						
Early Intervention	15	Review of arrangements to identify and engage with families and support them in avoiding formal intervention.	Oct 2012			

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Children Centres	20	Review of children centres focussing on compliance with policies, performance monitoring and financial controls.	Sept 2012			Fieldwork commenced
Child Protection Plans	15	To provide assurance that plans are developed and maintained in accordance with policy, and to safeguard the best interests of the child.	Oct 2013			
Adoption	10	Review of the arrangements for approving adopters, specifically with respect to rule changes in this area.	Jan 2013			
Out of County Provision	10	To provide assurance over the arrangements to review placements of children with additional needs.	Dec 2012			
Police Notification of Domestic Violence	10	To provide assurance on arrangements to assess and record police referrals.	Dec 2012			
Quality Assurance Performance System	10	To review the checks the quality assurance team complete over compliance with policy, and standards for maintaining records. We are seeking to place	Jun 2012	Jun 2012		Draft report

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		assurance on the work of this team as part of the Council's combined assurance arrangements.				
Schools	400	Mix of full school audits and assurance visits. Reviews give schools assurance around their financial management arrangements and the controls within their finance processes.	On-going through the year			
Advice	10					
Sub Total	**500**					
Communities						
Incubation Centres	10		Dec 2012			
Local Enterprise Partnership	20	Review of the arrangements in place to work with, and support, the LEP and through the LEP support businesses to develop and grow.	Jun 2012	Jul 2012		Fieldwork complete
Capital and Regeneration Projects	20	Review of the overall management of capital projects and the application of robust project management arrangements for a selection of individual highways and	Jan 2013			

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		regeneration projects. Project selection will be based on significance and risk.				
Carbon Reduction Commitment	10	Review the arrangements in place to comply with the Environment Agency's requirements under the CRC, including sign off of the LCC Evidence Pack.	Phase II – Nov 2012			Phase I complete. Assurance will follow completion of Phase II.
Advice	10					
Sub Total	**70**					
Resources & Community Safety						
Fire & Rescue Service	20	1. Review of the provision of protective services, focussing on community programmes, partnership arrangements and stakeholder engagement. 2. Review of emergency response arrangements, including finance, admin and HR arrangements.				
Legal Lincolnshire	10	Review to ensure that service standards are met, and there is effective stakeholder engagement with all clients,	May 2012	Jun 2012	Aug 2012	Full Assurance

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		whilst delivering value for money.				
Procurement Lincolnshire - Category Management	10	Review of the effectiveness of the category management model, and the development of supply market intelligence, to deliver clients needs and sustainable outcomes.	May 2012			This audit was postponed at the request of management and will re-commence in Jan 2013
Property Strategy / Estate Management	20	Review of estate management arrangements to ensure current and future needs are met, assets are maintained, and value for money is achieved.	Jan 2013			
Coroner's Office	5	Health check to ensure the duties of the coroner are delivered and legislative requirements are met	Nov 2012			
Registrars	5	Health check to ensure effective delivery of the service for births, deaths, marriages and other celebratory services, together with Civil Partnership and Citizenship work.	Jan 2013			
Safer Communities	20	Review to ensure effective partnership work, with	Apr 2012	Apr 2012	July 2012	Limited Assurance

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		priorities established and plans put in place, to reduce crime and improve the quality of life.				
Youth Offending - Safeguarding	15	Review of the arrangements, and partnership work, to safeguard and promote the welfare of children known to the youth justice system.	N/A			Recent third party assurance has given this full assurance
Youth Offending - Case Management	15	Review of assessment process, partnership work, intervention process, and support provided to young offenders.	Oct 2012			
Advice	10					
Sub Total	**130**					
Resources & Community Safety – Due Diligence						
Development & implementation of continuous audit - revise key financial systems testing	40	Review & update testing schedules / development of IDEA scripts (data interrogation & analysis) - link coverage with fraud risks	Aug 2012 Sept '12 Nov '12	Sept '12		Phase 1

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Financial Systems: ▪ Creditors ▪ Treasury Management ▪ Debtors ▪ Income ▪ Bank Reconciliation ▪ Payroll ▪ Budget Prep / Management ▪ Pensions	10 10 10 10 - 10 - 20	Ensure that the financial control environment in the systems is robust and working effectively. Review to assess if income and expenditure budgets are regularly monitored, appropriately controlled and reported.	Jan '13 Aug '12 Nov '12 Dec '12 Nov '12 Oct '12	Aug '12		Draft Report
Quarterly testing – key financial systems	50	To test key controls and transactions feeding into the Council's accounts in liaison with external audit.	Jul '12 Oct '12 Jan '13	Jul '12		Substantial
Financial and contract regulations: ▪ LCC establishment visits (non-school) x 8	30	To review the level of compliance with the Council's key financial procedures across 8 service areas	Aug '12	Aug '12		Draft Report No. 1
Capital Programme	20	Review compliance with financial regulations & asses the delivery arrangements for the approved programme, covering: project appraisal,	Nov '12			

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		funding, monitoring reporting & outcomes.				
Tax Compliance	10	Ensuring the Council complies with relevant regulations regarding PAYE and Construction Industry tax	Aug '12	Aug '12		Fieldwork ongoing
Public Health	10	Assurance on the accuracy of integrated budgets	Nov '12			
Contract Management	10	Proactive approach – working with management to assess the development of the Commercial Unit (plans, structures & processes) – advisory role	Oct '12			
Review of contracts across directorates:	50	Probity work – covering tendering, service delivery & contract payments – "business as usual"	Oct' 12			
Advice	5	Advice provided to service areas when requested				
Sub Total	**295**					
Total Audit Plan for 2012/13	**1325**					