



County Offices  
Newland  
Lincoln  
LN1 1YL

13 June 2014

**Audit Committee**

A meeting of the Audit Committee will be held on **Monday, 23 June 2014 at 10.00 am** in **Committee Room One, County Offices, Newland, Lincoln LN1 1YL** for the transaction of the business set out on the attached Agenda.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Tony McArdle', written over a horizontal line.

Tony McArdle  
Chief Executive

**Membership of the Audit Committee**  
**(7 Members of the Council + 1 Voting Added Member)**

Councillors Mrs S Rawlins (Chairman), Mrs E J Sneath (Vice-Chairman), N I Jackson, Miss F E E Ransome, S M Tweedale, W S Webb and P Wood

**Voting Added Member**

Mr P D Finch, Independent Added Person



**AUDIT COMMITTEE AGENDA  
MONDAY, 23 JUNE 2014**

<b>Item</b>	<b>Title</b>	<b>Pages</b>
<b>1</b>	<b>Apologies for Absence</b>	
<b>2</b>	<b>Declarations of Members' Interests</b>	
<b>3</b>	<b>Minutes of the meeting held on 31 March 2014</b>	1 - 10
<b>4</b>	<b>Corporate Audit Progress Report to 31 May 2014</b> <i>(To receive a report which provides an update on progress made against the Audit Plan 2014/15 and provides summaries of all audits completed within the period March to May 2014)</i>	11 - 52
<b>5</b>	<b>Risk Management Progress Report to 23 June 2014</b> <i>(To receive a report which assists the Committee in fulfilling its role to ensure that the Council has effective risk management arrangements in place, by providing an update on how well the Council's biggest risks are being managed as well as reporting on the progress made in assisting the Council to adapt and change the way it considers and 'thinks' about risk)</i>	53 - 70
<b>6</b>	<b>Counter Fraud Annual Report 2013/14</b> <i>(To receive a report which provides information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption and reviews the delivery of the 2013/14 counter fraud work plan)</i>	71 - 88
<b>7</b>	<b>External Audit Progress Report</b> <i>(To receive a report which provides the Committee with a summary of the work performed by the County Council's external auditors, KPMG, for the 2013/14 financial year. The report also sets out the proposed work for the next quarter as well as an update on the Audit fee)</i>	89 - 94
<b>8</b>	<b>Work Plan</b> <i>(To receive a report which provides the Committee with information on the core assurance activities currently scheduled for the 2014/15 work plan)</i>	95 - 100

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**Please note:** for more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting

- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details set out above.

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**AUDIT COMMITTEE  
31 MARCH 2014**

**PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)**

Councillors Mrs E J Sneath (Vice-Chairman), N I Jackson, C E D Mair, S M Tweedale, W S Webb and P Wood

Also in attendance: Mr P D Finch (Independent Added Person)

Officers in attendance:-

Tony Crawley (KPMG), David Forbes (Assistant Director Finance and Resources), Judith Hetherington-Smith (Chief Information Officer and Programme Director), Stephanie Kent (Audit Manager), Lucy Pledge (Head of Audit and Risk Management), John Sketchley (Audit Manager), Christina Tudor (Head of Performance & Programmes Service) and Rachel Wilson

50 APOLOGIES FOR ABSENCE

There were no apologies for absence.

51 DECLARATIONS OF MEMBERS' INTERESTS

There were no declarations of interest at this point of the meeting.

52 MINUTES OF THE MEETING HELD ON 27 JANUARY 2014

RESOLVED

That the minutes of the meeting held on 27 January 2014 be signed by the Chairman as a correct record.

53 FUTURE DELIVERY OF SUPPORT SERVICES - ASSURANCE AND HANDOVER ARRANGEMENTS

The Committee received an update from the Chief Information Officer and Programme Director in relation to the Future Delivery of Support Services – Assurance and Handover Arrangements.

It was reported that the contract with Serco had been completed and it commenced on 1 April 2014. Serco would be helping with some of the transformational projects.

The Chief Information Officer and Programme Director outlined some of the changes which would be taking place as follows:

Agresso Transformation – this would replace the SAP system, Serco would be implementing this during the coming year in order to go live on 1 April 2015.

IMT Transformation and Transition – this would take two years to complete, and would change the way that the technology was structured and managed. It would also change the way that the authority used data centres, and there would no longer be a reliance on a single on-site data centre. The majority of the data would be moved to two remote data centres and would then be accessed remotely. This would greatly improve disaster recovery.

Customer Service Transformation – the Customer Service Centre would be moved over to Serco in 2015, and Serco would be working with Zoe Butler, Head of Customer Services, and her team in the coming year. There would be a move towards more IT self-service systems, but there would not be a reduction in the telephone systems.

People Transition – there would be a lot of staff transition from April 2015. From 1 April 2014, accountancy staff and a small number of property staff would transfer from Mouchel to the County Council. It was noted that the accountancy staff would be within the County Council when the transition from SAP to Agresso was undertaken. Staff would also be transferring from the County Council to Serco in April 2015, some staff would also transfer from Mouchel to Serco in 2015.

Property – this was being dealt with through a separate procurement exercise. An invitation to tender was provided to 6 shortlisted companies, and these would be presented to the Value for Money scrutiny committee in July 2014. Following this another significant staff transition would be undertaken.

Health and Safety would be brought back in house from April 2015.

Catering - the contract had been split, the civic function would be included in the property contract and there was still a need to award the contract for catering at the secure unit in Sleaford. This would be done through a separate procurement exercise. It was noted that some staff would be affected by TUPE transfer.

Pensions – the authority was exploring the possibility of working with another local authority on the administration of the fund. More information would be known in the coming few weeks, but this was still a work in progress.

A number of strategic governance and operational governance boards had been set up as part of the programme governance. It was noted that the operational boards had been set up to monitor the day to day activities as well as providing a more strategic overview. These boards also provided a route into Management Board and the Executive. Reporting of performance would be through the Value for Money Scrutiny Committee.

Members were advised that a senior management review was underway at the moment, and this would lead to staff changes later in the year.

The Committee was provided with the opportunity to discuss the information which had been presented to them, and some of the points highlighted during discussion included the following:

- It was commented that this was a lot of work to do in one year, which was one of the major risks with this work;
- In response to the risks with this work, the Committee was advised that there was a single programme officer co-ordinating all the work, and each project had its own risk register, as well as a risk register for the overall programme. The work was monitored by the Partnership Board and Transitions Board;
- Members were advised that compliance with the contracts would be discussed in detail by the Value for Money Scrutiny Committee and the Executive. Whether there were any penalties if the contract was not performing as it should could not be discussed in public as the information was commercially sensitive;
- It was noted that a number of lessons had been learned from the Mouchel contract which had been embedded in this new contract;
- It was requested whether the Committee could be kept up to date with the work taking place, for example, following certain milestones.
- The property contract did have a 'pain and gain' mechanism in relation to performance;
- The data storage was covered by Public Sector Network Security which was externally audited by the government on an annual basis;
- It was felt that one area of risk was that there would be a lot of staff movement in the coming year. Members were assured that there was a whole year for the transitions to take place, and there was HR expertise within the programme team which would help to manage the transfer of staff. Serco also had dedicated staff to assist with the transfers, and all staff transfers would be undertaken through the TUPE process. The first of a series of staff briefings would take place on 1 April 2014, they would be informal briefings as it was too early to start formal consultation. The formal consultation would start in January 2015 and run for three months;
- The external auditors had been in discussions with officers regarding the change to Agresso from SAP for 6 months. It was noted that SAP would remain operational until the close down for the financial year (i.e. until the end of June 2015). The key to an early close down was planning. There was the potential for an extra cost, but this was likely to be minimal compared to the cost of running SAP for another year;
- A member of the Audit and Risk Management team would be working with the implementation team;
- Audit staff would work with the Chief Information Officer, Value for Money Scrutiny Committee and other scrutiny committees to manage the reporting;
- The input of internal audit in the transition process for this work was welcomed;
- It was noted that during the budget setting process, the Leader of the Council recognised the importance of the audit team's work during the transition phase of the contract and so the resources available to the team were not reduced;

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- There was a drive from central government to improve the efficiency of pensions through joint administration;
- In relation to schools which were currently using SAP, it was noted that they would be able to change to Agresso if they wished. It was expected that most of the small maintained schools would change to Agresso. It was noted that the authority would not be dealing with academies in relation to this. However, Serco did provide services to academies in other parts of the country, it would be up to the individual academies to make the decision of how to proceed.

#### RESOLVED

That the verbal update be noted.

#### 54 COMBINED ASSURANCE STATUS REPORTS

Consideration was given to a report which provided the Audit Committee with an insight on the assurances across all the Council's critical services, key risks and projects.

The Committee was guided through the combined assurance reports for Public Health and Adult Care, and some of the points raised during discussion of these reports included the following:

##### Public Health

- It was generally a positive message, with many of the services provided on a commissioned basis. The only area showing as red was the Lincolnshire Community Assistance Scheme, this was due to it being a new service;
- For the next meeting of the Committee all key messages would be consolidated into a single document;
- It was recognised that more work needed to be done to identify key assurances for mental health;
- In relation to the 'unknown/gap' status for the Wellbeing Project, this was due to it being a new service, and so was too early to assess when this report was produced;
- The Lincolnshire Community Assistance Scheme was also a 'red' risk as the funding for it came from central government, and this was likely to cease in 2015;

##### Adult Care

- The overall assurance had improved since November 2012;
- Of the 15 risks which had been identified for the County Council, 4 related to Adult Care;
- The abacus system would be replaced by the new case management system, which would feed Agresso with financial information. However, it was noted that this was not part of the Agresso system;
- The Council was 'open and aware' in terms of risk appetite. However, it had a more 'cautious' approach for safeguarding children and adults;



It was acknowledged that the format of the reports would need to be reshaped for 2015 so that they aligned with the evolving commissioning strategies.

RESOLVED

That the current status of the Executive Directors' assurance regime be noted.

55     STATEMENT OF ACCOUNTS 2013/14

The Committee received a report which summarised the changes to the Code of Practice on Local Authority Accounting which would be incorporated into the 2013/14 Statement of Accounts as well as a review of the Council's Accounting Policies.

Members were advised that the changes to the Code of Practice were relatively few, and were outlined in the report. Members were guided through these changes and provided with the opportunity to ask questions to the officers present in relation to these changes, and some of the points raised during discussion included the following:

- The most significant change was the inclusion of the Energy from Waste Plant in the capital accounting policies section. This was a specialised asset and would be revalued annually. It would be picked up in the 5 year rolling programme;
- With regard to the EfW plant, different policies would need to be applied to different components of the facility;
- The delivery of the contract and monitoring of the performance would be subjected to normal internal audit activity;
- Some of the biggest assets within the county council were school buildings, and their infrastructure;
- When the final guidance from CIPFA was released there may be further changes;

RESOLVED

1. That the changes required to the County Council's Statement of Accounts from the Code of Practice be noted;
2. That the Statement of Accounting Policies for use in preparing the Council's accounts for the financial year ending 31 March 2014 be approved.

56     INTERNATIONAL AUDIT STANDARD - RESPONSE TO MANAGEMENT PROCESSES QUESTIONS

The Committee received a report which provided an assessment around whether the Council's financial statements may be mis-stated due to fraud or error.

Members were advised that External Auditors were required to obtain an understanding of the Council's management processes in a number of areas, and the International Auditing Standards specified the areas concerned. It was clarified that

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£21m was the amount at which a material mis-statement would be classed as significant.

RESOLVED

That the assessment accurately reflects the Council's management processes to minimise the risk of fraud or error in its financial statements.

57 EXTERNAL AUDIT - CERTIFICATION OF CLAIMS AND RETURNS - ANNUAL REPORT 2012/13

Consideration was given to a report which presented the Committee with the outcome of External Audit's certification of grants and returns work for 2012/13.

The Committee was advised that the number of grants which needed to be examined by the external auditors had reduced over recent years, and there was now only the Teachers' Pension Return which needed to be reported on. It was reported that the outcome of this work had been positive and there were no amendments to the claim. However, it was noted that there had been a lot of work involved due to the need for additional testing and the introduction of 7 tiered contribution rates for all teacher nationally, which was a major change to the underlying basis of the Teachers' Pension Return which came into effect on 1 April 2012. It was hoped that it would be more straightforward in the future.

RESOLVED

That the unqualified return of the Teachers' Pension Return 2012/13 be noted.

58 EXTERNAL AUDIT PLAN - 2013/14

The Committee received a report which described how External Audit would deliver their Financial Statement 2013/14 work for the Council and the Pension Fund, as well as their approach to Value for Money work for 2013/14.

Members were advised that the Audit Commission would close down in 2015 and the Code of Practice which was in operation had been in place since 2010. In terms of roles carried out by the Audit Commission, CIPFA would be picking up the fraud reporting role; the Cabinet Office would take over the National Fraud Initiative; the contract for external audit would move to the LGA. The LCC contract with KPMG would run until 2016/17 with the option to run for another 3 years.

It was also reported that it was expected that the audit fees would be reduced, possibly by up to 25%, but there were a lot of details still to emerge.

RESOLVED

That the External Audit Plan and any implications the plan had on the Council's governance, risk and control environment be noted.

59     CORPORATE AUDIT PROGRESS REPORT TO 28 FEBRUARY 2014

The Committee received an update on progress made against the Audit Plan 2013/14. It was reported that good progress had been made against the Plan with 81% of the planned work being completed (as at 28 February 2014). Members were also advised that 10 County Council audits had been completed since the last progress report, 1 of these resulted in limited assurance and two systems which received a split assurance (substantial/limited). A further 33 County Council audits were in progress.

Council Priority Activities (Major Projects and Programmes)

The Head of Performance and Programmes Service (PPS) attended the meeting to respond to the audits of the assurance role of PPS which had been assessed as 'limited'.

The audit suggested that whilst PPS had both the capability and capacity to carry out the assurance function demanded of it, assurance was not as effective as it could be due to a combination of non-compliance and a lack of mandate and agreed standards. Many of the recommendations required decisions from the Corporate Management Board and these would be taken to them no later than May 2014. These included:

- The need to strengthen business cases, being clear about what the key elements in a business were and ensure that major problems had them;
- The need to be clear about what the 'must do's' were in projects;
- To ensure that assurance was non-negotiable and that if an activity fitted the criteria for assurance, the senior manager must comply;

Members were provided with the opportunity to ask questions to the officers present and some of the points raised during discussion included the following:

Council Priority Activities (Major Projects and Programmes)

- There were separate action plans for each of the high priority and medium priority recommendations which had been identified;
- For each priority activity, the benefits hoped to be achieved from the activity would be identified, along with how they would be delivered, and this would also form part of the monitoring;
- Officers were confident that all 11 actions would be completed by May 2014, as they were all interdependent on each other. Members requested that they be informed of the outcome of the discussions with CMB;

Horncastle Business Centre

- A manager from another business centre would be brought in to improve the processes in place;
- Officers would be working hard to complete the management actions identified in the audit;
- There had been an unrealistic income target, but these had been amended;
- Some audit work on the business cases for the community hubs had been carried out;

Creditors (split assurance – Limited – Directorates; Substantial – Mouchel)

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- The use of retrospective orders had been a concern and raised three risks which were payments were slower, offered poor value for money and there was the potential for poor budget management. Improvements in this area were now on target;
- There was a lot of good practice taking place at the year end;
- The introduction of the new Agresso system would need a change in process and culture over the next 12 months;
- It was clarified that the 30 days for payment referred to 30 days from the invoice date;
- It was considered important that any new system did not conflict with the policy of supporting local businesses. Members were informed that budget holders would be able to request that a particular supplier was set up on the system;
- It would be possible to set up framework orders;

**RESOLVED**

That the outcomes of the Corporate Audit work be noted.

**60     DRAFT INTERNAL AUDIT PLAN 2014/15**

The Committee received a report which presented the draft internal audit plan for 2014/15. It was reported that the plan had been developed using the Council's Combined Assurance Model which was a record of all assurances against the Council's critical activities and key risks. The use of this model helped to streamline and avoid duplication of effort where assurances could be drawn from other sources e.g. management, corporate functions and third parties. It provided coverage of all assurance, not just those from Internal Audit, and enabled the Head of Audit to produce the annual audit opinion for 2015.

It was noted that the plan had identified a number of critical activities, which the Internal Audit did not have the resources to review, and the Audit Committee may wish to request management to provide assurance on these areas. The Council's Internal Audit Plan for 2014/15 was 1500 days, and a schedule of audits would be developed with management once the plan had been approved.

Members were provided with the opportunity to ask questions to the officers present in relation to the information contained within the report, and some of the points raised during discussion included the following:

- Internal audit work would be included in the FDSS project;
- The County Council had five significant external clients, and the income generated from this arrangement was approximately £100,800;
- Income of approximately £90,000 was also generated through the Academies insurance product. Officers assisted with the completion of paperwork, but did not give insurance advice;
- The County Council worked in partnership with the City of Lincoln for the provision of internal audit services;

RESOLVED

That the audit plan for 2014/15 be agreed.

61     COUNTER FRAUD AND INVESTIGATION WORK PLAN 2014/15

The Committee received a report which set out the Counter Fraud and Investigations Work Plan for 2014/15. Members were advised that the Council's counter fraud arrangements demonstrated its continued commitment to strong governance and best use of resources. The Council's response to central government's expectations for tackling fraud and corruption was reflected in the draft 2014/15 Counter Fraud Plan. It was important that a counter fraud response was maintained and was resilient as the changes to Council service delivery continued to evolve.

It was reported that officers would aim to continue to focus on prevention, detection and investigation work. The whistleblowing and counter fraud awareness activity would continue throughout 2014/15 and more engagement with managers, members and staff was planned.

RESOLVED

That the Counter Fraud Work Plan for 2014/15 be approved.

The meeting closed at 1.00 pm

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## Regulatory and Other Committee

### Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	<b>Audit Committee</b>
Date:	<b>23 June 2014</b>
Subject:	<b>Corporate Audit Progress Report to 31 May 2014</b>

#### Summary:

This report provides an update on progress made against the Audit Plan 2014/15 and provides summaries of all audits completed within the period March to May 2014.

#### Recommendation(s):

That the Committee notes the outcomes of Corporate Audit work and identifies any actions it requires.

#### Background

This report provides summaries of all audit reports completed within the period 1 March to 31 May 2014. It also provides an update on the progress made against the current years Audit Plan 2014/15. Details can be found in Appendix A, including:

- Key messages on Internal Audit work completed or in progress
- Other significant pieces of work undertaken
- Summaries of audits with Substantial or Full (Effective) assurance
- Performance Information
- Full report on audits with Limited or No assurance
- Other matters of interest
- Outstanding recommendations

#### Conclusion

This progress report outlines the key findings from each audit and offers more information on those areas which received a limited or no assurances audit opinion.

Following the approval of the 2014/15 Audit Plan in March we have made a number of small changes – there are a variety of reasons for the changes and

these are explained within the attached paper. The overall resource allocation remains the same.

We have made a good start on the programme of work for this year – fieldwork is underway on 5 directorate audits, 1 audit is at draft report stage and 3 schools audits have been completed. We also have two auditors working almost full-time advising / supporting the system design stage of the Agresso implementation project. This is a critical and significant part of our audit work during 2014/15.

The Committee should note the outcomes of the audit work undertaken and identify any action required.

## **Consultation**

### **a) Policy Proofing Actions Required**

N/A

## **Appendices**

These are listed below and attached at the back of the report	
Appendix A	Corporate Audit Progress Report

## **Background Papers**

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, who can be contacted on 01522-553692 or [lucy.pledge@lincolnshire.gov.uk](mailto:lucy.pledge@lincolnshire.gov.uk).





# Internal Audit Progress Report



**Date: June2014**

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## Introduction

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1. The purpose of this report is to:
  - Provide details of the audit work during the period March to May 2014
  - Advise of progress being made with the Audit Plan 2014/15
  - Raise any other matters that may be relevant to the Audit Committee role

## Key Messages

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2. We have made a good start on the 2014/15 audit plan with 3 schools audits completed, 6 directorate audits underway and we have two auditors working almost full-time advising / supporting the system design stage of the Agresso implementation project.

Our input to the Agresso project is a significant part of work over this year – representing 10% of the audit plan. We will provide regular highlight reports to the S151 Officer and Project Board and will bring updates to this committee over the year.

3. We have completed 24 County Council audits since our last progress report in March 2014, 1 which has received a 'no assurance' opinion and 4 with a limited assurance (1 of which had a split assurance (substantial/limited)).
4. There are 7 audits at draft report stage and a further five where the fieldwork is in progress.
5. We have made the following changes to the 2014/15 audit plan following directorate requests, a minor 2013/14 carry forward and the need to move additional resource into the Agresso implementation project:
  - Agresso – an additional 50 days
  - Workforce Development (Adults) – cancelled
  - Contract Management (Adults) – cancelled (replaced by follow up and fraud proactive work on contracts)
  - Schools – reduced by 50 days
  - Gifts, Hospitality and Register of Interests (C/Fwd from 2013/14 audit plan)
  - Contract Management (Adults Learning Disabilities and Mental Health)

## **Internal Audit work completed from 1 March to 31 May 2014**

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

- Effective Assurance – Children's Services Contract Management

Full Assurance	Substantial Assurance	Limited Assurance	No Assurance
<ul style="list-style-type: none"> <li>■ Flood Management</li> <li>■ Pension Fund</li> </ul>	<ul style="list-style-type: none"> <li>■ Child Poverty Strategy</li> <li>■ Category Management</li> <li>■ Brokerage</li> <li>■ LF&amp;R Fleet Management</li> <li>■ Civil Parking Enforcement</li> <li>■ Castle Revealed</li> <li>■ Families Working Together</li> <li>■ Adults Performance Management</li> <li>■ Older People Contract Management</li> <li>■ Quarter 3 &amp; 4 key control testing</li> <li>■ People Management</li> <li>■ Procurement Card (Central processes and Procurement Lincolnshire)</li> <li>■ Pensions Administration</li> <li>■ Establishment Visit – Lincoln Archives</li> <li>■ Establishment Visit – the Collection</li> <li>■ Public Health – Due Diligence</li> </ul>	<ul style="list-style-type: none"> <li>■ Public Health Contract Management</li> <li>■ Debtors</li> <li>■ Tax Compliance</li> <li>■ Procurement Card (Directorates / Users)</li> </ul>	<ul style="list-style-type: none"> <li>■ Additional Needs</li> </ul>

Full Assurance	Substantial Assurance	Limited Assurance	No Assurance
	<ul style="list-style-type: none"> <li>■ Customer Finance and Direct Payments</li> </ul>		

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1 with the exception of "Effective" which forms part of our new set of assurance definitions – see points 9 to 11 below.

7. We are reporting 1 'no assurance' audit and 4 limited assurance audits since our last progress report in March 2014, one of which is a split assurance – substantial / limited (Procurement Card). We split assurances where we feel it provides a more accurate position on the control environment and/or level of compliance, for example, centralised controls or the control framework within a service area may be adequate but the concerns may be with the level of user compliance.
8. The introduction of the new Public Sector Internal Audit Standards has prompted a review of our assurance definitions. More information will be provided in our next Committee report as all 2014/15 audit reports will include an assurance opinion based on our new set of definitions.
9. The new standards state that auditors cannot give any system absolute assurance – we have therefore removed our 'full' assurance opinion and made 'effective' our highest opinion level. Our new definition means that we have a high level of confidence on the service delivery arrangements, management of risks, operation of controls and/or performance.
10. One 2013/14 audit report finalised recently fell within this new definition of "effective" – Children's Services Contract Management. The outcome of this audit is summarised below. Our other 'full' assurance audits were finalised prior to agreeing our new assurance definitions.
11. Progress with the implementation of agreed management action can be found at Appendix 3.
12. Below is a summary of the areas where we found systems to be "effective" or were given a full or substantial assurance:

**Audits with Assurance Opinion – Effective:**

***Contract Management (Children's Services) – Effective***

The Children's Services Commissioning team have an established comprehensive contract management framework in place to identify operational and contract related issues and develop response actions.

The Joint Evaluation Toolkit (JET) provides an effective framework for consistent contract management and the grading structure used is designed to act as an incentive for providers to improve their performance.

The team demonstrates a commitment to the Contract Management process with clear reporting lines and regular meetings to discuss the progress of Contract Management within the service.

Clear guidance notes and process maps exist to support Commissioning Officers in their role including contract implementation, contract management and maintaining the contract register on 'Firefly'.

Prompt and accurate updating of 'Firefly' in respect of contract details, contract risk and performance risk, ensures Senior Officers are provided with timely and accurate reports to support decision making.

Commissioning Officers are proactive within the directorate, raising the profile, approach and the need for effective contract management to help raise the commercial acumen of their service teams. The Commissioning Team have a range of measures to obtain assurance around the quality of its contract management arrangements – the team are committed to continuous improvement and ways of enhancing their quality assurance approach.

## **Audits with Assurance Opinion – Full:**

### ***Flood Management – Full***

We found that, at the time of the audit, the Council was well informed and prepared for the introduction of Flood Risk Management Plans (FRMP's). There is an effective governance structure in place to ensure that senior management, members and partners are presented with regular update reports.

The Council is working with the government in helping to shape and develop the structure and format of the plans, which have a deadline date of December 2015.

### ***Pension Fund – Full***

We found that the controls and performance of investments are regularly monitored and reported to the Pensions Committee with any exceptions highlighted and appropriately dealt with. The level of investment shows that the fund is performing well and is currently exceeding the expected benchmarks.

We can confirm that the Council complies with the Local Government Pension Scheme regulations and all expected policies have been prepared and agreed by the Pensions Committee. Our testing provides the requisite assurances that the

management and governance of investment activities are appropriate and that the fund is effectively controlled.

### **Audits with Substantial Assurance:**

#### ***Child Poverty Strategy - Substantial***

A Child Poverty Strategy has been produced by the Authority and its partners. Central Government has required the Authority and its partners to produce and deliver the strategy without providing any additional funding to achieve this. In consequence the Child Poverty Strategy is largely made up of the partners pre-existing strategic initiatives.

The strategy recognises that no partner on its own can ensure delivery of the strategy and successful outcomes. Nevertheless the Authority has a clear idea of how it will contribute towards alleviating child poverty in Lincolnshire and its officers have been instrumental in the development of the strategy.

Governance arrangements for the delivery of the strategy have been agreed, with the Children and Young Peoples Strategic Partnership taking ownership. They have established a sub-group to monitor delivery of the strategy.

The governance arrangements are not yet embedded and more work needs to be undertaken to better:

- measure, monitor and report on the individual projects
- bring the individual parts together
- update the relevant groups on the current position

#### ***Category Management – Substantial***

Procurement Lincolnshire operates a Category Management approach to procurement under which approximately £480million (47%) of the Council's external spend is managed. We found that where external spend is directly influenced by Procurement Lincolnshire effective arrangements are in place to procure goods and services using a category management approach.

We noted that category management is not applied across the whole of the Authority. Procurement Lincolnshire needs to gain influence and apply its expertise in category management over a much greater proportion of external expenditure if the Authority is to fully achieve the benefits of category management.

If Procurement Lincolnshire is to provide a more efficient service, changes are required to both existing procurement practices in some business units and generally to IT systems in order to make more effective use category manager's expertise.

### ***Brokerage – Substantial***

We found that the services required by users are clearly identified and provided at an approved cost. In over 90% of cases the service user was placed within 7 days. There are effective arrangements in place to monitor the performance of the service.

We did note that the Swift/AIS system does not adequately support the service and this must be addressed when Mosaic is implemented.

The service has been unable to audit payments due to resource constraints and as a result if there is an overpayment it will not be identified.

### ***F&R Fleet Management – Substantial***

Our findings show the service has recovered well following the failure of the leasing company which provided the appliance fleet.

It now purchases fleet appliances outright with maintenance provided by a third party company. These arrangements have avoided overdependence on current suppliers, who whilst important are not irreplaceable.

Lincolnshire Fire and Rescue aims to optimise the whole life business impact of costs, performance and risks of the Service's fleet and other physical assets. New appliances purchased during the year are consistent with requirements outlined in the service plan and have been acquired following mini procurement competitions using approved national frameworks.

Our work highlighted matters, of which the service is already aware, that need to be addressed:

- Maintenance arrangements have not been market tested in recent years. To ensure that the maintenance contract represents value for money, appliance maintenance should be put out to tender.
- On-going monitoring in light of potential future capital budget reductions is critically important as outright purchase of appliances increases the vulnerability of the service to future potential budget reductions.

### ***Civil Parking Enforcement – Substantial***

Our review found that the management of on street Civil Parking Enforcement is robust:

- a parking policy has been developed and published following prescribed consultation
- our testing indicates that



- offences are enforced properly in accordance with the published rules with contraventions well evidenced, and
- challenges, representations and appeals are determined appropriately in accordance with published procedural rules.

There are, however, matters relating to the training of Civil Enforcement Officers and reporting of performance by the contactor responsible for enforcement that require addressing if the service provided by the contractor is to be effectively monitored.

### ***Castle Revealed – Substantial***

Lincoln Castle Revealed is a large, complex, strategic programme requiring specialist knowledge and skills. The programme represents considerable risk to the Council in terms of possible financial exposure and reputational risks associated with unsuccessful delivery. Overall, at the time we conducted our audit, arrangements in place to manage the project were satisfactory and there were no significant concerns about its delivery.

If the programme is to fully deliver the desired objectives then further work is required to ensure that project interdependencies, such as the need for improved vehicular access to the castle and parking are resolved.

There are areas where efficiencies could be gained, specifically in respect of better managing:

- project risks
- relationships with and engaging with the Authority's own Procurement and Legal teams

### ***Families Working Together – Substantial***

We found that the process for identifying eligible families, recording outcomes and submitting claims to the DCLG is operating effectively. Points of good practice identified during the review included:

- Claims have been processed within the deadlines set by the DCLG
- Figures have been based on genuine families who meet the eligibility criteria set out within the financial framework payments-by-results scheme for local authorities
- Adequate evidence has been obtained to support eligibility criteria and achievement of outcomes

- 'Turned around' families are signed off within the database to ensure they cannot be claimed for more than once
- Guidance and procedure notes have been provided to staff within the relevant teams.

Review of the Troubled Families database and supporting information identified two families within the most recent claim who were not eligible for payment. This was due to anomalies within the database which had not been identified during the quality assurance process. These represent just under 5% of the sample tested and carry a funding value of £1,400. The families were removed from the claim before submission.

There are several areas where processes could be enhanced, particularly in relation to improving assurance of the accuracy of the data gathered and identifying anomalies within the database.

In order to identify more families eligible for the scheme and to maximise the number of potential 'turned around' families, data sharing agreements with the Police and DWP also need to be resolved.

### ***Adults Performance Management – Substantial***

Within Adult Care, a local performance framework has been developed which incorporates locally defined measures in addition to measures from the National Adult Social Care Outcomes Framework (ASCOF) and the National Health Service Outcomes Framework (NHSOF). The measures cover all of the key areas of the business and have been deemed appropriate for measuring the outcomes and effectiveness of service provision for the people of Lincolnshire.

Performance workshops and the introduction of the performance scorecards have encouraged a performance culture in operational staff and practitioners.

Within the Adult Care Local Performance Framework there is a clear reporting hierarchy which is supported by:

- well-structured sustainable governance arrangements to monitor performance and encourage managers to accept responsibility for performance and to take action where improved performance is required, and
- benchmarking of performance with suitable comparators

The Performance Team are active in supporting data quality both within the Swift/AIS system and in performance reports produced.

There are areas where further work is required to improve the efficiency with which performance is reported and assist improvements in service delivery,

- The Swift/AIS system is inefficient and requires interventions from the Performance Team in order to provide reliable and timely key metrics. It does not contain all data required for performance purposes and as a consequence activity is not linked together. Swift/AIS is to be replaced with a more modern system (CoreLogic).
- Some General Managers do not feel that they receive all the performance information that they need to manage their areas effectively.
- Outcomes of Benchmarking is only discussed by Heads of Service and above, excluding staff at the operational level with practical responsibility for addressing identified areas of poor performance

#### ***Procurement Card – Central Processes & Procurement Lincolnshire Activities – substantial (split assurance)***

The procurement card process and control framework is sound and the Procurement Card team are proactive in identifying and addressing poor practice/non-compliance. However, there are 3 compliance issues which are currently affecting the overall level of confidence in this area:

- VAT
- Security of cards
- Business Travel

The user compliance issues are detailed in Appendix 2 of this report.

#### ***People Management – Substantial***

We found that both workstreams reviewed, and indeed the overall programme, are currently 'on plan' and that most of the milestones identified have been achieved in accordance with the timescales originally set.

We can confirm that reviews are routinely made to assess the impact of these workstreams upon the intended benefits and, more importantly, we identified evidence that the strategy is embedding and making a positive difference.

Our main findings relate to ensuring that momentum is maintained through the workstreams towards realising the objectives and desired benefits of the strategy.

The Council is currently going through a period of unprecedented change and reshaping as the Commissioning for Lincolnshire framework and activities evolve. The ongoing Senior Management Review has already slowed the delivery of some aspects of the People Strategy and key staff are also involved in Future Delivery of Support Services and implementation of Agresso. It is however recognised that the risks of these conflicting priorities are being actively monitored and managed and we

note that some of the issues arising are beyond the control of the team overseeing the programme. However, it is vital to the success of the overall strategy that the effects are minimised.

#### ***Establishment Visit – Lincolnshire Archives – Substantial***

We found that the Lincolnshire Archives manages its finances well based on the transactions within our sample. The review highlighted some very minor instances where enhancements could be made to current procedures, although only one of our findings is under the full control of staff at the site.

We found that some VAT receipts were not obtained where the items purchased were VATable. This finding was relevant to both the imprest and p-card systems. The amounts identified were not significant alone but the cumulative effect of consistently reclaiming VAT would help maximise use of resources.

This finding carries a higher priority due to the potential combined loss to the authority each year – there is to be tighter corporate monitoring and potential penalties for non-compliance with the VAT procedures.

#### ***Establishment Visit – The Collection – Substantial***

The financial management arrangements for the Collection were generally sound – staff had a good understanding of policies and procedures and overall controls were consistently applied. Budgets were closely monitored and good practice recommended at other Council establishments regarding income analysis had been implemented at this site.

Minor improvements were required in the following areas:

- ensuring all budget lines reflect known costs from the outset (a £40k cost based on a rates charge from the previous year was not accounted for in the budget)
- VAT receipts were not obtained for a small number of purchases made via the imprest and procurement card.

#### ***Public Health – Due Diligence Audit – Substantial***

We found that the Public Health directorate has integrated well into the County Council, with evidence of corporate policies and procedures being embedded throughout the directorate.

A dedicated team of Council and Mouchel staff was established a year prior to the transfer and this enabled a smooth transition. This successful transfer process is

evidenced by the positive feedback from the Assistant Directors following the integration.

Processes designed to aid the preparation and management of budgets were found to be robust and effective. Extensive work has been completed to ensure incoming officers are fully trained and aware of financial and corporate procedures.

There is scope to improve processes associated with the use and control of procurement cards within the directorate. We also identified claims which were paid in bulk to staff several months after the mileage or expenses were incurred. This is not good practice, can distort budget reports and impact on projections, lead to error and cause difficulties in validating claims.

### ***Pensions Administration – Substantial***

We found that the Mouchel Pensions Administration team had provided monthly and quarterly reports which contained inaccurate performance information. This reduces the level of confidence in the overall performance of the service and the assurances obtained via their routine reporting. It is however important to note that when the errors were rectified, the performance was still within expected targets.

Performance monitoring is measured by the Mouchel team in Middlesbrough and provided to the Lincoln team for inclusion within the reports presented to the Pensions partnership meetings and to LCC Pensions Committee. No verification checks had been undertaken by the Lincoln team to confirm that the figures accurately reflected the monthly task statistics before reporting to the Council. The errors gave the impression that a higher volume of transactions were being processed each month – the errors did not affect the percentage achieved within expected timescales although this could be an issue in the future if not rectified.

Our sample testing shows that performance has consistently been within the expected targets since the last audit. It was also evident that tasks on the Altair system are regularly monitored to ensure overdue tasks are appropriately managed. Any backlogs are regularly reported at the partnership meetings with action/timescales identified to rectify.

### ***Contract Management (Older People) – Substantial***

Significant improvement is noted in the management of contracts within this service area. The Adult Care team have introduced and are continuing to develop new systems and procedures for the Contract Management of Older People Services.

A Contract Management Framework was introduced in July 2013; this provides a consistent approach to Contract Management within Older People Services. The Framework is supported by detailed guidance in the form of 'Contract Management Framework – Monitoring and Review Process'. With the exception of slight delays in the issue of action plans, we found that guidance is being complied with.

A central tracker for recording Contract Management visits and outcomes has been introduced along with associated guidance. More work is required to ensure that all officers complete the tracker in a timely manner, moving away from individuals maintaining their own records.

The team demonstrates a commitment to the Contract Management process; weekly meetings are held and good practice shared. As part of the implementation of the new framework, managers accompanied officers on visits to ensure consistency and appropriate depth of review.

We have identified some areas where existing arrangements could be enhanced, for example:

- A consistent approach to the completion of the 'CMM and Default Tracker' is needed to provide up to date and complete management information.
- Senior Officers do not currently review the quality of contract management; contract performance issues or poor contract management practice may be missed without management review.

We are pleased to note the progress made in this area following the contracting investigation in 2011. The directorate has now introduced Contract Management Frameworks for all areas of Adult Care. This demonstrates a continuing commitment to the development of Contract Management. Quality checks by management will ensure consistency in the compliance of the new frameworks.

### ***Customer Finance and Direct Payments – Substantial***

Significant developments occurred within the Customer Finance Team during this course of this Audit. Key to this has been the reduction of Direct Payment backlog. The delay of a Direct Payment to a Service User can have a significant impact on that person's life and could lead to reputational damage to the Authority if a complaint is made. We are pleased to report that there is no longer a backlog and these are being carefully monitored to ensure that this remains the standard.

There are clear Governance arrangements in place and on the whole staff are confident in their roles and understand their responsibilities. Although the data was recently found to be inaccurate, there is a transparent approach to reporting with updates, backlog figures and performance information flowing regularly between the different levels of management and efforts have been made to improve the process through user group meetings. Overall we found that the procedures to perform financial assessments, process payments and perform audits were effective and efficient.

Some improvements were required to strengthen the arrangements but we found that these were being actioned by the Customer Finance Team at the time of our review:

- the methods used to gather data reported to the Performance Board were not always providing accurate and reliable information
- the escalation process within the Service Level Agreement was not being applied
- the Adults Charging Policy and Direct Payment Policy both required review
- there was no clear way to identify the level of backlog within the Audit part of the Financial Assessment

## **Audits in Progress**

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13. The following audits are currently in progress:

### ***Audits at draft report stage:***

- Broadband in Lincolnshire
- Risk Management
- Birth to Five Service
- Coroners
- MIMS – Insurance Management System
- Police Notification of Domestic Violence
- Gifts, Hospitality and Register of Interests

### ***Fieldwork in progress***

- Joint Policy Working Arrangements / Joint Local Plan (*Environment & Planning*)
- Social Care Transport
- Home of School / College Transport
- Non-attendance at School
- Substance Misuse
- Agresso Implementation Project

## Performance Information

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14. Our performance against targets for 2013/14 is shown in the analysis below:

Performance Indicator	Target	Actual
Percentage of plan completed (based on revised plan)	100%	99% *
Percentage of recommendations agreed	100%	100%
Percentage of recommendations implemented	100% or escalated	Annual Report
Timescales	Final report issued within 5 working days of closure meeting / receipt of management responses.	100%
Client Feedback on Audit (average)	Good to excellent	Good to excellent

\* Management request towards end of financial year (audit investigation) – interim report provided to director, draft report now being finalised

## Other Matters of Interest

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### 15. CIPFA Better Governance Forum – Audit Committee Update (No. 13)

This update provides guidance to Audit Committees on two areas: reviewing the Audit Plan and key points of interest outlined in the Local Audit & Accountability Act 2014.

*Audit Plan* – the briefing provides an update on this topic and covers:

- purpose of the audit plan
- requirements of the Public Sector Internal Audit Standards
- expected content of the audit plan
- what makes a good plan
- audit resources
- monitoring the plan
- tips for how the Audit Committee can add value



### *Local Audit and Accountability Act 2014*

This briefing outlines the key points of interest for Audit Committees following the Royal Assent of the Act in January 2014. It summarises:

- The new local audit arrangements – it explains the monitoring of external audit contracts following the closure of the Audit Commission on 31 March 2015 and the arrangements for appointing our own external audit provider from 2017.
- The role of auditor panels – each local authority will be required to have an auditor panel unless it uses a collective procurement service. The purpose of the panel is to safeguard independence in the appointment of the external auditor – local authorities have the option of using their audit committees for this role providing it fulfils the criteria for independence. CIPFA is planning on issuing guidance on auditor panels later in 2015.
- The impact of the Act on Audit Committees – this is dependent upon whether the audit committee can take on the auditor panel role. If it can, the committee terms of reference will need to be updated and additional training on the role is likely to be required. If a separate auditor panel is set up, the terms of reference will need to reflect how the two groups will interact on matters such as performance of the audit contract and independence.

A full copy of this briefing is available from the CIPFA Better Governance Forum at <http://www.cipfa.org/Services/Networks/Better-Governance-Forum> Alternatively, a copy can be circulated with the minutes of this meeting.

### **16. The Local Government Information Unit (LGIU) – Guide on the Local Audit and Accountability Act 2014**

This local government think tank has pulled together a more comprehensive guide on the Act – it states that overall the Act:

- Abolishes the Audit Commission
- Amends the legislative framework for council tax referendums
- Allows the secretary of state to direct local authorities to comply with the local authority public code (*Recommended Code of Practice on Local Authority Publicity*)
- Allows the secretary of state to amend the legislative framework governing the conduct of 'parish polls'
- Gives the secretary of state power to amend the legislative framework governing local authority meetings held in public (including giving citizens and the press the explicit right to film & tweet from any meeting held in public)

The guide is in two parts – one section covers the transparency and accountability provisions and the other details the local audit framework.

## Appendix 1 - Assurance Definitions<sup>1</sup>

Full Assurance	<p>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.</p> <p>The risk of the activity not achieving its objectives or outcomes is low.</p> <p>As a guide there are a few low risk / priority actions arising from the review.</p>
Substantial Assurance	<p>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.</p> <p>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.</p> <p>As a guide there are low to medium risk / priority actions arising from the review.</p>
Limited Assurance	<p>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.</p> <p>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.</p> <p>As a guide there are medium and a few high risk / priority actions arising from the review.</p> <p>Our work did not identify system failures that could result in any of the following:</p> <ul style="list-style-type: none"> <li>- damage to the Council's reputation</li> <li>- material financial loss</li> <li>- adverse impact on members of the public</li> <li>- failure to comply with legal requirements</li> </ul>
No Assurance	<p>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.</p> <p>Our work identified system failures that could result in any of the following:</p> <ul style="list-style-type: none"> <li>- damage to the Council's reputation</li> <li>- material financial loss</li> <li>- adverse impact on members of the public</li> <li>- failure to comply with legal requirements</li> </ul> <p>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.</p> <p>As a guide there are a large number of medium and high risks / priority actions arising from the review.</p>

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<sup>1</sup> 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’**

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### **Additional Needs – No Assurance**

Since 2008, local authorities have been required to carry out multi-agency assessments and planning for young people with a Statement of Special Educational Needs (SEN) intending to continue their education after reaching the age of 16.

Post 16 learning could take place at the young person’s school, a Further Education College or an Independent Specialist Provider.

Where the young person intends to stay on at school, the school must prepare a Transition Plan to support post 16 learning. Alternatively, where the intention is to enter post-16 education at a Further Education College or with an Independent Specialist Provider the local authority has the duty to arrange a Learning Difficulty Assessment (LDA) for the young person during their last year at school.

We conducted our testing to provide assurance on the following areas in accordance with the agreed audit scope:

- Monitoring arrangements are in place to confirm that schools have prepared Transition Plans where the intention is to continue education at school.
- Processes are in place to ensure that Learning Difficulty Assessments have been undertaken where the intention is to continue education at either a Further Education College or with an Independent Specialist Provider.
- Where provision takes place in high cost post 16 colleges or with other high cost providers, measures have been put in place to ensure that annual reviews take place.

We acknowledge that the management of the Additional Needs service had changed immediately prior to commencing our work. The post 16 aspect of the service, to which this report relates, is being temporarily managed separately. We recognise that substantial effort is being put into establishing robust processes to improve the systems.

### **Executive Summary**

Since 2008, local authorities have been required to ensure that young people with a Statement of Special Educational Needs (SEN) intending to continue their education after reaching the age of 16 have either a Transition Plan or Learning Difficulty Assessment in place.

The arrangements to monitor the completion of either Transition Plans or Learning Difficulty Assessments are not undertaken in a consistent or systematic way. Processes in place do not therefore provide the Authority with confidence that either a Transition Plan or a Learning Difficulty Assessment, as appropriate, has been completed where required. These weaknesses might place the Authority in breach of its statutory obligations.

There is also no discernible methodical approach in place to review high cost placements to confirm that they remain appropriate to the needs of individual students and this may result in unnecessary cost to the Authority.

#### **Direction of Travel**



We previously completed an audit of s139a assessments in 2012. Assurance in this area has reduced – changes to management structures and accountability have impacted on systems and procedures.

Our testing in accordance with the agreed audit scope has identified that there are a number of issues which need to be urgently addressed.

In order to effectively monitor the completion of either Transition Plans or Learning Difficulty Assessments, as appropriate, to assist decision-making about the provision and to avoid potential breach of a statutory responsibility:

- A consistent approach to monitoring should be developed and followed by all Learning Difficulty & Disability Advisors
- Information provided from schools and through “good relations” with SENCO’s should be corroborated.
- Learning Difficulty & Disability Advisors should be provided with accurate data to identify pupils requiring either a Transition Plan or a Learning Difficulty Assessment to facilitate monitoring and this data subsequently crosschecked against plans or assessments completed according to the Aspire system.
- The Authority may experience unnecessarily high costs in respect of placements with some post 16 colleges and other high cost providers. For these type placements a consistently applied process of annual reviews should be put in place to ensure that the placement remains appropriate to the needs of individual students.

We have agreed the following actions with the Head of Service 14 – 19:

- A spreadsheet is being populated with details of all young people with a statement of educational need in years 11, 12, 13 and 14. This will provide a control mechanism and central point to record the requirement for a section 139a assessment or transition plan
- Learning Difficulty & Disability Advisors will identify needs for s139a assessments and transition plans and update the spreadsheet
- Transition Plans and Learning Difficulty Assessments will be loaded onto Aspire when completed
- Local Authority officers will attend reviews of high risk (determined on cost and number of years in post 16 education) placements.

## **Management Response**

### Executive Director of Children's Services

This audit follows an audit in 2012 which also explored practice in additional needs, but focused on section 139a assessments. That audit gave substantial assurance and gave managers reassurance about assessment practices within additional needs. Although it is accepted that the two audits had differing "scopes"/areas of focus" and that funding arrangements and LA duties changed between 2012 and 2014, it would have been helpful for the 2012 audit to highlight the risks of the direction of travel given the changing expectations of LA's and the changing funding arrangements in this service area. This has now been incorporated into the audit framework.

Prior to undertaking the audit, Children's Services were alerted to a number of concerns regarding this service area and took prompt action. An audit was commissioned immediately to help the service appreciate risks and management structural change was also implemented. This area of work is subject to radical change and external scrutiny due to the national legislative changes due to come into force in September 14 and we welcome a further audit late in 2014 to measure change and improvement.

### Head of Service – 14 to 19

Responsibility for managing the Learning Difficulty and Disability Advisors (LDD Advisors) transferred to me on a temporary basis from 27 January 2014. The first meeting with them was held on 30 January 2014, at which stage I was able to confirm that there were no robust processes in place to ensure that all young people making the transition into post 16 learning were being identified and that a learning

difficulty assessment (section 139a assessment) or a transition plan was in place. I was notified that this audit would take place on 14<sup>th</sup> February.

Action since February has included the development of revised policies, processes and procedures that meet statutory requirements as well as the changes relating to the transfer of responsibility for commissioning high cost post 16 education and training to local authorities from September 2014. The policy documents will be referred to the legal team for checking within the next 2 weeks.

A centralised system for monitoring the completion of Learning Difficulty Assessments and transition plans has been established. LDD Advisors have been tasked with identifying the future plans of all young people in year 11 in terms of continuing in school or moving into further education colleges or other provision. Work to complete learning difficulty assessments is ongoing. Copies of transition plans will be sought from schools in the cases where young people will be remaining at school, and copies of both documents will be uploaded onto individuals' Aspire records.

The necessary changes to processes and procedures are likely to require additional resource, and the job descriptions of the LDD Advisors will require review. Dates are in the diary (13<sup>th</sup> May 2014) to discuss these issues with the Directorate Management Team.

<b>Management Actions</b>	<b>No</b>	<b>All to be completed by:</b>
High Priority	2	31 August 2014

## Tax Compliance (LF&R) – Limited Assurance

Lincolnshire County Council is responsible for complying with tax legislation set by HM Revenue and Customs. Lincolnshire Fire and Rescue (LF&R) were excluded from the 2012/13 tax compliance audit due to the ongoing negotiations with HMRC to agree the tax liability relating to emergency vehicles used by LF&R Senior Officers.

The Section 151 Officer requested this audit to provide assurance on LF&R tax compliance following the settlement reached with HMRC in August 2013. The negotiations also resulted in a change of approach to ensure future compliance with the HMRC tax conditions.

We have reviewed the processes and arrangements associated with the recording of business and private mileage by LF&R and the calculation of gross taxable benefits for the use of emergency vehicles.

Our audit focused on:

- completeness of mileage records for all officers with use of an emergency vehicle
- compliance with the agreed HMRC procedures
- the accuracy of calculations for future HMRC payments

### Executive Summary

The key issue affecting the overall confidence in this area is the compliance issues associated with the HMRC agreement – this relates to lease vehicles also used for emergency purposes. LF&R currently hold an exemption from the HMRC tax conditions but this relates only to the Chief Fire Officer. We found that LF&R have applied this exemption to four additional officers within the Chief Officer Group. Consequently two of the four officers have not completed mileage records for 2013/14 and the other two have recorded all or most of their mileage as business or "on call commuting" i.e. not taxable.

HMRC have informed us that the tax liability calculation should follow the agreed processes unless they approve the exemption for all the officers within the Chief Officer Group. In our opinion there is doubt that the contracts, fuel and rota arrangements fully meet the HMRC conditions. We also note that the Chief, Deputy and Assistant Fire Officers all use their procurement cards for fuel and are permitted to use LF&R fuel stock – they currently do not make any contribution for their personal use – this may have tax implications.

We are pleased to report that following the introduction of the new mileage forms in April 2013, the process for other senior fire officers has been working well and fulfils HMRC expectations. Suitable vehicle and mileage information is now held by LF&R to calculate the tax liability for the 2013/14 financial year. There is uncertainty however, that the HMRC method of calculation is fully understood by

LF&R officers involved in the process – we advise the calculations are validated by the Council's finance team prior to submission.

**Direction of Travel**



Improving

Mileage claim forms are now completed in line with HMRC guidelines for all senior fire officers excluding the Chief Officer Group. Appropriate vehicle details are held to calculate the tax liability, although support from the Finance Team is required to ensure full compliance.

Our review established that discussions between LF&R and HMRC have continued following the introduction of the process for recording Senior Officer's mileage. We found that LF&R hold one HMRC exemption covering the Chief Fire Officer – this has been applied to four other Officers within the Chief Officer Group on the basis that they are also contractually 'on call' at all times.

We were unable to find a compulsory recall to duty clause (or similar) in two of the four contracts and note that these officers fulfil the night duty on-call commitment on a 4 weekly rota with the exception of the Deputy Chief Fire Officer (who is not on the rota) – in our opinion there is a risk this may not meet the HMRC exemption conditions.

Our findings show that the 3 most senior Chief Officers make no contribution to the cost of their lease car, have no tax liability and make no payment for any personal fuel usage. The Council should ensure HMRC fully understand these arrangements and seek assurances the taxation conditions are met. We believe there is currently a risk of these officers incurring a car fuel benefit charge/fuel scale charge<sup>2</sup> for 2013/14 and the preceding years.

The HMRC rules relating to the tax liability calculation state that the annual lease cost or 20% of the list price (whichever is the **greater**) should be used as a basis for the calculation. LF&R believe they have approval to use a discounted list price for all their officers with lease cars – we found no evidence of this agreement and advise the HMRC regulations are applied to the 2013/14 calculations.

The amendments to the process agreed with HMRC were initially notified to Officers via letter, informing them of their gross taxable benefit based on average mileage during 2012/13. The new approach has not been reflected in a formal service order and we understand that this is still in the process of being drafted, a year following implementation. We understand the service order has been part of a wider transport review and that this has contributed to the delay.

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<sup>2</sup> HMRC - accounting for output tax on fuel purchased by the business then used for personal motoring.



We found elements of good practice throughout the process, in particular, the collection and recording of mileage claims by the Administrator responsible for calculating the annual tax liability.

We selected a sample of officers with lease vehicles and found:

- 1 Officer had not provided claims showing a breakdown of mileage between August and October. Evidence showed he had been contacted to inform him that if mileage claims are not submitted then all mileage during the period would be treated as private for tax purposes
- Officer contributions were correctly calculated in 80% of the sample – there is uncertainty in the remaining 20% due to the treatment of VAT
- mileage claims for Watch Command Support Officers had been completed in line with the shift pattern worked by the Officers

Our findings are detailed within the attached action plan, including recommendations which, once implemented, should help strengthen controls and improve the level of performance and confidence in the calculation of tax liability.

We would take this opportunity to thank the staff for their help and assistance throughout the audit.

## **Management Response**

### LF&R

Lincolnshire Fire & Rescue have been working closely with HMRC over the past 24 months to ensure full compliance with their guidance, the Internal Audit Report has highlighted some key areas that require further clarity of which are being addressed, post and pre commissioning the services of the Corporate Audit Team. The Audit Action Plan has provided a clear independent view that will ensure the service has a clear and auditable route, as such the items on the Action Plan are currently being discussed with HMRC. It is planned to close all matters within a three month period.

### LCC

Financial Strategy welcomes the report which highlights a number of areas that require clarification, where work is already being undertaken to address (see agreed actions).

We continue to work with the service in respect of validation of mileage claims and HMRC calculations and look forward to a formal service order being ratified by the LF&R Service Management Board at the earliest opportunity.

<b>Management Actions</b>	<b>No</b>	<b>All to be completed by:</b>
High Priority	Two	30 June 2014
Medium Priority	Four	30 June 2014

## Public Health Contract Management – Limited Assurance

Public Health is currently in the process of reviewing and remodelling its services; the 2<sup>nd</sup> phase of the review is underway looking at 'housing related support' contracts. The focus on service reviews and significant turnover of staff, have impacted on the available resource to undertake annual Quality Assessment Framework audit visits (QAFs) and routine Contract Management meetings.

The audit acknowledges the introduction of the revised Contract Management toolkit in April 2013. Whilst some contract management meetings have taken place since its introduction, due to the service reviews these are few. It is therefore too early in its implementation to provide assurance that all contracts are being managed effectively.

Whilst the audit acknowledges the progress the team is making through the Service Reviews and the commitment to further improving the Contract Management process, we have identified a number of areas where improvements are required:

- Regular Quality Assessment Framework (QAF) audits and Contract Management meetings should be held with providers.
- The number of extensions to contracts needs to be kept to a minimum.
- A central record of contracts and key data should be maintained and used for monitoring purposes.
- A routine quality review of Contract Management arrangements by Senior Officers should be undertaken to ensure consistency, quality and compliance with the toolkit.
- Documentation in relation to QAFs and Contract Management meetings needs to be completed promptly to ensure timely reporting.

**Direction of Travel**



Improving

Public Health has streamlined a significant number of its contracts through a recent service review. The final phase is to take place in the 2014/15 financial year. Contract Management meetings are to continue during this period and the newly introduced Contract Management framework to be used which should improve the level of assurance over the year.

A recently introduced Contract Management Toolkit provides a clear direction for future Contract Management arrangements.

Public Health Commissioning Team has focussed its resources on the review of services, a significant piece of work, establishing whether there is a need for the service to be remodelled, re-procured, reshaped, continued or decommissioned.

In the interim period, Contract Management meetings have not always been carried out on a regular basis. Without regular contract management meetings, contract performance issues may be missed and outcomes may not be achieved.

In terms of those contracts in the second phase of the Service Review, Audit has been informed that QAFs and Contract Management meetings will be held routinely up until the March 2015 deadline.

A central record of all contract management meetings was not available at the time of the audit testing; Contract Managers were maintaining their own records. The responsibility of each contract was not always clear; it is acknowledged that there has been significant staff movement over the last 2 years resulting in the reallocation of contract responsibility. Without a central register contracts may not be reviewed and monitored on a regular basis and ongoing issues /outstanding actions may not be followed up.

During the remodelling of the Wellbeing Service and the current review of specialist 'Housing Related Support', extensions to contracts have been approved by the Executive Board, to provide continuing services. Continuing extensions to contracts may not provide long term value for money.

Where contract management meetings have taken place, documentation had not always been fully completed at the time of the review. This may result in delayed action plans and failure to address provider concerns.

At the time of the audit, no Senior Officer quality assurance of individual contract files and QAFs could be evidenced - contract performance issues or poor contract management practices may go undetected.

A revised toolkit, with associated user guidance, was introduced in April 2013 for Contract Management and new working practices continue to be developed. In the few cases where the new toolkit has been used, we found the contract management meetings to be fully documented and compliant with the guidance. The small number of contract management visits undertaken at the time of the audit has meant that these new updated procedures have not been applied to all contracts. It is therefore too early in its implementation to provide assurance on the effectiveness of these revised practices.

The revised Contract Management process and toolkit is comprehensive and will ensure coverage of all key areas, including performance, service user consultation and the provider's financial health and business performance.

### **Management Response**

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Following the audit, all contracts managed by Public Health are now risk assessed by the commissioning team using the following risk assessment tool.

This tool considers quality, performance and compliance, internal and external concerns regarding provider, finance, safeguarding and serious incidents and contract expiry. The results of these assessments are used to determine the contract management response by commissioners; i.e. frequency of contract management meetings.

All contracts are now managed according to their risk, using a contract management tool. Each contract management meeting has a separate tab that charts the discussions and associated actions, and the tool itself also contains a summary of performance against the contract and the results of the quality assessment visit. Appendices such as specific provider policy and procedures or serious incidents etc. are also embedded. A standard agenda that is aligned to the contract management tool is now used consistently across all contract management meetings.

Contract management meetings are taking place across all contracts. A programme of quality assessment framework (QAF) visits is taking place during the spring/summer of 2014. These visits combine a review of a provider's key policies and procedures, consultation with service users, staff and key stakeholders and key management personnel. These visits are also combining a formal contract management meeting as well as consultation on the ongoing review process.

All contract details are now included on the LCC Firefly system.

A PH assurance and clinical governance board has been recently established and the contract management processes are on the agenda to ensure wider assurance within the directorate takes place.

<b>Management Actions</b>	<b>No.</b>	<b>To be completed by:</b>
High Priority	2	Programme Manager- Procurement and Contracting
Medium Priority	3	Programme Manager – Procurement and Contracting
Low Priority	1	-

## Procurement Card (Users) – Limited Assurance

### Split Assurance

Substantial Assurance – Central process and Procurement Lincolnshire's activities

Limited Assurance – Directorates/Users

The procurement card process and control framework is sound and the Procurement Card team are proactive in identifying and addressing poor practice/non-compliance. However, there are 3 compliance issues which are currently affecting the overall level of confidence in this area:

- VAT – this continues to be a problem area and whilst Procurement Lincolnshire are attempting to improve card user compliance, there is still evidence that the Council is not maximising its VAT recovery potential. Our testing results, supported by Procurement Lincolnshire's own estimates, shows the Council is potentially losing in excess of £100k per year in VAT.
- Security of cards – cards and PIN codes have been shared with and used by unauthorised staff, which increases the risk of card misuse. The Procurement Card team are not always notified where changes occur e.g. cardholders leaving their post, which increases the risk of unauthorised use/abuse.
- Business Travel Policy – procurement cards are being used to purchase flights for overseas travel and testing highlighted policy compliance issues and lack of awareness regarding the approved process for procuring overseas travel.

### Direction of Travel



Static

The use of procurement cards across the authority is increasing and provides an efficient way of obtaining goods/services. Any efficiency savings are potentially outweighed by the loss of recoverable VAT.

Our review covered a wide range of transactions, through visits to cardholders and analysis of card transaction data. 4% of the transactions we sampled showed incorrect treatment of VAT. We are aware that this issue has been ongoing from previous audits and work has been undertaken by the Procurement Card team to improve awareness of VAT requirements. This continues to be a problem and our findings correlate to those of the Procurement Card team who identified that an average of £9k a month is potentially lost from unclaimed VAT; this could equate to a

loss in excess of £100k per year, based on the Council's procurement card spend of £3m.

We found two examples within the school environment of card/PIN sharing:

- an administrator was using a card in the absence (long term) of the cardholder
- several school administrators were using a procurement card issued to the headteacher – this involved internet and 'over the counter' purchases which would require PIN details

We also have anecdotal evidence from investigations indicating that card sharing may be more common across the Council. Cards and PIN numbers are personal to each cardholder and should not be disclosed.

Our analysis highlighted several cases where cards had been used to purchase flights for overseas visits. We found that only 20% of our sample complied with the terms of the Corporate Business Travel Policy which requires prior written authorised approval and booking via the Corporate Travel Team. This area has previously been the subject of media interest and compliance with the policy minimises the risk to the Authority's reputation.

Our analysis of the data over a 13 month period also highlighted that 25% (approx. £900k) of total procurement card spend was over £500 in value. The Authority has an obligation to report all payments over £500, as part of the government's transparency initiative – the council does not currently report on the individual transactions (over £500) paid via the procurement card; instead it reports the total monthly settlement to the card provider. In our opinion, this does not comply with the requirement to show the payments in their original form. With over 600 cardholders having a single transaction limit of £500 or higher there is the potential for an increasing number of transactions that would qualify for transparency reporting.

We found several areas of good practice that were evident throughout the procurement card process:

- regular audits of cardholders have been carried out to ensure compliance with policies and proactively identify areas where additional training is required.
- the Procurement Card team actively monitor the use of procurement cards, analysing the amounts and type of spend with particular merchants and merchant groups – in the future they can direct users to the e-procurement process and to suppliers where contracts already exist.
- the Procurement Card team are attempting to reduce the number of un-reviewed transactions each month. In January 2014 this process resulted in a reduction from 5% to 0.35% of un-reviewed transactions. This ensures a greater accuracy for accounting purposes and improved recording of VAT for transactions on the Centresuite system.



Where consistent non-compliance with the agreed processes is identified by Procurement Lincolnshire, a stronger approach is planned, by potentially removing the procurement card facility until the Administrator has attended further training to ensure future compliance. Review of the non-compliance issues identified by Procurement Lincolnshire found that this is currently an isolated matter in one service area.

### **Management Response**

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Procurement Lincolnshire endorses and welcomes the findings of the audit. We recognise the issues identified and have been actively working to reduce them. Many actions have already been implemented in the time since the audit or are already planned to go ahead as part of our usual management of the P-Card programme.

Procurement Lincolnshire already undertakes random audits of the P-Card data, and we recognise the findings and welcome the support provided through the audit report.

We will continue to improve the governance processes for P-Cards and will implement processes to escalate issues where current remedial actions do not address non-compliant behaviours.

<b>Management Actions</b>	<b>No</b>	<b>All to be completed by:</b>
High Priority	Four	30 April 2014
Medium Priority	One	30 June 2014

## **Debtors – Limited Assurance, direction of travel Substantial**

We note the Council's senior financial managers have overall confidence in the debt recovery processes and do not share our opinion on risk in this area – their judgement is based on improvements made over the last few years, the good income collection rates within Adult Care and the fact Lincolnshire is shown to be performing well against the CIPFA benchmarking statistics.

In our opinion the ongoing and planned improvements are significant pieces of work, all of which will assist the transition to the new systems due to go live in April 2015 – consequently, this impacts on our overall opinion at this time. We concur with the view of management in some areas; however, we believe that improvements are required to:

- take decisive action on tackling long outstanding debt
- reduce invoicing errors
- continue improving Adult Care systems to minimise the Authority's level of debt and reduce delays in raising debtor accounts.

Those involved in the debt recovery processes are committed to these improvements but there is also recognition that some issues are reliant upon directorate officers – the diverse nature of the Council's activities and the cultural changes required are added complications.

Controls and procedures established within Credit Control to manage the Council's debtor arrangements are generally operating effectively and in accordance with Financial Procedures. The Credit Control team are monitoring outstanding debt adequately and on a regular basis – debt collection and recovery procedures are helping to minimise delays in receiving payment and reducing the loss of credit income.

We found that some controls operating within directorates are impacting on the overall effectiveness of the Council's debt collection arrangements. Our sample testing across all directorates found:

- delays in engaging with Credit Control to resolve outstanding debts and bringing write offs to a prompt conclusion
- a significant number of re-issued invoices (credit memos) issued in the 12 months to September 2013 – we accept that some of these instances were unavoidable, however a large proportion related to invoices raised in error.
- delays in raising accounts

These issues together with the reasons for some write offs suggest there needs to be

a greater emphasis on getting things right the first time by following procedures properly and validating invoice accuracy prior to issue - this would reduce the number of debtor accounts and debt write offs.

The increased focus and scrutiny on monitoring debts over £25k has significantly reduced the level of debt outstanding in this category from £2.2m (April 2013) to £794k (February 2014). There is an on-going commitment to continue with this work and reduce the overall level of debt across the Council.

We recognise that Adult Care generate the highest proportion of income across the Council and has good collection rates (98% for residential care income and 97% for non-residential). However, a large proportion of overdue debt (78%) is in Adult Care. It has made some improvement to its sub-systems (e.g. Deferred Payments Scheme), however there is still work required in this and other areas to further reduce the level of unsecured debt (£2.6m). Recovering Adult Care debt is notoriously difficult as disputes tend to be sensitive, complex and lengthy to resolve. A year ago Adult Care recognised they needed to reduce the:

- time taken to collect charges
- overall level of unsecured debt
- age of its overdue debts
- debt write off

Progress has been limited but a newly formed Task Group (Adult Care and Mouchel) is now to drive forward these improvements.

In the main, controls are operating well for recoverable works to prompt recovery action although recent resourcing constraints have caused some delays in taking recovery action. This is now being addressed.

**Direction of Travel**  Improving

Three years ago the audit opinion was substantial – whilst this remains valid in some areas of the process, our differing approach, wider scope & testing results have highlighted areas for improvement.

Mouchel and the Council have identified a programme of continued development for improving debtor arrangements and this is being actioned. Adult Care has established a Task Group to perform a detailed review of income collection arrangements in its sub-systems and implement improvements. The work routinely carried out on individual debts over £25k has had a material impact on the level of overdue debt and should continue.

We identified a number of key areas where controls are operating effectively:

- more detailed reporting of outstanding debts for DMT and budget holders

- Head of Finance (Children's & Specialist Services) proactively identifies cases/issues requiring further action
- Credit Control are regularly reviewing debts and taking appropriate action to aid debt recovery
- regular sessions delivered within Adult Care to raise awareness of debtor processes

LCC/Mouchel have been progressing a number of improvements over the years and have recently (September 2013) identified further improvements within the 'Debtors Action Plan'. Key issues include establishing a Debtors Best Practice Guide for budget holders; raising awareness of debtor arrangements and improved processes for reviewing property debt and debt relating to service user contributions and improved reporting.

We identified areas where improvement could increase the overall effectiveness of the Council's debt management, in particular by reducing delays, reducing errors and improving procedures:

#### **Reducing delays**

- Effective debt recovery relies on departments assisting Credit Control to recover debts they have initiated – we found the process becomes protracted as Credit Control often has to repeatedly chase departments for responses.
- Analysis shows that debts under query account for 18% of overdue debt totalling £1.57m (as at 31 December 2013). £905k (38%) of this debt is aged over a year. Often the resultant action with this type of debt is write off.
- A significant proportion (40%) of the invoices sampled across various directorates identified avoidable delays in raising debtor accounts.

#### **Reducing errors and improving procedures**

- In the 12 months to 30<sup>th</sup> September 2013 we identified a significant number of invoices had to be re-invoiced due to error (around 9% of raised invoices in that period). The key reasons are reported as 'incorrect customer', 'duplicate charge' and 'human error'.
- The ability of Credit Control debt recovery team to pursue debts can be limited by weaknesses in the other systems that sit within Directorates. Our sample tests identified potential avoidable errors - mainly salary overpayments and where inadequate supporting documentation has resulted in debt write off. These failures within other systems contribute to the overall debt levels and recovery workloads
- We acknowledge that debt recovery action in Adult Care cases can be sensitive, complex and contain barriers to the prompt collection of debts. Issues currently affecting Adult Care debt management include:

- separate teams hold pieces of information vital to the successful conclusion of any debt recovery process. This can result in significant delays in the collection of debts and reduces the likelihood of recovery.
- response times from field workers are a significant factor in the decision to write off debts - their priority is the service user rather than chasing debts and therefore delays can occur.
- incomplete assessment documentation can cause difficulty enforcing debt recovery.
- where the representative does not have appropriate legal authority.
- delays in notification by residential homes that a significant debt is accruing.

The task group established between Adult Care and Mouchel is identifying how Adult Care's income collection arrangements can be further improved. Proposals from this review will feed into Adult Care's transition work with Serco to establish the Council's income arrangements from April 2015. Their main focus is getting this right by April 2015 with the introduction of Mosaic.

### **Reporting**

Although there have been some improvements in directorate reporting we found a discrepancy between two debtor reports which show different analyses of the Council's overdue debt. This is not considered to be a significant issue by management as reliance is placed on other reports. Mouchel are currently investigating the discrepancy.

Credit Control could improve their processes by ensuring they always maintain complete details of recovery action taken about outstanding debts – this provides evidence of their debt recovery action when decisions are required about write off or continued recovery action.

### **Management Response**

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The audit report is very much welcomed by management because it has enabled further areas for improvement to be added to the existing action plan.

The report highlights a number of important points. These include the fact that the last audit report gave substantial assurance. Since that time, the debtors system has been widely regarded as performing well by the Council's senior finance officers and that assessment has been supported by: the annual CIPFA benchmarking exercise that has taken place each year and by benchmarking work with East Midlands authorities which has shown in the main income generation areas, that income collection is well above the national median at 97% - 98%. Evidence has been provided to demonstrate the proactive steps that have been taken during this period

to further improve performance and this is affirmed by the positive direction of travel highlighted in the report.

The majority of areas for improvement recognised within the report were already being taken forward (e.g. within Adult Care a Task and Finish Group was established in January 2014 to review a range of debtor/assessment issues) with few of the findings in the report unknown to officers. Furthermore, a number of the findings highlighted in the report reflect issues in other systems or processes and are not problems inherent in the debtors or credit control system per se (e.g. payroll errors). Nevertheless, the audit report has provided an opportunity for officers to reflect once again on areas for improvement and, as highlighted in the report, steps will now be taken to add those to the existing 14 point action plan that was developed last autumn following consideration of the last CIFPA benchmarking report. The management acknowledge that to make further, significant improvements in performance, it may need a change in culture for the very many staff across the Council that are involved in this important process. It is positively planned that the introduction of two new finance systems (Agresso and CMPP) in 2015 will assist greatly with that change and we are confident that the new systems will facilitate further improvement.

As acknowledged within the report, and for the reasons set out above, the Heads of Finance for both Adults Services and Children's & Specialist Services do not concur with the 'limited assurance' assessment that has been given to the debtors system in this report. Nevertheless, management will continue to drive further improvement, through completion of the agreed actions listed in this report and completion of other activities that are already underway.

<b>Management Actions</b>	<b>No</b>	<b>All to be completed by:</b>
High Priority	6	31 July 2014. Adult Care Task Group changes and Agresso implementation by 1 April 2015
Medium Priority	5	31 July 2014

### Appendix 3

Data is for audits completed 2013/14 where recommendations were due to be implementation by 31<sup>st</sup> March 2014

Activity	Issue Date	Assurance	Recs Imp	Recommendations Outstanding		
				High	Medium	Low
<b>Communities</b>						
Customer Service Centre		Limited	0	1	2	
Civil Parking Enforcement		Substantial	1		1	
<b>Children's Services</b>						
Supported Childcare Allocations		Substantial	4	1	1	
<b>Resources &amp; Community Safety</b>						
Youth Offending Service – U-18s Single Remand Order		Substantial	3		1	
<b>Due Diligence</b>						
Income		Full/Limited	3		3	
The Beacon		Substantial	0		2	
<b>Total</b>				<b>2</b>	<b>10</b>	

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## Regulatory and Other Committee

### Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	<b>Audit Committee</b>
Date:	<b>23 June 2014</b>
Subject:	<b>Risk Management Progress Report to 23 June 2014</b>

#### Summary:

One of the key roles of the Audit Committee is to ensure that the Council has effective risk management arrangements in place.

This report assists the Committee in fulfilling that role, by providing an update on how well the council's biggest risks are being managed as well as reporting on the progress made in assisting the council to adapt and change the way it considers and 'thinks' about risk.

#### Recommendation(s):

That the Committee notes the current status of the strategic risks facing the council and make recommendations on any further scrutiny required.

#### Background

As part of the on-going review and oversight of the Strategic Risk Register, there have been regular updates from the risk owners in obtaining assurances that the strategic risks are being managed effectively.

During the past few months we have undertaken a review of our strategic risks, identified Directorate operational risks.

The Risk Management Progress Report, which can be found in Appendix A, provides the Committee with updates on key messages received over the past 6 months since the last report in November 2013.

#### Conclusion

Overall, the council's strategic risks continue to be managed pro-actively. There is a good level of awareness of the current and emerging issues, with positive action being taken where appropriate.

Given the scale and significance of the changes facing the Council further work is required to ensure all risks are clearly understood and being effectively managed – particularly the outcome / impact relating to the evolving service delivery model following the senior management review and the 17 commissioning strategies.

Senior management and the Corporate Management Board continue to take an active interest in the monitoring of the councils strategic risks and seek opportunities for involvement where appropriate.

## **Consultation**

### **a) Policy Proofing Actions Required**

N/A

## **Appendices**

These are listed below and attached at the back of the report	
Appendix A	Risk Management Progress Report

## **Background Papers**

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, who can be contacted on 01522 553692 or [lucy.pledge@lincolnshire.gov.uk](mailto:lucy.pledge@lincolnshire.gov.uk).

# **Risk Management Progress Report**

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## Introduction

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1. The purpose of this report is to provide an update on:
  - the key strategic risks facing the Council
  - the activities being undertaken to support the Council in developing a culture of being '*Creative & Aware of Risk*'<sup>1</sup>.

## Key Messages

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### *Strategic risk register*

2. Over the past few months, we have undertaken a complete refresh of the strategic risk register. In doing this, we have consulted with senior management together with the Corporate Risk & Safety Group for guidance and steer as to what our key strategic risks are for the Council.
3. We have also aligned the strategic risks to the new Commissioning strategies.
4. Our Strategic Risk Register now includes 11 risks – these are;
  - **Resilience (Business Continuity)** – Capacity & resilience to responding to, and recover from, wider area and prolonged emergencies and business disruption (e.g. coastal flooding / pandemic flu) impacting on public safety, continuity of critical functions and normal service delivery.
  - **Safeguarding** – Safeguarding Children
  - **Safeguarding** – Safeguarding Adults
  - **Market Supply Adult Care** – Adequacy of market supply to live within budget
  - **Budget – LCC** – Funding and maintaining financial resilience
  - **Governance** – Maintenance of effective governance arrangements including the way we implement transformational change and decisions affecting service delivery
  - **Commissioning** – Commissioning for Lincolnshire doesn't deliver the priorities and benefits
  - **Recruitment / Staffing** – Requirement to have the right people in the right place with the right skills at the right time a) Reshaping our workforce b) Capacity to deliver our core strategic objectives e.g. transformational change, recruitment & retention of specialist skills
  - **Strategic contracts** – Ensuring contracts are fit for purpose in the Commissioning Agenda
  - **Projects** – Monitoring of designated management projects
  - **Integration of Health & Social Care Services** – Maintaining a viable, safe & sustainable health infrastructure.
5. In reviewing the register, it has identified that the risk around Safeguarding Adults is shown as 'Limited' assurance. There are action plans in place to strengthen the assurance level on this risk.

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<sup>1</sup> The Council wishes to be creative and open to considering all potential delivery options, with well measured risk taking whilst being aware of the impact of its key decisions.

6. There are a number of risks that require assurances to be fully explored and the level of risk the Council is prepared to accept to be determined. Over the next few months, we will be working with risk owners to firm up control actions and classify the current and target risk scores.

7. There are a number of risks that have either been removed or have been amended to reflect changes and these are shown within tables 1 & 2 within Appendix 1. There is also a new risk noted within table 3 within Appendix 1.

### ***Operational (Tactical) risks***

8 The Corporate Risk & Safety Steering Group on 30<sup>th</sup> April 2014, critiqued the results from the first ever complete set of Directorate Risk & Safety Dashboards.

9. The dashboard approach enables the Council to maintain an oversight of its Directorates risk and safety performance. It recognises that there is no single reliable measure of risk and safety performance, opting instead to use a 'basket' of measures to provide information on a range of key risk and safety activities which can be tracked over time to assess overall performance.

10. The 'Risk' element of each dashboard focuses purely on what are considered to be the - biggest (tactical) risks for the 'Directorates'. It also acts as an early warning mechanism for any emerging big risks requiring escalation to the Strategic Risk Register.

11. A summary of each Directorates 'Top 5' risks can be seen in *Appendix 2*, from which the following key messages can be drawn:

- Almost all areas have identified having a tactical risk around 'people', e.g. inability to retain/recruit skilled & motivated staff, a risk which is echoed within the Strategic Risk Register;
- Almost all areas have identified having a tactical risk around 'budget and lack of future finances to deliver services', a risk which is echoed within the Strategic Risk Register;
- There are no tactical risks requiring escalation to the Strategic Risk Register or CMB at the present time.
- There are no risks with 'No Assurance' from a management perspective.

### ***Risk Management – Internal Audit Report***

12. A draft internal audit report has given 'substantial assurance' over the effectiveness of our strategic and operational risk management arrangements. Areas where opportunities for improvement have been identified and 'limited' assurance has been given are around the level (consistency / transparency) of information held about risks for key decisions, key projects and the level of risk the Council is prepared to accept on it's different business units. The detailed report etc will be included within the next internal progress report.

## Our Strategic Risks

7. Key areas/risks to note are as follows:

**Risk 1: Capacity and resilience responding to, and recover from, wider area and prolonged emergencies and business disruption (e.g. coastal flooding / pandemic flu) impacting on public safety, continuity of critical functions, and normal service delivery**

Further analysis of how this risk is being managed is being undertaken with the expected level of risk & current risk exposure is being determined.

**Risk 2: Safeguarding Children**

The level of assurance over this risk remains at 'substantial' with the direction of travel of 'static'.

The Council is likely to have an Ofsted inspection which will –provide further assurance over this risk.

**Risk 3: Safeguarding Adults**

A peer review over the effectiveness of our Adult Safeguarding arrangements was completed in November 2013. This highlighted a number of areas of improvement. The level of assurance has therefore moved from 'substantial' to 'limit' until these improvement actions have been implemented. An Internal Audit is also being undertaken in 2014/15 which will provide independent assurance on Adult Safeguarding.

**Risk 5: Funding and maintaining financial resilience**

There have been no changes to the scoring of the risk or the level of assurance of 'substantial' - direction of travel of 'static'.

However, there are a number of things ongoing to manage this risk and respond to the continuing financial challenges being faced by the Council – eg fundamental budget review (FBR).

**Risk 6: Maintenance of effective governance arrangements**

Good governance underpins everything we do as a Council and how we deliver services often comes under close scrutiny.

Maintaining good governance in complex environments and in times of significant change can sometimes become difficult. Our governance and assurance arrangements will need adapting to respond to the changing organisational environment:

**Risk 7: Commissioning for Lincolnshire doesn't deliver the priorities and benefits**

Further work required to understand the risks and assurances against each of the 17 commissioning strategies. It is too early in the process given that the

development of the commissioning strategies and fundamental budget review are currently in progress.

- Risk 8: Requirement to have the right people in the right place with the right skills at the right time**  
**a) Reshaping our workforce**  
**b) Capacity to deliver our core strategic objectives e.g. transformational change, recruitment & retention of specialist skills**

This risk has derived from the previous wording of 'Requirement to have an agile, skilled and motivated workforce'.

We confirm that the 'b' part of this risk is the currently showing the highest risk for the Council, however, there is a lot of work in progress to mitigate this risk and we are confident that over time, the target score will be reached to a more acceptable level.

- Risk 9: Ensuring contracts are fit for purpose in the Commissioning Agenda**

Further work is required to identify key contracts and obtain appropriate assurances around governance, performance & delivery e.g. FDSS, Highways Alliance, Property, CfBT

- Risk 10 Monitoring of designated management projects**

This risk replaces the previous wording of 'Infrastructure is required to support delivery of our services & economic growth in Lincolnshire'.

It is recognised that previously, we were monitoring a number of specific projects, however it has been agreed that we should be expanding the list and monitoring via a projects register and escalated if required. We will be monitoring key specific projects and reporting any significant issues to the Audit Committee by exception.

- Risk 11: Integration of Health & Social Care Services**

This is a key programme where is the risk register??

We are currently working with the programme office to ensure that there is alignment to the wording of the mitigating actions currently noted on the strategic risk register.

Due to the involvement of many key stakeholders, we are also in the process of identifying who these are and working with them to score this risk on the matrix as it is not up to any one party but a collection of stakeholders who own this risk.

6. Horizon scanning / areas to watch:

- Risk 4: Adequacy of market supply to meet eligible needs for adults**

During the update of the strategic risk register, there was consideration as to whether this should be included within the new risk of Integration of Health and Social Care risk. However, it has been agreed that this is a risk in its own right due to the nature and legal obligations.



Currently, there are no changes to the direction of travel as 'Improving' or the assurance status as 'Substantial', however it is noted that over the coming months, they are renegotiating charges which may have an effect on the risk and this is one to watch.

## **Progress against 2014/2015 priorities**

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7. Our priorities for the year ahead (2014/15) continue to be as follows:

- Continue to track and monitor progress of how the council's strategic risks are being managed
- Maintenance of the Strategic Risk Register Assurance Map
- Continue to provide 6 monthly progress reports to the Audit Committee (or by exception where necessary)
- Finish developing and launch a range of action based learning activities for staff and elected members to engage with and assist the council in developing a culture of being "*creative & aware of risk*".
- Continue to monitor the Directorate Risk & Safety Groups top 'tactical' risks.

**APPENDIX 1 – Amendments to risks**

**Table 1**

Removal of risks	Reason for removal of risks
- Judicial Challenge on the way we implement transformational change and decisions affecting service delivery	- Removal of individual risk and included within Governance risk. This is due to this being an impact and output from other risks and not a risk in its own right.
- Protect and manage the reputation of the Council	- Removal of risk is due to this being a consequence of all the remaining risks on the Strategic risk register, rather than a risk in its own right.
- Integration of Public Health responsibilities, staff and budget	- Removal due to the transfer of staff from Public Health to the Council with effect from 1 <sup>st</sup> April 2013, therefore the risk is no longer applicable.
- Adult Care not able to live within budget.	- Removal due to the fact that Adult Care have balanced the budget for the last couple of years and this risk is encompassed within the existing budget risk.
- Work with other organisations to deliver our contribution to Lincolnshire's Vision	- Removal due to a new risk around Commissioning

**Table 2**

Current risks	Amended wording to risks	Reason for amendment
- Delivery of our responsibilities as a local lead flood authority	- Capacity and resilience to responding to, and recover from, wider area and prolonged emergencies and business disruption (e.g. coastal flooding / pandemic flu) impacting on public safety, continuity of critical functions, and normal service delivery	- We are currently doing everything we can with respect to our duties as a local lead flood authority, however, it has been recognised that the risk lies with the ability to respond to emergencies especially in the current climate of further reductions in senior management / staffing.
- Delivery of the Council's priorities that	- Commissioning for Lincolnshire doesn't	- This risk has moved away from aligning to

have been determined by full council	deliver the priorities and benefits	Council priorities and the risk has been amended towards Commissioning and the delivery of that.
- Requirement to have an agile, skilled and motivated workforce	- Requirement to have the right people in the right place with the right skills at the right time  a) Reshaping our workforce  b) Capacity to deliver our core strategic objectives e.g. transformational change, recruitment & retention of specialist skills	- This risk has been split in to two parts. This is due to the nature of the risk and <u>agile</u> and <u>motivated</u> having different dependences.
- Infrastructure is required to support delivery of our services & economic growth in Lincolnshire	- Monitoring of designated management projects	- This risk is around the key projects that face the Council. We will be monitoring these via a project register.
- Delivery of Strategic Contracts	- Ensuring contracts are fit for purpose in the Commissioning Agenda	- This risk is around all key contracts and ensuring that they are fit for purpose and align with the Commissioning agenda.

In addition to the removal and amendment of risks, there is one risk that has been added as new. This is shown in table 3 as below;

**Table 3**

New risks	Reason for addition on to Strategic risk register
- Maintaining a viable, safe & sustainable health infrastructure	- This is a key risk to the council and involves inability to recruit professional staff to Health & Social Care together with the inability to remain within budget.

**APPENDIX 2 - Directorate Top 5 Risks – as at 5<sup>th</sup> June 2014**

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Adult Social Care			
No.	RISK	Level of Mgnt Assurance	Escalation Req'd?
1	Transformation agenda (Health integration - LSSR)	Substantial	No
2	Retention / Morale of staff and maintaining skills to deliver services	Limited	No
3	Budget	Substantial	No
4	Adequacy of market supply and ability to manage demand for services to meet eligible needs of adults	Limited	No
5	Market management supplies (delivery of services with appropriate staff at an affordable rate)	Limited	No
6	Safeguarding of adults	Limited	No

Childrens			
No.	RISK	Level of Mgnt Assurance	Escalation Req'd?
1	Safeguarding of children	Substantial	No
2	Staff safety	Substantial	No
3	High risk activities - ensuring we are robust in 'non licensed' adventurous activities such as abseiling	Limited	No
4	Building based management	Substantial	No
5	Documentation: Management & Storage	Substantial	No

Communities			
No.	RISK	Level of Mgnt Assurance	Escalation Req'd?
1	Effective governance of major projects	Substantial	No
2	Ability to recruit and retain suitably qualified and experienced staff	Limited	No
3	Significant budget reductions in light of whole service review leading to failing of critical services	Substantial	No
4	Staff resilience and business continuity in light of a significant emergency	Limited	No

Public Health			
No.	RISK	Level of Mgnt Assurance	Escalation Req'd?
1	Contract Management	Limited	No
2	Political - working and decision making in a political organisation	Limited	No
3	Finance - certainty of funding, mgnt of spend, ensuring VFM	Substantial	No
4	Access to and storage/holding of information - sharing with other parties, data protection	Limited	No

# Lincolnshire County Council – Risk Management Report

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5	Property review impacting on effective and efficient service delivery	Limited	No
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5	Lack of performance mgnt framework	Substantial	No
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Resources & Community Safety			
No.	RISK	Level of Mgnt Assurance	Escalation Req'd?
1	Inability to recruit & retain skilled staff	Limited	No
2	Insufficient budget to deliver acceptable level of service	Substantial	No
3	Safety of children and adults in and out of county (assessed from a local service perspective)	Substantial	No
4	Compliance with statutory legislation within various services	Substantial	No
5	Reputational risk around relationships with external clients	Limited	No



**Strategic Risk Register**

Version: 1.1

Reviewed: April - June 2014 (links to Commissioning Strategies April 2014)

Owner: Tony McArdle: Chief Executive

**Commissioning Strategy - Protecting & Sustaining the environment**

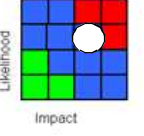
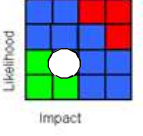
No of Risk	Risk Owner	Risk description	Risk Appetite (How much risk are we prepared to take & the total impact of risk we are prepared to accept)	Current risk score	Target risk score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static,	Actions	Notes / Comments
1	Richard Wills	<b>Resilience (Business Continuity)</b> Capacity and resilience to responding to, and recover from, wider area and prolonged emergencies and business disruption (e.g. coastal flooding / pandemic flu) impacting on public safety, continuity of critical functions and normal service delivery.	<b>Hungry</b> (Projects & major change - need to be innovative and take higher risks for greater reward - higher levels of devolved authority) <b>Open &amp; Aware</b> (Partnerships - Recognised that we work differently with different partners)					<ul style="list-style-type: none"> <li>This action for this risk need splitting depending on business disruption e.g. Coastal flooding will have different mitigating actions to pandemic flu. This is ongoing work throughout the coming months</li> <li>The expectable level of risk &amp; current risk exposure is being determined</li> </ul>	

**Commissioning Strategy - Children are safe & healthy**

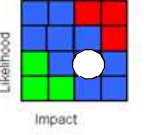
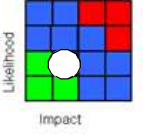
No of Risk	Risk Owner	Risk description	Risk Appetite (How much risk are we prepared to take & the total impact of risk we are prepared to accept)	Current risk score	Target risk score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static,	Actions	Notes / Comments
2	Debbie Barnes	<b>Safeguarding</b> Safeguarding children	<b>Cautious</b> (Regulatory standing & legal compliance - recognised may need to change the ways we do things are done but will be tightly controlled)			Substantial	Static	<ul style="list-style-type: none"> <li>Single Agency Framework inc action plan monitored by new Ofsted Readiness Group - launching in November 2013.</li> <li>Audit &amp; Performance information to DMT for scrutiny</li> <li>Safeguarding Assurance days</li> <li>Independent Chairs - review care plans &amp; quality - act as eyes &amp; ears for DMT</li> <li>Peer Challenge (East Midlands Group)</li> <li>Quality Team Manager Audits</li> <li>Management &amp; investigation of complaints at local level</li> <li>Childrens Safeguarding Board</li> <li>Performance Framework for Quality Assurance mechanisms</li> <li>Practitioner Supervision &amp; Appraisal</li> <li>Online approach to Vetting and barring of staff in 'regulated activity' posts with Qtrly HR Perf monitoring to DMT</li> <li>Independent analysis of systems &amp; processes being undertaken by Impower (one off exercise)</li> <li>Implementation of recommendations from serious case review</li> <li>Member scrutiny of Social Care</li> </ul>	Families working together programme to turn around the lives of families in crisis - Phase 1 completed with the expansion in line with government guidance December 14.

**Commissioning Strategy - Safeguarding Adults**

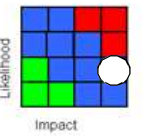
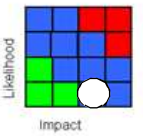
No of Risk	Risk Owner	Risk description	Risk Appetite (How much risk are we prepared to take & the total impact of risk we are prepared to accept)	Current risk score	Target risk score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static,	Actions	Notes / Comments

3	Glen Garrod	<b>Safeguarding</b> Safeguarding adults	<b>Cautious</b> (Regulatory standing & legal compliance recognised may need to change the ways we do things are done but will be tightly controlled)			Limited	Improving	<b>Existing controls</b> <ul style="list-style-type: none"> <li>Multiagency Safeguarding Policy &amp; local Procedures</li> <li>Adults Strategic Safeguarding Board</li> <li>Virtual integration between policy, practice &amp; strategy</li> <li>CQC Information Sharing Meetings</li> <li>Delivery of Safeguarding training to providers as part of 'Supporting Proprietors - Leadership &amp; Management' Programme</li> <li>Appropriate checks / vetting of staff in 'regulated activity posts'</li> <li>Investment in staff development agreed with Adult Safeguarding Board (ASB) of £250,000 for 2 years (each year)</li> <li>Improved performance monitoring to Adult Safeguarding Board (ASB) under development for regular monitoring</li> <li>Public Protection Board</li> <li>New quality assurance unit</li> <li>Leap professional &amp; elite professionals</li> <li>Serious case reviews</li> </ul> <b>New / Developing controls</b> <ul style="list-style-type: none"> <li>Develop &amp; implement suitable assurance framework for commissioned services (that considers safeguarding)</li> <li>Develop &amp; implement suitable assurance framework for Personal Budgets (that considers safeguarding)</li> </ul>	
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**Commissioning Strategy - Adult Frailty, Long term Conditions and physical Disability**

4	Glen Garrod	<b>Market Supply AC</b> Adequacy of market supply to live within budget	<b>Cautious</b> (Regulatory standing & legal compliance recognised may need to change the ways we do things are done but will be tightly controlled)			Substantial	Improving	<b>Existing controls</b> <ul style="list-style-type: none"> <li>Continued improved relationships with providers</li> <li>Community support framework</li> <li>Targeted market stimulation - geographic or service based on micro-level according to need and based on good intelligence.</li> <li>Capital strategy in place for next 3 years with funding level and team created</li> <li>Additional resources in Procurement Lincs to improve contract management - prolonged transfer</li> <li>Homecare rates being described and new investment assured</li> <li>Funding for residential care secure</li> <li>Contract register in place</li> <li>Additional investment in community based services with NHS developed</li> </ul> <b>New / Developing controls</b> <ul style="list-style-type: none"> <li>Develop further diversification of the market, i.e. multiple providers being able to offer multiple services</li> <li>Develop right mix of skills to become a commissioner of services</li> </ul>	
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**Commissioning Strategy - How do we do our business**

No of Risk	Risk Owner	Risk description	Risk Appetite (How much risk are we prepared to take & the total impact of risk we are prepared to accept)	Current risk score	Target risk score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static,)	Actions	Notes / Comments
5	Pete Moore	<b>Budget - LCC</b> Funding and maintaining financial resilience	<b>Open &amp; Aware</b> (Finance & money - No surprises - prepared to invest for reward and minimise the possibility of financial loss by well measured risk taking - allocating resources in order to capitalise on potential opportunities)			Substantial	Static	<b>Existing controls</b> <ul style="list-style-type: none"> <li>Sound process on trying to protect where funding is going supported by Medium Term Financial Strategy</li> <li>Efficiency Agenda</li> <li>Good financial management with monitoring arrangements in place</li> <li>Accountability framework</li> <li>More capability and capacity required to ensure momentum maintained on Core Offer &amp; Efficiency agenda.</li> <li>Council Priority Activities agreed &amp; delivery of major projects managed / monitored.</li> <li>Close working with DC's on funding arrangements</li> <li>Further fundamental review of service priorities during 2013/14</li> <li>Medium term financial plan for next 2 years updated as part of budget process</li> <li>Use of reserves to balance the budget in 2013/14</li> </ul> <b>New / Developing controls</b> <ul style="list-style-type: none"> <li>Use of reserves to balance the budget in 2014/15</li> <li>Fundamental budget review</li> <li>Building flexibility to deal with in-year changes</li> <li>Planning longer term for next CSR and trying to plan for period of</li> </ul>	



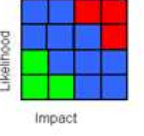
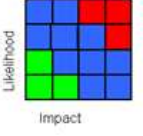
6	Pete Moore	<b>Governance</b> Maintenance of effective governance arrangements including the way we implement transformational change and decisions affecting service delivery	<b>Hungry</b> <b>(Reputation &amp; Public confidence -</b> Comfortable with taking decisions that are likely to bring scrutiny of the Council but where potential benefits outweigh the risks. Recognise that highly devolved decisions making will mean that not all risks known - take action when uncertain of results or with uncertain info - willing to accept significant loss for potential higher rewards)			Substantial	Static	<b>Existing controls</b> <ul style="list-style-type: none"> <li>Local Code of Conduct based on LGA been adopted</li> <li>Review of Governance Arrangements in light of CIPFA</li> <li>Implementation of new Combined Assurance Model</li> </ul> <b>New / Developing controls</b> <ul style="list-style-type: none"> <li>Governance Framework needs modifying to adapt to changing organisational environment - less prescriptive in style, with balancing of risk &amp; accountability - needs a formal plan.</li> <li>Review standards arrangements one year on for member standards arrangements, Common Code of Conduct and Register of Interests</li> </ul>	<ul style="list-style-type: none"> <li>We need to revisit the level of risk we are prepared to take on delivery services differently - understanding political risk v optimum risk as currently specified</li> </ul>
7	Pete Moore	<b>Commissioning</b> Commissioning for Lincolnshire doesn't deliver the priorities and benefits	<b>Open &amp; Aware</b>					<ul style="list-style-type: none"> <li>Further work required to understand the risk assurances against each commissioning strategy. It is too early in the process as the commissioning strategies and fundamental budget review are in progress</li> <li>Revisit it by December 2014</li> </ul>	

**Commissioning Strategy - Enablers and support to the Council's outcomes**

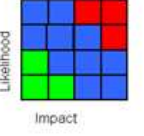
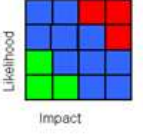
No of Risk	Risk Owner	Risk description	Risk Appetite (How much risk are we prepared to take & the total impact of risk we are prepared to accept)	Current risk score	Target risk score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static,)	Actions	Notes / Comments	
8	Debbie Barnes	<b>Recruitment / Staffing</b> Requirement to have the right people in the right place with the right skills at the right time a) Reshaping our workforce b) Capacity to deliver our core strategic objectives e.g. transformational change, recruitment & retention of specialist skills	<b>Averse</b> <b>(People -</b> Recognise that our staff are a valuable resource that requires investment by us to help sustain their health & wellbeing - low risk options taken to minimise exposure)					<b>Existing controls (A)</b> <ul style="list-style-type: none"> <li>People strategy</li> <li>Global challenge</li> <li>Pro active health &amp; safety on stress management</li> <li>I count training around resilience</li> </ul> <b>Existing controls (B)</b> <ul style="list-style-type: none"> <li>Universal Comms group established</li> </ul> <b>New / Developing controls (A)</b> <ul style="list-style-type: none"> <li>Modernising pay &amp; reward to performance</li> <li>Updating job evaluation</li> <li>Senior management restructure</li> <li>Organisational structure and organisational model</li> </ul> <b>New / Developing controls (B)</b> <ul style="list-style-type: none"> <li>Project management standard including change management</li> </ul>		
9	Judith Hetherington-Smith	<b>Strategic contracts</b> Ensuring contracts are fit for purpose in the Commissioning Agenda	<b>Open &amp; Aware</b> <b>(Finance &amp; money -</b> No surprises - prepared to invest for reward and minimise the possibility of financial loss by well measured risk taking - allocating resources in order to capitalise on potential opportunities)	<b>Open &amp; aware/cautious</b> <b>(Partnerships -</b> Recognised that we work differently with different contractors / partners)					<ul style="list-style-type: none"> <li>Further work is required to identify key contracts and obtain appropriate assurances around governance, performance &amp; delivery e.g. FDSS, Highways Alliance, Property</li> </ul>	

**Commissioning Strategy - Sustaining and Developing prosperity through infrastructure**

No of Risk	Risk Owner	Risk description	Risk Appetite (How much risk are we prepared to take & the total impact of risk we are prepared to accept)	Current risk score	Target risk score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static,)	Actions	Notes / Comments
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10	Richard Wills	<b>Projects</b> Monitoring of designated management projects	<b>Hungry</b>  (Projects & Major change - Need to be innovative and take higher risks for greater reward - high levels of devolved authority - management by trust rather than tight control - 'break the mould' and challenge current working practices)					<ul style="list-style-type: none"> <li>This risk is a new risk and therefore, we will be continuing with work over the coming months to gain an understanding of the projects register and what is in place for the most significant ones.</li> </ul>	
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**Commissioning Strategy - Sustaining and Developing prosperity through infrastructure**

No of Risk	Risk Owner	Risk description	Risk Appetite (How much risk are we prepared to take & the total impact of risk we are prepared to accept)	Current risk score	Target risk score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static, No)	Actions	Notes / Comments
11	Tony Hill	<b>Integration of Health &amp; Social Care Services</b> Maintaining a viable, safe & sustainable health infrastructure	<b>Cautious</b> (Willing to take risks but prefer to take the 'safe delivery option' - minimising the exposure with tight corporate controls over change)					<ul style="list-style-type: none"> <li>This risk is a new risk and due to the nature of the risk, we need to continue to work with the programme office to identify suitable actions to mitigate the risk. This will be completed over the coming months</li> </ul>	



## Regulatory and Other Committee

### Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	<b>Audit Committee</b>
Date:	<b>23 June 2014</b>
Subject:	<b>Counter Fraud Annual Report 2013/2014</b>

#### Summary:

This report provides information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption and reviews the delivery of the 2013/14 counter fraud work plan.

#### Recommendation(s):

To consider the overall effectiveness of the Council's arrangements to counter fraud and corruption and the progress made to implement policy.

#### Background

The Counter Fraud Annual Report provides an overview of the fraud proactive and investigation work completed over the year. This summary provides information to enable the Committee to review the outcomes and overall effectiveness of the Council's arrangements. The progress reports submitted throughout the year and this annual report are the key sources of assurance on the adequacy of Council's counter fraud activities.

#### Conclusion

The Council's counter fraud commitment and arrangements remain strong – over the years we have had excellent fraud loss recovery results and whilst we haven't had the same levels of recovery in 2013/14, we have had other appropriate outcomes such as successful prosecution, dismissal and/or resignations. The Council's zero tolerance to fraud is clear, all potential frauds are investigated and appropriate sanctions applied, where possible. We believe our continued efforts in these areas contribute to the reducing levels of detected fraud within the Authority.

It is, however, important for the Council to increase its fraud awareness activities and ensure it maintains a strong counter fraud response during this period of change. This is particularly relevant as we see the introduction of new service delivery models, reduced staffing and the de-layering of staff structures, along with a new and less onerous control framework.

CIPFA guidance for audit committees provides a checklist of key actions to help committees fulfil their role of assessing the adequacy of the Council's counter fraud arrangements. In addition to considering the activities within this report, the Committee may also wish to cover the following actions during 2014/15:

- ensuring the Counter Fraud Strategy meets the recommended practices *(the Council's Counter Fraud Policy due to be revised 2014)*
- championing good counter fraud practice to the wider organisation *(through member training events and in-year fraud awareness sessions)*
- understanding the level of risk the authority is exposed to *(using information from the ongoing update of the Council's fraud risk profile)*
- reviewing the annual counter fraud plan of activity and resources to ensure it is in line with the strategy and risk profile *(annual work plan already approved by the Committee and regular reports on progress received)*
- monitoring performance of counter fraud function *(via progress and annual reports)*
- overseeing major areas of detected fraud *(updated received via routine progress reports)*

Key guidance to assist the audit committee to fulfil the above recommended actions are contained in various governance publications, including:

- Delivering Good Governance in Local Government (CIPFA 2012)
- Managing the Risk of Fraud and Corruption (CIPFA – revised version expected 2014)

We can support the Committee over the coming year, by completing an assessment against the available best practice (when available) and agreeing actions for improvement, where necessary.

## Consultation

### a) Policy Proofing Actions Required

N/A

## Appendices

These are listed below and attached at the back of the report	
Appendix A	Counter Fraud Annual Report

## **Background Papers**

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, who can be contacted on 01522-553692 or [lucy.pledge@lincolnshire.gov.uk](mailto:lucy.pledge@lincolnshire.gov.uk).

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# Counter Fraud Annual Report 2013/2014

Date: June 2014



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Counter Fraud Work Plan 2013/14 - delivery	10-12

Contact Details:  
Lucy Pledge CMIIA  
Head of Audit & Risk Management



County Offices, Newland, Lincoln, LN1 1YG  
☎:01522 553692    ✉ [lucy.pledge@lincolnshire.gov.uk](mailto:lucy.pledge@lincolnshire.gov.uk)



## Introduction

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1. The purpose of this report is to:
  - Review the delivery of our 2013/14 Counter Fraud Work Plan
  - Provide information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption

## Background

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2. Central Government's commitment to reducing fraud in the public sector is as strong as ever – funding has been earmarked for local authorities to assist in the fight against corporate fraud (i.e. non-benefit fraud). This funding, if shared equally, would equate to approximately £25k per local authority for the next two years – the bidding process is expected to begin shortly – our bid will be based on our latest fraud risk assessment, the need to continue to improve awareness (particularly with our partners and contractor staff) and build on our existing counter fraud arrangements.
3. The National Fraud Authority (NFA) closed in March 2014 transferring its responsibilities to the National Crime Agency, Home Office, City of London Police and the Cabinet Office. Each year the NFA published its Annual Fraud Indicator which provided one of the most comprehensive and reliable estimates of the fraud exposure across all sectors in the UK. This has not been updated for 2014 but other published fraud figures suggest that the largest areas of fraud for County Councils remain the same as 2013:
  - Procurement (including contract fraud) - £876m
  - Payroll - £154m
  - Blue Badge Scheme misuse - £46m
  - Grants - £35m
  - Pensions - £7.1m
4. Emerging or increasing fraud risk areas highlighted by the Audit Commission in their latest 'Protecting the Public Purse' publication (November 2013), relevant to County Councils, included schools, grants and direct payments. We have experienced frauds in all these areas over the last few years and as such they will continue to feature in the Council's proactive programme of work.
5. The Audit Commission encourage all local authorities to align their counter fraud response to the 'Fighting Fraud Locally' strategy – this is something we started to work to from 2012/13 onwards, though we recognise that there is further scope to develop our counter fraud arrangements around the three key strands: *acknowledge, prevention and pursue*. CIPFA have now taken over responsibility for the national 'Fighting Fraud Locally' Strategy and are in the process of carrying out research for the next phase which will kick in from 2015. Our work plan for

2014/15 is driven by this national fraud strategy and will ensure that our response remains proportionate and effective.

6. Lincolnshire County Council's commitment to reducing fraud and error has been consistently strong over the last few years and has achieved savings and recoveries which compares favourably with similar authorities.
7. In 2013/14 we reviewed and updated the Council's Whistleblowing Policy and its Anti-Money Laundering Policy – both are key components of our counter fraud efforts. We recognise that the Council's whistleblowing arrangements, in particular, will become increasingly important for identifying potential fraud in the environment of:
  - the changes to service delivery
  - greater local autonomy (in some areas)
  - reduced staffing numbers
  - the de-layering of staff structures
  - new control framework

## **Investigations into suspected fraud 2013/14**

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8. We received 10 new potential fraud referrals during 2013/14 – four fewer than the previous years. The total estimated value of fraud associated with the live cases running during the year was £460,150.
9. Results during 2013/14:
  - Two managers of a former LCC provider were found guilty of multiple counts of fraud against vulnerable adults amounting to £124,656k. They were each sentenced to 3 years imprisonment. The offences (55 in total) were committed over an 8 year period against vulnerable adults – the two managers (husband and wife) stole the service user's savings, winter fuel allowance, disability living allowance and wrongly charged for use of utilities.

Our findings also showed that the couple failed to deliver the number of hours they were contracted to deliver for the Council – they routinely submitted returns showing contract performance in line with the specification. We estimated the value of the fraud against the Council to be approximately £250k over the period in question. During the trial, the judge instructed the jury to give verdicts of not guilty for the offences associated with the Council's contract, stating there was insufficient evidence for a prosecution.

Following this disappointing result and similar past experiences, we have liaised with Legal Services to explore the possibility of handling our own prosecutions, where it is appropriate and economic to do so. We intend to

develop a business case which will outline the benefits of such an approach – if the Council supports this, we shall produce a Prosecutions Policy to govern how this approach will operate.

- A former member of staff was found guilty of benefit fraud to the value of £10k. The individual was dismissed for gross misconduct.
- A woman has been charged with fraud by failing to disclose information and continuing to claim direct payments after the death of her father. It is an offence to dishonestly withhold information to make a gain for yourself or another – the amount falsely claimed totalled £7k.
- Suspected contract (procurement) fraud – concerns raised by our partners following a tender exercise revealed irregularities surrounding a particular aspect of a tender. The evidence suggested the contractor attempted to increase the value of the contract post tender award. A common procurement fraud is failing to tender in accordance with the contract then subsequently submitting claims for extra costs – this irregularity fell within that category.

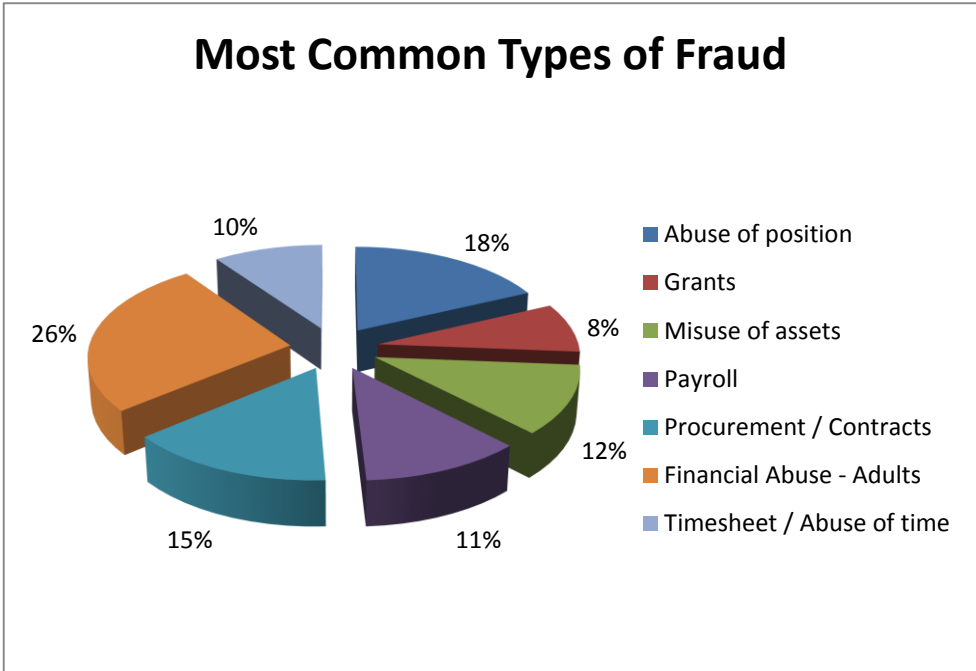
Our investigations concluded that there was insufficient evidence; however, we did identify action to be taken with the contractor and this is currently ongoing. The individual was immediately removed from the Council's contract and the contractor agreed to stand by the original contract price. This matter could potentially have cost an estimated £100k – this approach and result illustrates the good working between our partner and the counter fraud team.

10. The table below gives the Council's profile of fraud referrals over the last five years:

<b>Fraud Type</b>	<b>No. of instances 2009/2010</b>	<b>No. of instances 2010/11</b>	<b>No. of instances 2011/12</b>	<b>No of instances 2012/13</b>	<b>No of instances 2013/14</b>
Abuse of Position	4	3	2	2	-
Bank Account / Creditor Payments	-	-	1	-	-
Cheque Fraud	-	1	-	-	-
VAT fraud	1	-	-	-	-
Direct Payments	-	-	-	-	3
Expenses	-	1	1	-	1
False Invoices	-	1	-	1	-
False Claims	-	1	-	-	-
False Accounting	-	-	2	-	-
Grants	2	1	2	-	-
Insurance Fraud	-	1	3	-	-

Fraud Type	No. of instances 2009/2010	No. of instances 2010/11	No. of instances 2011/12	No of instances 2012/13	No of instances 2013/14
Imprest (Cash)	-	2	-	-	1
Misuse of Assets	2	1	2	2	-
Payroll	-	3	2	2	-
Pension	-	-	1	-	-
Procurement	3	3	2	-	1
Recruitment Fraud				1	1
School Fund / Budget Share	1	-	-	-	2
Service User Finances	6	2	3	5	-
Timesheet / Abuse of Time	3	1	1	1	-
Benefit Fraud	-	-	-	-	1

11. The most common types of fraud referrals we have received over the last five years fall in seven categories – the highest value frauds tend fall within procurement (contract fraud), however one of our largest successful prosecutions occurred within the school environment (abuse of position):



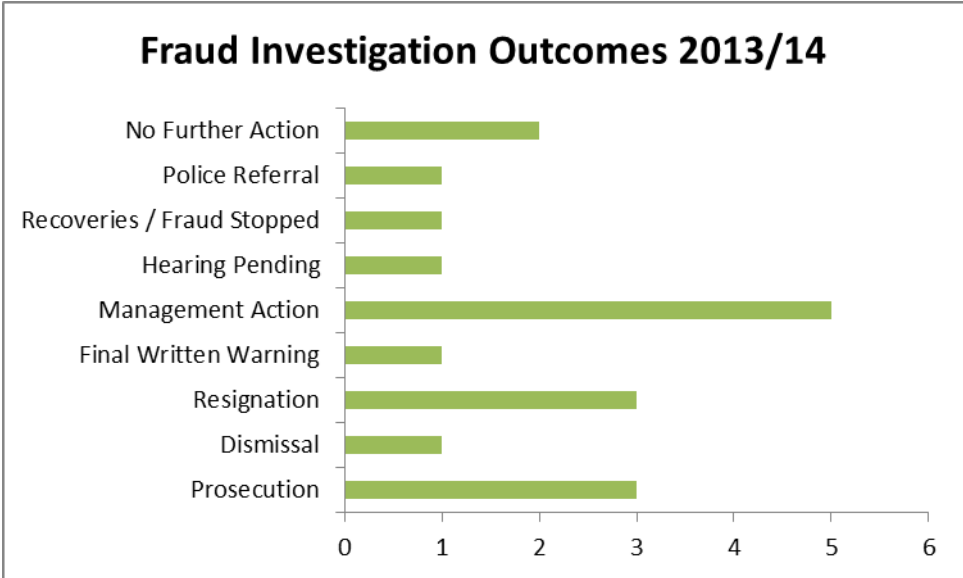
In 2013/14 we received three referrals relating to direct payments – we believe this increase was a direct result of fraud awareness workshops held with social workers and the finance team handling the direct payments scheme.

Last year the Audit Commission reported that the number of direct payments had increased from 8% of all community service expenditure in 2007/08 to 21% in 2012/13, with payments rising from £523m to £1.3b. They warn that the increase in activity may impact on the monitoring arrangements designed to tackle fraud in this area i.e. that resources could be stretched.

We are aware of this increased risk and intend to continue to work closely with social care practitioners and extend our fraud awareness work to providers, carers and service users, ensuring our whistleblowing arrangements are clearly understood and easily accessible.

12. We have analysed the results from each case completed in the year 2013/14 – this includes cases started in 2012/13. The table below highlights the Council's zero tolerance to fraud and shows that we continue to impose tough and proportionate sanctions and work hard to ensure we recover as much loss as possible.

13. Outcomes relating to fraud cases completed / on-going during 2013/14:



14. The past two financial years have been good from a fraud recovery perspective with just over £1m recouped through a variety of means, including insurance, pension confiscation, proceeds of crime and contractual claw-back. This level of recovery was exceptional for the Council. However, we did stop fraud & irregularity to the value of £148k and achieve recoveries through the National Fraud Initiative totalling £14,430.

15. Our largest live case in 2013/14 involved a contract fraud amounting to an estimated £500k over a period of three and a half years. The case involved the financial abuse of service users as well as the contract fraud against the Council. At trial the perpetrators were found guilty of the offences against the vulnerable adults (amounting to £125k) – the prosecution involving the Council's contract

was unsuccessful. We were exploring other options to recover our losses but we now understand that the perpetrators do not have any realisable assets – recovery action through the civil courts is therefore not possible.

16. Four of the ten cases referred during 2013/14 involved individuals external to the Council – this increase can be attributed to the referrals of suspected direct payments fraud (3 cases). Our plans to expand our fraud awareness efforts in this area may result in further referrals over the coming year.
17. We continue to produce action plans following any preliminary enquiries or formal investigations, where necessary, to reduce the risk of reoccurrence and improve controls, wherever necessary. Supervisory controls and / or management oversight (of either individuals or contracts) have been common problem areas and are key controls which will become even more crucial for the Council in the future.
18. It is also pleasing to note that we do have examples where the Council's contract processes and general staff awareness have alerted us to potential frauds and other irregularities.

## **Proactive Work**

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19. During 2013/14 we reviewed two of the Council's policies which support our counter fraud arrangements:

- Whistleblowing Policy
- Anti-money Laundering Policy

20. We have produced new posters and leaflets for both fraud and whistleblowing and are in the process of distributing these throughout the County and among our key partners. We will also be using them during our fraud awareness work which forms part of our 2014/15 work plan.

21. Our testing on the 2012/13 National Fraud Initiative (NFI) data matches identified just over £16k of overpayments – this is significantly less than the 2010/11 and 2018/09 exercises, where we recovered £60k and £113k respectively. We believe the reduced recoveries are due to the system improvements the Council has implemented following the previous exercises.

22. There were no fraudulent transactions in the 2012/13 data matches we tested – the overpayments were in the following areas:

- Pension overpayments (recipients deceased) - £1,837.73
- Duplicate payment - £12,592.37
- Overpaid VAT - £1,580.11

One of our largest recovery areas in previous NFI exercises was payments to private residential care homes for residents who had died. We prioritised these

matches given the value of previous recoveries and are pleased to report that no recovery action was required. The proactive approach adopted by the Social Care Team administering these payments has helped to prevent overpayments or where they have occurred, in-house recovery action had been prompt.

23. Since the launch of the National Fraud Initiative, a total of £939 million of fraud, error and overpayments has been detected by all those organisations involved. The 2010/11 exercise identified a total of £229 million – the final results of this last exercise are expected later this year. The NFI team are developing more pilot data matching areas in response to fraud risks, such as direct payments and Blue Badges – this may result in improved recovery potential in future years.
24. We completed proactive work in the area of direct payments – this was seen as an emerging fraud risk nationally as the number and value of payments rose – it was also flagged as a high priority area locally. Over the year we completed fraud awareness sessions with social care practitioner teams across the County and also with the central finance team who administer the payments.
25. Following the awareness sessions, we received six referrals from social workers and staff within the central finance team. We worked with the teams to review the case history and agreed a course of action in each case. From this work we accepted three potential fraudulent direct payment cases – there was insufficient evidence to pursue two cases, the third was referred to the Police and the individual has been charged. We are hopeful of a successful prosecution and intend to use the result as part of our fraud awareness campaign.
26. In response to the 'Fighting Fraud Locally' Strategy and guidance in the Audit Commission's Protecting the Public Purse, we combined a fraud proactive exercise with a due diligence review of expenses and allowances. Employee fraud has been highlighted as one of the key fraud risk areas for local authorities, with the annual fraud loss estimated at £154m.
27. We developed a set of scripts to identify unusual trends, potential irregularities (outliers) or non-compliance issues. It was reassuring to find no potential fraud cases within our samples; we did highlight some compliance issues around the frequency of expense submissions (for both members and staff) and one small overpayment which has now been recovered.
28. We also used data analytics in our due diligence audit of procurement cards to identify potential fraudulent use. Whilst this did identify unusual spending patterns – all testing results were satisfactory. Throughout the year we also used this same approach on the Council's key financial systems, such as creditors and payroll – all our findings were compliance issues and have been reported via our audit reports.
29. We revisit our fraud risk profile to address emerging fraud risks highlighted nationally, locally or via our Midland County Council Fraud Group. We are in the process of carrying out a more detailed risk assessment to ensure we maintain the right focus for our future proactive work.

30. In this last year we took over the lead for the Midland County Fraud Group which meets twice a year, sharing best practice, investigation intelligence and training opportunities. We are also looking to widen our fraud network and are considering attending The Fraud Advisory Panel – this is predominantly a private sector group but they recognise (as do we) the potential benefits of public / private sector working in the fight against fraud.

## **Protecting the Public Purse – Benchmarking**

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31. For the first time, the Audit Commission have produced fraud benchmarking briefings comparing local fraud detection results with other similar local authorities. The briefing shows Lincolnshire's fraud cases from 2012/13, compared with the average number of cases identified in other authorities or the total number of cases across the country.

32. The briefing shows that Lincolnshire's detection rates in 2012/13 are slightly lower than the national average for county councils – this is not a concern as previous years detection rates have been much higher; we would not expect to maintain consistently high detection rates each year. The Council has had strong counter fraud arrangements for many years and this has helped to strengthen controls, where necessary and create a robust anti-fraud culture. One aim of our counter fraud policy is to reduce fraud and loss to an absolute minimum and maintain that level – we feel we are well on the way to achieving that aim.

33. The analysis is showing that in 2012/13 we had no frauds in the areas of social care, procurement, insurance and only one low value schools fraud. We have, however, experienced frauds in all these areas in other years, some of which have been high value. Our largest recoveries have been in the areas of schools and contract (procurement) frauds – recovering over £1m in two years.

34. The Audit Commission briefing does provide useful raw statistical information that we can consider locally when planning our proactive fraud detection work. It shows that we must maintain our counter fraud activities and continue our fraud awareness work.

## **Conclusion and Next Steps**

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35. The Counter Fraud and Investigations team have achieved 90% of the counter fraud work plan for 2013/14 – we have carried forward three areas to the 2014/15 work plan: revisiting the Council's fraud risk assessment, improving fraud awareness and enhancing our communications & website material.

36. We believe our counter fraud activities remain effective – we aim to boost fraud awareness throughout 2014/15 by working with teams with the highest fraud risks e.g. procurement, contract teams and social care practitioners. We would also like to extend our fraud awareness work to key partners, service users and carers, where appropriate.



37. We shall be reviewing the Council's Counter Fraud Policy in 2014/15 to ensure it remains fit for purpose and reflects the latest recommended counter fraud practices.

**Counter Fraud Work Plan 2013/14**

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
<b>Culture</b>					
Engagement and training	Briefings sessions / training for members, management, staff, key partners		October 2013	March 2014	Sessions with social care practitioners & Finance teams
Website maintenance	Updates / warnings of emerging fraud risks, case summaries, results and prevention information		November 2013	March 2014	Ongoing – more emphasis 2014/15
Awareness Campaign	Posters, leaflets, e-learning tool to rejuvenate staff awareness		September 2014	January 2014	New leaflets and posters, e-learning tool – distribution 2014/15
<b>Sub Total</b>		<b>60</b>			
<b>Deterrence</b>					
Publicity on counter fraud activities	Linked to awareness campaign – programme of internal/external communications covering: <ul style="list-style-type: none"> <li>▪ Counter fraud team</li> <li>▪ Proactive work, including NFI</li> <li>▪ Investigation outcomes / prosecutions</li> <li>▪ Fraud prevention measures</li> </ul>		April 2013	March 2014	Limited throughout the year to NFI, proactive work outcomes, investigation outcomes & fraud warnings.

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
	<ul style="list-style-type: none"> <li>▪ Counter fraud responsibilities</li> </ul>				
<b>Sub Total</b>		<b>20</b>			
<b>Prevention</b>					
Organisational learning	Supplementary reports and actions plans arising out of investigation work		April 2013	March 2014	Completed at conclusion of investigations
Data analytics	Further development / use of data analytics: <ul style="list-style-type: none"> <li>▪ Creditors / Procurement</li> <li>▪ Payroll</li> <li>▪ Expenses, including members allowances</li> </ul>		April 2013 October 2014	June 2013 January 2014	Complete Complete via quarterly testing Complete
Advice	Enhancing fraud controls and process – new and existing systems				
<b>Sub Total</b>		<b>40</b>			
<b>Detection</b>					
Update Fraud Risk Profile	Incorporating emerging risk issues and results from local risk assessment	Revised target	January 2014	February 2014	C/f to 2014/15
Proactive fraud exercises	Expenses Direct Payments		April 2013	March 2014	Complete 3 cases detected – 1 referred to Police, suspect

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
					charged
National Fraud Initiative 2012/13	Review and investigation of Council matches / responding to data requests from other public sector bodies		April 2013	March 2014	Complete – £16k overpayments detected. £14,430 recovered.
<b>Sub Total</b>		<b>160</b>			
<b>Investigation</b>					
Fraud Investigation	In line with investigation manual and recommended best practice		April 2013	March 2014	10 referrals plus 4 c/f from 2012/13
<b>Sub Total</b>		<b>300</b>			
<b>Sanctions and Redress</b>					
Pursue civil, disciplinary and/or criminal sanctions	Action taken during investigation process		April 2013	March 2014	3 x prosecutions, 1 x dismissal, 3 x resignations.
Identify and recover losses	Identified during investigation – recovery action through Proceeds of Crime Act, Insurance and legal means		April 2013	March 2014	£14,430 recovered via NFI. £100k attempted fraud stopped.
<b>Sub Total</b>		<b>5</b>			
<b>Contingency</b>					
Advice & Liaison			April 2013	March 2014	
<b>Sub Total</b>		<b>65</b>			
<b>Grand Total</b>		<b>650</b>			



## Regulatory and Other Committee

### Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	<b>Audit Committee</b>
Date:	<b>23 June 2014</b>
Subject:	<b>External Audit Progress Report</b>

#### Summary:

Work performed by KPMG for 2013/14 financial year to date

Work proposed over next quarter

Audit fee update

#### Recommendation(s):

The committee considers the progress report and identify any further information that might be required.

#### Background

Part of the Committee's terms of reference is to receive reports from external audit on their work.

#### Conclusion

The report summarises for the Committee all aspects of the external audit planned work.

#### Consultation

##### a) Policy Proofing Actions Required

n/a

#### Appendices

These are listed below and attached at the back of the report

Appendix A	External Audit Progress Report - Lincolnshire County Council
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## **Background Papers**

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Tony Crawley, who can be contacted on 01162566067 or [Tony.crawley@kpmg.co.uk](mailto:Tony.crawley@kpmg.co.uk).



*cutting through complexity™*

# External Audit: Progress Report

## Lincolnshire County Council

June 2014

# Lincolnshire County Council

## External Audit: Progress report – June 2014

### Background

The external auditors of the Council are currently appointed by the Audit Commission. KPMG were appointed as the external auditors to Lincolnshire County Council from 1 September 2012 under a five year contract covering the financial years from 2012/13 to 2016/17. There is an option for this to be extended by three years.

Following the Local Audit and Accountability Act 2014 receiving Royal Assent, the Audit Commission is expected to close on 31 March 2015. In its place there will be a new framework for local public audit, due to start after the Commission's current contracts with audit suppliers end in 2016/17, or in 2019/20 if they are extended. A transitional body, which is being set up by the Local Government Association, will oversee the contracts in the intervening period.

The audit fee for the Council is set annually by the Audit Commission. Any changes to the audit fee as a result of any additional or reduced work needs to be agreed by the Council and the Audit Commission.

### Statutory responsibilities

Our statutory responsibilities and powers are set out in the Audit Commission Act 1998 and the Audit Commission's Code of Audit Practice. The Code of Audit Practice summarises our responsibilities into two objectives, requiring us to review and report on your:

- financial statements (including the Annual Governance Statement): providing an opinion on your accounts; and
- use of resources: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's Statement of Responsibilities of Auditors and Audited Bodies sets out the respective responsibilities of the auditor and the Authority.

### Local elector rights

The Audit Commission Act 1998 also gives local electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

Where a local elector objects to the accounts, the external auditor is required to consider and conclude on the issues received prior to issuing the audit certificate.

### Grants claims

The Audit Commission requires the external auditor to certify specific grant claims and returns for central Government departments. The number of claims and returns required to be certified has decreased over the years and the Audit Commission has now confirmed that it will not be issuing a Certification Instruction for the 2013/14 Teachers' Pensions return which we have been required to certify in previous years. We will not therefore be carrying out any Audit Commission directed work on grant claims and returns this year.

### Whole of Government Accounts

The external auditor is required to issue a conclusion on whether the Whole of Government Accounts pack that the Council submits to the Treasury are consistent with the audited financial statements. We are also required to audit balances with other Government bodies as part of this work.

### Pension Fund

The Audit Commission requires the external auditor to issue an opinion on the Pension Fund Accounts and the Pension Fund Annual Report.



# Lincolnshire County Council

## External Audit: Progress report – June 2014

<p><b>Summary of work performed by KPMG for 2013/14 financial year to date</b></p>	<p>We completed our initial planning work in February 2014 to determine our audit plan. This comprised of:</p> <ul style="list-style-type: none"> <li>• Review of Council minutes and other publications;</li> <li>• Discussions with senior officers including the Director and Assistant Director of Resources, and the Head of Audit and Risk Management;</li> <li>• Past audit knowledge of the Council and similar authorities; and</li> <li>• Changes in legislation and accounting requirements.</li> </ul> <p>In line with auditing standards, we presented our detailed annual plan to the Audit Committee in March 2014. This highlighted the key risks to our audit at the planning stages, the first two of which are standard risks for all organisations;</p> <ul style="list-style-type: none"> <li>• Management override of controls;</li> <li>• Fraudulent revenue recognition; and</li> <li>• Triennial valuation of the Pension Fund and subsequent in year updates.</li> </ul> <p>In April we completed an interim audit visit where we carried out audit testing on a number of controls, including those around journals and bank reconciliations. In connection with our value for money conclusion, we reviewed the Council's in year financial position and the 2014-15 budget and discussed with managers the arrangements for further developing and implementing the Commissioning Council proposals.</p> <p>We have also discussed the 2013/14 financial reporting arrangements and specific accounting issues with managers, and attended the finance CPD event in March 2014 to feedback matters arising from the 2012/13 audit and outline our approach for this year.</p> <p>There is nothing that we need to raise with the Audit Committee in relation to the audit of the accounts from the work we have carried out to date.</p> <p>We have also:</p> <ul style="list-style-type: none"> <li>• carried out a review of the arrangements and documentation used by the Authority for the selection of a provider for its Corporate Support Services, and the use of the OJEU Competitive Dialogue process. We have provided feedback to officers on this piece of work. We have not raised any significant issues. Based on the documentation that we have been provided with, the process has been clearly communicated to all parties and has been followed appropriately – this work was done for our Code responsibilities; and</li> <li>• worked with the Audit Committee to help it ensure it is well placed to carry out its role effectively. We expect to conclude this work shortly after the second workshop with the Committee planned for 23 June 2014 – this is additional to our Code responsibilities.</li> </ul>
<p><b>Summary of work proposed over next quarter</b></p>	<p>Our work over the next quarter will focus on:</p> <ul style="list-style-type: none"> <li>• Detailed planning and audit of your 2013/14 financial statements including the Annual Governance Statement and Pension Fund;</li> <li>• Review of your arrangements in place for securing economy, efficiency and effectiveness in your use of resources – this will include reviewing your medium term financial plan and in year financial performance, and the arrangements in place for the handover of Corporate Support Services contractor to the new provider; and</li> <li>• Preparing our ISA 260 Report to the Audit Committee to report to you the key findings of our audit.</li> </ul>
<p><b>Audit fee update</b></p>	<p>The proposed audit fee remains at £143,100 for the Council's audit and £24,350 for the Pension Fund. Following changes in the number of grants the Audit Commission require us to audit, with the Audit Commission no longer responsible for arranging the certification of the Teachers' Pension Return, there will be no Audit Commission grants fee this year.</p>

# Lincolnshire County Council

## External Audit: Progress report – June 2014

### Detailed timetable

Deliverable	Purpose	Timing	Status
<b>Planning</b>			
Fee letter	Communicate indicative fee for the audit year	April 2013	Completed
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	March 2014	Audit Committee March 2014
<b>Interim</b>			
Interim work	Review and assessment of internal controls and process issues.  Review and assessment of the financial reporting processes and discussion with managers on specific issues relevant to the draft financial statements and the year-end audit.  Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	April 2014	Completed
<b>Substantive procedures</b>			
Report to those charged with governance (ISA+260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2014	TBC
<b>Completion</b>			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2014	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2014	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2014	TBC
<b>Certification of claims and returns</b>			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	Not required	Not required

<b>Actions</b>	The Audit Committee is asked to: <ul style="list-style-type: none"> <li><b>NOTE</b> this progress report.</li> </ul>	
<b>Contacts</b>	<p><b>Tony Crawley</b> <i>Director</i> KPMG LLP</p> <p>Tel: 0116 256 6067 Mob: 07966 184819 <a href="mailto:Tony.crawley@kpmg.co.uk">Tony.crawley@kpmg.co.uk</a></p>	<p><b>Mike Norman</b> <i>Manager</i> KPMG LLP</p> <p>Tel: 0115 935 3554 Mob: 07500 125105 <a href="mailto:Michael.norman@kpmg.co.uk">Michael.norman@kpmg.co.uk</a></p>

## Regulatory and Other Committee

### Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	<b>Audit Committee</b>
Date:	<b>23 June 2014</b>
Subject:	<b>Work Plan</b>

#### Summary:

This report provides the Committee with information on the core assurance activities currently scheduled for the 2014/15 work plan.

#### Recommendation(s):

1. Review and amend the Audit Committee's work plan ensuring it contains the assurances necessary to approve the Annual Governance Statement 2015.

#### Background

- 1 The work plan has been pulled together based on the core assurance activities of the Committee as set out in its terms of reference and best practice (see Appendix A).
- 2 The work plan is in draft as the Committee is currently reviewing its effectiveness. A workshop was held on the 31<sup>st</sup> March 2014 with further work planned on the afternoon of the 23<sup>rd</sup> June 2014. The outcome of these workshops will inform / influence the Committee's work plan for 2014/15 and the assurances it wishes to seek.
- 3 The 2013 CIPFA guide to Audit Committees gives some practical tips to help committees effectively discharge their responsibilities – one of those duties is to provide independent assurance on the adequacy of the internal control environment. The Guide encourages audit committees to focus on 'what works' whilst recognising the need to demonstrate good governance and independence. A copy of the guidance has been circulated to members of the Committee.
- 4 The guide lists some examples of good practice and how committees can assess their effectiveness and much of this already features within the Committee's agenda. However, the Committee may wish to assess whether there is any scope for improvement by considering how it covers the following good practice:

- encouraging ownership of the internal control framework by appropriate managers
- reviewing major projects and programmes to ensure governance and assurance arrangements are effective
- reviewing the effectiveness of the performance management arrangements
- ensuring value for money assurance arrangements are reported on and assessing how this features in the Annual Governance Statement (AGS)
- working with members to improve their understanding of the AGS
- participating in self assessments of the governance arrangements
- assessing the effectiveness of the ethical governance arrangements for staff and members
- improving how the Council discharges its responsibilities for public reporting e.g. better targeting at the audience and plain English
- reviewing and encouraging transparency in partnership decision making

### **Conclusion**

The work plan helps the Committee ensure that the Committee effectively delivers its terms of reference and keep track of areas where it requires further work and/or assurance.

### **Consultation**

#### **a) Policy Proofing Actions Required**

n/a

### **Appendices**

These are listed below and attached at the back of the report	
Appendix A	Work Plan to March 2015

### **Background Papers**

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, who can be contacted on 01522 553692 or [lucy.pledge@lincolnshire.gov.uk](mailto:lucy.pledge@lincolnshire.gov.uk).

<b>Audit Committee Work Plan – 2014/15</b>	
<b>21<sup>st</sup> July 2014</b>	<b>Assurances Required / Being Sought</b>
<b>Core Business</b>	To be confirmed post Audit Committee Workshop – 23 <sup>rd</sup> June 2014
<ul style="list-style-type: none"> <li>Annual review of the effectiveness of the Council's Internal Audit Function</li> </ul>	
<ul style="list-style-type: none"> <li>Review of Head of Internal Audit's Annual Report and Opinion 2014</li> </ul>	
<ul style="list-style-type: none"> <li>Review of the Council's Governance and Assurance Arrangements and the Draft Annual Governance Statement 2014</li> </ul>	
<ul style="list-style-type: none"> <li>Scrutiny of the Council's Financial Statements 2013/14 (with specialist support/advisor)</li> </ul>	
<b>Other Assurance</b>	
<b>22<sup>nd</sup> September 2014</b>	<b>Assurances Required / Being Sought</b>
<b>Core Business</b>	
<ul style="list-style-type: none"> <li>Internal Audit Progress Report</li> </ul>	
<ul style="list-style-type: none"> <li>Counter Fraud Progress Report</li> </ul>	
<ul style="list-style-type: none"> <li>External Audit Governance Report on the Audit of the Council's Financial Statements and their assessment of the Council's arrangements to secure Value for Money in it's use of resources</li> </ul>	
<ul style="list-style-type: none"> <li>Approval of the Council's Annual Governance Statement 2014</li> </ul>	
<ul style="list-style-type: none"> <li>Approval of the Council's Statement of Accounts for 2013/14</li> </ul>	
<ul style="list-style-type: none"> <li>Review of draft Annual Report on the work of the Audit Committee</li> </ul>	

<b>Other Assurance</b>	
<b>24<sup>th</sup> November 2014</b>	<b>Assurances Required / Being Sought</b>
<b>Other Assurance</b>	
<b>26<sup>th</sup> January 2015</b>	<b>Assurances Required / Being Sought</b>
<b>Core Business</b>	
<ul style="list-style-type: none"> <li>• Internal Audit Progress Report</li> </ul>	
<ul style="list-style-type: none"> <li>• External Audit Progress Report and Plan</li> </ul>	
<ul style="list-style-type: none"> <li>• Update on action re Annual Governance Statement 2014</li> </ul>	
<ul style="list-style-type: none"> <li>• Combined Assurance Status Reports</li> </ul>	
<ul style="list-style-type: none"> <li>• Review of Accounting Policies</li> </ul>	
<b>Other Assurance</b>	
<b>March 2015</b>	<b>Assurances Required / Being Sought</b>
<b>Core Business</b>	
<ul style="list-style-type: none"> <li>• Draft Internal Audit Plan 2015/16</li> </ul>	
<ul style="list-style-type: none"> <li>• Draft Counter Fraud Plan 2015/16</li> </ul>	
<ul style="list-style-type: none"> <li>• International Audit Standards on the risks associated with the impact of potential fraud</li> </ul>	

and error on the Financial Statements	
• Risk Management Progress Report	
• External Audit Grant Certification Report	
• External Audit Progress Report	
<b>Other Assurance</b>	
• Development of Audit Committee Work Plan	

**Other Items to be considered:**

- Review of the effectiveness of Overview and Scrutiny Committees
- Sources of assurance and business intelligence from Management Board
- Review of the Committee's Terms of Reference in light of revised CIPFA guidance
- How the Committee meets its terms of reference re:
  - Overview of the constitution
  - Monitoring the Council's complaint process
  - Standards regime – reviewing the effectiveness of standards regime and the Committee's role in promoting standards in public life

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