Internal Audit Progress Report

Date: June 2016

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Introduction

1. The purpose of this report is to:

   - Provide details of the audit work during the period 1st March 2016 to 31st May 2016

   - Advise on completion of the 2015/16 plan and progress with the 2016/17 Audit Plan

   - Raise any other matters that may be relevant to the Audit Committee role

Key Messages

2. During the period we have completed 6 County audits, 1 to final report and 4 to draft report stage as well as finalising 1 school audit.

3. There are currently 13 further audits in progress. All contracted Academy visits for 2015/16 are complete and the 2016/17 program of work has started.

4. The detailed 2016/17 Audit Plan is shown in Appendix 2 with current progress as follows:

6%	completed or at draft report stage
17%	in progress
23%	agreed and scheduled during quarter 2
28%	agreed and scheduled during quarters 3 and 4
26%	potential audit areas to be agreed and scheduled[1]

Internal Audit work completed in the period 1st March 2016 to 31st May 2016.

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

High Assurance	Substantial Assurance	Limited Assurance	Low Assurance
	▪ Freedom of Information		

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.

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[1] Our quarterly liaison meetings agree and schedule audits during the year based on the risked based plan and new emerging risk areas.

6. Since our last progress report we have issued 1 corporate final report:

Freedom of Information – Substantial assurance

Our audit has sought to provide assurance that the authority is compliant with the Freedom of Information Act 2000. We assessed training, policy, guidance, and publication schemes. We also evaluated processing and performance in relation to statutory timescales.

The processing of Freedom of Information requests, now undertaken by SERCO, is being handled effectively. Requests received are logged and acknowledged without delay and the information needs are then promptly communicated to established key contacts within the County Council. Deadlines are given to provide this information and reminders issued to make sure the request can be answered within the statutory time limit of 20 days.

The statutory time limit of 20 days were not being monitored by the authority so we recommended this be introduced. We also made a small number of recommendations relating to the service contract, process and exemptions to FOI.

Audits in Progress

7. We have 6 audit's at draft report stage, the issue of finals for 2 of these has been delayed as management have not provided responses timely; however we continue to pursue these:

Concerto Property Asset Management System

We have included this audit in ICT plan as Concerto software is a new application. The scope of this review includes assessing whether adequate controls are in place to protect the system and data from unauthorised access, modification and system unavailability.

We have held a closure meeting with Management, but have yet to receive agreement on actions. We continue to pursue these.

Mental Capacity Act

The Mental Capacity Act 2005, provides a statutory framework for people who lack capacity to make decisions for themselves. It is supported by a Code of Practice (the Code), which provides guidance and information about how the Act works in practice.

Our review will seek to provide assurance that the adult care workforce have regard to the Code when acting or making decisions. Our work reviewed the following areas:

■   Training of the adult care workforce relating to the Mental Capacity Act 2005 and the Code of Practice

- Application of the code guidance in practice
- Monitoring the application of the code by senior management within adult services.
- Management of Deprivation of Liberty Safeguard (DoLS) risks. (High level review only)

We have held a closure meeting with Management, but have yet to receive agreement on actions. We continue to pursue these.

European Union Procurement Changes

The Public Contracts Regulations 2015 implement the 2014 EU Public Sector Procurement Directive and some reforms recommended by Lord Young of Graffham. The Regulations came into force in February 2015 with the new rules applying, with a small number of exceptions, to procurements starting on or after the 26 February 2015.

Our review will seek to provide assurance in the following areas:

- Appropriate public procurement training has been offered to or accessed by LCC officers engaged in procurement.
- Rules and guidance has been/will be developed to assist officers and professional advisers in ensuring procurement decisions are compliant with the Public Contracts Regulations 2015.
- Procurement is compliant with the Public Contracts Regulations 2015 and EU Treaty obligations across all of the Authority's Directorates including activity carried out on the advice of VinciMouchel the Council's professional property adviser.

Integrated Community Equipment Service

The Integrated Community Equipment Service (ICES) provides short and long term loans of equipment, through a Joint Commissioning approach between LCC and the Clinical Commissioning Groups.

A competitive tendering has been undertaken and the new five year ICES contract awarded during summer 2015, commencing April 2016.

Our audit will give independent assurance that effective and robust Contract Management Arrangements are in place.

Financial Control Systems Work - Payroll

Our annual work to provide assurance over the financial control environment is complete. Our Payroll work is at draft stage awaiting closure meeting. The review covered Starters, Leavers, Changes, Claims, Exception Reporting, Payment Runs, and Deductions & Pay-overs to External Bodies. Work included:

- System documentation / mapping, evaluation and walkthrough
- Key control testing

- Analytical Review – data matching / trend analysis / Exceptions
- Substantive testing
- Sample testing of error correction for accuracy / completeness
- Error resolution – review feedback from Schools / LCC Directorates

Financial Control Systems Work – Accounts Payable

Our annual work to provide assurance over the financial control environment is complete. Our Accounts Payable work is at draft stage awaiting closure meeting. The review covered Supplier creation and maintenance, Exception reporting and Payment runs which incorporated purchasing cards, duplicate payments, and use of 'faster payments' and 'CHAPS'. The type of work included to complete the review mirrors that above for payroll

8. The following audits are currently in progress:

Pensions

Since the implementation of Agresso in April 2015, a number of issues relating to pension deductions and third party payovers have been brought to the attention of LCC senior management. These have included:

- Delayed payment of contributions to third parties
- No / incomplete information provided to third parties to support payovers
- Incomplete / incorrect information reported to Pension Funds on starters / leavers / changes

The LCC Pension Fund Manager has also highlighted areas of concern specifically relating to the LGPS. Our review includes:

- identifying and evaluating the current procedures and controls in place to provide monthly contribution reports and to update pension funds on starters, leavers and changes
- review of payroll to third party payover reconciliations and supporting reports
- analytical review and substantive testing to assess the accuracy and completeness of Prudential AVC, LGPS, Teachers and NHS pension deductions and monthly contributions paid over
- accuracy and completeness of pension postings to the general ledger

Adult Safeguarding Referrals

Our audit seeks to provide assurance over safeguarding referrals through examination of the following:
- Confirmation that the Council is Care Act compliant via the referral process
- Robustness of the Risk Assessment process
- Clarity over the different roles and responsibilities and how these interlink

- Effectiveness of the procedures and guidance available to staff

Scoping this audit has been problematic with several scope changes requested by Adult Social Care and consequently a variety of people involved. This has created lengthy delays in starting this work which subsequently has been moved into the 2016/17 Audit Plan.

Better Care Fund – Financial Management

Lincolnshire's Better Care Fund (BCF) is one of the largest in the Country, setting a 2015/16 budget of £197m. This pooled budget is supported by a delivery plan, which specifies where expenditure will be targeted to maximise the chance of performance indicators being met. Lincolnshire County Council (LCC), as host authority for the fund, are responsible for accounting and audit as well as completion and submission of quarterly and annual returns.

The focus of our audit aimed to provide assurance over the effectiveness of LCC, in discharging its role as host. Specifically that it has the right resources and skills and receives appropriate support and information from partners to fulfil this role well.

Unfortunately we have experienced some delays in starting this audit. We have been working this through with the Director of Adult Social Care and have now started work with a revised scope.

HR – Absence Management

Adult Care and Children's Services were previously identified as areas where there were high levels of sickness and reviews have been undertaken by the Absence Management Project Team. Reviews of these 'hot spots' were undertaken in 2012/13 and 2013/14 and considerable improvements have occurred in both areas.

Our audit seeks to provide assurance on application of the Sickness Management Policy across areas of the council not previously subjected to focused review.

Financial Control Systems Work – General Ledger

Our annual work to provide assurance over the financial control environment has been delayed slightly for General Ledger to coincide with the action plan to support closure of accounts. Completion of this work, which mainly has a focus on postings and journals, is near.

2016/17 scheduled audits in progress

We also have 10 2016/17 audits in progress, these are:
- Child Sexual Exploitation – Joint Working
- Better Care Fund
- Adult Safeguarding Referrals
- Domestic Homicide Reviews

- Income
- Debtors
- Joint Waste Management Strategy
- Planning Software Replacement (Consultancy Assignment)
- Transport Connects – Company set up (Consultancy Assignment)
- Public Health Local Commissioning Framework

Details of the scope of these audits can be found in the plan at Appendix 2.

Performance Information

9. Our performance against targets for 2015/16 is shown in the analysis below:

Performance Indicator	Annual Target	Profiled Target	Actual
Percentage of plan completed (based on revised plan)	100%	100%	98%
Percentage of recommendations agreed	100%	100%	100%
Percentage of recommendations implemented	100% or escalated	100% or escalated	29%[2]
Timescales: Draft Report issued within 10 days of completion	100%	100%	84%[3]
Final Report issued within 5 days of management response	100%	100%	86%[4]
Draft Report issued within 2 months of fieldwork commencing	80%	80%	48%[5]
Client Feedback on Audit (average)	Good to excellent	Good to excellent	Good to excellent

10. Progress with the implementation of agreed management action can be found at Appendix 3.

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[2] 10 out of 34 overdue actions have been implemented. The 24 overdue actions relate to the Payroll Audit one
[3] Based on targets for 19 2015/16 reports completed including schools
[4] Based on targets for 16 2015/16 reports completed including schools
[5] Based on targets for 25 2015/16 reports completed including schools

Other Matters of Interest

11. **Grant Thornton Report – Reforging Local Government (Summary findings from the fifth year of financial health and governance reviews at English local authorities) - published December 2015**

     This report provides some insight from research undertaken by Grant Thornton into the financial resilience of Councils to meet required savings by 2020.

     - Their research suggests that:
     - the majority of councils will continue to weather the financial storm but to do so will now require difficult decisions to be made about services
     - most councils project significant funding gaps over the next three to five years but the lack of detailed plans to address these deficits in the medium-term represents a key risk
     - Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
     - local government needs a deeper understanding of its local partners to deliver the transformational changes that are needed and to do more to break down silos
     - elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations but also about effective management of change and risk
     - Councils need to improve the level of consultation with the public when prioritising services and to make sure that their views help shape council development plans.

The full report can be found at the following link
http://www.grantthornton.co.uk/insights/reforging-local-government/

12. **CIPFA.SOLACE: Delivering Good Governance in Local Government (2016 Edition) – publication date April 2016**

     It is crucial that leaders and chief executives keep their governance arrangements up to date and relevant. To assist them, the Framework defines the principles that should underpin the governance of each local government organisation. It provides a structure to help individual authorities with their approach to governance

     To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub principles contained in this Framework. It should therefore develop and maintain a local code of governance/governance arrangements reflecting the principles set out. Whatever form of arrangements are in place, authorities

should test their governance structures and partnerships against the Framework's principles.

Local authorities are required to prepare a governance statement in order to report publicly on the extent to which they comply with their own code of governance on an annual basis, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the effectiveness of the governance and internal control framework.

This edition of the Framework applies to annual governance statements prepared for the financial year 2016/17 onwards.

13. **CIPFA – Public Sector Internal Audit Standards. Update April 2016**

These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

The Standards have been revised from 1 April 2016 to incorporate the Mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing.

A complete copy of the standards can be located at the following web address: http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards

Appendix 1 - Assurance Definitions[6]

High	Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.
Substantial	Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance. There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.
Limited	Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.
Low	Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

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[6] These definitions are used as a means of measuring or judging the results and impact of matters identified in the audit. 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 – Internal Audit Plan 2016/17

Audit Area	Assurance Being Sought	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Given
Commissioning Strategy 1: Children are Safe and Healthy					
Families Working Together	Audit sign off as per the requirements of the grant.	**Aug 16**			
Child Sexual Exploitation (CSE) joint working	Confirm a strategy and local action plan setting out the roles and responsibilities of all partner organisations is in place. Adequate data and intelligence gathering arrangements exist between key providers to ensure a joined-up response in dealing with children at risk of sexual exploitation.	**Jun 16**	**Jun 16**		
Missing Children	Confirm that LCC complies with its statutory requirements in relation to missing children to include consideration of risks in relation to Child Sexual Exploitation and Radicalism. Assurance will be sought over 3 strands: • Children missing from home or care • Children missing education • Children not receiving 25 hours education per week Our audit will leverage assurance from other sources of recent review, where possible.	**Nov 16**			
Commissioning Strategy 2: Learn and Achieve					

Social Care and SEND transport	Over transitional arrangements from the current providers to the new arrangements that will commence January 2017	**Aug 16**				
School Admissions	Confirmation that the risks regarding implementation of new admissions software have been managed to minimise disruption to schools.	**Sep 16**				
Inclusion	Verify that the 'Inclusive Lincolnshire' strategy is embedded across Lincolnshire education settings and how the Behaviour Outreach Support Service (BOSS) success is measured and reported.	**Feb 17**				
Local Authority Arrangement for Supporting School Improvement	Sufficiency of transition arrangements for moving from a contracted service to a sector led approach.	**Feb 17**				
SEND reform	Update on embedding of the new SEND framework in key areas of the service.	**Aug 16**				
Commissioning Strategy 3: Readiness for Adult Life						
Careers Advice	That the alternative delivery model for careers advice to young people achieves required outcomes.	**Jan 17**				
Commissioning Strategy 5: Adult Specialities						
Transfer of the attendance allowance	Support and advice in development of arrangements for the transfer of responsibilities of attendance allowance from Department of Work & Pensions to LCC – maximising governance, risk management and control arrangements.	**Mar 17**				
Commissioning Strategy 6: Carers						
CSC Carers Team	Confirm Carers mobilisation plan complete and progress made against delivery of this plan.	**Aug 16**				
Commissioning Strategy 7: Adult Frailty, Long Term Conditions and Physical Disability						
Workforce Development	That the workforce development plan is embedded and delivery arrangements and monitoring are effective to	**Sep 16**				

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	develop and maintain a skilled workforce.				
Assessment of needs / Annual care assessments	That there are effective processes and procedures are in place to ensure that timely reviews/reassessments of current and new service user's needs are being undertaken.	**Sep 16**			
Provider payments – validation and data quality	Confirm there are effective systems and processes in place for validation and authorisation of payments to various providers of care and support for Adults.	**Jan 17**			
Client Contributions Policy	Confirm that the new contributions policy has been fully implemented and is applied consistently to all applicable service users.	**Feb 17**			
Better Care Fund	Confirm adequacy of governance, financial management and performance monitoring arrangements to ensure the BCF meets its objectives in the medium term.	**Jun 16**	**Jun 16**		
Integration with Health	Progress and delivery of the plan to integrate Health and Social Care.	**Mar 17**			
Commissioning Strategy 8: Safeguarding Adults					
Adult Safeguarding – Follow up of Peer review action plan	That actions resulting from the June 2016 peer review of adult safeguarding are progressing as agreed and ensuring desired outcomes.	**Feb 17**			
Domestic Homicide Reviews	Follow up of Domestic Homicide Reviews involving LCC to confirm that agreed actions have been taken or are progressing and that lessons learnt are embedded.	**Jun 16**	**Jun 16**		Fieldwork in progress
Commissioning Strategy 9: Enablers and support to the Council's outcomes					
SERCO – Agresso Post Implementation Review	Review of the implementation of Agresso throughout the key stages of the project, go live and post implementation issues and resolution in order to identify lessons learnt	**Jun 16**	**Jun 16**		Scoping – to be undertaken by KPMG
ICT - Key Application Audit – Agresso	Overall Administration of this key application, to include Access, Security and Processing controls.	**Not Scheduled**			
ICT - Key Application	Overall Administration of this key application, to include	**Not**			

Audit –Case Management System (MOSIAC)	Access, Security and Processing controls.	**Scheduled**			
ICT Audit	Scheduling of individual ICT audits to be agreed in year. Possible areas for focus include: • ICT provider governance arrangements • ICT strategy • Data Sharing • Change Control We will discuss and agree the final ICT plan with the Chief Commissioing	**Not Scheduled**			
Business Support	Confirm effective and efficient support is given at the right time, place and people to meet the needs of the business	**Nov 16**			
Service Transformation	Confirm that service reviews, restructures and reductions have been performed in line with the commissioning cycles and aligned to budget plans.	**Jul 16**			
Contracts	Management of capital and revenue contracts	**Not Scheduled**			
Commissioning Strategy 10: How we do our business					
Corporate Complaints	Review of the complaints process to provide assurance that it is fit for purpose and meeting targets in resolving customer complaints at the earliest contact.	**Jul 16**			
Corporate Policies and Procedures	Assurance over effectiveness of Corporate Policies and Procedures in providing the 2nd line of the 3 lines of assurance model.	**Jun 16**			
Scrutiny functions	Assurance over effectiveness of Scrutiny functions in providing the 2nd line of the 3 lines of assurance model.	**Not Scheduled**			
Performance Management	Assurance over effectiveness of performance management in providing the 2nd line of the 3 lines of assurance model.	**Not Scheduled**			

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Activity	Description					
Pension Fund	British Wealth Funds - this will change how money is invested and will result in changes for Pensions Committee	**Mar 17**				
Budget Management	Should be more self-service (although other Agresso issues have impacted)	**Not Scheduled**				
Bank reconciliation	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	**Not Scheduled**				
General Ledger		**Not Scheduled**				
Payroll	How often Internal Audit review these activities depends on previous assurance opinions, when we last examined the activity and if there has been any significant changes to the system or senior management. We also consider the requirements of External Audit.	**Not Scheduled**				
Income		**May 16**	**May 16**			Fieldwork in progress
Creditors		**Not Scheduled**				
Debtors		**Jun 16**	**Jun 16**			Fieldwork in progress
Treasury Management		**Not Scheduled**				
VAT	Agresso has impacted and system not working smoothly as previous. Possible change in risk rating from HMRC	**Aug 16**				
Key Control Testing	Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment.	**Jan 16**				
Schools	Periodic audits of maintained schools.		**Throughout year**			In progress
Commissioning Strategy 11: Protecting the Public						
Trading Standards	Capacity issues are managed using a risk based methodology and the future model based on income generation is realistic and deliverable.	**Sep 16**				
Commissioning Strategy 12: Sustaining and growing business and the economy						
European Regional Development Fund	Accounts are adequate to support expenditure in line with grant conditions.	**Jul 16**				Scoping

Commissioning Strategy 13: Protecting and sustaining the environment						
Joint Waste Management Strategy	Review to provide assurance on waste management strategy applied. To include management of overspends – prediction and prevention.	**Jun 16**	**May 16**			Scoping
Commissioning Strategy 14: Sustaining and developing prosperity through infrastructure						
Highways Maintenance Contract	**Consultancy -** Support and advice on project to implement the recommendations of the 'Cranfield University work'.	**Aug 16**				
Planning software procurement	**Consultancy -** Support and advice in procurement and development of a new planning management system to ensure adequate governance, risk management and controls.	**Apr 16**	**Apr 16**			Fieldwork in progress
Transport Connects – 'Teckal' Trading Company	**Consultancy –** Support and advice on the Governance, Risk Management and Control arrangements for the setup of this 'Teckal Company' to provide passenger transport.	**May 16**	**May 16**			Fieldwork in progress
Commissioning Strategy15: Community Resilience and Assets						
Heritage sites	Effective governance and financial and stock management in key sites	**Mar 17**				
Lincolnshire Archives	**Consultancy -** Support and Advice on the planning process for relocation of the archives to a new site	**Oct 16**				
Commissioning Strategy 16: Wellbeing						
Local Commissioning Framework	The effectiveness of the new Local Commissioning Framework. The Framework will be tested using the Libraries procurement as a sample.	**Jun 16**				Scoping
ICES	The new contract is being effectively managed and is delivering efficiencies as set out.	**Dec 16**				
Commissioning Strategy 17: Enablers and support to key relationships						
Partnership Management	High level review of the process in place for managing and monitoring partnerships.	**Aug 16**				
Devolution	Confirming effectiveness of governance arrangements of	**Jan 17**				

	the devolved committee.				
Other relevant Areas					
Combined Assurance	Updating assurances on the Council's assurance map with senior managers and helping to co-ordinating the annual status report.	**Nov 16**			
Follow up of Recommendations	Audit Reports issued during 2015/16 where an audit opinion of 'Limited' or 'Low' will be followed to establish progress in implementing agreed management actions.	**Nov 16**			
Advice & Liaison		**Various throughout the year**			In progress
Annual Report		**Jun 16**	**Jun 16**		In progress
Annual Governance Statement	Support development of the AGS and review of the local code of gov in light of the revised CiPFA SOLACE guidance	**Jun 16**	**Jun 16**		In progress
Audit Committee		**Various throughout the year**			In progress

Appendix 3 – Overdue Actions at 31st May 2016

Audit Area	Date	Assurance	Recs	Implemented	Overdue		Not Due
					H	M	
Coroners	June 2014	Limited/ Substantial	52	45	5	2	0
Debtors	April 2014	Limited	11	6	4	1	0
Income	Jan 2014	Limited	8	7	0	1	0
Information Governance	Mar 2015	Limited	15	12	3	0	0
Home to School Transport	January 2015	Substantial	14	11	0	3	0
Civil Parking Enforcement	April 2014	Substantial	3	2	0	1	0
Payroll Audit 1 2016	March 2016	Low	27	3	16	8	0

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