

Internal Audit Progress Report



Images Courtesy of the Official UK Photo Club

Lincolnshire County Council June 2019

Contents

Key Messages

Page 1

Introduction
Summary
Assurances

Internal Audit work completed

Page 2

Overview of Assurances
Audit Reports at Draft
Other Significant Work
Work in Progress

Benchmarking

Page 6

Key Performance Indicators

Other Matters of Interest

Page 7

CIPFA update, award, Northamptonshire

Appendices

Page 9

-
- 1 - Assurance Definitions
 - 2 - Details of Limited / Low Assurances
 - 3 - Details of Overdue Actions
 - 4 - 2019/20 Audit Plan to Date

Lucy Pledge - Audit and Risk Manager (Head of Internal Audit)
lucy.pledge@lincolnshire.gov.uk

Rachel Abbott - Audit Team Leader
rachel.abbott@lincolnshire.gov.uk

Alastair Simson – Principal Auditor
Alastair.simson@lincolnshire.gov.uk

This report has been prepared solely for the use of Members and Management of **Lincolnshire County Council**. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period 13th March 2019 to 4th June 2019
- Advise on conclusion of the 2018/19 plan and progress of the 2019/20 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

During the period we have completed Fifteen audits:

- 12 final assurance reports
- 3 School audit reports

Assurances

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

High Assurance:

- Property, Plant and Equipment
- Wellbeing
- Debtors
- Pension Fund (2019/20 audit)
- Health and Safety Team Review
- Bank Reconciliation Key Control Testing

Substantial Assurance:

- General Ledger
- Holding Company
- Children's Statutory Complaints
- Counter Fraud Review
- Records Management

Limited Assurance

- Lincolnshire Fire and Rescue - Fleet Management

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.



High Assurance

Property, Plant and Equipment

Our review of Plant, Property and Equipment (PPE) involved review of Additions, Disposals, Revaluations and Depreciation and the accounting for Assets Held for Sale. Our work confirmed that the key controls around these activities are in place and working effectively.

Wellbeing

The Wellbeing audit found that the contract management of this service is working well with good controls and processes in place.

Debtors

Our review established that the processes across the Council and within Serco Credit Control to generate debtor invoices, credit notes and issue reminders are well controlled.

Pension Fund

Our testing confirmed that the management and governance of investment activities are good and that the Pension fund is effectively controlled. We found evidence of good practice throughout the investment process which provides a high level of assurance.

Health and Safety Team Review

This audit gave assurance that there are effective policies in place to ensure that Lincolnshire County Council is fully compliant with the relevant legislative requirements. These are fully supported by Health and Safety audit practices and oversight. The Health and Safety Team gave assurances that these are being implemented by staff and managers.

Bank Reconciliation

Our review found that the key controls around the bank reconciliations are working as intended.

Substantial Assurance

General Ledger

Our review of key controls has confirmed that the majority are in place and working effectively. Processes and controls to ensure the completeness and accuracy of the general ledger have continued to improve during 2018/19. Further work is still required in some Suspense, Holding and Control accounts to clear historic entries.

Holding Company

The setting up of the Holding Company (Lincolnshire Future Limited) and the Subsidiary company (Lincolnshire County Property Ltd) fit in with the Council's priorities and good governance arrangements are in place.

Children's Statutory Complaints

We have found that the Complaints Team are accurately capturing and recording the statutory complaints for Children's Services, complaints are being responded to within the correct timescales, and process improvements are active and ongoing.

Counter Fraud Review

This audit has provided substantial assurance over the Council's counter fraud arrangements. A Counter Fraud team is well established and senior management endorse these arrangements. The Audit Committee take an active role in providing effective challenge to these arrangements - of note is the appointment of a fraud champion within the Audit Committee.

The arrangements are supported by a number of clear policies, supporting the Council's zero tolerance toward fraud and corruption. These are embedded by a comprehensive suite of awareness tools, including e-learning, leadership & staff briefings, posters and periodical items in weekly internal newsletters.

Records Management

Our review was undertaken to provide independent assurance that current records management practices support the organisations needs and are compliant with the relevant legislation and regulatory requirements, such as the General Data Protection Regulation and the Freedom of Information Act.

Our work confirmed that there is a reasonable corporate policy and procedures in place but these are not effectively applied at a service area level. Our work identified issues with volume and storage of paper records as well as a lack of control and ownership of these records.

Limited Assurance

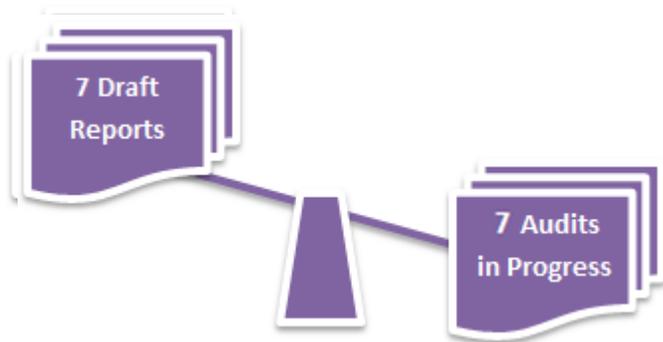
Lincolnshire Fire and Rescue - Fleet Management

We found fleet management processes outside of the Fleet Manager's remit were not operating as expected.

There is a legal requirement for the Council to check and document that each staff member operating any Fire and Rescue vehicle or equipment has a valid licence to do so. This hadn't been evidenced by one of the departments sampled, resulting in a breach of Service Order 38.

There had been no formal review of the Lindum contract since 2016 to ensure the contract is operating as intended and ensuring the quality of contract delivery

Further detail can be found in Appendix 2 of this report.



Audit reports at draft

We have seven audits at draft report stage:

- Financial Assessments
- Creditors
- Local Enterprise Partnership Follow Up
- Patch Management*
- IR35
- VAT Follow Up
- Payroll

*This audit has been delayed being finalised as we are struggling to get actions agreed with Serco ICT.

These will be reported to the committee in detail once finalised.

Work in Progress

We have seven 19/20 audits in progress:

- Highways 2020 Project
- Income
- Children's Residential Homes
- Commercial Property Portfolio
- Settlements
- ICT Asset Management Follow Up
- ICT Disaster Recovery

Details of these in progress audits can be seen in the 2019/20 plan at appendix 4.

Other Significant work

Other key work undertaken during the period includes:

School Audits

During this period we completed 3 School Audits.

BDUK Grant

This is the annual verification of a broadband grant.

Assurance over transport connect

Assurance over the governance arrangements of this Teckal Company owned by LCC to inform the Annual Governance Statement.

BW project

Support and advice to the project overseeing the future development of the Business World ERP system.

Workshop on Northamptonshire CC – Part Two

A second workshop between Overview & Scrutiny Management Board and the Audit committee on the 30th May 2019.

This provided an:

- Update on latest news and best practice guidance
- Focused on Culture and Accountability
- Update on the actions being taken to improve our arrangements





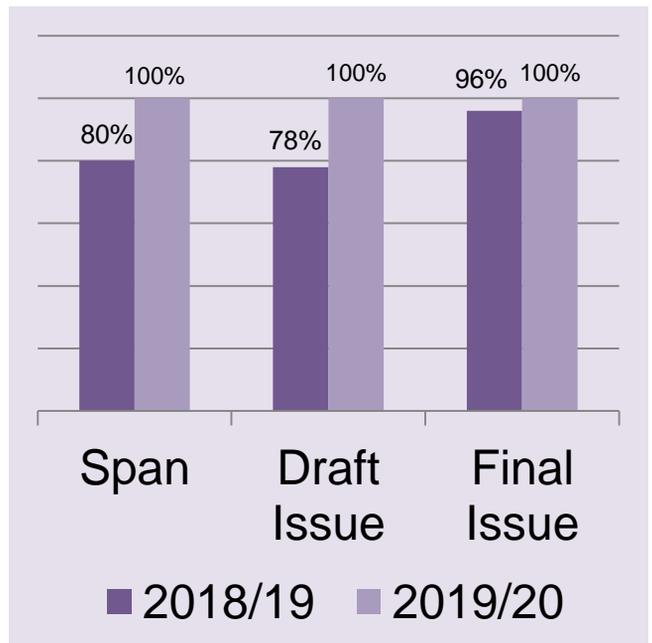
Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators

100%

Rated our service Good to Excellent

High achievement of Audit KPI's to date





Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

CIPFA has issued fresh guidance on internal audit to help professionals cope with “growing levels of financial risk”.

The institute is calling on the public sector to provide recognition, support and encouragement for Heads of Internal Audit and their teams via five ‘key principles’, which align with the UK Public Sector Internal Audit Standards:

- HIAs should champion best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments.
- HIAs should give an objective and evidence based opinion on all aspects of governance, risk management and internal control.
- Must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee.
- Must lead and direct an internal audit service that is resourced to be fit for purpose.
- Must be professionally qualified and suitably experienced.

Lessons Learnt from Northamptonshire

Audit have been involved in work looking at what went led to the financial failures at Northamptonshire County Council to ensure that LCC were not at risk. Lucy provided a culture and accountability workshop event to Audit Committee and Overview and Scrutiny Management Board on the 30th May which was well received.



Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

Assurance Lincolnshire wins another award

Assurance Lincolnshire won the "Good Governance and Risk Management" award at the Public Finance Awards 2019.

This was for the work on culture, value and ethics that we have worked on over the last year and shared with the Audit Committee in March. We beat teams from the Police, Northern Ireland Water, The NHS, Transport for London, and the Treasury.

Judges comments: "There was a lot of evidence of proactive planning and putting in place resilient processes to monitor and mitigate risk. We were impressed by the focus on ethics, acting in the public interest and sharing the work with other groups"



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
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.

LFR Fleet Management

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
Policy and Procedures are outdated and not in line with current legislation	Low	0	0
The administration of the fleet is not maintained in accordance with the policy and procedures.	High	1	1
The Contract with Lindum is not operating as per SLA's	Medium	0	1
Vehicle maintenance is not recorded and /or carried out in line with the policy and vehicle maintenance legal requirements.	Medium	0	1
Staff are not appropriately trained in operating the fleet of vehicles and / or don't hold the required licences to operate the vehicles.	Medium	0	1
TOTAL		1	4

Limited Assurance

Background and Context

Lincolnshire County Council is the Fire Authority and has responsibility for Lincolnshire Fire and Rescue (LFR), who operate 38 fire stations, 29 stations are crewed by Retained Duty System (RDS) with 9 stations having both RDS and fulltime staff.

Its personnel, vehicles and equipment must be available at short notice to respond to incidents. It is a statutory duty of LFR to ensure that the equipment works efficiently and effectively, the equipment is available at all times and maintained in accordance with all legislative requirements. It is imperative that downtime is kept to an absolute minimum.

Lincolnshire Fire and Rescue operate a heavy fleet of approximately 65 vehicles (pumping, rescue and aerial appliances) and a number of specialist vehicles, boats and trailers meeting the risk profile of the County. There are 85 vehicles on the light fleet including staff cars, technical support vehicles and personnel carriers.

Lincolnshire Fire and Rescue hold a contract with Lindum Group Limited, who provide fleet maintenance services, which include servicing and repair, auto electrician, vehicle recovery, roadside assistance, MOT testing facilities, exhaust emission testing, modification and bodywork repair and accident repair facilities.

Scope

Our scope was to provide an evaluation of, and an opinion on, the adequacy and effectiveness that:

- The fleet is managed in accordance with LFR policies and procedures.
- The fleet is maintained in accordance with statutory and Fire Service requirements.
- Vehicles are used for authorised purposes only.
- The third party contract is operating as intended.

Executive Summary

Our review found fleet management processes outside of the Fleet Manager's remit were not operating as expected. The audit review identified a breach of policy and as such the assurance overall is Limited.

There is a legal requirement for the Council to check and document that each staff member operating any Fire and Rescue vehicle or equipment has a valid licence to do so. This hadn't been evidenced by one of the departments sampled, resulting in a breach of Service Order 38.

There had been no formal review of the Lindum contract since 2016 to ensure the contract is operating as intended and ensuring the quality of contract delivery.

As part of the contractual terms with Lindum; the Fleet Manager should have full access to use Jaama (the electronic fleet maintenance system) to help maintain fleet records electronically. It was found that Lindum had not given full permissions to the Fleet Manager due to other clients' information held on the same data base and therefore the Fleet Manager had to maintain a manual system in order to satisfy and meet the industry best practice set out by the National Fire Chiefs Council.

As part of the testing we noted that log book entries and weekly inspection checks were either missing, incomplete or didn't marry up with the data base. It is evident that staff need to be reminded of the procedures in this area and to ensure that internal reviews are conducted to confirm compliance with policy.

While staff had received appropriate training to operate the fleet vehicles and equipment, for part of the sample tested we were unable to evidence when the training had been received and who had verified the training.

Management Response

The Service accepts the findings and recommendations of this report.

It is pleasing to note that the process and compliance provided via external contractor (Lindum Group) are “well managed, fully compliant with regulations, policy and processes. No issues found with, MOT's, Taxation or Services, all had taken place when due and documentation in place to evidence”.

The Service believed that monthly meetings held between LFR Fleet Manager and Contracts Manager and the contractor ensured that the contract continued to provide a fully compliant and cost effective solution. The lack of full access to the fleet management system in use by the contractor has led to inefficiency as a result of the Fleet Manager maintaining secondary records. The Service will address the findings (2 and 3) by implementing a regime of separate meetings with the contractor, enabling the LFR Fleet Manager to focus on provision of the provided service whilst a separate meeting chaired by the LFR Contracts Manager providing clear focus on the performance and compliance in accordance with the ‘heads of terms’ of the contract.

The risk highlighted in ‘finding 1’ relies on understanding and compliance by Managers throughout the Service, to ensure that all personnel who drive at work hold an appropriate and current driving licence. The high risk of reputational damage to LCC/LFR means that the Service will focus its immediate efforts on ensuring this compliance. Compliance will also be tested by means of the LFR annual internal themed audit to ensure that this risk is removed as soon as possible.

In the longer term, the LFR Fleet Manager is mandated to look at collaborative solutions with LCC including the option for outsourced electronic specialist licence inspection solution to ensure that all drivers are checked for licence category and currency. This will likely include more regular and rigorous inspection of those who are licenced to drive either in a ‘blue light’ response role or hold a licence to drive vehicles categorised as Large Goods Vehicles (LGV) in line with recent guidance.

The Service accepts that maintenance of vehicle log books, defect report books are essential to a well-managed fleet. The Fleet Manager will republish current guidance and Service Orders in the short term with additional checks and support via the Service annual themed audit. In the longer term (within one year), the Fleet Manager will provide a report considering the benefits of using apps/vehicle tracking/telemetry and other electronic systems to provide a modern and robust system to ensure effective fleet management.

Management Response

The Service accepts the finding that it did not have a suitably robust system to record staff training. The Organisational Development Department are currently in the process of ensuring that all vocational training is recorded via an electronic system.

- All high risk findings and recommendations will be completed within three months.
- All med risk findings and recommendations will be completed within 6 months.
- Other actions which involve investigation of collaborative opportunity or updated systems to be discharged by provision of formal business case to LFR Senior Management Board within 12 months.

Overdue incomplete actions for audits at 31/05/19

Activity	Issue Date	Assurance	Total Actions	Actions Imp	Priority of Overdue Actions			Actions not due
					High	Medium	Low	
Mosaic – Adult Care & Wellbeing	Jul 2018	Substantial	6	5	0	1	0	0
General Ledger Key Control Testing	April 2019	Substantial	7	2	0	1	0	4
Proportionate auditing of direct payments	Nov 2018	Consultancy	7	6	0	1	0	0
Interests, Gifts and Hospitality Registers	March 2019	Limited	9	7	0	2	0	0
Special Educational Needs and Disability Reform	Dec 2017	Substantial	5	4	1	0	0	0
Client Contributions policy	Nov 2017	Limited	9	7	0	2	0	0
Information Governance	Dec 2017	Substantial	7	6	0	1	0	0
Budget Management	Jul 2018	Substantial	5	4	0	1	0	0
Medium Term Finance Plan	Nov 2017	Substantial	3	2	0	1	0	0
Capital Programme	Apr 2018	Limited	7	4	3	0	0	0
Business Continuity and Emergency Planning	Feb 2016	Limited	4	3	1	0	0	0
Total			69	50	5	10	0	4

Details of High Priority Overdue Actions:**Special Education Needs and Disability reform**

This finding relates to annual reviews not being completed within set timescales. New staffing proposals went to DMT in December 2018 to ensure the team is better resourced. An update was received by Audit in April 2019 that stated this was still being worked on and a restructure is required with further Business Support in place. The final decision on this will be made at the end of August 2019.

Capital Programme

There are three high overdue findings for this audit:

- 1) Agresso reporting only captures the actual, budget and forecast figures for the current financial year for each capital scheme, rather than the cumulative position against the approved budget. As corporate reporting only provides the current year figures and many schemes span several years, it does not provide a meaningful representation of a scheme's financial position.
- 2) Following their approval, capital schemes are only subject to financial scrutiny by Members at the Overview and Scrutiny Management Board on a quarterly basis. However, the Capital Programme is reviewed as a whole rather than on an individual scheme basis, unless there are specific concerns. This combined with the annual reporting issue noted in 1 above, results in a lack of transparency around the finances of the individual schemes.
- 3) Capital and Revenue Budget procedures are combined within the Financial Planning and Financial Management Procedures from the Finance Handbook (Financial Procedures 1 and 2). The procedures which cover capital appraisals, approvals and carry forwards were last updated in 2010 and 2009 respectively. Due to their age they contain references to old job titles and the previous Finance system. The individual Directorate Schemes of Authorisation covering capital approvals and virements are also dated 2013 and 2014 and contain old references.

Work on the Council's Financial Procedures continues, however the outcome of this work is influenced by a number of other improvements including the review of capital and the rebuild of Business World therefore progress is dependent on the outcome of this other work. To ensure the procedures are as up to date as possible they will be initially updated wherever this is possible with a further more detailed update later in the financial year. Audit will seek an update in October.

Business Continuity and Emergency Planning

Responsibility for exercising the IT Business Continuity plan rests with Serco. Prioritising Agresso has delayed the exercising of the IT Business Continuity plan and no exercise had been scheduled. Resilience, DR and Back-up elements of the Serco service have since been reviewed. A number of remedial activities have also been identified with some actioned but this remains a work in progress.

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
LCC 2019/20-01 – Transport Connect Governance Assurance	This consultancy assignment will offer support and advice on the programme throughout its journey of re-procurement and contract start in April 2020	08/04/19	25/03/19	05/04/19	Completed - consultancy
LCC 2019/20-02 – Business World Consultancy	Support and advice to the project overseeing the future development of the Business World ERP system	01/04/19			Ongoing consultancy support
LCC 2019/20-03 – Pension Fund	This Audit will focus on the reviewing the Key controls and the effectiveness of the Management of the Pension fund	01/04/19	03/04/19	30/04/19	Completed (High Assurance)
LCC 2019/20-04 - PCI DSS	Assurance that the Council fulfils all PSI DSS statutory requirements	02/09/19			Planned for Q3
LCC 2019/20-05 - Highways 2020 Procurement Programme	This consultancy assignment will offer support and advice on the programme throughout its journey of re-procurement and contract start in April 2020	01/05/19			Ongoing consultancy support
LCC 2019/20-06 - Settlements	To confirm that the policy in relation to settlement agreements is robust and consistently applied across the Council	24/04/19	24/04/19		Fieldwork stage
LCC 2019/20 – 07 Recruitment and Retention	Assurance that procedures in place for the recruitment of staff to the Authority maximise the chance of successful appointments. To include examination of initiatives set up to cover hard to recruit posts and retention.	02/01/20			HR currently completing a project in this area. Audit planned for Q4
LCC 2019/20 – 08 Apprenticeships	To provide independent assurance over the extent to which services are effectively able to use the apprenticeship reforms to develop the workforce for both current and future needs and compliance with Government Requirements	01/08/19			Planned in for Q2 to support HR work in this area

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
LCC 2019/20 – 09 Income	The aim of this review is to provide independent assurance that income received is appropriately controlled and accounted for.	09/05/19	09/05/19		Fieldwork stage
LCC 2019/20 – 10 Children's Homes	Review of the P-card, Imprest and time recording processes at all 8 Children's Homes managed by LCC.	01/06/19	30/05/19		Fieldwork stage
LCC 2019/20 – 11 Commercial Property Portfolio	Review of the management of LCC's Commercial Office and Business Units	07/06/19	07/06/19		Fieldwork stage

This page is intentionally left blank