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County Offices
Newland
Lincoln
LN1 1YL

1 November 2013

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Audit Committee

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A meeting of the Audit Committee will be held on **Monday, 11 November 2013 at 10.00 am in Committee Room Three, County Offices, Newland, Lincoln LN1 1YL** for the transaction of the business set out on the attached Agenda.

Yours sincerely

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, C E D Mair, S M Tweedale, W S Webb and P Wood

Voting Added Member

Mr P D Finch

AUDIT COMMITTEE AGENDA
MONDAY, 11 NOVEMBER 2013

10   **Work Plan**

(To receive a report by the Head of Corporate Audit and Risk Management which provides the Committee with an opportunity to consider its work plan up until July 2014)

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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
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Contact details set out above.

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Lincolnshire
COUNTY COUNCIL
Working for a better future

AUDIT COMMITTEE
23 SEPTEMBER 2013

PRESENT: COUNCILLOR MRS SUSAN 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), Claire Pemberton (Assistant Head of Finance),
Lucy Pledge (Head of Audit and Risk Management) and Mike Wood (KPMG)

18   APOLOGIES FOR ABSENCE

There were no apologies for absence.

The Chief Executive reported that, having received notice under Regulation 13 of the
Local Government (Committees and Political Groups Regulations 1990), he had
appointed Councillors C E D Mair as a replacement member on the Committee in
place of Councillor J W Beaver until further notice.

19   DECLARATION OF MEMBER' INTERESTS

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

20   MINUTES OF THE MEETING HELD ON 22 JULY 2013

RESOLVED

     That the minutes of the Audit Committee held on 22 July 2013 be signed by
     the Chairman as a correct record.

21   COUNTER FRAUD PROGRESS REPORT TO 31 AUGUST 2013

Consideration was given to a report which provided an update on the Council's fraud
investigation activities and information on progress made against the Counter Fraud
Work Plan 2013/14.

It was reported that the data analytics work on the Council's creditor payments system was effective as it had identified a group of potentially fraudulent transactions in one area of business.

Some compliance issues were also highlighted as part of this data exercise, and these would be reported to the next meeting of the Committee as part of the Council's due diligence audit work. A comprehensive review of the counter fraud and investigation practice notes had been completed and would form the revised standards for the quality assurance processes and would take account of the latest best practice.

New whistleblowing and counter fraud promotional material had been developed and would be used over the next few months to support the re-launch of the Council's whistleblowing policy.

The Committee was informed that the work on the National Fraud Initiative was almost complete, and had so far identified £15.6k of recovery potential, but there were no issues of a fraudulent nature. It was noted that this recovery figure was significantly down on previous exercises, and it was believed that this was due to improved processes in the two areas of business which previously had high overpayments (pensions and private residential care providers). Officers were pleased to report that these systems had been improved since the last exercise.

It was reported that there were currently 2 live fraud investigations, both of which had been referred to the Police. Since the last counter fraud progress report in April 2013, 5 internal fraud investigations had been completed which had resulted in 4 resignations and 1 written warning. Due to the nature of the cases there were no recovery opportunities, but the estimated value of the fraud which was prevented was in the region of £61k.

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 increase in schools becoming academies may increase the risk of fraud as it was not mandatory for academies to have an internal audit;
- However, there had been a strengthening of policies around the need for audit arrangements in academies;
- When a member of staff leaves the organisation a number of automatic processes would be triggered including the closing down of e-mail accounts and removing remote access;
- Mandate fraud was the easiest to prevent by ensuring the effectiveness of internal controls;
- The number of days which were allocated to each activity were based on year on year trends and the availability of resources;
- In terms of the work plan it was on track and there were no pressure points at this time. However, if there was an increased demand for investigation work this could change;

RESOLVED

That the outcomes of the Counter Fraud work be noted.

22   WHISTLEBLOWING ANNUAL REPORT 2012/13

Consideration was given to a report which provided an overview of the Council's whistleblowing arrangements throughout the year 2012/13 and presented proposed changes to the Whistleblowing Policy.

The Committee was informed that an eye-catching whistleblowing poster and leaflet had been developed and the aim was to distribute these within the next few months to coincide with the update and re-launch of the policy. The Whistleblowing Policy and other promotional material would be incorporated into an e-learning tool which it was hoped would be operational with the next few months. It was planned to boost further awareness and understanding through a number of targeted training sessions over the remainder of the year and articles in the Council's internal and external publications.

It was also reported that there had been recent changes in employment law which had affected the Public Interest Disclosure Act in four areas, however, only three of them impacted on the Council's policy:
- A qualifying disclosure (for protection purposes) must be one made in a reasonable belief that it was "in the public interest"
- The requirement for a disclosure to be made "in good faith" for a whistleblower to qualify for protected status had been removed – an ulterior motive (i.e. personal gain) did not affect the protection provided it was in the public interest to address the concern
- A vicarious liability on the employer to protect whistleblowers from bullying and harassment as a result of making a disclosure from all employees (not just the organisation which was previously the case). Employers must therefore take 'reasonable steps' to prevent this. The changes also made individual employees personally liable if they victimise, bully or harass a whistleblower.

The Committee was advised that following the review of the Council's Whistleblowing Policy, that the existing policy was generally compliant and little affected by the recent changes. It was also believed that the structure, content and readability were fit for purpose and therefore no significant changes were proposed.

Members of the Committee were provided with an 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:
- There were concerns regarding the changes to protection given to whislteblowers and whether they would incur costs if they went to a tribunal;
- Not all whistleblowing involved employment cases;
- Processes were in place to filter out internal grievances and direct people towards the grievance procedure instead;

- Academies that bought into the council's resources would be able to make use of this policy;

RESOLVED

1. That the whistleblowing activity for 2012/13 be noted;
2. That the ongoing work to raise awareness and provide assurance on the effectiveness of the Council's arrangements be noted;
3. That the proposed changes to the Council's Whistleblowing Policy be approved.

23   ICT AUDITS 2012 UPDATE

The Committee received a report which provided an update in relation the five IT audits which were undertaken in 2012 where a number of significant issues identified. Two further IT audits had been undertaken during 2013.

The five internal audits which were undertaken during 2012 where in relation to IT Service Management, SAP Security and Licencing, Software Licence Management, IT Asset Management and Electronic Data Management. All of these audits resulted in an outcome of limited assurance and included concerns relating to the activities undertaken on behalf of the County Council by Mouchel.

The two further IT audits which had been undertaken in 2013 were mobile computing and remote access which resulted in an outcome of substantial assurance, and disaster recovery which was still being written up at the time of the meeting, but it was expected to result in an outcome of limited assurance due to the Council only having a single data centre.

It was reported that all actions were on schedule to be completed by the end of October 2013.

Members of the Committee 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;

- Disaster recovery had been an on-going issue for this Committee for some time. It was noted that this was a very difficult issue to find a solution for, as the solutions which had previously been offered had not been satisfactory. Options were now being presented from potential suppliers but there would still be a risk until the final decision on a supplier was made and they were in place;
- The Council had been through some difficult times with the social care systems, but a rebuild of the system from back-ups had been completed successfully which would provide some assurance;
- There was a need for flexibility within the new ICT contracts;
- There were no penalties in the Mouchel contract if work was not completed on time, but they would be in place in the new contract;

- It was requested whether a report could be brought to the next meeting to confirm that all actions had been completed by the end of October as stated;
- It was accepted that there would be a risk to the Council in the time until a new supplier was in place;

RESOLVED

That the progress being made to address the issues highlighted in the IT audit be noted.

24   REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

Consideration was given to a report which set out the requirement for bodies such as the County Council to review the effectiveness of internal audit once a year and for the findings of the review to be considered by an appropriate committee of the Council. The report presented discharged that responsibility by reporting the findings of work undertaken by a joint officer/councillor working group.

It was noted that in this context, 'internal audit' was not just restricted to the role, activity and effectiveness of the internal audit team, but also applied to the role, activity and effectiveness of the Audit Committee itself. The guidance made it clear that this review should be undertaken by the authority itself and not the external auditor.

The Assistant Director Finance and Resources informed the Committee that the Review Group had been made up of the following:

- Councillor Mrs S Rawlins – Chairman of the Audit Committee
- Councillor Mrs E Sneath – Vice-Chairman of the Audit Committee
- David O'Connor – Executive Director Performance and Governance
- David Forbes – Assistant Director Finance and Resources

It was queried whether, where issues had been highlighted by internal audits and dates agreed for actions to be implemented by, there were checks to ensure that these actions were completed on time. It was noted that the message would be reinforced through the management team, and if actions were not completed on time then there was an escalation process.

RESOLVED

That the opinion of the Review Group, that the County Council maintains an effective system of internal audit, be endorsed.

25   ANNUAL GOVERNANCE STATEMENT 2013

The Committee was informed that the Council had reviewed the effectiveness of its governance framework which had helped to test and gain confidence that the governance framework was operating as intended and that the Council was:

'doing the right things, in the right way, for the right people, in an open, honest, inclusive and timely manner'

It was reported that the Audit Committee had a key role to play in the development and approval of the Council's Annual Governance Statement. At the last meeting of the Audit Committee held on 22 July 2013, it considered in detail the draft Annual Governance Statement, which outlined in detail the significant governance issues. The purpose of the Statement was to set out to the public how the Council managed its governance and risk.

It was noted that some of the issues highlighted on the Governance Statement were not 'quick fixes'.

It was noted that it was recognised that the Council was still reliant on a single data centre and that this represented a source of ongoing risk, and it would be highlighted in the Strategic Risk Register.

RESOLVED

    That the Council's Annual Governance Statement for 2013 be approved.

26   <u>EXTERNAL AUDITS ISA 260 REPORT TO THOSE CHARGED WITH GOVERNANCE ON LINCOLNSHIRE COUNTY COUNCIL'S STATEMENT OF ACCOUNTS AND LINCOLNSHIRE COUNTY COUNCIL PENSION FUND ACCOUNTS FOR 2012/13</u>

Consideration was given to a report which set out the findings of the External Auditors in their ISA 260 Report to Those Charged with Governance for the County Council's Statement of Accounts and for the Pension Fund Accounts.

It was noted that this was the first year that KPMG had carried out the audit as the Council's external auditor, but the framework was still the same. Some of the key points highlighted to the Committee included the following:

- The External Auditor anticipated issuing an unqualified audit opinion by 30 September 2013;
- The External Auditor was pleased to report that the audit of the financial statements had not identified any material adjustments. The Council made a number of non-trivial adjustments, most of which were of a presentational nature. There was no impact on the General Fund;
- The Council had good processes in place for the production of the accounts and quality supporting working papers. Officers dealt efficiently with audit queries and the audit process had been completed within the planned timescales;
- The Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Again the External Auditor anticipated issuing an unqualified VFM conclusion by 30 September 2013.

The Committee was advised that thanks had been passed onto Mouchel for the quality of the work which had been done in preparing the accounts.

During consideration of this item Councillor N I Jackson informed the Committee that he was a Board Member for Urban Challenge, and this was stated on his DPI form.

RESOLVED

1. That the External Auditors Report to Those Charged with Governance (ISA 260) for Lincolnshire County Council be noted;
2. That the External Auditors Report to Those Charged with Governance (ISA 260) for Lincolnshire County Council Pension Fund be noted;
3. That the Letter of Representation on behalf of the Council to enable the Audit Opinion to be issued, be approved.

27   STATEMENT OF ACCOUNTS FOR LINCOLNSHIRE COUNTY COUNCIL FOR THE YEAR ENDED 31 MARCH 2013

The Committee received a report which provided them with the opportunity to consider the final Statement of Accounts for Lincolnshire County Council for the financial year 2012/13.

It was reported that the Council was required to make arrangements to prepare Statement of Accounts which gave a 'true and fair' view of the financial position for the County Council and the for the Pension Fund as at 31 March 2013 together with a record of income and expenditure for the financial year 2012/13.

The Committee was reminded that it had scrutinised the draft accounts in detail at the previous meeting held on 22 July 2013, and had been provided with the opportunity to make comments.

Members were informed that Ian Fifield, who had carried out the training on 22 July 2013, would be returning to host a session for all councillors on 6 December 2013 which would provide an overview of local government finance.

RESOLVED

That the Audit Committee approve the Statement of Accounts for 2012/13.

28   WORK PLAN

Consideration was given to a report which provided the Committee with information on progress on agreed actions and its work plan up to November 2013.

It was suggested that a briefing paper be attached to the work plan for the next meeting which would give an update on the actions on the ICT audits as requested by the Committee.

8
AUDIT COMMITTEE
23 SEPTEMBER 2013

It was also noted that an item to be timetabled still was a meeting with all the Executive Directors where they could explain their key risks.

RESOLVED

1. That the progress of agreed actions be noted;
2. That the work plan and the suggested changes be noted;

The meeting closed at 11.45 am

Lincolnshire
COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of David O'Connor, Executive Director Performance and Governance	

Report to:	Audit Committee
Date:	**11 November 2013**
Subject:	**ICT Audits Update**

Summary:

This report is to provide an update to the position reported at the Audit Committee meeting on 23 September 2013.

Lincolnshire County Council has been issued with a deadline of November 19th 2013 to achieve its Public Service Network Code of Connection (PSN CoCo) compliance. Work to ensure compliance prior to the disconnection date is described within the report. Many local authorities are in a similar position due to a change of approach by central government in taking a 'zero tolerance' approach.

Recommendation(s):

The Committee is asked to note the progress being made to address the issues highlighted in the IT audits described in this report.

1 Background

During 2012 five internal audits of ICT were undertaken; these were IT Service Management, SAP Security and Licencing, Software Licence Management, IT Asset Management and Electronic Data Management. These audits all resulted in an outcome of limited assurance.

The findings of these audits have been reviewed in detail with Mouchel management and corrective action has been undertaken as a matter of urgency where possible and otherwise planned to an agreed timetable.

The findings also included some activities that the Council needed to address and these have also been undertaken or planned as appropriate.

During 2013 two further IT audits have been undertaken;

1. Mobile Computing and Remote Access which resulted in an outcome of substantial assurance, and

2. Disaster Recovery which is still being written up but is expected to result in an outcome of limited assurance due to the Council only having a single data centre.

2   IT Service Management Audit

The results of this audit were reported to the Audit Committee in September 2012, January 2013 and September 2013.

	Key Issue	Action	September 2013 position	October 2013 Position
1.	The Council needs an IT Strategy	IMT Strategy agreed by The Executive – September 2012	Complete	N/A
2.	Performance measures in current Mouchel contract no longer fit for purpose	New performance measures to be agreed through NGP	Partially Complete. Provisional new SLAs for the monitoring of the ICT service have been measured in parallel to current measures for several months. Amendments are currently being agreed and are anticipated to be implemented from October 2013 onwards.	Partially Complete. The amendments have now been agreed and final sign off (which is part of a bigger piece of work) is expected by the end of November 2013.
3.	Lack of availability of charging information to enable contract and budget management	Mouchel and LCC carried out a joint project to review costs in the current contract	Complete	N/A

3   SAP Security and Licence Audit

This audit was reported to the Audit Committee in January 2013 and September 2013.

	Key Issue	Action	September 2013 Position	October 2013 Position
1.	Some users were found to have inappropriate security levels	Security levels for these users have been appropriately modified on new controls put in place	Complete	N/A
2.	There is not a clear formal process for reviewing and changing user access	Process agreed and implemented between LCC and Mouchel	Partially Complete. However, LCC need to sign off the proposed list of LCC access authorisers provided by Mouchel.	Partially Complete. Sign off responsibility now clarified and agreed. Sign off expected by 30 November 2013.
3.	Roles and licences are not clearly mapped to SAP agreed licence types	Clarity SAP licence type and map identified roles.	Complete	N/A

4   Software Licence Management

This audit was reported to the Audit Committee in January 2013 and September 2013.

	Key Issue	Action	September 2013 Position	October 2013 Position
1.	There is a lack of clear responsibility for the management of software licences in the current contract	The agreement between Mouchel and LCC requires a variation to put this in place	Partially Complete. It is LCC's responsibility to ensure it meets its licencing legal requirements. The ICT Contract Delivery Lead role has this responsibility. Mouchel has provided LCC with	Complete. LCC and Mouchel now have an agreement in place for the provision of a software asset management service.

			a proposal for a software asset management (SAM) service. This proposal is due for sign-off by LCC during September and will ensure Mouchel has responsibility for the management of software licences.	
2.	There is no software licence management database recording all software assets and their deployment (current records are dissipated and not kept up to date)	Mouchel will implement and populate a corporate software licence database for the management of software assets	Partially Complete. Under the terms of the SAM proposal, Mouchel will implement a "license management dashboard", a tool capable of managing a license baseline for LCC and giving an accurate position based on the purchased and installed software. The SAM service tools will be in place by mid-October, but it will take several months for the SAM data within the tools to mature.	Complete. The necessary management and reporting tools are in place and the service is live. It will take several months for the software asset management data to fully mature as this is a gradual collection process now that the software is operational.
3.	There is no automated process for updating software licence usage	The tools for carrying out this activity is being deployed as part of the desktop refresh in the NGP programme and is in use	Partially complete. The final stage of the automation will be achieved by linking new requests and role changes to the	Complete. Systems and processes are in place and operational.

		although not fully complete	Configuration Management Database in October.	

5   IT Asset Management

This audit was reported to the Audit Committee in January 2013 and September 2013.

	Key Issue	Action	September 2013 Position	October 2013 Position
1.	The Asset Management database was found to be out of date	Mouchel to verify and update the database Mouchel's assurance team to carry out quarterly sample audits of the database	Complete	N/A
2.	No automated asset tracking was found to be in place	The tools for carrying out this activity are being deployed as part of the NGP programme and are in use although not fully complete	Complete	N/A
3.	Asset disposals are not reported to LCC	A monthly disposal report is to be produced by Mouchel for LCC	Complete	N/A

6   Electronic Data Management

This audit was reported to the Audit Committee in January 2013 and September 2013.

	Key Issue	Action	September 2013 Position	October 2013 Position
1.	The majority of the Council's backups are	Review backup storage facilities to increase	Partially Complete. Backup Tapes are held in three	Partially Complete.

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		separate locations:	A decision has been made to move one set of tapes to a fire proof safe in the main Council offices basement.
	stored within the data centre, creating a single point of failure (one set of tapes is stored off site)	offsite storage	separate locations: • Fire Brigade HQ • Orchard House Data Centre in a fireproof safe • Orchard House Data Centre in Set-Up room The relocation of one of the sets of back-up tapes, currently residing in Orchard House, to an appropriately secured location within County Offices will be in place by end of September 2013.	A decision has been made to move one set of tapes to a fire proof safe in the main Council offices basement. The fire safe procurement is in progress.
2.	Whilst the success of backups is monitored there is no testing of backups	Mouchel to develop and implement a formal process for testing of restores from backups on a periodic basis	Complete	N/A

7   Mobile Computing and Remote Access

This audit has resulted in substantial assurance with recognition that the Council has a comprehensive set of procedures and guidance in place to manage remote and mobile working.

Additional communication to staff has been undertaken to seek to address the non-compliance.

8   Disaster Recovery

The report from this audit has not yet been completed but an outcome of limited assurance is expected due to the reliance on a single data centre.

The Council is currently exploring the possibility of moving its systems and data off site through the Future Delivery of Support Services Programme. Suppliers are being asked to present options for providing dual data centres that would provide greatly improved resilience for the Council without the need to invest in building an additional data centre. The results of this procurement will be presented to the Executive for a decision in March 2014.

In addition to investigations in regards to data centre provision via the FDSS Programme, LCC and Mouchel are in contact with Sungard, a leader in the field of DR solutions, to investigate the possibility of providing additional DR capability for the duration of the rest of the Mouchel contract. The proposal would be likely to provision the supply of essential high risk IT infrastructure in a remote Sungard datacentre to provide quick recovery of key systems from offline back-ups. Costs, timescales and benefits are currently being documented.

9   PSN CoCo Compliance

On the 21st October, Lincolnshire County Council received notice that it would lose access to GSi Convergence Framework (GCF) Services as of 19th November 2013, in the absence of a successful resubmission for compliance following an unsuccessful submission in July 2013. Many local authorities are in a similar position due to a change of approach by central government in taking a 'zero tolerance' approach.

	Key Issue	Action
1.	Lincolnshire County Council submitted a full pack of information and was rejected at assessment on 29 July 2013. The key items to resolve at that time were: • Failure to evidence compliance against a number of the Annex B Compliance controls, including: Patching policies, boundary content and malware checking, disk encryption for data in transit and protective monitoring. • IT Health Check did not detail the activities completed to close the	A full GAP Analysis has been performed against the results of the July submission and the feedback regarding non-compliance. LCC does not dispute where security controls required to meet PSN compliance were found to not meet the stated compliance levels required. All compliance failure items have been addressed through a high priority joint LCC-Mouchel project which treated each failure item as a work package to be completed. As part of our compliance submission the Chief Executive has provided a statement to the Cabinet Office committing to adhering to the long term requirements for unmanaged end device by the time of our 2015 PSN Compliance Authorisation.

	High and Significant Medium risks identified. • Lincolnshire County Council currently utilise an un-trusted endpoint solution.	Constant contact has been maintained between the LCC IT department, Mouchel and the nominated Project Manager at the cabinet office ensuring that our approach and timescales are acceptable. IT Status Reports, Health Checks and Mitigation Reports have been routinely submitted to the Cabinet Office to ensure that progress is visible and that LCC are in a position to achieve compliance.
2.	The PSN Programme is to operate a 'zero-tolerance' approach to the minimum standards for connectivity. Organisations that fail to reach compliance can expect to have their connectivity suspended to protect the interests of the wider community.	If the submission on 30 October is successful then the only remaining issue with the LCC submission will be with regard to unmanaged endpoints (non-LCC computers accessing email and remote services on the LCC network). It is LCC's expectation that a 6 month compliance certificate will be issued to allow the authority to make additional amendments to this area to allow us to be fully compliant. This is a common issue with other authorities and an agreed approach to compliance within this area remains unclear for local authorities. If this remains an issue, the switch off of this functionality would enable full compliance, albeit with significant user impact.
3.	The suspension date is 19 November 2013.	A revised submission will be with the cabinet office on the 30th October 2013. There is a ten day SLA for approval / rejection which should be within the timescale given for disconnection. Considering the level of correspondence undertaken with our nominated Project Manager at the Cabinet Office, LCC do not expect this submission to be rejected.

The risk of disconnection is reputational, and the removal of access to GCX (Secure email) which would increase risks associated with securely communicating confidential data with other partner organisations. It could also cause the Council to fail its N3 compliance (ability to connect to Health) if not resolved in a timely manner.

10   Conclusion

Progress is being made by LCC with Mouchel in managing the issues raised in the audit reports. The issue of data centre resilience continues to be an issue and is it is expected that the new contract for support services will provide a long-term viable solution, with a possible enhanced DR solution from Mouchel providing short-term improvements.

The short term priority is achieving full PSN compliance along with many local authorities affected by the new 'zero tolerance' approach of central government.

11   Consultation

a) Policy Proofing Actions Required

n/a

12   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 Simon Oliver, who can be contacted on 555596 or simon.oliver@lincolnshire.gov.uk and Judith Hetherington Smith, who can be contacted on 553603 or Judith.HetheringtonSmith@lincolnshire.gov.uk.

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Lincolnshire
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Working for a better future

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Resources and Community Safety	

Report to:	**Audit Committee**
Date:	**11 November 2013**
Subject:	**Risk Management Progress Report to 31 October 2013**

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 councils biggest risks are being managed aswell 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.

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 April 2013. It also provides an update on the activities being undertaken to support the Council in developing a culture of being *'Creative & Aware of Risk'*.

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.

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 Debbie Bowring, who can be contacted on 01522 553772 or debbie.bowring@lincolnshire.gov.uk.

Risk Management Progress Report

Date: November 2013

Contents

Contact Details:
Debbie Bowring, CIRM, RRP
Principal Risk & Assurance Officer

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Introduction

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'*.

Key Messages

2. Overall, progress during the past six months on managing the Councils strategic risks has been good. Risk owners continue to be fully engaged and have demonstrated a good level of awareness regarding their risks.

3. There have been a number of changes to assurances of our key risks from 'Limited' to 'Substantial'. These include the following risks:

   - Risk 3 – Safeguarding Adults
   - Risk 4 – Adequacy of market supply to meet eligible needs for adults
   - Risk 11 – Infrastructure is required to support delivery of our services & economic growth in Lincolnshire
   - Risk 12 – Work with other organisations to deliver our contribution to Lincolnshire vision

4. There has also been a change to the assurance on Risk 9 – Maintenance of effective governance arrangements.

   Direction of travel has reduced to 'declining' due to potential governance issues arising from the new Council. Evolving political dynamics coupled with the current inexperience and understanding of many members demands more input, support and guidance from the Management Board to minimise the impact on the Council's existing governance arrangements.

5. We continue to work and monitor the relevant strategic risks as part of the Combined Assurance Model which acts as a useful 'check & balance' in validating management assurances received.

6. Whilst we had originally planned to have the new Risk Management Toolkit finalised and ready for launch in the early summer, due to other priorities and the broadening of the initial scope to include; Projects, Commissioning and Safeguarding, we expect to have a final copy ready for launch by the beginning of 2014.

Update on the Strategic Risk Register

The total number of strategic risks remains static at 15, this being the same as when last reported to the Committee in April 2013. A copy of the full Strategic Risk Register can be found in Appendix 1.

7. As at **31st October 2013** the Council's overall strategic risk exposure looked as follows,

Current Risk Exposure

- ■ 2 'Red' risks
- ▨ 12 'Blue' risks
- ■ 0 'Green' risk

Target Risk Exposure

- ■ 0 'Red' risk
- ▨ 15 'Blue' risks
- ■ 0 'Green' risks

Key to 'Risk' colour coding:
Red: require comprehensive controls, frequent monitoring & reporting and comprehensive contingency plans.
Blue: require cost effective controls, regular monitoring & reporting and outline contingency plans.
Green: cheap and easy controls, periodic monitoring & reporting and contingency plans not essential.

8. The matrix below shows the movement of strategic risks during the last 6 months since the last risk management report to Audit Committee. From this it can be seen that 14 risks remained static and one risk moved.

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

Risk 1: Delivery of our responsibilities as a local lead flood authority
The current level of risk remains unchanged and is being effectively managed. Further work is still being done to improve the duties under the Flood & Water Management Act 2010 to maintain this momentum.

Risk 3: Safeguarding Adults
Since the last report, there have been clear improvements and implementation to a number of the controls within this risk, namely the introduction of:

- Public Protection Board

- Serious case review action plan

- New quality assurance unit

- Serious case reviews.

In light of these additions, the level of assurance from management has improved from 'Limited' to 'Substantial'.

Risk 4: Adequacy of market supply to meet eligible needs for adults
The current level of risk remains unchanged and the risk is being effectively managed. The level of assurance from management has improved from 'Limited' to 'Substantial' due to an independent review being completed showing the quality of suppliers being found to be very good within the region.

Risk 5: Adult Care not able to live within budget
At the last meeting, Adult care budget was balanced for the period ending March 2013. The risk profile has changed due to likely overspend in the current year. Action is being taken to manage this; however the level of assurance has been set at 'Limited'.

Risk 9: Maintenance of effective governance arrangements
Direction of travel has reduced to 'declining' due to potential governance issues arising from the new Council. Evolving political dynamics coupled with the current inexperience and understanding of many members demands more input, support and guidance from the Management Board to minimise the impact on the Council's existing governance arrangements.

Risk 11: Infrastructure is required to support delivery of our services & economic growth in Lincolnshire
This risk is split into four bespoke projects;

- Delivery of key Highways projects

- Delivery of Broadband Delivery Project

- Delivery of Energy from Waste project.

- Castle Revealed

These projects are all on track for successful delivery with 'Substantial' assurance. Included within the above, a new key project has been added – Castle revealed. An independent assurance is also being obtained through Internal Audit.

Risk 14: Integration of Public Health
Due to other work priorities, the risk owner was unable to provide us with an update on this risk.

10. Horizon scanning / areas to watch:

Risk 2 – Safeguarding Children
Within the last risk management report, we highlighted that this was an area to watch due to the changes in the Ofsted Inspection framework. There is a level of assurance by the risk owner that this risk is being managed; however it is likely that the new inspection regime is more comprehensive and tougher which could have an impact on the risk.

A possible new risk – Contract transition
We are monitoring the project around the transition of the old SAP system to the new system together with FDSSP as this may become a strategic risk due to the changes to the way we do things currently. There is confidence that this is working well and the relevant projects are being managed and reported on regularly.

Assisting the Council to develop a culture of being "creative & aware of risk"

11. Since our last update, there has been considerable progress with respect to the work we have been undertaking with both the Corporate & Directorate Risk & Safety Groups.
    - Following on from attendance at the various groups, the new terms of reference have been embraced and adopted.
    - Work has commenced with all Directorate Risk & Safety Groups to identify their top 5 'directorate' risks together with their Health & Safety performance measures.
    - We expect all Directorate Risk & Safety Groups to have completed this work and be in a position to report to the Corporate group by no later than April 2014.
    - We are working with the Corporate Risk & Safety Group in refreshing the Strategic risk register and this work will be carried out in late November 2013.

12. Whilst we had originally planned to have the new Risk Management Toolkit finalised and ready for launch in the early summer, due to other priorities and the broadening of the initial scope to include; Projects, Commissioning and Safeguarding, we expect to have a final copy ready for launch by the beginning of 2014.

13. This will fall in line with the officer training that is planned to commence in January – April 2014.
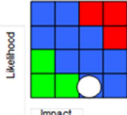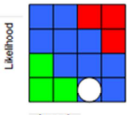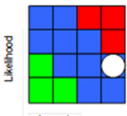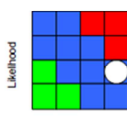
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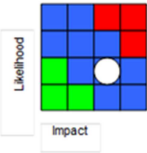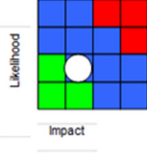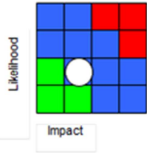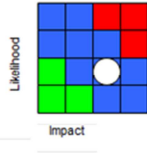
14. Our priorities for the remaining year ahead (2013/14) continue to be as follows:

    - 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 support the Directorate Risk & Safety Groups in identifying their top 'tactical' risks and assist them with the tracking of these through the development of Directorate Risk Logs.

- Refresh the Strategic risk register with the Corporate Risk & Safety Group.

Appendix 1 – Strategic risk register- ⬤ Denotes where the risk was at last report

STRATEGIC RISK REGISTER
Version: 1.5
Reviewed: October 2013 - Links to Council Priority Activities denoted by 'CP' indicator.
Owner : Tony McArdle - Chief Executive

Lincolnshire
COUNTY COUNCIL

Priority Heading 1	Promoting Community Wellbeing & Resilience

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, Declining)	Actions
1	Richard Wills	Delivery of our responsibilities as a local lead flood authority	**Hungry** (projects & **major change** - Need to be innovative and take higher risks for greater reward - higher levels of devolved authority) **Open & aware/ cautious** (partnerships - Recognised that we work differently with different partners)			Substantial	Improving	Adapting to environmental change - group of actions as follows: • Operational Action Plan supporting the Flood RM Strategy (3 yr schedule reviewed annually) • Implement Flood Risk Management schemes, i.e. Horncastle / Louth and develop common works programme. - • LCC as a lead in influencing other people & agencies to direct resources to Lincs (CP) (occurs through links with LGA / DEFRA) • Flood Risk Management Strategy 2025 • Collaboration with flood risk & drainage framework partnership • Flood Risk Emergency Plan (with links to Emergency Planning) •Complete investigations into summer 2012 floods as part of duty to investigate role under the Act and publish results. - • Executive Councillor actively involved at local and national level • Asset register under Flood & Water Management Act 2010 to assess community register of flood risk assets.
2	Debbie Barnes	Safeguarding children	**Cautious** (Regulatory standing & legal **compliance** - recognised may need to change the ways things are done but will be tightly controlled)			Substantial	Static	• Ofsted Multiagency Inspection Framework, inc action plan monitored by new Ofsted Readiness Group - launching in November 2013. • Audit & Performance information to DMT for scrutiny • Safeguarding Assurance days • Independent Chairs - review care plans & quality - act as eyes & ears for DMT • Peer Challenge (East Midlands Group) • Quality Team Manager Audits • Management & investigation of complaints at local level • Childrens Safeguarding Board • Performance Framework for Quality Assurance mechanisms • Practitioner Supervision & Appraisal • Online approach to Vetting and barring of staff in 'regulated activity' posts with Qtrly HR Perf monitoring to DMT • Independant analysis of systems & processes being undertaken by Impower (one off exercise) • Implementation of recommendations from serious case review • Member scrutiny of Social Care

| 3 | Glen Garrod | Safeguarding adults | **Cautious**

(Regulatory standing & legal compliance - recognised may need to change the ways things are done but will be tightly controlled**)** | | | Substantial | Improving | • Multiagency Safeguarding Policy & local Procedures
• Adults Strategic Safeguarding Board
• Virtual integration between policy, practice & strategy
• Develop & implement suitable assurance framework for commissioned services (that considers safeguarding)
• Develop & implement suitable assurance framework for Personal Budgets (that considers safeguarding)
• Develop & implement programme of Provider Quality Assessments
• Review of Internal Quality Assurance mechanisms - Quality Development Team
• Established Safer Practices Group
• CQC Information Sharing Meetings
• Delivery of Safeguarding training to providers as part of 'Supporting Proprietors - Leadership & Management' Programme
• Appropriate checks / vetting of staff in 'regulated activity posts'
• Investment in staff development agreed with Adult Safeguarding Board (ASB) of £250,000 for 2 years (each year)
• Management support to Adult Safeguarding team in train
• Improved performance monitoring to Adult Safeguarding Board (ASB) under development for regular monitoring
• Public Protection Board
• Domestic Homicide review action plan
• New quality assurance unit
• Leap professional & elite professionals in place
• Serious case reviews - process in place |
| 4 | Glen Garrod | Adequacy of market supply to meet eligible needs for adults | **Cautious**

(Regulatory standing & legal compliance - recognised may need to change the ways things are done but will be tightly controlled**)** | | | Substantial | Improving | • Continued improved relationships with providers
• Community support framework
• Develop further diversification of the market, i.e. multiple providers being able to offer multiple services
• Targetted market stimulation - geographic or service based on micro-level according to need and based on good intelligence.
• Develop right mix of skills to become a commissioner of services
• Capital strategy in place for next 3 years with funding level and team created
• Additional resources in Procurement Lincs to improve contracr management - prolonged transfer
• Homecare rates being described and new investment assured
• Funding for residential care secure
• Contract register in place
• Additional investement in community based services with NHS developed |

No of risk	Risk Owner	Risk description	Risk Appetite		Current Risk Score	Target Risk Score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static, Declining)	Actions
5	Glen Garrod	ASC not able to live within budget	**Cautious** **(Regulatory standing & legal compliance** - recognised may need to change the ways things are done but will be tightly controlled)		 Impact	 By end of 2013/14	Limited	Static	• Development of Financial Risk Log - better understanding of overspend & key areas of concern • Budget arrangements for 2013/14 and beyond - to inc robust information for Members to make informed decisions • Greater commitment/ownership by managers to manage their budgets • Make the Resource Allocation System work harder • Use of Department of Health money agreed with NHS Lincs • Zero based budget exercise in LD completed and list of 'must do's' being actioned • Reductions in Public Health investment into LD reversed • Refreshed structure of Adult Social Care in place spring 2013 (Adult Social Care organisational alignment) • Department of Health money now called Integrated Transformation Fund (ITF). Future use to be agreed by Health & Wellbeing Board March 2014.

Priority Heading 2		**Commissioning for outcomes based on our Communities' needs**							
No of risk	**Risk Owner**	**Risk description**	**Risk Appetite**		**Current Risk Score**	**Target Risk Score**	**Assurance Status (Full, Substantial, Limited, No)**	**Assurance - Direction of Travel (Improving, Static, Declining)**	**Actions**
6	Pete Moore	Delivery of Strategic contracts	**Open & aware** **(Finance & money -** No Surprises - prepared to invest for reward and minimise the possibility of financial loss by well measured risk taking**)**	**Open & aware/ cautious** **(Partnerships -** Recognised that we work differently with different contractors / partners**)**	 Impact	 Impact	Substantial	Improving	• Corporate contracts register • Review of best practice in procurement & contracting - ensuring good practice is consistent across the council (DO'C) • Become a Commissioning Council (1. Commissioning 2. Procurement 3. Good Contract Management) (CP) • Assurance arrangements in place to ensure compliance - performance monitoring of strategic contracts • Ensure strategic partners have robust business continuity plans for the services they deliver to the CC • Future Delivery of Support Services (CP) • Contract Assurance Board • Contract management work stream

Priority Heading 3	Making the best of all our Resources							
No of risk	Risk Owner	Risk description	Risk Appetite	Current Risk Score	Target Risk Score	Assurance Status Full, Substantial, Limited, No	Assurance - Direction of Travel (Improving, Static, Declining)	Actions
7	Pete Moore	Funding and maintaining financial resilience	**Open & aware** (**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	• Sound process on trying to protect where funding is going supported by Medium Term Financial Strategy • Efficiency Agenda • Good financial management with monitoring arrangements in place • Building flexibility to deal with in-year changes • Accountability framework • More capability and capacity required to ensure momentum maintained on Core Offer & Efficiency agenda. • Council Priority Activities agreed & delivery of major projects managed / monitored. • Close working with DC's on funding arrangements • Planning longer term for next CSR and trying to plan for period of 15/16 • Further fundemental review of service priorities during 2013/14 • Medium term financial plan for next 2 years updated as part of budget process • Use of reserves to balance the budget in 2013/14 and 2014/15 • Fundamental review
8	Tony McArdle	Delivery of the Councils priorities that have been determined by full council	**Hungry** (**Reputation & Public confidence** - 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	• Organisational strategy • Revised vision & purpose (agreed Feb '12) • Business plan developed to implement strategy (agreed Feb '12) • Performance Management in place to track actions against plan • Business plan delivery monitored by Executive, Management board and Scrutiny • Monthly reporting on Councils Priority Activites to CMB and Qtrly to VFM Committee and Executive • CMB to concentrate on key transformation programmes • Annual review of Directors Objectives - to be circulated to all staff

| 9 | David O Connor | Maintainance of effective governance arrangements | **Hungry**

(Reputation & Public confidence - 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**)** | Likelihood / Impact | Likelihood / Impact | Substantial | Declining | • Governance Framework needs modifying to adapt to changing organisational environment - less prescriptive in style, with balancing of risk & accountability - needs a formal plan.
• Implement new member standards arrangements, Common Code of Conduct and Register of Interests -
• Local Code of Conduct based on LGA been adopted
• Review of Governance Arrangements in light of CIPFA
• Implementation of new Combined Assurance Model |
| 10 | David O Connor | Requirement to have an agile, skilled and motivated workforce | **Averse**

(People - 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**)** | Likelihood / Impact | Likelihood / Impact | Substantial | Improving | • Major review of HR policies & processes (more about promoting people to 'trust')
• New People Strategy (CP)
• Resourcing for delivery of Priority Projects - paper to CMB 4th July |

Priority Heading 4	Investing in infrastructure and provision of services							

No of risk	Risk Owner	Risk description	Risk Appetite	Current Risk Score	Target Risk Score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static, Declining)	Actions
11	Richard Wills	Infrastructure is required to support delivery of our services & economic growth in Lincolnshire	**Hungry** **(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**)**	Likelihood / Impact	Likelihood / Impact	Substantial Substantial Substantial Substantial		• Delivery of key Highways projects (x4) - 1. Spalding Relief Road, 2. Grantham Sthn By-pass, 3. Lincoln Eastern By-pass, 4. Lincoln East/West Link (CP), 5. Local Transport Plan • Delivery of Broadband Delivery project (CP) • Delivery of Energy from Waste project (CP) • Castle revealed project

Priority Heading 5	Influencing, Co-ordinating and supporting other organisations							
No of risk	Risk Owner	Risk description	Risk Appetite	Current Risk Score	Target Risk Score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static, Declining)	Actions
12	Tony McArdle	Work with other organisations to deliver our contribution to Lincolnshire's VISION	**Open & aware** (Partnerships - Recognise that we work differently with different partners)			Substantial	Improving	• Strategy around Big Society (CP) • Regular meetings with CMB and CCG's • Sustainability review • Joint working protocol with Police & Crime Commissioner • Delivery of some Shared Services • Delivery of key initiatives, e.g. Families working together (CP) / Total Environment / Youth & Community Development (CP) • Jnt Health & Wellbeing Strategy - to be signed off • Initiatives to improve joint working with DC's e.g. Broadband match funding from districts / Working with WLDC (CP) • Regular engagement with CX & Leader • Lincolnshire Leaders Meeting - need planning to agree what to get involved in. • Seek clarity around Health Reform, i.e. CCG's • Constructive working with the Police & Crime Commissioner (aligned priorities to Community Safety priorities) • Working with Lincoln Prison - Better partnership working

Priority Heading 6	Good Governance							
No of risk	Risk Owner	Risk description	Risk Appetite		Current Risk Score	Target Risk Score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static, Declining)	Actions
13	Tony McArdle	Protect and manage the reputation of the Council	**Hungry** (Reputation & public confidence - Comfortable with taking decisions that are likely to bring scrutiny of the Council but where potential benefits outweigh the risks)	**Open & aware** (Regulatory standing & legal compliance - Even if challenge will be problematic - its an acceptable risk where we are likely to win and the gain will outweigh the adverse consequences)			Limited	Static	• Communication team seeks to work with local media. • Recognising the importance and use of social media • Consistent approach to managing FOI's Note: carrys a significant dependancy upon the effective management of the other strategic risks to prevent any major reputational 'fall-out', i.e. safeguarding.

Other Risks							
No of risk	Risk Owner	Risk description	Risk Appetite	Current Risk Score	Target Risk Score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, static, Declining)	Actions
14	Tony Hill	Integration of Public Health responsibilities, staff and budget	**Cautious** (Willing to take risks but prefer to take the 'safe delivery option' - minimising the exposure with tight corporate controls over change)	Likelihood / Impact	Likelihood / Impact	Substantial	Improving ↑	• Delivery of Public Health Transition Plan (CP) - up to March 2013 • Develop an integrated Directorate Risk Register (Risks to be trf'd from PCT, plus existing PH dept risks) • Governance & Transition Steering group • Staff engagement Group • HR Working group - action plans in place • Finance & Contracting working group action plans in place • Project Gaunt chart regularly monitored • Management of Project risk & Issues log • Project monitoring & reporting arrangments in accordance with CC Project Management Standard • Processes, IT and Info Sources Working Group - with action plan • 30 day staff consultation underway in respect of staff moving to County Council
15	David O'Connor	Judicial challenge on the way we implement transformational change and decisions affecting service delivery	**Hungry** (Reputation & Public Confidence - Comfortable with taking decisions that are likely to bring scrutiny of the Council but where potential benefits outweigh the risks) **Open & aware** (Regulatory standing & legal compliance - Even if challenge will be problematic - its an acceptable risk where we are likely to win and the gain will outweigh the adverse consequences)	Likelihood / Impact	Likelihood / Impact	Substantial	Static →	• Application of appropriate Consultation processes • In-depth legal involvement with all 'high' risk decisions • Impact Assessment Process • Implement recommendations from review of Council Complaints - 2 stage process commencing Mar '13 (CP)

Lincolnshire
COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Resources & Community Safety	

Report to:	**Audit Committee**
Date:	**11 November 2013**
Subject:	**Corporate Audit Progress Report to 30 September 2013**

Summary:

This report provides an update on progress made against the Audit Plan 2013/14.

Recommendation(s):

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

Background

This report provides an update on the progress made against the Audit Plan 2012/13. 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 assurance
- Detail of progress made against the audit plan

Conclusion

We have completed approximately a third of our planned work up to the end of September. We are comfortable with this progress, given that quarter 2 is traditionally our least productive period due to annual leave commitments and scheduling constraints. There are 19 audits currently underway, 8 of which are close to completion and all remaining work is scheduled in to the end of the financial year. We have experienced some resourcing constraints this year and we have adjusted our work plan accordingly.

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.

Internal Audit Progress Report

Date: 30 October 2013

Contents

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Audit
LINCOLNSHIRE

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Introduction

1. The purpose of this report is to:

   ▪ Advise of progress being made with the Audit Plan 2013/14

   ▪ Provide details of the audit work during the period

   ▪ Provide details of the current position with agreed management actions in respect of previously issued reports

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

Key Messages

2. We have made good progress against the internal audit plan, despite experiencing some staffing issues, and have so far completed 32.4% of the planned work for the year. Further information on our performance targets can be found in paragraph 13.

3. We have completed 5 County Council audits since our last progress report, one which has resulted in limited assurance. A further 19 County Council audits are in progress, 8 of which have had the draft report issued and are awaiting the final report to be concluded. Other significant work in this period is detailed at point 11 below and includes non-planned work from within the Council and our partners.

4. Since the beginning of April we have had an auditor off sick. Originally we expected this to be short term, but we now expect it to be at least for the remainder of the financial year. We also have a vacancy following the resignation of one of our Principal Auditors – we have recruited a new Principal Auditor who starts in January 2014. Although we have arrangements in place to cover some of this shortfall we will lose 230 audit days in total and later in the report we propose audits to be reduced or cancelled as a result.

5. We also undertook more substantive testing in completing the 2012/13 audit of Adult Services Case Management, Referrals and Contact Management, this too has impacted on the completion of the plan this year.

Internal Audit work completed from 30 June 2013 to 30 September 2013

6. The following audit work has been completed and a final report issued – quarter two is inevitably our least productive quarter due to annual leave commitments and the need to schedule school audits around term time. Our due diligence and key financial systems work naturally picks up pace in the latter half of the year which ensures our testing covers sufficient current year transactions.

3

Full Assurance	Substantial Assurance	Limited Assurance	No Assurance
▪ Capital Programme	▪ Mobile Computing ▪ Youth Offending – Under 18s Single Remand Order ▪ Quarter – 1 key control testing	▪ Pensions Administration	

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

7. We are reporting 1 limited assurance audit in this quarter – details of which can be found in Appendix 2.

8. Progress with the implementation of agreed management action on recommendations for audits resulting in 'No' or 'Limited' assurance is followed up and reported in Appendix 3. There is a separate report being presented to the Committee on outstanding high recommendations where an assurance opinion of 'No' or 'Limited' was given.

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

Youth Offending – Under 18s Single Remand Order

Our audit work found that Youth Offending Service have been proactive in working with Children's Services and other key providers to develop processes, practices and relationships to meet the requirements of the LASPO act on the remands of children and their subsequent 'Looked After Child' status.

We identified that work has been done to provide alternatives to secure remand through remand foster care placements; however there are currently only two foster carer homes established and these are not always available due to other foster care commitments. Our report made recommendations on further development of cross team working for intervention and preventative services and embedding the remand/looked after procedure further within the Customer Service Centre and Emergency Duty Team.

Mobile Computing

We found that the Council has a comprehensive set of procedures and guidance to cover mobile and remote working. However, it was noted that there are elements of non-compliance within the Council, and when officers leave the Council there is no comprehensive and accurate asset register to ensure that all IT assets are returned. Our recommendation seek to strengthen this area.

4

Capital Programme

We found a robust control framework through the content of the Financial Regulations, the Financial Procedures and the capital spending strategy (contained within the Budget Book) which collectively set out in detail the rules and standards, management arrangements, financial constraints, and operating arrangements.

Roles and responsibilities were clearly evident including delegated responsibility in directorates for both financial management and project responsibility. We were satisfied that this worked as documented and results in a capital programme that is established in accordance with the control framework.

The monitoring and review arrangements both within the service directorates and corporately were also strong and clearly evident. We evidenced progress reporting within directorates and a process for capturing, collating and reporting this information corporately. This resulted in the production of timely management information, especially in terms of outturn, both for executive and directorate management, and also where any corrective or modifying actions were necessary within directorates. We consider that the capital programme is effectively scrutinised and monitored at appropriate levels.

The process for identifying funds for the capital programme for the year has a documented timescale which all parties were clearly aware of, and worked towards. This is driven by the setting of the overall budget for the year. There was a clear commitment to ensuring this was achieved.

We reviewed the process for identifying capital funds and are satisfied that this results in a programme that is specific and quantified in terms of the Council's financial obligations. The process takes account of any ongoing capital commitments and identifies any revenue implications.

Audits in Progress

10. The following audits are currently in progress:

Fieldwork in progress:
- Public Health Assurance Map
- Update of Children's Services, Communities, Resources and Performance & Governance Assurance Maps
- Adult Services Case Management ICT System – On-going
- Adult Services Proactive Support – On-going
- Children's Services - Access Databases
- Castle Revealed Project
- Child Poverty Strategy
- Creditors
- Quarter 2 – key control testing

5

Fieldwork complete, draft report being produced:

- Debtors
- Income

Final Report being concluded:

- Adult Services Customer Finance Team/Direct Payments
- ICT Disaster Recovery
- Adult Services Case Management, Referrals and Contact Management
- Customer Service Centre
- Trading Standards
- Projects and Programme Service
- Supported Childcare Allocations
- Property Realisation Plan (audit b/f from 2012/13)
- Performance Management Service

Other Significant Work

11. Other work undertaken during the period includes:

Academy Audits

We have signed up 8 Academies to take our audit services and have visited many of them during the second quarter. We have found that we have had to give additional support and guidance to many of the Academies we have visited as they have taken on financial responsibilities that previously they did not have.

We have also signed off the annual pension returns of a number of academies.

Other Non-planned Work

Library Services

We have recently moderated the Council's assessment process for filtering the Expressions of Interest which have been submitted by community and voluntary organisations wishing to deliver library services in Lincolnshire. This ensured the assessment panel had appropriate assurances around their assessments and were able to take appropriate actions to reach a satisfactory conclusion to their work.

Adult Care

Audit took the lead on an Independent Management Review in Adult Care, as part of a serious case review. This involved analysis of events, information systems and case files, interviews with staff and the production of a detailed chronology, an outcome report and comprehensive action plan. The review culminated in the presentation of the report to senior managers. A follow up audit of the nine areas of improvement detailed in the action plan is planned for February 2014.

6

Police and Crime Panel

We have been supporting the Police and Crime Panel's task group in their review of the Police and Crime Commissioner's decision regarding the suspension of the Chief Constable. We have analysed the events, summarised key documentation and produced a comprehensive chronology which has helped frame the areas for discussion and analysis for the task group.

Lincolnshire Police

In August we were commissioned by Lincolnshire Police to carry out an audit on a discrete area of their business. The outcome of our work was well received and has helped the Force agree appropriate improvement actions.

Audit Plan Proposed Changes

12. We have estimated that we will lose 230 audit days during the course of the year primarily through long term sickness and a staff vacancy and as a result we propose that the following changes be made to the Audit Plan:

Cancel the following audits

Spalding Western Relief Road – this audit would have focussed on the governance arrangements for this project. We have found that the governance arrangements are as for the Grantham Relief Road which was audited earlier in the year and given substantial assurance.

Legal changes to Schools – this audit was to focus on academy conversion work. Management have recently changed the management assurance level from Amber to Green as they have introduced better processes and the number of conversions has fallen.

Amend the following audits:

ICT – reduce from 85 days to 40 days. Our work plan includes the development of the assurance map for ICT which will culminate in a Combined Status Report which will show what assurances the Council has on its critical IT systems – highlighting where there may be potential 'unknowns & gaps'. The Committee has also been presented with management assurances on Internal Audit Reports during the past year. This together with the outcome of the combined assurance work will, in our view, provide sufficient assurance for 2013/14.

Schools – reduce from 275 to 225 days.

Public Health – reduce from 110 days to 20 days. We have not been able to complete the Public Health assurance map as early as we had hoped. Until the map is complete we cannot identify the areas to be audited. We are currently working with senior management to progress this and we plan to present their

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Combined Status Report on the assurance arrangements in Public Health at the March 2014 Committee.

Performance Information

13. Our current performance against targets is shown below:

Performance Indicator	Target	Actual 30/09/13
Percentage of plan completed	100%	32.4%
Percentage of recommendations agreed.	100%	100%
Percentage of recommendations implemented.	100% or escalated	Annual Report
Timescales	Draft report issued within 10 working days of completing audit.	80%
	Final report issued within 5 working days of closure meeting / receipt of management responses.	80%
	Period taken to complete audit – by exception	
Client Feedback on Audit (average)	Good to excellent	Good to excellent

Other Matters of Interest

14   CIPFA are updating their practical guidance on the function and operation of audit committees in local authorities and police bodies. We expect this guidance shortly and will brief the Committee on any changes etc. We suggest we use the self-assessment session planned in the New Year to do this.

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Appendix 1 - Assurance Definitions[1]

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

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

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

Limited Assurance

The limited opinion is based on the fact that, at the time of our audit, the Mouchel Pensions Administration team had significant backlogs and had also provided misleading performance information to the Council. Our findings show that reporting against the agreed CIPFA benchmarks and industry standards did not accurately reflect actual practice. Administrative tasks can sit in a holding area (suspense account) for two days or more prior to assignment – we found that these days are not properly accounted for in the performance calculations. This impacts upon the accuracy of performance data and reduces the confidence on routine reporting to the Council.

We note that Mouchel had informed the council of backlogs in two areas and in consultation with LCC, agreed to clear these by the end of the year. However Mouchel only disclosed their most significant backlog (5 months) relating to starter interface tasks at the start of this audit. Although the backlogs were significant, they did not occur in areas covered by the existing CIPFA performance targets. However, the size of the backlogs was an indicator of capacity or efficiency problems – these are exceptions we would expect to be continually reported to the Council, to assess the level of work outstanding.

Future backlogs or inaccurate performance data could impact on the Council's reputation as it is ultimately accountable for the management of the scheme.

Testing of the Pensions Administration transactions confirmed that the collection and recording of contributions to the pension scheme are complete and accurately maintained.

Direction of Travel	⬆ Increasing
	Although confidence in the efficiency and effectiveness of the Pensions Administration function was reduced due to the backlogs, there is now closer management scrutiny of workloads. There is still some uncertainty over the reliability of performance information but Mouchel now routinely report against a wider set of targets.

We found that three Pension Administration areas had a significant backlog of tasks. These tasks were not covered by the CIPFA benchmarking targets but they were indicators of a capacity or efficiency problem – the backlog relating to starter interface tasks were not reported to the Council until the start of this audit. It was explained during the audit that additional resources were being obtained to address the backlog of the outstanding items. Mouchel expected these tasks to be cleared by the end of March 2013.

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- Starter interface tasks (LSTA) – requiring new starters to the scheme to be issued with a starter pack. 979 outstanding cases were identified at the beginning of November 2012 reducing to 422 outstanding cases in January 2013. Starter packs are now dealt with by HR as part of the auto-enrolment scheme.

- Concurrent (CONC) tasks – 221 cases were outstanding when we reviewed in November, which increased to 247 cases in January. These tasks relate to those members transferring previous local government service – failure to complete these tasks would only impact if the member retired, died or was made redundant.

- Guaranteed Minimum Pension notifications from HMRC (GMP) – 165 cases identified initially in November 2012 had risen to 236 tasks by the end of the audit fieldwork in this area (Feb 2013).

We also found that scanned documents/cases which are not immediately assigned to a particular task are placed in a holding area (Lgpost). These items are usually allocated to a measureable task within 2 days – although our testing results show that this 2 day target is not always adhered to. This 'holding time' (2 days or more) was not fully accounted for in the performance calculations, which in turn distorts the performance information submitted to the Council.

We also found that reporting on local performance indicators had not started as agreed from October 2012, due to delays within the Pensions Administration team in extracting and producing the data in the required format. Although still being developed, this had improved by April 2013, with regular reporting of LPI's in place.

An upgraded software system (Altair) has been introduced since the last audit and our review of this system and associated processes has confirmed that the controls (access, security and process) are appropriate and consistently applied.

There were elements of good practice noted during the audit, in particular:

- Contributions to the LGPS fund were correctly calculated and reconciled - employer rates had been correctly applied in relation to each contributor organisation.

- Proactive work has been undertaken by the Pensions Admin section to ensure that all contributors to the LGPS fund are informed of their auto-enrolment obligations.

- Changes in hours are updated onto the Altair system via an SAP interface. This is used as a data validation process to ensure that any changes made on the payroll system are accurately reflected on the Altair pension system.

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Management Response

LCC

We wish to see open and transparent reporting of performance and hope that the recommendations set out in the report will be adopted and implemented by Mouchel as soon as possible.

Mouchel

Mouchel are committed to providing services of the highest standard and have indeed worked extremely hard to improve the service to the extent that current measurements show that Mouchel are delivering a service that continually exceeds agreed targets. All of these targets have been suggested and implemented by Mouchel voluntarily in order to improve the service or have been agreed in order to show how the Pensions Unit and indeed the Lincolnshire CC Pension Fund performs against other LG Funds. They are all in addition to, and better than, performance targets embedded within the contractual agreement between Lincolnshire CC and Mouchel.

The internal audit report suggests that Mouchel has been misleading the Council by withholding information regarding backlogs of work. Mouchel accepts that it made an error by not reporting the backlog of member welcome packs not issued but all other areas of concern or backlogs were reported to the partnership meeting. However, as improved performance targets were introduced the measurement of those targets was refined to ensure that reporting was robust and appropriate. Final measurements have now been finalised which are formally reported to the monthly partnership meeting.

Team Co-ordinators continually review administrative tasks to ensure that resources are allocated correctly. The 'Task Management system' is a tool that they use to ensure that they can properly allocate resources to achieve the completion of the entire unit's workload, not just those areas subject to CIPFA benchmarking or performance analysis.

Local Performance Indicators (LPIs) have been designed for transparency and improved work management. They are above and beyond CIPFA benchmarking levels and have resulted in clear management information being available. Outstanding work could not properly be identified previously but is now far more visible due to the improvements in reporting that have been introduced by Mouchel.

These new measures have been incorporated into the section's Task system and now offer a transparent monthly reporting mechanism readily available to LCC outside of partnership meetings. Any delay in reporting the Unit's LPI performance (expected live date October 2012) was caused by our desire to ensure that reporting was appropriate and useful. The Pensions Unit at Mouchel is committed to continuous improvement and it does this by continually re-examining the processes it utilises.

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Appendix 3 - Outstanding recommendations as at 30th September 2013 for audits with 'No' or Limited' assurance

Audit Area	Date	Assurance	Number of Recs	Implem'd	Overdue			Not Due Date
					H	M	L	
Performance & Governance								
ICT Service Management	July 2012	Limited	8	5	1	2		
ICT Data Management	Sept 2012	Limited	6	5			1	
Councillor Big Society Fund	Sept 2012	Limited	6	5	1			
Children's Services								
Child Protection Plans	May 2013	Limited	8	5	1	2		

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Appendix 4 – Internal Audit Plan & Schedule 2013/14

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Public Health						
Critical Service Areas						We are currently working on establishing the Assurance Map for Public Health and are proposing to undertake no audits in Public Health During this year. The Assurance Map will identify the audits to be undertaken in 2014/15.
Critical service allocation	Audit of critical services to be determined after the assurance map has been produced	35				
Due Diligence						
Due Dilligence allocation	To review the level of compliance with the Council's key financial procedures across service areas within the Directorate	10				
Key Projects						
Key Project allocation	To audit a key project during the year.	10				
Key Risks						
Strategic and Emerging risks	To audit risks within the strategic risk register any significant emerging risks arising in the year.	30				
Other relevant Areas						
Combined Assurance	Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report.	15		Oct 2013		
Non-Audit						
Advice & Liaison		10				
Total for Public Health		110				

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Adult Services						
Critical Service Areas						
Customer Finance & Direct Payments Team	Review of the newly formed team for carrying out financial assessments of clients and making direct payments to clients.	**100**	June 2013	June 2013		Draft Report - indicative limited Assurance
Brokerage	Review of end to end process of the Brokerage team for the purchase and monitoring of packages of care.		Sept 2013			Delayed due to staff vacancy
Organisational learning and follow up	Review progress made to implement recommendations from the 2012 Internal Management Review / audit reviews.		Jan 2014			
Quality Assurance	Review the effectiveness of the service-quality assurance regime – developed to ensure that ASC operates to best practice standards / policy and procedures.		Jan 2014			
Performance Management	Review of data quality, trend analysis and reporting arrangements, and the actions being taken to address issues.		Oct 2013			To be rescheduled due to staff vacancy
Reablement Service	Review to gain assurance that the performance of the service continues to improve and that outcomes for service users are achieved.		Nov 2013			
Key Projects						
Transformation Programme	Review of the programme/project management arrangements for this key ASC programme, considering the design and application of the governance structure.	**45**	Sept 2013			To be rescheduled due to staff vacancy

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Proactive Support	To provide proactive advice and support on governance, managing key risks and effective internal control.		April 2013	April 2013		On-going
ICT						
Case Management System	To provide proactive advice and support to this project, ensuring that key risks and controls are being considered.	**15**	April 2013	April 2013		On-going
Key Risks						
Strategic and Emerging risks	To audit risks within the strategic risk register any significant emerging risks arising in the year.	**35**				
Other relevant Areas						
Combined Assurance	Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report.	**10**	July 2013	July 2103		Assurance Map updated in July 2013 – Status Report July 2013 Audit Committee
Non-Audit						
Advice & Liaison		**10**				
Total for Adult Services		**215**				
Children's Services						
Critical Service Areas						
Birth to Five						
Supported Childcare Allocations	To provide assurance that in allocating supported childcare, families are properly assessed and meet the eligibility criteria.	**75**	July 2013	July 2013		Draft Report

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Commissioning						
Child Poverty Strategy	To ensure the authority's Child Poverty Strategy is supported by a robust action plan which will ensure national targets for eliminating child poverty are achieved.		June 2013	June 2013		Audit as initially scoped was completed, however revised scope agreed with Children's Services requiring additional work
Performance Assurance Services						
Lincolnshire Safeguarding Children's Board	To review the arrangements Performance Assurance are developing to strengthen the assurance received from the LSCB.					Children's Services have requested removal from the plan and replaced by audit of the '16 to 19' service
Property & Technology Management Services						
Legal Changes to Schools	To provide assurance that statutory procedures are complied with when changes are made to schools' status – such as change in provision, expansion, closure etc.		Dec 2013			Propose to cancel this audit, please see report
Police Notification of Domestic Violence	To provide assurance on arrangements to assess and record police referrals.		Dec 2013			
Key Projects						
Families Working Together	To review the FWT project to provide assurance that effective mechanisms are in place to: • Identify 'troubled' families	10	Sept 2013	Sept 2013		Scoping

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Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	• Assess family needs • Assess, evidence & record achievement of specified results • Claim available funding					
ICT						
Integrated Children's System ICS	Review of system management, user and administrative access, input and output controls, user training and guidance.	15	Dec 2013			On-going
Access Databases	Review of system maintenance, user and administrative access, input and output controls, user guidance.	15	June 2013	June 2013		Audit in progress
Key Risks						
Strategic and Emerging risks	To audit risks within the strategic risk register any significant emerging risks arising in the year.	15				
Other relevant Areas						
Combined Assurance	Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report.	285	Oct 2013	Oct 2013		Review commenced
Schools	Periodic audits of maintained schools.		April 2013	April 2013		22 schools completed to date. Propose to reduce days by 50
Non-Audit						
Advice & Liaison		10				
Total for Children's Services		**425**				

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Communities						
Critical Service Areas						
Environment, Planning & Customer Services						
Carbon Reduction Commitment	Review of the arrangements in place to comply with the Environment Agency's requirements under the CRC, including sign off of the LCC Evidence Pack.	*70*	July 2013	July 2013		Undertaken in 2 parts, first part completed
Flood Management	Review of the development and delivery of the Flood Risk Management Strategy.		Nov 2013			
Customer Service Centre	To review the arrangements for responding to customer queries, delivering advice and information on council services and forwarding service requests.		Dec 2013			
Highways & Transport						
Civil parking enforcement	Review of the arrangements for the management and monitoring of the contract for the provision of parking enforcement services.		Oct 2013	Sept 2013		Client brief issued
Adult Services Transport	Review of the impact of personal budgets to give assurance that they have been adequately managed and arrangements put in place.		Jan 2013			
Key Projects						
Spalding Western Relief Road	To provide assurance that appropriate arrangements are in place for the governance, management and monitoring	*20*	Jan 2014			Propose to cancel this audit, please see report

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	of the design stage to ensure planning permission is achieved.					
Castle Revealed	To provide assurance that appropriate arrangements have been put in place to manage the project works and finances and they are being properly applied.		May 2013	May 2103		Audit in progress
Key Risks						
Strategic and Emerging risks	To audit risks within the strategic risk register any significant emerging risks arising in the year.	**15**				Audit areas to be identified at half year review
Other relevant Areas						
Combined Assurance	Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report.	**10**	Oct 2103	Oct 2013		On-going
Non-Audit						
Advice & Liaison		**10**				
Total for Communities		**125**				
Resource & Community Safety						
Critical Service Areas						
Fire & Rescue						
Fleet Provision	To review the provision and maintenance of the fleet, including the safeguards in place to prevent reoccurrence of the	**70**	Jan 2014			

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Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	AssetCo risk.					
Safer Communities						
YOS – under 18s single remand order	To review the Authority's response to the Legal Aid and Punishment of Offenders Act 2012 – scope to cover: process, finance and links to Children's Services – Looked After Children		June 2013	June 2013	August 2013	Completed – Substantial Assurance
Trading Standards	Assessment of resourcing, task prioritisation and impact on timescales.		May 2013	May 2013		Draft report
Procurement Lincolnshire						
Category Management	Review the effectiveness of category management model and development of supply market intelligence to delivery client needs and sustainable outcomes.		August 2013	Sept 2013		Audit in progress
Business Support						
Direct Payments	Review of process, compliance and support arrangements in light of change of responsibilities – system is significant to the support in ASC and has had past limited assurance from Audit.		May 2013	May 2013		Draft Report
Due Diligence						
Resources						
Creditors	To ensure that the financial control environment in these systems are robust and operating effectively.

The reviews will assess whether income and expenditure budgets are regularly | **260** | Aug 2013 | Oct 2013 | | On-going |
Debtors			Sept 2013	Sept 2013		Draft report
Procurement Card			Nov 2013			
Pensions Administration			Dec 2013			
Budget Management			Jan 2014			
Pensions Fund			Feb 2014			

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Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Income	monitored, appropriately controlled and reported.		Sept 2013	Sept 2013		Draft report
Key financial systems – transaction testing	Throughout the year test key controls and transactions feeding into the Council's accounts in liaison with External Audit		April 2013 July 2013 Oct 2013	May 2013 July 2013 Oct 2013		Full Assurance Substantial On-going
Financial and Contract Regulations – establishment visits	To review the level of compliance with the Council's key financial procedures across selected service areas		Jan 2014			
Risk Management	To provide assurance on the risk management strategy, structure and operations within the organisation.		Mar 2014			
Contract Management	Council-wide probity / compliance work – covering service delivery & contract payments – "business as usual"		Nov 2014			
ICT Applications						
SAP		**15**				
Key Projects						
FDSS		**10**				
Emerging Risks						
Emerging risk contingency	To audit any strategic risks and significant emerging risks arising in the year.	**20**				
Other relevant Areas						
Combined Assurance	Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the	**10**	Oct 2013	Oct 2013		On-going

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	combined Assurance Annual Status Report.					
Non-Audit						
Advice & Liaison		**10**				
Total for Resources & Community Safety		**395**				
Performance & Governance						
Critical Service Areas						
People Strategy	Review the effectiveness of the People Strategy launched in 2012 and the five workstreams underpinning delivery of the Council's people management arrangements	**20**	Sept 2013	Nov 2013		Deferred due to on-going FDSS work / availability of staff
Due Diligence Activities						
Corporate Governance	To review the effectiveness of the Council's governance arrangements, including compliance with new standards regime	**20**	Nov 2013			
Gifts, Hospitality and Register of Interests	To assess the level of compliance with the Council policy for managing gifts and hospitality and controlling potential conflicts of interest.		Dec 2013			
ICT						

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	Work is underway to finalise ICT assurance map and status report – this will inform the choice of audits in this section of the plan. Scheduling of individual ICT audits will be agreed when the assurance map is finalised.	85				Propose to reduce the number of days on ICT, please see report
Key Projects						
Broadband in Lincolnshire	To provide assurance on delivery and compliance with the grant conditions.	10	Feb 2014			
Strategic / Emerging Risks						
Strategic risk	To seek assurance on the key controls linked to strategic risks which sit within the directorate, e.g. Becoming a Commissioning Council	15				
Emerging risk contingency	To audit any significant emerging risks arising in the year.					
Other relevant Areas						
Combined Assurance	Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report.	10	Oct 2013	Oct 2013		On-going
Non-Audit						
Advice & Liaison		10				
Total for Performance & Governance		170				
Grand Total		**1440**				

Lincolnshire
COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Resources and Community Safety

Report to:	Audit Committee
Date:	**11 November 2013**
Subject:	**Analysis of High Priority Recommendations Outstanding at 30 September 2013**

Summary:
This report provides an analysis of the high priority audit recommendations outstanding at 30 September 2013, and suggests how they should be managed.

Recommendation(s):
That the Committee notes the contents of the report, agrees to the suggested actions, and identifies any additional actions it requires.

Background

1. The Corporate Audit recommendation tracking process has identified three high priority recommendations outstanding from audits that received 'No' or 'Limited' assurance. This report provides more detail on the status of those recommendations and suggests how they should be managed.

High Recommendations Outstanding

Audit	ICT Service Management		
Date	July 2012	**Assurance**	Limited
Action	Services to be delivered under the ICT contract to be defined and timescales agreed as part of the NGP project and progress of the project monitored by the monthly Programme Delivery Board and quarterly Strategic Board.		
Status	Partially Complete. The amendments have now been agreed and final sign off (which is part of a bigger piece of work) is expected by the end of November 2013.		
Suggested Action	Follow-up this action in December 2013 to ensure it has been completed.		

Audit	Councillor Big Society Fund		
Date	September 2012	**Assurance**	Limited
Action	Random spot checks are to be undertaken on all grants awarded which exceed two thirds of the Councillors annual allowance to ensure the grant conditions have been complied with.		
Status	Initially no random checks were undertaken, however recently a sample of 10 grants awarded between October 2012 and March 2013 were selected for checking. The checks were expected to be complete by the end of November 2013.		
Suggested Action	Follow-up this action in December 2013 to ensure it has been completed.		

Audit	Child Protection Plans		
Date	May 2013	**Assurance**	Limited
Action	Child Protection Plans are to include clear overall contingency arrangements should the plan fail.		
Status	We have not received an update on this action.		
Suggested Action	Chase this action as a matter of urgency.		

Conclusion

2. There are three high priority recommendations outstanding. We will be following them all up in the next two months to ensure those actions are adequately progressed.

Consultation

 a) Policy Proofing Actions Required

 n/a

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.

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Resources & Community Safety

Report to:	**Audit Committee**
Date:	**11 November 2013**
Subject:	**Review of Audit & Inspection Financial Procedure & Internal Audit Charter**

Summary:

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

There are two key policy documents to support this activity:
1   Financial Procedure 7 - Audit and Inspection, and
2   Internal Audit Charter.

This report presents the Committee with the revised documents - taking into account the recently published UK Public Sector Internal Audit Standards and the change in the External Audit regime.

Recommendation(s):

That the Committee:

1 Considers and approves the revised Audit & Inspection Financial Procedure 7 (subject to any changes it wishes to be made) and:

2 Considers and comments on the draft Internal Audit Charter prior to wider consultation and approval by the Corporate Management Team.

Background

In light of the recent changes in both the Internal and External Audit regimes the following documents have been updated:

Financial Procedure 7 – Audit and Inspection

This procedure forms part of the Financial Regulations and procedures in the Constitution of the Council. It aims to inform officers and members of the mandatory requirements and provide guidance on good practice in the roles of internal and external audit and other inspection regimes.

The revised draft has taken into account the UK Public Sector Internal Audit Standards which came into effect from the 1st April 2013 and changes in External Audit regime.   A copy of revised Financial Procedure 7 – Audit and Inspection is attached in Appendix A.

In discharging its role of having oversight of the Council's audit arrangements the Committee are asked to consider and approve the content ensuring that includes the areas it wishes to be **mandatory elements** and key areas of best practice.

Internal Audit Charter

The Internal Audit Charter is a key document setting out the nature, role, responsibilities and authority of the Internal Audit Service within the Council.

It has been updated to ensure compliance with the recently UK Public Sector Internal Audit Standards

As one of the Committee's roles is the oversight and monitoring of the effectiveness of Internal Audit Service the draft Charter is being presented to enable the opportunity to note and comment on the content before wider consultation.

The draft Charter is attached in Appendix B

Once wider consultation and approval by the Corporate Management Team has been completed the Charter will need to be approved by the Committee.

Conclusion

Audit and Inspection forms a key component of the Council's governance framework and assurance arrangements.   The Audit & Inspection Financial Procedure and Internal Audit Charter will strengthen our policy and procedures in this area.

Consultation

 a) **Policy Proofing Actions Required**

 N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Financial Procedure 7 - Audit & Inspection
Appendix B	Draft Internal Audit Charter - October 2013

Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
UK Public Sector Internal Audit Standards	Internal Audit Service - Lucy Pledge Head of Internal Audit & Risk Management

This report was written by Lucy Pledge, who can be contacted on 01522 553692 or lucy.pledge@lincolnshire.gov.uk.

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FINANCIAL PROCEDURE 7

AUDIT AND INSPECTION

This Procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council.

1. Principles Covered

1.1   The Audit and Inspection areas covered in this procedure include:

- Provision of Internal Audit
- Co-operation with other Agencies
- External audit
- Other inspection regimes
- National Fraud Initiative
- Voluntary Funds

2. Reference Documents

2.1   Reference to the following documents may be required:

County Council Constitution :	David O'Conner – Executive Director and Monitoring Officer
Internal Audit Charter	Lucy Pledge – Head of Audit and Risk Management
Public Sector Internal Audit Standards – 2012	Lucy Pledge – Head of Audit and Risk Management
External & Internal Audit Joint Working Protocol	Lucy Pledge – Head of Audit and Risk Management

3. Contacts for Advice

3.1   Lincolnshire County Council   David Forbes – Assistant Director – Finance and Resources

Lucy Pledge – Head of Audit and Risk Management

4. Purpose of the Procedure

4.1   To inform officers of mandatory requirements, including those embodied in the County Council's Constitution and to provide guidance on principles of best practice.

4.2 To highlight the roles of internal and external audit and the responsibility of officers to these and other inspection regimes.

4.3 **Mandatory elements of the Financial Procedure are printed in bold type. Departures from the mandatory elements cannot be granted.** The Director of Resources and Community Safety has statutory duties for the financial administration and stewardship of the Council which cannot be overridden.

These statutory duties include:
- setting and monitoring compliance with corporate standards:
- advising on the key financial controls necessary to secure sound financial management.

Other parts of this Procedure represent best practice and provide guidance.

4.4 It is recognised that in a continually changing environment there may be a need for flexibility. In certain instances a departure from the guidance may be appropriate.

4.5 There should be a convincing need for any such departures and **any departures from the guidance must be agreed with the Director of Resources and Community Safety in writing.**

5. Provision of Internal Audit

5.1 **The requirement for local authorities to have an internal audit function is determined by section 151 of the Local Government Act 1972, which requires that authorities:**

- **make arrangements for the proper administration of their financial affairs.**
- **nominate one officer to take responsibility for the administration of those affairs.**

5.2 **The Section 151 officer has a number of statutory duties, including the duty to report any unlawful financial activity involving the authority (past, present or proposed) or failure to set or keep to a balanced budget. The Section 151 officer also has a number of statutory powers in order to allow this role to be carried out, such as the right to insist that the local authority makes sufficient financial provision for the cost of internal audit.**

The Director of Resources and Community Safety has been delegated this responsibility by the Council.

5.3 **The Accounts and Audit Regulations 2011, more specifically require that the Council (as a relevant body) must:**

- **undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices for internal control.**

- **conduct a review, at least once in a year, of the effectiveness of its system of internal control.**
- **at least once in a year, conduct a review of the effectiveness of its internal audit.**
- **approve an annual governance statement, prepared in accordance with proper practices for internal control.**

Purpose, Authority and Responsibility of Internal Audit

5.4 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It examines, evaluates and reports on the adequacy of governance, risk and internal control as a contribution to the proper, economic, efficient and effective use of resources.

5.5 Within Lincolnshire County Council, these duties are undertaken by the Audit & Risk Management Service, headed by the Head of Audit and Risk Management.

Key Controls

The key controls for Internal Audit are:

- **It is independent in its planning and operation with internal auditors performing their work objectively.**
- **That the purpose, authority and responsibility of internal audit is set out in an Internal Audit Charter which has been approved by the Management Board and Audit Committee.**
- **An Internal Audit strategy that sets out the basis of internal audit activity and how the head of internal audit will provide an annual internal audit opinion on the Council's framework of governance, risk management and control.**
- **The Head of Audit and Risk Management direct access to the Executive Director – Resources and Community Safety, all levels of management and to all elected members.**
- **The Head of Audit and Risk Management must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.**
- **Internal Auditors must conform to the Code of Ethics set out in the Public Sector Internal Audit Standards.**
- **Internal auditors comply with the Public Sector Internal Audit Standards.**
- **The Head of Audit and Risk Management must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.**

- Executive Director – Resources and Community Safety ensures the Council has an adequately resourced and effective Counter Fraud and Internal Audit service.
- The Council's Audit Committee monitors Council's policies and considers the effectiveness the Whistleblowing and Counter Fraud & Corruption arrangements.
- The Council's Audit Committee monitors the effectiveness of the internal audit process, including its independence, objectivity, performance, and professionalism. Follow this link for the terms of reference of the Audit Committee (insert link).

Responsibilities of the Director of Resources and Community Safety

5.6   The Director of Resources and Community Safety is responsible for ensuring that internal auditors have the necessary authority to undertake their duties. This includes giving the authority to:

- Access council premises at all reasonable times.
- Access all assets, records, documents, correspondence and control systems.
- Receive any information and explanation considered necessary concerning any matter under review.
- Require any employee of the council to account for cash, stores or any other Authority asset under his or her control.
- Access records belonging to third parties, such as contractors, when required.
- Directly access the Council's Executive Directors, Executive and Audit Committee.
- To approve and report as necessary the audit plans prepared by the Head of Audit and Risk Management in accordance with Council priorities and agreed risk assessment methodology.
- To ensure the effective procedures are in place to investigate promptly any fraud or irregularity. (See also Financial Procedure 6 Risk Management).

Responsibilities of Executive Directors

5.7   Management are responsible for managing the risks facing their service and to maintain and adequate and effective system of internal control to increase the likelihood that established objectives and goals will be achieved. They also plan, organise and direct the performance of sufficient actions to provide a reasonable level of assurance that objectives and goals will be achieved. They are the key assurance provider in the Council's assurance framework.

5.8   Executive Directors are responsible for:

- Maintaining an adequate and effective system of internal control.
- Ensuring that staff are aware of the processes and procedures required to operate the control systems.
- Commenting on and inputting to, the audit plan and activities.
- Agree the Terms of Reference for each audit assignment to ensure attention is focused on areas of greatest risk or concern to enable the most effective audit coverage and minimise duplication.

- To notify Audit of any major changes in order that time can be allocated within the audit plan.
- To ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.
- To ensure the auditors are provided with any information and explanations that they seek in the course of their work.
- To consider and respond promptly to recommendations in audit reports.
- To ensure that any agreed action arising from audit recommendations are carried out in a timely and efficient fashion.
- To notify the Head of Audit and Risk Management immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the authority's property or resources. Pending investigation and reporting, the Executive Director should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.
- To ensure that potential irregularities remain confidential and to determine what action should be taken as a result of an investigation

Co-operation with other Agencies

5.9 The Internal Audit section work in conjunction with the Council's External Auditors under a "Managed Audit" arrangement. The External Auditor seeks to place reliance on the work of Internal Audit where this is relevant to their work, particularly when appraising the controls operated by management over financial systems. This arrangement makes the best use of the combined audit resources and helps reduce any unnecessary overlap of audit effort.

5.10 Internal Audit also co-operate with other agencies in undertaking reviews (e.g. Inland Revenue, Customs and Excise)

6.   Provision of External Audit

6.1   External Auditors responsibilities are set out in the Audit Commission Act 1998 and the Audit Commission's Code of Audit Practice.   The Code of Audit Practice summaries External Audit responsibilities into two objectives, requiring External Audit to review and report on the Council's:
- **financial statements (including the Annual Governance Statement): providing an opinion on the Council's accounts; and**
- **use of resources: concluding on the arrangements in place for securing economy, efficiency and effectiveness on the Council's use of resources (the value for money conclusion).**

6.1 The authority's accounts are examined by external auditors, who must be satisfied that the statement of accounts 'true and fair view' of the financial position of the authority and its income and expenditure for the year in question and complies with the legal requirements.

As part of this work external audit will consider:

- The adequacy of measures taken by the council to limit the possibility of fraud and corrupt practice.

- The key risks affecting the Council's financial statements.
- The significant qualitative aspects of the Council's accounting practices and financial reporting.
- Assess the Council's process for preparing the accounts and its support for an efficient audit.

6.2 The responsibility for ensuring completion, accuracy and completeness of grant claims lies with the council. Government departments usually require independent examination as a condition of their acceptance of claims or returns. In such circumstances the Head of Audit and Risk Management provides independent certification of the claim.

Key Controls

- External Auditors are appointed by the Audit Commission normally for a minimum period of five years. The Audit Commission prepares a code of audit practice, which external auditors follow when carrying out their audits.
- The Council's Audit Committee reviews the Council's annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statement or the audit that need to be brought to the attention of the Council.
- The Council's Audit Committee monitors the effectiveness of the external audit process, including its independence and performance. It specifically considers the external auditors annual letter, relevant reports and the report to those charged with governance. Follow this link for the terms of reference of the Audit Committee (insert link).

6.3 Responsibilities of the Director of Resources and Community Safety

- To ensure that external auditors are given access at all reasonable times to premises, personnel, documents, and assets that the external auditors consider necessary for the purposes of their work.
- To ensure there is effective liaison between external audit and internal audit
- To work with the external auditor and advise the Full Council, Executive and Executive Directors on their responsibilities in relation to external audit.
- To ensure that effective processes are in place to produce a complete set of draft accounts – meeting required deadlines.
- To ensure that the Annual Governance Statement is considered and approved with the statement of accounts.
- To ensure that appropriate accounting practices in place and complied with.

6.4 Responsibilities of Executive Directors

- To ensure that external auditors are given access at all reasonable times to premises, personnel, documents, and assets that the external auditors consider necessary for the purposes of their work.

- To ensure that all records and systems are up to date and available for inspection.

7. Other Inspection Regimes

7.1 There are a number of inspection bodies with statutory duty to monitor and review the services of Local Authorities. In addition the Authority may also be subject to audit or investigation by such bodies as the HM Customs and Excise, who have statutory rights of access.

7.2 Responsibilities of Executive Directors

- To ensure officers remain up to date with legislation and regulations relating to inspection of their service.

- To ensure records and systems are up to date and available for inspection.

- To ensure that inspectors are given access at all reasonable times to premises, personnel, documents and assets that the inspectors consider necessary for the purposes of their work.

- To ensure that inspectors are provided with any information and explanations that they seek in the course of their work.

- To consider and respond promptly to inspection reports.

- To ensure any agreed actions arising from the inspection are carried out in a timely and efficient manner.

8. National Fraud Initiative (NFI)

8.1 The NFI is the Audit Commission's data matching exercise that is designed to help participating bodies to detect fraudulent and erroneous payments from the public purse. It began in 1996, and now runs every two years. The core of NFI is the matching of data to help reduce the level of housing benefit fraud, occupational pension fraud and tenancy fraud.

8.2 The Audit Commission has designated NFI to be part of the statutory external audit and authorities are legally obliged to provide the relevant data, which is required under Section 6 of the Audit Commission Act 1998.

9. Voluntary Funds (School and Amenity Funds)

9.1 Voluntary funds are in the main operated within schools and Social Services establishments. They are for the benefit of the service users, e.g. pupils or Social Service users.

They are any fund which although not officially owned by the Authority is controlled or administered solely or in part by an employee by reason of his or

her employment by the Authority or by a school Governing body. Some of the funds such as those in prime account schools may be shown as part of the Authority's accounts.

9.2 It is important to recognise the difference between school and amenity funds and the funds of outside bodies e.g. Parent Teachers Associations, Friends of the establishment. Such bodies are separate entities and have funds which are administered separately by their own rules and membership.

Key Controls

- Declaration to the County Council, and in the case of schools Governors, by the Head of the establishment of the existence of the fund, the annual balances on the fund and confirmation they have been audited.

- Maintenance of a single comprehensive fund which reflects all the activities of the fund.

- Appointment of an independent, competent auditor to provide an annual audit of the fund. The audit should be carried out in line with the Charity Commission requirement if the fund is so registered.

- Adequate accounting records and evidence to support transactions should be maintained as would be expected for the County Council accounts.

- Adequate security of all assets relating to the fund.

9.3 Responsibilities of the Director of Resources and Community Safety

- To provide advice where required on the operation of voluntary funds.

9.4 Responsibilities of Executive Directors

- To ensure officers operating the funds receive adequate detailed guidance.
- To monitor the existence of funds and that the annual audit has been undertaken and appropriately reported.

INTERNAL AUDIT CHARTER

CONTROL

Owner/ Policy Lead Officer: Head Audit & Risk Management

Location: Orchard House, County Offices, Lincoln

Consultation: Director of Resources & Community Safety / Audit Committee

Date: October 2013

Review Arrangements: Annual (as required - by (Owner/Policy Lead Officer, Director of Resources & Community Safety / Audit Committee)

The purpose of this charter is to set the nature, role, responsibilities and authority of the Internal Audit service within Lincolnshire County Council (the Council).

Purpose of Internal Audit

Internal Audit provides an independent assurance and consulting activity designed to add value and improve how the Council operates. We help the Council achieve its priorities and objectives by bringing a systematic, disciplined approach to evaluate and improve the management of risk, control and governance processes. A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised through the UK public sector.

As our primary objective is to provide independent and objective assurance on critical activities and key risks - we play a key part in the Council's overall assurance arrangements which are designed to ensure that its governance, risk and control frameworks are working.

Our aim is to align our work with other assurance functions – seeking to look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council. The assurance arrangements for the Council include:

Internal Audit objectively examines, evaluates and reports on the adequacy of the governance, risk and control environment as a contribution to the proper, economic, efficient and effective use of resources. Specifically we provide assurance to:

- Support the Executive Director - Resources & Community Safety to help him to discharge his responsibilities Statutory Officer of the Council (S151 of the Local Government Act 1972 relating to the proper administration of the Council's financial affairs).
- Support the Monitoring Officer to help maintain an effective governance framework for the Council.
- Provide appropriate inputs and opinions to support the development of the Annual Governance Statement.
- Contribute to and support the Council's Business Plan objectives and performance framework.
- Support management to understand its exposure to risks and advise on risk management principles/methods and appropriate controls / contingencies to manage risks.
- Operate the Whistleblowing arrangements.
- Provide resources to implement the Council's counter fraud policy and for the investigation of fraud and irregularities.

Scope of Internal Audit

Internal Audit has unrestricted right of access to all Council activities which includes all records, information, resources and assets deemed necessary to fulfil our responsibilities.

Internal Audit may enter Council property and have unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Authority or where contractual arrangements exist should be set out in conditions of funding and contract.

The Head of Internal Audit and Risk Management has direct access to all levels of management, all employees and to all elected members and particularly to those charged with governance ie the Chairmen of the Audit Committee, the Chief Executive, the Executive Director – Performance and Governance (Monitoring Officer), the Executive Director - Resources & Community Safety (Section 151 Officer).

Independence is achieved through the organisational status of Audit & Risk Management and the objectivity of Internal Auditors. Internal Audit provides objective assessment and advice and seeks to be free from operational systems involvement or influence. All Council and contractor staff in Internal Audit are required to make an annual declaration of interest so that any potential conflicts of interest are appropriately managed.

The Council has an integrated assurance function with the Head of Audit and Risk Management operationally responsible for risk management, health and safety and insurance functions. External Assurance is sought on these functions overseen by the Assistant Director – Finance and Resources.

Internal Audit complies with the policies of the Council including the staff code of conduct which requires all staff to act with honesty, integrity impartiality and objectivity and in an environment where all its employees are treated with dignity and respect.

Authority of Internal Audit

The requirement for local authorities to have an internal audit function is determined by section 151 of the Local Government Act 1972, which requires that authorities 'make arrangements for the proper administration of their financial affairs'.

The Accounts and Audit Regulations 2011, more specifically require that the Council (as a relevant body) must:

- undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices for internal control.
- conduct a review, at least once in a year of the effectiveness of its internal audit and or a committee to consider the findings of that review. The Council's Audit Committee undertakes this responsibility.

Audit & Risk Management seeks to meet the standards laid down by professional bodies and in particular the Public Sector Internal Audit Standards. These standards set the basic principles for carrying out internal audit in the public sector and provide quality criteria against which performance can be evaluated. Policies and practice guidance have been put in place to ensure all staff understand and comply with these standards.

The provision of Internal Audit is the responsibility of the Council; this responsibility has been formally delegated to the Executive Director – Resources & Community Safety. Financial procedure 7 – Audit and Inspections informs officers of the mandatory requirements and provides guidance on best practice.

Responsibilities of Management

The effective operations of the Council's governance, risk and control processes are the direct responsibility of Senior Management.

Management are responsible for managing the risks facing their service and to maintain an adequate and effective system of internal control to increase the likelihood that established objectives and goals will be achieved. They also plan, organise and direct the performance of sufficient actions to provide a reasonable level of assurance that objectives and goals will be achieved. They are the key assurance provider in the Council's assurance framework.

They are also responsible for ensuring staff are aware of and comply with the policies, processes and procedures required to operate these control systems.

Executive Director – Resources and Community Safety ensures the Council has an adequately resourced and effective Counter Fraud and Internal Audit service.

Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the service, its reputation and independence. A key relationship is with Management and staff. Management at all levels need complete confidence in the integrity, independence and capability of Internal Audit. Co-operative relationships with management can enhance Internal Audit's ability to achieve its objectives.

Management can assist the process of Internal Audit by:
Commenting on and inputting to, the audit plan and activities. Agree the Terms of Reference for each audit assignment to ensure attention is focused on areas of greatest risk or concern to enable the most effective audit coverage and minimise duplication. Audit work, especially its timing, should be planned in conjunction with management to minimise abortive work and time unless, for example this jeopardises the 'challenge' aspect of internal audit work or where an unannounced visit is deemed necessary.
Giving information and explanations that are sought in the course of audit work
Providing access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.
Early notification of plans for change, including new operational systems and processes.
Considering and responding promptly to recommendations in audit reports.
Ensuring that agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.
Notifying the Head of Audit and Risk Management immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the Council's property or resources. Pending investigation and reporting, the Executive Director should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.

The Head of Audit and Risk Management is required to manage the provision of a complete audit service to the Council. This includes:

Service Area	Specific Responsibilities
Audit	The Head of Audit and Risk Management is required to provide an annual opinion on the effectiveness of the Council's governance, risk and control framework to the Council and Executive Director – Resources and Community Safety. To help achieve this Internal Audit will: • Prepare an audit and risk strategy showing how the internal audit service will be delivered – focussing on the critical activities and key risks facing the Council and leveraging assurance for other assurance providers where we can. • Prepare a risk based plan designed to implement the audit strategy in consultation with senior management and taking into account the adequacy and outcomes of the Authority's combined assurance framework. This plan is approved by the Executive Director – Resources & Community Safety and the Audit Committee. The audit plan will be regarded as flexible rather than as an absolute expression of audit policy/coverage. This will enable the audit plan to be able to reflect changing risks and priorities. • Internal Auditors agree the terms of reference for an audit assignment in consultation with management. This helps to confirm the objectives of the activity and agree the scope and focus of the audit assurance being given. • Ensure that appropriate links are developed and maintained with the Council's risk management function – evaluating and contributing to the improvement of risk management in the Council. • Providing resources required to deliver the audit strategy and annual plan. A workforce strategy exists, which reflects the required roles, qualifications, competencies, skills experience and personal attributes necessary to deliver the service. This strategy includes the flexibility to engage external consultants to support the delivery of the annual audit plan thereby accessing expertise for specialist audit areas and addressing any capacity issues that may arise.

Service Area	Specific Responsibilities
Counter Fraud	The Council will actively seek to deter and prevent fraud, corruption and theft to ensure that all possible risks in these areas are minimised. Where fraud, corruption or theft is suspected or detected it will be thoroughly investigated and any proven fraud dealt with in a consistent and proportionate manner. The National Fraud Initiative is the Audit Commission's data matching exercise that is designed to help participating bodies to detect fraudulent and erroneous payments from the public purse. Internal Audit co-ordinates the Council's involvement in this initiative. Internal Audit provides resources to implement the counter fraud policy and for the investigation of fraud, irregularities and the operation of the Council's whistleblowing arrangements. Internal audit does not have responsibility for the prevention or detection of fraud and corruption. Internal Auditors should, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that a fraud or corruption may have been occurring. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Managing the risk of fraud and corruption is the responsibility of management.
Corporate Complaints Policy – Stage 2	A complaint occurs when someone feels that the County Council has failed to do something that it should have done, or has done something badly or when they feel that they have been unfairly treated. If the complainant is not satisfied with the response from the Service area then they can ask for the complaint to go to the next stage – the complaint will then be referred to an Executive Director or Assistant Director. The complaint or part of the complaint may require independent investigation. Corporate Audit provides resources for the investigation of Stage 2 complaint referrals, if required.
Good Governance	Our internal audit activity is designed to improve the governance, risk and control processes of the Council. The outcome of our work is reported in regular progress reports and an annual report to Senior Management and the Audit Committee – these all help inform the Council's Annual Governance statement.

Service Area	Specific Responsibilities
External Audit	The Internal Audit section work in conjunction with the Council's External Auditors under a "Managed Audit" arrangement. The External Auditor seeks to place reliance on the work of Internal Audit where this is relevant to their work, particularly when appraising the controls operated by management over financial systems. This arrangement makes the best use of the combined audit resources and helps reduce any unnecessary overlap of audit effort.
Best Practice Advice	Internal Audit will also respond to requests for support, advice and guidance on implementing and/or improving best practice control procedures for current and new systems.
New Developments	Internal Audit may also provide consultancy services, such as providing advice on new systems and emerging risks – any significant consultancy not already included in the annual Internal Audit plan that may affect the level of assurance work undertaken will be reported to the Audit Committee. Where we provide support, advice and guidance on risks and controls to staff involved in the design and implementation of new systems and processes. To maintain independence, any staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.
Consultancy work	Corporate Audit can also, where resources and skills exist, provide additional services beyond their assurance work. The scope of this type of work is agreed with management and should assist management in meeting the objectives of the organisation without undermining the key principles of independence and objectivity. Work may include: • facilitation • training • advice

Responsibilities of the Audit Committee

The Audit Committee is a key component of the Council's governance framework. Their role is to provide those charge with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.

The Audit Committee is also responsible for the following aspects of the internal audit function:

- formally approving (but not directing) the overall strategy to ensure that it meets the Councils overall strategic direction.,
- approving the annual internal audit plan (paying particular attention to whether there is sufficient and appropriate coverage)
- monitoring progress against plan
- supporting the effectiveness of the internal audit process through regular oversight of performance and delivery
- undertaking an annual assessment as to whether adequate skills and resources are available to provide an effective audit function meeting the requirements set out in Accounts and Audit Regulations 2011 and the UK Public Sector Internal Audit Standards
- Oversee Internal Audits independence, objectivity and professionalism.
- Ensure that effective relationships exist between external audit and internal audit and that the value of the audit process is actively promoted

The Head of Internal Audit and Risk Management also has the opportunity to meet in private with the Audit Committee if the need arises.

Audit Reporting Framework

All audit activity is intended to assist management to fulfil their objectives of delivering services and contributing to the overall objectives of the Council. Outputs from Audit work can range from informal advice to formal written reports.

The reporting structure is designed to ensure that final versions are agreed with and by managers and are both accurate and practicable. After agreement any report or guidance will be issued to senior management of the area reviewed. Copies of audit reports are also made available to the Councils External Auditors. The circulation of audit reports will be agreed at the outset of an audit assignment and will have due regard to confidentiality and legal requirements. Any information gained in the course of audit work remains confidential without limiting or preventing Internal Audit from meeting its reporting responsibilities to the wider organisation.

In addition to meetings about individual pieces of work, liaison meetings are held with each corporate Director or their nominees to discuss at a summary level, any issues or themes arising from work performed and to agree planned work.

The UK Public Sector Internal Audit Standards requires the Head of Audit and Risk Management to report at the top of the organisation and this is done in the following ways:

- The audit and risk strategy and internal audit charter is presented to Executive Directors and the Corporate Management Board. Both are approved by the Audit Committee.

- The annual Internal Audit Plan is compiled by the Head of Audit & Risk Management taking account the Council's governance, risk and control frameworks (including the

effectiveness of its combined assurance arrangements). This is after input from Executive Directors and senior management. The Internal Audit Plan is then presented to the Corporate Management Board for noting and comment.

- Performance and delivery against the Internal Audit plan and any significant risks and control issues arising from Internal Audit work are reported to the Corporate Management Board and the Audit Committee on a regular basis.

- Results of the annual review on the effectiveness of Internal Audit (including outcomes of its Quality Assurance and Improvement programme) will be reported to both the Corporate Management Board and the Audit Committee.

- Any non-conformance with the UK Public Sector Internal Audit Standards will be included in the Head of Audit & Risk Management annual report. If this is significant then this will be included in the Council's Annual Governance Statement.

- The internal audit budget is reported to the Executive and Full Council for approval annually as part of the overall Council's budget. The Head of Audit & Risk Management will draw to the attention of the Executive Director – Resources and Community Safety and the Audit Committee any resourcing issues that potentially impact on the effectiveness of the Internal Audit function.

- Member involvement in the audit process is critical. This commences with key issues being shared with Portfolio Holders by Directors and Internal Audit. Another key element is the free and unfettered access the Head of Audit & Risk Management has to the Chairman of the Audit Committee.

Quality of Service and Due Professional Care

The Internal Audit section operates in accordance with standards of best practice applicable to Internal Audit (in particular the UK Public Sector Internal Audit Standards and the Seven Principles of Public Life (Nolan Principles).

We have a Quality Assurance and Improvement Programme that covers all areas of internal audit activity. This consists of:

- Internal review of work standards through a system of management review involving senior audit staff and the Head of Audit & Risk Management. This incorporates review of all audit documentation and reports prior to release to the relevant Senior Manager.

- Opinions are regularly canvassed from management responsible for establishments and/or activities under review.

- Annual appraisal of the Head of Audit & Risk Management informed by both the Chief Executive and the Chairman of the Audit Committee. This includes reference to CPIFA's 'comply or explain' statement on the 'Role of the Head of Internal Audit in Public Service Organisation 2010'.

- Regular liaison meetings are also undertaken with Senior Management in each Directorate to discuss work performed and planned.

- A suite of performance indicators and targets have been developed to monitor the quality of the service provided.   Performance reports are submitted on a quarterly basis to the Audit Committee.

- Annual assessment of the service and its compliance with the UK Public Sector Internal Audit Standards – with this assessment being undertaken through an external assessment at least every five years by a suitably qualified, independent assessor.

- External review by Audit Committee who undertakes an annual assessment as to whether adequate skills and resources are available to provide an effective audit function.

- A programme of Continuous Professional Development for all staff to ensure they maintain and enhance their knowledge, skills and audit competencies.

- The Head of Audit and Risk Management is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

Location

Within Lincolnshire County Council the Internal Audit function is located within the Resources Directorate, County Offices, Newland, Lincoln. Corporate Audit & Risk Management is headed by Lucy Pledge, the Head of Service – Corporate Audit and Risk Management.

Advice and Support
Key contacts:

Lucy Pledge (Head of Audit & Risk Management)   lucy.pledge@lincolnshire.gov.uk
John Sketchley (Audit Manager – Audit)   john.sketchely@lincolnshire.gov.uk
Stephanie Kent (Audit Manager – Counter Fraud)   stephanie.kent@lincolnshire.gov.uk

http://microsites.lincolnshire.gov.uk/AuditLincolnshire

General contact:
Email CorporateAudit@lincolnshire.gov.uk
Telephone: 01522 5536836

Whistleblowing:
Telephone: O800 0853716
Email whistleblowing@Lincolnshire.gov.uk

Address:
Lincolnshire Local Authorities
PO Box 640
Lincoln
LN1 1WF

Approval of Charter

This charter is reviewed annually and approved by the Corporate Management Team and the Audit Committee.

Related Documents

The other related documents that should be read in conjunction with this charter are:

- Risk Management Strategy
- Counter Fraud policy
- Whistleblowing policy
- Financial Procedure No 7 which forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council
- Audit Protocol with External Audit

Links to be inserted

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Open Report on behalf of Pete Moore, Executive Director for Resources and Community Safety	

Report to:	**Audit Committee**
Date:	**11 November 2013**
Subject:	**Annual External Audit Letter 2012/13**

Summary:

This report presents the opinion of the Council's External Auditor following the 2012/13 external audit of Lincolnshire County Council and the Pension Fund.

Recommendation(s):

The Committee note the content of the report.

Background

The Council's External Auditor has issued an Annual Audit letter, which summarises his findings from the 2012/13 external audit.

The Audit KPMG's Annual Audit letter is attached to this report as Appendix A.

Conclusion

The Council's External Auditor issued and unqualified opinion on Lincolnshire County Council's financial statements and on the Pension Fund annual report on 23 September 2013.

The Council's External Auditor has issued an unqualified value for money conclusion for 2012/13.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Audit Commission - Annual Audit Letter

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 Mike Wood, Manager, who can be contacted on 0115 945 4482 or mike.wood@kpmg.co.uk.

KPMG

cutting through complexity ™

Annual Audit Letter 2012/13

Lincolnshire County Council

October 2013

Contents

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This report summarises the key findings from our 2012/13 audit of Lincolnshire County Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2012/13 financial statements and the 2012/13 VFM conclusion.

VFM conclusion	We issued an unqualified value for money (VFM) conclusion for 2012/13 on 27 September 2013.
	This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.
	To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.
VFM risk areas	The major risks facing the Authority arise from the reductions in grant funding combined with increasing pressure on services in key areas such as adult care and children's services. Nevertheless, the Authority has appropriate controls in place to ensure a sound financial standing in the medium and longer term.
	The latest consultation on funding for 2015/16 shows that the impact on the Authority is likely to be greater than originally envisaged. However, the Authority has adequate reserves which will provide the flexibility to develop a sustainable budget from 2015/16 onwards.
	The ongoing programme of change in Adult Social Care is important for the financial plans, and progress is being made.
	The Authority is on target with the its Future Delivery of Support Services programme. A new contract for support services will be awarded with effect from 1 April 2015, and successful implementation will be important for dealing with the key risks to service delivery and financial reform.
Audit opinion	We issued an unqualified opinion on the Authority's financial statements on 27 September 2013. This means that we believe the financial statements give a true and fair view of its financial position and expenditure and income for the year. The financial statements also include those of the pension fund.
Financial statements audit	Our audit of your financial statements did not identify any significant errors. This reflects the effectiveness of the closedown process and the quality of the supporting working papers provided.
Annual Governance Statement	We reviewed your Annual Governance Statement and concluded that it was consistent with our understanding.

Headlines (continued)

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 1.

Pension fund audit	There were no significant issues arising from our audit of the pension fund. The closedown process and working papers were also good quality.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
Certificate	We issued our certificate on 27 September 2013. The certificate confirms that we have concluded the audit for 2012/13 in accordance with the requirements of the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.
Audit fee	Our fee for 2012/13 was £143,100 (excluding VAT) for the audit of the Authority's financial statements, and £24,350 (excluding VAT) for the audit of the Pension Fund. Further detail is contained in Appendix 2.

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Appendix 1: Summary of reports issued

This appendix summarises the reports we issued this year.

External Audit Plan (February 2013)

The *Audit Fee Letter* set out the proposed audit work and draft fee for the 2012/13 financial year.

The *External Audit Plan* set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion.

Audit Fee Letter (April 2013)

The *Audit Fee Letter* set out the proposed audit work and draft fee for the 2013/14 financial year.

Auditor's Report (September 2013)

The *Auditor's Report* included our audit opinion on the financial statements (including the [pension fund accounts, our VFM conclusion and our certificate.

Certification of Grants and Returns (January 2013)

This report on summarised the outcome of the certification work on the Authority's 2011/12 grants and returns.

Report to Those Charged with Governance (September 2013)

The *Report to Those Charged with Governance* summarised the results of our audit work for 2012/13 including key issues and recommendations raised as a result of our observations. We issued a separate report for the audit of the pension fund.

We also provided the mandatory declarations required under auditing standards as part of this report.

Annual Audit Letter (October 2013)

This *Annual Audit Letter* provides a summary of the results of our audit for 2012/13.

2013	
January	
February	
March	
April	
May	
June	
July	
August	
September	
October	
November	

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Appendices

Appendix 2: Audit fees

This appendix provides information on our final fees for 2012/13.

To ensure openness between KPMG and your Audit Committee about the extent of our fee relationship with you, we have summarised the outturn against the 2012/13 planned audit fee.

External audit

Our final fee for the 2012/13 audit of the Authority was £143,100. This is an overall reduction of 40 percent on the comparative total fee for 2011/12. This reflects the significant reductions made nationally by the Audit Commission to its scale fees.

The final fee is the same as that proposed in our 2012/13 audit plan.

Our final fee for the 2012/13 audit of the Pension Fund of £24,350 was also in line with the planned fee.

Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2012/13*, which we are due to issue in January 2014.

Other services

KPMG charged £28,000 for a benchmarking review of adult social care. This work was not related to our responsibilities under Audit Commission's *Code of Audit Practice*.

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Lincolnshire
COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Resources and Community Safety	

Report to:	**Audit Committee**
Date:	**11 November 2013**
Subject:	**Work Plan**

Summary:

This report provides the Committee with information on progress on agreed actions and its work plan up to July 2014

Recommendation(s):

1. Review the progress of agreed actions in Appendix A.
2. Review the work plan set out in Appendix B and identify any changes.
3. As part of the review of the system of Internal Audit, it was agreed to undertake a self-assessment on the effectiveness of the Audit Committee. Suggestion that this is undertaken after the January 2014 meeting.

Background

1.1   An agreed action plan has been pulled together to help the Committee keep track of actions during meetings or workshop (see Appendix A).

1.2   The work plan is based on the core activities of the Committee as set out in its terms of reference and best practice (see Appendix B).

Conclusion

2.1   The work plan helps the Committee monitor its work programme and keep track of areas 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	Agreed Actions
Appendix B	Work Plan to July 2014

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.

Agreed Action	Person Responsible	Target Date	Outcome / Progress
Briefing papers occasionally for Programme Centre : • Risk Management • Key projects and support areas	-	-	Keep on work plan as reminder.
IMT Audits Update	Judith Hetherington-Smith	November 2013	
Schools update	Julie Castledine	January 2014	
Assurance Flooding responsibilities: • Working with partner organisation • Feedback from the Flooding 2012 investigations	David Powell		Cleared.

Completed Actions			
Assurance Sutton Bridge continuity arrangements (Appendix C)	Derek McKim		September 2013
External & Internal Audit Protocol developed that clarifies expectations and makes the best use of the combined Audit resource	Lucy Pledge		September 2013

	0930 Pre Meeting 11th November 2013	0930 Pre Meeting 27th January 2014	0930 Pre Meeting 31st March 2014	0930 Pre Meeting 23rd June 2014	21st July 2014
1.	IMT Update	Internal Audit Progress Report	Risk Management Update	Internal Audit Annual Report	Internal Audit Progress Review
2.	Half yearly Programme on Risk Management	External Audit Progress Report	Counter Fraud Update	Schools Financial Control Environment	External Audit Progress Review
3.	Internal Audit Progress Report	Regulation of Investigatory Powers Act (RIPA)	Internal Audit Plan 2014/15	Counter Fraud Annual Report	
4.	Analysis of outstanding high recommendations	Combined Assurance – Outcome Reports	Counter Fraud Annual Plan 2014/15	Review of system of Internal Audit	
5.	Financial Procedures • Audit & Inspection including draft Internal Audit Charter	Counter Fraud Progress Report		Review of Governance Framework & Annual Governance Statement 2014	
6.	Annual Audit Letter	School Control Environment			
7.	Private meeting with External Audit	Local Code of Governance • Annual Governance Statement 2013 Update			
8.		Financial Procedures • Risk Management			
9.		Money Laundering Report			
		PM/Self-Assessment workshop?			