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County Offices Newland Lincoln LN1 1YL

9 November 2018

Audit Committee

A meeting of the Audit Committee will be held on Monday, 19 November 2018 at 10.00 am in Committee Room One, County Offices, Newland, Lincoln LN1 1YL for the transaction of the business set out on the attached Agenda.

Yours sincerely

Werth freland

Keith Ireland Chief Executive

<u>Membership of the Audit Committee</u>
(7 Members of the Council + 2 Voting Added Members)

Councillors Mrs S Rawlins (Chairman), A J Spencer (Vice-Chairman), P E Coupland, A P Maughan, R B Parker, P A Skinner and A N Stokes

Voting Added Members

Mr P D Finch, Independent Added Person 1 Vacancy, Independent Added Person

AUDIT COMMITTEE AGENDA MONDAY, 19 NOVEMBER 2018

Item	Title	Pages
1	Apologies for Absence	
2	Declaration of Members' Interest	
3	Minutes of the meeting held on 24 September 2018	5 - 14
4	Payroll Progress Report (To receive a report by Fiona Thompson (Service Manager — People), which provides the Committee with an up-to-date briefing on the payroll position and the steps being taken to address any risk of an inaccurate payroll)	
5	Internal Audit Progress Report (To receive a report by Lucy Pledge (Audit and Risk Manager), which provides details of the audit work during the period 11th September 2018 to 5th November 2018; advises on the progress with the 2018/19 plan and raises any other matters that may be relevant to the Audit Committee role)	
6	Counter Fraud Progress Report to 30 September 2018 (To receive a report by Lucy Pledge (Audit and Risk Manager), which provides an update on our fraud investigation activities and information on progress made against our Counter Fraud Work Plan 2018/19)	
7	Whistleblowing Annual Report 2017-18 (To receive a report by Lucy Pledge (Audit and Risk Manager), which provides an overview of the Council's whistleblowing arrangements throughout the year 2017/18)	
8	Work Plan (To receive a report by Lucy Pledge (Audit and Risk Manager), which provides the Committee with information on the core assurance activities currently scheduled for the 2018/19 work plan)	
CONS	IDERATION OF EXEMPT INFORMATION In accordance with Section 100 (A)(4) of the Local Government	

In accordance with Section 100 (A)(4) of the Local Government Act 1972, agenda items 9 and 10 have not been circulated to the press and public on the grounds that they are considered to contain exempt information as defined in paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended. The press and public may be excluded from the meeting for the consideration of these items of business.

9 IMT ICT Governance Update (To receive an exempt report by John Wickens (Chief Digital Officer), which provides information on the IMT ICT Governance

Update)

119 - 122

(To receive an exempt report by John Wickens (Chief Digital Officer), which provides an update on IMT Cyber Security)

11 REPORTS FOR INFORMATION

(These reports are for information only and do not require discussion at this time. Any issues the Committee feel require discussion can be highlighted under the work plan and scheduled for a future meeting. As these reports are for information only, they will only be circulated electronically)

12 National Audit Office - Cyber security and information risk 123 - 138 guidance for Audit Committees

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

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

Contact details set out above.

All papers for council meetings are available on: www.lincolnshire.gov.uk/committeerecords



AUDIT COMMITTEE 24 SEPTEMBER 2018

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

Councillors A J Spencer (Vice-Chairman), P E Coupland, A P Maughan, R B Parker, P A Skinner and A N Stokes

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

Officers in attendance:-

Rachel Abbott (Audit Team Leader), Dianne Downs (Team Leader - Counter Fraud and Investigations), Matt Drury (Principal Investigator), David Forbes (County Finance Officer), Cheryl Hall (Democratic Services Officer), Andrew Hancy (County Manager for Business Support), Mike Norman (External Auditor, Mazars), Lucy Pledge (Audit and Risk Manager), John Sketchley (Audit Manager), Mark Surridge (External Auditor, Mazars), Jill Thomas (Principal Auditor), Fiona Thompson (Service Manager - People) and Tony Warnock (Operations and Financial Advice Manager)

25 APOLOGIES FOR ABSENCE

There were no apologies for absence.

26 <u>DECLARATION OF MEMBERS' INTERESTS</u>

There were no declarations of interest.

27 MINUTES OF THE MEETING HELD ON 23 JULY 2018

RESOLVED

That the minutes of the meeting held on 23 July 2018 be signed by the Chairman as a correct record.

28 PAYROLL CONTROL ENVIRONMENT

Consideration was given to a presentation which updated the Committee on the payroll control environment and a summary of improvements since the last update in June 2018.

The Service Manager – People provided detailed information as part of the presentation, which covered the following areas: -

Summary of measures to improve the control regime;

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- Checks undertaken by internal audit;
- Overview of recent performance;
- Trend in advances paid;
- Incorrect / Late data Actions Taken and Next Steps; and
- Management of historic under / overpayments.

Members were provided with an opportunity to ask questions, where the following points were noted: -

- The Committee was advised that the Pay Statements Project had not identified any incidences of fraud and that the errors found were as a result of input and/or system errors. Furthermore, it was advised that as part of the assurance to the business, dedicated work was being carried out on counter fraud and as part of this data analytical work would be carried out on source data:
- It was advised that a further update would be provided to the Committee in November 2018 on progress with the Payroll Control Environment, and this would include an update on Year 3 for Fire and Rescue and for Corporate and Schools for the 3 years. It was confirmed that milestones were built into the project and the project was currently working to a challenging timeframe of November 2018;
- Improvements had been made to Business World On (Agresso), which had reduced the number of manual workarounds and had introduced prepopulated and simplified forms to assist with those putting data into the system. A significant rebuild was planned, which would bring improvements to the system;
- A specialist business support team had been put in place to assist both School Business Managers and Lincolnshire County Council managers for duration twelve months to validate data and support corporate and schools;
- It was confirmed that significant training had been provided to schools when the system was initially implemented and training was provided to newly appointed School Business Managers. The Committee requested that the training was reviewed to ensure it met the needs of the School Business Managers;
- A Councillor highlighted that Serco's error rate was down to 0.31% and queried the County Council's error rate. It was advised that for corporate payroll, excluding schools, 32% of the forms submitted were incomplete, incorrectly completed or submitted beyond the deadline. However, those errors were not included as part of the payroll, as they were identified prior to being processed. It was highlighted that this data was monitored on a monthly basis and the relevant directors were notified of errors within their respective areas. It was requested that for the next meeting of the Committee, context was provided as to the 32% of incorrect or late forms, specifically the number of inaccurate or late forms submitted by the County Council and what protocols were being implemented to reduce this number. It was also requested that the Committee received detail on the County Council's performance in this area for 2017/18;

- It was highlighted that the specialist business support team was also validating the content of forms provided by the County Council, prior to them being submitted to Serco. This reduced the risk of any errors reaching payroll;
- The issue of late data being provided to Serco had been highlighted at each departmental management team of the County Council, with an expectation that this data be submitted on time in future. Accountability for the completed forms lay with the manager (originator);
- Serco was not expected to process data that had been submitted late;
- The County Council and Serco had committed to putting in effective performance monitoring systems. Data would be provided to the Committee at its meeting in November 2018 on the impact of the controls that had been introduced;
- A Councillor highlighted that the introduction of the specialist business support team was crucial for the short term. However, the Committee would need to receive assurances relating to the long-term, once the business support team was no longer in place;
- Monthly payroll reports were provided to schools prior to the payroll run which they were required to monitor;
- The Committee required assurance that the improvements to Business World On were robust and were addressing the error rates;
- It was concluded that the Committee would need assurance that the improvements to the system were functional and that the relevant staff were equipped going forward. The importance of prompt and accurate information being provided by the County Council to Serco was also highlighted as a key area for improvement.

RESOLVED

That the report be noted and the Committee be provided contextual information on the County Council's error rate as part of the update to the November 2018 meeting.

29 INTERNAL AUDIT PROGRESS REPORT

The Committee considered a report which provided details of the audit work during the period 13 June 2018 to 11 September 2018; advised on the progress with the 2018/19 plan; raised any other matters that might be of relevance to the role of the Audit Committee.

It was highlighted that during the period 13 June - 11 September 2018 four audits had been completed: four to final assurance reports; and one final school audit report. A copy of the Internal Audit Progress Report was detailed at Appendix A to the report.

Appendix 3 to Appendix A was highlighted to the Committee, which detailed the 2018/19 Audit Plan to date.

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There were currently nine audits at draft report stage; eleven 2018/19 audits in progress; page 21 of the agenda pack referred.

As detailed within the June 2018 progress report, the Committee had received two audits concerning the Capital Programme and Fuel Cards, which had both received Low Assurance.

The Operations and Financial Advice Manager was in attendance at the meeting and provided an update on actions arising from the Internal Audit Report – Capital Programme, which was detailed at Agenda Item 12.

The Committee was advised that in response to the recommendations as outlined in the Internal Audit:

- A working group had been established to progress the recommendations on a Capital Reporting project;
- Any capital schemes that resulted in expenditure greater than £1m were now coded differently within the system to assist with improved monitoring;
- When major capital schemes were of high risk or high expenditure, a dedicated finance representative was allocated to the relevant project boards;
- A Capital Strategy was being developed, which would provide a framework for decision-making for future capital expenditure;
- The reporting of overspend had been formalised so that it was clear when and where the overspend should be reported;
- Financial training had already been delivered during 2018, which had covered capital and future training sessions would be held during October 2018 covering capital;
- Work was being undertaken on the procedures and processing of Target Change forms. This work was expected to be completed by October 2018;
- The controls that had been put in place had ensured that there was an increase in transparency with the Council's capital programme. However further work could be undertaken to improve the transparency and that an increase in scrutiny on the approval of capital and accountability was cited as an example.

The Committee was provided with an opportunity to ask questions, where the following points were noted: -

- Although good progress had been made with the recommendations, the Committee was advised that this had not been initially possible, owing to the focus on the annual closure of accounts. Following the closure of accounts significant progress had been made with the recommendations and it was advised this would continue;
- The planned increase in capital expenditure for IMT at the County Council was discussed and it was advised that Finance Service teams were awaiting detailed plans on the proposed expenditure. The Committee queried whether an audit was planned on IMT capital expenditure and its control environment. In response, it was noted that an audit had already been undertaken and management action was being implemented. It was then suggested that IMT

- capital expenditure be discussed as part of the Combined Assurance Reporting in January 2019;
- It was advised that work was being undertaken by the Audit and Risk Manager on the County Council's financial resilience in light of the issues encountered at Northamptonshire County Council.

The County Manager for Business Support was in attendance at the meeting and provided an update on actions arising from the Internal Audit Report – Fuel Cards, which was detailed at Agenda Item 11.

The Committee was advised that in response to the recommendations as outlined in the Internal Audit:

- All of the recommendations contained within the Internal Audit Report Fuel Cards had been progressed or implemented;
- A procurement exercise for the supply of fuel cards was currently underway. There were currently three contracts in place which would be consolidated into one single contract. A working group with representation from finance and Serco had been established to work on the procurement exercise. Tenders were due back at the end of September 2018 and it was hoped that the contract would be awarded to the successful bidder at the end of October 2018:
- A full review of the governance around fuel cards had been carried out. Any cards that had been identified as being no longer required had been destroyed. As a result of the review, 630 active fuel cards remained;
- The County Council's Travel Policy had been updated and now included a section on Fuel Cards. A copy of the policy was available for all employees to view on George, the Council's Intranet. A user guidance note had also been produced; however it was not yet possible to publish alongside the policy until the outcome of the procurement exercise was known;
- Officers were expected to obtain receipts for fuel and budget managers were now required to review those receipts.

The Committee was provided with an opportunity to ask questions, where the following points were noted: -

- The Committee was pleased that the recommendations contained within the report had been actioned;
- It was queried how many cards had been identified as no longer being required and destroyed as part of the review. As this information was not available at the meeting, it was agreed that it would be emailed to the Committee for its information;
- Fuel cards were now issued and returned to one central address;
- Fuel cards could now only be used for the purchasing of standard as opposed to premium fuel and this was outlined in the Transport Policy;
- A leaver process had been established which ensured the return of fuel cards and the deactivation of those cards. Managers were encouraged to conduct exit interviews however these were discretionary;

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 The recommendations would be progressed further once the new provider had been appointed. Although controls had now been put in place, work would be undertaken with the new provider to further develop the control environment.

The Committee was provided with a brief update on the current and recent ICT audit work, page 20 of the agenda pack referred. It was highlighted that the Committee was due to receive an in-depth ICT update at its meeting on 19 November 2018.

The Committee was provided with an opportunity to comment on the remainder of the report, which covered the following points: -

- It was requested that detailed written information on the progress with recommendations was included alongside Internal Audit Reports when updates were being received by the Committee;
- A concern was raised over the number of outstanding audit recommendations, as detailed on pages 26 and 27 of the agenda pack, as this equated to circa 35% of the total number of audit recommendations. The Audit and Risk Manager agreed to raise this issue with the Council's directors and to seek an explanation;
- It was queried why two of the planned audits, as detailed in Appendix 3 to the report, had been 'delayed to Q4 by Director'. The Committee was assured that this was owing to legitimate reasons: For example, the audit concerning Domestic Abuse had been delayed as the service was currently midway through a commissioning exercise for the service. It was considered an audit would add more value after between three and six months into the contract;
- Further to the above, the Committee was advised that with regards to the delayed audit on workforce performance and rewards, the audit had been delayed as the Council was currently undertaking a pilot performance and reward scheme and it was therefore considered more beneficial to undertake the audit once the results of the pilot scheme had been implemented. Furthermore, the Committee requested that the Audit and Risk Manager liaise with the Executive Director as it felt an audit was required during the pilot phase to obtain assurance during this phase of the work.

RESOLVED

- (1) That the outcomes of Internal Audit's work be noted.
- (2) That the Audit and Risk Manager be requested to highlight the number of outstanding audit recommendations with the Council's executive directors and to seek an explanation; and to liaise with the relevant director regarding bringing forward the delayed audit on workforce performance and rewards.

30 INTRODUCTION TO EXTERNAL AUDITORS - MAZARS

The Committee considered a report which provided a brief introduction to the Council's newly appointed external auditors, Mazars.

Mark Surridge and Mike Norman were in attendance at the meeting and provided Members with a brief introduction.

The Committee was reminded that following a tender process conducted by the Public Sector Audit Appointments in 2017, Mazars had been appointed to provide external audit services to 18% of English local authorities, including Lincolnshire County Council. The contact had commenced on 1 April 2018, for duration of five years.

Mazars prided itself with a high standard of audit services and this was demonstrated by Mazars' achieving an overall rating for audit quality as green.

It was advised that Mark Surridge would be the key contact for the Management and the Audit Committee. He would have overall responsibility for delivering high quality audit and would regularly attend meetings of the Audit Committee.

It was also advised that Mike Norman would be responsible for the work performed on-site and would be a regular contact through the audit year.

The County Finance Officer advised that the County Council had received had completed and returned an extensive questionnaire to Mazars, providing relevant information for their commencement of external auditor for the Council.

RESOLVED

That the introduction from Mazars be noted.

31 UPDATE POSITION ON RISK MANAGEMENT

Consideration was given to a report which provided the Committee with an update as to the progress made with the refresh of the Strategic Risk Register and an update on risk management generally.

The Committee was advised that following consideration of the update risk management report at the meeting of the Committee in March 2018, the risks contained within the strategic risk register and the new risks that had been added would be presented to Corporate Management Board for agreement. An updated risk management strategy was detailed at Appendix A to the report.

It was hoped that final agreement would be sought from Corporate Management Board in December 2018 and reported back to the Audit Committee in January 2019 with a completed strategic risk register.

Pages 39 and 40 of the report detailed the risks contained within the current risk register, their risk rating and assurance level.

It was highlighted that in April 2018 the Risk Management Team of Lincolnshire County Council had won a Public Finance Innovation Awards in the category of

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Innovation in Risk Management. The Committee congratulated the Team for achieving this award.

Members were provided with an opportunity to ask questions, where the following points were noted: -

- It was important for the County Council to not become complacent with cyber security;
- It was confirmed that the risks contained within the risk register were currently under review and the Committee would receive an update at its meeting on 28 January 2019. It was confirmed that officers from the Team met with the risk owners on a quarterly basis to review progress. The Committee could request the owner of a risk that was of interest to attend a future meeting of the Committee:
- It was highlighted that Corporate Management Board, as the accountable risk owners, would be in attendance on 28 January 2018, as the Committee was due to consider an item on Combined Assurance Status Reports;
- The development and introduction of controls could see a shift in assurance levels:
- It was suggested that the risk owners for the risk areas: Recruitment and retention of staff in high risk areas and Contracting – Significant Contracts should be invited to attend future meetings of the Committee to allow the Committee to examine both areas in further detail, as both risk areas had amber risk ratings with Limited Assurance.

RESOLVED

- (1) That the content of the report be noted.
- (2) That the risk owners for the risk areas: Recruitment and retention of staff in high risk areas and Contracting Significant Contracts be invited to attend future meetings of the Committee.

32 WORK PLAN

Consideration was given to a report which provided the Committee with information on the core assurance activities currently scheduled for the 2018/19 work plan.

As agreed in Minute 32, the risk owners for the risk areas: Recruitment and retention of staff in high risk areas and Contracting – Significant Contracts be invited to attend future meetings of the Committee.

The Committee was advised that a Local Government Association Peer Review was scheduled for March 2019.

The Committee was reminded that a meeting of the Audit Committee Forum was scheduled for 16 October 2018 at the North Kesteven District Council offices in

Sleaford. Members were requested to notify the Audit and Risk Manager of their availability for the meeting.

It was highlighted that agreement had been given by the meeting of County Council on 14 September 2018 to a second added member to be added to the Committee membership. The recruitment process had commenced.

RESOLVED

That the Work Plan, as set out in the report, and additional comments made be approved.

33 BRIEFING ON FRAUD AWARENESS

Consideration was given to a presentation which raised awareness of fraud; outlined the role of the Committee in ensuring that Counter Fraud arrangements were effective; and

Detailed information was provided as part of the presentation, which covered the following areas: -

- Overview;
- Why fraud matters;
- Why fraud cannot be ignored;
- Fraud risks;
- Examples of fraud;
- The Committee's role in ensuring effective Counter Fraud arrangements;
- Counter-fraud best practice;
- Fraud responsibilities;
- · Lincolnshire Counter Fraud Partnership; and
- Useful resources and publications.

It was advised that Councillor A P Maughan had volunteered to become a Champion for Counter Fraud.

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

- Lincolnshire County Council took a zero-tolerance approach to fraud and would report all instances of fraud. It was highlighted that publishing incidences of fraud can act as a deterrent;
- A member suggested that the local NHS should form part of the Lincolnshire Counter Fraud Partnership. In response, it was advised that the partnerships had been initially introduced and funded by the Department for Communities and Local Government for local authorities. Officers agreed to consider this suggestion further;

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- It was agreed that the guide: A Councillor's workbook on bribery and fraud prevention be circulated to the Committee electronically, alongside a copy of the slides:
- A slide of fraud risks outlined that local government fraud equated to £7.8 billion. It was noted that this was an estimated cost to local authorities based on the Annual Fraud Indicator 2017. It was suggested that the figures for the types of fraud committed in Lincolnshire be provided at a future meeting of the Committee:
- The importance of publishing the Council's counter fraud arrangements were discussed; and
- A counter fraud progress report would be provided to the Committee in November 2018.

RESOLVED

That the content of the presentation on fraud awareness be noted.

34 CONSIDERATION OF EXEMPT INFORMATION

RESOLVED

That in accordance with section 100(A) (4) of the Local Government Act 1972, the public and press be excluded from the meeting for the consideration of the following item on the grounds that if they were present there could be a disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

35 FRAUD RISK REGISTER

Consideration was given to an exempt report which provided information on the annual update of Lincolnshire County Council's Fraud Risk Register.

A number of questions from members were responded to by officers.

RESOLVED

That the recommendation, as detailed in the exempt report, be approved.

36 INTERNAL AUDIT REPORT - FUEL CARDS

A copy of the Internal Audit Report – Fuel Cards was circulated with the agenda pack for information.

37 INTERNAL AUDIT REPORT - CAPITAL PROGRAMME

A copy of the Internal Audit Report – Capital Programme was circulated with the agenda pack for information.

The meeting closed at 12.35 pm.

Agenda Item 4



Regulatory and Other Committee

Open Report on behalf of Debbie Barnes, Executive Director of Children's Services

Report to: Audit Committee

Date: 19 November 2018

Subject: Payroll Progress Report

Summary:

To provide the Audit Committee with an up-to-date briefing on the payroll position and the steps being taken to address any risk of an inaccurate payroll.

Recommendation(s):

The Audit Committee notes the contents of this report.

Background

The Audit Committee requested regular updates on the progress in relation to the improvements in the Payroll.

Current Position

The audits completed on Payroll, HR Administration and Pension Contributions during 2015/16 and 2016/17 all received a **Low Assurance** opinion. In the payroll audit of 17/18 there was a level of **Limited assurance** and at that time the control environment had been improved but there was more evidence required to demonstrate the effectiveness of those controls. This follow up audit in October 2018 has involved rigorous testing of the new controls and output and has moved Payroll to **Substantial Assurance**.

In August 2017, the Council established a post of Pay and Reward Lead to strengthen the client function to enable focussed management of actions plans and performance management for the outsourced pay and pensions' contracts.

Serco appointed an experienced Payroll & Pensions Manager, who commenced in role from 6th November 2017 and has led work to more clearly define and improve processes and document controls within Serco's Payroll function. A significant amount of work has been progressed in training the payroll staff in a more structured manner and developing their skills along the professional CIPP framework.

From December 2017, the council engaged an external payroll specialist to provide technical expertise and build client side capacity who will continue on a part time basis until March 2019.

It has been recognised that there were a large number of Agresso system problems that were contributing to the errors in payroll processing. Consultants were engaged to progress a number of work 'packages' and some fixes to system to be effective in time for the 2018/19 payroll year. These were implemented alongside a large upgrade to the system. Where the system fixes could not be made by in time for the new pay year, manual workarounds were developed, tested and documented to ensure accuracy of the payroll processes from April 2018.

The recent Audit focused on testing the controls, including the workarounds to ensure that transactions are complete and accurate.

Next Steps

Whilst the direction of travel is very positive, it is acknowledged that there is further work required to ensure that the required improvements continue to be made.

The Council's People Management function, Serco representatives and the external payroll consultant are working with the Agresso Programme Board to ensure all the additional system improvements are made to replace the manual workarounds and ensure the system is more automated and standardised. This will help reduce user error.

As outlined in the Management Response, an action plan based on all the audit recommendations has been formulated and the Council and Serco will be jointly prioritising this to address all of the points raised.

There will continue to be regular meetings between LCC and Serco to monitor and agree progress in addressing the points raised in the Audit report. There is ongoing development of additional Management Information in addition to the contract Key Performance Indicators, on the performance of the Payroll Service to enable benchmarking of performance improvements.

There will be a follow up audit undertaken in March 2019 which will enable the continued testing of a number of recent process improvements to ensure that the progress continues.

Conclusion

The control regime has improved substantially and continually over the past year.

It is recognised that there are still a number of ongoing improvement actions that need to be implemented to ensure that the assurance remains at the substantial level. The delivery of the required improvements is the highest joint priority for Serco and the Council's People Management Service.

The Internal Audit report and progress update will be presented to the Audit Committee in June 2019.

Consultation

a) Have Risks and Impact Analysis been carried out?

No

b) Risks and Impact Analysis

Any changes to services, policies and projects are subject to an Equality Impact Analysis. The considerations of the contents and subsequent decisions are all taken with regard to existing policies.

Appendices

These are listed below and attached at the back of the report				
Appendix A	Payroll Interim Audit November 2018			

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 Fiona Thompson, who can be contacted on 01522552207 or fiona.thompson@lincolnshire.gov.uk.







Internal Audit Report Payroll Interim Audit 2018/19

Date: November 2018

What we do best...

Innovative assurance services
Specialists at internal audit
Comprehensive risk management
Experts in countering fraud

...and what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

Already working extensively with the not-for-profit and third
sector

Contents

The contacts at Assurance Lincolnshire with this review are:

Lucy Pledge Page **Background and Scope Head of Internal Audit Executive Summary** lucy.pledge@lincolnshire.gov.uk Assurance Opinion and Key Messages 4 **Management Response** 15 **Rachel Abbott Appendix** Appendix 1 – Assurance Definitions 20

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Background and Scope

Background and Context

Payroll and the supporting HR Administration function are key financial systems subject to annual audit review - as a minimum though testing of key controls. Payroll delivery is managed by the Council through LCC People Management.

The issues encountered with Payroll since the implementation of Agresso in April 2015 are well known. We have completed a number of in depth audit reviews that have focussed on detailed substantive testing as the control framework has been weak. In June 2018 we were able to issue an audit report with an assurance level of Limited as the combination of system configuration fixes and improved processes demonstrated a positive direction of travel. This mid-year payroll audit has focussed on transactions for the period April to August 2018 to provide an update on progress with actions to strengthen and embed the developing framework of internal controls.

In October 2018 the Council took the decision to extend Serco's contract for support services including HR Administration and Payroll post March 2020 for a further two years. Work on future delivery of services has now moved to implementation of the Agresso programme which has a governance structure chaired by the Chief Executive. The programme includes a number of key developments that are designed to deliver significant improvements for the payroll function including:

- rebuild of the organisational structure this is the 'backbone' of the Agresso system and will support workflow improvements
 which provide authorisation control, better reporting for managers and the use of 'proxy' access to give greater flexibility around
 the entry of variable pay data, a particular benefit for services such as Fire & Rescue
- rebuild of absence processing to move to the 'standard' module improved automation of processing and reliability over calculation will reduce the amount of manual intervention needed reducing the risk of error and the time needed for checking
- rebuild of payslips to meet statutory requirements and make it easier for employees to check their pay and deductions are correct
- data cleansing & mandatory fields to establish the 'mandatory' fields in Agresso, that information is held in the right place and validate that complete and accurate information is held for employees.



Background and Scope

 review of payment and deduction (P&D codes) to reduce the number in use, improve the descriptors and remove those that do not add value to pay calculations.

In conjunction with LCC Serco is working on redesign of e-forms – improving the quality and completeness of information provided and making it easier for managers to complete forms.

In parallel to the Agresso programme work, LCC People Management has a plan of service improvement activities and projects for HR and Payroll services which will further strengthen client oversight arrangements including Payroll service definition and payroll specification documents.

Scope of Work

The audit reviewed HR Administration and Payroll processes to confirm the controls in place are adequate, including the workarounds / detective controls designed to identify and address known issues. We have undertaken sample testing over transactions to confirm the application and evidencing of controls, and that transactions are bona fide, complete and accurate.

The following areas were included:

- Starters, Pay Changes & Leavers
- Pay & Expense Claims
- Maternity & Sickness Pay
- Exception Reporting & payroll checking arrangements
- Manual 'Workaround' work instructions & evidence
- Payroll payment runs
- Management of overpayments
- Learning from Pay Statements project



Background and Scope

We have also followed up progress with other management actions from the 2017/18 Internal Audit report not covered by the activities listed above.

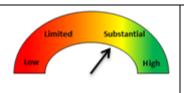
In seeking to provide assurance we have considered the following potential risks:

- · Payments are fraudulent or incorrect
- The Council / schools employ unsuitable staff
- Regulatory requirements are not complied with
- Ledger postings are incorrect / incomplete
- Payment runs have not actually been processed or processing is incomplete
- Exception reporting to detect errors is not effective
- Overpayment calculations are inaccurate or records are incomplete
- Access to payroll information or processing is inappropriate

Our review has not included detailed review around processes to provide information to Pension bodies. We are aware of ongoing meetings in this area involving Scheme representatives, Serco and LCC People Management to resolve historic issues and backlogs.

Counter fraud data analysis work is underway to review payroll standing data and payment transactions in 2017/18 and 2018/19. The results of this work will be reported to management and the Audit Committee at the end of the financial year.





Substantial Assurance

Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
Payments are fraudulent or incorrect	Medium	0	6
The Council / schools employ unsuitable staff	Low	0	0
Regulatory requirements are not complied with	Medium	1	2
Ledger postings are incorrect / incomplete	Low	0	0
Payment runs have not actually been processed / processing is incomplete or incorrect	Low	0	2
Exception reporting to detect payroll errors is not effective	Medium	0	5
Overpayments calculations are inaccurate or records are incomplete	Medium	1	1
Access to payroll information or processing is inappropriate	Low	0	2
TOTAL		2	18





Work completed in our audit for 2017/18 highlighted the developing system and process improvements made by the Serco HR Administration and Payroll teams to begin to address the control issues and errors evident since the implementation of Agresso in April 2015. We are pleased to be able to confirm that these improvements have continued and are becoming embedded in 'business as usual' processes with evidence available to support the controls applied. Of the 25 recommendations made in the previous audit report, 18 are now fully or almost complete and those remaining were of medium priority. Whilst we have identified thirty potential payment errors for further checking by the Serco teams, these are significantly fewer than in the past and reflect a normal level of error. Around a 3rd of these were caused by how information has been entered into Agresso by schools and Council officers.

We have therefore moved our assessment of assurance to Substantial.

There remain areas where processes and controls need to be further enhanced and strengthened to maintain this positive direction of travel and these are detailed within this report. In some areas this is about ensuring consistency going forward, particularly in fully evidencing the application of controls (e.g. signing off all exception reports). Whilst a number of system configuration changes have been made, ensuring correct payment and deductions in certain elements of payroll such as absence and pensions still involves manual intervention and 'workarounds'. To deliver these consistently, accurately and timely requires adequate resource and skill. It is essential that these resources and checks are maintained whilst development work is continuing through the Agresso programme to rebuild the Agresso system and make the changes that ensure reliable calculation and minimise the manual intervention required.

In summary key areas where we have been able to evidence improvement and sound controls are described below and further detail is included in the next section of the report.





Starters / Changes / Leavers: Our review included a 'walkthrough' of the processes to add or amend employee standing data and payment information on Agresso and testing of a total sample of 82 employee records. Supporting information demonstrates manager approval and we confirmed employee details had been entered correctly on the system, and all records had the correct pension scheme applied. Monthly starters, movers, changes and leavers reports are generated by the HR Administration team and used by the Payroll team to check the accuracy and completeness of input.

In September 2018 a Business Support team was set up to support managers in the completion of the forms submitted to Serco HR Administration to set up or amend employee information. This is designed to make the process more efficient by ensuring Serco receive complete and accurate details 'first time' and educate managers on the information needed and where this can be found on Agresso. Going forward, Serco has a project underway to produce electronic forms that will better guide managers on completion by streamlining the information they can select from and making fields on the forms mandatory. The work is being completed in consultation with the Council and will be subject to standard governance approval processes that ensure information is secure and developments subject to change control.

Pay and Travel expense claims: Through the variable payments working group the number of claims received for input by the payroll team has been reduced. We were provided with supporting documents for the sample reviewed and our testing confirmed accurate payment and where relevant correct pension deductions.

Exception Reporting: this is the most significant control in ensuring payroll accuracy by detecting potential errors before payment is made. A comprehensive set of exception reports are now in place and we have confirmed that the reports are retained and there is clear evidence of the checks completed





and the member of staff completing the check.

These reports are supported by evidenced spot checks on a sample of manual input such as claim forms, unpaid leave, sickness and maternities. Manual calculation of payments and deductions are also completed on five randomly selected payslips for each payroll each month.

In April 2018 the payroll team actioned a number of 'workarounds', essentially a set of reports to identify employee payments where known issues cause errors. The team has maintained a record of the number of employees affected and corrections made, and whilst we had some difficulty in identifying supporting information for the early months, information for July to September was more comprehensive. One of the most significant reports was to detect incorrect Teachers' pension employee deductions where the scheme requirements were not being applied correctly (around the % banding to be applied where there is backpay or a reduction in pensionable pay due to sickness or maternity absence). Our testing has confirmed that this issue is now being addressed and deductions are manually adjusted. Whilst this 'workaround' was not in place for April, the Payroll Pensions team has reviewed records back to this date and made corrections for the current financial year.

Payroll processing and payment: Schedules that document the timetable for and completion of all tasks in the end to end payroll input, processing and payment process each month are in place and retained. All lines are being signed off by the appropriate Senior Payroll, HR Administration, Pension and Control Administrators. Reports showing a breakdown of the payments and deductions to be made on each payroll are signed off by Senior Payroll Administrators, the Payroll Lead and by LCC Treasury staff.

Sickness payments: The proactive approach taken since February 2018 to check long term absences





utilising the Absence Transfer report continues to be evident and sickness cases are manually calculated and adjusted as needed. These calculations take into account the specific entitlement rules of different schemes and the Council's approach to calculating SSP payment. Late entry of sickness information which increases the risk of error and overpayment is still evident. The Council and Serco need to continue work on reminding managers and schools of the importance of entering absence information promptly.

Pension reporting & payslips: We previously reported that the Pensions contributions report provided to West Yorkshire Pension Fund on the Local Government Pension scheme each month required significant manual intervention to complete. An Agresso consultant has been revising this report and we understand that the latest version tested (September) was returning figures exactly as expected for employees processed through the payroll. The report is now due to go through the formal governance and approval process for use in the live system. Work is also in progress to review and make the necessary changes to employee payslips so that the Council complies with HMRC requirements by April 2019. This includes breaking down payments for an employee's individual jobs making the payslip much easier to understand.

Our work has identified some areas where actions remain outstanding or further work is required to ensure payments are correct, make additional control improvements and help maintain positive assurance:

Management of overpayments: the payroll team maintains a tracker of overpayments to assist in monitoring recovery action and for reporting progress to LCC People Management. We looked at the sheet for overpayments identified in the current financial year and identified that the information recorded against each overpayment is not always complete. This makes it difficult to assess the status





and progress with recovery action, the reasons for the overpayment occurring and the period over which the error occurred. We understand the People Services Manager and Payroll & HR Administration Lead are currently in the process of reviewing all details on the tracker covering the period 2015/16 to date. We recommend that priority is given to reviewing and updating the current financial year first as prompt action is needed to maximise the chances of recovery for more recent overpayments. The process for previous years should reconcile to work now completed through the 'Pay Statement' project, closing down entries where recovery is finished.

It is also important to ensure the steps needed to start recovery action are completed on a timely basis, our testing and discussion identified examples where this had been delayed. Additional reconciliation checks recently introduced between payroll and the overpayment tracker should help to identify where recording of overpayments and recovery action are not completed promptly.

Maternity payments: we previously reported that employees on maternity leave have not been receiving the increases to Statutory and Occupational payments that they are entitled to when there is a pay increase due to a pay award or increment when they are on maternity leave. This has also been the case for the sample of maternity cases examined that have been in payment during 2018/19. In some cases these individuals have received backpay as if they were at work - an error also identified in 2017/18. Management need to ensure that staff responsible for calculating and checking maternity payments fully understand application of the 'Alabaster' rule and that all maternity cases are reviewed and corrections made to ensure employees have been paid correctly. There needs to be ongoing oversight by the Payroll & HR Administration Lead to ensure review is completed each time annual pay awards are processed.

Whilst there have been checks to confirm that details manually entered into Agresso to make individual





monthly payments are correct, there is no evidence to show that the calculation of maternity payments is double checked prior to the start of payment. As a manual process we would advise this is the case, although our checking of 23 maternities confirmed the original calculations of SMP and OMP were correct.

Guidance: there remains a need to expand the written guidance available to team members, particularly to ensure processes and checks completed meet the standards expected and are consistent across the team. We recommend this includes the checks on starters, movers and leavers and exception reporting.

Access review: the LCC Strategic Finance Manager - Business World On is progressing work on 'Roles' within the system and system access. Review is designed to ensure users only have the access they need, this complies with Data Protection requirements and the number of 'Roles' in use is streamlined. Whilst to date this has not included the HR Administration and Payroll functions, discussion has confirmed that this is now a priority and review will consider adequate segregation of duties. This is particularly timely as restructure in the HR and Payroll teams may seek to introduce more cross over in work undertaken.

Historic Issues

Many of the issues we have reported in previous audit reports impacted on employee pay and pension contributions. The 'Pay Statements' project has been ongoing to more fully identify and correct these errors. Significant progress has been made since June 2018 and current plans reflect that employee underpayments, overpayments and rectification through the ledger and with pension providers will be completed by the end of the financial year. The correction of these errors does not impact on assurance around current processes or the internal control framework.





We would like to thank the staff in Serco Payroll and HR Administration for their time and help with the audit.





Further evidence of the improvements of processes and sound key controls include:

- · Starters / Movers / Changes / Leavers
- ✓ supporting documents were held on file and there is evidence of appropriate approval from managers either on the forms completed or by email
- √ pay and employee details had been entered correctly onto Agresso
- ✓ correct pension scheme details were present on all the records we reviewed
- ✓ evidence is retained to confirm recruitment checks (such as Right to Work, Identity and DBS) have been completed, and copies of supporting documents are retained where appropriate
- ✓ resignations are supported by letters from employees and there are evidenced checks that all leavers have P45s issued
- ✓ postings to the general ledger are complete and driven within the system by the employee's post
- ✓ the HR Administration team generate monthly reports listing Starters, Changes, Movers and Leavers
 which are used by the Payroll team to check employee records and evidence of this is being retained.
- √ team members were able to provide explanations to any queries we had on any anomalies between the information submitted and details on Agresso
- Exception reporting
- ✓ the system Error & Warnings report is now better understood and the Senior Payroll Administrators check items listed each month
- ✓ 'highs and lows' reports identify where net pay differences are 30% greater or less than the month before and reports also identify where net pay in the current or previous month was zero
- explanations for the differences are recorded on each line of these reports and it is clear from discussion and review of a sample of entries that potential errors are being identified and amended
- √ a number of pension reports highlight where pension information and deductions are missing or need





amendment

- Payovers to 3rd parties for deductions from pay continue to be recorded, made timely and reconciled to the ledger and postings in Accounts Payable. Whilst the issues with posting to the suspense account highlighted previously continue, this is now monitored and reconciled by Serco and the LCC Finance team so appropriate adjustments can be made to the accounts at year end.
- The Corporate Finance team reconciles payroll and the general ledger on a monthly basis and monitor other payroll control and suspense accounts.





Good risk management, including maintaining risk registers, helps to identify, understand and reduce the chance of risks having a negative impact on the achievement of objectives. The People Management service maintains risk registers around HR and Payroll activities and this audit has not identified any new issues that we felt should be considered for inclusion.



Management Response



Serco Management Response:

This is a fair audit and we thank you for your support to work in partnership to produce the action plan for the Internal Audit report. It is encouraging to see that the assurance has moved from "limited" to "substantial" in recognition of the improvements made. The aim is for the Council and Serco to continue to work in partnership to maintain and build on the "substantial" assurance opinion received, and we support the LCC Management response set out below.

LCC Management Response

The Council Management accepts the findings of the Audit Report and the recommendations for further improvement.

It remains essential that the Council and Serco continue to work in partnership to drive improvements in the payroll control environment. Sustaining high standards for accurate payroll provision remains the single highest priority for the People Management Service.

In line with recent changes: the Council now has full responsibility for the Agresso System as a key enabler to the Payroll and HR Administration Services. The responsibility for technical payroll expertise to deliver the Payroll Service lies with Serco. As such, continued joint partnership working is needed in relation to the remaining improvements required which depend on an integrated approach to people, process and technology.

The Council has recently established the Agresso Programme Board, sponsored by the Chief Executive. All the required system developments relating to Payroll improvements are included in the Programme Deliverables, prioritised into either Phase 1 to be completed by March 19, or into Phase 2 April 19 - March 2020.



Management Response



The Programme includes a rebuild of the Agresso configuration and the associated business processes will be re-designed in line with the standard configuration. It will be assumed these are on "self-serve" principles wherever this provides more streamlined, efficient activity across the end to end business process. "Self-serve" will be actively promoted where it:

- reduces manual intervention or hand-off of information between people that adds no value to the business outcome.
- empowers the individual to be responsible for their own information and their business activities.
- provides built-in assurance that proper control and authorisation procedures are being followed.

Serco will lead on the development of the work instructions and documentation of all payroll processes and regular updating of these when processes change. Comprehensive training of staff and quality checking of work will continue to be in place to ensure these are understood and followed. The Council will continue to lead on the management of a joint action plan with Serco to progress all outstanding actions identified in this audit or previously.

Additional improvements being implemented by the Client Side include:

- 1. A review of the Lincolnshire Fire & Rescue Pay and HR processes based on the service requirement to achieve increased internal efficiency and ease of use for both Serco back office and LFR. The project team has been established and work will be carried out over the following months to document and improve process flow of information reduce double entering into multiple systems and assist in improving the knowledge of HR administration and payroll staff.
- 2. An interim solution has been put in place where the Business Support Team is supporting Managers in Corporate areas to ensure HR Forms are submitted to payroll accurately and on time. This will reduce pressure on the Serco service enabling the payroll team to focus on pay processing and



Management Response



checks, and thereby reduce potential payroll errors. The Corporate Management Board is monitoring the direction of travel through monthly assessment of volumes of late and incorrect data submitted to Serco, to ensure the provision of targeted support and guidance to Managers. Ongoing analysis of the reasons for errors is enabling the Council to identify where more guidance needs to be provided for managers in how to correctly identify the data they are required to submit. It is recognised that the error rate will reduce as system and process improvements come on line, supported by training of managers.

- 3. Incorrect and late data continues to be a challenge in schools. There continues to be support provided to schools, regular reminders in the schools newsletter and working jointly with LCC Finance to provide support to Bursars. Serco are attending the next CFT (Current Financial Topics) with the LCC Finance Team to train and educate schools staff in processes and developments.
- 4. Development of a service definition covering the requirements of the Council and all parties, including Schools and Fire & Rescue Service. This will ensure a detailed understanding of requirements and responsibilities and will also assist in the understanding of third parties such as Pension Administrators.
- 5. Through the plan of service improvement activities and projects for HR and Payroll services, there will be a further strengthening of the intelligent client for payroll enabling a strengthening of client oversight and monitoring the effectiveness of service delivery.

Other Payroll Improvements - Jointly Developed by LCC/Serco

Additional to the above, a number of payroll improvement actions identified through earlier audits of payroll are continuing, and will be delivered in parallel with the Agresso programme work. The key





outputs which Serco and LCC will drive forward include:

- Building revised and fully itemised payslips to comply with new legislative requirements and where applicable, apply best practice before April 2019. This is coupled with revisions to ensure more understandable descriptions of Payment and Deduction codes, so ensuring employees are able to confirm their payments and deductions (particularly for multiple jobs) are correct and data included is complete.
- 2. HR Forms to be improved and will be supported through the rebuild of the Agresso System. This will ensure a streamlined and more efficient process with significantly reduced errors as it relates to implementing improved electronic HR forms which have mandatory fields which are pre-populated from the system with the relevant employee data. There are still full requirements of Serco Payroll within the Starter, Mover and Leaver process, to act as gate-keeper and only act on appropriately authorised requests.
- 3. Review of expenses, allowances and other Payment and & Deduction codes. This review includes: removal of unused codes; relevance of the description; and ensuring no duplication of purpose with similar codes. This is to be acted upon immediately with the aim of having a reduced suite of codes available by end of the calendar year.
- 4. Cleansing of data within the system in order to ensure each field has relevant data added and secondary action to mandate fields to ensure greater control and ease of use of payroll system. The data cleanse activity is to be supported by all managers and employees when requests for information are made and gathered. It is planned that the cleansing of critical data, e.g. which impacts on employment status or pay, will be delivered in final quarter of 2018/19.
- Working with the Agresso Programme to implement a range of associated process improvements to reduce manual workarounds, and achieve a more automated solution where the Agresso system does currently not automate processes. E.g. Remove custom absence process and introduce standard absence module.





6. Resolution of historic issues. A review of the overpayment tracker is in place to ensure that recovery is tracked and repayments are closed off completely.

The Council Management is committed to ensuring resources are allocated to enable the necessary governance and oversight that the identified improvement actions in this report are implemented in a timely way. There continues to be a range of operational meetings and project working involving LCC and Serco Payroll and HR Administration colleagues and, where appropriate, managers from services, to ensure that all stakeholders are engaged in sustaining the improvements and maintaining substantial assurance of the payroll service.

achieve its objectives.

risks are being managed effectively. It is unlikely that the activity will

Appendix 1 - Assurance Definitions

of the activity not achieving its objectives is high.

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

Appendix 1 - Assurance Definitions

Action Priority		
High	Immediate management attention is required - an internal control or risk issue where there is a high certainty of: substantial loss / non-compliance with corporate strategies, policies or values / serious reputational damage / adverse regulatory impact and / or material fines (action taken usually within 3 months).	
Medium	Timely management action is warranted - an internal control or risk issue that could lead to financial loss / reputational damage / adverse regulatory impact, public sanction and / or immaterial fines (action taken usually within 6 to 12 months).	



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Agenda Item 5



Regulatory and Other Committee

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

Report to: Audit Committee

Date: 19 November 2018

Subject: Internal Audit Progress Report

Summary:

The purpose of this report is to:

- 1) Provide details of the audit work during the period 11th September 2018 to 5th November 2018
- 2) Advise on the progress with the 2018/19 plan
- 3) Raise any other matters that may be relevant to the Audit Committee role

Recommendation(s):

That the Committee note the outcomes of Internal Audit's work and identify any actions that need to be taken.

Background

This paper covers the period 11th September to 5th November and reports on progress made against the 2018/19 audit plan.

Conclusion

During the period we have completed 8 audits and have a further 8 at draft report stage.

Consultation

a) Have Risks and Impact Analysis been carried out?

No

b) Risks and Impact Analysis

N/A

Appendices

These are liste	d below and attached at the back of the report
Appendix A	Internal 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



Lincolnshire County Council November 2018





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

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

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period 11th September 2018 to 5th November 2018
- Advise on progress with the 2018/19 plan
- · Raise any other matters that may be relevant to the Audit Committee role

Key Messages

During the period we have completed:

8 audits to final assurance reports

Assurances

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

High Assurance:

- Cash management Heritage Services
- Cash management Eastgate Children's Home
- Supplier Reliability

Substantial Assurance:

- Domestic Homicide Review
- Cash management Business Support
- Cash management Music Services
- Cash management Registration Services
- Payroll Interim

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1. HIGH ASSURANCE

5
SUBSTANTIAL
ASSURANCE

LIMITED ASSURANCE



High Assurance

Cash Management - Eastgate Children's Home

The cash handling arrangements were found to be robust with several areas of good practice. The imprest was held securely with good handover procedures, adequate supporting documentation, sufficient segregation of duties between the imprest holder and operator and accurate of coding of purchases made through petty cash.

Cash Management - Heritage Services

Income and cash handling arrangements were found to be robust with several areas of good practice. Income received was held securely, banked regularly, had adequate supporting documentation and was accurately coded. The imprest was held securely, submitted regularly, purchases were coded correctly and there was adequate segregation of control between imprest and operator

Supplier Reliability

the re-tender to Galliford Try and that Best Value had been secured. We also reviewed that due diligence checks were completed before awarding the original contract to Carillion and the extent that any lessons learnt from this situation have been shared with current or future projects to mitigate the impact of a similar situation occurring. We found that appropriate due diligence financial checks were completed for all tenders in November 2015 for the original contract and that LCC have strong due diligence and contract management controls. We found that all options in the re-tender process were examined and assessed to mitigate the cost impact from the failure of Carillion. The best value decision was made following the appraisal of the options

available. Senior Management and Members were kept informed of progression. Consultation was sought with Legal and Procurement and decisions were signed off by the right people at appropriate stages in the plan. The lessons learnt project is still in progress and a report still needs

The audit looked to provide independent assurance that following the collapse of Carillion procedures had been appropriately carried out on

to be produced.

Substantial Assurance

Cash Management – Music Service

Strong processes were in place for income collected. Adequate supporting documentation was held for income transactions and income was held securely.

There was no formalized charging policy in place to show how the music rates were set. This would increase transparency in the charging process. There were some occasions where cash held was in excess of the £300 insurance limit and therefore banking's should either be performed more regular or cash held in a safe.

Cash Management - Business Support

Good cash handling processes and controls were in place but there were some weaknesses in control that were found, The handover procedures of petty cash imprest accounts could be strengthened, The accuracy of coding on BWON could be improved. The imprest payment limit of £150 was sometimes exceeded and staff need to be reminded of the limit.

Cash Management

Registration Services

Robust cash handling and imprest processes and controls are in place but improvements could be made with the handover procedures of imprest accounts and cash received should be checked to ensure that it does not exceed the insurance limit of £300.

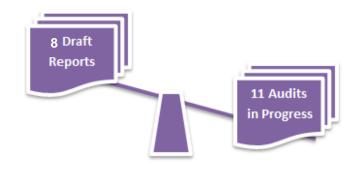
Domestic Homicide Review

The audit reviewed whether processes for Domestic Homicide Reviews meet legislative requirements, reflect best practice and that reviews have been satisfactorily followed up. We also confirmed that LCC owned actions have been implemented or progressed and lessons learnt embedded. We found areas where good practice was in place. Local protocols are in line with the statutory guidance issued by the Home Office and these have been updated on a timely basis to reflect changes in legislation and best practice. DHR's are being completed in line with statutory requirements. There were a small number of areas for improvement, particularly around demonstrating good governance. Decisions made by the DHR panels and the DHR overview reports need to be more clearly evidenced.

Substantial Assurance

Payroll Update

The aim of the audit was to gain assurance on progress made in the Payroll control environment. The audit reviewed HR Administration and Payroll processes to confirm that the controls in place are adequate, including the workarounds / detective controls designed to identify and address known issues. We undertook sample testing over transactions to confirm the application and evidencing of controls, and that transactions are bona fide, complete and accurate. This report is discussed as a separate item on the agenda.



Audits reports at draft

We have 8 audit's at draft report stage:

- Cyber security
- Schools admission software
- Strategic workforce planning
- SEND home tuition
- Capital strategy and capital receipts
- Direct payments proportionate auditing
- Programme and project management
- Members allowances

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

Work in Progress

We also have 11 2018/19 audits in progress:

- Highways 2020 Project
- Tax compliance
- Good governance review
- · Emergency planning command structure
- Heritage service design
- Records management
- Apprenticeships
- Children's statutory complaints
- Patch management
- Assurance assessment re NCC
- Gifts and hospitality

Details of these can be seen in the 2018/19 plan at appendix 2

Audits planned for quarter 4 include:

- Workforce performance and rewards
- · Domestic abuse support service
- Health and safety
- Counter fraud arrangements
- VAT follow up
- · Pension fund asset pooling
- LFR fleet management



Other Significant work

Other key work undertaken during the period includes:

Corporate Support Services Contract

The Contract with Serco for Corporate Support Services expires 31st March 2020. A Programme of work has been set up to manage this process through individual project streams.

Corporate Management Board asked Internal Audit to provide independent support, advice and assurance over the Programme which has continued during the period. On 2nd October Council chose the option to end the contract with Serco after 31st March 2020. As such this audit work has now concluded.

Highways 2020

We have been providing support to the Highways 2020 project which is in the process of reproducing for the Highways contracts. During the period we completed a review of Governance and Project Management arrangements. We found these to be robust and effective. We issued a highlight report to management but no recommendations for improvements were necessary





Internal Audit's performance is measured against a range of indicators.

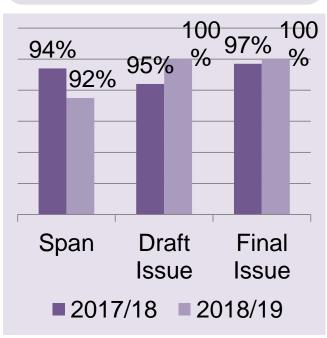
The statistics below show our performance on key indicators year to date.

Performance on Key Indicators

100%

Rated our service Good to Excellent

High achievement of Audit KPI's to date





Other Matters of Interest

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

Committee Members

CIPFA Position Statement on Audit Committees in Local Authorities and Police 2018.

CIPFA has published an updated Position Statement setting out the principles that it recommends for audit committees in the local government sector. The statement covers the role and purpose of the committee, its key areas of focus and the membership of the committee.

Key changes to the CIPFA guidance:

The key changes include:

- emphasis on establishing an effective structure (applicable to local authorities only)
- new guidance on the audit committee role in relation to external audit
- audit committee role in collaborative arrangements
- accountability and annual reports
- · new self-assessment of good practice.

Assurance Definitions

High

Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.

The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.

Substantial

Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.

Limited

Our critical review or assessment on the activity gives us a The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.

Low

Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

2018/19 Audit Plan to date

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
LCC 2018/19-01 - Highways 2020 Procurement Programme	This consultancy assignment will offer support and advice on the programme throughout its journey of re-procurement and contract start in April 2020	15/11/2017	01/04/2018		Consultancy support in process
LCC 2018/19-02 - Heritage (Phase 2)	Our review will provide the Heritage Service with support and advice during the project to help ensure it is appropriately managed, and that the process is on track to deliver its outcomes. This project needs to identify and present the best options available for the Council to agree, and the future of the Heritage Service depends upon the successful implementation of this agreed method. It is therefore essential that the project has captured and presented the information accurately to allow for a decision to be made from the available options.	15/09/2017	01/03/2018	01/05/2018	Phase complete
LCC 2018/19-03 - Domestic Homicide Review	The audit aims to provide assurance to management that processes for Domestic Homicide Reviews meet legislative requirements and reflect best practice. In addition the audit seeks to provide assurance that reviews have been satisfactorily followed up, with LCC owned actions having been implemented or progressed and lessons learnt embedded.	15/05/2018	21/05/2018	25/10/18	Substantial Assurance (Complete)
Workforce	Assurance that there is a consistent and fair approach planned for linking employee increments to performance from 2018/19	01/11/2017			Delayed to Q4 by Director
LCC 2018/19-05 - Interests, Gifts and Hospitality Registers	To provide assurance over the management and application of Interests, Gifts and Hospitality policy and registers	11/10/2018	11/10/2018		Fieldwork stage
LCC 2018/19-06 - Corporate Support Services Commissioning	To provide ongoing insight and advice around project management, governance, risk and control.	01/03/2018	01/03/2018	30/9/18	Consultancy support complete

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2018/19 Audit Plan to date

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
LCC 2018/19-07 - Recommissioning of Domestic Abuse Support Service	To provide assurance around the commissioning and contract management of domestic abuse service for standard & medium risk victims and IDVA, including the approach to services for DA perpetrators	23/04/2019			Delayed to Q4 by Director
LCC 2018/19-08 - Strategic Workforce Planning	To provide independent assurance that appropriate senior management succession planning is in place at LCC.	01/05/2018	30/05/2018		Limited Assurance (Draft)
LCC 2018/19-09 - Corporate Complaints, Compliments and Comments	Our review will aim to provide assurance that the complaints, compliments and comments process is fit for purpose and is meeting it's targets in resolving customer complaints at the earliest opportunity.	05/04/2018	05/04/2018	05/07/2018	Substantial Assurance Complete
LCC 2018/19-10 - Records Management	Records Management processes are in place and consistently applied so as to ensure compliance with the General Data Protection Regulation.	01/10/2018			Fieldwork stage
LCC 2018/19-11 - Cash Management in Registration Service	To gain assurance that management arrangements for income and imprest at Council Establishments ensure risk of loss or misappropriation is adequately controlled.	12/04/2018	05/07/2018		Substantial Assurance Complete
LCC 2018/19-12 - Transport Connect Assurance Review	Assurance over the governance arrangements of this Teckal company owned by LCC to help inform the annual governance statement	03/04/2018	03/04/2018	21/08/2018	Complete
•	Support and advice on the upcoming transfer of PREVENT activities from the Police to the Local Authority	13/03/2018	27/09/2018	27/09/2018	Removed – transfer cancelled
LCC 2018/19-14 - School Admissions Software	Confirmation that the risks regarding implementation of the new admissions software have been managed to minimise the disruptions to schools.	01/08/2018	01/08/2018		High Assurance (Draft)
LCC 2018/19-15 - Mosaic - Adult Care and Community Wellbeing	Review the effectiveness of Mosaic across Adults in meeting business needs.	01/05/2018	02/05/2018	28/05/2018	Complete Substantial Assurance

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Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
	Assurance that governance arrangements are working effectively to manage Ethics, Partnerships and Transparency. To be conducted from a member perspective.	01/04/2018	01/04/2018		Fieldwork in progress
LCC 2018/19-17 - Health & Safety	Assurance that the Council's arrangements to manage Health and Safety are adequate and effective.	01/10/2018			Planned Q4
LCC 2018/19-18 - Counter fraud arrangements	Assurance that the Council's arrangements to Counter Fraud are adequate and effective.	01/10/2018			Planned Q4
LCC 2018/19-19 - Cyber Security	Assurance over the Council's arrangements for mitigating the latest cyber security threats. Internal Audit shall identify the latest cyber security threats and determine whether the arrangements to protect against them and recover from them are appropriate and adequate.	10/01/2018	10/01/2018		Substantial Assurance (Draft)
LCC 2018/19-20 - Mosaic Application Review	The review will focus on system security, particularly in the following areas: System security (access controls) Performance (accuracy and timeliness) Operating procedures Back-up and recovery Change control	12/03/2018	12/03/2018	13/9/18	Substantial Assurance Complete
LCC 2018/19-21 - Emergency Planning Command Structure	To provide assurance around the plans being pit in place to address command resource and support availability for major EP events.	25/06/2018	03/09/2018		Fieldwork in progress
LCC 2018/19-22 - Programme / Project Management Support	Assurance that the programme / project support function is effective in supporting management on key programmes and projects	03/07/2018	11/07/2018		Substantial Assurance (Draft)
LCC 2018/19-23 - Members Allowances Scheme	Assurance that a robust policy is in place, applied and payments to members are timely, appropriate and accurate.	26/06/2018	10/09/2018		Substantial assurance (Draft)

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
LCC 2018/19-24 - Heritage Service Operating Model Change Programme	To provide the Heritage Service with support and advice during the project to help ensure it is appropriately managed, and that the process is on track to deliver its outcomes.	02/07/2018	05/07/2018		On hold until Q1
Cash Management in establishments	To gain assurance that management arrangements for income and imprest at Council Establishments ensure risk of loss or misappropriation is adequately controlled.	01/07/2018	10/08/2018	10/2018	Substantial Assurance Complete
Cash Management	To gain assurance that management arrangements for income and imprest at Council Establishments ensure risk of loss or misappropriation is adequately controlled.	01/07/2018	05/07/2018	10/2018	High Assurance Complete
Cash Management in establishments - Eastgate	To gain assurance that management arrangements for income and imprest at Council Establishments ensure risk of loss or misappropriation is adequately controlled.	01/07/2018	05/07/2018	10/2018	High Assurance Complete
Cash Management	To gain assurance that management arrangements for income and imprest at Council Establishments ensure risk of loss or misappropriation is adequately controlled.	01/07/2018	05/07/2018	10/2018	Substantial Assurance Complete
LCC 2018/19-30 - Local Transport Capital Funding Grant 2017-18	To confirm that the expenditure complies with the conditions of the Grant and the funding received agrees to the Grant determination letter.	12/07/2018	12/07/2018	09/2018	Complete – grant signed
LCC 2018/19-31 - Payroll Interim Audit 2018/19	Assurance that the payroll processes and controls are working effectively	24/07/2018	04/09/2018		Substantial Assurance (Complete)
LCC 2018/19-32 - Children's Service Statutory Complaints	Assurance that robust procedures are in place to manage and monitor statutory complaints and that lessons are shared from these to ensure learning and improvements				Fieldwork in progress
	Lessons learned review of management of the impact on Lincoln Eastern Bypass when contractor Carillion collapsed.	20/07/2018	20/07/2018		High assurance (Complete)

2018/19 Audit Plan to date

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
- SEND Home Tuition	Assurance on provision of temporary home tuition to SEND children that require school places with a focus on provider monitoring including safer recruitment processes.	28/08/2018	28/08/2018		Substantial Assurance (Draft)
	Audit sign off as per the requirements of the grant	06/05/2018	06/05/2018	05/09/2018	Complete
LCC 2018/19-36 - PCI – DSS	Assurance that the Council fulfils all PSI DSS statutory requirements	01/08/2018			Planned
- Capital Strategy &Receipts	Seeking to gain assurance that; -LCC has adequate plans to fulfill emerging legislation relating to capital strategy -management of capital receipts is transparent and complies with legislation	02/08/2018	02/08/2018		Limited assurance (Draft)
 Proportionate auditing for Direct 	To review the impact of the implementation of the Direct Payments Proportionate Auditing Guidance on the effectiveness of the Direct Payments auditing process.	02/08/2018	02/08/2018		Limited assurance (Draft)
- Tax Compliance	That the councl is consistently meeting tax reporting requirements of HMRC, to include Real time information reporting, CIS and employee expenses.	01/08/2018	06/09/2018		Fieldwork in progress
- Bus Service Operators	Audit to validate all expenditure on the return has been spent on eligible schemes. In preparation for sign off and return to the DfT (grant making body).	22/08/2018	22/08/2018	25/09/2018	Complete – grant signed
- Apprenticeships	To provide independent assurance over the extent to which services are effectively able to use the apprenticeship reforms to develop the workforce for both current and future needs and compliance with Government Requirements	15/10/2018			Fieldwork in progress
LCC 2018/19-42 - VAT follow up	To follow up previous VAT audit in 17/18	06/09/2018			Planned

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Appendix 2

2018/19 Audit Plan to date

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
•	That fund management remains effective and efficient and has successfully implemented the changes necessary for Pension Fund Asset Pooling	10/09/2018			Planned
LCC 2018/19-44 - Assurance assessment re NCC	Review of the report from Northampton County Council and benchmarking against the issues identified in that report		06/07/2018		On going
LCC 2018/19-45 - LFR Fleet Management	To provide assurance on the adequacy and effectiveness of the fleet management contract for Lincoln Fire and rescue.	18/10/2018			Planned
LCC 2018/19-46 - Patch Management	To provide assurance that IT vulnerabilities are identified and minimised through patch management.	23/10/2018	23/10/2018		Fieldwork stage

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Agenda Item 6



Regulatory and Other Committee

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

Report to: Audit Committee

Date: 19 November 2018

Subject: Counter Fraud Progress Report to 30 September 2018

Summary:

This report provides an update on our fraud investigation activities and information on progress made against our Counter Fraud Work Plan 2018/19.

Recommendation(s):

To note the outcomes of our counter fraud work and identify any actions it requires.

Background

- 1. This report provides an update on the progress made against the Counter Fraud Work Plan 2018/19, including our investigation activities. Details can be found in Appendix A, including:
 - Key messages
 - Proactive work
 - Investigations
 - Progress against plan
 - Other matters of interest

Conclusion

- 2. We are making strong progress against the work plan for 2018/19. Key achievements include:
 - We have completed our annual update of the Fraud Risk Register
 - A proactive review to detect Procurement Fraud has been completed this
 was one of the key priorities identified within the fraud risk assessment.
 - Work in other key priority areas of fraud risk (schools and cyber fraud) has been delivered in 2018/19

- 3. We have recently submitted a substantial amount of records to the Cabinet Office for the National Fraud Initiative 2018/19. This is a data matching exercise and it is mandatory for public bodies to participate. The purpose of the process is to identify fraud, error and overpayment and we expect to make recoveries when the matches are provided in January 2019.
- 4. Fraud referrals have increased in 2018/19 to date we have received 13 (more than double the referrals at the same stage in 2017/18). From analysis of the referrals received, schools and procurement fraud continue to be prominent. We have also noted an increase in social care referrals being made recently we intend to respond to this raised level with some proactive work in Quarter 4 of 2018/19. We had already included time within our Counter Fraud Work Plan and the referrals emphasise the need to deliver work in that area.
- 5. We have secured recovery of over £7k in funds during the year to date. We expect that this will increase with legal efforts to secure a further £39k lost through a fraud case and amounts expected to be recouped through the National Fraud Initiative analysis.
- 6. This progress report is designed to provide the Committee with assurance that:
 - the Council's Counter Fraud arrangements are effective
 - progress has been made against the annual Counter Fraud Work Plan
 - the Council responds to the fraud risks that it faces, assessing and prioritising those where risks are considered to be high

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are liste	d below and attached at the back of the report
Appendix A	Counter Fraud Progress Report

Background Papers

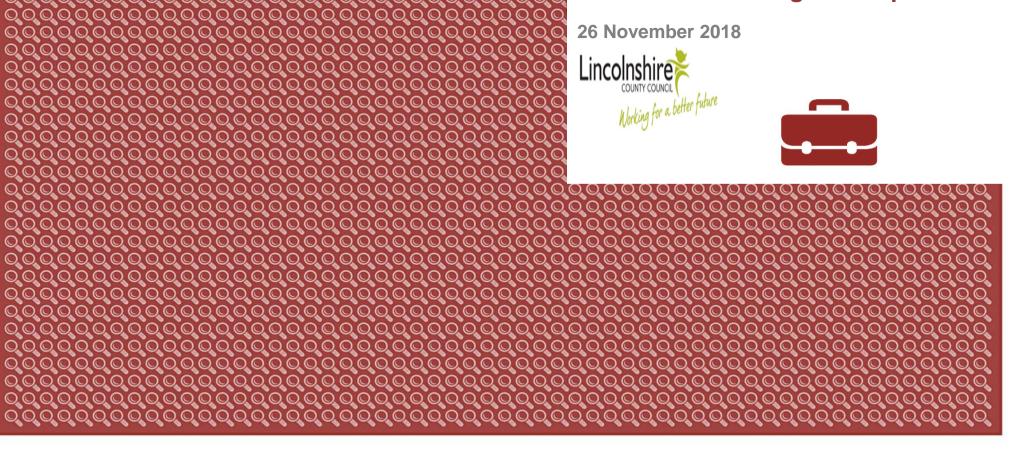
No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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



Lincolnshire County Council

Counter Fraud Progress Report





For all vour assurance needs

What we do best

Innovative assurance services
Specialists at internal audit
Comprehensive risk management
Experts in countering fraud

..... And what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership
Auditors with the knowledge and expertise to get the job done
Already working extensively with the not-for-profit and third
sector





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

The matters raised in this report are only those that came to our attention during the course of our work – there may be issues that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual engagements or were not bought to our attention. The opinion is based solely the work undertaken as part of the agreed counter fraud plan.





Key messages

Proactive work

- 1. We are making progress against our 2018/19 Counter Fraud Work Plan. Areas where particular headway has been made include:
 - The annual refresh of the Fraud Risk Register has been completed and presented to the Audit Committee. This is a key element in the Council's response to fraud and drives our activity in priority areas. The register is continually updated and this provides an accurate view of fraud risks at any time
 - We have delivered pro-active work in areas highlighted as priority fraud risks to the Council. These include:
 - School fraud this work focused on building fraud awareness within schools and has been well received
 - Procurement fraud this provided assurance over processes as we identified a high level of compliance and no evidence of fraud from our testing
 - We have commenced work to develop our knowledge and response to the Cyber Fraud threat. This is a rapidly growing and evolving area of risk and we are liaising closely with the Council's Information Assurance Manager to ensure our approach is robust and effective.
- 2. We recently submitted over 780,000 records to the Cabinet Office for the National Fraud Initiative 2018/19 exercise. This is a data

- matching exercise that takes place every 2 years and is designed to identify fraud, error and overpayment.
- 3. The number of referrals received has risen sharply in the first half of 2018/19. This is partly due to effective and ongoing promotion of fraud awareness with stakeholders. The cases currently under investigation range from low level issues to more complex matters that require lengthy investigation. The Counter Fraud and Investigation Team recently recruited relief investigators to build capacity and help minimise the impact of investigations on delivery of our Counter Fraud plan.
- 4. The Lincolnshire Counter Fraud Partnership (LCFP) arrangements continue to support joint working to develop a strong, effective and sustained response to the threat of fraud across the county. The partnership arrangement enables a wide ranging approach to:
 - Address key fraud risks
 - Improve fraud intelligence
 - Co-ordinate targeted fraud awareness and campaigns
 - Share fraud intelligence, best practice and expertise
 - Deliver savings and make effective use of resources





Investigations

- 5. We have received 13 suspected fraud referrals since April 2018:
 - 8 of these are current live cases.
 - 5 cases have been closed during 2018/19 preliminary enquiries were made in three of these cases and a further referral was addressed through management action. The remaining case was a bank mandate fraud attempt that was blocked we valued the fraud stopped at £3.5k. This prompted the release of communications and guidance to ensure awareness of this type of fraud
 - A further 4 cases were brought forward from 2017/18 3 have now been closed
- 6. In the 2017/18 progress report (at this stage) we had received 6 referrals for investigation. This is a marked increase on last year and exceeds the total referrals received in 2017/18. Some of the cases received have been 'low level' and not required extensive investigation. However, the current live cases tend to be more complex and therefore, time consuming. Figure 1 shows a breakdown of referrals by type with Figure 2 included for comparison. The charts show that procurement fraud remains a prominent area although there has been a sharp rise in social care cases time has been allocated I the 2018/19 Counter Fraud Work Plan to perform pro-active work in both areas.
- 7. The Council has a zero tolerance to approach to fraud this is a key element in our Counter Fraud Policy. This means we treat all fraud referrals seriously and seek to apply maximum sanctions wherever

possible. From the referrals made in 2018/19 we have passed 1 case to Action Fraud and another 2 cases to Lincolnshire Police. We are working on another case with Legal Services Lincolnshire to secure recovery of funds lost through a fraud case.

Figure 1

2018/19 referrals (to date)

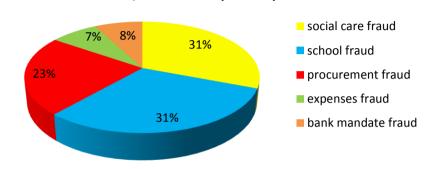
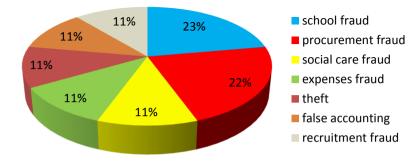


Figure 2

2017/18 referrals







Counter Fraud Proactive Work

Fraud Awareness

- 8. Building understanding of fraud risks and indicators is a key factor in developing a counter fraud culture within local authorities. Improved knowledge and awareness of fraud and how to report concerns is vital in terms of prevention and detection. The increase in referrals made to us and the raised level of whistleblowing activity is evidence that our approach is effective.
- 9 Key areas of fraud awareness in 2018/19 are:
 - Continued promotion and roll out of the fraud awareness elearning package. Levels of participation continue to be strong with over 1000 (approximately 10%) of employees completing the course
 - Following a recent campaign to raise fraud awareness in schools, we became aware of an increase in scams and fraud attempts targeting schools. We reacted promptly to liaise with Children's Services and finance teams to release communications advising action to be taken and encourage reporting of any issues identified
- 10. During the remainder of 2018/19 we will be refreshing our Counter Fraud promotional material – this includes leaflets and varied communications across social media channels to support the antifraud message.

National Fraud Initiative 2018/19

- 11. The Council is required to participate, along with other public bodies, in the National Fraud Initiative (NFI) exercise. In October 2018 we submitted records covering the following datasets:
 - Creditor data
 - Direct Payments data
 - Payroll data
 - Pensions data
 - Residential Care Home payment data
- 12. We have been very successful in our participation and analysis of data matches received from the NFI process we have identified and secured recovery of over £248k in funds since 2006. We expect that we will make further recoveries from the 2018/19 exercise and will initially target those areas where we have had success previously in making recoveries.

Targeted Pro-active Exercises

13. We have completed a proactive exercise aimed at preventing and detecting procurement fraud. Our response to this type of fraud has previously centred around raising fraud awareness. However, in 2018/19 we identified a range of contracts from services across the Council and applied a series of counter fraud tests on procurement and contract management processes employed – the purpose being to assess compliance with the Council's Contract and Procedure Rules. The results identified were encouraging as our testing found





effective fraud prevention controls and strong contract arrangements in place.

Procurement fraud remains a high risk nationally to local authorities (the largest single area of fraud loss) and this was supported by our own risk assessment process. To ensure a continued and robust approach to this type of fraud we conduct reviews on an annual basis

14. One of the key elements in the Local Government Fraud Strategy (Fighting Fraud and Corruption Locally) is that Councils must develop its use of information and technology to prevent and detect fraud. We have undertaken previous data analysis exercises aimed at specific areas and achieved great success with this – we found and instigated recovery of £1.6m in duplicate payments.

We have now enhanced our response in this area through use of the IDEA data analysis package and associated training in its use. We have commenced a programme of continuous fraud auditing involving analysis of transactional and standing data to identify outliers and longer term trends and patterns. The areas identified for initial review include:

- Payroll data
- Purchasing card transactions
- Declaration of interests
- 15. We continue to enhance our understanding of the cyber fraud threat. Intelligence suggests that cyber attacks are becoming larger, more sophisticated and more frequent. Cyber enabled fraud has

consequently evolved to become a lucrative option for criminals. Our initial response has been around raising awareness of the threat and we will continue to liaise with the Information Assurance Manager to form a joined up approach.

- 16. We have included time in our Counter Fraud Work Plan 2018/19 to undertake proactive work on Social Care fraud. This was identified as a priority area within our fraud risk assessment and we have noted an increase in referrals of this type. We plan to respond with work to target known areas of fraud including:
 - Direct Payments
 - · Deprivation of capital
 - Financial abuse

Lincolnshire Counter Fraud Partnership

17. The partnership continues to co-ordinate the response of Lincolnshire local authorities in tackling high-risk areas of fraud against the councils. The introduction of representatives from Lincolnshire Police and the Police and Crime Commissioner (PCC) to the group allowed a closer collaboration with local law enforcement agencies. All partners contribute to LCFP's funding.





18. Recent priority work includes:

- Fraud awareness:
 - Delivering free identity fraud training via Lincolnshire Police
 - Delivery of workshops with members and completion of the Fraud Awareness e-learning which continues to be well received – over 1000 (10%) LCC staff have now completed the training and a version tailored specifically for schools is also receiving positive feedback
- Regular liaison and sharing of information on scams, alerts and fraud cases
- Delivery of revenue savings the Single Person Discount Managed Service Review is estimated to deliver additional net Council Tax revenue of £1.3m (3693 removals). Such schemes support increased Council Tax revenue collection through reduced fraud losses
- Sharing best practice e.g. pro-active work focusing on procurement fraud risks has been shared across the partners
- Provision of Fraud Health checks for partner members providing assurance that counter fraud arrangements across Lincolnshire councils continue to improve
- Supporting pro-active Blue Badge reviews

- 19. Partnership priorities for the remainder of 2018/19 include:
 - Development of a business case for dealing with Single Person Discounts which delivers additional financial benefits and a stronger response to Council Tax fraud and error. The proposal estimates that the revised arrangements will deliver additional revenue over a 5 year period of £10.5m (gross). This doubles the estimated value to be delivered under the current strategy
 - Understanding the Cyber Fraud threat this is a rapidly evolving risk where we wish to develop an effective response
 - Refreshment of the Counter Fraud leaflet and promotional items. We will continue to use varied and extensive communication channels to promote fraud awareness to a wide audience







Investigations

- 20. The Council currently has 3 fraud cases with the Police:
 - One relates to a case where a care provider has potentially acted fraudulently to incite others to defraud the Council. We are liaising with Lincolnshire Police on this matter
 - We referred 2 cases involving misuse of a procurement card
 combined value of these cases is around £2.7k

A further case was referred to Action Fraud (the national centre for fraud and cybercrime in the UK) involving a fraudulent attempt to secure a payment from a school. Scam correspondence is received by schools on a regular basis and these are often crude attempts. However, this case involved a clear and targeted effort to obtain substantial funds (£10k) from the school. The attempt failed due to internal controls in place, although we were able to secure evidence and have submitted details to Action Fraud for potential criminal investigation.

- 21. 13 suspected fraud referrals have been received since April 2018. Four of these cases were closed after preliminary enquiries had been made:
 - Theft of monies within a school the amounts involved were not substantial and it was not possible to identify a perpetrator. We reviewed the processes in place for cash collection and security and made recommendations to strengthen controls

- 3 cases related to scams or bank mandate fraud these can be defined as attempts to secure payment by submitting false information to change bank supplier details. One of these cases involved a Council partner to whom regular and substantial payments are made. In view of the risks associated, we promptly issued guidance and communications to ensure continued awareness of this type of fraud with relevant stakeholders (Serco Masterdata Team and requisitioners).
- 22. We are currently working on 8 live fraud cases. In addition to the cases noted in paragraph 20, we are investigating:
 - 2 direct payment frauds
 - Deprivation of assets (failure to declare in financial assessment)
 - Allegation of potentially fraudulent behaviour by a contractor
 - Potential fraudulent expenses claims
- 23. During 2018/19 we have been able to secure recovery of £7,120. This relates to a case where payment was obtained for a care package for a service user. We liaised with Lincolnshire Police to secure payment through a restorative justice arrangement.
- 24. We are confident that we will soon make a substantial recovery (£39k) of funds relating to a case we dealt with in 2016/17. This resulted in a custodial sentence for the perpetrator and we have been liaising since with Lincolnshire Police and Legal Services Lincolnshire to secure payment.





25. We hope to secure repayment of overpaid pensions identified within the National Fraud Initiative 2016/17. These are sensitive and long running cases but there is potential scope to recover a further £17k We will also receive the data matches from 2018/19 NFI process in January 2019 – in the past we have made recoveries and it is likely this exercise will be no different with further amounts expected to be recouped in 2018/19.

Progress against plan

26. The Counter Fraud Work Plan (pages 11 - 17) provides a summary on progress against planned work – much of this is ongoing but good progress is being made against many of the priority areas.

Other matters of interest

CIPFA Fraud and Corruption Tracker

27. We participated in the annual survey conducted by CIPFA. We provide data on our counter fraud activity and priorities on an annual basis and the report has recently been released. This identified that £302m in fraud was detected or prevented by councils in 2017/18. The number of cases reported increased to over 80,000 and a significant rise in serious and organised crime

cases was noted. We are currently comparing the survey results with our own records to identify common areas or patterns that may quide our response.

Fraud Risk Register

28. We completed the annual update of the Fraud Risk Register and presented the results to the Audit Committee in September 2018. There were no major changes in the appraisal of risk levels although we did introduce a new fraud risk within the register – Serious and Organised Crime. The assessment remains a vital tool in compiling accurate information and intelligence on each of our fraud risks.

Midlands Fraud Group

29. We lead the Midland Counties Fraud Group – this consists of Counter Fraud professionals from numerous councils across the Midlands region. We hosted the most recent meeting of the group in May 2018 – these meetings continue to be a valuable source of fraud intelligence and knowledge. Group members liaise regularly to discuss counter fraud issues and approach. We maintain a shared website that allows sharing of intelligence, case studies and best practice. .





Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling	Progress
CIPFA Code of Practice – Key Pri	inciple A : Acknowledge Resp	onsibility		
A1 - Acknowledge the threat of fraud and corruption A2 - Acknowledge the importance of a culture that is resilient to the	Engagement and trainingFraud awarenessWebsite updatesResponse to the Home	Briefing sessions – training for members, management and staff (general and specific fraud areas).	Throughout 2018/19	Sessions being delivered throughout 2018/19
threats of fraud and corruption A3 - Governing Body acknowledges its responsibility for	Office Report on Serious and Organised Crime Continued promotion of e-learning package (in	Annual Plan for Counter Fraud activity to Audit Committee	Quarter 1 (2018/19) & Quarter 4 - March 2018 (19/20 Plan)	Report presented in Quarter 1
the management of its fraud and corruption risks A4 - Governing Body sets a	conjunction with Lincolnshire Counter Fraud Partnership)	Continued development of fraud resilience through the Lincolnshire Counter Fraud Partnership (LCFP).	Throughout 2018/19	Ongoing throughout 2018/19
specific goal of ensuring and maintaining its resilience to fraud and corruption		Roll out of fraud e-learning module for members	Throughout 2018/19	Face to face training delivered to Audit Committee
		Updates, risks, results and information (various publications and channels)	Throughout 2018/19	Ongoing throughout 2018/19
		Response to Serious Organised Crime Pilot Project across Lincolnshire	Throughout 2018/19	Work ongoing through Crime Core Priority Group of Lincolnshire Community Safety Partnership
40 Days (5%)				





Specific step (from CIPFA Code of	Nature of work	Indicative Scope	Scheduling	Progress
Practice)				
CIPFA Code of Practice – Key Pr	inciple B : Identify Risks			
B1 - Fraud risks are routinely considered as part of risk management arrangements B2 - The organisation identifies the risks of fraud and corruption B3 - The organisation publishes	 Research and intelligence gathering to highlight emerging risks Benchmarking activity Update fraud risk profile Analysis and publication of fraud losses 	Participation in Midlands Fraud Group, work with FFCL Board (Fighting Fraud & Corruption Locally), CIPFA Counter Fraud Centre, follow up of NAFN alerts and horizon scanning for relevant legislative changes	Throughout 2018/19	 Quarter 1 & 2: MFG meeting hosted Continued work with FFCL Board NAFN alerts issued
estimates of fraud loss to aid evaluation of fraud risk exposures		Review and update of the Council's Fraud Risk register.	Quarters 2 & 3	Presented to Audit Committee – Quarter 2
B4 – The organisation evaluates the harm to its aims and objectives		Participation in CIPFA Fraud and Corruption Tracker (CFaCT) Annual Survey	Quarter 1 (June submission)	Submitted – Quarter 1
		Annual and progress reports of counter fraud activity to Audit Committee	Quarter 1 (for June 2018) Quarter 3 (for January 2019)	Reports presented as required
		Data analysis & risk assessment: • for counter fraud proactive exercises • to support key control and continuous testing	Throughout 2018/19	Ongoing during 2018/19
35 Days (4%)				





Specific step (from CIPFA Code of	Nature of work	Indicative Scope	Scheduling	Progress
Practice)				
CIPFA Code of Practice – Key Pri	inciple C : Develop a Strategy			
C1 - Governing Body formally adopts a counter fraud and corruption strategy to address identified risks	 Counter Fraud Strategy Review and refresh policy documents 	Refresh & promote Counter Fraud Strategy	Quarter 1	Initial work commenced and should be finalised in 2018/19
C2 - Strategy includes the organisation's use of joint working or partnership approaches		Review and updates of Policies including:	Quarter 1 Quarter 1	Initial work commenced and should be finalised in 2018/19
C3 - The strategy includes both proactive and responsive approaches:		Strategy Money Laundering Policy (ML)	Quarter 2 Quarter 4	
 Proactive action: Develop counter fraud culture Prevent fraud through implementation of robust internal controls Use of techniques such as 		Activity planning of pro-active counter fraud work - response to risk assessment and data analytics.	Quarter 1	Ongoing throughout 2018/19
data matching				
 Deterring fraud attempts by publicising the organisation's anti-fraud and corruption 				
stance and the actions it takes against fraudsters Responsive action:				
 Detecting fraud through data 				





Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling	Progress
 and intelligence analysis Implementing effective whistleblowing arrangements Investigating fraud referrals Applying sanctions and seeking redress 				
30 Days (4%)				

Specific step	Nature of work	Indicative Scope	Scheduling	Progress
(from CIPFA Code of				
Practice)				
CIPFA Code of Practice - Key Pr	inciple D : Provide Resources			
D1 - Annual assessment whether level of resource invested to countering fraud and corruption is proportionate to the level of risk	 Lincolnshire Counter Fraud Partnership Midlands Fraud Group Collaboration with and 	Fraud advice across LCC services areas and to strategic partners.	Throughout 2018/19	Ongoing – 2018/19
D2 - The organisation utilises an appropriate mix of experienced and skilled staff	support to Internal Auditors at Assurance Lincolnshire Manage pool of Conduct	Management of Lincolnshire Authorities Whistleblowing Facility.	Throughout 2018/19	Ongoing - 2018/19
D3 - The organisation grants counter fraud staff unhindered access to its employees	Investigators	Development of internal data analytics capability – system upgrade and training	Throughout 2018/19	Ongoing - 2018/19
D4 - The organisation has protocols in place to facilitate joint working and data and intelligence		Response to Serious Organised Crime Pilot Project across Lincolnshire	Throughout 2018/19	Ongoing - 2018/19





Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling	Progress
sharing		Use of pooled funding contributions from Lincolnshire's District Councils and Lincolnshire Police for provision of support to the Lincolnshire Counter Fraud Partnership	Throughout 2018/19	Ongoing - 2018/19
		Delivery of 3 Lincolnshire Counter Fraud Partnership meetings	Quarter 1, 3 & 4	Meetings held as scheduled
		Training & induction of new staff to Counter Fraud & Investigations Team	Quarter 1 - 2	Staff appointed and inducted in Quarter 2
		Resource swap with North East Lincolnshire Council (to facilitate independent audit review of Counter Fraud Arrangements).	Quarter 3	Scheduled for Quarter 3
		Engagement with national and regional best practice groups including co-ordination of Midland Fraud Group meetings	Throughout 2018/19	Ongoing - 2018/19
115 Days (15%)				





Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling	Progress
CIPFA Code of Practice - Key Pr	inciple E : Take Action			
E1 - The organisation has put in place a policy framework which supports the implementation of the Counter Fraud Strategy E2 - Plans and operations are aligned to the strategy E3 - Making effective use of	 Participation in the National Fraud Initiative 2018/19 Proactive counter fraud exercises Data analysis Investigations – whistleblowing referrals 	Data provision & analysis of data matches identified through National Fraud Initiative 2018/19 Proactive counter fraud exercises: • Procurement fraud (specific areas) • Cyber risks (deeper dive	Quarter 1 & 2 - data provision Quarter 4 - investigate Throughout 2018/19	Data submitted in Quarter 3 Work completed in Quarter 1 Work commenced in
initiatives to detect and prevent fraud, such as data matching or intelligence sharing E4 - Providing for independent assurance over fraud risk management, strategy and	 Investigations – fraud Applications of sanctions Seeking redress Advice Promotion of counter fraud activity Organisational learning 	exercise to follow up internal audit's review of ICT security arrangements). • Follow up of investigations recommendations	Throughout 2018/19	Quarter 2 Ongoing – 2018/19
activities	Reports to Audit Committee	Adult Social care	Throughout 2018/19	Scheduled for Quarter 4
E5 - Report to the Governing Body at least annually on performance against the counter fraud strategy and the		Investigations arising from whistleblowing reports and frauds identified	Throughout 2018/19	Ongoing – 2018/19
effectiveness of the strategy. Conclusions are featured within the Annual Governance report * Note also Specific Step – C3		Production of management reports and action plans to aid organizational learning – investigation outcomes and learning points	Throughout 2018/9	Ongoing – 2018/19





Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling	Progress
		Applications of sanctions – civil, disciplinary and criminal	Throughout 2018/19	Ongoing – 2018/19
		Seeking redress where successful prosecutions are achieved	Throughout 2018/19	Ongoing – 2018/19
		Promotion and publicity work through various media channels including fraud prevention measures	Throughout 2018/19	Ongoing – 2018/19
		Provision of advice on fraud risks and mitigating controls	Throughout 2018/19	Ongoing – 2018/19
465 Days (59%) - Includ	ding 240 days (30%) fo	or investigations		

Specific step (from CIPFA Code of	Nature of work	Indicative Scope	Scheduling	Progress
Practice)				
Contingency	Emerging risks			
161 Days (20%)				

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Agenda Item 7



Regulatory and Other Committee

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

Report to: Audit Committee

Date: 19 November 2018

Subject: Whistleblowing Annual Report 2017-18

Summary:

This report provides an overview of the Council's whistleblowing arrangements throughout the year 2017/18.

Recommendation(s):

Items to note:

- a) whistleblowing activity for 2017-18
- b) ongoing work to raise awareness and provide assurance on the effectiveness of the Council's arrangements for whistleblowing
- c) revisions to the Whistleblowing Policy are submitted for approval

Background

- 1. This report provides a summary and analysis of whistleblowing disclosures received by the Council during the period from April 2017 to March 2018. Details reported include:
 - Whistleblowing activity (analysed by type of issues reported)
 - Referrals made (analysed by Council director area) to identify any trends emerging and to compare with activity from previous years
 - Action taken and outcomes from whistleblowing disclosures including learning points
 - Measures taken to promote the whistleblowing facility and ensure the Council's whistleblowing arrangements remain effective
 - Revisions to Whistleblowing Policy to reflect changes in legislation

Conclusion

- 2. The number of whistleblowing concerns raised in 2017/18 increased quite significantly (by 24%) on the previous year. While the number of fraud referrals made through the whistleblowing facility has stabilised after a recent upwards trend, there are other types of referrals that have increased these include misconduct reports, safeguarding concerns and potential breaches in policy. The continued high level of disclosures made through the reporting line provides assurance that the Council's arrangements remain effective and that whistleblowers continue to have confidence in the facility.
- 3. We continue to respond to trends identified in whistleblowing activity and target specific areas within our work plans for proactive work. We also continue to promote awareness of the Council's Whistleblowing arrangements to ensure stakeholders know how to report issues. The level of activity (both for the Council and neighbouring councils) within Lincolnshire provides evidence that we are effective in encouraging whistleblowing and that supporting arrangements in place are operating well.
- 4. We have updated the Whistleblowing Policy. The main purpose for the revisions made was to reflect changes in legislation. The policy now correctly reflects the Public Interest Disclosure Act and further changes have been made to ensure General Data Protection Regulations (GDPR) is covered. Best practice recommended by Protect (formerly Public Concern at Work) is also included.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report			
Appendix A	Whistleblowing Annual Report 2017-18		
Appendix B	Whistleblowing Policy (Revised)		
Appendix C	Whistleblowing Process Flowchart		

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.



Lincolnshire County Council

Whistleblowing Annual Report 2017-18

26 November 2018







For all vour assurance needs

What we do best

Innovative assurance services
Specialists at internal audit
Comprehensive risk management
Experts in countering fraud

..... And what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership
Auditors with the knowledge and expertise to get the job done
Already working extensively with the not-for-profit and third
sector





Contents

The contacts at Assurance Lincolnshire for this report are:

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(Dianne Downs Team Leader 1522 553682 Dianne.Downs@lincolnshire.gov.uk

Matt Drury Principal Investigator 01522 553690 matt.drury@lincolnshire.gov.uk

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

The matters raised in this report are only those that came to our attention during the course of our work – there may be issues that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual engagements or were not bought to our attention. The opinion is based solely the work undertaken as part of the agreed counter fraud plan.





Key Messages

- The number of contacts received through our whistleblowing facility in 2017/18 rose by 24% on the previous year. 36 referrals were received during the year in comparison with 29 disclosures in 2016/17.
- 2. We find this encouraging as we have continued to promote the whistleblowing facility and the importance of reporting concerns about wrongdoing. Stakeholders often have worries or suspicions and could, by reporting their concerns at an early stage, help put things right or identify and stop potential wrongdoing.
- 3. A review of the Council's Whistleblowing Policy has just been completed and updates have been made. Key changes include:
 - The policy now reflects best practice laid out by Protect (formerly Public Concern at Work)
 - The Public Interest Disclosure Act is now fully covered by the policy
 - GDPR was implemented in May 2018 and the policy has been revised to reflect this significant change in data protection law

Communications will be released over the coming months to support the updated policy to ensure stakeholders are fully aware of their options to report concerns. The revised Whistleblowing Policy is

- included as Appendix B to this report. Revisions are highlighted and have been reviewed by the HR Policy Group.
- 4. We believe that the continued high whistleblowing traffic received through the facility and the updated policies demonstrate the continued effectiveness of the Council's whistleblowing arrangements.

Whistleblowing disclosures 2017/18

5. During 2017/18 we received 36 whistleblowing disclosures. All disclosures were made through the Council's dedicated whistleblowing facility (options include the telephone hotline, e mail or PO Box address). The majority of whistleblowers (64%) had sufficient confidence in the process to provide their identity. This is consistent with results from previous years and provides further assurance on the effectiveness of our service.







6. The analysis below shows the type and number of disclosures received over the last 4 years (see Figure 1):

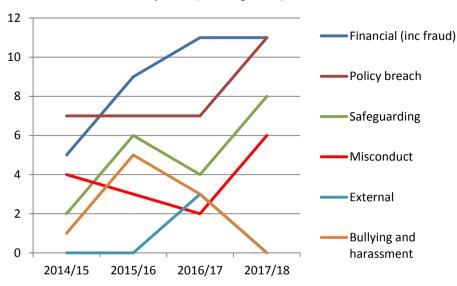


Figure 1 - Analysis of type of disclosures

- 7. Figure 1 demonstrates that there has been increased activity in calls relating to:
 - Potential misconduct
 - Policy breaches
 - Safeguarding issues

We liaise closely with the Safeguarding team on any such referrals received but will monitor trends in each of these areas to identify root causes and common issues and form a response if required.

- 8. Encouraging trends identified from 2017/18 whistleblowing activity include:
 - A further decrease in cases of bullying and harassment no such concerns were reported through the Whistleblowing Line (although one case was reported through another route).
 - Referrals of financial & fraud issues have stabilized after increasing over previous years. However, 31% of referrals received relate to this category so this will continue to be scrutinized to assess patterns and trends.



COUNTER FRAUD Services

Whistleblowing Annual Report 2017/18

Lincolnshire
COUNTY COUNCIL

M boking for a better future

9. Figure 2 and 3 The charts below provides an analysis of contact made across Council Director areas:

External

Figure 2 - Whistleblowing disclosures by director area 2017/18

Childrens Services

Public Health

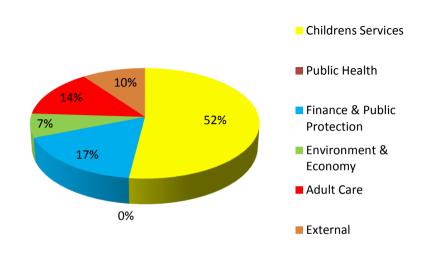
50%

Finance & Public Protection

Environment & Economy

Adult Care

Figure 3 - Whistleblowing disclosures by director area 2016/17



10. Consistent with a trend identified in previous years, the highest number of whistleblowing disclosures (18 or 50%) relate to Children's Services, although the proportion of calls for this Director area remained similar – slightly down from 52% to 50%. Most other director areas have remained consistent in terms of the proportion of calls received, the exception being Adult Care where there was an increase in whistleblowing activity – from 14% to 22%. Matters reported in this area range from safeguarding issues to potential fraud such as direct payment misuse and deprivation of capital. Our 2018/19 Counter Fraud Work Plan includes proactive work around Social Care fraud – this should help our response to reports of this nature.





11. Figure 4 shows how we dealt with the concerns raised during 2017/18:

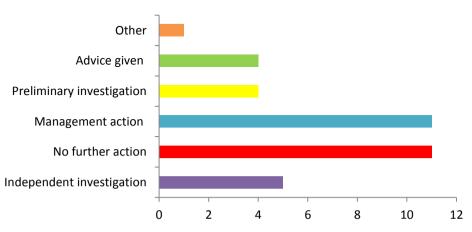


Figure 4 – Analysis of outcomes from whistleblowing reports

- 12. The outcomes in Figure 4 can be analysed as follows:
 - A significant majority of cases (61%) in 2017/18 resulted in no further action or resolution through management action.
 - It was necessary to undertake some form of investigation in 9 cases but only 5 referrals (14%) received progressed to full independent investigations

The outcome results are generally consistent with those experienced in recent years. The referrals that progressed to full investigations ranged from conduct issues, breaches of policy and procedure and

fraud. It is encouraging that most issues reported could be resolved without formal investigation and action being required.

13. Investigation outcomes:

The 5 referrals formally investigated resulted in 4 separate cases. The outcomes were:

- 2 cases referred to Police for investigation into potential fraud

 enquiries are continuing into one case and the other has
 now been finalised with substantial recovery made (£90k)
 although no prosecution resulting
- 1 case ongoing investigation into allegation of fraud by a service user
- 1 case formal conduct investigation that led to disciplinary action being taken

Organisational Learning

14. We produce Action Plans on the completion of any formal investigation undertaken. We agree actions required and ensure responsibility is designated to individuals or groups to allow the recommendations made to be implemented. The purpose of this process is to identify learning points and ensure they are acted upon to prevent similar issues recurring.





Benchmarking

- 15. Lincolnshire County Council takes part in the CIPFA Fraud and Corruption Tracker (CFaCT) each year. This helps to benchmark activities against counterparts in the wider public sector.
- 16. Nationally 144 local authorities took part in the 2017/18 CFaCT this included 15 County Councils. Only half of the authorities that responded to the survey have a dedicated counter fraud resource. CIPFA recognise that this may have an impact on the ability of the other councils to provide data for the return, and notes there may be potential bias in some figures.
- 17. Nationally, respondents reported 560 whistleblowing cases, averaging 3.8 whistleblowing referrals per local authority. The report represented disclosures in all areas (not just fraudulent behaviour). The number of whistleblowing reports at Lincolnshire County Council are significantly higher than the national average. However, to provide context, this remains a small proportion in view of the number employed by the Council.

Promotion of Whistleblowing Arrangements

18. We promote awareness of the Council's arrangements for whistleblowing on a continual basis. Promotional material and displays are renewed and refreshed to ensure employees are

- engaged and confident with the process and aware of how they can report any concerns they may hold.
- 19. The number of whistleblowing concerns relating to schools is historically high and we have regular and close engagement at management level with Children's Services to address these issues. To reinforce this, we have undertaken recent awareness sessions with school employees and Headteachers this covered whistleblowing arrangements and emphasised the importance of reporting concerns and issues. This demonstrates our proactive stance in responding to target areas where issues may be more prevalent.
- 20. The Counter Fraud and Investigation Team operate the fraud reporting hotline on behalf of all local authorities within Lincolnshire. The number of disclosures received in 2017/18 continued at a high level, increasing from 90 to 118 reports. This demonstrates the effectiveness of our efforts to promote the reporting line and the wider issues of whistleblowing to encourage those with concerns to feel positive in reporting issues.



Whistleblowing Policy

Reporting Wrongdoing A Safe Alternative to Silence

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Whistleblowing Policy

Control

Owner / Policy Lead Officer: Dianne Downs (Team Leader – Counter Fraud &

Investigations)

Responsible Officer: Monitoring Officer
Consultation: Audit Committee
Date: November 2018

Review Arrangements: Every three years

Introduction

- At Lincolnshire County Council we want to make sure that we are providing excellent services to the residents of Lincolnshire. Our staff, Councillors, partners and contractors have an important role to play in achieving this goal and we expect everyone to be committed to our high standards of service which are based on the principles of honesty, openness and accountability.
- 2. We know that we face the risk that something may go wrong or that someone may ignore our policies, our procedures or the law resulting in some very serious consequences. Experience shows that staff, or others who work on behalf of an organisation, often have worries or suspicions and could, by reporting their concerns at an early stage, help put things right or identify and stop potential wrongdoing.
- 3. **A Whistleblower** is generally a term used for a person who works in or for an organisation and raises an honest and reasonable concern about a possible fraud, crime, danger or other serious risk that could threaten colleagues, service users, customers, members of the public or the success and reputation of the organisation.
- 4. We want you to feel that it is safe and acceptable to tell us about your concerns so that we can investigate and take action as soon as possible. We recognise that you may be worried about reporting for a number of reasons:
 - fear of reprisal or victimisation (e.g. loss of job)
 - too much to lose (reputation, damage to career etc)
 - feelings of disloyalty
 - worries about who may be involved
 - you have no proof only suspicions
 - fear of repercussions if there is no evidence or you are proved wrong
- We welcome all genuine concerns and will treat your issues seriously this policy explains how to raise a concern, the types of activity you should report, the protection we can provide, confidentiality, our response and how you can take matters further, if necessary.

- 6. We want to assure you that there is no reason to remain silent; your decision to talk to us may be difficult but, if you believe what you are saying is true, you have nothing to fear as you are following the Council's Code of Conduct and helping to protect the users of our services and the residents of Lincolnshire. We will not tolerate any harassment or victimisation and we will take action to protect those of you who raise concerns that you believe to be in the public interest.
- 7. UK law protects employees from dismissal, harassment or victimisation if such treatment occurs as a result of having made a whistle-blowing disclosure considered to be **in the public interest**. In addition to the employer's liability, the individual who subjects the employee to such treatment may also be held personally liable.
- 8. This policy does not replace our existing employment policies: grievance, dignity at work and disciplinary. You should use these policies if you have a personal grievance or are unhappy with the way you are being treated. Our Whistleblowing arrangements are not intended to give you a further opportunity to pursue a grievance or complaint once you have exhausted the relevant employment procedures.
- 9. You may be a member of the public with concerns or information which you think we should know about or look into. You should, however, follow the Corporate Complaints process if your concern is about a particular service that we have provided you.

Scope

- 10. You can use our Whistleblowing arrangements if you are: a Councillor, Council employee, employee of a Local Authority school or a school governor (if the school has adopted our policy), a contractor, partner or member of the public. Our policy also applies to agency staff, contractor staff and suppliers providing goods or services to, or on behalf of, the Council.
- 11. Our Whistleblowing arrangements **do not** replace the following:
 - Child Protection Safeguarding reporting
 - Adult Care Safeguarding reporting
 - Corporate Complaints Procedure
 - Disciplinary Policy
 - Grievance Policy
- 12. You should only consider raising concerns through our Whistleblowing arrangements if:
 - you have genuine reasons why you cannot use the above policies and procedures
 - you have reason to believe that these policies are failing or are not being properly applied
 - there is a public interest aspect

Protection and Confidentiality

- 13. The Whistleblowing law is contained in the Public Interest Disclosure Act 1998 (PIDA amended by the Enterprise and Regulatory Reform Act 2013). Public bodies, such as this Council, are required to have a Whistleblowing policy and to ensure that employees are not victimised or dismissed for raising their concerns internally. This also applies to those who, as a last resort, feel the need to take their concerns to an outside body, such as the Local Government Ombudsman.
- 14. Members of the public who raise concerns are not legally protected by PIDA, so we do offer the option for the person making the allegations to withhold their identity at the time concerns are raised.
- 15. You may feel that the only way you can raise your concerns is if we protect your identity. If the whistleblower does chose to disclose their identity, we will respect confidentiality as far is possible, but there are times when we cannot guarantee this, for example, where a criminal offence is involved or if there are child protection or adult safeguarding issues.
- 16. We will attempt to ensure the whistleblower's identity is not disclosed to third parties and information will not be disclosed unless the law allows or compels us to do so, for example in order to comply with a court order. If the information you provide includes personal information about another person, then that person may be entitled to access it under subject access provisions of the Data Protection Act or General Data Protection Regulations (GDPR). If releasing that information could reveal identifying information about the whistleblower, we will always ask for your consent prior to releasing the information.
- 17. We will not tolerate any harassment or victimisation (including informal pressure) and we will take action to protect you when you raise a concern believed to be in the public interest. We will take any disciplinary or corrective action should anyone attempt to victimise the whistleblower or prevent concerns being raised.
- 18. If we proceed to a formal investigation we may require you to give evidence along with other employees and witnesses; we are, in some circumstances, able to do this without disclosing the identity of the whistleblower. A statement from you may also be required as part of criminal proceedings or Employment Tribunal this depends on the nature of the concern.
- 19. If your whistleblowing disclosure results in an internal investigation and you provide a witness statement under that process, your statement may be used for disciplinary purposes. This means your statement may be given to the subject as part of a disciplinary hearing. An employee subject to the disciplinary process can ask to see personal information held about them at any time under the subject access provisions of the Data Protection Act this may include information within your statement. If it is possible to provide access to personal information within your statement without revealing any information about you, we will do so. If this is not possible, we will always seek your consent before releasing any information.

- 20. If your statement is not required for disciplinary purposes it will be:
 - held confidentially on our case file (until the case file is destroyed after 7 years)
 - released only with your consent or a Police / Court Order

21. The Council:

- does not expect you to give us your consent this is your decision alone but we are required by law to ask you
- does not need a reason should you choose to refuse the request
- 22. If you find yourself the subject of a whistleblowing disclosure and a decision is made to investigate, the Council will follow the appropriate employment procedure: dignity at work, grievance or disciplinary. This means you will have all the rights contained in that procedure, such as, the opportunity to respond to the allegation and representation at the investigatory interview.

What you should report

- 23. We encourage you to use our whistleblowing arrangements for issues such as:
 - conduct which is a criminal offence or breach of law
 - a breach of our Code of Conduct for staff or Councillors
 - sexual, physical or verbal abuse of our clients, employees or public
 - dangerous procedures risking the health & safety of our clients, employees or public
 - unauthorised use of public funds
 - suspected fraud or corruption
 - damage to the environment (e.g. land, buildings, highways, water, air, waste, energy, transport, natural habitat etc.)
 - unethical or improper conduct
 - services that fall seriously below approved standards or practice
 - failure to follow the Council's policies and procedures

NB. This is not an exhaustive list

Anonymous or untrue allegations

- 24. We do not encourage anonymous reporting as the concerns are more difficult to investigate and are generally less powerful. We would like you to put your name to the allegations whenever possible and remind you of the protection we can provide if we know who you are.
- 25. Anonymous whistleblowing referrals will be considered at the discretion of the officers handling your concern, in consultation with the service area, where appropriate. This discretion will be based on the:

- seriousness of the issues raised
- credibility of the concern
- likelihood of confirming the allegation from an attributable source
- evidence base
- 26. It may be that our investigations do not confirm your allegation. We take all concerns seriously and can assure you that no action will be taken against you if you have raised a concern in the genuine belief that it is, or may be, true.
- 27. If we find that you have maliciously made a false allegation we will take action and you will not be eligible for protection under PIDA.

How to raise a concern

- 28. We encourage you initially to raise your concern internally this allows the Council the opportunity to right the wrong and give an explanation for the behaviour or activity. We also advise staff to report any allegation to their line manager. We recognise that your first actions will depend upon the seriousness and sensitivity of the issues and who you believe to be involved. We advise that you make it clear that you are raising your concerns under the Council's whistleblowing arrangements this will help managers respond in line with this policy. (See Flowchart Whistleblowing Process)
- 29. If you are in any doubt about what you should do, you can contact:

Chief Executive 01522 552000
 Monitoring Officer 01522 553000
 Head of Corporate Audit & Risk Management 01522 553692

- Chair of Governors (if you work for a school)
- 30. You may wish to raise the matter in person and you can do this by using one of the contact numbers above or alternatively you can contact the Council's confidential freephone whistleblowing number below.
- 31. The Investigations Team, who report directly to the Head of Corporate Audit & Risk Management, operate this dedicated reporting line during normal working hours (9am to 5pm). If you call this number out of hours you can leave a message on the answer phone which is located in a secure area.
- 32. Concerns are better submitted in writing we need the background and history of your concern, giving names, copies of any documents, dates and places (where possible). We would like you to explain why you are concerned about the situation we do not expect you to prove the truth of an allegation but you will need to show that there are sufficient grounds for your concern.
- 33. You can write directly to one of the officers named above or you can use the confidential PO Box or email address (which is monitored by a nominated officer within the Investigations Team).

Lincolnshire County Council PO Box 640 Lincoln LN1 1WF

Email address: whistleblowing@lincolnshire.gov.uk

34. You may also call our Confidential Whistleblowing Line:

Freephone 0800 0853716

- 35. Staff have the option to seek independent advice from their trade union representative or professional association, or can invite a work colleague to raise a concern on their behalf.
- 36. Further advice may be sought from Protect [formerly known as Public Concern At Work (PCAW)], the whistleblowing charity, on their whistleblowing advice line: 020 7404 6609.
- 37. **Remember** the earlier you raise the concern, the easier it is to take action.

How we will respond

- 38. Our response will depend on the nature of the concern raised and may be:
 - advice only
 - resolved by agreed action without the need for investigation
 - investigated internally (by management, Counter Fraud & Investigations Team or other independent investigators)
 - referred to the relevant safeguarding team (child protection or vulnerable adults)
 - referred to the Police, if a criminal matter
 - referred to the external auditor
 - the subject of an independent inquiry
- 39. The officer receiving the whistleblowing allegation (if a major issue) will immediately notify the Investigations Team within Corporate Audit to include the disclosure on a central register.
- 40. We may carry out initial enquiries in order to protect individuals or employees and those accused of wrongdoing. We will use the results of these enquiries to decide whether an investigation is needed and if so, what form it should take. If urgent action is required this will be taken before we start any investigation.
- 41. Concerns of fraud, bribery or corruption will be followed up by the Investigations Team within Corporate Audit. If there are other serious concerns of a potentially criminal nature, the complaint will be referred to the Council's Monitoring Officer. They will determine whether the concern should be referred to the Police directly by the Council or whether the complainant should be advised to make such a referral.

- 42. If the Monitoring Officer decides that the matter should be referred to the Police by the Council, advice will be sought from the Police to establish if a simultaneous internal investigation can be conducted, and whether or not they consent for the subject of the complaint to be informed of allegations.
- 43. The Council's Code of Conduct requires employees to notify their line manager immediately of any criminal investigation. Failure to do so could result in disciplinary action being taken.
- 44. We will acknowledge your whistleblowing disclosure within 5 working days. Within the next 10 working days we will write and explain how we propose to deal with the matter. The whistleblower will be:
 - given an estimate of how long it will take to provide a final response
 - told if initial enquiries have been made
 - told if further investigation is required, and if not, why not (where appropriate)
 - given details of support mechanisms
 - advised of the investigating officer (where appropriate)
 - advised how we will inform you of progress
- 45. The amount of contact between you and the Officer considering your whistleblowing disclosure will depend on the nature of the concerns raised. For example, if further investigation is required, the investigator may need to seek additional information from you.
- 46. If a meeting is necessary, this can be held off site if you prefer. If you are an employee you will have a right to be accompanied this will be a union representative or work colleague (not involved in the area where the concern exists). If you are not an employee you may wish to bring a friend with you a neutral venue can be arranged, where required.
- 47. We will help with any difficulties you may experience as a result of raising a concern we will, for example, provide advice if you are required to give evidence for criminal or disciplinary proceedings. Sometimes whistleblowers have counter-allegations made against them. The County Council has a duty to investigate any concerns that it receives and that will apply in these circumstances. However this will not detract from the principles, as set out in this policy, which govern how the Council will respond to whistleblowers. The over-riding objective will be to establish the truth.
- 48. Records will be retained of all work carried out and actions taken to address the concerns raised by the whistleblower, including the investigator's case file, where relevant. All files will be held securely and confidentially, in accordance with the Council's retention of records policy.
- 49. At the end of our investigations we will provide feedback to the whistleblower (if known) on actions taken and limited detail on the outcome of investigations. Feedback will be subject to legal constraints but we do recognise the importance of providing you with assurances that the matter has been dealt with properly.

Taking the matter further

50. If you have genuine concerns about how we have handled your whistleblowing disclosure you can raise this with the investigating officer(s) and/or the Monitoring Officer. We hope that you will be reach a suitable conclusion to the matter but if you remain dissatisfied you can contact the Council's external auditors at:

KPMG St Nicholas House 31 Park Row Nottingham NG1 6FQ

51. You may also refer your concern to the Local Government Ombudsman – they generally do not take any action until the matter has been dealt with internally first. They can be contacted at:

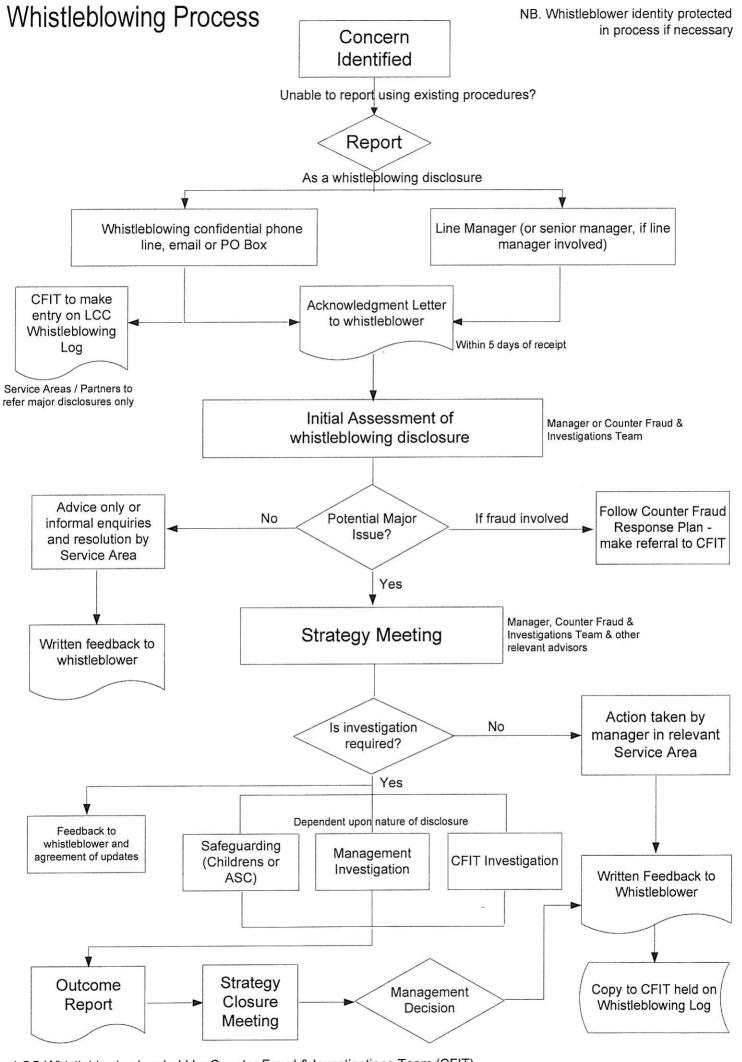
The Local Government Ombudsman PO Box 4771 Coventry, CV4 0EH

Tel. 0300 061 0614 (Local Government Ombudsman – Advice Team)

52. We would like to remind you that employees are not to report any Council related issues to the media – to do so may be considered a breach of the Council's Disciplinary Policy and Code of Conduct.

Monitoring

- 53. The Head of Corporate Audit will provide an annual report to the Council's Audit Committee which has responsibilities for overseeing the effectiveness of the Council's governance arrangements. All reporting will be anonymised and will only identify common themes, numbers of disclosures year on year and will highlight actions taken to improve systems and policies.
- 54. The Council's Governance Group will monitor the effectiveness of this policy.



LCC Whistleblowing Log held by Counter Fraud & Investigations Team (CFIT)



Agenda Item 8



Regulatory and Other Committee

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

Report to: Audit Committee

Date: 19 November 2018

Subject: Work Plan

Summary:

This report provides the Committee with information on the core assurance activities currently scheduled for the 2018/19 work plan.

Recommendation(s):

- 1. Review and amend the Audit Committee's work plan ensuring it contains the assurance areas necessary to approve the Annual Governance Statement 2019
- 2. Consider the actions identified in the Action Plan

Background

The work plan has been compiled based on the core assurance activities of the Committee as set out in its terms of reference and best practice (see Appendix A – work plan to 31 March 2019).

Appendix B – keeps track of actions agreed by the Committee.

Conclusion

The work plan helps the Audit Committee effectively deliver its terms of reference and keeps track of areas where it requires further work and/or assurance. **Consultation**

a) Have Risks and Impact Analysis been carried out?

No

b) Risks and Impact Analysis

Any changes to services, policies and projects are subject to an Equality Impact Analysis. The considerations of the contents and subsequent decisions are all takien with regard to existing policies.

Appendices

٦	These are listed below and attached at the back of the report	
P	Appendix A	Work plan
P	Appendix B	Action plan

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.

Appendix A

Audit Committee Work Plan – 2018/19			
19 November 2018	Assurances Required/Being Sought	Relevancy – Terms of Reference	
ICT update	Ensure management action is taken to improve controls / manage risks identified	Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.	
		To monitor progress in addressing risk-related issues reported to the committee.	
		To monitor the effective development and operation of risk management and corporate governance in the Council.	
Payroll Control Environment – update		To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.	
Payroll Control Environment – update	Seek assurance that payroll performance and control environment has improved and 'substantial' assurance achieved.	Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.	
	Ensure management action is taken to improve controls / manage risks identified	To monitor progress in addressing risk-related issues reported to the committee.	
		To consider summaries of specific internal audit reports of significance or as requested.	
Internal Audit Progress Report	Gain an understanding of the level of assurances being provided by the Head of Internal Audit over the Council's governance, risk and internal control arrangements and why.	To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include: a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.	
		b) Regular reports on the results of the Quality Assurance and Improvement Programme.	

19 November 2018	Assurances Required/Being Sought	Relevancy – Terms of Reference
		 c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement. To consider summaries of specific internal audit reports as requested.
Counter Fraud Progress Report and Policy UReviews	Gain assurance that the Council has effective arrangements in place to fight fraud locally. Ensure that counter fraud resources are effectively targeted to the Council's key fraud risks.	To review the assessment of fraud risks and potential harm to the Council from fraud and corruption. To monitor the counter-fraud strategy, actions and resources.
Whistleblowing Annual Report	That the Council's process and procedures for dealing with whistleblowing referrals is effective.	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances. To review the assessment of fraud risks and potential harm to the Council from fraud and corruption. To monitor the counter-fraud strategy, actions and

Future Meetings		
28 January 2019	25 March 2019	17 June 2019
External Audit Progress Report	Internal Audit Progress Report	Internal Audit Progress Report
Internal Audit Progress Report	External Audit Progress Report	External Audit Progress Report
Strategic Risk Register - update	Draft Internal Audit Annual Plan 2019/20	Draft Audit Committee Annual Report
A report on the general learning points around what happened in Northamptonshire, including the role of the Audit Committee	Draft External Audit Annual Plan 2019/20	Head of Internal Audit Annual Report
	Draft Annual Governance Statement 2019	Approval of Annual Governance Statement
	Draft Counter Fraud Annual Plan 2019/20	External Audit Grant Certification Report
Other Assurance Combined Assurance Status Reports	International Audit Standards on the risks associated with the impact of potential fraud and error on the Financial Statements	Scrutiny of the Draft Statement of Accounts
ס	Review and approval of financial procedures –	Review of Audit Committees Terms of
<u>D</u>	Risk and Audit	Reference and update of the Audit Charter
र्वे	Review of Audit Committees Terms of	
	Reference and update of the Audit Charter	

22 July 2019	23 September 2019	
Approval of Audit Committee Annual Report	Internal Audit Progress Report	
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 2018/19	External Audit Progress Report	
Approval of Audit Committee Annual Report	Update on strategic risk register	
Final Statement of Accounts for Lincolnshire County Council for the year ended 31 March 2019	Report on the Counter Fraud Risks Register	

Audit Committee Action Plan 2018/19 Action Terms of Reference Outcome Key Delivery Activities When 1. Clarify who should attend the Audit May 2018 Ensure that relevant and focussed reports Develop reporting protocol Committee and expectations on the are presented. Provide more certainty that Revised to March 2019 information being presented. assurance is relevant and reliable Promote constructive challenge during meetings Strengthen accountability arrangements and the effectiveness of the Audit Committee 2. Develop Action plan following self-Work with Councillor Improve effectiveness of the committee Completed assessment workshop considering the Development Group to following: develop a person spec with key attributes for people on an Audit Committee Briefing on New Committee members appointed - work with new **Counter Fraud** Committee to draw up a September training and development meeting plan. Recruit an additional Agreement 'independent' member received recruitment to start Delivered Deliver risk management training and awareness for members and staff.

Audit Committee Action Plan 2018/19			
		Ensure that there is a private meeting with External Auditor at least once a year.	Agreed. Next one will take place in March 2019
		End of meeting debrief / lunch	Chairman to arrange as required
		Briefing / update on key risks between meetings	Noted
		Arrange meeting with CMB	Completed – informal meeting agreed Chairman – January 2019
3. A report be brought back to the Committee on the general learning points around what happened in Northamptonshire, including the role of the Audit Committee	Improve effectiveness of the committee		January 2019

Agenda Item 9

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted



Agenda Item 10

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted



Agenda Item 12



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Good	practice	auide

Cyber and information security

Cyber security and information risk guidance for Audit Committees

SEPTEMBER 2017

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £734 million in 2016.

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This report can be found on the National Audit Office website at www.nao.org.uk

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1 Introduction

Our interactions with audit committees across the public sector suggest that, alongside rising awareness of the risks associated with cyber security, there is still considerable uncertainty about how committees can best exercise their responsibilities in this area. We have therefore produced this guidance to help them consider the issues involved and structure their discussions with management representatives.

Why this issue requires attention

Information is a critical business asset that is fundamental to the continued delivery and operation of any government service. Departments and public bodies must have confidence in the confidentiality, integrity and availability of their data. Any personal data collected, stored and processed by public bodies are also subject to specific legal and regulatory requirements.

Cyber incidents pose an increasing threat to public bodies' management of their information, with hacking, ransomware, cyber fraud and accidental information losses all present throughout the public sector. A realistic understanding of cyber issues is essential to protecting public services and users, particularly as the drive to making public services digital continues. In many organisations, the capability of staff to deal with this issue has not kept pace with the risks.

An additional complexity arises when public bodies need to share data. Organisations need to have mutual trust in each other's ability to keep data secure and take assurance from each other's risk management and information assurance arrangements for this to happen successfully. Not getting this right means that either government fails to deliver the benefits of joining up services or puts its information at increased risk by sharing it across a wider network.

Why audit committees need to monitor cyber risks

As government's guidance to audit committees makes clear, cyber security is now an area of management activity that audit committees should scrutinise. Together with the rapidly changing nature of the risk, this means that there is an important role for audit committees in understanding whether management is adopting a clear approach, if they are complying with their own rules and standards and whether they are adequately resourced to carry out these activities.

¹ www.gov.uk/government/uploads/system/uploads/attachment_data/file/512760/PU1934_Audit_committee_handbook.pdf

What we have found through our work

In September 2016, we published our report on *Protecting information across government*.² The report describes this devolution of the government's approach to cyber and information security and the lack of coherence between the various bodies responsible for governance, oversight and incident response.

In separate pieces of work on digital skills and online fraud, we have also noted the considerable challenge the public sector has in recruiting and retaining staff with the right experience and the lack of coordination across government and law enforcement agencies in dealing with criminal cyber activity.

Through our financial audits we routinely find weaknesses in financial system controls. We conducted detailed system audits on 30 bodies in 2017, of which 24 had access control weaknesses. We also frequently find issues in system change controls, business continuity, and third party oversight.

How government policy has changed in this area

In the past much of the guidance, governance, mandatory standards and compliance regimes were provided by the centre of government. The 2014 Government Security Policy framework remains the primary reference point for central government in this area.³ But the centre of government is increasingly stepping away from prescribing how individual departments and bodies should approach cyber risk, believing that each organisation's operating model and risk appetite should drive its own, separate response.

While this approach gives individual organisations freedom to make decisions, it also means that it is their responsibility to make their own assessments of what standards or frameworks they wish to adopt. Government has issued various sets of standards or guidance, from 10 Steps to Cyber Security, to Cyber Essentials, Get Safe Online and Cyber Aware, but has not always made clear who should use which of these. In addition, bodies in some sectors, such as defence, have developed specific approaches which they use with suppliers. Others are using industry standards such as ISO 27001.

The newly established National Cyber Security Centre is bringing together some guidance and advice, but it often relates to a specific area such as the use of passwords or principles for cloud security, rather than providing an overall framework. All of this means it is vital for public bodies to decide what overall framework or approach is most suitable for them.

² www.nao.org.uk/report/protecting-information-across-government/

³ www.gov.uk/government/uploads/system/uploads/attachment_data/file/316182/Security_Policy_Framework_-_web_-_ April_2014.pdf



2 Our guidance

How this guidance links to other standards

We do not wish to add to the problem described above by producing yet another set of guidance. The guidance set out in Part 4 is therefore based on the government's 10 Steps to cyber security. We have however supplemented it in two ways. Firstly, in this section, we have considered some over-arching questions that may help audit committees address strategic issues before getting into areas of detail. Secondly, in Part 5, we have listed some other challenges not covered by the 10 Steps guidance, to cover newer or emerging areas of technology.

What this guidance covers

What we mean by cyber security is the activity required to protect an organisation's computers, networks, software and data from unintended or unauthorized access, change or destruction via the internet or other communications systems or technologies. Effective cyber security relies on people and management processes as well as technical controls.

Cyber security is part of the wider activity of information security. Information security is a broad term that encompasses electronic, physical and behavioural threats to an organisation's systems and data, covering people and processes. Data can of course be stored both electronically and physically (e.g. on paper).

In focusing on cyber security, this guidance largely considers the security of electronic data and related processes and transactions. For some organisations with large volumes of paper records or which need to secure physical access, however, wider information security activity can be just as important to safeguard their operational performance or reputation.



3 High-level questions

In engaging with management to explore the issue of cyber security, audit committees may wish to consider various high-level issues first before discussing points of detail or technical activity. From our experience of auditing the performance of a number of different client bodies, we think the following issues represent a good set of initial topics for discussion.

In each case, we have set out a high level question and some aspects of what a good answer might look like, although these may vary by organisation. Overall, management should be able to describe a balanced approach which considers people (culture, behaviours, and skills), process, technology and governance to ensure a flexible and resilient information and cyber security response.

- Has the organisation implemented a formal regime or structured approach to cyber security which guides its activities and expenditure?
- **a** There should be some kind of information security management system in place and under active management, covering policy, processes, governance, skills and training.
- **b** This might involve formal certification through schemes such as Cyber Essentials or ISO 27001. This may have been implemented or certified by consultants or specialist bodies from government.
- **c** Boards, working groups and individuals should have been allocated specific responsibilities for managing cyber risks.
- **d** There should be plans for resilience and recovery in place and these should be exercised regularly.
- **e** There should be a clear assessment of the potential risk arising from electronic links with any supply chain or operational partners.

How has management decided what risk it will tolerate and how does it manage that risk?

- **a** The board should have discussed its overall approach, based on a clear and common understanding of the range of information assets it holds and agreeing which of those are critical to the business.
- **b** There should be a clear understanding of the kind of threats and risks the organisation actually faces, based on incident reporting and relevant performance indicators.
- c The organisation proactively manages cyber risks as an integrated facet of broader risk management, including scrutiny of security policies, technical activity, information security breach reporting, user education and testing and monitoring regimes.
- **d** The organisation may be involved in sector or peer information exchange mechanisms to improve its understanding.

Has the organisation identified and deployed the capability it needs in this area?

- **a** There is either sufficient staff capability to deal with cyber security issues or formal arrangements made to secure this capability from external providers.
- **b** There may be actively managed plans in place for the recruitment and retention of staff with specialist security skills.
- **c** There should be clear policies on the handling and storage of data, based on relevant legal requirements, such as the General Data Protection Regulation.
- **d** There is training available for all staff to ensure appropriate levels of awareness and compliance.
- **e** Testing may be conducted to measure the effectiveness of controls.



4 More detailed areas to explore

The National Cyber Security Centre has identified 10 steps for cyber security to help organisations manage cyber risks. Based on these 10 steps we have set out below a series of more detailed questions that audit committees may wish to ask management in order to gain assurance that effective controls are in place.

As part of its assessment, audit committees should consider the quality of the evidence underpinning the assurances provided by management, including whether there is good evidence that the policies and procedures are well designed, consistently implemented, and operating effectively with an appropriate compliance regime, in all relevant areas of the business.

Information risk management regime

- Are the governance arrangements for managing information risk based on the importance of data?
- Do information professionals liaise with central government, stakeholders and suppliers to understand the threat?
- Does senior management understand and engage with risk mitigation processes and promote a risk management culture?

Secure configuration

- Does a system inventory exist?
- Are security patches applied regularly?
- Are vulnerability scans conducted regularly?
- Is there a minimum defined security requirement included in the baseline build for all devices?
- Have higher risk device users (e.g. non-executive board members, temporary staff) been identified and managed?

$oldsymbol{\Im}$ Network security

- Is the network perimeter managed?
- Do information professionals identify, group and protect critical business systems?
- Are security controls monitored and tested?

4 Managing user privileges

- Are there effective account management processes, with limits on privileged accounts?
- Are user privileges controlled and monitored on the basis of policies for user authentication and access?
- Is access to activity and audit logs controlled? Are these logs reviewed for unusual behaviour?

5 User education and awareness

- Does the organisation have security policies covering acceptable and secure use of data?
- Are there grade and role appropriate levels of staff training covering secure processes and use of systems?
- Are staff aware of information security and cyber risks?
- Do staff know how to report issues and incidents?

6 Incident management

- Does the organisation have an incident response and disaster recovery capability, with suitably trained staff?
- Are there incident management plans and are these tested?
- Are potential criminal incidents reported to law enforcement bodies and relevant data breaches reported to the Information Commissioner's Office?

Malware protection

- Are there effective anti-malware defences in place across all business areas?
- Is there regular scanning for malware?
- Are there controls to filter access from web browsers?
- What changes have been made as a result of monitoring results?

8 Monitoring

- Is there a monitoring strategy in place for all ICT systems and networks?
- Do logs and other monitoring activities enable the identification of unusual activity that could indicate an attack?
- Can logs support investigations by showing who accessed what, when they did so and what they did to the information?

Removable media controls

- Is there a policy on the use of removable media (e.g. flash drives)?
- Is data encrypted before storage on removable media?
- Are media scanned for malware before being linked to the system?

Home and mobile working

- Is there a clear policy on mobile working, with associated training?
- Is a secure baseline build applied to all mobile devices?
- Are data protected outside formal work environments, including in transit?



5 Additional questions

Because technology has developed since the 10 Steps guidance was published and continues to evolve, we have added below some additional questions on two critical areas which are increasingly having an impact on organisations' cyber security postures: using cloud services and developing new technology or services.

Using cloud services

- Has the organisation followed recognised guidance, such as the National Cyber Security Centre's cloud security principles, before committing to using cloud services?
- Does the organisation have a strategy for the use of cloud services, based on a clear understanding of personal data privacy and consent implications, as well as in-depth analysis of how cloud services will interface securely with existing services, systems and processes?
- Has the organisation undertaken due diligence on proposed cloud suppliers?
 This might include assessing:
 - their security accreditation and protocols;
 - contract liability for data losses or service unavailability;
 - whether they have a reputable in-house security team;
 - their approach to proactive testing and historical evidence of how they have responded to security issues;
 - whether the organisation is allowed to perform its own security testing; and
 - the organisation's ability to retain control of information when leaving the cloud provider.
- Has the technical architecture of the system, or the supplier's system, been reviewed by an appropriate security expert, providing an independent assessment of the system's design to ascertain whether the system provides a reasonable level of mitigation for potential attacks?
- Where cloud services are already being used, does the organisation have processes for checking performance against agreed security practices?
- Are plans to mitigate data loss in place, for example using point-in-time backups?

Development of new services or technology

- Have security considerations been formally assessed as part of new product or service development?
- Have decision-makers understood security and risk trade-offs through business cases and investment decision processes?
- How far has the organisation relied on others' research versus its own to understand the security of the new technology?
- Are system development activities undertaken in a separate environment from live services?
- How has the proposed network been designed to ensure control and, if necessary, separation of devices from other parts of the organisation's network?



6 Further resources

Below is a selection of guidance and insights that may be useful.

Government guidance

1 2014 Government Security Framework:

www.gov.uk/government/uploads/system/uploads/attachment_data/file/316182/ Security Policy Framework - web - April 2014.pdf

2 Cloud guidance:

www.ncsc.gov.uk/guidance/how-confident-can-you-be-cloud-security

www.ncsc.gov.uk/guidance/cloud-security-standards-and-definitions

3 Security frameworks:

www.ncsc.gov.uk/guidance/summary-risk-methods-and-frameworks

www.nist.gov/sites/default/files/documents/cyberframework/cybersecurity-framework-021214.pdf

4 Assessment of organisations information security maturity – previously centrally mandated but still used by many departments:

www.ncsc.gov.uk/articles/hmg-ia-maturity-model-iamm

www.ncsc.gov.uk/content/files/guidance_files/GPG40%20-%20Information%20
Assurance%20Maturity%20Model%20-%20issue%202.1%20Oct%202015%20
-%20NCSC%20Web.pdf

NAO work on information and cyber security

1 The digital skills gap in government: Survey findings

www.nao.org.uk/report/the-digital-skills-gap-in-government-survey-findings/

2 Protecting Information across government

www.nao.org.uk/report/protecting-information-across-government/

3 Online fraud

www.nao.org.uk/report/online-fraud/

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