

Internal Audit Progress Report



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Lincolnshire County Council February 2020

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Lucy Pledge - Head of Internal Audit & Risk Management
lucy.pledge@lincolnshire.gov.uk

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

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period 1st November 2019 to 13th January 2020
- Advise on progress of the 2019/20 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

Assurances

The following audit work has been completed and a final report issued since 1st November:

High Assurance:

- Lincolnshire Safeguarding Adults Board Peer Review follow up
- School Funding Allocations
- Personal Data Breaches
- Coroners Case Management system

Substantial Assurance:

- Data Integrity
- Commercial Property Portfolio
- IMT Asset Management

Limited Assurance:

- Settlement Agreements

Audit reports at draft

We have five audits at draft report stage:

- Business World - System Administration Access
- Property Health & Safety – Legionella Bacteria
- Impact Assessments
- Spalding Western Relief Road (Interim report)
- Recruitment and Selection Checks

Other Audits

- 5 Combined assurance reports
- 1 Governance arrangements for Health and Safety and Risk Management

4
HIGH ASSURANCE

3
SUBSTANTIAL ASSURANCE

1
LIMITED ASSURANCE

0
LOW ASSURANCE

6
Other reports

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 conditions of each level are shown in **Appendix 1**.

Introduction

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Key Messages

Some significant resource changes are in progress which should have a positive impact on the completion of the audit plan. The recruitment process is well underway for the audit manager post and 1 permanent senior auditor post. The appointment process is due to be completed by 10th February with posts expected to be filled by April 2020. We are also recruiting 2 temporary senior auditors to join the team in February for 6 months, to help support delivery over the short term and provide capacity during the induction of new staff. We have also had higher levels staff sickness.

The recruitment of additional apprenticeships has been delayed as the Council's framework contract doesn't include an suitable internal audit provider. It is therefore likely that these roles will not be in place until May / June.

We have made some further planned changes to the audit plan to address these resourcing issues. We have also deferred some audits where the timing is more appropriate in 2020/21. These additional planned changes to the Internal Audit Plan are detailed on page 7 of the report.

We are currently reviewing our resource planning and processes.

The East Lindsey District Council internal audit team joined our team in December with a smooth transition taking place. The Team bring with them significant experience and knowledge in many areas of audit and therefore increase our capacity for audits throughout the Directorates.

For this period there is no action tracking update. Audit recommendation tracking is currently underway and will be reported in the March 2020 progress report.

High Assurance

Lincolnshire Safeguarding Adults Board Peer Review Follow Up

Our work found that the majority of recommendations highlighted following the Peer Challenge review have been addressed by the Lincolnshire Safeguarding Adults Board. A significant number of areas have been strengthened in relation to governance arrangements and update of key policies and procedures leading to improvements in cross-partnership working and a clearer defined strategic vision.

School Funding Allocations

Our work confirmed that the school funding allocations process operated by Lincolnshire County Council Schools' Finance team is well managed and governed effectively. We reviewed allocation methodology, staff arrangements, skills and experience and consultation with schools - we have no findings to report.

Personal Data Breaches

Personal data breach incidents and the related governance arrangements are very well managed. There are effective processes in place which ensure that personal data breaches are identified, reported, recorded in a central register of breaches and assessed. Fuller investigations are undertaken where necessary and any remedial measures are communicated and tracked to help prevent further reoccurrence.

These administrative arrangements, supported by a close working relationship between Information Assurance and the Council's directorates, have promoted a positive culture where personal data breaches are reported.

Coroners

Our review found that the new case management system (WPC) designed specifically for Coroners and introduced in September 2018 is working well. Staff find it easy to operate with tasks and workflow being used, and see it as a big improvement on the previous system, IRIS. Although there are still small issues with the system relating to attachments we confirmed adding attachments is one of the system enhancements being explored.

Substantial Assurance

Data Integrity

Our audit was designed to provide assurance over the processes that confirm the integrity of data from third parties that feeds into Council performance measures. Our review of 8 corporate measures found that for the majority of these measures third party data is checked for accuracy and timeliness.

We found some areas where processes could be improved by ensuring that data received from the police is still verified and not assumed to be correct.

Commercial Property Portfolio

The Regeneration Team manage a large portfolio of properties owned by the Authority and lease these out to small businesses to support economic growth within the County as part of Economic Development. Support mechanism and formal advice is provided to these businesses as part of the promotion of the portfolio and to assist in building growth of the economy within Lincolnshire. We were satisfied the processes and controls in place for managing the business sites were satisfactory. Areas for improvement include the need to introduce a standardised process manual across all sites, and the reintroduction of the tenant satisfaction survey.

IMT Asset Management

This audit was a follow up to the 2017/18 IMT Asset Management Audit which gave Limited assurance. Our recent work found significant improvements in processes relating to acquisitions, asset tracking, disposal and performance. Assurance over Asset Management Hardware has therefore improved to substantial level.

Limited Assurance

We found that although there is a settlement agreement procedure the guidance in place needs updating.

Our testing showed that the requirements in the procedure for documenting the necessary business case were not always being met with some key information to justify the payment not being recorded or retained.

A review of Employment policies and procedures is taking place at present. Therefore this is an opportune time for HR Services to review the settlement agreement guidance to take account of the issues raised in this report.

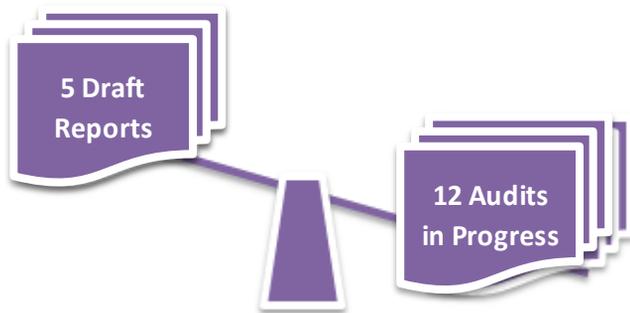
We did, however, confirm that both HR and Legal were involved in each case. This provides assurance that appropriate advice was sought when the use of a settlement agreement was considered.

We also found that the Council has a legally robust form of Settlement Agreement that complies with legal formalities and that an Agreement was entered into in all the cases considered.

We found no cases where a Settlement Agreement had been used when it should not have been used i.e. when safeguarding issues were involved or to prevent a staff member from speaking out.

Further information can be seen in Appendix 4

Settlements



Audits in Progress

We have also have twelve audits in progress either at scoping or fieldwork stage:

- ICT Business Continuity and Disaster Recovery
- Contract Management Review
- Managing Children & Young People Exploitation
- Financial Strategy and Budget Preparation
- Mosaic System – Children's
- Children in Need
- General Ledger
- Carers follow up
- Care assessments
- Payroll & HR Admin
- Spalding Western Relief Road- additional work
- BWON Rebuild Project

Details of these in progress audits can be seen in the 2019/20 plan **at Appendix 3.**

Other Significant work

Other key work undertaken during the period includes:

Combined assurance

We have been working with each Executive Director to produce a Combined Assurance report for the Council. This has coordinated assurance information across:

- Critical service delivery activities

- Key risks
- Key projects
- Key partnerships

Families Working Together

We have completed our third audit sign off of the Families Working Together claim for 2019/20. Our work did not identify any significant issues.

Schools audits

During this period we completed one school audit which was given limited assurance. Recommendations for improvement have been shared with the school and children services management.

Consultancy and Projects audit work

Highways 2020 Project – highlight report

The Highways 2020 project has now awarded contracts and moved into the mobilisation stage of the project with contracts commencing 1st April 2020. As part of our long term work to provide support we recently collated assurance information over the tendering process of the Highways 2020 Project. This did not identify any significant concerns or issues. The full highlight report can be found at **Appendix 2.**

Review of decision making process

We are providing advice and assurance as part of project reviewing the Council's decision making process,

Spalding Western Relief Road

A lessons learned review is underway.



Additional Planned Changes to Internal Audit Plan – 2019/20

Directorate	Audit	Rational	Change
Commercial	Procurement (LCC2019/20-15)	Resource pressures in Commercial Team	Move to 2020-21
Fire & Rescue and Safer Communities	Community Safety (LCC2019/20-21)	Reprioritised	Move to 2020-21
Resources / Commercial	Business World Interfaces (LCC2019/20-23)	Resource pressures and priorities in Audit and BW team	Move to 2020-21
Resources	Making Tax Digital (LCC2019/20-35)	Interim solution is in place for MTD – delayed to review permanent solution early 20-21	Move to 2020-21
Resources	Development of chip and pin and on line payments (LCC2019/20-37)	Timing in 20-21 is more appropriate since development only in early stages.	Move to 2020-21
Resources	Scrutiny (LCC2019/20-38)	New statutory guidance is currently under review by Scrutiny Panel.	Remove audit
Resources	Pension Fund Asset Pooling (LCC2019/20-40)	Reprioritised	Move to 2020-21
Corporate / Commercial	Corporate Business Planning (LCC2019/20-51)	Timing more appropriate in 20-21 to align with work on Directorate Plan	Move to 2020-21
Commercial	Corporate Landlord (LCC2019/20-54)	Reprioritised	Move to 2020-21
Resources	Implementation of Insurance System (LCC2019/20-60)	Reprioritised	Move to 2020-21
Children's Services	0-19 Services (LCC2019/20-62)	Reprioritised	Move to 2020-21



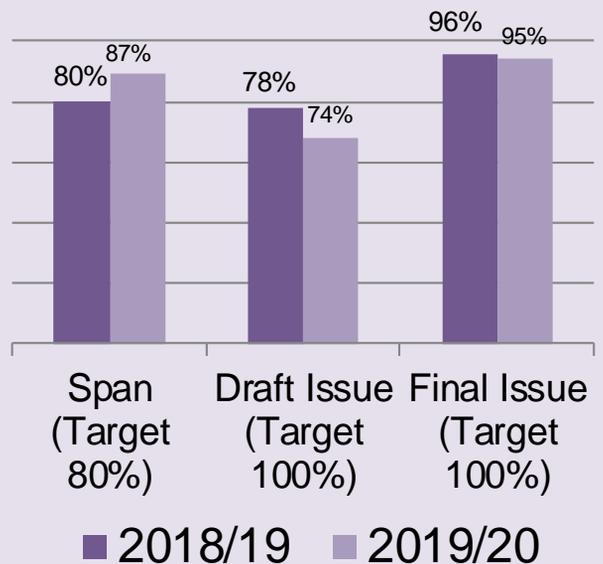
Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators

100%

Rated our service Good to Excellent

Improving 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 Financial Management Code 2019

CIPFA have updated their financial management code for UK Local Authorities to acknowledge the pressures of a tightening fiscal landscape.

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code therefore for the first time sets the standards of financial management for local authorities.

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority
- manage financial resilience to meet unforeseen demands on services
- manage unexpected shocks in their financial circumstances.

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team.

The Redmond Review

The Redmond review has called a consultation requiring responses by 22nd November 2019.

This call for evidence is a key part of the review in determining whether the requirements of the Local Audit and Accountability Act 2014 are being fulfilled. It will look to test the assurance processes in place with regard to the value for money arrangements together with financial resilience in local councils.

The consultation can be found at:

<https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views>

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.

Background & Context

The current Lincolnshire Highways Alliance (LHA) is due to reach full term on the 31st March 2020 under European Union (EU) Procurement Law.

The LHA is comprised of the Highways Works term Contract (HWTC), the Traffic Signals Term Contract (TSTC), and the Professional Services Contract (PSC) that started on the 1st April 2010. The contract was awarded for an initial five year period with individual one year contract extensions to the full term length of ten years. The contract utilised the X12 Clause to link the contracts to create a linked performance management system and create the Alliance structure.

In preparation for the current LHA reaching full term a commissioning project commenced during the autumn of 2017. Selection of the most efficient, effective and economic option to maintain the highway network and associated infrastructure is the key driver for the Highways 2020 programme.

At the request of the Highways 2020 project team we have been a member of the project working group and provide support and advice in relation to governance, risk management and the control framework of the project.

Scope

As part of our work to provide support we recently collated assurance information over the tendering process of the Highways 2020 Project.

Key Messages

The Highways 2020 project team have maintained a project risk register since the inception of the project in 2017. This includes the risk: 'Lack of complete information in specification, tender and contract'. Management of this risk is vital to a successful procurement and has been managed by the project team via various control mechanisms.

In relation to the tendering exercise I reviewed the assurances in place to manage this risk.

Plans

Incorporating production of procurement documents and other significant tasks in the project plan gives assurance that these are likely to be produced and on time.

The project team have produced and maintained a project plan in the form of a Gantt chart since the inception of the project. This includes tasks and dates for preparing documentation, such as:

- Contract docs
- Procurement docs
- Selection questionnaire
- Quality questions
- Evaluation criteria

The plan provides details for the review of documents and a target date for management group approval of procurement documents. Through review we confirmed that the evaluation criteria was shared with potential bidders from the first publication

Other key procurement tasks recorded in the project plan are prepare PIN (Prior Information Notice), issue PIN, identify evaluation team, evaluation of tender - initial and final and evaluation due diligence checks - initial and final.

Skills

Having the right people, with the right skills and experiences involved in the tender process maximises the chance of success.

We confirmed that the project set up a variety of working groups, including a dedicated procurement group. Membership includes highways, procurement and legal experts, which is deemed appropriate.

The County finance team were involved in completing the financial due diligence checks on all initial tenderers and then again on the most economically advantageous tenders at the end of the evaluation process.

The evaluation teams were a two tier combination of markers (chair and scribe). We confirmed the Chairs were all procurement experts from procurement Lincolnshire whilst markers, 30 in total, all had a background in highways. Markers were provided comprehensive training by procurement Lincolnshire before marking commenced.

Negotiation was an option on all 3 lots, but was only undertaken on lot 1(works). The team of highways, legal and procurement experts who conducted negotiation were selected on their experience in highways works.

Authorisation

Management review and approval of procurement documents provides an opportunity for scrutiny prior to publishing and ensures that management are comfortable with contents.

Finding: *We identified that key documentation went through sign off, this was generally done via email and so evidence was less formal and co-ordinated than other areas of the project.*

Recommendation: *We would suggest that for future projects authorisation, either email or actual sign off of documents, is filed in a project file to easy evidence authorisation.*

Priority: *Medium*

Action: *The highways team confirmed that they have now implemented a formal decision log. We reviewed this and confirmed that it was signed by the Executive Director of Place prior to the execution of the each of the three contracts.*

Specialist Professional Advice

Working with specialists such as procurement and legal prior to and during the tender stage ensures a different perspective and utilises expertise.

The project team have engaged various specialists during the procurement journey. Both experts from procurement Lincolnshire and Legal Lincs have been involved throughout in matters such as developing the selection questionnaire, chairing joint evaluation meetings and reviewing and advising on procurement documents.

The team also commissioned support from two legal firms specialising in public sector and construction procurement who supported with development of the scoring criteria, NEC4 contract documents and quality assurance over key procurement documents.

Contract Change Control

Strong change control management over the procurement documents gives assurance that there is complete transparency and all bidders have access to the latest and complete tender documents.

We confirmed that the project team have exercised and documented complete contract change control over all stages of the procurement and this is open for bidders to see in Procontract, which creates a detailed audit trail.

Quality Assurance of Evaluation

Fair assessment of bids is imperative in minimising the risk of challenge through Public Contract Regulations.

The project team structured evaluation in such a way as to prevent individual influence over marking on any of the lots. Scoring for each question was discussed and agreed by the markers at joint evaluation meetings which had a chair and scribe independent of the marking teams. After scribing the marking team agreed scores or where there was any disagreement the joint evaluation would reconvene to achieve consensus.

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-01 - Transport Connect Governance Assurance	Assurance review to assess governance arrangements of Transport Connect, a company wholly owned by Lincolnshire County Council.	08/04/19	25/03/19	05/04/19	Not applicable
LCC 2019/20-02 - Business World Rebuild Project	Support and advice to the project overseeing the future development of the Business World ERP system	01/04/19	01/04/19		Fieldwork stage
LCC 2019/20-03 - Pension Fund	Assurance over this key system that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	01/04/19	03/04/19	30/4/19	High Assurance
LCC 2019/20-05 - Highways 2020 Procurement	Support and advice on the programme throughout its journey of re-procurement and contract start in April 2020.	01/05/19	01/04/19	12/12/19	Not applicable
LCC 2019/20-06 - Settlements	To confirm that the policy in relation to settlement agreements is robust and consistently applied across the Council	24/04/19	22/04/19	13/1/20	Limited Assurance
LCC 2019/20-07 - Recruitment and Selection Checks	Assurance that checks during the recruitment and selection processes are equitable and meet safer recruitment requirements.	02/09/19	25/09/19		Draft stage
LCC 2019/20-08 - Apprenticeships	To provide independent assurance over the extent to which services are effectively able to use the apprenticeship reforms to develop the workforce for both current and future needs and compliance with Government Requirements	01/10/18			Not assessed
LCC 2019/20-09 - Income	Assurance over this key system that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	09/05/19	12/06/19	24/10/19	High Assurance

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-10 - Financial processes in Children's Residential Units	To review the financial processes in place at each of the 8 Children's Residential Units for procurement cards, expense claims, purchase orders and petty cash imprest operation to provide independent assurance that the processes in place are robust , consistent and in line with Council financial regulations and procurement card guidance.	01/06/19	03/06/19	10/10/19	Substantial Assurance
LCC 2019/20-11 - Commercial Property Portfolio	Assurance over the effective management of LCC's commercial office and business units.	01/06/19	01/06/19		Substantial Assurance
LCC 2019/20-12 - Local transport capital funding grant	To confirm that the expenditure complies with the conditions of the Grant and the funding received agrees to the Grant determination letter.	27/05/19	27/05/19	05/08/19	Not applicable
LCC 2019/20-13 - LEP Follow Up	Follow up to confirm that appropriate changes have been made to the LEP framework and it is compliant with the updated requirements from the revised guidance for LEP National Local Growth Assurance Frameworks. The key risk is that Lincolnshire's Assurance Framework does not meet the requirements of the Governments updated guidance.	01/04/19	15/04/19	01/11/19	Substantial Assurance
LCC 2019/20-14 - ICT Business Continuity and Disaster Recovery	Assurance that the Council's ICT business continuity and disaster recovery processes are in place, adequate and regularly tested.	12/06/19	10/06/19		Fieldwork

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-16 - LSAB peer review actions	To ensure that the recommendations made in the review are being addressed.	01/07/19	22/08/19	27/11/19	High Assurance
LCC 2019/20-17 - Personal Data Breaches	We will review the personal data breaches arrangements and provide independent assurance on the effectiveness of the processes in place.	01/08/19	30/08/19	4/11/19	High Assurance
LCC 2019/20-18 - Families Working Together #1	Review and validation of periodic claims for the Families working together programme.	02/07/19	02/07/19	08/10/19	Not applicable
LCC 2019/20-19 - Contract Management Review - Contract Payments	The scope of our work is limited to the defined 15 contracts and providing assurance that LCC:·makes adequate budget provision for these contracts·pays the right amount as per the signed contract·can demonstrate it has agreed the most appropriate payment mechanism for each contract	05/08/19	05/08/19		Fieldwork stage
LCC 2019/20-20 - Coroner's Service Case Management	Review the new case management system and how performance is captured and reported.	05/07/19	03/09/19	22/11/19	High Assurance
LCC 2019/20-22 - Impact Assessments	Review of this key system that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	01/08/19	14/10/19		Draft stage Substantial Assurance

Appendix 3 2019/20 Audit Plan to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-24 - Business World Systems Administration access	The purpose of the audit is to provide assurance that Business World (BW) Systems Administration access arrangements follow best practice and minimise the risk of fraud and error.	14/08/19	14/08/19		Fieldwork completed – report being drafted
LCC 2019/20-25 - IMT Asset Management Follow Up	Follow up audit of the recent ICT Asset Management (Hardware) audit to confirm agreed actions have been implemented and assurance has improved.	03/06/19	03/06/19		Substantial Assurance
LCC 2019/20-26 - Fuel card - follow up audit	To gain assurance that the actions agreed in the previous Fuel Card audit report have been implemented.	05/08/19	19/08/19	28/10/19	Substantial Assurance
LCC 2019/20-27 - Data Integrity	To carry out an authority wide audit which focusses on data integrity. The work seeks to confirm how the Council assures itself that the data feeding into corporate KPI's, which comes from 3rd parties, is accurate and timely.	22/08/19	22/08/19	18/11/19	Substantial Assurance
LCC 2019/20-28 - Vinci Contract Management	Assurance over the contract management arrangements for this key property services contract.	01/06/19	10/06/19	28/08/19	Substantial Assurance
LCC 2019/20-29 - Bus services operators grant	To confirm that the expenditure complies with the conditions of the Grant and the funding received agrees to the Grant determination letter.	02/09/19	02/09/19	01/11/19	Not applicable

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-30 - Property Health and Safety audit - Legionella Bacteria	Assurance over arrangements to ensure corporate properties meet required regulations such as gas, electricity and control of substances hazardous to health.	13/09/19	13/09/19		Substantial Assurance – draft stage
LCC 2019/20-31 - School funding allocations	Assurance over data validation and funding allocations to maintained schools.	09/09/19	25/09/19	26/11/19	High Assurance
LCC 2019/20-32 - Managing Children and Young People exploitation	Assurance that the newly established team for completing return interviews for missing children is operating effectively	23/09/19			Fieldwork stage
LCC 2019/20-33 - Financial Strategy (MTFP) and Budget Preparation	To provide assurance around the adequacy of LCC's financial planning processes, including the development of the MTFP and annual budget, to ensure that a balanced budget is maintained and that savings necessary are identified and agreed.	01/11/19	31/10/19		Fieldwork stage
LCC 2019/20-34 - Payroll	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	Q4			Not assessed
LCC 2019/20-36 - Accounts Payable	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	Q4			Not assessed

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-39 - Families Working Together #2	Review and validation of periodic claims for the Families working together programme.	23/09/19	23/09/2019	25/09/19	Not assessed
LCC 2019/20-41 - Business Continuity	Business Continuity arrangements ensure the council is prepared for business interruption and can maintain and restore services promptly based on criticality.	Q4			Not assessed
LCC 2019/20-42 - Capital Programme	Provide assurance around the effectiveness of the governance arrangements for the Capital Programme with a focus on robustness of business cases and budgets and delivery against these. (to include fire appliance replacement).	Q4			Not assessed
LCC 2019/20-43 - Mosaic System - Childrens	To review reliability of information held on Mosaic, usefulness of reporting, and impact on service provision in CS - to include the work Children's are doing to ensure data quality and an assessment of the Council's capacity to design new reports within the system on a timely basis.	01/01/20	08/01/20		Fieldwork
LCC 2019/20-44 - Property, Plant & Equipment KCT	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	Q4			Not assessed

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-45 - Spalding Western Relief Road	A review of the progress of the SWRR route options between 2012 and 2019 to highlight any processes that could be improved to ensure decision making is better captured and communicated in the future.	25/11/19	04/12/19		Not assessed
LCC 2019/20-46 - Bank Reconciliation KCT	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	Q4			Not assessed
LCC 2019/20-47 - LFR Training System	Provide independent assurance around the implementation and effectiveness of the new training records system.	Q4			Not assessed
LCC 2019/20-48 - General Ledger KCT	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	06/01/20	20/12/19		Fieldwork
LCC 2019/20-49 - Debtors	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	Q4			Not assessed
LCC 2019/20-50 - Children in Need	Provide assurance that the Child and Family assessment process is effective and that all those identified as a "Child in need" have been assessed within expected time frames.	01/01/2020			Fieldwork

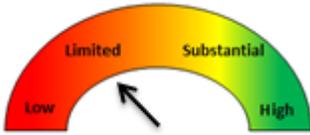
Appendix 3 2019/20 Audit Plan to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-52 - Pension Admin	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	Q4			Not assessed
LCC 2019/20-53 - Integrated Health and Social Care	Assurance that there are alternative reporting and governance oversight following the disbanding of the Children's Joint Commissioning Board	Q4			Not assessed
LCC 2019/20-55 - Lincs Learning Partnership	Consultancy audit looking at the One Plan approach that is being developed by the Lincolnshire Learning Partnership.	Q4			Not assessed
LCC 2019/20-56 - Starters and Leavers (IMT)	Scope to be agreed	Q4			Not assessed
LCC 2019/20-57 - Asset Management - Software	Scope to be agreed	Q4			Not assessed
LCC 2019/20-58 - Mobile Devices	Scope to be agreed	Q4			Not assessed
LCC 2019/20-59 - Network Infrastructure Security	Scope to be agreed	Q4			Not assessed
LCC 2019/20-63 - Better Care Fund	Assurance over the management of the fund, it's use and the appropriateness of expenditure as per the Section 75 and other agreements	Q4			Not assessed
LCC 2019/20-64 - Care Assessments	Review of care assessment to confirm they legislative requirements and time scales	06/01/20			Scoping

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-65 - Carers Follow up	Assurance that all recommendations of the previous audit have been implemented and are embedded.	10/12/19	20/01/20		Scoping

Settlements - Limited Assurance

Issued January 2020



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

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

We found that although there is a settlement agreement procedure and guidance in place - it needs updating.

Our testing showed that the requirements in the procedure for documenting the necessary business case were not always being met with some key information to justify the payment not being recorded or retained.

A review of Employment policies and procedures is taking place at present. Therefore this is an opportune time for HR Services to review the settlement agreement guidance to take account of the issues raised in this report.

We did, however, confirm that both HR and Legal were involved in each case – which provides assurance that appropriate advice was sought when the use of a settlement agreement was considered.

We also found that the Council has a legally robust form of Settlement Agreement that complies with legal formalities and that an Agreement was entered into in all the cases considered.

We found no cases where a Settlement Agreement had been used when it should not have been used – i.e. when safeguarding issues were involved or to prevent a staff member from speaking out..

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
Settlements agreements process does not fulfil the requirements of the LCC policy or legislation	Medium	4	1
Settlement process is not managed effectively	Medium	2	4
Staff do not have the knowledge, training or skill to perform their roles in the settlement process effectively	Low	0	1
TOTAL		6	6

Settlements (cont)

Background and Context

Settlement Agreements are a legitimate tool for employers to use to end employment where there is a mutual agreement that this would be in the best interests of both the staff member and the employer. They are expected by the County Council to be rare and exceptional – with the Council setting out the steps that must be taken when considering their use. More specifically the guidance states:-

"A "Settlement Agreement is a legally binding contract used by the Council to allow a member of staff to leave the Council based on a mutual financial agreement.

Settlement agreements can be used legitimately by the Council where it is economically advantageous or where significant reputational risks exist for the Council. They should, however, only be used as a last resort. All other avenues for resolving the issue should be explored first and a strong business case must be drafted demonstrating the cost / benefit analysis as well as a risk assessment for the action being taken."

During the period April 2017 until April 2019 there were 44 known settlement payments made at a total cost of around £1.3m (including both compensation for loss of employment and contractual payments that would have been made in any event e.g. payment in lieu of notice). The table below provides a breakdown of the number of cases:

Type of settlement	Number of cases	Settlement Payment (£)	Pension Strain (£)
Schools	28	377k	0k
LCC	16	633k	303K
Total	44	1,010k	303K

To put this into context, the Council employs approximately 4,500 staff excluding schools and averaged 8 settlement agreements per year over the assessed period – i.e. 0.17% of staff. Schools employ approximately 5,500 staff and averaged 14 settlement agreements per year over the assessed period – i.e. 0.25 of staff. The average payment to non-schools staff was circa. £65,000. For school staff it was circa. £13, 500.

Scope

To confirm that guidance on settlement agreements is robust and consistently applied across the Council and it complies with good practice and legislative requirements.

The conclusions of this Report reflect our examination of 25% of the settlement agreements entered into over the 2 year period and a range of job roles up to Assistant Director level – undertaking a more extensive testing on 6 cases (14%) when we were unable to locate relevant information / documentation to support the payment / agreement or the business case.

Executive Summary

We found the guidance for producing the business case is not being followed in all cases.

We did, however, confirm that HR & Legal advised in each case.

Value for money should be adequately evidenced.

We had difficulty finding all appropriate information. None of the cases tested had a full cost appraisal demonstrating the cost benefit analysis nor was there in all cases documented evidence that all other avenues were fully explored before the option of settlement was taken.

HR should ensure that the reasons for settlements are properly documented - with records retained and accessible.

We found that none of the cases tested performed a full cost appraisal.

At present the pension strain element (where applicable) is not shown with the settlement amount in the business case or the monitoring schedule - therefore the total cost to the Council is not clearly visible.

Greater transparency in the calculation of the settlement payment is recommended. In only one case considered was there any evidence as to how the settlement value was arrived at.

The guidance states that a final settlement agreement can be authorised by a Service Director, Assistant Director or Chief Executive.

We recommend that settlement approval be reviewed – with consideration of the financial case being agreed by the Executive Director – Resources (or their representative) for cases with a total cost greater than £100k.

Executive Summary

The settlement agreement guidance and template should be reviewed and updated to reflect good practice – ensuring that the circumstances and grounds for the settlement are clearly understood and documented.

We found little evidence on how lessons have been learnt and the potential impact on management control systems / processes.

We confirmed that the approval process for settlement agreements was followed but are suggesting more corporate oversight to strengthen accountability and transparency.

The business case template is too general in its questions. It needs to be more specific in the information required to ensure that the procedure requirements are met. This is a key document to help guide the decision maker through the process and ensure that the circumstances around the settlement are fully understood and provide value for money.

The guidance does not detail the processes and controls to be followed regarding references. This could result in a reference being agreed which is inappropriate to the circumstances.

The guidance should also be updated to reflect good practice and state when settlement agreements should not be allowed, for example, when:-

- Any safeguarding and fraud issues are identified and substantiated.
- To prevent a staff member from speaking out – for example, to mask malpractice or allegations of bullying, harassment or discrimination.

We suggest the business case should explain what lessons have been learnt and how management systems have been / will be improved to avoid future occurrences of similar cases.

We confirmed that settlement agreements are rarely used but given that they could potentially be contentious and have reputational repercussions – we are recommending greater corporate oversight by Corporate Leadership Team. This will provide assurance that the settlement agreements are both proportionate and appropriate. It will also help identify any issues with control systems and lessons learnt.

Management Response

Management welcomes the Audit Report. It welcomes the recognition that Settlement Agreements are a legitimate tool for the Council to use in managing staffing issues and is of the view that the numbers quoted show that the Council is not a heavy or inappropriate user of Settlement Agreements.

Management is also satisfied that HR and legal advice is sought where appropriate and the use of the Council's standard form of Settlement Agreement leads to the interests of the Council and the employee being protected in law.

However it is appropriate that the Council follows and can evidence it has followed a robust process in deciding to enter into a Settlement Agreement. Management accepts the findings of the Audit Report and recognises that it has not been able to provide the evidence that would have enabled the Audit to confirm compliance with the stated procedure in the cases assessed.

The aim is for the Council to achieve "substantial" assurance by July 2020 through improvements in the management of the settlement agreement process.

In summary, the main issues to be addressed are changes to procedure which can be quickly and easily put in place. This will ensure greater transparency and enhanced governance at a corporate level including:

Clearer justification for settlement agreements so that the cost benefit analysis, which justifies the decision to progress down the settlement agreement route, is fully recorded in all business cases in the future

Changes to introduce enhanced visibility and governance at a Corporate Leadership team level both through changes to the approval process as well as regular formalised reporting and monitoring

At an operational level, improvements will be made to ensure more detailed recording and reporting in relation to the individual business cases to support improved transparency of decision making overall.

In addition, in response to the recommendations in the Audit Report, further context is provided below.

Governance and processing controls

At an operational level, the majority of settlement agreement cases are well managed and advice is sought from HR Services at an early stage. Additionally, management oversight of all high risk employee relations cases is undertaken by the Head of HR and the Executive Director with responsibility for HR, on a monthly basis.

Management Response

For schools, management oversight is undertaken by the Director for Education and the Schools' HR Business Manager. This means that controls are in place at a corporate level to ensure that all other options have been explored before the decision to opt for a settlement is taken.

There are, however, exceptions. Where the decision to settle needs to be taken very quickly due to the high level of operational or reputational risk, in a small number of cases, these are not scrutinised through this corporate process.

It is noted and welcomed that legal advice had been sought in the cases considered. Changes will be made to the process to ensure that advice must be obtained from Legal Services for all cases which are particularly sensitive as regards reputational risk to the Council and/or the value of the total settlement is > £100k.

Immediate action has been taken to respond to all of the recommendations to improve the settlement agreement guidance and to ensure that the Business Case template includes the requirement to capture and record all the information used to inform decision making. Information including emails and meeting notes containing decisions made by Senior Managers, are held securely by the Senior HR Advisor/HR Business Partner. These are now being stored centrally to enable easier access and inclusion in the Business Case.

It needs to be recognised, however, that determining the potential financial implications and the cost-benefit analysis of a Settlement Agreement is not an exact science and involves a high degree of estimation and professional judgment. This extends to issues such as the risk of claims, the value of such claims and the potential costs of tribunal proceedings. Seeking certainty in relation to such matters would be time consuming and could delay a settlement agreement being concluded in a timely manner. It would also mean that additional costs of Legal Services time would be incurred for the Council. These assessments will therefore remain a judgement to be made on a case by case basis..

Approval for settlement payments will always rest with one individual because of the Council's decision-making processes. However the process will be strengthened by ensuring agreement is obtained from the Section 151 officer to the financial elements of the proposal prior to formal approval being sought from the decision-maker for cases with a total cost of >£100k.

It should be noted that HR ensures that where there is a pension strain, this is always taken into account by the Senior Manager in decision making, but it is acknowledged that this could not be verified within the Audit undertaken. In the future, this will be explicitly recorded in the business case. Following the decision to proceed, the pension strain cost will also be reported on the settlement agreement schedule so that the total costs to the Council are clearly visible for reporting purposes. Pension strain is not included within the Settlement Agreement itself as it is dealt with directly through the pension fund through the normal pension arrangements.

Management Response

Lessons learned process

In respect of lessons learned to avoid similar issues re-occurring, within the Council, at an operational level, these are undertaken on a case by case basis through the monthly HR/Legal forum, and then specific learning shared with the relevant Director and within the HR community. There is scope to ensure that this learning process is formalised and more comprehensive and for example, for lessons learned to be shared on a regular basis with the Corporate Leadership Team as part of overall HR performance reporting.

Action will also be taken to verify that a lessons learned exercise has been completed and include details of lessons learned on the main settlement agreement schedule and a link to the date when the case was discussed at HR/Legal will be included so that the minutes can be easily extracted for details.

Training/Briefing of HR and Managers

Training including the legal implications of the settlement agreement process will be provided to the people who are authorised to approve settlements. This will be undertaken through briefing of Directorate Leadership Teams during January – March 2020 and for schools, a briefing note will be provided through the Schools' Newsletter.

A refresher briefing was undertaken for the HR Advisory Team in October 2019.

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