

Internal Audit Progress Report



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Lincolnshire County Council November 2020

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Lucy Pledge CMIIA QIAL - Head of Internal Audit & Risk Management

lucy.pledge@lincolnshire.gov.uk

Matthew Waller – Audit Manager

matthew.waller@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 September to 12th October 2020
- Give an update on outstanding management actions from previous audits
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

Assurances

The following audit work has been completed

High Assurance:

- Treasury Management and Investment Strategy

Consultancy

- Temporary Mortuary Contract

Audit reports at draft

We have three pieces of audit work at draft report stage:

- Implementation of Mosaic Finance
- ICT Network Infrastructure
- Capital Contracts – contract register data analytics



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Key Messages

The COVID-19 pandemic remains a key concern for the Council and its Directorates. Following the update to the plan presented at the last Audit Committee, we have worked to allocate all remaining work in Q3 and Q4 taking account of COVID risks and the impacts on services.

We continue to provide advice and insight on risk and controls to the Business World Re-design project. As highlighted in our previous progress report in September, the project was slightly behind schedule and the Shareholder Agreement with Hereford Council has not yet been signed. Due to unexpected challenges with the build and outstanding data issues, the project has slipped further behind its original planned dates. Given the impact this is likely to have on the later stages of project delivery, the Project Board has agreed that an alternative delivery plan be developed for a mid-year implementation in 2021.

Following regular reporting to senior management on reviewing the red risks and issues facing the Council, the risk management team continues to work with services throughout LCC in updating their risks and issues to ensure that these continue to be monitored. Risk management also continues to work with and support the audit planning and oversight on key risks facing the Council.

Combined Assurance

Internal Audit's annual Combined Assurance process has begun through discussions with key management and staff across all Directorates. Critical activities, key risks, key partnerships and key projects will be identified and assessed through our systematic risk scoring process and rated Red, Amber or Green (RAG) to create a clear visual map of assurances across the organisation. The results of this will be reported to senior management and the Audit Committee through the Combined Assurance Report. It will also support the Audit Team in planning next year's audit coverage based on key areas of risk and concern.

We will also continue to focus on how Covid-19 has impacted upon the control environment of the organisation, and the effect that this has had upon management assurance ratings.

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Outstanding Recommendations

As part of our regular follow up around implementation of recommendations from previous audits, we have used our audit tracker report to monitor progress at 30th September 2020. We found that 70% of the actions have been completed, with 9% not yet due at this date. Management responses established that the remaining 23% have been deferred to a later date. The Council's Covid 19 response and recovery plans continue to have an impact on the completion of management actions as staff concentrate on other priorities.

Only one area with outstanding actions was originally given a Limited Assurance opinion – our audit of IR35. The 4 actions due will all be addressed by issuing additional guidance to managers and schools which includes process maps linking in to arrangements for engaging consultants and agency staff. This has been delayed to ensure that guidance aligns with how the IR35 process works in the new version of Business World (BW). In the interim:

- review has been completed over LCC suppliers on BW that confirms IR35 status is recorded where appropriate
- processes for engaging consultants and agency staff have been strengthened and now include ensuring that IR35 status is considered
- HMRC has confirmed that further changes in IR35 requirements that were due in April 2020 have been delayed until April 2021

All outstanding actions will continue to be tracked and monitored with progress reported to the Audit Committee. Further details can be found in the tracker report attached as Appendix 2.

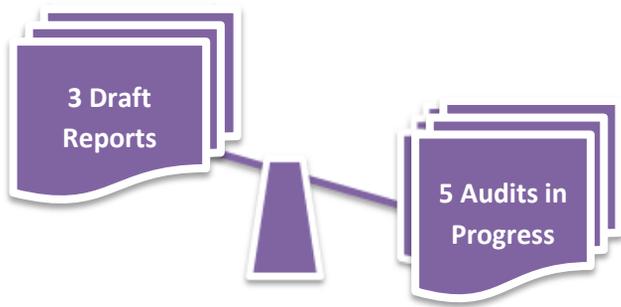
High Assurance

Treasury Management and Investment Strategy

This audit has been carried out at the time when the Council has introduced alternative working arrangements as a result of the Coronavirus pandemic. Staff have been working from home and have adapted their working practices to ensure controls in place remain appropriate and ensure transactions are secure. Through discussion, observation and testing we did not identify any areas of concern and therefore we are able to give a high level of assurance around processes, compliance and controls.

The pandemic did not impact on Treasury performance during 2019/20 because it started towards the end of the financial year. There is likely to be an impact on investments and performance during 2020/21 but this is difficult to predict.

The major risks currently affecting Treasury due to Coronavirus are cash flow and liquidity. A large proportion of cash has to remain in liquid investments as a result of receiving large amounts of funding from the Government to be passed onto the intended recipients in the future. As a result of this short term investment limits are close to maximum capacity whilst having lower yields. Cash flow has been disrupted and has been difficult to manage which means there is a risk that cash may not be available when required. These risks have been reported to Members and the Council are in the process of opening two more Money Market Funds.



Audits in Progress

We have 5 audits at fieldwork stage:

- Transport Providers
- Education Healthcare plans
- Capital Programme
- ICT Business Continuity and Disaster Recovery
- Business World Redesign Risk Register (Consultancy work)

Audits planned for Q3

We have delivered 32% of the revised audit plan to date. We have the following audits scheduled for Q3:

- Transport Connect
- Lincolnshire Fire & Rescue Training Records System
- Carers Follow up
- ICT Agile Working
- ICT Software Asset Management
- Families Working Together (grant claim)

Other Significant work

Project audit work

Transformation Programme

The Council's Transformation Programme sits alongside the new Corporate Plan and Success Framework. It supports the One Council approach and achievement of corporate plan goals and outcomes.

Working with the Programme, Internal Audit will provide independent advice and support on governance, risk management and controls on the effectiveness of the board and supporting work streams and projects.

We are preparing our first highlight report and a summary will be included in the next progress report to committee. Our initial report will focus on the governance structures in place to provide oversight of the Transformation Programme, looking at reports to the Corporate Leadership Team and the Governance Board down to individual project management progress reports.

We will also report on the management of risks through review of the programme and individual project risk registers to provide advice and support on the effective management and monitoring of key risks.

Business World Redesign

We continue to undertake assurance work with the BW project. Following consultation and advice from Information Assurance, the first 'cut' of Council data was securely shared with Hoople in mid-September to be loaded into the new system build. Business representatives are currently working to reconcile this data to our own system to confirm accuracy and completeness and we will undertake review to confirm this process is robust.

Business process review continues with a focus on the allocation of roles and access within the new system. We are involved in these discussions to confirm that appropriate segregation of duties remains in place to



protect the Council from the risk of fraud and error. Preparation is also underway for testing the new system with the development of a Testing Strategy and specific plans to complete thorough and quality payroll parallel runs.

ICT audit universe refresh

We are developing a refreshed ICT audit universe which will allow us to better assess the assurance we have in this area. This work will be completed alongside the Combined Assurance work and allow us create a cyclical audit plan for ICT going forwards that will ensure coverage on high risk areas. The meetings have been booked for this process across October and November.

The ICT Universe will also support Internal Audits strategic oversight on ICT coverage and resource needs, helping us create longer term plans to manage ICT coverage and assurance.

Grants

Grant audits are completed to ensure that funds have been used in line with grant conditions. Two grants (Bus Service Operators' grant and the Highways' grant for road maintenance) that were due for submission by the end of September 20 have been signed off.

At the request of the Executive Director of Resources we have also carried out a review on the new 'Loss of Income' grant. COVID-19 has impacted local authorities' ability to generate revenues in several service areas as a result of lockdown, government restrictions and social distancing measures, related to the pandemic. This new, one-off income loss grant scheme will compensate for irrecoverable and unavoidable losses from sales, fees and charges income generated in the delivery of services, in the financial year 2020/21.

We were asked to provide review and challenge on the appropriateness of the claim that was submitted in line with the grant guidance. Our work did not identify any issues. We will do a similar review on further grants submissions this year.

Consultancy Work

Temporary Mortuary Contract

Lincolnshire Resilience Forum's Mortality Cell asked Corporate Property to build temporary mortuary facilities as part of a multi-agency emergency response to the Covid-19 Pandemic. We were asked to provide an independent review of the contract award and project management arrangements for the project; this ran alongside a separate high level analytical review of recent contracts awarded to the main contractor.

Our review confirmed moral obligations and reputational risks were managed and urgent decision making processes were in line with the Council's constitution. £2m spend was properly approved, but actual spend to date is £2.015m with a final outturn forecast of £2.3m. We found cost variances were caused by unprecedented circumstances; with supply chain pressures, uncertain mortality data, and collective decisions taken by external partners in the mortality cell impacting costs. The key driver for the project was based around delivery pace to ensure completion by 30 April, to meet anticipated peaks in mortality and preserve dignity for the deceased; this was achieved.



We identified learning points and made recommendations to strengthen governance structures for emergency planning and communications so that LCC are properly briefed on decisions that will impact on LCC resources. The analytical review highlighted supplementary issues around Council processes for contract management, reporting / oversight and accuracy of the contracts register. Further follow up audit work is planned to address these issues.





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

Audit KPI's to date

Updated plan delivered

32%





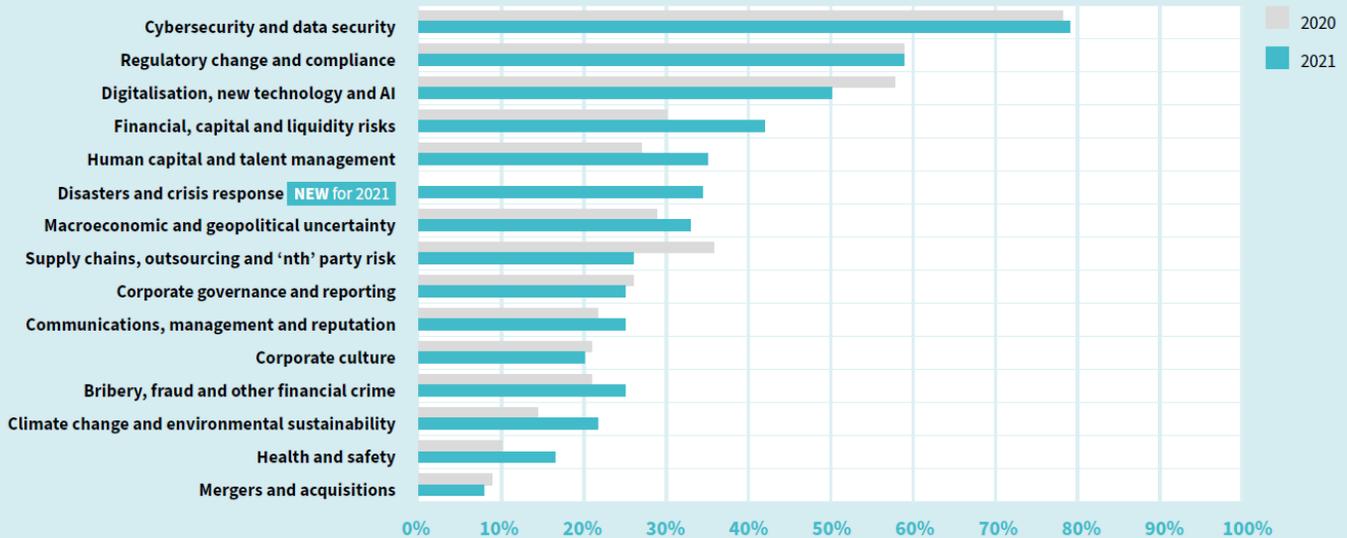
Other Matters of Interest

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

Risk in Focus 2021

This IIA document highlights key risks for organisations moving forward, and states that Covid-19 has shaped a number of the risk profiles:

What are the top five risks that your organisation faces?



As we can see there is only one new risk for 2021 – Disasters and Crisis Response. Several other established risks have also increased as result of the pandemic.

The top ten topics raised by this work can be seen to the right. This information may help to inform some areas of Audit Committee oversight.

We will use this information along with the Combined Assurance work to form next years Audit Plan. The document can be viewed in full as part of the information sharing section of the report pack.

The topics are as follows:

1. Information security in the expanded work environment
2. Regulatory forbearance and the return to normal
3. Strategic relevance and the digital imperative
4. Liquidity risk and cost-cutting amid depressed demand
5. Managing talent, staff wellbeing and diversity challenges
6. Disaster and crisis preparedness: lessons from the pandemic
7. Rising nationalism and social tensions amid unprecedented economic volatility
8. Supply chain disruption and vendor solvency
9. Fraud and the exploitation of operational and economic disruption
10. Climate change: the next crisis?



Other Matters of Interest

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

Internal Audit in Lockdown - The impact of the coronavirus pandemic on internal audit teams in the UK and Ireland

This IIA document provides an insight of how Chief Audit Executives are coping with working in the current environment, and their thoughts on the long term impacts. Data was gathered through surveys and interviews.

Key Findings

33%

A third of respondents have had their working hours increased.

15%

indicate all or part of the internal audit function has been put on furlough.

46%

say internal auditors have been redeployed to the first and second lines.

2%

2% of respondents say internal auditors have been made redundant.

43%

Where affected by redeployment furlough, or redundancy, 43% say their Audit Committee Chair has been consulted.

35%

of respondents said their Audit Committee Chair has not been consulted on the changed role of internal audit, whilst 22% said they did not know.

78%

of internal auditors are in touch with their Audit Committee Chair on either a daily, weekly or monthly basis, with over half (55%) indicating on a monthly basis.

63%

advise the coronavirus did not have any impact on regulatory requirements, with 20% saying they were unsure and 17% indicating they were having challenges meeting regulatory requirements.

61%

plan a lessons learned audit or specific audit on their organisation's response to coronavirus.

This differs from the situation with our team. We have continued to work in a responsive and supportive role throughout the Pandemic., adding value and providing assurance to Senior Management. The document can be viewed in full as part of the information sharing section of the report pack.



Other Matters of Interest

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

Guide for audit and risk committees on financial reporting and management during COVID-19

This best practice document was produced by the National Audit Office. It aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. This includes the key areas:

1. annual reports;
2. financial reporting;
3. the control environment
4. regularity of expenditure

It provides the audit committees with reasoning as to how Covid-19 may have affected certain procedures, how the Authorities may have adjusted their processes to mitigate these issues, and most importantly the key questions the Committee can ask to gain assurance in these areas.

The document can be viewed in full as part of the information sharing section of the report pack

Redmond Review

There has been an independent review into the oversight of Local Audit and the transparency of Local Authority financial reporting. This was published in September 2020. Key findings include:

- concerns expressed regarding the state of the local audit market and the ultimate effectiveness of the work undertaken by audit firms.
- the current fee structure does not enable auditors to fulfill the role in an entirely satisfactory way
- there is merit in authorities examining the composition of Audit Committees in order to ensure that the required knowledge and expertise are always present when considering reports, together with the requirement that at least an annual audit report to be submitted to Full Council.
- a key recommendation is to create a new regulatory body responsible for procurement, contract management, regulation, and oversight of local audit. It is recognised that the new body will liaise with the Financial Reporting Council (FRC) with regard to its role in setting auditing standards.

The document can be viewed in full as part of the information sharing section of the report pack

High

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

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

Substantial

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

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

Limited

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

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

Low

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

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

Tracker Report – all outstanding audit actions due 30/09/20

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Client Contributions Policy	Dec 17	Limited	5	5	0	0	0	0
	All outstanding actions have now been completed.							
Budget Management	April 19	Substantial	3	2	0	1	0	0
	The remaining action is to update the Budget Holder Handbook. Although this needs to be refreshed, key principles remain the same. Review was planned for the summer but has been delayed due to Covid-19 work pressures. We now plan to complete this task by January 2021 and tie in with other updates.							
IR35	May 20	Limited	7	3	2	2	0	0
	The 4 management actions outstanding are all addressed by issuing improved guidance to managers and schools, linking in with processes around use of consultants and agency staff. This has all been prepared and agreed. Communication has been delayed as IR35 processes are different in the new BW system and the impact of this is being assessed so managers are not confused by different versions of guidance.							
Commercial Property Portfolio	Jan 20	Substantial	6	2	0	1	0	3
	The outstanding action relates to undertaking a residents' survey and we felt it has not been appropriate to carry out at this time. Once things are more stable with Covid-19 this will be revisited and will include evaluation of how tenants feel they were supported during Covid. A provisional date of April 2021 has been set, which may be further delayed dependent upon a 2 nd wave of Covid-19.							
Recruitment and Selection Checks	March 20	Substantial	13	7	0	6	0	0
	Outstanding management actions relate to improvements to current procedures and mainly link to policies and training. The deadline for completion of some actions has been extended to 31/12/20 due to Covid-19 priorities. For others the extension is to March 2021 they will be considered as part of the review of mandatory training.							
LSAB peer review actions	Dec 19	High	2	0	0	2	0	0
	Neither action has been completed due to the impact of Covid-19 as other areas had to be prioritised. Both actions should be completed by April 2021.							
Vinci Contract Management	Aug 19	Substantial	2	2	0	0	0	0
	All outstanding actions have now been completed							

Tracker Report – all outstanding audit actions due 30/09/20

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Financial Strategy and Budget Preparation	April 20	High	1	0	0	1	0	0
	The Budget Setting Framework document will be reviewed as part of the next round of budget setting – due for completion by the end of February 2021.							
Business Continuity	May 20	Substantial	2	2	0	0	0	0
	All outstanding actions have now been completed.							
Bank Rec	April 20	High	1	1	0	0	0	0
	All outstanding actions have now been completed.							
General Ledger	April 20	Substantial	4	3	0	0	0	1
	All outstanding actions have now been completed. One action is not yet due.							
Legionella	Feb 20	Substantial	9	9	0	0	0	0
	All outstanding actions have now been completed.							
Cyber Security	March 19	Limited	6	6	0	0	0	0
	All outstanding actions have now been completed.							
Patch Management	Aug 19	Substantial	2	2	0	0	0	0
	All outstanding actions have now been completed.							
Payroll	July 20	Substantial	22	18	0	0	0	4
	All actions due have been completed. The remainder have due dates of April 2021 and are linked to the implementation of the new BW system.							
Fuel Card Follow Up	Oct 19	Substantial	8	8	0	0	0	0
	All outstanding actions have now been completed.							

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 20/21-01 - Business World System Redesign Project	Providing independent assurance, advice and insight around the project implementing the Business World ERP system on the Hoople platform.	01/04/20	01/04/20		Ongoing work over the year
LCC 20/21-02 - Treasury Management and Investment Strategy	To give assurance that the Council's investment and borrowing is properly managed in accordance with corporate policies and legal requirements. The review will determine that approved Treasury Management and investment strategies are in place.	01/05/20	19/05/20	27/08/20	Completed High Assurance
LCC 20/21-03 - Transport Providers	Supporting commercial and transport during Covid19 to ensure that transport providers are paid 100% or 85% depending upon circumstances.	01/06/20	12/10/20		Fieldwork stage
LCC 20/21-05 - 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	02/01/21			Scheduled for Q4
LCC 20/21-06 - Transformation	Support and advice to the project overseeing the future Transformation developments	01/04/20	01/04/20		Ongoing work over the year
LCC 20/21-08 – Carers Follow up	Follow up of the Audit work completed in 19/20	01/10/20			Scheduled for Q3

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 20/21-09 – Blue Badge Grant	To ensure that Grant conditions have been met	01/04/20	28/04/20	25/06/20	Completed, confirmation letter sent to DfT
LCC 20/21-10 – Carers' Emergency Response Scheme	Support and advice to the project overseeing the future development in Carers Emergency Response system	26/04/20	03/06/20	18/06/20	Support and advice provided
LCC 20/21-11 – Public Health Personal Protective Equipment procurement	Consultancy work examining how the Council reacted and responded to the Government change in guidance around suitability of PPE in April.	18/05/20	18/05/20	01/06/20	Final consultancy report issued
LCC 20/21-12 – Bus Service Operators Grant	To confirm compliance with grant funding criteria	01/06/20	21/07/20	11/09/20	Completed and grant signed off
LCC 20/21-13 – Highways Grant	To confirm compliance with Grant funding criteria	01/06/20	01/08/20	28/09/20	Completed and grant signed off
LCC 20/21-14 – Troubled Families 1	Review and validation of periodic claims for the Troubled Families programme.	15/06/20	15/06/20	17/06/20	Completed. Highlight report issued.
LCC 20/21-16 – Implementation of Mosaic Finance	Review of the effectiveness of the Mosaic Finance System Project	24/06/20	24/06/20		Draft report stage
LCC 20/21-17 - Education Healthcare Plans	To assess the effectiveness of the processes and controls in place to support the councils completion of Education, Health and Care Needs Assessments.	12/08/20	12/08/20		Fieldwork stage

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Troubled Families 2	Review and validation of periodic claims for the Troubled Families programme.	22/09/20	25/09/20	25/09/20	Completed. Highlight report issued.
Loss of Income Grant	Confirmation that the loss of income recorded by the Delta system in Q1-4 was correct.	14/09/20	14/09/20	30/09/20	Completed. Grant signed off.
Capital Programme	To provide assurance around the effectiveness of the governance and reporting arrangements for the Capital Programme to ensure that it delivers expected outcomes on time and within budget.	21/09/20	21/09/20		Fieldwork stage
BW Redesign Risk Register	Consultation examination of the BW Redesign Risk Register to confirm that key risks are appropriately managed, assessed and monitored	05/10/20	05/10/20		Fieldwork stage

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