

Internal Audit Progress Report



Image Courtesy of the Official UK Puzzle Club

Lincolnshire County Council November 2022

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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 July to 30th September 2022
- 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 since our previous progress report to Committee in March 2022.

High:

- General Ledger
- Accounts Payable
- Pension Fund
- Adults Safeguarding response to Covid 19

Substantial:

- Payroll
- Foster Carer Recruitment
- Financial Resilience
- Virus Protection / Malware
- ICT Privileged Access Management

Limited:

- Transport Connect

Consultancy

- Debtors
- Trade Union Facility Time review

Audit reports at draft

- Low Value Highways Insurance Claims
- Good Governance review
- Mosaic follow up review (Consultancy)
- LCC Procurement review (Kier tender)

4

HIGH
ASSURANCE

5

SUBSTANTIAL
ASSURANCE

1

LIMITED
ASSURANCE

0

LOW
ASSURANCE

2

CONSULTANCY

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.

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Key Messages

Progress and Delivery

We continue to deliver assurance on the 2022/23 audit plan agreed at March Audit Committee, we have four reports at draft stage and a significant number of other planned audits are underway.

We have strengthened our capacity through recent recruitment of Senior Auditors (2) and Audit Officers (4) who are being integrated into the team. Recruitment has had a positive impact on morale in the team – with our focus on supporting their induction, initial training and shadowing of audit work. The new members of the team are also new to internal audit – implementing our workforce strategy of ‘growing our own’ for long term team stability. This does impact on the delivery timescales and means we continue to secure additional resources through external suppliers in the short term. During the latter half of the year, we also expect performance to improve as new team members gain knowledge and experience in audit delivery.

Revised Plan

During September we revised and refocused our work for the next six months.

Additional work requested through our liaison with Senior Management includes –

- A lessons learned review of contract management for IT Payment systems.
- Consultancy review on an unsuccessful tender exercise.
- Assurance on the Council’s acquisition and disposal process.

Other key areas of focus over the next six months include:

- Combined Assurance Status Report 2023 – assurance over the Council’s key activities.
- IT starters and leavers – effectiveness of access control changes.
- Green master plan – assurance over progress and delivery of this key strategy.
- Business World – assurance work supporting the go-live decision.
- Financial systems – assurance over key controls & compliance.

A complete revised list of planned audits for the year and current position is included as Appendix 4.

Staffing changes

Since our last report to committee, we have had an Audit Manager resignation - due to leave in October 2022. We are recruiting to established posts for two Audit Managers and a further Audit Principal. Other recruitment includes an IT Audit Senior and a Quality Assurance and Performance Officer.

All these roles will further enhance and develop the services quality, performance, capacity and capability to meet client needs and remain a responsive forward-thinking service.

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Key Messages

Outstanding Recommendations

We are currently tracking 17 audits to monitor the implementation of agreed management actions (see detail in Appendix 2).

Two audits – Cyber Security and Treasury Management had outstanding recommendations dating back to 2019 and 2020 respectively when we last reported to Committee. Further updates have now been received:

- The Assistant Director IMT & Enterprise Architecture has confirmed that all outstanding recommendations have now been implemented. A further audit of Cyber Security is included within our 3-year IMT audit plan for 2023/24.
- Additional staff in the Technical & Corporate finance teams are now available to cover treasury management activities. The update of Treasury Management Practices (TMPs) is in progress following updates to the CIPFA Code of Practice for Treasury Management and new Prudential code with planned completion by 31 March 2023. This area is low risk – agreed processes are followed on a daily basis in completing treasury activity with no issues.

68% management actions on the remaining 15 audits have now been completed, including all actions on Capital Programme, Debtors, LFR Expenses and Trade Union Facilities time review. There are 2 outstanding actions considered to be High priority:

- ICT – Privileged Access Management – The AD IMT and Enterprise Architecture has outlined that a number of technical projects are in progress which will strengthen password policies and are due for completion by 30/04/2023. The principal risk factor of password complexity will be addressed by the 30/09/2022 through the imposition of an explicit written policy requiring all privileged accounts to be complex
- Property Repair & Maintenance budgets – *awaiting response from Property.*

A further 18% actions are not yet due as at 30th September – we will continue to follow up all outstanding recommendations during the year.

High Assurance

Our review found that processes are well controlled and operating effectively, with work in progress to resolve the outstanding actions points from last year's audit. We have therefore provided a High assurance opinion. Our testing confirmed key controls were in place around

- General ledger journals and virements
- Suspense Accounts
- Control Accounts

Going forward

We have identified that the move to the Hoople Standard Solution will present a change to the reconciliation and monitoring process because existing data extraction reports will not be available. The team are aware and change requests have been raised. The team will also be exploring other system and external options to export data from the Hoople Standard Solution. To ensure control account reconciliation continues within the new system the Council needs to track progress and put in place a new process prior to the move to the Hoople Standard Solution.

General Ledger

Our review of the Accounts Payable functions found that robust arrangements are in place and controls operating effectively, we have not highlighted any areas where procedures have not been followed.

During the review we confirmed recommendations raised in 2020/21 had been actioned reducing the risk of fraud and error and strengthening controls already in place. There are some actions which cannot be implemented we move to the Hoople BW Standard system. Based on these findings we have given a High assurance opinion

Accounts Payable

High Assurance

Our review found that processes are well controlled and continue to work well. We have therefore provided a high assurance opinion.

Our testing confirmed the following robust controls to be in place and working effectively:

- ✓ Monthly reconciliation of pension fund valuations with independent review
- ✓ Review of valuation discrepancies or those valuations outside set parameters. These are supported by clear documentation of the investigation outcome
- ✓ Maintenance of comprehensive internal valuation records which correspond to third party records held from individual Fund Managers and the Pension Fund Custodian
- ✓ Monthly valuation updates to the Pensions Committee and Pension Board, with more frequent updates when required due to market uncertainty

We identified no findings or service improvements as part of this review.

Pension Fund

We found that the Council and Adults Safeguarding Team acted promptly to explore alternative options to meet the requirements of the Care Act, reviewing the best way to contact vulnerable individuals to resolve a safeguarding concern and the new risks presented by Covid19.

The Council updated safeguarding guidance and put in place a risk assessment framework to prioritise safeguarding referrals and mitigate the risks presented by the visiting limitations imposed by the Covid 19 pandemic. We have therefore provided a high assurance opinion.

Adults Safeguarding response to Covid 19

The LSAB (Lincolnshire Safeguarding Adults Board) provided initial governance and oversight of the change in process against compliance with the Care Act. We found that action was taken to address any initial action points as the process was embedded. The Safeguarding Team then adopted these checks into 2021 to provide continued assurance of conformity with legislation.

Substantial Assurance

Our review found that overall there are satisfactory processes and controls in place within the HR Administration and Payroll functions. We observed separation of duties within transaction processing, supporting documentation in place and appropriate authorisation where needed. Processes are accompanied by regular exception reporting to monitor processes to completion and identify inaccuracies.

Our assurance opinion remains at substantial because late or incomplete provision of payroll information and delayed responses to workflow queries by managers and schools continue to have a significant impact on several HR Admin and Payroll functions. This adds to the team's workload and increases the potential for inaccuracies. Receipt of the right information at the right time will improve the Council's ability to make accurate, timely payroll payments or adjustments and meet legislative requirements for issue of employment contracts.

Payroll

The move to the Hoople Standard Solution will present change and is expected to provide a more robust system to obtain accurate and complete information first time. The Council should continue to review the effectiveness of actions currently being undertaken to improve management engagement and education of their HR responsibilities. Benefits of the new system will only be realised if data entered onto system is accurate, complete and processed timely.

Our review also found that a 2nd check over Maternity and Sickness calculations are not being undertaken on a consistent basis due to resourcing pressures and unexpected system issues and outages. Given the manual nature of calculation in the current system, it is important these checks are completed to confirm conditions of service are correctly applied in calculation of payments.

Substantial Assurance

Overall, the Fostering Recruitment Service's arrangements for recruiting and retaining Foster Carers have been found to be strong and well established. On this basis we can give a Substantial assurance opinion.

- ✓ Sound documented processes are in place to guide the processing of foster care applications.
- ✓ There are clear responsibilities within the Fostering Recruitment Team for leading on, monitoring and processing recruitment applications.
- ✓ Appropriate mechanisms are in place to assess whether to approve or decline applicants and to schedule reviews of statutory checks and schedule supervision check-ins with new Foster Carers
- ✓ Progress had been made against a sample of the actions within the Marketing Strategy and Recruitment Operational Delivery Plan.
- ✓ The Retention Strategy, Marketing Strategy and the Recruitment Operational Delivery Plan were well considered and informed by comprehensive competitor and marketplace analyses.
- ✓ Engagement in Information Events by the public was seen to have increased significantly when these events were made available virtually during the pandemic. The Service have decided to continue delivering these events virtually, as well as some being held in person going forward.

Foster Carer Recruitment

We identified 2 medium risk issues to be addressed:

The strategies for marketing, recruitment and retention of Foster Carers require alignment to ensure that accountability can be upheld, and progress monitored against the success and achievement of the objectives within them.

The Fostering Service face challenges in relation to making their website, web, and other publication content as attractive as that of their market competitors, which impacts on the Service's ability to meet their strategic objectives and priorities. Addressing how the Service appear online and in other publications is necessary, to ensure that the Fostering Services strategic objectives and priorities for the recruitment of Foster Carers can be met.

Substantial Assurance

We can provide a substantial level of assurance that the Medium Term Financial Strategy (MTFS) supports financial resilience. The Council has robust systems and processes in place to effectively manage financial risks and maintain its financial resilience in the medium term.

Objectives, key considerations, and governance arrangements of the MTFS are clearly set out, together with how the priorities of the Council's Corporate Plan and other key Strategies can be delivered. Supported by a comprehensive 4-year Medium Term Financial Plan (MTFP), the MTFS ensures that the Council is and remains financially resilient.

A comprehensive annual review ensures key factors such as funding changes, service delivery requirements, cost pressures and reserve levels continue to be fully considered. Whilst the need to develop a longer-term strategy has already been identified by the Council, it is acknowledged and accepted that this action is not practical until government funding reforms are announced (scheduled for 22/23), providing more stability to the longer-term planning process.

A General Reserve and Financial Volatility Reserve exist with levels reviewed on an ongoing basis. Movements to/from reserves are appropriately reported and approved with full consideration given to replenishing reserves earmarked for financial uncertainty. A Corporate Contingency budget provides further means to deal with budget pressures/financial risks as they emerge.

A well-defined Board and Committee structure, together with a comprehensive Constitution and Financial Regulations and Procedures, provide a strong and effective governance framework for managing the Council's financial affairs. Regular reporting and monitoring by the Council's leadership team, and individual service areas is clearly evident.

LCC's assessment against the CIPFA Financial Management Code undertaken in 2021, confirmed financial arrangements as strong, however actions/improvements identified need to be detailed in a formal action plan to enable more effective monitoring.

The Council monitors a number of Prudential Indicators and internal key financial performance measures to identify areas of concern. Use of the CIPFA Financial Resilience Index and comparison with other County Council data, confirmed as a further tool used by the Council to indicate when financial stress may be occurring.

Financial Resilience

Substantial Assurance

Financial Resilience

Introduction of a formal report that can be submitted to members/senior officers, summarising this data and analysis is a recommended improvement to assist and support financial discussions/decisions moving forward. Routine participation in corporate financial benchmarking, or subscription to other financial benchmarking groups, not currently taking place, would also enable areas of concern to be better understood.

Financial risks facing the Council corporately and by individual services have been identified and formally documented, with financial resilience confirmed as a risk on the Corporate Risk Register. New and emerging risks for consideration are included within the S151 Robustness Statement, with mitigations and financial provisions to offset these risks clearly detailed. Risks are considered when preparing the MTFP and evaluating the adequacy of contingency budgets and levels of reserves.

We have concluded that Substantial assurance can be given for the arrangements in place to protect the Council against Virus or Malware infection.

The Information Assurance team has delivered a range of initiatives to raise user awareness of malware threats including mandatory online e-training modules, internal communications, face to face or on-line training sessions, and a SharePoint hub which provides blogs, guidance, and advice on Cyber Security threats such as malware infection.

Virus Protection / Malware

The Cyber Security Consultant has managed the implementation of technical solutions to address and minimise the risk of malware infection including security scanning of all email traffic and Proxy Server web filtering to prevent user access to dangerous or inappropriate websites.

Antivirus software has been deployed across all PCs and Servers. Production servers are subject to internal vulnerability scanning to proactively identify and resolve any security vulnerabilities.

To minimise the risk of malware infection, Microsoft Advanced Threat Protection antivirus software has been deployed across the Council's PC and Server estate. The Zscaler proxy server application has been configured to block Council user access to inappropriate or dangerous websites and also scans any files downloaded from the internet for virus infection.

Substantial Assurance

Audit testing confirmed that the ability to run executable files was restricted to authorised ICT technical support staff and Superuser access rights were also subject to regular review. To address the risk of phishing emails or infected file attachments, Symantec Email Scanning utility has been configured to enforce email filtering policies and block infected or phishing email traffic at source.

All Council owned smartphones and tablets have been enrolled into Microsoft Intune, the proprietary mobile device management application. The Cyber Essentials Scheme guidelines recommends implementing malware protection on all devices including smartphones and tablets. Audit testing disclosed that no antivirus software had been deployed on the Council's mobile estate.

Virus Protection / Malware

Areas requiring attention

- Members of the Active Directory Domain Admins group have high level access. This review disclosed that a total of 20 service accounts had been assigned Domain Admin superuser rights. Not all service accounts require elevated access levels, and this could introduce an unnecessary level of risk that these accounts may be subject to misuse.
- the Council's ICT estate comprised 310 production servers. Our review highlighted the existence of 46 unsupported Windows 2003 and 92 Windows 2008 servers. Once out of support, no further security patches are issued by the vendor to address known vulnerabilities which could then be exploited by a hacker through the delivery of malicious code or malware.

Substantial Assurance

Overall, the arrangements for Privileged Access Management (PAM) are reasonable and we are giving a Substantial Assurance at this time.

Core requirements for PAM are defined in the respective LCC and SERCO access control policies. However these would benefit from greater detail to ensure that a more comprehensive control framework exists around accounts that have special access and abilities which, if used inappropriately, could jeopardise the confidentiality, integrity and availability of the Councils network. We identified a central government publication that may assist in developing a set of specific requirements to help improve control arrangements over privileged access. This should be reviewed by LCC and SERCO to arrive at an agreed set of control requirements that will help inform PAM both now and when the SERCO contract ends and responsibility transfers to whatever new arrangement is put in place.

The requirements that are in place are generally complied with, although we found some exceptions. Privileged Account Creation generally adheres to a formal change control process. We found one instance where a domain administrator account had been created but was not supported by a documented change control. As improper use of privileged accounts can adversely affect the confidentiality, integrity and availability of the Councils network it is important that the creation of these accounts are justified and authorised.

The SERCO Access Control & Password Management Policy states that privileged accounts should adhere to a minimum password length of 12 characters. This is not enforced as a technical requirement, allowing privileged account holder to employ passwords that are potentially less secure.

During the audit, we observed an improvement in documenting the necessary checks to periodically review privileged access accounts. We have recommended that these checks are undertaken on a quarterly basis and that results are shared with Information Assurance section to affirm that this Cyber Security control is being undertaken.

ICT Privileged Access Management

Consultancy Reviews

Key control testing

We found that the processes and controls to generate debtor invoices, credit notes, refunds and update debtor records continue to work well.

Our testing confirmed robust controls to be in place and working effectively around:

- Raising debtor Invoices
- Customer set up and change
- Credit notes, refunds and write offs

Accounts Receivable – Action Plan

We found that good progress is being made through various initiatives to review debt on hand and update the Council's debt recovery processes.

The Council has put in place a clear mission statement that:

- action is taken against Council debt within 3 months
- no debt for Adult Care and Community Wellbeing (ACCW) is older than a year unless secured against property or in the legal process

Debt reporting has moved to a customer basis rather than per transaction where appropriate to do so. The move to the new Hoople Standard Solution will alleviate the current manual workaround for this process.

Most of the Council debt falls within Adult Care. A review of all debt commenced in 2021, with the appraisal of the highest value debt complete and the service currently reviewing debt valued under £15,000.

Going forward the Council has enhanced monthly reporting by commencing quarterly communication within other service areas to highlight high value and aged debt to budget holders. In addition, the Council is looking at alternative options to improve reporting and align Business World dispute code with those within Adult Care.

We will review the effectiveness of these initiatives as part of our 2022-23 audit.

Debtors

Consultancy Reviews

LCC is required to publish its annual data on trade union facilities time to comply with Trade Union Regulations 2017 and we found that LCC has been consistently completing this requirement. Review confirmed that the current policy was reviewed in Sept 2020 and published in Jan 2021 as part of launch of revised employment policies. Proactive work is currently being undertaken by HR and CLT through the preparation of annual reports and analysis and proposed improvements to the process.

Our review has determined that the current policy and provisions in place for managing Trade Union time taken off are not sufficient to protect the Council from the risk of loss of resources and inaccurate reporting. In addition, concerns have been raised by HR regarding the accuracy of information input into the Council's system Business World (BW) by employees.

We have identified two distinct areas for improvement in corporate oversight and line management.

Corporate oversight

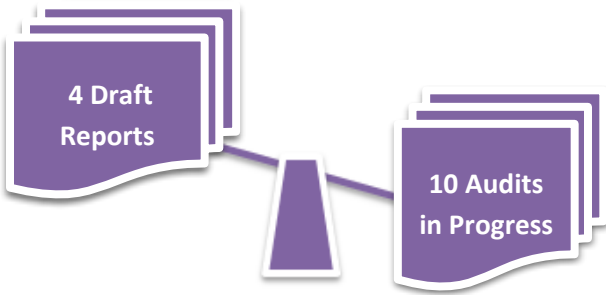
Paid / unpaid time off is approved or denied in line with a test of reasonableness. This requires application of judgement from managers, but this is subjective and could ultimately lead to inconsistencies in its application. The current policy details the responsibilities and ownership for the process is shared across directors, assistant directors and managers. Both factors could lead to a fragmented and inconsistent approval process across LCC and contribute to a resource loss.

To support consistency, we recommend that, if possible, internal prescribed limits are agreed and set for attendance at key events/meetings and volume of requests per service area. This will ensure fairness and consistency and protect managers in their decision-making.

Policy should be reviewed, liaising with the trade unions, to cover attendance at meetings/key events, clarity over 'reasonableness' and more frequent monitoring of information on BW.

Management process

Currently, use of facilities time is reviewed annually. There is a risk that representatives are inputting their time retrospectively at year end, heightening the likelihood of inaccurate reporting. At this stage it is also too late to take corrective action if time is over the expected annual limits.



and 2 are completed. No issues were reported.

Business World Redesign

The project to deliver implementation of the Hoople Standard BW system in April 2023 continues. Discussion has confirmed robust governance and project management arrangements remain in place:

- The Project Board meets monthly, which will become twice a month and then weekly as go-live approaches
- The Risk Register is regularly reviewed, updated and red risks are presented to the Board
- Each workstream Project Officer produces a weekly status report which is shared across the team and with the Project Sponsor to focus discussion on key issues and concerns

A delivery plan is in place with milestones to go-live. This includes remaining testing, data migration & cleanse activity, production of guidance and delivery of training. More detailed cutover plans for each activity are also in development.

Payroll remains a key focus for the project. Following completion of 3 rounds of parallel run activity and additional testing, a Payroll Assurance Action Plan has been agreed to manage remaining activity and provide decision making milestones.

We will continue to review and provide advice and assurance to the project.

Audits in Progress

We have 10 audits at fieldwork stage:

- Corporate Plan & Success Framework
- Economic Development – Allocation of Covid Grants
- Economic Development – Capital Project Decision Making
- Financial Assessments
- Green Master Plan
- IMT follow ups – Business Continuity & Disaster Recovery / Network Infrastructure Security
- IMT – Microsoft Office 365 Security
- LFR Procurement card usage
- Recruitment & Retention (initial data analytics work only)
- Ukrainian Settlement scheme (consultancy)

Other Significant Work

Grants

We have completed two grant audits to ensure that funds have been used in line with grant conditions. The grants (Bus Service Operators' and Substance Misuse) have been signed off and submitted as at the end of September 22.

Supporting Families

We continue to deliver regular review over the Supporting Families grant – quarters 1





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



**Positive
feedback has
been received**



**Plan
completed
26%**





Other Matters of Interest

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

CIPFA Position Statement on Audit Committees – published May 2022

CIPFA has updated their position statement for Audit Committees and replaces the 2018 edition and sets out the vital role an Audit Committee plays in a Councils governance arrangements. It sets out key principles around:

- Independence and effective model
- Core functions
- Membership
- Engagement and outputs
- Impact

CIPFA will be issuing an updated 'Audit Committees – Practical Guide for Local Authorities and Police' – due to be published in September 2022.

<https://www.cipfa.org/services/support-for-audit-committees>

CIPFA - Internal Audit Untapped Potential – published May 2022

CIPFA advocates best practice in assurance, governance, management and financial control across the public services. Internal audit has the potential to help organisations achieve their goals, but this potential may not be currently realised. This report, and the research that has been conducted to create it, explores the changing landscape of internal audit in the public services and how vital it is for an organisation in terms of its future success.

CIPFA intention with this report is to open a dialogue across public service organisations, the internal audit profession, audit committees, as well as those considering a career in internal audit. Internal audit is an important part of the solution for effective management of the public services, and CIPFA hope to facilitate change that will see greater independence of internal audit, sustainability of recruitment into the role and an increased understanding of assurance.

This report makes several recommendations. Some are directed at the internal audit teams working within and for the public services. Others are directed at the client organisations, both management and audit committees. There are areas of planned work that CIPFA will be taking forward, some in collaboration with the Chartered Institute of Internal Auditors (CIIA) and the Internal Audit Standards Advisory Board (IASAB).

We suggest that it would be good to explore the content of this report with the Audit Committee as part of its training and development plan – gaining greater insight into the Role and Impact of Internal Audit in the Council.

<https://www.cipfa.org/services/networks/governance-forum/internal-audit-documentation/internal-audit-untapped-potential>



Other Matters of Interest

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Croydon Council Governance Failing

Fairfield Hall is an arts, entertainment and conference centre situated in Croydon. Refurbishment of this building was agreed by Croydon Council and work was undertaken between June 2016 and September 2019. It was delivered late and cost substantially more than the original £30m budget agreed by cabinet. Originally a Value for Money review, this became a Report in the Public Interest by their Internal Auditors Grant Thornton which highlighted failings of financial control and governance of this project.

The report found that the 'governance gaps' at the time 'prevented scrutiny and challenge that may have allowed corrective action to have been taken.' The report found that the statutory officers and chief officers throughout the time of the refurbishment, including the then chief executive, the two Section 151 officers and the then monitoring officer, failed to fulfil their statutory duties. All have since left the council. An action plan will be put in place to address the recommendations arising from this report.

This has led the Council putting in place new measures to address the findings. The Council has overhauled and strengthened its financial, legal, decision-making and other governance processes, and through its Croydon Renewal Plan is creating a new culture of good decision-making, transparency, accountability and value for money.

It also led the council to undertake an external independent review of its companies and company structures. Following that review, the council's intention is to wind down its development company Brick by Brick once it has completed its outstanding building work. The Fairfield Halls refurbishment contracts were taken back under direct Council control.

The full report can be seen here:

[Microsoft Word - London Borough of Croydon Public Interest Report FINAL 260122](#)

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 30/09/22

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Cyber Security	March 2019	Limited	6	6	0	0	0	0
	The Assistant Director – IMT & Enterprise Architecture has confirmed that all outstanding management actions have now been implemented.							
Treasury Management & Investment Strategy	Aug 2020	Substantial	2	1	0	1	0	0
	The update to Treasury Management Practices is now in progress and target date for completion is the end of the financial year.							
Better Care Fund	Aug 2021	High	1	0	0	1	0	0
	Improvements to performance reporting are ongoing. A new BCF Programme Manager is in place from 12/09/2022 and will drive forward this work.							
Capital Programme	Feb 2021	Substantial	1	1	0	0	0	0
	This action is completed – a Capital multi year budget build-up report is included in reports being built for the implementation of the Hoople BW system.							
Property Repair & Maintenance budgets	Dec 2021	N/A (consultancy)	1	0	1	0	0	0
	<i>Followed up with Property (AF) – 27/09/22</i>							
LFR Expenses	July 2021	Substantial	5	5	0	0	0	0
	All management actions have been implemented.							
ICT Privileged Access Management	May 2022	Substantial	6	4	1	0	0	1
	A number of technical projects are in progress which will strengthen password policies and are due for completion by 30/04/2023. The principal risk factor of password complexity will be addressed by the 30/09/2022 through the imposition of an explicit written policy requiring all privileged accounts to be complex. Whilst technical constraint will come later, as a limited class of professional users, these disciplines are conventional.							

Tracker Report – all outstanding audit actions due 30/09/22

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Trade Union Facility Time review	March 2022	N/A (consultancy)	7	7	0	0	0	0
	All management actions have been implemented.							
Bank Reconciliation	March 2022	Substantial	3	1	0	2	0	0
	Outstanding actions are linked to work preparing for the implementation of Hoople BW system. This involves meeting with Hereford Council staff to understand how they use bank reconciliation processes and completion of training material.							
General Ledger (key control testing)	June 2022	High	3	1	0	0	0	2
	Outstanding actions around control accounts and reporting are not due to be completed until implementation of the Hoople BW solution.							
Debtors	June 2022	N/A (consultancy)	1	1	0	0	0	0
	<i>Action to provide communication on new write off procedures has been completed.</i>							
Financial Resilience	May 2022	Substantial	4	1	0	3	0	0
	Financial Management code was presented to Committee on 26/09/22. A more detailed report on the CIPFA Resilience Index will be presented to the Committee during 2022/23.							
Transport Connect	April 2022	Limited	12	11	0	1	0	0
	All high priority recommendations have been completed. The outstanding action relates to the role of Company Secretary, and this will be reviewed now that the Board has a new Chairperson.							
Foster Carers	Aug 2022	Substantial	2	1	0	1	0	0
	Three strategy documents have now been combined into a single strategy around Foster Carer Marketing, Recruitment & Retention and is going through a review and approval process.							

Tracker Report – all outstanding audit actions due 30/09/22

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
LFR Governance review	Feb 2022	Substantial	10	9	0	0	0	1
	Management actions due have all be completed – the remaining action to review all Board Terms of Reference will be completed by the end of March 2023.							
ICT Virus Protection / Malware	Aug 2022	Substantial	5	2	0	0	0	3
	All recommendations were medium priority – the 3 not yet actioned are not due until 2023.							
Payroll	Sept 2022	Substantial	8	1	0	0	0	7
	Final report has recently been issued and management actions are not due for implementation until the end of the year.							
Total			77	52	2	9	0	14

Transport Connect – Limited Assurance

Issued April 2022 – All but one recommendation have since been actioned

Background & Context

Transport Connect Limited, a teckal company owned and controlled by Lincolnshire County Council, was formed in April 2016 as a means of providing passenger transport to the County. It is a Company Limited by Guarantee with Lincolnshire County Council being the sole member. Its purpose was to help address a lack of capacity in the market and ensure that the Council was able to meet its statutory obligations.

As a teckal company it is designed to sit and operate within the commercial market but with at least 80% of the company's operation being work done on the Council's behalf; with potential for 20% to be externally sourced work. The company has 5 Directors, following the appointment of 2 additional directors in 2019, to increase the membership and provide greater resilience.

Whilst the company initially had no plans to expand, circumstances have arisen whereby the company has grown over the years, most recently providing the Gritters Maintenance Contract to Lincolnshire County Council.

Scope

The review will focus on the company arrangements, the Board, roles and responsibilities of its Directors, internal processes, performance management and reporting, and therefore include areas such as (but not limited to):

- Governance structure (the Board and its membership).
- Roles and responsibilities of the Board and its Directors.
- Company's obligations to the Council, monitoring of compliance.
- Policies and procedures.
- Mechanisms for identifying and dealing with potential conflicts of interest.
- Decision making and approval processes.
- Reporting and information flows.
- Performance management.
- Risk management, contingency plans and succession planning.

In order to inform our work, we met with the Assistant Director – Communities, Directors of the Board, including the Chair of the Board and Managing Director, Commercial Manager and the Head of Transport Services as the 'Owner Representative'.

Executive Summary

Risk	Current Rating (R-A-G)	Recommendations	
		High	Medium
The Company's governance arrangements are not fit for purpose.	Red	1	5
There are ineffective processes in place to ensure the provision of passenger transport by the Company, in line with the Council's statutory requirement.	Green	0	0
Ineffective management oversight	Red	1	2
There are ineffective risk management systems in place to manage key delivery.	Red	1	0
The company has lower than expected returns.	Green	0	0
TOTAL		3	7

Our review has identified some significant issues in respect of the governance arrangements operating with Transport Connect Ltd; as a result the overall assurance opinion provided is Limited. The Action Plan seeks to strengthen current governance arrangements and formalise processes through the introduction of key documents. It is pleasing to note that, since the issue of the draft report in November 2021, the Board has already made considerable progress and actions have been taken to address many of the issues raised. As a result, we are pleased to report the direction of travel is already positive and, subject to testing, any follow up work will likely provide a higher level of assurance.

Transport Connect Ltd was formed in April 2016 and at no point has there been any formal Board Terms of Reference. Whilst other documents exist which have some reference to Board responsibilities, such as the Members Agreement, Articles of Association, and a more recent paper 'Board Roles 2021'; these do not negate the need for formal, comprehensive approved Terms of Reference summarising the Board's duties and powers. Without clear

Terms of Reference the duties and responsibilities of the Board may be unclear, leading to ineffective governance arrangements and weaknesses in the operation of the company.

Review of minutes has identified lengthy discussions around key issues; we note, however, minutes do not always clearly refer to approvals of documentation and decisions taken. The input by the Owner Representative, in respect of approvals and decisions, required in line with the Members Agreement, is also lacking within the minutes. We are confident from discussion with key officers and Directors that meetings are effective and comply with the Members Agreement, however, there is an acknowledgement of the need to increase transparency by recording involvement of individuals and approvals/decisions more clearly. We have made recommendations to strengthen the format of the minutes and formalise the recording of resolutions.

Comprehensive and well communicated strategies, policies and procedures are key to the operation of a company. However, no formal list of Transport Connect policies exists and we identified a lack of awareness of some policies by key individuals. Without a shared drive/central portal to store documents, there is a risk that policies are not accessible or known to Directors and Officers of the company. We also found no evidence of review of policies by the Board. We have made recommendations to introduce a structured approach to the review, approval and subsequent communication of policies.

The audit has highlighted concerns around the sharing of confidential information. Some Directors of the Board use their own personal laptops for company business, and as such company data, including both personal and commercially sensitive information, is being held on laptops which are not subject to the same malware/data protection an LCC laptop would have. Sharing of data via emails is not always password protected. Without adequate IT arrangements, Transport Connect Ltd is potentially non-compliant with the Data Protection Act and a breach could lead to large fines and reputational damage.

Issues around Risk Management have also been identified; the Risk Management Policy has not been approved by the Board, nor is it fit for purpose; the half page document is not dated and does not document the underlying approach to Risk Management, roles and responsibilities, etc. The Company 2020/21 Risk Register, a 1 page document, does not provide RAG ratings, the likelihood or impact of risks, nor responsible officers for the actions. Without strong Risk Management Arrangements, risks to the Company may not be identified, and actions to mitigate those risks not considered

Areas of good practice

Transport Connect Ltd has been instrumental in ensuring Lincolnshire County Council has met its obligations to provide passenger transport to the County. Through our discussion and testing we were able to confirm a number of areas of good practice:

- The Board consists of experienced and skilled Directors who bring individual strengths to the Board; responsibilities geared to their strengths have been allocated; i.e. financial, industry, governance, etc.
- Discussions have taken place around the need for sub-committees, the decision not to have separate committees is constantly under review.
- Board meetings are held monthly and are well attended; meetings are divided between strategic and operational issues and the Managing Director presents both Financial and Operational reports. The 'Owner Representative' provides a key function within these meetings.
- Following receipt of operational and financial reports, the Owner Representative discusses their content with key LCC officers (both Finance and Legal) in advance of Board meetings in order to raise questions where necessary.
- Monthly briefings take place with the Portfolio Holder for Transport along with quarterly reporting to Scrutiny; this ensures the Company is fulfilling its obligations to be transparent to the Council.
- Board Directors have all completed a recent Declaration of Interest form.
- Monthly meetings generally take place between the Chair of the Board and the Managing Director. Whilst due to Covid these have not been face to face and are less frequent, the relationship between the two roles is effective.

Manager's response

TransportConnect Limited is completing a process of transition, from a business that felt like a "family firm" to one that is a "corporate company" entering the next phase of maturity.

The Council established the TransportConnect 6 years ago to inject competition into a monopolistic market. Many competitors were family firms, so we intentionally adopted their style of governance - agile, very lean and "light touch". This could have been very risky but for the following key factors:

- We are a Teckel company, which places strict limitations on the board and management;
- the Memorandum of Agreement and Articles of the Company has measures to ensure owner control;
- and, crucially, the founders of the company – Howard Rowbotham, Jane McNamara, Dave Harrison, Richard Wills, Anita Ruffle - shared the same intent, ethos and commitment to making the business a success.

Without this model, it is probable that we would not have been successful in expanding rapidly, keeping prices low and moving from loss to profit.

However, we needed a succession plan to allow for a change of personalities and to enable managed growth. Directors Howard Gannaway and Nicole Hilton brought new minds and new perspectives. They encouraged increased levels of scrutiny that tested the culture, structures and processes of the business.

Ideally, we would have commenced our governance review, with an associated audit in 2020, but the COVID-19 pandemic made that inappropriate.

We immediately made some changes in the way we present our finances and record our decisions during the course of the audit.

It has always been recognised that the company purpose and processes would need to be reviewed with regularity over its lifetime, as it transitions in size and maturity. Our invitation to LCC Audit was part of this conscious process to ensure that the Board structure is effective and fit for purpose.

We accept this report is a reflection of what we have said to the auditor about our strengths and weakness, which we have identified ourselves. We welcome the recommendations. These have either already been addressed or we demonstrate in our responses, the way in which the issues raised will be addressed.

The Board disagrees with the overall conclusion of “Limited Assurance”.

In our formal response, we invited a change in the overall assessment to one of substantial assurance. The chair and another director were invited to discuss the findings and our response, The Audit manager accepted the points we made and acknowledged the validity of our individual responses. However, following a further review, Assurance Lincolnshire has maintained its assessment as Limited Assurance.

The Board reflected on this at its Board Meeting on 17 February 2022. The Board has already responded affirmatively to most recommendations. The Board noted the Company's track record of success in most aspects of the business, despite a very difficult trading environment. The Board believes that being a Teckal company, its governance was appropriate at the time of the audit. **The Board therefore believes that its governance has substantial assurance** and will adopt changes as it moves into the next phase of the company's development.

Appendix 4

2022/23 audit progress

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Supporting Families 1	Review and validation of periodic claims for the Supporting Families programme.	20/06/2022	20/06/2022	24/06/2022	Completed
Substance Misuse Grant	To confirm compliance with Grant funding criteria	15/07/2022	15/07/2022	20/07/2022	Completed
BSOG Grant	To confirm compliance with Grant funding criteria	31/08/2022	06/09/2022		Completed
Supporting families 2	Review and validation of periodic claims for the Troubled Families programme.	01/09/2022	20/09/2022		Completed
Covid Bus Services support grant	To confirm compliance with Grant funding criteria	22/09/2022	22/09/2022		
Mosaic Finance implementation – follow up	Follow up around the Low assurance report issued March 2021 to confirm implementation of management actions and progress	01/04/2022	14/04/2022		Draft report (consultancy)
LFR Procurement card usage	To provide assurance on the use of procurement cards across Lincolnshire Fire and Rescue service and compliance with the new policy and procedure documents.	01/02/2022	10/02/2022		Draft report
Capital Project Decision Making process	To provide assurance around the decision-making process for capital investment projects, specifically focusing on the Market Deeping Business Centre.	01/06/2022	07/06/2022		Fieldwork stage

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Allocation of Covid Business Grants	To provide assurance the Council has operated in line with grant conditions and that the process has been effectively managed and controlled. Post payment checks looking at indicators of fraud will also form part of this review.	01/04/2022	22/06/2022		Fieldwork stage
IMT follow up – Business Continuity & Disaster Recovery / Network Infrastructure Security	Follow up around two Limited assurance reports issued in 2021 to confirm implementation of management actions and progress	01/05/2022	17/05/2022		Fieldwork stage
Green Master Plan	To review the LCC Master Green Plan, including the Carbon action plan and the Sustainability, Climate Change and Environment Strategy to assess progress against underpinning values and Work will include a high level review of a sample of projects included in the Green master plan.	09/09/2022	09/09/2022		Fieldwork stage
Ukrainian Refugee Settlement	To provide an independent review and assurance over the arrangements in place to deliver the Homes for Ukraine Scheme. Our review will concentrate on the arrangements from Lincolnshire County Council's perspective.	15/08/2022	27/09/2022		Fieldwork stage
Good Governance Review	Review of governance arrangements against the CIPFA Framework for Delivering Good Governance in Local Government (2016).	01/07/2022	01/07/2022		Draft report

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Low Value Highways Insurance claims	To provide assurance that the processing of low value insurance highways claims is well controlled.	19/05/2022	19/05/2022		Fieldwork stage
Recruitment & Retention (data analytics)	Initial analysis and review of recruitment data across the Council in the last 2 years. To inform further Recruitment & Retention audit later in the year.	30/05/2022	06/06/2022		Fieldwork stage
Adults Financial Assessments	Confirm improvements have been made in the financial assessments process following the implementation of the new policy and management actions	11/04/2022	12/05/2022		Fieldwork stage
Corporate Plan & Success Framework	To assess performance against the objectives within the Council's Corporate.	21/09/2022			Agreeing TOR
Procurement (Kier tender)	To review procurement arrangements.	12/07/2022	12/07/2022		Draft report
Acquisitions & Disposals	This audit has been requested by the Deputy Chief Executive & Executive Director of Resources. It seeks to provide some independent insight and assurance on the effectiveness of land and property asset disposals within the Council.				Agreeing TOR
Payment system – lessoned learned	Lessons learned exercise around contract management of Council's payment collection system.	20/09/2022	20/09/2022		Fieldwork stage
ICT – Microsoft Office 365 Security	To provide assurance that the design and implementation of the controls for managing Microsoft Office 365 are adequate to maintain the confidentiality, integrity and availability of data and meet organisational needs.	12/09/2022	12/09/2022		Fieldwork stage

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
ICT – Starters, Movers & Leavers	<p>The review will focus on providing assurance that the authority has appropriate arrangements in place to ensure that:</p> <ul style="list-style-type: none"> • Only authorised users are enrolled promptly onto the network • The removal of access is undertaken without delay where access is no longer required 				Planned Q3
ICT – Network Infrastructure & Security	<p>To assess the network architecture and design that remains on site to determine whether adequate security mechanisms are in place and operating effectively and provide assurance that the risks associated with network security are mitigated through appropriate security measures.</p>				Planned Q3
Insurance	<p>To review the effectiveness of management of the Council's insurance arrangements – including claims handling and the sustainability of the insurance fund / risk appetite.</p>				Planned Q3 / Q4
Debtors	<p>Review the debtors' process - to assess debt reporting governance and senior management oversight on debt levels and write offs. Coverage will include the impact of gross social care payments & recovery of contributions.</p>				Planned Q4
Payroll	<p>To provide assurance that appropriate controls are operating in HR Admin & payroll processes ensuring payments and ledger postings are correct.</p>				Planned Q4

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Financial systems – key control testing	Testing and analytical review of key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements				Planned Q4
BW implementation	To provide independent insight, advice and assurance on the implementation of the Hoople Standard version of BW, particularly around readiness for go-live in April 2023.				Planned Q3 & Q4
Supporting Families Q3 & Q4	Review and validation of periodic claims for the Supporting Families programme.				Planned Q3 & Q4
Combined Assurance	Updating assurances on the Council's assurance map with senior managers and helping to inform planning and co-ordinate the annual status report.				Planned Q3

Deferred Audits

Audit	Rationale	Change	Approval
Contract Management	Activity covered in specific audits added to the Plan (see below). Further work to be considered for 2023/24.	Replaced	Lucy Pledge, Head Of Service
Budget Management	Deferred based on current business risk and to accommodate alternative priorities.	Deferred	Lucy Pledge, HOS
Capital Projects – Financial Resilience & Decision making	Deferred based on current business risk and to accommodate alternative priorities.	Deferred	Lucy Pledge, HOS
ICT PSN Compliance/ Cyber Security	ICT plan priorities revised – audit is included within ICT planning for 2023/24	Deferred	Lucy Pledge, HOS

New Audits			
Audit	Scope	Change	Approval
Ukrainian Refugee Settlement	To provide an independent review and assurance over the arrangements in place to deliver the Homes for Ukraine Scheme. Our review will concentrate on the arrangements from Lincolnshire County Council's perspective.	Review requested by Adult Care & Community Wellbeing and Public Health.	Lucy Pledge, HOS
Procurement Tender	Lessons learned exercise around the contract management and tendering process.	Review requested by the Deputy Chief Executive & Executive Director of Resources.	Lucy Pledge, HOS
Acquisitions & Disposals	It seeks to provide independent insight and assurance on the effectiveness of land and property asset disposals within the Council.	Review requested by the Deputy Chief Executive & Executive Director of Resources.	Lucy Pledge, HOS
Payment system – lessons learned	Lessons learned exercise around contract management of Council's payment collection system.	Review requested by the Deputy Chief Executive & Executive Director of Resources.	Lucy Pledge, HOS

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