

**AUDIT COMMITTEE
21 NOVEMBER 2016**

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

Councillors Mrs E J Sneath (Vice-Chairman), N I Jackson, Miss F E E Ransome, S M Tweedale, W S Webb and P Wood

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

Councillors: P M Dilks, Mrs A M Newton, R B Parker, B Young and M A Whittington attended the meeting as observers

Officers in attendance:-

Debbie Bowring (Principal Risk Officer), David Forbes (County Finance Officer), Lucy Pledge (Audit and Risk Manager), Rachel Wilson (Democratic Services Officer), Judith Hetherington Smith (Chief Information and Commissioning Officer), Pete Moore (Executive Director, Finance and Community Safety), Mike Norman (External Auditor, KPMG) and Richard Wills (Executive Director, Environment and Economy)

32 APOLOGIES FOR ABSENCE

There were no apologies for absence.

33 DECLARATIONS OF MEMBERS' INTERESTS

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

34 MINUTES OF THE MEETING HELD ON 26 SEPTEMBER 2016

RESOLVED

That the minutes of the meeting held on 26 September 2016 be signed by the Chairman as a correct record.

35 AUDIT COMMITTEE WORK PLAN

Consideration was given to a report which provided the Committee with information relevant to the core assurance activities currently scheduled for the 2016/17 work plan.

Members were advised that regular agenda planning meetings were taking place with the Chairman and Vice-Chairman.

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Concerns were raised regarding members' awareness of the Council's risk register, as it was not felt that the Committee had considered it recently. It was reported that the risk register was brought to the Committee for consideration twice per year, and it was next due to be on the agenda for the meeting on 30 January 2017. It was also noted that there would be some training for members around risk in March 2017. Members were advised that the risk register was regularly reviewed by officers.

RESOLVED

1. That the Committee was satisfied that the Work Plan contained the assurances necessary to approve the Annual Governance Statement 2017.
2. That the outstanding actions designed to improve the effectiveness of the Committee be noted.

36 KPMG'S REVIEW OF AGRESSO IMPLEMENTATION AND MANAGEMENT OF SERCO CONTRACT

Consideration was given to a report by Richard Wills, Monitoring Officer, which introduced the report of the Review into the Serco Contract which was commissioned by the Audit Committee in June 2016 as a result of a resolution of the Council in May 2016. The full report from KPMG was appended, and Paul Diamond, Head of Local Government Technology Risk Consulting (KPMG) was in attendance at the meeting to present the findings of the review and answer questions from the Committee.

The Committee was guided through the report, and some of the points highlighted were as follows:

- The delivery of programmes this size was always complex and challenging, and it was considered very positive that the Council had taken the opportunity to engage KPMG to be able to learn from the process.
- The procurement process used by the Council to appoint Serco was examined and was considered to be sound, with the exception of the inclusion of the 12 month time table for implementation. This timescale was considered to be tight by KPMG who suggested that an 18 – 24 month timetable would have been more appropriate.
- It was highlighted that more site visits would also have been beneficial.
- In terms of data migration, it would be expected that it would be signed off as accurate and complete by every party. The meeting of key milestones needed to be checked throughout.
- There was a need for very robust and effective challenge from both sides.
- The need to have a contingency in place in the event of not being able to go live when scheduled was also highlighted. It was essential that a method of paying staff and contractors was in place. It was clear Serco had not delivered this.
- It was also commented that it was usually expected for any remaining issues to be resolved within the first 3 months.

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

- It was queried what the cost of the report was and who would pay for it. Members were advised that the report had cost £50,000, and would be paid for by the Council. The report was requested by the County Council which therefore would pay for it. Members asked whether Serco, as the contractor, should be responsible for this cost, and members were reminded that service credits were being applied, which had been included in the original contract. These credits were there in the event of service failure, and was possible that the report could be paid for with these.
- In relation to project management, it was queried what sort of assurances were given, and whether they were verbal or evidence based. One member of the Committee suggested that the Council was ultimately responsible for the failure of the contract, as it *'felt entitled to expect that a contractor of Serco's size and experience would deliver on their contractual obligations without the Council needing to implement at cost to itself a full client side programme capable of checking their every move.'* The Council had a substantial team in place to manage this and would always have to balance quantity of resource with the cost of that resource.
- In terms of risk, the Council had transferred the majority of the risk for the project to Serco, however, the one element that could not be transferred was the reputational risk to the Council. It was the Council that the press coverage was directed at. Moving forward, it would be expected to see more robust challenge from the supplier. However, it was noted that there was governance in place.
- KPMG were brought in to review lessons learned from the project. It was commented that it was common practice for organisations such as KPMG to carry out a deep review of a project at key stages during its progression.
- In terms of independent oversight, Internal Audit did make recommendations throughout the process. It was commented that during the review, work which had already been carried out would be reviewed to understand what the scope was and whether any findings had been acted upon.
- The Council would respond in due course to the report, and it was suggested that the Audit Committee made a recommendation that the Chief Executive consider the points raised and bring back an action plan.
- Members were advised that the governance put in place was designed and agreed with Serco.
- It was commented that there was possibly too much focus on the financial aspects rather than the reputational risks.
- It was also commented that the legal liabilities and costs of the failure were the responsibility of Serco.
- It was queried whether there was any additional action the Audit Committee could have taken. The Committee was in a position where it could only report to the Executive that it was less than satisfied with performance, and from an audit point of view were uncomfortable with the situation. As an Audit Committee, members were unable to do anything but make recommendations. It was commented that the Serco contract had been a

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matter of concern to the Committee for the past 18 months, and the minutes of the meetings should reflect that.

- The Chairman reported that she had prepared the Audit Committee Annual Report, and presented it to the Informal Executive and so Executive Members were aware of the processes that the Audit Committee had gone through.
- It was suggested that the Audit Committee should focus on dealing with the recommendations in the report and also focus on the good practice that was already in place.
- Concerns were raised that there were still schools experiencing issues 20 months after the commencement of the contract.
- It was acknowledged that progress was being made in rectifying the errors in payroll.
- The main issue for the Council was the need for contingency arrangements to have been in place. It was noted that there were many assurances given by Serco that the issues would be rectified, but were not delivered. The Council understood the need for contingency arrangements and had made provision in the contract for this.
- Members were advised that it was written into the contract that Serco would be responsible for any contingency arrangements, but with the benefit of what was known now, different triggers could have been put in place.
- It was believed that Serco did not have enough sufficiently trained staff to run the payroll at the time of the go live date.
- Members commented whether too much trust and confidence had been put in the assurances that Serco gave, and it was noted that Serco had attended committee meetings many times, and were challenged robustly.
- Members commented that the report which had been produced was good.
- Members were advised that the nature of the relationship between Serco and Unit 4 did not seem to have been satisfactory. Between them, they were not clear on who was responsible for what in terms of delivery. For contracts in the future it would be very important that the governance between a supplier and any sub-contractors was examined.
- One member commented that it was felt that there was an absence of commercial due diligence by Serco.
- It was queried why the Council did not insist that all decisions were recorded.
- Site visits could be useful to be able to see where potential bidders had implemented the package of services that it was hoped to procure, as it was an opportunity to meet with the implementation team rather than just the sales team.
- It was reported that other authorities which were already using Agresso, were not using it as fully as the Council had intended to.
- It was queried why it was not picked up that Serco did not have a sufficient number of trained staff to deal with the payroll functions. Members were advised that Serco had planned to train up their own staff, with no cost to the Council. However, this did not happen, and the Council only became aware of this during implementation.
- It was commented that a lot of the points were fairly simple and should be implemented as standard in a business. In terms of contingency planning, it

was felt that a contingency plan should have been in place, due to the Council's reputational risk if there were any problems.

- Members were advised that the Council's payroll function had been outsourced for a considerable number of years. When Mouchel ran the payroll, they were responsible for any contingency arrangements, and this had worked successfully for 15 years and so it had not been flagged as a risk. The Council had now had a different experience and would look at things differently in the future.
- It was commented that the 12 month mobilisation period should have been sufficient, if it was organised correctly. It appeared that there was not enough monitoring and assurance during that time.
- Service credits had been imposed on Serco, and it was queried whether Serco had accepted the report. It was also queried whether Serco had been asked if they were prepared to pay for the report. However, it was noted that the review had been instigated by the County Council. It was also noted that the report was not contended by Serco, but neither was it accepted.
- It was noted that the Audit Committee had raised questions about Serco's performance for a long time, and it was queried whether the remit of the Committee needed to be amended. It was suggested that there may be a need for the Audit Committee to have greater powers than what it currently had. It was commented that in terms of the remit of the Committee, it was a 'watchdog', but the constitution could be reviewed. However, members were advised that the key thing was to not get involved in decision making. It was about ensuring that governance and controls were in place.
- The Audit Committee was able to report to Council who could direct the Chief Executive to take action. There was a need for caution to ensure that activity did not move into operational issues.
- Members were advised that it would be right for this Committee, in response to this report, to ask for its comments to be reported to the Chief Executive.
- Members raised concerns regarding how they could challenge officers when provided with a report and assurances, and then they were not lived up to. It was commented that it was thought that the Committee was not at fault, as members had asked the right questions. Officers did not think that Serco had deliberately been mis-leading the Council, but that they may have been mis-leading themselves.
- The report did not say that the Council had not done anything, but that what had been done was not sufficient for the circumstances. There was a need to look at how things could be done in a better way in the future so the council did not find itself in a similar situation again. There were some specific lessons to note about outsourcing this type of service, but there were also lessons for other services where contracts could be let.
- It was queried what remedies could be put in place to ensure that any contractor would face action if they did not meet their contract terms. Members were advised that each contract would have to be considered in its own right, and the methods for holding them to account would be different depending on what service they were providing. There would also be a need for balance, as if the amount or nature of remedies was too stringent then

there would not be any bidders for the contract. It was noted that no two contracts would ever be the same.

- It was reported that there had been substantial oversight and governance, and a lot of assurances were given. However, it was commented that most of the people in Serco who were giving assurance did not understand the scale of the issues.
- Fewer staff than expected transferred over to Serco under TUPE from Mouchel than expected, particularly payroll staff.
- It was highlighted that a key feature was that the Committee never saw the same senior manager twice, and it was queried whether this was something that should have been picked up.
- It was queried how it would be ensured that knowledge that had been gained throughout this process would not be lost in light of the fact the Chief Information and Commissioning Officer would be leaving the Authority in March 2017. Members were assured that there was a sizable team of people engaged with the contract, as each service area had a senior officer who understood the contract in detail as well as understanding what challenges had been met and what still needed to be resolved. It was also reported that the team around the payroll function had also been significantly strengthened. There had been a considerable improvement, and the payroll run in October 2016 had been the best one since the start of the contract. However, it was noted that this did not excuse the problems which had occurred previously.
- There had always been issues with payroll, and there always would be issues, as there would always be complications, such as people starting late, or information being passed over late.
- It had been accepted that the report was factually accurate. However, it was the Council's report, not Serco's or Unit 4's.
- It was clarified that the report stated that Serco had included comment against Edinburgh City Council saying "Serco's understanding is Edinburgh City is at least 10 months behind plan". However, Edinburgh Council and its partners (CGI and Agilisys) had an implementation plan for go-live in April 2017. The parties were on track to achieve this plan.
- It was suggested that as next steps, the Audit Committee recommend to CMB that the report be accepted and the recommendations taken on board and an action plan produced. The Chairman advised that she was finalising her Audit Committee Annual Report which she would be presenting to Council in December 2016.

It was proposed, and agreed, that the word 'directs' in recommendation 3, be amended to ask.

RESOLVED

1. That the Audit Committee receive KPMG's report of the Review of Agresso ERP System Implementation and Management of the Serco Contract.
2. That the comments made by the Audit Committee on the report's findings and recommendations be noted.
3. That the Audit Committee ask the Chief Executive:

- i. To act on the findings and recommendations, especially in relation to future major procurements; and
- ii. To monitor and report on the progress of the actions taken.

37 INTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report which provided the Committee with an update on the actions being taken to address and rectify the issues identified in both the Payroll and Pensions Audits. It was reported that this was a follow-up report from the last meeting, and it demonstrated that progress was being made.

It was reported that letters were going to be sent out in December 2016 to all staff regarding the payroll issues.

It was reported that within the next few weeks, Finance would consider offering the option to schools to procure their own payroll provider and stay with Agresso. It was noted that if schools chose to go with their own provider, there would be a lot of work for them to take on operationally.

Members were advised that it was proposed to carry out an Internal Audit of the payroll and pensions function in the New Year. Management assurances would be brought back to the Committee.

It was clarified that if staff had been found to have underpaid their pension, they would be allowed an amount of time to repay it.

RESOLVED

That the approach and progress made with the audit actions be noted.

38 INTERNAL AUDIT - EXTERNAL QUALITY ASSESSMENT

Consideration was given to a report which provided the Committee with information on the result of the external quality assessment undertaken in September 2016.

It was reported that Internal Audit within the Public Sector in the UK was governed by the Public Sector Internal Audit Standards (PSIAS) which had been in place since April 2013 (updated April 2016). The Standards required an external quality assessment at least once every five years as part of Internal Audit's Quality Assurance Framework.

The assessment showed that the Council's Internal Audit function 'generally conformed' with the Mission Statement for Internal Audit, the Standards of practice and the Code of Ethics laid down in the PSIAS and the associated CIPFA advisory note.

The Committee congratulated the Audit and Risk Manager and her team on the outcome of this assessment.

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It was reported that there were a number of recommendations to work through, and the most notable was the need to build up relationships with the IT team. There was now an opportunity for a realignment of services to re-energise the relationship.

RESOLVED

1. That the External Quality Assessments for Assurance Lincolnshire and the County Council and what it tells the Committee about the quality of the Internal Audit Service be noted; and
2. That the Committee be assured over the quality and effectiveness of the Council's Internal Audit Service.

**39 RISK MANAGEMENT REPORT - INDEPENDENT EVALUATION OF RISK
MANAGEMENT MATURITY - NOVEMBER 2016**

Consideration was given to a report which assisted the Committee in fulfilling its role to monitor effective development and operation of risk management and corporate governance in the Council. The report also provided an update on how well the Council's risk management processes were fit for purpose and in line with industry best practice.

Following an external audit of risk management in 2014, a further independent review was conducted. This was to ensure that risk management practices were in line with the principles of recognised risk organisations and documentation. Members were advised that the outcome of this report was very positive.

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

- Risk training for the Committee was scheduled for March 2017, but it was queried whether it would be better to wait until after the election. It was noted that there would be training included in the induction programme on risk management for new members.
- Some very positive comments were received from the assessor
- External reviews were carried out on an ad hoc basis, as and when it was thought they were required (or when an opportunity arose)

RESOLVED

1. That the Independent Evaluation of risk management maturity as attached to the report be noted; and
2. That the Committee be assured over the quality and effectiveness of the Council's risk management service.

**40 FINAL EXTERNAL AUDIT ISA 260 GOVERNANCE REPORT ON THE
COUNCIL'S FINANCIAL STATEMENTS AND THE VALUE FOR MONEY
CONCLUSION**

The Committee received a verbal update from KPMG, the Council's External Auditors, who advised that the additional work had now been completed, and a report had been issued the previous week. It was noted that there were no changes in relation to matters arising, and KPMG had been able to issue an unqualified opinion.

An element of qualification was given in relation to the value for money conclusion around the provision of accurate and timely management information for managing the business. This flowed directly from the difficulties experienced in the Agresso implementation.

It was confirmed that there would be additional costs arising from requirement to carry out additional work, and these costs would be included in the annual audit letter. Members were advised that the Council would be seeking to recover these additional costs from the appropriate party.

Thanks were extended to the external auditors and the Chief Finance Officer and his team for all the hard work which had been carried out.

RESOLVED

That the update be noted.

41 COUNTER FRAUD PROGRESS REPORT TO 31 OCTOBER 2016

Consideration was given to a report which provided an update on the Council's fraud investigation activities and information on progress made against the Counter Fraud Work Plan 2016/17. Members were advised that good progress was being made against the work plan.

It was reported that 3 cases had been referred to Lincolnshire Police with a view of pursuing criminal prosecutions. It was noted that an increase in referrals being made had been seen, and it was believed that this was a result of the pro-active work which had been carried out.

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

- It was queried whether a member of staff had been overpaid due to the problems with Agresso and not reported it, if that would be recorded as fraud. It was noted that this would usually be a matter for a line manager to deal with, and it would be very difficult to prove fraud in these cases. It would just be a matter of recovering the overpayment.
- It was queried whether the problems with payroll had provided more opportunities for people to be dishonest.
- It was reported that there were a larger number of cases of fraud in schools
- Concerns were raised that training for headships did not directly include finance training. However, it was noted that training was available for staff and governors, and if head teachers would like additional training, this service could be bought in.

- Schools valued the internal audit service, and the independent oversight it provided, and were taking up the offer.
- It was reported that there were five staff in the Counter-Fraud team and it was queried whether this was enough. It was noted that the Council had a dedicated team and made the best use of the resources it had. Collaborative work was also taking place and officers were working to promote the Lincolnshire Counter Fraud Partnership. Members were advised that if the Council thought this was a significant area of concern, more resources would be put into it.

RESOLVED

That the outcomes of the Council's Counter Fraud Work be noted.

42 WHISTLEBLOWING ANNUAL REPORT 2015-16

Consideration was given to a report which provided an overview of the Council's whistleblowing arrangements throughout the year 2015/16.

It was reported that there had been an increase from 19 to 30 cases, with notable increases in relation to finance, safeguarding, and bullying. It was believed that the increase was due to the promotion of the policy, and demonstrated that there was trust in the process and policy and that staff would be dealt with professionally. It was noted that one third of those making referrals were providing contact details, which again showed a confidence in the process.

Members commented that it was very positive for any employer to have a whistleblowing policy that was used. It was also commented that it was a very good report.

RESOLVED

1. That the whistleblowing activity for 2015/16 be noted;
2. That the ongoing work to raise awareness and provide assurance on the effectiveness of the Council's arrangements for whistleblowing be noted; and
3. The Committee note the reviewed and slightly updated Whistleblowing Policy as included in the report.

43 DRAFT COUNTY COUNCIL REPORT - APPOINTMENT OF EXTERNAL AUDITORS

It was reported that this report was solely for the information of the Committee and was largely the same as the report presented to the Committee at its meeting in June 2016 in relation to the need to appoint an External Auditor. The report would be going to Council for final approval on 16 December 2016. There would be a slight amendment as the Chief Legal Officer needed to make some legal comments.

The meeting closed at 12.00 pm