

**AUDIT COMMITTEE
24 JULY 2017**

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

Councillors A P Maughan, R B Parker, P A Skinner and A N Stokes

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

Councillors: M A Whittington attended the meeting as observers

Officers in attendance:-

David Forbes (County Finance Officer), Claire Machej (Head of Finance (Corporate)), Pete Moore (Executive Director, Finance and Public Protection), Lucy Pledge (Audit and Risk Manager) and Rachel Wilson (Democratic Services Officer)

9 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor P E Coupland and A J Spencer.

Apologies for absence were also received from John Cornett and Mike Norman from KPMG.

10 DECLARATIONS OF MEMBER'S INTERESTS

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

11 MINUTES OF THE MEETING HELD ON 26 JUNE 2017

RESOLVED

That the minutes of the meeting held on 26 June 2017 be signed by the Chairman as a correct record.

12 DRAFT STATEMENT OF ACCOUNTS 2016/17

The Committee received a report which provided members with the opportunity to consider the draft Statement of Accounts for Lincolnshire County Council for the financial year 2016/17.

The Chairman wished to record the Committee's thanks to Ian Fifield from LG Futures for the training he delivered in relation to the Statement of Accounts on 17 July 2017.

It was reported that the County Council prepared its Annual Statement of Accounts in line with the proper accounting practices required by section 21 (2) of the Local Government Act 2003 and set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. The Committee was advised that the document also showed the Council's accounting policies, which were considered by this Committee in March 2017.

It was noted that the table Movement: Expenditure and Funding Analysis for the period 1 April 2016 to 31 March 2017 was additional data which had been included for the first time this year.

Members were also advised that there would be some further changes to legislation next year which would require the Council to prepare the accounts by the end of May and for the external auditors to sign off on the accounts by the end of July.

KPMG, the Council's external auditors, would set the materiality figure, which was expected to be at around £15m. The figure was usually between 1-3% of gross expenditure.

Members of the Audit Committee were asked to scrutinise and comment on the Statement of Accounts, and some of the points raised during discussion included the following:

- Note 3 – it was confirmed that the critical judgements were generally made in accordance with best practice and were broadly in line with expectations set out in the code of practice. In particular, those in relation to the PFI contracts and in relation to the Energy from Waste facility were well established.
- It was unlikely that the changes to the business rate pooling would affect the accounts.
- Page 22 – it was noted that the figure for 'Annual Income' was less than the 'Gross income' on page 30, and it was queried what the relationship between these two figures was. It was clarified that this was likely due to movement of reserves. It was noted that overall there was a contribution of £8m into reserves.
- Note 37 – it was queried why there had been such a sharp increase in fees payable to the external auditors in respect of other services since 2015/16. Members were advised that this was due to the Council asking the external auditors to undertake a particular piece of work in relation to Agresso.
- Page 27 – in relation to financial health and performance, and the £100k which could be released from the general fund, it was noted that there were local policies as to what level the general fund should be maintained, and the release of this £100k was to keep the fund at this level.
- It was noted that the Council was again only setting a one year budget due to pressures from reduced funding, and it was queried what would be necessary for this to be given recognition in the critical judgements (Note 3). However, in relation to uncertainty around levels of funding, if this authority was having problems then other authorities were also having problems. As an organisation, the Council needed to be able to set a budget which was balanced and prudent.

- There had been a lot of uncertainty around Adult Social Care funding, but with the announcement of additional funding for local authorities, it was reported that the Council may be able to set a two-year budget in the next budget round.
- In terms of asset valuation, members were advised that these were given on 31 March each year. Assets were valued according to their current use. Therefore, if the use changed then the valuation would also change.
- It was queried whether the production of the accounts was 'back to normal' and officers advised that this was not quite the case. It was noted that difficulties had been experienced the previous year due to the implementation of a new financial system, and in terms of getting the processes exactly as they needed to be, it was expected that this would not happen until the following year. It was noted that the authority had had very established process with SAP, which had been used for 15 years, and the transfer to using Agresso also came with a movement of staff as well as a reduction in the number of staff in the finance team. An action plan had already started being put together, which it was noted was done each year, which would include information on what had gone well, what had not gone well and what would be done differently. Officers would always expect to be planning and changing as it was a fluid area of work.
- It was queried whether the Audit letter for 2016/17 would be more positive than that of the previous year. It was reported that an improvement in the financial control environment had been seen but it had not been significant enough. Payroll still remained an area of low assurance. There had been improvement but not sufficient for that area to become adequate. The previous year there had been issues around budget management information, some issues were still being picked up by KPMG around transactions, but there had been an improvement in accounts payable and accounts receivable.
- NOTE 10 – it was noted that there had been some changes around coding in relation to earmarked reserves temporary holding code. It was noting that this was due a timing issue, as when the accounts were prepared the Council had not given a decision on the use of this balance. Following the meeting of the County Council on 12 July, this amount had been approved for allocation. This line would disappear in the final accounts produced in September.
- It was confirmed that the movements on debtors and creditors year on year was in line with expectations.
- There was a 5 year rolling programme of valuations of land and buildings.
- Useable reserves had been discussed at the Council meeting on 12 July 2017.
- Note 24 – a query was raised in relation to the pension reserve and members were advised that more detailed notes on the Pension fund could be found at Note 44 and Note 45. The pension fund accounts could be found on p.126 of the agenda pack.
- It was noted that there seemed to be an underspend in the schools budget across a number of schools. However, members were advised that money for schools was ring fenced and it would be for the Schools' Forum to decide how any underspend clawed back from specific schools would be allocated.
- The accounts would come back to the September meeting in their final format.

RESOLVED

That the comments made by the Audit Committee in scrutinising the draft Statement of Accounts be noted.

13 INTERNAL AUDIT ANNUAL REPORT

Consideration was given to a report which provided the Committee with the Head of Internal Audit opinion on the adequacy of the Council's Governance, Risk and Control environment and delivery of the Internal Audit Plan 2016/17.

Members were advised that the purpose of the Annual Internal Audit Report was to meet the Head of Internal Audit annual reporting requirements as set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015. In particular to include an opinion on the overall adequacy of and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council could rely on it; inform how the plan was discharged and the overall outcomes of the work undertaken which supports that opinion; provides a statement on conformance with the PSIAS and the results of the Internal Audit Quality Assurance and Improvement Programme (QAIP); and draws attention to any issues particularly relevant to the Annual Governance Statement.

It was reported that the Head of Internal Audit Opinion was split into four areas – governance, risk, internal control and financial control. It was noted that financial control had moved from red to amber as there had been some improvements within budget management. It was reported that during the year the Council's risk management arrangements had been independently reviewed by Kerberos Risk and the report concluded that risk management was embedded and integrated within the Council. It was highlighted that the review found many examples of very good risk management practice.

It was reported that some of the days which had been lost from the audit plan were due to the restructure in 2015, however, recruitment had since taken place and all staff were now embedded in their roles.

Members were guided through the Annual Report and 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 there was any indication of what the Head of Internal Audit Opinion would be for the 2017/18 report. However, members were advised that the information was not available for an opinion to be given, and a judgement could not be made until all evidence had been received. But it was noted that there were still some problems in some areas. Progress had been seen in all areas but was not enough in IMT and payroll to move the opinion.
- It was queried how the Council could get from where it was to where it wanted to be, but it was reported that there were still many risks facing the Council around the delivery of IMT and the financial control environment. A meeting with the Audit and Risk Manager, Executive Director for Finance and Public Protection, and the Chairman and Vice-Chairman of the Audit Committee

would be taking place in the coming weeks and the Chairman advised that she would circulate a briefing note to the Committee after this meeting.

- It was noted that the opinion for governance and internal control was likely to remain green/amber given the operating environment.
- It was queried what would be necessary get to green on all aspects of the opinion, and it was stated that it would be very difficult to put a cash value on it, it was about having assurance intelligence and stability as well as being about resources, staff and processes to implement an effective control environment. Risk and cost of control needed to be considered and there was no absolute formula. The level of risk the Council was prepared to accept also needed to be taken into account.
- A concern was raised regarding the split between the internal audit work and work that was carried out for management as consultancy and whether the work which was carried out for management should be scaled back in light of the reduction of days in the plan. It was queried whether the Committee should be concerned about the reduction in days of 1330 to 966 days in the audit plan, and whether this had been agreed by the Committee. Members were advised that the consultancy work was not working outside of the role of internal audit, the work involved independent and proactive advice on governance risk and control for new systems, emerging risk, the only difference was that for consultancy work an assurance opinion would not be given. The role of internal audit in these situations was to look at things in the early or developmental stages. It was made clear to management that recommendations and agreed action would be given but auditors would not give an audit opinion. This work was about adding value, insight and strengthening the control environment. There were controls in place to ensure that this work remained independent.
- Internal audit was seen as a challenge to management in the early stages of development of processes and policies, and managers would rather have issues picked up as the system was being developed instead of when it was operational. It was the responsibility of management to determine, agree and implement the recommendations and controls.
- If there were any areas of the Council where internal audit felt their access was being restricted this would be raised with the Chairman of the Audit Committee and the Executive Director Finance and Public Protection.
- Members thanked the Audit and Risk Manager for her professional approach and being proactive in process design.
- It was queried what steps were being taken now to ensure that management made time for the audits. Members were informed that the Audit and Risk Manager had met with the Executive Director and was working with senior management on this. Principal Auditors were starting to engage earlier with the senior managers so they knew what would be expected during the process.
- There was confidence that when the Committee saw this report the following year there would be an improvement as principal auditors would escalate issues much quicker. Work already taken around senior management engagement had been very positive.

- In relation to the £1.6m of duplicate payments identified during data analytics work, it was noted that a lot of these payments had been made in the first 6 months of the year and the controls which had been put in place to detect the duplicate payments were now working.
- It was queried what proportion of the duplicate payments had been due to deliberate fraud and what proportion were error. It was acknowledged that this had not yet been identified but the Counter Fraud team would be doing more work on this. However, the majority were thought to be through error. Members were advised that many of the duplicate payments had arisen due to urgent payments being made to suppliers and then the original invoice being paid again. The vast majority of these duplicate payments were being offset against future payments to suppliers' accounts to recover these funds.

RESOLVED

That the content of the Internal Audit Annual Report be noted.

14 COUNTER FRAUD ANNUAL REPORT 2016/2017

Consideration was given to a report which provided the Committee with information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption and reviewed the delivery of the 2016/17 counter fraud work plan.

Members were guided through the Counter Fraud Work Plan and were provided with the opportunity to ask questions to the officers presented in relation to the information contained within the work plan, and some of the points raised during discussion included the following:

- It was queried whether officers would agree that fraud was a manifestation of a breakdown of internal controls. Officers stated if a person was very determined to carry out a fraud they would find a way around whatever controls were in place. It was acknowledged that a poor control environment could increase the risk of fraud and error.
- It was queried whether the internal controls for the checking of new staff needed to be more robust. Members were advised that Serco had increased the controls in terms of recruitment. This work had not yet been followed up by Internal Audit, but verbal assurance had been given.
- It was commented that there had been an increase in referrals relating to schools budgets and two schools had been given low assurance and it was queried what assurance could be given that action would be taken going forward. Members were advised that this would be done through the Schools' Forum who should raise awareness and help ensure that appropriate controls were put in place by the school.
- In terms of past event analysis, did officers look at what could be done in future to prevent the same situation occurring again. It was confirmed that if weaknesses in controls were identified, the counter fraud team would work with management to strengthen controls as well as working with the police to pursue a prosecution.

- It was queried how many of the frauds were preventable and commented that there was a need to ensure that there was a proportionate response. It was acknowledged that a poor control environment could increase the risk of fraud, so it was important to raise awareness, it was noted that the Council also had a whistleblowing policy which was being promoted.
- It was commented that a lot of the actions in the plan were outstanding at the end of the year and it was queried when these actions would be complete. It was confirmed that a lot of these actions had been rolled forward into the current plan and the investigations inevitably impact delivery of the plan.
- It was confirmed that internal messages were going out to staff and high risk areas were being targeted first. It was queried whether these actions should instead be marked as ongoing rather than outstanding. However, it was noted that these actions were outstanding at the end of the financial year.
- It was noted that if a particular area was targeted for fraud awareness there would be a spike in the number of referrals. If fraud intelligence was received then officers would focus more on that area. The more awareness work was carried out, the more referrals were received.
- It was highlighted that there was a difference of £240k between the amount of duplicate payments made to suppliers and the amount recovered. It was noted that many of these payments had been offset against future supplier payments. Members were also advised that the level of duplicate payments had dropped off with the requirement for purchase order numbers being tightened up.

RESOLVED

That the overall effectiveness of the Council's arrangements to counter fraud and corruption and the progress made to implement policy be assessed as good.

15 WORK PLAN

The Committee received a report which provided information on the core assurance activities currently scheduled for the 2017/18 work plan.

During consideration of the work plan, the following was noted:

- It was queried whether the report in relation to Counter Fraud Risks and how they were tackled should be exempt.
- In relation to the Risk Management report, members were informed that it was planned to hold some further training on risk management, and it was queried whether members would like this training to be held prior to the meeting. It was suggested that the training be held on the morning of 26 September 2017, and the meeting be moved to the afternoon.
- The Audit and Risk Manager had met with the Executive Director for Adult Care and Community Wellbeing about the Adult Care assessments and the process was being re-examined to take account of the concerns of the Committee. It was planned that a report would be brought back in the spring of 2018.

AUDIT COMMITTEE

24 JULY 2017

- Better liaison with the Overview and Scrutiny Management Board (OSMB) was needed and it was agreed that liaison meetings with the Chairman of OSMB and the Audit Committee would be useful.
- Work was continuing with Democratic Services on the recruitment of a second independent member.
- It was commented that it would be useful if one or two areas could be identified where members would like to drill down into in more detail or be a 'Champion' for a particular area of the Committee's terms of reference.

RESOLVED

1. That the Audit Committee was satisfied that the Work Plan contained the assurance areas necessary to approve the Annual Governance Statement 2018.
2. That the actions identified in the Action Plan be noted.
3. That a report be brought back to the Committee in spring 2018 in relation to the Adult Social Care assessments.
4. That the risk management training be arranged for the morning of 26 September 2017, and the meeting of the Audit Committee be moved to the afternoon of the 26 September 2017.

The meeting closed at 11.37 am