

**AUDIT COMMITTEE  
27 NOVEMBER 2017**

**PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)**

Councillors A J Spencer (Vice-Chairman), A P Maughan, R B Parker and A N Stokes

Councillors: attended the meeting as observers

Officers in attendance:-

Rachel Abbott (Audit Team Leader), David Forbes (County Finance Officer), Lucy Pledge (Audit and Risk Manager) and Rachel Wilson (Democratic Services Officer)

29 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors P E Coupland and P A Skinner.

An apology for absence was also received from Mr P D Finch, Independent Added Person.

30 DECLARATION OF MEMBERS' INTERESTS

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

31 MINUTES OF THE MEETING HELD ON 25 SEPTEMBER 2017

RESOLVED

That the minutes of the meeting held on 25 September 2017 be signed by the Chairman as a correct record.

32 PAYROLL UPDATE

Consideration was given to a report which sought to provide the Audit Committee with an up to date briefing on the payroll position and the steps being taken to address any risk of an inaccurate payroll.

Members were advised that it was a disappointing report that there was no change in the current low assurance levels and there was some significant work still required to improve the payroll control environment. It was reported that Internal Audit would support the implementation of control environment improvements.

The report set out some of the rationale for why work had been focused in a particular direction. It was highlighted that one of the key considerations had been

the number of high priority issues and risks pulling on the same resources. So some pragmatic risk based decisions were made by the Corporate Management Board to focus on those areas of most.

In relation to the overall control environment, it was reported that there were still issues around people, processes and the system that needed to be addressed. The focus of Corporate Management Board and the Assurance Board was the Agresso upgrade, as it was important that this was successful. It was noted that the upgrade would involve a 'lift and shift' from the old version to the new version. This upgrade would ensure that the essential updates would be in place for year-end payroll processing for 2017/18 and that budget changes would be in place (e.g. tax and NI uplifts) would be in place ready for the new financial year.

It was reported that the Head of Internal Audit opinion would once again be caveated this year around the payroll environment which was disappointing. It was noted that progress had been slow and work was unlikely to be completed by the end of March 2018.

It was acknowledged that this was a disappointing picture to report to the Audit Committee, the Council was doing all it could to monitor progress and delivery. However, this was difficult when there were some fundamental issues around resources and systems. It was planned that once the upgrade had successfully occurred, the focus would be on moving forward with the other projects.

The Committee was 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 accepted that this report was about the control environment, and that it was an issue of capacity in relation to people and systems and there was some effective monitoring, but it was queried what the underlying reason for these issues was. It was noted that there had been some very tight timescales, and it was queried how the council had allowed itself to get into such tight timescales. It was noted that Serco did not have a reputation for being able to work to 'just in time' deadlines.
- It was reported that a scrutiny panel had been established to look at the role of IT in taking the Council forward and the added value which could be brought by having up to date technology.
- It was emphasised that the County Council, Serco and the supplier all had a part to play. It was also noted that one of the issues raised by Capgemini (who provided independent delivery assurance) was that some of the processes could be quite convoluted as sign off on projects could take a long time, for example deciding what should be included in the upgrade. However, there were a lot of interdependencies which made things quite protracted.
- Within the process of the upgrade, it was noted that the Council was in a commercial dispute about who should pay for the upgrade. A 50/50 split had been agreed pending the arbitration process.
- It was queried why the discussions over payment had become a delaying factor. Members were advised that this had occurred as Serco would not start

the project until they were satisfied with the outcome. It was acknowledged that one of the issues identified had been the way that commercial discussion had affected progress. It was also noted that the same people had been involved in the implementing the upgrade as the day to day operations.

- It was noted that recruitment plans had been requested by the assurance boards, but there was also difficulty in retaining staff when they were recruited.
- It was noted that the existing IT infrastructure was not a major cause of these problems although it did impact on the effectiveness and efficiency of the system.
- Members were advised that Phase 2 would be to look at improving the customer experience and the control environment, and it was noted that that latest upgrade would have features which would make the customer experience more modern.
- It was commented that many of the issues seemed to be due to people, either not having the right people in post or not having the right number of people. It was queried whether officers were confident that the upgrade would be successful. Members were advised that officers were very confident that the upgrade would work, as it would not be adding much new functionality. Two payroll parallel runs had been carried out successfully. It was also noted that there was also a contingency plan to retro-fit the payroll system to enable it to run into the new year if necessary. However, it was commented that it was unlikely that the contingency would be required.
- It was important to ensure that people were held to account for their decisions.
- It was queried whether, if it was felt that the upgrade would be successful and would iron out most of the problems which had been identified in the control environment, would an improvement be seen in a years' time. Members were advised that this assurance could not be given, but it was thought that some improvements would be seen however it could not be determined at this stage how the assurance opinion would be changed, as past delivery did not provide that confidence.
- The Councils' client for Payroll had received advice from Audit on the need to challenge Serco more robustly on progress when implementing improvements.
- A rigorous action plan was expected at the March 2018 Committee meeting, and it was suggested that that would be the more appropriate time to challenge to seek confidence, or escalate to Corporate Management Board. It was noted that the Committee did have the choice to escalate the issue at this time.
- There was a suggestion that this issue should be escalated immediately, however, it was countered that as the delays were due to a contractual dispute the system upgrade should be allowed to be rolled out and then give a set time scale to see progress. It was thought that Serco should be given to opportunity to implement the system upgrade before further action was escalated.
- It was reported that the Council was not happy with the situation it was in. It was noted that the authority was now halfway through the initial Serco contract and a decision would need to be taken on whether to go ahead with the extension. If the extension did not go ahead, then there would be a need to start the procurement process in spring 2018.

**AUDIT COMMITTEE  
27 NOVEMBER 2017**

- It was noted that one of the things which was being looked at in more detail was whether Agresso was fit for purpose as an HR and payroll system.
- The scheduled go live date for the upgrade was 19 January 2018. Therefore, by the January meeting of the Committee, it would be known whether the upgrade had successfully gone live.
- A definitive action plan should be in place in January of how improvements were to be put in place. The Committee should be able to get a feel for how changes were being implemented by the meeting in March 2018.

**RESOLVED**

1. That the Audit Committee noted the report with great concern and would continue to monitor the situation closely.
2. That the Chairman would meet with the Leader and Chief Executive to highlight the concerns of the Audit Committee.

**33 ANNUAL REPORT ON CORPORATE COMPLAINTS AND COMPLIMENTS**

Consideration was given to a report which provided an update on actions derived from the October 2015 Corporate Complaints and Compliments Review recommendations which were later presented to the Audit Committee in July 2016. It was noted that overall, there had been a significant improvement, with further improvements anticipated once the LAGAN system was implemented.

It was queried what happened to unsubstantiated complaints, and members were advised that officers would respond to the complainant to explain that it was unsubstantiated and then the complaint would be considered as closed. It was confirmed that unsubstantiated complaints would be passed onto the appropriate service area. If repeat issues were being identified then this would be taken to the service area DMT meeting.

It was requested local councillors could be informed when complaints related to their areas, as they were not always made aware of the issue by residents. It was agreed that this could be included within the process.

Members were advised that the delays experienced with the LAGAN system were related to the wider IT issues experienced by the authority. It was requested that further information be provided to the Committee in relation to these delays as well as the process for dealing with unsubstantiated complaints.

**RESOLVED**

1. That the data presented be noted.
2. That further information be provided to the Committee in relation to the delays in reporting data as well as the process for dealing with unsubstantiated complaints.

34      COUNTER FRAUD PROGRESS REPORT TO 30 SEPTEMBER 2017

Consideration was given to a report which provided an update on fraud investigation activities and information on progress made against the Counter Fraud Work Plan 2017/18.

It was reported that good progress was being made against the Counter Fraud Work Plan and a fraud awareness e-learning course had been developed. Officers were pleased with the level of participation with this course. Awareness work was also being delivered within schools, which had been well received so far.

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 what proportion of officers had completed the e-learning course. However, the proportion of staff who had completed this was not available, the team which monitored Lincs 2 Learn had provided feedback, stating that it had been a successful course.
- In relation to school fraud, it was noted that the October briefing had taken place. Members were advised that this had been arranged by the finance teams and had received a very positive response, with many school business managers attending.
- It was commented that it was important that those staff who worked in areas dealing with contracts and finance should have this training, but it was not deemed mandatory for all staff.
- It was queried what the difference was between referrals and anomalies in the system, and how the technology detected anomalies.
- Cyber fraud was the biggest emerging risk for local authorities and it was queried what Lincolnshire was doing to combat this type of fraud. Members were advised that national courses were being released regularly as the situation was changing so rapidly in relation to this type of fraud. The authority was in the initial stages of a response around raising awareness with employees and stakeholders. It was noted that guidance from the National Audit Office around cyber fraud had been circulated with the agenda at item 9, for members' information.
- It was highlighted that cyber fraud was also being considered by the Council's Risk and Safety group as it was a strategic risk.
- It was queried whether the system could detect fraud or whether there was a reliance on referrals. Members were advised that fraud was identified through a mixture of intelligence from officers and also anomalies which would be identified through data analysis. However, these anomalies would not be identified by the system itself, but from the data taken from the system and then analysed.

**RESOLVED**

That the outcomes of the counter fraud work be noted.

**35**      WHISTLEBLOWING ANNUAL REPORT 2016-17

Consideration was given to a report which provided an overview of the Council's whistleblowing arrangements throughout the year 2016/17.

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 the spike in disclosures indicated that there was a particular issue in one area, however, members were advised that the amount of counter fraud activity had increased, as well as the promotion of this activity. It was believed that this reflected the continued effectiveness of the Council's whistleblowing arrangements.
- It was commented that this report was positive, and it was queried how Lincolnshire compared to other authorities. Officers advised that benchmarking had not carried out in a while, but Matt Drury (Principal Investigator) did represent Lincolnshire on a regional networking group, and activity in Lincolnshire was very much in line with that of other authorities.
- Members were advised that some benchmarking with other Midlands councils could be carried out and a briefing paper could be produced for either the January or March 2018 meeting.

**RESOLVED**

1. That the whistleblowing activity for 2016-17 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.
3. That officers carry out benchmarking with other Midlands councils and a briefing paper be brought to a meeting of the Audit Committee early in 2018.

**36**      WORK PLAN

Consideration was given to a report which provided the Committee with information on the core assurance activities currently scheduled for the 2017/18 work plan.

Members were advised that the January meeting was one of the key meetings for the Committee as all members of the Corporate Management Board would be attending to present their individual combined assurance reports for their directorates. It was also noted that the Chief Executive would be in attendance at this meeting. It was reported that between 1 hour and 1 hour 30 minutes would be allocated for this discussion.

It was reported that there would be a separate report relating to IMT, and it was requested that the Chief Digital Officer be asked to attend a future meeting.

Members were advised that the next meeting of the Committee would be taking place on 29 January 2018.

**RESOLVED**

That the work plan as presented be accepted.

**37**     AUDIT COMMITTEE UPDATES

The Committee received a copy of the National Audit Office Cyber security and information risk guidance for Audit Committees. A copy of the Leaders' Statement from Council on 15 September 2017 was also attached as it included and update on the External Audit Appointment. These items were attached for information only and no discussion took place.

The meeting closed at 11.30 am