

**AUDIT COMMITTEE
26 MARCH 2018**

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

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

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

Councillors: attended the meeting as observers

Officers in attendance:-

Rachel Abbott (Audit Team Leader), Debbie Bowring (Principal Risk Officer), John Cornett (External Auditor, KPMG), Pete Moore (Executive Director, Finance and Public Protection), Mike Norman (External Auditor, KPMG), Lucy Pledge (Audit and Risk Manager), Dave Simpson (Technical and Development Finance Manager), Fiona Thompson (Service Manager - People) and Rachel Wilson (Democratic Services Officer)

45 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor P Coupland.

46 DECLARATION OF MEMBERS' INTEREST

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

47 MINUTES OF THE MEETING HELD ON 29 JANUARY 2018

RESOLVED

That the minutes of the meeting held on 29 January 2018 be signed by the Chairman as a correct record.

48 PAYROLL CONTROL ENVIRONMENT - UPDATE

The Committee received an update from Fiona Thompson, Service Manager – People, on the latest developments with the payroll control environment. It was reported that Serco were making progress which was evidenced by weekly and monthly progress updates. The audit team were also in the process of finalising an audit.

It was acknowledged that progress had been slow and there was still work to do. Members were advised that there was now a new payroll manager in place who was

putting in place very solid processes. There was an expectation that if Serco continued to progress in a positive direction then it was likely that the assurance opinion would move from low to limited. It was noted that a more detailed report would be provided to the next meeting of the Committee.

The original go live date for the Agresso upgrade had slipped by one month which would have an impact on timescales for the other planned improvements. It was reported that there had been some down time to address system performance issues. It was also noted that as a result of this, payroll staff had had to work weekends to ensure that the March payroll was delivered.

In relation to historic payroll issues, there had been some slippage of the timescales on this project. Validation was expected to be completed by May/June 2018. The Executive Director for Children's Services was overseeing the governance of the project.

The Committee was advised that in relation to the control environment, internal audit were providing an update audit and there were a number of controls now in place, and work was taking place on the time scales for the audit. In terms of the internal improvement projects, these were mainly around issues such as starters, movers and leavers. The new processes should be introduced early in the new financial year.

In summary, it was reported that the position had improved but at a slower rate than expected, but it was believed that if Serco continued to progress in a positive direction, then the payroll function should reach substantial assurance by the autumn.

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

- It was noted that 1 April would be the third anniversary of Serco taking over the contract from Mouchel, and the change from SAP to Agresso. It was queried what the delaying factors had been, and now there were three years of history which should be able to be put to use. However, it was noted that this had been three years of poor practice and low assurance, but a new manager had been in place since the middle of November 2017, and there were now 6 months of embedded control practices rather than just design.
- In relation to the expectation of payroll reaching substantial assurance by the autumn, it was queried whether this was a challenging or realistic target. It was believed that this was realistic, as additional resources had been brought in, particularly for work around the pension's administration. However, issues could arise if there were other problems which had not been anticipated which could draw resources elsewhere. There would be a need to maintain focus on resolving the payroll issues.
- It was also noted that Fiona Thompson's team had increased its resources, and the Commercial Team was also involved in keeping this work going.
- It was acknowledged that the slower progress than anticipated had been disappointing, but the new payroll manager was of a different calibre to those who had been in post previously.

- There had been some wider issues around capacity, but additional resources had now been put in place. But, competition for these resources was being seen.
- It was reported that there had been 47 fixes required for the Agresso payroll system, with some being more significant than others. It was noted that there were still 30 outstanding issues to be resolved. However, manual work arounds had been put in place for these. The concern was if there was competition for resources, whether those work arounds would continue to be done.
- The continued risk area was the retention of good resources and the ability to bring in others where required.
- With regard to the payroll having low assurance for three years, it was queried whether there would have been differing grades of low assurance, with the possibility of gradual improvements being made, but assurance still being assessed as low. It was confirmed that this was the case – the assurance levels were based on a defined criteria but at the beginning of the audit work the assurance was very low.
- It was queried whether there were risks to other projects in relation to the diversion of resources. However, it was noted that other IT projects were not necessarily competing with this one.
- In relation to the manual interventions it was reported that this meant that individuals were manually performing tasks throughout the payroll process instead of them being carried out automatically by the system. This brought in additional scope for error as well as being a very inefficient way of operating.
- Despite the issues being experienced, it was believed that Agresso was the right system for the Council to be using, and following the upgrade, improvements had already been made. This system was a lot more adaptable than the SAP system. Many of the issues experienced by the system were due to processes and human error.
- It was expected that the need for manual adjustments would continue into the new tax year. But officers were confident that the risks were minimal and not material issues were anticipated for the year end close down.
- It was confirmed that reports would be coming back to the Committee in June and September 2018 and the Committee hoped to see improvements in the assurance levels in the mean time.

RESOLVED

That further reports be brought back to the meetings of the Committee in June and September 2018.

49 EXTERNAL AUDIT PROGRESS REPORT

The Committee received a report from KPMG, the County Council's External Auditors which provided an update on the 2017/18 Audit deliverables. Members were guided through the report and provided with an 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:

- In relation to the point around Northamptonshire County Council, during the course of this work, CIPFA consulted on a methodology to identify councils' financial resilience, risks and resources. There had been a programme of development events for members and officers on financial planning.
- It was noted that Lincolnshire County Council had been very committed to maintaining high levels of reserves. Members were advised that the financial resilience of this authority was acceptable. However, it was particularly adult social care authorities who would face continuing difficulties going forward.
- Members were reassured that there had been a number of issues at Northamptonshire, and they were not just in the same position as Lincolnshire, but 2/3 years ahead. It was also noted that Northamptonshire had not made the same difficult decisions that Lincolnshire had done previously. The issuing of the Section 114 notice was not something which had come out of the blue, as it had been a possibility for a number of years. The key thing had been the level of reserves. However, this was for each authority to determine what was an appropriate level of reserves for it to hold, it was not something for the external auditor to determine, but they could challenge the assumptions.
- It was queried how risk and resilience linked together, and it was commented that risk was for now, and resilience was how long that situation could be maintained.
- It was suggested that a report be brought back to a future meeting of the Committee on the general learning points around what happened in Northamptonshire, including the role of the Audit Committee.

RESOLVED

1. That the progress report be noted:
2. That a report be brought back to the Committee on the general learning points around what happened in Northamptonshire, including the role of the Audit Committee.

50 COUNTER FRAUD WORK PLAN 2018/19

Consideration was given to a report which provided the Committee with information on the proposed Counter Fraud activities for 2018/19 as well as the draft Counter Fraud Work Plan.

Members were guided through the report and it was noted that proactive and reactive work was behind scheduled. However, the nature of the work required the team to be reactive. It was noted that the Fraud Risk Register would be presented to the meeting in September 2018.

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:

- In relation to paragraph 20, a reduction of 20 days in the work plan was noted, and it was queried why this was. Members were advised that this was due to some minor staffing changes.
- It was queried whether the work for cyber fraud had been scoped and it was noted that a training need had been identified, but there was a chance that this risk would never go away, and so the team were targeting the highest priority areas. It was suggested that it may be useful for the Committee to speak with Chris Davidson who was seconded to the Council from Lincolnshire Police to provide insight on Lincolnshire' response. It was noted that the Council was part of the Serious Organised Crime Group.
- It was commented that more detail was needed to see that the Council did have effective arrangements in place. Officers agreed to include this for the next work plan report.

RESOLVED

That the Counter Fraud Work Plan for 2018/19 be approved.

51 DRAFT INTERNAL AUDIT PLAN 2018/19

Consideration was given to a report which presented to the Committee the draft internal audit plan for 2018/19. Members were guided through the report and the following points were noted:

- The introduction set the context of the plan and ensured that it was focused on the right areas. It was noted that the Plan was a living document and set out the intent at the beginning of the year.
- The focus for 2018/19 highlighted that there was a significant piece of work underway on the Highways 2020 project and Corporate Support Services contract.
- It was felt that the Head of Internal Audit Opinion for 2019 would be able to be given.
- It was confirmed that the income from the external clients, as set out in Appendix F of the report, did contribute to the Audit Team operating costs.

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 commented that the priority areas did seem to be in line with report which had been received and members were satisfied with this.
- It was queried whether there was a schedule which showed when areas were last audited. Members were advised that the Plan was more dynamic and risk based, but this information did in part inform what was in the Plan. This information would be stored within the Audit Team's systems. It was acknowledged that there would be some areas which had never been audited as they were low risk, but this information could be brought as part of the work plan in future.
- It was queried whether officers could ensure the Plan distinguished between those audits which were consultancy or management requests, and those

which were part of the Plan. It was noted that those which were consultancy would not receive an audit opinion but still focused on governance, risk and control (within the role and remit of Internal Audit). Internal Audit would not undertake consultancy assignments at management requests unless it fell within the scope of internal audit or if it would undermine independence and objectivity.

- It was noted that consultancy work was evidence based, and assurance could be provided for a project, but this would generally be through making recommendations. This work was still part of the Audit Committee's oversight and was taken into account as part of the Head of Internal Audit Annual Opinion.
- With reference to the payroll audit, listed in Appendix A, it was queried what the justification for making it a medium priority rather than a high priority was. It was noted that this report was compiled in January and it was expected that more progress would have taken place, than the reality. It was confirmed that this had been rescheduled as high priority. It was a dynamic plan therefore priorities and planned activity would be reassessed as necessary throughout the year.
- It was confirmed that there were no other audits which had changed priority within the Plan (at this time).
- It was noted that one area requiring closer challenge was ICT as there had been some delay in firming up the audit, the low level of assurance. It was highlighted that there may be a need to look for support from the Audit Committee to escalate this.

RESOLVED

That the Audit Plan for 2018/19 be agreed as presented.

52 INTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report which provided the Committee with details of the audit work carried out between 1 January to 11 March 2018. It was reported that 13 final reports had been issued, including 4 maintained schools audits. One report had generated limited assurance which was detailed on page 119 of the agenda pack. This related to an audit of the Carers Workforce, where the carers function was outsourced, as inconsistencies between providers had been found. A meeting had been arranged with the new Adult Care Manager in relation to the results of the audit and the recommendations.

It was also noted that 8 audits had been completed to draft report stage.

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:

- Members were advised that the provider who was being most proactive was Carers First and they were also found to be providing the most consistency. It was noted that the other provider was Serco.
- It was noted that many of the issues were due to training and development not being evidenced.
- It was suggested it may be useful for the Committee to receive an update report on the Carers Workforce Audit, once the meeting with the new manager had taken place, to outline what action was being taken to rectify the issues identified in the report.
- It was noted that an ombudsman report had recently been considered by the Adults Scrutiny Committee. Members were advised that a number of recommendations had already been implemented. Officers advised that a briefing paper could be produced for the Committee.

RESOLVED

That the outcomes of Internal Audit's work be noted by the Committee.

53 REVIEW OF GOVERNANCE FRAMEWORK AND DEVELOPMENT OF THE ANNUAL GOVERNANCE STATEMENT 2017/18

Consideration was given to a report which provided the Committee with an opportunity to review the contents of the Council's draft Annual Governance Statement, and ensure that it accurately reflected the Committee's understanding of the Council's Governance and assurance arrangements. This was a key activity in the Committee's terms of reference.

It was reported that the final Statement would normally be presented as part of the financial statements but it had been brought forward due to the early closedown of the accounts. It was highlighted that the key risks facing the council were as follows:

- IT Governance Arrangements
- Fairer Funding – Financial sustainability
- Financial Control Environment – Payroll
- Market Supply – Adult Care
- Collaborative working – governance

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 outcomes and value for money section could be presented in a clearer format, such as all measures achieved, most achieved, none achieved.
- In relation the safeguarding adults risk, which had been listed with a substantial level of assurance, it was queried whether the mitigating actions could be amended as per safeguarding children.
- It was thought that the draft Annual Governance Statement was a fair reflection of the issues which had been discussed by the Committee throughout the year.

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- It was commented that the Statement was an open and transparent account of what the Council had done during the year.

RESOLVED

1. That the Committee agreed that the Statement accurately reflected how the Council was run
2. That the Committee agreed that the Statement included the significant governance issues/key risks it expected to be published.
3. That the amendments highlighted above be included within the Statement.

54 STATEMENT OF ACCOUNTS 2017/18

Consideration was given to a report which summarised the changes to the Code of Practice on Local Authority Accounting which would be incorporated into the 2017/18 statement of accounts, as well as the changes resulting from the Accounts and Audit Regulations 2015 and the impact of this on the Council's Statement of Accounts and the review of the Council's Accounting Policies.

Members were advised that every year CIPFA made amendments to the Code of Practice, and for this year there were only very minor alterations. It was also noted that completion of the draft accounts was expected by the end of May 2018.

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 how members felt about not having the opportunity to consider the draft accounts this year due to the change of timescales.
- It was commented that the session which was held with Ian Fifield (LG Futures) last year had helped with the Committee's effectiveness, particularly as new members.
- It was noted that the timetabling of meetings would need to be looked at for the following year to take account of the revised timescales.
- It was noted that some authorities had scheduled meetings early in July to have a single item agenda to consider the accounts. However, it was noted that the accounts would have been submitted by this time.

RESOLVED

1. That the changes required to the Statement of Accounts from the Code of Practice 2017/18 be noted;
2. That the changes to the preparation and audit period for the 2017/18 Statement of Accounts as set out in the Accounts and Audit Regulations 2015 be noted; and
3. That the Statement of Accounting Policies (as set out in Appendix A to the report) be approved and used in the preparation of the Council's accounts for the financial year ending 31 March 2018.

55 UPDATE POSITION ON RISK MANAGEMENT

Consideration was given to a report which provided the Committee with an update as to the progress made with the refresh of the Strategic Risk Register and an update on risk management generally.

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:

- Members commented that they were not familiar with the commercialisation agenda, however, it was noted that this was still in the early stages of development.
- It was noted that the Council had one trading company at the moment, and additional assurance was being sought.
- It was suggested that the Audit Committee should not have a role to play in the refresh of the Risk Register. However, members were advised that this report was about sharing risk intelligence and giving assurance around the effectiveness of the risk management process, not managing the risk.
- It was commented that the relationship between executive and audit committee had grey areas.
- In relation to how the audit committee wanted to be involved, this would pose a difficult challenge for decision makers but would be explored with the Chair of the Audit Committee.

The Committee congratulated officers for the authority being shortlisted in the Public Finance Awards for Innovation in Risk Management.

RESOLVED

That the report be noted.

56 INTERNATIONAL AUDIT STANDARD - RESPONSE TO MANAGEMENT PROCESSES QUESTIONS

Consideration was given to a report which provided the Committee with an assessment around whether the County Council and Pension Fund financial statements may be mis-stated due to fraud or error.

It was noted that the report set out the mitigating controls for these enquiries. It was acknowledged that the Council had strong counter fraud arrangements.

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 commented that it was thought that the council considered these issues well.
- It was queried what records were kept in relation to fraud in the Pension Fund. Members were advised that data matching was carried out through the National Fraud Initiative. It was noted that these frauds had decreased over

time as the Council's control environment was strong. However, due to the problems with payroll, the risk of fraud and error was being managed closely through data matching.

- In terms of whether intelligence was received, pension fraud was considered low risk but it could have a high impact.
- Officers would check the counter fraud risk assessment to establish what was set out in terms of finance limits.
- It was noted that the finance limits were different to materiality.
- Officers had not been made aware of any material amounts.

RESOLVED

That the Committee agreed that the assessment accurately reflected the Council's management processes to minimise the risk of fraud or error in the County Council and Pension Fund financial statements.

57 WORK PLAN

Consideration was given to a report which provided the Committee with information on the core assurance activities currently scheduled for the 2018/19 work plan.

RESOLVED

That the work plan be noted.

58 CONSIDERATION OF EXEMPT INFORMATION

RESOLVED

That in accordance with section 100(A) (4) of the Local Government Act 1972, the public and press be excluded from the meeting for the consideration of agenda item 15 on the grounds that if they were present there could be a disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

59 IMT COMBINED ASSURANCE

Consideration was given to an exempt report which provided the Committee with insight on the assurances across the Council's IMT Service.

Officers responded to a number of comments and questions raised by members of the Committee.

RESOLVED

That the combined assurance report and comments made be noted.

The meeting closed at 12.40 pm