



**AUDIT COMMITTEE
23 SEPTEMBER 2019**

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

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

Also in attendance: Mr I Haldenby (Independent Added Member) and Mr A Middleton (Independent Added Member).

Officers in attendance:-

Debbie Bowring (Principal Risk Officer), Andrew Crookham (Executive Director Resources), Matt Drury (Principal Investigator), Cheryl Evans (Democratic Services Officer), Michelle Grady (Assistant Director for Strategic Finance), Mike Norman (External Auditor, Mazars), Lucy Pledge (Head of Internal Audit and Risk Management) and Vicki Sharpe (HR Services Manager).

18 APOLOGIES FOR ABSENCE

There were no apologies for absence.

19 DECLARATIONS OF MEMBERS' INTERESTS

There were no declarations.

20 MINUTES OF THE MEETING HELD ON 22 JULY 2019

RESOLVED

That the minutes of the meeting held on 22 July 2019 be agreed as a correct record and signed by the Chairman.

21 INTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report by Lucy Pledge (Head of Internal Audit and Risk Management), which provided details of the audit work completed to August 2019; advised on progress of the 2019/20 plan; and raised any other relevant matters.

During the period from June to August 2019, eight audits had been completed and a further three were at draft report stage. There were currently 14 audits in progress, either at scoping or fieldwork stage. Pages 13 to 17 of the Agenda Pack provided information on the eight completed audits, of which seven had received substantial assurance and one limited assurance. It was advised that the Committee would receive a further update at its meeting on 18 November 2019.

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Vicki Sharpe (HR Services Manager) was in attendance to explain to the Committee why *limited assurance* had been given to IR35 and to explain the measures which had been put in place to address the issues, which were outlined in the report.

The Committee was advised that work had been completed to identify why, when and how much had previously been spent on consultants; officers were liaising with the Finance Team with an aim of implementing improved budget coding; improvements had been made to approval processes and quarterly reporting. All of the above improvements would be implemented by March 2020.

Members were provided with an opportunity to ask questions relating to the IR35 audit, where the following points were noted: -

- IR35 had originally come into effect in April 2000 designed to tackle tax avoidance from 'disguised employment' – off-payroll working when an individual works for a client through their own intermediary, often a personal service company, as opposed to an employee providing services directly for the client. When the legislation was reformed in 2017, the public sector had the responsibility to assess and deduct at source the Income Tax and National Insurance contributions that would apply as if the individual working through the intermediary were directly employed by the Council.
- It was confirmed that when the reformed legislation was implemented, a programme board consisting of finance, Serco and human resources colleagues had produced guidance notes on IR35, which detailed steps managers must follow when using a consultant. Although training had not been provided in 2017, managers were issued with guidance and could access their human resources advisor for additional guidance and support.
- There was a clear need for visibility so that the use of consultants could be monitored effectively. Improvements to the budget coding would ensure this visibility and provide more accurate quarterly reporting.
- It was advised that the HR Team had requested an audit on IR35, as they could see improvements were required particularly around visibility and to the approval process. The Committee congratulated the HR Team for proactively highlighting this as an area for an audit.
- The Committee recognised that there were already processes in place for IR35; however these were inconsistently applied and there was a need for a more centralised approach.
- It was advised that officers were working alongside the procurement team to ensure the procurement of consultants was not progressed until the necessary steps had been followed.
- It was suggested that the County Council give consideration whether it should adopt a policy similar to the NHS, where IR35 was applied to all consultants, who were thus paid with deductions as if they were employees.

It was advised that *Adult Care – Financial Assessments* had been provided substantial assurance. It was queried how this could be the case when there continued to be a backlog in financial assessments. It was explained that the scope

of the audit was limited to the improvement plan. The question was raised on the impact the backlog would have on market supply strategic risk, Minute 22 refers.

It was queried what preparations the County Council was making on the domestic reverse charge, which would introduce a major change to the way VAT was collected in the building and construction industry. The domestic reverse charge was scheduled to come into effect from 1 October 2020. It was advised that this query would be directed to the VAT specialist within the Finance Team.

RESOLVED

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

22 RISK MANAGEMENT PROGRESS REPORT - SEPTEMBER 2019

Consideration was given to a report by Debbie Bowring (Principal Risk Officer), which invited the Committee to note the current status of the strategic risks facing the Council and make recommendations on any further scrutiny required.

The Committee was advised that in accordance with the risk management strategy and to ensure effective monitoring, all the strategic risks had been reviewed with risk owners and assurances had been obtained that the strategic risks were being managed effectively. All directorates had reviewed and reported on the operational risks they were facing.

The Risk Management Progress Report was detailed at Appendix A to the report, which provided updates on key messages received since the last update to the Committee in January 2019.

It was advised that the current Strategic Risk Register contained ten risks, and a summary of those risks had been detailed on page 43 of the Agenda Pack by way of a chart. The chart detailed the likelihood and impact of the risk occurring and also its target score, which were coloured in blue. The direction of travel was shown by way of an arrow.

In response to a question, it was advised that the direction of travel for each risk was also detailed on the full Strategic Risk Register, which was detailed on pages 51 – 54. It was requested that the narrative included information on the past, present and the target for each risk.

During discussion, the following reports were noted:

- The Committee welcomed the new format of the report.
- The Risk on *Market Supply – Adult Care* was highlighted as an area of concern by the Committee, as there was a perception that EU nationals were returning to their countries of origin, which would impact on services provided by Adult Care. In response, it was advised that the level of assurance over this risk had remained at limited, as there was uncertainty around the outcome of Brexit, which could have a further effect on this risk. The impact of the

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backlog in financial assessments on this risk was also raised. It was suggested that the Executive Director – Adult Care and Community Wellbeing, as risk owner, be invited to the meeting of the Committee on 18 November 2019 to help clarify the management of the risk and impact of the financial assessment backlog.

- It was requested that the section on Brexit, as detailed on page 42 of the Agenda Pack, be expanded to include more information on the work that was being undertaken. For example, the Council's involvement in the Resilience Forum.

The Committee was assured that the Council's strategic risks continued to be managed pro-actively. There was a good level of awareness of the current and emerging risks, with positive action being taken where appropriate.

RESOLVED

- (1) That the current status of the strategic risks facing the Council be noted.
- (2) That the Executive Director – Adult Care and Community Wellbeing, as risk owner, be invited to a future meeting of the Committee to provide assurance on *Market Supply – Adult Care*.

23 AUDIT COMMITTEE ANNUAL REPORT AUGUST 2019

A report by Lucy Pledge (Head of Internal Audit and Risk Management) was considered, which presented the draft Audit Committee Annual Report 2019.

It was highlighted that the draft Annual Report of the Audit Committee was scheduled to be presented to the meeting of the County Council on 13 December 2019.

The purpose of the annual report was to help inform the Council of the Audit Committee's activities during the year (September 2018 to July 2019) and how it discharged its responsibilities.

During consideration of the draft annual report, the following points were noted:

- Under the section on Counter Fraud on page 62 of the Agenda Pack, reference be made to Councillor A P Maughan's role and liaison activity in support of the Counter Fraud Team.
- That mention be made to the joint activities undertaken between the Audit Committee and the Overview and Scrutiny Management Board. It was also requested that informal meetings be arranged between the Chairman of the Committee and the Chairman of the Board.

RESOLVED

That the Audit Committee Annual Report 2019 be approved, subject to the necessary amendments being made, and presented to the meeting of County Council on 13 December 2019.

24 FINANCIAL REGULATIONS UPDATE

Consideration was given to a report from Lucy Pledge (Head of Internal Audit and Risk Management), which provided information on the update of the Council's Financial Regulations and associated documents.

It was highlighted that the updated draft financial regulations were detailed at Appendix 1 to the report. Support was given to the proposed timetable for the amendments, as detailed below:

- Obtain initial engagement and feedback from the Audit Committee on 23 September 2019.
- Circulate to Directors for feedback / comments by 11 October 2019.
- Seek sign off by Corporate Leadership Team on 23 October 2019.
- Present to Audit Committee on 18 November 2019 to seek approval to recommend the Financial Regulations to Council.
- Approval by the meeting of Council on 13 December 2019.

During discussion, the following points were noted:

- Officers would liaise with the Council's Communications Team with an aim of reviewing the financial regulations so they reflected as much as possible the style of plain English.
- It was emphasised that the proposed changes aimed to ensure that the financial regulations and associated documents were kept up-to-date, rather than changes to any controls.
- Page 102 – Trading Accounts / Business Units / Local Authority Companies – it was suggested that political oversight should be incorporated and also reference to the Companies Act 2006.
- It was requested that for the meeting on 18 November 2019 the amendments to the documents be highlighted via tracked changes.
- Page 100 – Financial Regulation F: Income and Expenditure – it was agreed that the limits detailed under F.2 be queried with the Chief Legal Officer, particularly whether there was an upper limit for Executive Councillor sign-off.
- It was explained that the documents used the statutory roles for chief officers, for example the Head of Paid Service and the Section 151 Officer. Officers would ensure that this was consistent throughout the documents.

RESOLVED

- (1) That the approach to the update of the Financial Regulations and associated procedures and scheme of authorisations be approved.
- (2) That the initial comments of the Committee, as detailed above, be noted.

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25 ANNUAL AUDIT LETTERS FOR LINCOLNSHIRE COUNTY COUNCIL & LINCOLNSHIRE PENSION FUND FOR THE YEAR ENDING 31 MARCH 2019

Consideration was given to a report which presented the Annual Audit Letters from the Council's external auditors, Mazars, for Lincolnshire County Council and the Lincolnshire Pension Fund for the financial year 2018/19.

It was advised that the audit of the accounts was now fully complete and the auditors had provided their Annual Audit Letters, which summarised the work carried out and the conclusions they had reached. The Annual Audit Letter for Lincolnshire County Council and the letter for the Lincolnshire Pension Fund were attached at appendices A and B.

RESOLVED

- (1) That the Annual Audit Letter for Lincolnshire County Council, as detailed at Appendix A, be noted.
- (2) That the Annual Audit Letter for Lincolnshire Pension Fund, as detailed at Appendix B, be noted.

26 FORWARD PLAN

A report by Lucy Pledge (*Head of Internal Audit and Risk Management*) was considered, which provided the Committee with information on the core assurance activities currently scheduled for 2019/20 forward plan.

Members of the Committee were encouraged to attend the meeting of the Lincolnshire Audit Committee Forum scheduled for 1 October 2019.

Further to this, it was advised that the Chief Officer – Lincolnshire Clinical Commissioning Groups and the Executive Director – Adult Care and Community Wellbeing (Lincolnshire County Council) would be invited to the next meeting of the Lincolnshire Audit Committee Forum; the date was yet to be confirmed, to discuss the report by Price Waterhouse Coopers on the Better Care Fund.

It was suggested that the item on the *Review of Audit Committee's Terms of Reference and Update of the Audit Charter* scheduled for 18 November 2019 be moved to the meeting on 10 February 2019.

It was also suggested that the Executive Director – Adult Care and Community Wellbeing be invited to attend the meeting of the Committee on 18 November 2019 to provide assurance on *Market Supply – Adult Care*.

RESOLVED

- (1) That the forward plan be approved, subject to the above amendments.
- (2) That the Executive Director – Adult Care and Community Wellbeing, as risk owner, be invited to a future meeting of the Committee to provide assurance on *Market Supply – Adult Care*.

27 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 the following item of business 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.

28 FRAUD RISK REGISTER

Consideration was given to an exempt report which provided information on the annual update of Lincolnshire County Council's Fraud Risk Register.

A number of questions from members were responded to by officers.

RESOLVED

That the recommendation, as detailed in the exempt report, be approved.

The meeting closed at 11.54 am.