



## AUDIT COMMITTEE 30 MARCH 2015

### **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, J D Hough and S L W Palmer attended the meeting as observers

Officers in attendance:-

David Forbes (County Finance Officer), Judith Hetherington Smith (Chief Information and Commissioning Officer), Pete Moore (Executive Director of Finance and Public Protection), Claire Pemberton (Assistant Head of Finance), Lucy Pledge (Audit and Risk Manager), Richard Wills (Executive Director for Environment and Economy) and Rachel Wilson (Democratic Services Officer)

#### 44 APOLOGIES FOR ABSENCE

There were no apologies for absence.

#### 45 DECLARATION OF MEMBERS' INTERESTS

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

#### 46 MINUTES OF THE MEETING HELD ON 26 JANUARY 2015

RESOLVED

That the minutes of the meeting held on 26 January 2015 be signed by the Chairman as a correct record.

#### 47 INTERNAL AUDIT REPORT - ORGANISATIONAL LEARNING - LIBRARIES PROJECT - ACTION PLAN

The Committee received a report which outlined the action to be taken to strengthen the Council's governance and assurance arrangements following the request that the Corporate Management Team consider and develop a management response to the findings and suggested improvements arising from the Internal Audit of the Libraries Project.

It was noted that the Internal Audit review of the Libraries was considered by the Committee at its last meeting on 26 January 2015. The audit was commissioned following the outcome of the Judicial Review around the lawfulness of the Council's decision making process to reduce the Library services within Lincolnshire.

The action plan which had been produced and presented to the Committee for consideration addressed the key areas of suggested improvement which included the assessment of options appraisals; an enhanced project monitoring process by Corporate Management Board on key or high risk projects/programmes; and review of scrutiny in light of the Council Motion in February 2015.

Richard Wills, Executive Director Environment and Economy was in attendance at the meeting to answer any questions from the Committee in relation to the information contained within the report and some of the points raised during discussion included the following:

- During pre-discussions of reports at scrutiny committees, there was a need to think about the particular issues contained in complex report;
- The review of scrutiny was a result of a motion to Council;
- Where there were complex issues to be discussed by Scrutiny Committees, it was suggested that it would be beneficial to have a time table in place from the beginning in order to schedule in the opportunity for good scrutiny;
- Some of the information included in large reports, could instead be presented as background information;
- Members were reminded that the Council's Rules of Debate were contained within the Constitution;
- Members were informed that as a result of the Scrutiny Committee held on 27 January 2015, the Monitoring Officer did receive four complaints. The complaints were not upheld, but three issues which were considered to have validity were highlighted as follows:
  1. The timing of scrutiny needed some broad consideration. In the case of the Libraries project, it may have been beneficial to have had a bigger discussion one or two years earlier. There would be two questions for the Scrutiny Review to address. Firstly, how could open developmental scrutiny be timetabled? Secondly, did the Council have the correct balance between proactive developmental scrutiny and pre-decision scrutiny;
  2. Conduct of the Committee – it was reported that it was not illegal for 'whipping' to take place in scrutiny committees, and it was up to members to decide how they wanted to conduct the meeting, but should there be a presumption against whipping? It was thought that generally, scrutiny did not appear to be whipped, as members tended to say what they wanted to depending on what they believed;
  3. The role of officers in supporting scrutiny – the role of local government officers was to serve the council as a whole in all its activities. Recently, more officer time was being spent dealing with the outcomes of decisions made by the Executive and it needed to be queried whether the same quality of advice was being given to scrutiny. How should scrutiny processes be supported by officers to ensure that the

council had good scrutiny, as good scrutiny would lead to better decisions;

- It was commented that in general terms members were not made aware in good time of decisions which were likely to come up. The old-style Policy Development Groups (PDG's) were referenced, as it was thought that they provided an opportunity to field any concerns that arose. It was commented that PDG's were an extra tier in the decision making process, and it was thought that they had worked well;
- It was queried what assurance could be given that the same situation would not occur again? Members were advised that assurance could not be given that another Judicial Review would not take place, however, the suggested improvements from the Internal Audit report were being implemented, lessons were being learned and a lot of work was in progress on the scrutiny side. Positive assurances were being received from the Director and there was an acknowledgement that lessons did need to be learned, and it would be role of the Audit Committee to track the actions;
- It was noted that the management response from Dr Tony Hill, Executive Director of Community Wellbeing and Public Health had been included, which explained some of the actions which had been taken which were specific to the library service;
- Issues around scrutiny had been raised by the internal audit report. To some extent this came down to how members carried out scrutiny;
- A lot of councillor development had been carried out since the election, when almost half of the councillors elected were new to the Council;
- The Review of Scrutiny which had commenced recently would allow councillors to set out how they wanted to do scrutiny in the future;
- The vast majority of decisions would not require the council to go out to public consultation;
- It was felt that some of the management responses in the action plan needed to be firmed up;
- If alternative proposals were submitted during a public consultation, it was right that they should have some evaluation. However, there were risks in deciding whether to consider alternatives from a public consultation. It was important that nothing should be put to the public, that could not be delivered;
- In terms of assessments for projects, was the authority open to acknowledging when it did not have the necessary specialised skills and would seek those skills externally early enough;
- It was set out in the internal audit report, that if legal advice had been sought earlier in the process then different decisions may have been taken;
- One of the concerns of the Corporate Management Board was that the authority would not be able to afford to employ as many specialists in the future. However, the Committee was advised that in the future the more cost effective option could be to buy in that expertise when needed;
- It was very difficult to take account of local issues when consulting on a global decision. However, it was important to gather local views to get an idea of what mattered locally. Local knowledge needed to be valued and this was where scrutiny could be really useful;
- If all scrutiny was done in a formal way, some of the benefits could be lost;

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- In terms of the reporting back of the Scrutiny Review group, it was thought that as it was created through a council motion, it would report back to the Full Council. However, it was commented that it may be helpful for the Audit Committee and Overview and Scrutiny Management Committee to receive some early feedback;
- It was suggested that it may also be useful for the Review Group to examine consultations that had worked well and what could be learned from them.

**RESOLVED**

1. That the Audit Committee accept the response from Dr Tony Hill on the Library Service actions; and
2. That the Action Plan from the Corporate Management Board be received.

**48      EXTERNAL AUDIT PLAN - 2014/15**

Consideration was given to a report which described how External Audit would deliver their Financial Statement 2014/15 work for the Council.

Members of the Committee were guided through the report by the External Auditors, and some of the points highlighted included the following:

- The Audit Commission would close on 31 March 2015. However, external audit responsibilities under the Audit Commission Act 1998 and the Code of Audit Practice in respect of the 2014/15 financial year remain unchanged;
- The overall audit approach remained similar to the previous year with no fundamental changes. The work would be carried out in four stages, and the timings for these, and specifically the on-site work, had been agreed with management;
- The Authority was changing its pensions administration arrangements from April 2015, with West Yorkshire Pension Fund taking over from Mouchel;
- Following the initial risk assessment for the VfM conclusion, a significant risk was identified in relation to the major procurement exercises for the Future Delivery of Support Services project, to re-award the authority's contracts for Corporate Support Services and property services, which would be supplied by new providers and five year contracts would become live from 1 April 2015. The External Auditors were satisfied that arrangements were in place to manage this risk;

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:

- The regulations for the new Pensions Boards had not yet been released. It was noted that if issues were raised with these Boards, they would be able to raise objections either to Full Council or the Pensions Regulator;
- Since 2010, the role of External Audit has been to check that adequate arrangements were in place to manage risk. It was noted that nothing had

been seen which caused a concern in relation to the adequacy of arrangements in place;

- In relation to managing risk, there were three lines of defence – the frontline staff, management, and finally internal and external audit;
- There was a need to acknowledge that there would be risks if the authority started doing things differently. There was a need to be aware of what these risks were, but the Council should not be risk averse;

RESOLVED

That the External Audit plan be noted.

49     DRAFT INTERNAL AUDIT PLAN 2015/16

Consideration was given to a report which presented the draft Internal Audit Plan for 2015/16 to the Committee. Members were advised that a slightly different approach had been taken this year, to enable the internal audit team to be more responsive.

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:

- It was queried whether the Internal Audit Team faced any particular risks such as gaps in resources or capacity issues? Members were advised that this would be a transitional year for Internal Audit, and the Combined Assurance Model helped to ensure that the Head of Internal Audit could provide an annual opinion. There was a risk register in place, however, it was not yet fully populated;
- With the move to Agresso, it would generally not be possible for invoices to be paid unless an order had been placed;
- The authority had been assessed as 'low risk' by HMRC in terms of tax and NI compliance matters;
- In terms of ICT disaster recovery, it was promised that systems would be put in place by the new provider, however, this was a gradual process which could take between 12- 18 months to transfer the data across. It was noted that Agresso would be transferred immediately to the remote data centre;
- It was clarified that the total budget for Audit and Risk Management was approximately £1million, and that £551,000 was net budget for LCC;
- It was noted that the National Audit Office would be carrying out work to look at financial resilience in the public sector. It had been suggested that Lincolnshire Fire and Rescue could be used as one of the case studies;
- The outcomes of any inspections would be included as part of the combined assurance reporting;

RESOLVED

That the Audit Plan for 2015/16 be agreed.

50 COUNTER FRAUD AND INVESTIGATIONS WORK PLAN 2015/16

The Committee received a report which set out the Council's draft Counter Fraud Plan for 2015/16. Members were advised that in response to central's government's expectations for tackling fraud and corruption, the authority aimed to continue to focus on prevention, detection, and investigation work.

It was noted that during 2014, CIPFA issued a Counter Fraud Code of Practice which set out the good practice on managing the risk of fraud and corruption. The key principles of the code covered acknowledging responsibility; identify risks; develop a strategy; provide resources; take action. It was felt that the authority was generally compliant with the Code but officers would review their activities against the new Code.

Members were advised that the authority would continue to use its data analytics expertise to enhance analysis of fraud and error testing across key financial systems, as well as carrying out discrete pieces of work in areas carrying a higher fraud risk.

The authority was the Accountable Body for Lincolnshire Counter Fraud Partnership and was allocated £200,000 from central government to assist and improve how Lincolnshire local authorities worked together to tackle high risk areas of corporate fraud. It was reported that the last few months had focussed on setting up the project management arrangements and recruiting resources to support delivery of the work plan. Most of the planned work was scheduled for 2015/6 with progress and delivery being monitored by the Chief Finance Officer Group.

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:

- With the reduction in police numbers, it was queried whether they would be able to maintain the same level of assistance in terms of investigating suspected fraud?
- Officers were developing a protocol with Safeguarding and Adult Care teams to tackle fraud such as financial abuse of vulnerable adults;
- There had been a reduction days to 585 days. It was noted that whilst there had been a reduction in the Plan the authority had received a £200,000 grant to help to continue the work;
- It was noted that if district councils wanted specific advice from Internal Audit, they would need to pay for it, but if the advice came through the Partnership, it would be covered by the £200,000;
- Some of the key risks which faced the Council included procurement and contracts, as they were two areas where it was difficult to carry out proactive work. However, officers were working closely with the contract leads to build up intelligence. A particular barrier was that providers may be reluctant to provide the necessary information;
- The Executive and Corporate Management Board were very supportive of the work of the team. Referrals were made from managers where there were suspected irregularities.

RESOLVED

That the Counter Fraud Work Plan for 2015/16 be approved.

51     INTERNAL AUDIT PROGRESS REPORT TO 18 MARCH 2015

Consideration was given to a report which provided the Committee with an update on progress made against the Audit Plan 2014/15 and provided summaries of all audits completed within the period 1 January to 18 March 2015.

It was reported that good progress had been made in this quarter, and during this period Internal Audit had completed 16 County audits, 6 to final report and 10 to draft report stage, almost all of the key financial control testing and a further 4 school audits. Additional work in the following areas had also been completed – Fire and Rescue Control Centre Projects (draft report stage); Families Working Together Grant – 2014/15 Quarter 4 claim sign off; and three independent investigations. Overall, 93% of the plan had been completed.

It was reported that there still two auditors advising and supporting the Agresso implementation project. Highlight reports had been presented periodically to the S151 officer and Project Board.

The Committee was advised that there were 11 audits in progress in addition to the final key financial control testing. 35 Academy visits had also been carried out to date, in accordance with their agreements.

It was noted that two audits had been reported with an opinion of 'Major improvement required' which were the Corporate Landlord Project and Information Governance. Officers were in attendance in order to answer questions from the Committee in relation to these two audits.

Corporate Landlord Project

Jane Mason (Property Manager, Strategy) was in attendance for this item to provide an update on work which had taken place since the audit and to answer any questions from the Committee.

It was reported that this project had a built in review point at the end of year one and Corporate Property managers requested that internal audit carry out a review at this point, before phase 2 commenced. It was also noted that this audit was timed to coincide with the start of the Vinci Mouchel contract on 1 April 2015.

Members were informed that there was now transparency in the project and it was successful. There were good systems in place where officers could have an overview of all the property commissioning activity. There would be a property service centre, which would be a single point of contact for all property services and commissioning.

It was found that there was a lack of project governance, but the principles of corporate property were built into the new contract and all workstream plans.

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:

- More details in relation to how the property service centre would work were requested. It was reported that there would be a help desk to report repairs etc., work could be commissioned directly to Mouchel. There would be strong links with the commissioning team for any procurement which needed to take place;
- It was noted that there was a lot of competing activity during the first year of this project, including a restructure of the Corporate Property Team, but it was believed that was now a more comprehensive team for each aspect of the project;
- The new Vinci Mouchel contract would enhance the service;
- There were a large number of property projects which were taking place in parallel which needed to be prioritised, and this number had been underestimated;
- It was queried whether officers were confident that as the project moved onto the second year that the governance arrangements had been adequately reviewed and focused on;
- Internal audit had been asked to go back and look at the governance as a whole;
- It was commented that this had been a gateway review of the project, and the project had only been in place for one year and therefore it would not have been appropriate to carry out this audit any sooner;
- Major projects were reported quarterly to the Value for Money Scrutiny Committee. All projects would be on its radar and would be RAG rated;
- The Corporate Landlord project was agreed in 2014 and was an important piece of work which needed to be done, but it would not necessarily have been put high up on the risk register;

#### Information Governance Breaches

It was reported that the management response had been produced recently, and a more detailed report would be brought to the next meeting of the Audit Committee in June.

The Chief Information and Commissioning Officer was in attendance to present the report and answer any questions from the Committee. Members were advised that there were a lot of issues around the accidental sharing of e-mail, however, a lot of training was taking place to tackle this. The training method was also being reviewed in order to make it easier for staff to engage with it. It had been difficult to know how many staff had done the training, but there would be better monitoring once Agresso was operational.



It was noted that there had been a lot of breaches identified. However, the ICO had worked well with the authority and LCC had not received any fines.

It was queried whether there was a need for refresh training in relation to information governance for councillors and if this issue should be highlighted to the Councillor Development Group.

Members queried what a principle 7 incident was, and officers agreed to clarify this after the meeting.

RESOLVED

That the outcomes of the Internal Audit work be noted.

52     COUNTER FRAUD PROGRESS REPORT TO 28 FEBRUARY 2015

The Committee received a report which provided an update on the authority's fraud investigation activities and information on progress made against the Counter Fraud Work Plan 2014/15.

Members were advised that 15 fraud referrals had been received since April 2014 and seven cases had been concluded. There had been one successful prosecution since the last progress report, which related to an employee's misuse of a lease vehicle.

The Committee was guided through the report, and some of the points highlighted during discussion of the report included the following:

- Presentations had been made to the Council's Adult Safeguarding Team, which had been well received and officers continued to receive regular referrals as well as requests for advice around potential fraud and financial abuse;
- Large volumes of Council data in 8 key areas of business had been submitted for the purposes of the National Fraud Initiative. The Audit Commission had now returned over 16000 data matches and work had commenced on the reports containing the highest fraud risks which included personal budgets, private residential care homes and pensions;
- The Team was nearing the end of a pro-active fraud exercise on the Council's payroll transactions, which focussed on honoraria, overtime and other ad-hoc payments. The Counter Fraud and Investigation Team used data analysis to identify outliers, unusual patterns or individual transactions for validation and/or investigation. This was now at draft report stage;
- A planned pro-active exercise on Contracts would now take place in 2015/16. Investigation demand and increased due diligence commitments, especially around the Agresso project, had caused the slippage;
- There were currently 9 live cases – 2 of which were currently with the police. It was unlikely that the remaining 7 cases would result in a Police referral;
- Training sessions had been delivered with the view to improving responses to procurement and contract fraud. Officers were working closely with the Council's Communications Team. This work would continue into 2015;

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- No fraud had been identified during the payroll proactive exercise;
- Following an investigation, if a need for organisational learning was identified, an action plan would be produced – action taken would be tracked in the same way as audit recommendations.

RESOLVED

That the outcomes of the counter fraud work be noted.

53 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. Members were advised that the Council was assessed as low risk that the financial statements may be materially mis-stated due to fraud or error.

It was reported that a material mis-statement for the Authority's accounts in 2014/15 was around £20m and £17m for Pension Fund accounts.

RESOLVED

That the Committee consider 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.

54 RISK MANAGEMENT PROGRESS REPORT - MARCH 2015

Consideration was given to a report which would assist the Committee in fulfilling their role to gain assurance that the Council was effectively managing its key risks and had good risk management systems and processes in place that enable decision makers to understand the level of risk being taken and the level that the Council was prepared to accept. The report provided an update on how well the Council's biggest risks were being managed as well as reporting on the progress made in assisting the Council to adapt and change the way it 'thinks' about risk.

It was reported that there was a medium to high level of confidence that the risks were being managed well.

Members were 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:

- It was considered important that the risk register was in line with the business plan;
- The monitoring of the risk register was a continuous process;

- It was queried what assurance could be given in light of the serious case reviews which had taken place? Members were advised that the Executive Director for Children's Services had given assurance to the Corporate Management Board and the Scrutiny Committee that processes were in place. It was also noted that the recent Ofsted inspection of safeguarding had returned a rating of good;
- The Public Protection Board cut across various organisations and had been also been reviewing the area of safeguarding;
- It would be possible to track money spent on training through Agresso;
- It was queried whether risks around consultation be included in the risk register, but Members were advised that this would be included as part of the project risk register.

RESOLVED

That the Audit Committee note the current status of the strategic risks facing the Council.

55     STATEMENT OF ACCOUNTS 2014/15

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 2014/5 Statement of Accounts, the review of the Council's Statement of Accounts for de-cluttering as well as a review of the Council's Accounting Policies.

The Committee was guided through the report, and it was noted that KPMG, the Council's external auditors, were broadly supportive of the proposals.

RESOLVED

1. That the changes required to the Council's Statement of Accounts from the Code of Practice 2014/15 be noted;
2. That the notes to be removed from the 2014/15 Statement of Accounts be approved;
3. That the Statement of Accounting Polices (set out in Appendix A to the report) for use in the preparing the Council's accounts for the financial year ending 31 March 2015 be approved.

56     AGRESSO IMPLEMENTATION UPDATE

The Committee received a verbal update from the Chief Information and Commissioning Officer in relation to the implementation of Agresso. Members were informed that there was still a lot of work going on but a lot of progress had been made. However, everything had not yet been fully tested and signed off. In relation to payroll, it was noted that it had not been possible to do a clear parallel run test. Each time this had been attempted there had been a need to manipulate the data from SAP. Work was ongoing to correct this data, and the system would be run again later in the day.

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It was reported that this ability for Agresso to go live on 1 April 2015 was looking strong, but there would be some small areas of additional work required, but nothing that should affect the go live date. There would be some work to do on some of the interfaces.

In terms of the situation with the payroll, there would be an option to re-run the BACS tapes from March to ensure that everyone would be paid in April. However, it was commented that this would not be the preferred option as everyone's pay would be wrong due to the change in tax codes.

When Agresso went live it would be able to be used for HR, and staff would be able to update their details, and enter invoices and orders. Currently, it was mainly payroll which was causing an issue.

It was noted that the cost of putting the issues right was Serco's liability. Overall, it was thought that there would be some areas which would need to be corrected, but this would be manageable. The final decision on whether the system was ready to go live on 1 April 2015 would be made in the afternoon of 31 March. The decision in relation to payroll would be made in the middle of April.

RESOLVED

That the update be noted.

**57**     CASE MANAGEMENT SYSTEM (MOAIC) IMPLEMENTATION

The Committee received a verbal update from the Chief Information and Commissioning Officer in relation to the Case Management System (Mosaic) implementation. Members were advised that the go live date for Mosaic had been postponed as testing data migrations had not been successful to date. There was data from 17 different systems which needed to be migrated. It was thought that the go live date was now likely to be in July 2015.

Members were advised that payments which were linked with SAP such as the Abacus system for payments for adult care and payments of invoices, would be linked to Agresso so that the payments would continue to be made.

It was noted that an update on the implementation of the Mosaic system would be brought to the next meeting of the Audit Committee.

RESOLVED

1. That the update be noted;
2. That an update on the implementation of the Mosaic system be brought to the next meeting of the Audit Committee.

58     WORK PLAN

Consideration was given to a report which provided the Committee with information relevant to the core assurance activities currently scheduled for the 2014/15 work plan.

Members were advised that this was the last meeting where work had been programmed into the work plan, and any areas of assurance that the Committee felt should be considered would be picked up in the informal afternoon session that would follow this meeting.

It was noted that an update on the Library Service Action Plan was requested for the June meeting.

RESOLVED

That the Audit Committee's work plan be amended and updated following the informal afternoon session of the Committee.

The meeting closed at 1.05 pm

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