



AUDIT COMMITTEE 22 JUNE 2015

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

Councillors Mrs E J Sneath (Vice-Chairman), N I Jackson and S M Tweedale.

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

Officers in attendance:-

Rachel Abbott (Principal Auditor), Tony Crawley (KPMG), Matt Drury (Principal Investigator), David Forbes (County Finance Officer), Cheryl Hall (Democratic Services Officer), Judith Hetherington Smith (Chief Information and Commissioning Officer), David Ingham (Information Security and Compliance Manager), Pete Moore (Executive Director of Finance and Public Protection), Mike Norman (KPMG) and Lucy Pledge (Audit and Risk Manager).

1 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Miss F E E Ransome, W S Webb and P Wood.

2 DECLARATION OF MEMBERS' INTERESTS

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

3 MINUTES OF THE MEETING HELD ON 30 MARCH 2015

RESOLVED

That the minutes of the meeting held on 30 March 2015 be signed by the Chairman as a correct record.

4 INTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report by Lucy Pledge (Audit and Risk Manager), which invited the Committee to consider an update on progress made against the Audit Plan 2014/15 and provided a summary of all audits completed within the period of March to May 2015. Attached at Appendix A to the report was the Internal Audit Progress Report, which included information on: -

- Key messages on Internal Audit work completed or in progress;
- Other significant pieces of work undertaken;
- Summaries of audits with 'Effective' or 'Some Improvement' required;
- Performance Information;

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- Full report on audits rated as 'Inadequate' or 'Major Improvement Required'
- Other matters of interest.

Members were advised that during the period of 19 March 2015 to 31 May 2015 fourteen County audits had been completed; seven to final report; and the remaining seven to draft report stage. In addition, a further five assignments had been commissioned in this period. Overall 99% of the 2014/15 plan was complete.

Three auditors had been assigned to support the Agresso project post implementation, which was a significant audit resource. Further to this, it was noted that there were currently twelve audits in progress, including the two Agresso post implementation assignments. All contracted 2014/15 Academy visits were complete and the 2015/16 visits were progressing in accordance with their agreements.

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

- It was commented that the Standards Complaint Investigation, as referred to on page 26 of the agenda pack, was now complete;
- It was suggested that estimated final report completion dates should be included within Appendix 2 to the Internal Audit Progress Report;
- Members were assured that the consultancy undertaken by the team was not undertaken at the detriment of the internal audit work. Further to this, Members were advised that the Plan provided adequate time for both consultancy and internal audit work;
- It was noted that the target for the performance indicator for 'Draft Report issued within 2 months of field work commencing' was 80%, yet the actual performance was at 69%. Further to this, Members were assured that the team was currently examining the causes of this and Members were assured that the target would remain at 80% for future years.

RESOLVED

That the report and comments made be noted.

5 EXTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report from KPMG, the County Council's External Auditors, which provided an update on the 2014/15 deliverables. Attached at Appendix A to the report was the External Audit Progress Report and Technical Update, which provided information on the following areas: -

- Audit Plan 2014/15;
- Audit Fee Update;
- Other Work;
- Technical Update.

Members were advised that the Audit Committee Members would be receiving invites during the summer of 2015 to attend bespoke seminars designed to help Members consider challenges faced by Local Government bodies by the Audit Committee Institute.

It was noted that at this stage, the proposed audit fee would remain the same as that notified by the Authority in March 2015, £143,100, for the Council's audit and £24,350 for the Pension Fund. KPMG would discuss with managers the fee implications of the additional work required to address the key risks identified for 2015/16 and would report any agreed additional fees in the Annual Governance Report to the meeting of the Committee on 21 September 2015.

In response to a question, Members were advised that the County Council would run a mini-close down of financial accounts over the winter 2015, to trial Agresso prior to the scheduled close-down in March 2016.

RESOLVED

That the report and comments made be noted.

6 COUNTER FRAUD ANNUAL REPORT 2014/15

A report by Lucy Pledge (Audit and Risk Manager) was considered, which provided information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption and reviews the delivery of the 2014/15 counter fraud work plan.

Members were advised that the Council's counter fraud commitment and arrangements remained strong and in recent years the Council had achieved excellent results in terms of recovering fraud losses. Whilst the Council had not achieved the same levels of recovery in 2014/15, the Council had been able to realise other outcomes from its investigations and apply appropriate and robust sanctions in line with its Counter Fraud Policy and these had included successful prosecutions, dismissal and/or resignation. The Council had recovered £25.5k in year and expect a further £28.8k.

The newly formed Counter Fraud Centre (CIPFA) had recently developed and produced a Code of Practice on Managing Risk of Fraud and Corruption. There were five key principles within the code, which were detailed within the Committee's report, which built upon the main themes previously identified within the Local Government Fraud Strategy.

It was noted that CIPFA could assist the Audit Committee through a regular programme of self-assessment to ensure that the Council's counter fraud arrangements continued to conform with the principles as contained within the code. CIPFA were due to produce an assessment tool to support this process.

Members were advised that the Counter Fraud and Investigations team had achieved 90% of the counter fraud work plan for 2014/15, with three areas carried forward to the 2015/16 work plan: revisiting the Council's fraud risk assessment; pro-active

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counter fraud review of contracts; and the development of a fraud e-learning tool. It was hoped that those three pieces of work would all be completed by Quarter 3 reporting.

It was also noted that the Counter Fraud and Investigations team had received 23 new potential fraud referrals during 2014/15, an increase on previous years, and mainly due to the targeted awareness work with social care officers. The total estimated value of fraud associated with those cases was £43k. The team had found an increase in low level fraud for example, mileage claims; abuse of assets; and abuse of time. Similarly, there had been twelve financial abuse cases which the team are in the process of establishing the extent of the loss and would be included within future reports to the Committee.

In response to a question on the recouping of £12,830 from four cases relating to individuals receiving pension after death, it was confirmed that these would usually be picked up through the 'Tell Us Once' system, however, these four cases had managed to get through and this was likely due to human error.

RESOLVED

That the update on the work being undertaken to counter fraud and corruption be noted.

7 INFORMATION GOVERNANCE BREACHES - INTERNAL AUDIT

Consideration was given to a report by David Ingham (Information Security and Compliance Manager), which provided an update to the position reported at the Committee on 30 March 2015.

Members were advised that following a number of information breaches involving Lincolnshire County Council information, an internal audit was requested by the Chief Information and Commissioning Officer. The aim of the audit was to provide management assurance on a number of key information governance areas, including: training and awareness; security incident reporting; and third party information sharing and processing.

The audit had resulted in a number of recommendations aimed at improving current information governance practices across the Council. The report also described activity undertaken so far to meet the recommendations.

The results of the Information Governance Breaches Audit were reported to the Committee in March 2015, and a synopsis of key findings and subsequent corrective action was provided within the Committees report of 22 June 2015, as detailed on pages 76 – 80 of the agenda pack, of which eleven of thirteen recommendations were either partially complete or complete. Members were advised that the two outstanding recommendations both related to training and the delays related to Agresso and Lincs2Learn applications requiring the synchronisation of staff records which was key to ensuring accurate recording.

In response to a question, Members were assured that any breaches were effectively managed, and the team was confident they were being dealt with in the appropriate manner, with robust processes in place.

Members were assured that training for elected members would be refreshed in the near future.

RESOLVED

That the progress made against the recommendations in the report, be noted.

8 AGRESSO UPDATE

The Committee considered a verbal update from Judith Hetherington Smith (Chief Information and Commissioning Officer) on Agresso. The verbal update included information on: Payroll; Accounts Payable; Mosaic.

Payroll

Members were reminded that the Agresso system went live on 7 April 2015. Officers were anticipating some issues with the system, as they had not managed to complete as much testing of the system as initially hoped for. Officers had a choice between repeating the March payroll through BACS for April 2015 knowing that it would be 100% incorrect owing to the changes to the tax basic allowance, and subsequent corrective measures having to be taken with all employees, or running with Agresso.

Payrolls for April, May and June 2015 had all been undertaken via Agresso. There had been issues with each payroll. However, the number of issues was significantly reducing each time.

Members were advised that a very small number of staff had not received any pay as part of the April 2015 payroll. However, hardship payments were processed. Some of the other issues had included errors with maternity payments and pension deductions but these had since been addressed. There were outstanding issues with Trade Union payments but these were being addressed. Members were assured that the Internal Audit team were currently looking into these issues.

Payments to the Pension Authority were made late and the HM Revenue and Customs were completed manually in April and May 2015. However, it was hoped that these payments would be automatic for the June payroll.

At this stage in the update, Members were provided with an opportunity to ask questions, where the following points were noted: -

- 99% of the issues were generally caused by the system, not through the operation of the system;
- Officers were satisfied that Serco were putting in the right level of resources to address the issues;

- It was noted that Mouchel's Payroll Control Team did not transfer over to Serco until 1 April 2015, with no training on the system owing the terms and conditions within the Mouchel contract not requiring staff to be released for training prior to transfer;
- Members were assured that the Internal Audit team were looking into the issues;
- All Members of staff had been asked to contact the Payroll team should they have received an over or underpayment;
- Members were assured that all of the issues would be looked at in depth once the system was fully operational, without any issues;

Accounts Payable

Members were advised that as there had been a change in process, both process and system were contributing factors to the issues which had been encountered.

The Council had attempted to introduce a 'no purchase order number, no payment' policy. However, approximately 30% of invoices received had included a purchase order number, leaving approximately 70% without purchase order numbers. There had been problems with the system in terms of producing purchase orders, which had since been eradicated. However, for this reason the Council could not enforce its 'no purchase order number, no payment' policy.

There was a backlog in the processing of invoices and it was hoped that this would be cleared by the end of June 2015. In response to a question, Members were advised that the backlog of invoices could potentially damage its reputation.

A critical invoice process had been implemented to process emergency payments, where necessary. Members were also advised that the Audit team were currently exploring the extent of duplicate payments.

Members were provided with a further opportunity ask questions, where the following points were noted: -

- The Council had engaged with suppliers to ensure they understood the implications of the Council's new policy on 'no purchase order number, no payment';
- The vast majority of duplicate payments had been resolved;
- The Council's Finance department would not undertake a full budget monitoring exercise until September/October 2015 to allow time for the issues to be resolved;
- The Council's Finance department had produced a 'Budget Holder Checklist' and members of the team were scheduled to sit down with the 300-400 budget holders to ensure the accounts were accurate;
- It was suggested that the Committee received information on the section covering the 'end of contract' within the terms and conditions of the Serco contract to provide reassurance to members that the same issues

experienced with Mouchel could not be repeated when the contract comes to an end with Serco.

Mosaic

Members were advised that the system did not 'go live' in April 2015 and the implementation date had been put on hold until officers were confident that the system was ready. It was anticipated that this would be around September 2015. In the meantime, testing of data was continuing.

RESOLVED

- (1) That the verbal update and comments made be noted.
- (2) That a further update on the backlog of contracts be presented to the Committee at its meeting on 20 July 2015.
- (3) That information on the section covering 'end of contract' within the Serco contract be sent to the Committee, for information.

9 WORK PLAN

Consideration was given to a report which provided the Committee with information relevant to the core assurance activities currently scheduled for the 2015/16 work plan.

During consideration of the work programme, the following amendments were suggested: -

- That an update on Agresso and the Backlog of Invoices be presented to the Committee at its meeting on 20 July 2015;
- That the Annual Meeting with the Auditors be held during the afternoon 23 November 2015;
- It was also agreed that the Committee received a report Agresso – review of implementation issues be considered by the Committee at its meeting on 23 November 2015.

RESOLVED

That the Work Plan be approved, subject to the inclusion of the above items.

The meeting closed at 11.55 am.

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