



## AUDIT COMMITTEE 20 JULY 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

Councillors: attended the meeting as observers

Officers in attendance:-

Claire Machej (Assistant Head of Finance), Lucy Pledge (Audit and Risk Manager), Dave Simpson (Technical and Development Finance Manager), Richard Wills (Executive Director for Environment and Economy) and Rachel Wilson (Democratic Services Officer)

### 10 APOLOGIES FOR ABSENCE

Apologies for absence were received from Mr P D Finch, Independent Added Member.

### 11 DECLARATION OF MEMBERS' INTERESTS

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

### 12 MINUTES OF THE MEETING HELD ON 22 JUNE 2015

RESOLVED

That the minutes of the meeting held on 22 June 2015 be signed by the Chairman as a correct record.

### 13 INTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report which provided an update on the audits completed in the period 31 May to 10 July 2015 and outstanding recommendations at 30 June 2015.

It was reported that two audits had been completed which had been given the audit opinion of 'Major Improvement Required' which were in relation to the Joint Commissioning Board and Incendi Fire and Rescue Trading Company. The Joint Commissioning Board had been given this opinion as significant governance, accountability and decision making issues had been observed in February 2015. It was reported that the creation of a joint action plan by LCC and the four CCG's was scheduled on the agenda for the meeting on 28 July 2015. All the actions would be

owned by the CCG's and progress would be tracked by PWC and reported back to the County Council.

In relation to Incendi, the Fire and Rescue Trading Company, it was found that there was a need for governance and business planning arrangements to be strengthened.

It was also noted that the report provided an update on the Audit Team's involvement with the Agresso Project.

Members were provided with the opportunity to ask questions to the officers present in relation to the information contained within the reports, and some of the points raised during discussion included the following:

- It was commented that there were a number of issues with Agresso, and it was queried what costs would be passed on to Serco for the additional work which has had to be undertaken. Members were advised, that as an audit team, officers were recording the time which was being spent on the project so that it could be quantified. It was noted that all costs would be passed back to Serco, but it was not yet known what the final costs would be. At the moment, the focus was on trying to get the system working correctly;
- Some audit assurance work had been carried out on the transfer of Pensions;
- In relation to the outstanding recommendations listed in Appendix 4 of the report, it was noted that some progress had been made on these actions, and a follow up process was in place. Progress was checked every quarter, and if it was felt that more assurance was needed then managers could be asked to report back to this Committee;
- It was queried whether there was confidence that all outstanding actions in relation to information governance would be implemented. Members were advised that the majority of the actions related to the new case management system which was not yet in place, and therefore an extension had been agreed;
- From an audit perspective, there were no concerns that management were not implementing actions;
- It was felt that there was a need for some assurance that the problems with Agresso were being dealt with, as schools and small businesses were suffering. The Committee was advised that it was planned to have a joint meeting with the Value for Money Scrutiny Committee on 21 September 2015 in order to raise these concerns and receive a substantive written report on Agresso;
- It was reported that progress was being made on the issues related to Agresso, and the Finance and Audit Teams were working closely together. This work was also being monitored by the Head of Finance on a weekly basis. There was recognition that additional resources;
- The job of audit was to ensure that the system was resilient and could be relied upon and that appropriate controls were in place, and that the authority had a system which was robust and fit for purpose. If this could not be done, then there would be a need to flag up that an adequate financial control system was not in place;

- Members were advised that there was no 'fall back' position with Agresso, that was the system which had been selected, and the authority was working with Serco to implement it;
- It was crucial that the problems with the system were fixed as soon as possible;
- It was requested that the concerns that the Committee had in relation to Agresso be raised with the Executive;
- There were not just the practical issues of the problems with Agresso to consider, but also the reputational ones, as the Council was, in some cases, not being able to pay suppliers on time;
- Concerns were raised regarding school staff not receiving payments, and also the effect this would have on small businesses. Members were advised that there was a process for critical payments and this had been circulated to all budget holders;
- It was queried whether the costs for making these emergency payments would be passed on to Serco, as there was a £10-£15 charge for each of these payments. Members were advised that the authority was keeping a log of these payments and would be seeking to recover these costs from Serco;
- In relation to the Audit for the Joint Commissioning Board, it was noted that the opinion given was due to the transition the Board had undergone from an informal meeting to a formal meeting in order to deal with the Better Care Fund (BCF);
- It was thought that the Better Care Fund was approximately £20million, but the exact figure would be confirmed and circulated to the Committee after the meeting. It was noted that the Committee would receive reports on this in the future;
- In relation to the Incendi Fire and Rescue Audit, it was noted that this again was an issue of having the correct governance arrangements in place. However, this was being fully supported by Finance officers, and the audit had been requested at this early stage due to the nature of the business;
- Any charges were recharged back to Fire and Rescue. There was a financial plan, and officers were in the process of producing a business plan for the coming years. Incendi had been trading for a year, so it would be possible to be more realistic about growth;
- It was noted that the company was registered for corporation tax, but it was not expected that the turnover would reach the minimum requirements;
- Members were reassured that there were sufficient resources to examine the critical areas. It was noted that the internal audit plan had been reduced by 39%, and the focus would now be on a risk based approach.

#### RESOLVED

That the outcomes of the Internal Audit work be noted.

#### 14 REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

It was reported that until recently there had existed a statutory requirement for bodies such as the County Council to review the effectiveness of internal audit once a year

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and for the findings of the review to be considered by an appropriate committee of the Council. As the statutory requirement was in place throughout 2014/15 this work had been undertaken and the report presented discharged that responsibility by reporting the findings of work undertaken by a joint officer/councillor working group. Whilst a few areas for ongoing monitoring and improvement were identified, the group concluded that the Council did have an effective system of internal audit. The report also asked the Committee to consider whether it wished to continue to receive such a report in future years in light of the removal of the statutory requirement for its production, as other means of providing assurance on this subject were already in existence.

Members were advised that the working group was made up of the following - Chairman of the Audit Committee, Executive Director Finance and Public Protection, Executive Director Environment and Economy and the County Finance Officer.

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:

- Members commented that they valued this report, and the feedback from the LCC audit work (paragraph 5.5 of the report) was a good indicator of performance;
- In relation to the implementation of the upgrade of the audit software, officers were just awaiting the go ahead from Serco, and were trying to obtain a date for this;
- It was queried how the Committee would continue to be assured that internal audit was effective if it did not continue to receive this report. It was suggested that additional information in relation to resources could be included within the annual report;
- It was also suggested that officers could be more explicit regarding the feedback that was received;
- There would still be the first and second lines of assurance, as the Annual Governance Statement would give some warning signs. It was suggested that an informal workshop with the Executive Directors in September would be useful in order to go through the control environments;
- It was noted that it was still planned to undertake a skills and knowledge survey of the Committee members.

**RESOLVED**

1. That the Committee endorse the opinion of the Review Group that the County Council maintained an effective system of internal audit;
2. That the Committee wish to receive an equivalent report in future given the removal of the statutory requirement for it to be produced and the existence of other means of attaining assurance.

15      INTERNAL AUDIT ANNUAL REPORT - 2014/15

Consideration was given to the Head of Internal Audit's opinion on the adequacy of the Council's governance, risk and control environment and delivery of the Internal Audit Plan for 2014/15.

It was reported that the Council was performing adequately and this opinion had been shared with Corporate Management Board, but one area which was deteriorating was the financial control environment. However, it was noted that the Council did have strong governance arrangements in place and were open and transparent regarding the situation. In terms of risk management, it continued to play a key role in managing change and decision making, but there was a need for the risks to be fully understood.

The recommendation that information governance should be included in the Annual Governance Statement had already been implemented, and 99% of the planned audit work had been delivered. The recommendations had been agreed and officers were seeking to implement them. One area which did need some improvement was around time scales.

It was also noted that effectiveness continued to show as good to excellent in terms of feedback from clients.

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:

- In relation to the removal of the audit on workforce development, it was queried how the authority would ensure that the remaining staff had the skills which were required. It was noted that this would be picked up the following year, as the authority was still in a period of transition and change it was not a good time to carry out that audit;
- It was noted that the training budget for the Internal Audit service was £15,000, but staff also received on the job training, mentoring etc. and so the cost of training was not always quantifiable. It was suggested that a budget search could be carried out for training to try and get an estimate of the total the authority spent on training. However, it was accepted that training could cover a range of activities;
- The removal of the Joint Waste Strategy audit from the 2014/15 audit plan was queried, as queries in relation to this were starting to be raised by the districts. Members were advised that it was in the audit plan for 2015/16;
- The work for external clients did have an impact on other work carried out by the service, and so staff had been directly employed to carry out the external work. This has had an effect on scheduling, but it made the team for efficient. Members were advised that the service did have enough resources;

**RESOLVED**

That the content of the Audit and Risk Manager's Head of Internal of Internal Audit Annual Report be noted.

16 REVIEW OF GOVERNANCE FRAMEWORK & DEVELOPMENT OF ANNUAL GOVERNANCE STATEMENT 2015

It was reported that the Council was required to reflect on how well the Council's governance framework had operated during the year and identify any governance issues that needed to be drawn to the attention of Lincolnshire residents.

It was noted that good governance underpinned everything that the Council did and how services were delivered often came under close scrutiny. a 'good' Annual Governance Statement was an open and honest self-assessment of how well the Council had run its business across all activities – with a clear statement of the actions being taken or required to address any areas of concern.

The development of the Annual Governance Statement was overseen by the Audit Committee and recommends its approval to the Council.

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 noted that there was not a need for the Monitoring Officer to produce an annual report, but there were statutory things that needed to be reported to Council;
- As there were other systems in place, the situation with Agresso was not as bad as it could have been;
- A claim would be submitted to Serco for the additional costs incurred by the Council during the implementation of Agresso, however, the Council may need to bear some of these costs at this time. But the Council would be pursuing all avenues to recover all costs;
- There would be a need to examine more closely how well the handover from Mouchel to Serco took place;
- It was queried whether discussions regarding devolution would add an element of uncertainty to the authority, and it was noted that officers would be looking at other authority areas, particularly the Cornwall offer, as this was more similar to Lincolnshire. It was noted that the governance arrangements for Cornwall would not be around an elected mayor model;
- It was understood that work on the implementation of Mosaic had begun;
- It was noted that originally the Council had needed to find savings of £55million, but due to cost pressures, that figure had risen to £66million;
- In relation to information governance, it was expected that there would be a dialogue with the Information Commissioners Office, as the Council would like some guidance in relation to information sharing;
- The Monitoring Officer advised that he would write to all MP's explaining that all letters they sent to the authority would be shared with the relevant local council if it would assist in a resolution to the issue;
- The importance of risk culture should not be underestimated, and the probability of something going wrong needed to be balanced against the impact it would have if something did go wrong;

- It was believed that more information on Agresso and Mosaic implementation would be available in September;
- With the reduction of staff within the organisation, there was concern that those staff with skills and knowledge were being lost, and it was queried how this issue was being managed. Members were advised that a skills audit had been carried out, and it was acknowledged that there was a risk that skills would be lost, however, officer were reasonably certain they knew where any 'hot spots' were;
- It was noted that the Chief Whip had been given the task of looking at how the Council carried out its consultations from a political perspective.

RESOLVED

1. That the Committee agree that the contents of the Annual Governance Statement 2015 accurately reflect how the Council was run:
2. That the Statement included the significant governance issues/key risks the Committee would have expected to be published.

17     WORK PLAN

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

During discussion of the Work Plan the following was noted:

- The meeting scheduled for 21 September 2015 would be a joint meeting with the Value for Money Scrutiny Committee to enable the member to all receive an update on the Agresso project. Members were asked to note that this could be an all-day meeting;
- It was requested that the Portfolio Holders for Finance and IT both be invited to attend the meeting on 21 September 2015;
- The Risk Management Progress report would be moved to the November meeting;
- A progress report on the Libraries project would be brought to either the September or November meeting. It was suggested that the update report could be e-mailed to members in September and then discussed at the November meeting.

RESOLVED

That the work plan be updated to include the above suggestions.

18     DRAFT STATEMENT OF ACCOUNTS 2014/15

Consideration was given to a report which presented the Draft Statement of Accounts for Lincolnshire County Council for the financial year 2014/15. Members of the Audit Committee were asked to scrutinise and comment on the draft Statement of Accounts. The final Statement of Accounts would be presented to the audit Committee in September for approval. Ian Fifield from LG Futures was in attendance

at the meeting to guide the Members through the Statement of Accounts and help them to fulfil their role to scrutinise and comment on the financial statements.

The Members of the Committee were guided through the draft Statement of Accounts, and were provided with the opportunity to ask questions on each section. Some of the points raised during discussion included the following:

- There had been very little change to the format and content of the accounts this year, as last year there had been a lot of changes in terms of business rates etc.;
- In terms of the underspend, and the increase in reserves, most of this would be in the financial volatility fund.
- The risk profile for the authority would be higher if it did not have these reserves;
- In terms of the accounting for schools non-current assets, this had been on CIPFA's agenda for some time, but they had not been able to issue guidance as practices between authorities were so diverse. For 2014/15 CIPFA had issued clarification on this matter and changes arising from this have been reflected in the 2014/15 accounts. These changes were reviewed by KPMG in February/March and this approach agreed prior to year end;
- Reserves were classed as either usable or unusable. The 'usable' reserves totalled £238million, however, this was then split between capital and revenue;
- Note 9 – Transfer to/from earmarked funds – showed that the biggest earmarked reserves were in the financial volatility – Budget shortfall and financial volatility funds. Members were reminded that these funds could only be used once;
- The funding shortfall needed to be taken out of the base budget, using the reserves to fund this would buy time, but that was all;
- Page 28 – there had not been too many key movements, the only one that needed to be highlighted to the Committee was in relation to Public Health, as the income was more than expenditure. It was noted that this was a ring fenced grant, and that the income only showed as greater due to timing;
- Note 10 – Other operating expenditure – the total had jumped due to capital disposals relating to schools becoming academies;
- It was noted that the County Council retained legal ownership of the land when a school became an academy. When the lease expired both the land and the school buildings would revert back to the County Council. This would also be the case if a school stopped operating as an academy;
- Members were advised that the Revenue Support Grant would continue to reduce;
- Note 12 - In relation to council tax, it was noted that there had been a larger surplus than seen in recent years;
- It was not yet clear whether the Council Tax Freeze Grant would continue;
- It was believed that 90% of the audit work by KPMG had been completed;
- In relation to the value of property, land and equipment, it was noted that this figure needed to be reduced by £57million, with a corresponding entry in the revaluation reserve. This adjustment was needed to ensure assets were carried at fair value at the end of the financial year;



- Page 30 – Cash Flow Statement – it was noted that this did not add any value to the accounts as a whole;

Other notes that were specifically highlighted to the Committee included the following:

- Note 3 – Critical Judgements in applying accounting policies;
- Note 4 – Assumptions made about the future and other main sources of estimation uncertainty;
- Note 43 – Private Finance Initiatives (PFI) and similar contracts;
- Note 46 – Contingent Liabilities;
- Note 47 – Contingent Assets – it was noted that this was the same as the previous year;
- Note 48 – Prior Period Adjustment;

Pension Fund Accounts

- The rules for investing pension pensions money was considerably different to the investment of the Council's money;
- The difficulty would be in not knowing what the new Pension Boards would bring;
- Page 166 – the Lincolnshire Fire and Rescue Pension Fund was unfunded;
- It would be crucial that Serco provided all relevant information in time;

It was noted that officers had finished preparing the accounts before the end of May 2015, even though the authority had until the end of June to complete this work. It was expected that that it would take longer in the following year to prepare the accounts due to the new financial systems. However, as this year's accounts had been completed early, this gave more time to prepare the following year, and officers would start preparing the accounts for next year in the summer months.

RESOLVED

That the comments made in relation to the draft Statement of Accounts 2014/15 be noted.

The meeting closed at 1.05 pm

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