



## **AUDIT COMMITTEE 21 MARCH 2016**

### **PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)**

Councillors N I Jackson, Miss F E E Ransome, S M Tweedale, W S Webb and P Wood

Officers in attendance:-

Rachel Abbott (Audit Team Leader), Steve Blagg (Democratic Services Officer), David Forbes (County Finance Officer), Claire Machej (Head of Finance (Corporate)), Lucy Pledge (Audit and Risk Manager), Mike Norman (External Auditor, KPMG) and John Cornett (External Auditor, KPMG)

#### **54      APOLOGIES FOR ABSENCE/REPLACEMENT MEMBERS**

Apologies for absence were received from Councillor Mrs E J Sneath and David Finch (Independent Added Person)

#### **55      DECLARATION OF MEMBERS' INTERESTS**

None at this point of the meeting.

#### **56      MINUTES OF THE MEETING HELD ON 25 JANUARY 2016**

**RESOLVED**

That the minutes of the previous meeting of the Audit Committee held on 25 January 2016, be agreed as a correct record and signed by the Chairman.

#### **57      EXTERNAL AUDIT PLAN - 2015/16**

The Committee received a report in connection with how External Audit would deliver their Financial Statement 2015/16 work for the Council. The External Auditors highlighted a number of issues including identification of key risks, changes to assets valuation basis and their fees for the 2015/16 audit. They stated that the latter could change due to the on-going issues with Agresso and agreed to report back to the Committee on this matter.

Responses to comments made by the Committee included that any member of the public on the electoral register was able to make a request to examine the accounts; that the Financial Statements would only be reported to the Committee when the accounts had been finalised even if this was to a later meeting and that the External Auditors had regular meetings with the Council's audit and finance sections to mitigate risks in the preparation of the accounts.

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The Chairman agreed to bring the possibility of increased External Auditor fees due to on-going issues with Agresso to the attention of the Leader of the Council, the Recovery Board and the Value for Money Scrutiny Committee.

**RESOLVED**

That the External Audit Plan for delivering the Financial Statements 2015/16 for the Council, be accepted..

**58      EXTERNAL AUDIT PROGRESS REPORT**

The Committee received a progress report from the External Auditors on the 2015/16 audit deliverables. The Committee's attention was drawn to the continuing work to resolve issues with the implementation of Agresso and the Committee would be kept updated on this matter.

Comments by the Committee included the monitoring of the Serco contract and knowledge acquired from other local authorities about the use of Agresso.

The External Auditors stated that they checked whether management and financial controls were in place to monitor the Serco contract; stated that Agresso was used by other local authorities but that there had been specific issues with its implementation at the County Council which were being addressed.

The Chairman stated that a full inquiry into the implementation of the Serco contract would be carried out by the Council in due course.

**RESOLVED**

That the External Audit progress report on the 2015/16 Audit deliverables be noted.

**59      STATEMENT OF ACCOUNTS 2015/16**

The Committee received a report in connection with the Statement of Accounts 2015/16 which summarised:-

1. Changes resulting from the Accounts and Audit Regulations 2015;
2. Changes to the Code of Practice on Local Authority Accounting which would be incorporated into the 2015/16 Statement of Accounts;
3. The review of the Council's Accounting Policies; and
4. A summary of the key risks faced by the Council in producing the Statement of Accounts 2015/16.

Officers stated that since the publication of the report Appendix B (Closure of Accounts – Risk Analysis) had been updated and would be sent to Committee members after the meeting.

Officers' responses to comments made by the Committee included:-

1. The Council had put procedures in place to handle local authority schools becoming Academies. However, there would still be cost pressures for the Council as it would not be possible to transfer debt charges as a result of a school's borrowing.
2. The Committee's strategic role was to ensure that management had the appropriate measures in place to produce the Statement of Accounts.

The Chairman agreed to let the Leader of the Council and Chief Executive have a copy of revised Appendix B (Closure of Accounts – Risk Analysis).

Officers agreed to provide an update of the closure of the accounts 2015/16 to the Committee in late April/early May 2016.

#### RESOLVED

(a) That the changes to the Explanatory Foreword and in the process for Exercising Public Rights required by the Accounts and Audit Regulations 2015, be noted.

(b) That the changes required to the Statement of Accounts from the Code of Practice 2015/16, be noted.

(c) That the Statement of Accounting Policies (Appendix A) to use in preparing the Council's accounts for the financial year ending 31 March 2016, be approved.

(d) That the key risks, actions and contingency arrangements identified for the production of the 2015/16 Statement of Accounts, be noted.

#### 60 INTERNATIONAL AUDIT STANDARD - RESPONSE TO MANAGEMENT PROCESSES QUESTIONS

The Committee received a report in connection with an assessment around whether the Council and Pension Fund financial statements might be incorrect due to fraud or error. Officers stated that the figures of £20m and £17, under the paragraph headed "Note", in the report, should read £12m and £16m respectively.

Officers in response to comments made by the Committee explained the process of communication to employees on business practice and ethical behaviour. Exit interviews were also conducted with employees. Every budget holder had been sent an information pack about this topic. Officers stated that with regard to schools this was the responsibility of the School's Finance Officer and the School Governing Body to ensure all staff were made aware of the management practices in place to prevent fraud.

**RESOLVED**

That the assessment detailed in the report accurately reflects the Council's management processes to minimise the risk of fraud or error in the Council and Pension Fund financial statements.

**61      COUNTER FRAUD AND INVESTIGATIONS WORK PLAN 2016/17**

The Committee received a report in connection with the Council's Counter Fraud and Investigations Work Plan 2016/17.

In response to comments made by the Committee officers stated that in connection with local factors and risks, data was collected frequently, examined on a regular basis and the different methods of pursuing compensation were explained with the maximum recovery sought.

**RESOLVED**

That the Counter Fraud Work Plan for 2016/17 be approved.

**62      DRAFT INTERNAL AUDIT PLAN 2016/17**

The Committee received a report in connection with the draft Audit Plan for 2016/17.

Comments by the Committee included:-

1. Was the Council satisfied that all its procedures were up to date following the Rotherham child sex exploitation Inquiry?
2. The Coroner's service ability to manage to budget was challenging as Inquests were unpredictable. This needed to be taken into account in auditing the service.
3. There were risks and uncertainty associated with the devolution process.
4. The ability to provide an audit service in view of the increased workload from both the financial and non-financial sectors.

Officers' responses included:-

1. Officers were working with Children's Services on the issues raised by the Rotherham child sex exploitation Inquiry and this would be reported to a future meeting.
2. The Committee was able to seek an assurance from officers that appropriate systems were in place to address issues raised by the Coroner's Service.
3. The proposals announced by the Chancellor of the Exchequer in connection with devolution for Lincolnshire would need to be approved by the full Council and officers would be seeking an assurance that the necessary governance was in place.
4. Resources had been allocated to ensure that the audit procedures were in place to cover both financial and non-financial Council services in the next financial year.

RESOLVED

That the draft audit plan for 2016/17, be agreed.

63      INTERNAL AUDIT PROGRESS REPORT

The Committee received a report which gave an update of audit work undertaken in the period 1 January 2016 to 29 February 2016. The Committee's attention was drawn to the 72% "actual" performance figure in the report which reflected the on-going issues with Agresso.

Officers stated that David Powell, the Council's Emergency Planning Officer, hoped to attend today's meeting to talk about business continuity but had a conflicting meeting. Officers discussed the recent malware attack on the Council's systems and that this was being analysed to produce a report on the event and lessons learned. The role of this Committee was to ensure that the Council had the necessary systems in place to respond to such attacks.

Comments by the Committee included:-

1. All of the Council's employees needed to be made aware of the contents of the report to the Executive on business continuity.
2. Could the payroll action plan be made available to the Committee?
3. Business continuity had suffered due to problems with Serco.
4. It was thought that procedures were already in place to address cyber- attacks.

Paul Briddock and Christine Shepherd from Serco, attended the meeting, and commented as follows in respect of payroll audit:-

1. Explained the procedures put in place by Serco to deal with the recent cyber-attack.
2. The payroll action plan was in place, monitored monthly and 60% of the action plan had been completed, to date.
3. Over-payments were being addressed weekly, tracked and information fed back to the cost centres.
4. Price Waterhouse Cooper had been engaged by Serco to undertake an assurance review of payroll accuracy.

Paul Briddock and Christine Shepherd responded to comments made by the Committee as follows:-

1. The number of payroll questions by employees had reduced substantially and details of the type of questions being asked would be submitted to the next meeting of the Recovery Board.
2. The March payroll was satisfactory with only a few individual queries following its submission to HMRC.
3. The situation in connection with the schools' payroll had improved considerably since last year with few outstanding issues of a longstanding nature. Serco representatives had attended the Schools' Forum to explain the current

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arrangements to address queries in connection with payroll in schools and the focus in schools was now on communication. The Recovery Board would examine the statistics in due course.

4. The various contractual issues raised by the Serco contract would be examined in the future.

5. A Senior Control Officer had been appointed in September 2015 to examine the various payroll issues and work was on-going with Price Waterhouse Cooper and the County Council to ensure that the necessary controls were in place.

6. Key payroll trained staff had been retained by Mouchel which had caused issues for Serco and training on payroll issues was now provided at the University of Lincoln.

Officers stated that they still had concerns about the necessary controls being in place and there was still a low level of assurance.

**RESOLVED**

That the outcomes of Internal Audit work be noted.

**64      WORK PLAN**

The Committee received information relevant to the core assurance activities currently scheduled for the 2015/16 work plan.

Officers stated that with the demise of the Audit Commission KPMG had been appointed as the Council's External Auditors but their contract terminated in 2017/18 when there would be a need to appoint new External Auditors. The Local Government Association would be running a national procurement programme on this matter but there was a need for the Council to express an interest at this stage, which would be non-committal, by April 2016. Officers stated that they would submit a report on this matter to the next meeting of the Committee.

It was agreed that the next meeting of the Committee on 20 June 2016 would start at 10.30am to allow for an informal meeting between the Committee and the External Auditors, at 10.00am.

**RESOLVED**

(a) That the Committee's work plan be noted.

(b) That the next meeting of the Committee on 20 June 2016 start at 10.30am to allow for an informal meeting of the members of the Committee and the External Auditors at 10.00am.

The meeting closed at 12.40 pm