



**AUDIT COMMITTEE  
23 SEPTEMBER 2013**

**PRESENT: COUNCILLOR MRS SUSAN RAWLINS (CHAIRMAN)**

Councillors Mrs E J Sneath (Vice-Chairman), N I Jackson, C E D Mair, S M Tweedale, W S Webb and P Wood

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

Officers in attendance:-

Tony Crawley (KPMG), David Forbes (Assistant Director Finance and Resources), Judith Hetherington-Smith (Chief Information Officer and Programme Director), Stephanie Kent (Audit Manager), Claire Pemberton (Assistant Head of Finance), Lucy Pledge (Head of Audit and Risk Management) and Mike Wood (KPMG)

18 APOLOGIES FOR ABSENCE

There were no apologies for absence.

The Chief Executive reported that, having received notice under Regulation 13 of the Local Government (Committees and Political Groups Regulations 1990), he had appointed Councillors C E D Mair as a replacement member on the Committee in place of Councillor J W Beaver until further notice.

19 DECLARATION OF MEMBER' INTERESTS

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

20 MINUTES OF THE MEETING HELD ON 22 JULY 2013

RESOLVED

That the minutes of the Audit Committee held on 22 July 2013 be signed by the Chairman as a correct record.

21 COUNTER FRAUD PROGRESS REPORT TO 31 AUGUST 2013

Consideration was given to a report which provided an update on the Council's fraud investigation activities and information on progress made against the Counter Fraud Work Plan 2013/14.

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It was reported that the data analytics work on the Council's creditor payments system was effective as it had identified a group of potentially fraudulent transactions in one area of business.

Some compliance issues were also highlighted as part of this data exercise, and these would be reported to the next meeting of the Committee as part of the Council's due diligence audit work. A comprehensive review of the counter fraud and investigation practice notes had been completed and would form the revised standards for the quality assurance processes and would take account of the latest best practice.

New whistleblowing and counter fraud promotional material had been developed and would be used over the next few months to support the re-launch of the Council's whistleblowing policy.

The Committee was informed that the work on the National Fraud Initiative was almost complete, and had so far identified £15.6k of recovery potential, but there were no issues of a fraudulent nature. It was noted that this recovery figure was significantly down on previous exercises, and it was believed that this was due to improved processes in the two areas of business which previously had high overpayments (pensions and private residential care providers). Officers were pleased to report that these systems had been improved since the last exercise.

It was reported that there were currently 2 live fraud investigations, both of which had been referred to the Police. Since the last counter fraud progress report in April 2013, 5 internal fraud investigations had been completed which had resulted in 4 resignations and 1 written warning. Due to the nature of the cases there were no recovery opportunities, but the estimated value of the fraud which was prevented was in the region of £61k.

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 increase in schools becoming academies may increase the risk of fraud as it was not mandatory for academies to have an internal audit;
- However, there had been a strengthening of policies around the need for audit arrangements in academies;
- When a member of staff leaves the organisation a number of automatic processes would be triggered including the closing down of e-mail accounts and removing remote access;
- Mandate fraud was the easiest to prevent by ensuring the effectiveness of internal controls;
- The number of days which were allocated to each activity were based on year on year trends and the availability of resources;
- In terms of the work plan it was on track and there were no pressure points at this time. However, if there was an increased demand for investigation work this could change;

RESOLVED

That the outcomes of the Counter Fraud work be noted.

22     WHISTLEBLOWING ANNUAL REPORT 2012/13

Consideration was given to a report which provided an overview of the Council's whistleblowing arrangements throughout the year 2012/13 and presented proposed changes to the Whistleblowing Policy.

The Committee was informed that an eye-catching whistleblowing poster and leaflet had been developed and the aim was to distribute these within the next few months to coincide with the update and re-launch of the policy. The Whistleblowing Policy and other promotional material would be incorporated into an e-learning tool which it was hoped would be operational with the next few months. It was planned to boost further awareness and understanding through a number of targeted training sessions over the remainder of the year and articles in the Council's internal and external publications.

It was also reported that there had been recent changes in employment law which had affected the Public Interest Disclosure Act in four areas, however, only three of them impacted on the Council's policy:

- A qualifying disclosure (for protection purposes) must be one made in a reasonable belief that it was "in the public interest"
- The requirement for a disclosure to be made "in good faith" for a whistleblower to qualify for protected status had been removed – an ulterior motive (i.e. personal gain) did not affect the protection provided it was in the public interest to address the concern
- A vicarious liability on the employer to protect whistleblowers from bullying and harassment as a result of making a disclosure from all employees (not just the organisation which was previously the case). Employers must therefore take 'reasonable steps' to prevent this. The changes also made individual employees personally liable if they victimise, bully or harass a whistleblower.

The Committee was advised that following the review of the Council's Whistleblowing Policy, that the existing policy was generally compliant and little affected by the recent changes. It was also believed that the structure, content and readability were fit for purpose and therefore no significant changes were proposed.

Members of the Committee 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:

- There were concerns regarding the changes to protection given to whistleblowers and whether they would incur costs if they went to a tribunal;
- Not all whistleblowing involved employment cases;
- Processes were in place to filter out internal grievances and direct people towards the grievance procedure instead;

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- Academies that bought into the council's resources would be able to make use of this policy;

#### RESOLVED

1. That the whistleblowing activity for 2012/13 be noted;
2. That the ongoing work to raise awareness and provide assurance on the effectiveness of the Council's arrangements be noted;
3. That the proposed changes to the Council's Whistleblowing Policy be approved.

#### 23 ICT AUDITS 2012 UPDATE

The Committee received a report which provided an update in relation the five IT audits which were undertaken in 2012 where a number of significant issues identified. Two further IT audits had been undertaken during 2013.

The five internal audits which were undertaken during 2012 where in relation to IT Service Management, SAP Security and Licencing, Software Licence Management, IT Asset Management and Electronic Data Management. All of these audits resulted in an outcome of limited assurance and included concerns relating to the activities undertaken on behalf of the County Council by Mouchel.

The two further IT audits which had been undertaken in 2013 were mobile computing and remote access which resulted in an outcome of substantial assurance, and disaster recovery which was still being written up at the time of the meeting, but it was expected to result in an outcome of limited assurance due to the Council only having a single data centre.

It was reported that all actions were on schedule to be completed by the end of October 2013.

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;

- Disaster recovery had been an on-going issue for this Committee for some time. It was noted that this was a very difficult issue to find a solution for, as the solutions which had previously been offered had not been satisfactory. Options were now being presented from potential suppliers but there would still be a risk until the final decision on a supplier was made and they were in place;
- The Council had been through some difficult times with the social care systems, but a rebuild of the system from back-ups had been completed successfully which would provide some assurance;
- There was a need for flexibility within the new ICT contracts;
- There were no penalties in the Mouchel contract if work was not completed on time, but they would be in place in the new contract;

- It was requested whether a report could be brought to the next meeting to confirm that all actions had been completed by the end of October as stated;
- It was accepted that there would be a risk to the Council in the time until a new supplier was in place;

RESOLVED

That the progress being made to address the issues highlighted in the IT audit be noted.

24     REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

Consideration was given to a report which set out the requirement for bodies such as the County Council to review the effectiveness of internal audit once a year and for the findings of the review to be considered by an appropriate committee of the Council. The report presented discharged that responsibility by reporting the findings of work undertaken by a joint officer/councillor working group.

It was noted that in this context, 'internal audit' was not just restricted to the role, activity and effectiveness of the internal audit team, but also applied to the role, activity and effectiveness of the Audit Committee itself. The guidance made it clear that this review should be undertaken by the authority itself and not the external auditor.

The Assistant Director Finance and Resources informed the Committee that the Review Group had been made up of the following:

- Councillor Mrs S Rawlins – Chairman of the Audit Committee
- Councillor Mrs E Sneath – Vice-Chairman of the Audit Committee
- David O'Connor – Executive Director Performance and Governance
- David Forbes – Assistant Director Finance and Resources

It was queried whether, where issues had been highlighted by internal audits and dates agreed for actions to be implemented by, there were checks to ensure that these actions were completed on time. It was noted that the message would be reinforced through the management team, and if actions were not completed on time then there was an escalation process.

RESOLVED

That the opinion of the Review Group, that the County Council maintains an effective system of internal audit, be endorsed.

25     ANNUAL GOVERNANCE STATEMENT 2013

The Committee was informed that the Council had reviewed the effectiveness of its governance framework which had helped to test and gain confidence that the governance framework was operating as intended and that the Council was:

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'doing the right things, in the right way, for the right people, in an open, honest, inclusive and timely manner'

It was reported that the Audit Committee had a key role to play in the development and approval of the Council's Annual Governance Statement. At the last meeting of the Audit Committee held on 22 July 2013, it considered in detail the draft Annual Governance Statement, which outlined in detail the significant governance issues. The purpose of the Statement was to set out to the public how the Council managed its governance and risk.

It was noted that some of the issues highlighted on the Governance Statement were not 'quick fixes'.

It was noted that it was recognised that the Council was still reliant on a single data centre and that this represented a source of ongoing risk, and it would be highlighted in the Strategic Risk Register.

**RESOLVED**

That the Council's Annual Governance Statement for 2013 be approved.

**26**     EXTERNAL AUDITS ISA 260 REPORT TO THOSE CHARGED WITH GOVERNANCE ON LINCOLNSHIRE COUNTY COUNCIL'S STATEMENT OF ACCOUNTS AND LINCOLNSHIRE COUNTY COUNCIL PENSION FUND ACCOUNTS FOR 2012/13

Consideration was given to a report which set out the findings of the External Auditors in their ISA 260 Report to Those Charged with Governance for the County Council's Statement of Accounts and for the Pension Fund Accounts.

It was noted that this was the first year that KPMG had carried out the audit as the Council's external auditor, but the framework was still the same. Some of the key points highlighted to the Committee included the following:

- The External Auditor anticipated issuing an unqualified audit opinion by 30 September 2013;
- The External Auditor was pleased to report that the audit of the financial statements had not identified any material adjustments. The Council made a number of non-trivial adjustments, most of which were of a presentational nature. There was no impact on the General Fund;
- The Council had good processes in place for the production of the accounts and quality supporting working papers. Officers dealt efficiently with audit queries and the audit process had been completed within the planned timescales;
- The Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Again the External Auditor anticipated issuing an unqualified VFM conclusion by 30 September 2013.

The Committee was advised that thanks had been passed onto Mouchel for the quality of the work which had been done in preparing the accounts.

During consideration of this item Councillor N I Jackson informed the Committee that he was a Board Member for Urban Challenge, and this was stated on his DPI form.

RESOLVED

1. That the External Auditors Report to Those Charged with Governance (ISA 260) for Lincolnshire County Council be noted;
2. That the External Auditors Report to Those Charged with Governance (ISA 260) for Lincolnshire County Council Pension Fund be noted;
3. That the Letter of Representation on behalf of the Council to enable the Audit Opinion to be issued, be approved.

27     STATEMENT OF ACCOUNTS FOR LINCOLNSHIRE COUNTY COUNCIL  
FOR THE YEAR ENDED 31 MARCH 2013

The Committee received a report which provided them with the opportunity to consider the final Statement of Accounts for Lincolnshire County Council for the financial year 2012/13.

It was reported that the Council was required to make arrangements to prepare Statement of Accounts which gave a 'true and fair' view of the financial position for the County Council and the for the Pension Fund as at 31 March 2013 together with a record of income and expenditure for the financial year 2012/13.

The Committee was reminded that it had scrutinised the draft accounts in detail at the previous meeting held on 22 July 2013, and had been provided with the opportunity to make comments.

Members were informed that Ian Fifield, who had carried out the training on 22 July 2013, would be returning to host a session for all councillors on 6 December 2013 which would provide an overview of local government finance.

RESOLVED

That the Audit Committee approve the Statement of Accounts for 2012/13.

28     WORK PLAN

Consideration was given to a report which provided the Committee with information on progress on agreed actions and its work plan up to November 2013.

It was suggested that a briefing paper be attached to the work plan for the next meeting which would give an update on the actions on the ICT audits as requested by the Committee.

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It was also noted that an item to be timetabled still was a meeting with all the Executive Directors where they could explain their key risks.

**RESOLVED**

1. That the progress of agreed actions be noted;
2. That the work plan and the suggested changes be noted;

The meeting closed at 11.45 am