

**PRESENT: COUNCILLOR MRS S 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), Lucy Pledge (Head of Audit and Risk Management), John Sketchley (Audit Manager), Christina Tudor (Head of Performance & Programmes Service) and Rachel Wilson

50 APOLOGIES FOR ABSENCE

There were no apologies for absence.

51 DECLARATIONS OF MEMBERS' INTERESTS

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

52 MINUTES OF THE MEETING HELD ON 27 JANUARY 2014

RESOLVED

That the minutes of the meeting held on 27 January 2014 be signed by the Chairman as a correct record.

53 FUTURE DELIVERY OF SUPPORT SERVICES - ASSURANCE AND HANDOVER ARRANGEMENTS

The Committee received an update from the Chief Information Officer and Programme Director in relation to the Future Delivery of Support Services – Assurance and Handover Arrangements.

It was reported that the contract with Serco had been completed and it commenced on 1 April 2014. Serco would be helping with some of the transformational projects.

The Chief Information Officer and Programme Director outlined some of the changes which would be taking place as follows:

Agresso Transformation – this would replace the SAP system, Serco would be implementing this during the coming year in order to go live on 1 April 2015.

IMT Transformation and Transition – this would take two years to complete, and would change the way that the technology was structured and managed. It would also change the way that the authority used data centres, and there would no longer be a reliance on a single on-site data centre. The majority of the data would be moved to two remote data centres and would then be accessed remotely. This would greatly improve disaster recovery.

Customer Service Transformation – the Customer Service Centre would be moved over to Serco in 2015, and Serco would be working with Zoe Butler, Head of Customer Services, and her team in the coming year. There would be a move towards more IT self-service systems, but there would not be a reduction in the telephone systems.

People Transition – there would be a lot of staff transition from April 2015. From 1 April 2014, accountancy staff and a small number of property staff would transfer from Mouchel to the County Council. It was noted that the accountancy staff would be within the County Council when the transition from SAP to Agresso was undertaken. Staff would also be transferring from the County Council to Serco in April 2015, some staff would also transfer from Mouchel to Serco in 2015.

Property – this was being dealt with through a separate procurement exercise. An invitation to tender was provided to 6 shortlisted companies, and these would be presented to the Value for Money scrutiny committee in July 2014. Following this another significant staff transition would be undertaken.

Health and Safety would be brought back in house from April 2015.

Catering - the contract had been split, the civic function would be included in the property contract and there was still a need to award the contract for catering at the secure unit in Sleaford. This would be done through a separate procurement exercise. It was noted that some staff would be affected by TUPE transfer.

Pensions – the authority was exploring the possibility of working with another local authority on the administration of the fund. More information would be known in the coming few weeks, but this was still a work in progress.

A number of strategic governance and operational governance boards had been set up as part of the programme governance. It was noted that the operational boards had been set up to monitor the day to day activities as well as providing a more strategic overview. These boards also provided a route into Management Board and the Executive. Reporting of performance would be through the Value for Money Scrutiny Committee.

Members were advised that a senior management review was underway at the moment, and this would lead to staff changes later in the year.

The Committee was provided with the opportunity to discuss the information which had been presented to them, and some of the points highlighted during discussion included the following:

- It was commented that this was a lot of work to do in one year, which was one of the major risks with this work;
- In response to the risks with this work, the Committee was advised that there was a single programme officer co-ordinating all the work, and each project had its own risk register, as well as a risk register for the overall programme. The work was monitored by the Partnership Board and Transitions Board;
- Members were advised that compliance with the contracts would be discussed in detail by the Value for Money Scrutiny Committee and the Executive. Whether there were any penalties if the contract was not performing as it should could not be discussed in public as the information was commercially sensitive;
- It was noted that a number of lessons had been learned from the Mouchel contract which had been embedded in this new contract;
- It was requested whether the Committee could be kept up to date with the work taking place, for example, following certain milestones.
- The property contract did have a 'pain and gain' mechanism in relation to performance;
- The data storage was covered by Public Sector Network Security which was externally audited by the government on an annual basis;
- It was felt that one area of risk was that there would be a lot of staff movement in the coming year. Members were assured that there was a whole year for the transitions to take place, and there was HR expertise within the programme team which would help to manage the transfer of staff. Serco also had dedicated staff to assist with the transfers, and all staff transfers would be undertaken through the TUPE process. The first of a series of staff briefings would take place on 1 April 2014, they would be informal briefings as it was too early to start formal consultation. The formal consultation would start in January 2015 and run for three months;
- The external auditors had been in discussions with officers regarding the change to Agresso from SAP for 6 months. It was noted that SAP would remain operational until the close down for the financial year (i.e. until the end of June 2015). The key to an early close down was planning. There was the potential for an extra cost, but this was likely to be minimal compared to the cost of running SAP for another year;
- A member of the Audit and Risk Management team would be working with the implementation team;
- Audit staff would work with the Chief Information Officer, Value for Money Scrutiny Committee and other scrutiny committees to manage the reporting;
- The input of internal audit in the transition process for this work was welcomed;
- It was noted that during the budget setting process, the Leader of the Council recognised the importance of the audit team's work during the transition phase of the contract and so the resources available to the team were not reduced;

#### 4

### AUDIT COMMITTEE

31 MARCH 2014

- There was a drive from central government to improve the efficiency of pensions through joint administration;
- In relation to schools which were currently using SAP, it was noted that they would be able to change to Agresso if they wished. It was expected that most of the small maintained schools would change to Agresso. It was noted that the authority would not be dealing with academies in relation to this. However, Serco did provide services to academies in other parts of the country, it would be up to the individual academies to make the decision of how to proceed.

#### RESOLVED

That the verbal update be noted.

#### 54 COMBINED ASSURANCE STATUS REPORTS

Consideration was given to a report which provided the Audit Committee with an insight on the assurances across all the Council's critical services, key risks and projects.

The Committee was guided through the combined assurance reports for Public Health and Adult Care, and some of the points raised during discussion of these reports included the following:

##### Public Health

- It was generally a positive message, with many of the services provided on a commissioned basis. The only area showing as red was the Lincolnshire Community Assistance Scheme, this was due to it being a new service;
- For the next meeting of the Committee all key messages would be consolidated into a single document;
- It was recognised that more work needed to be done to identify key assurances for mental health;
- In relation to the 'unknown/gap' status for the Wellbeing Project, this was due to it being a new service, and so was too early to assess when this report was produced;
- The Lincolnshire Community Assistance Scheme was also a 'red' risk as the funding for it came from central government, and this was likely to cease in 2015;

##### Adult Care

- The overall assurance had improved since November 2012;
- Of the 15 risks which had been identified for the County Council, 4 related to Adult Care;
- The abacus system would be replaced by the new case management system, which would feed Agresso with financial information. However, it was noted that this was not part of the Agresso system;
- The Council was 'open and aware' in terms of risk appetite. However, it had a more 'cautious' approach for safeguarding children and adults;

It was acknowledged that the format of the reports would need to be reshaped for 2015 so that they aligned with the evolving commissioning strategies.

RESOLVED

That the current status of the Executive Directors' assurance regime be noted.

55     STATEMENT OF ACCOUNTS 2013/14

The Committee received a report which summarised the changes to the Code of Practice on Local Authority Accounting which would be incorporated into the 2013/14 Statement of Accounts as well as a review of the Council's Accounting Policies.

Members were advised that the changes to the Code of Practice were relatively few, and were outlined in the report. Members were guided through these changes and provided with the opportunity to ask questions to the officers present in relation to these changes, and some of the points raised during discussion included the following:

- The most significant change was the inclusion of the Energy from Waste Plant in the capital accounting policies section. This was a specialised asset and would be revalued annually. It would be picked up in the 5 year rolling programme;
- With regard to the EfW plant, different policies would need to be applied to different components of the facility;
- The delivery of the contract and monitoring of the performance would be subjected to normal internal audit activity;
- Some of the biggest assets within the county council were school buildings, and their infrastructure;
- When the final guidance from CIPFA was released there may be further changes;

RESOLVED

1. That the changes required to the County Council's Statement of Accounts from the Code of Practice be noted;
2. That the Statement of Accounting Policies for use in preparing the Council's accounts for the financial year ending 31 March 2014 be approved.

56     INTERNATIONAL AUDIT STANDARD - RESPONSE TO MANAGEMENT PROCESSES QUESTIONS

The Committee received a report which provided an assessment around whether the Council's financial statements may be mis-stated due to fraud or error.

Members were advised that External Auditors were required to obtain an understanding of the Council's management processes in a number of areas, and the International Auditing Standards specified the areas concerned. It was clarified that

**6**  
**AUDIT COMMITTEE**  
**31 MARCH 2014**

£21m was the amount at which a material mis-statement would be classed as significant.

RESOLVED

That the assessment accurately reflects the Council's management processes to minimise the risk of fraud or error in its financial statements.

57 EXTERNAL AUDIT - CERTIFICATION OF CLAIMS AND RETURNS - ANNUAL REPORT 2012/13

Consideration was given to a report which presented the Committee with the outcome of External Audit's certification of grants and returns work for 2012/13.

The Committee was advised that the number of grants which needed to be examined by the external auditors had reduced over recent years, and there was now only the Teachers' Pension Return which needed to be reported on. It was reported that the outcome of this work had been positive and there were no amendments to the claim. However, it was noted that there had been a lot of work involved due to the need for additional testing and the introduction of 7 tiered contribution rates for all teacher nationally, which was a major change to the underlying basis of the Teachers' Pension Return which came into effect on 1 April 2012. It was hoped that it would be more straightforward in the future.

RESOLVED

That the unqualified return of the Teachers' Pension Return 2012/13 be noted.

58 EXTERNAL AUDIT PLAN - 2013/14

The Committee received a report which described how External Audit would deliver their Financial Statement 2013/14 work for the Council and the Pension Fund, as well as their approach to Value for Money work for 2013/14.

Members were advised that the Audit Commission would close down in 2015 and the Code of Practice which was in operation had been in place since 2010. In terms of roles carried out by the Audit Commission, CIPFA would be picking up the fraud reporting role; the Cabinet Office would take over the National Fraud Initiative; the contract for external audit would move to the LGA. The LCC contract with KPMG would run until 2016/17 with the option to run for another 3 years.

It was also reported that it was expected that the audit fees would be reduced, possibly by up to 25%, but there were a lot of details still to emerge.

RESOLVED

That the External Audit Plan and any implications the plan had on the Council's governance, risk and control environment be noted.

59     CORPORATE AUDIT PROGRESS REPORT TO 28 FEBRUARY 2014

The Committee received an update on progress made against the Audit Plan 2013/14. It was reported that good progress had been made against the Plan with 81% of the planned work being completed (as at 28 February 2014). Members were also advised that 10 County Council audits had been completed since the last progress report, 1 of these resulted in limited assurance and two systems which received a split assurance (substantial/limited). A further 33 County Council audits were in progress.

Council Priority Activities (Major Projects and Programmes)

The Head of Performance and Programmes Service (PPS) attended the meeting to respond to the audits of the assurance role of PPS which had been assessed as 'limited'.

The audit suggested that whilst PPS had both the capability and capacity to carry out the assurance function demanded of it, assurance was not as effective as it could be due to a combination of non-compliance and a lack of mandate and agreed standards. Many of the recommendations required decisions from the Corporate Management Board and these would be taken to them no later than May 2014. These included:

- The need to strengthen business cases, being clear about what the key elements in a business were and ensure that major problems had them;
- The need to be clear about what the 'must do's' were in projects;
- To ensure that assurance was non-negotiable and that if an activity fitted the criteria for assurance, the senior manager must comply;

Members were provided with the opportunity to ask questions to the officers present and some of the points raised during discussion included the following:

Council Priority Activities (Major Projects and Programmes)

- There were separate action plans for each of the high priority and medium priority recommendations which had been identified;
- For each priority activity, the benefits hoped to be achieved from the activity would be identified, along with how they would be delivered, and this would also form part of the monitoring;
- Officers were confident that all 11 actions would be completed by May 2014, as they were all interdependent on each other. Members requested that they be informed of the outcome of the discussions with CMB;

Horncastle Business Centre

- A manager from another business centre would be brought in to improve the processes in place;
- Officers would be working hard to complete the management actions identified in the audit;
- There had been an unrealistic income target, but these had been amended;
- Some audit work on the business cases for the community hubs had been carried out;

Creditors (split assurance – Limited – Directorates; Substantial – Mouchel)

**AUDIT COMMITTEE****31 MARCH 2014**

- The use of retrospective orders had been a concern and raised three risks which were payments were slower, offered poor value for money and there was the potential for poor budget management. Improvements in this area were now on target;
- There was a lot of good practice taking place at the year end;
- The introduction of the new Agresso system would need a change in process and culture over the next 12 months;
- It was clarified that the 30 days for payment referred to 30 days from the invoice date;
- It was considered important that any new system did not conflict with the policy of supporting local businesses. Members were informed that budget holders would be able to request that a particular supplier was set up on the system;
- It would be possible to set up framework orders;

**RESOLVED**

That the outcomes of the Corporate Audit work be noted.

**60     DRAFT INTERNAL AUDIT PLAN 2014/15**

The Committee received a report which presented the draft internal audit plan for 2014/15. It was reported that the plan had been developed using the Council's Combined Assurance Model which was a record of all assurances against the Council's critical activities and key risks. The use of this model helped to streamline and avoid duplication of effort where assurances could be drawn from other sources e.g. management, corporate functions and third parties. It provided coverage of all assurance, not just those from Internal Audit, and enabled the Head of Audit to produce the annual audit opinion for 2015.

It was noted that the plan had identified a number of critical activities, which the Internal Audit did not have the resources to review, and the Audit Committee may wish to request management to provide assurance on these areas. The Council's Internal Audit Plan for 2014/15 was 1500 days, and a schedule of audits would be developed with management once the plan had been approved.

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:

- Internal audit work would be included in the FDSS project;
- The County Council had five significant external clients, and the income generated from this arrangement was approximately £100,800;
- Income of approximately £90,000 was also generated through the Academies insurance product. Officers assisted with the completion of paperwork, but did not give insurance advice;
- The County Council worked in partnership with the City of Lincoln for the provision of internal audit services;



RESOLVED

That the audit plan for 2014/15 be agreed.

61     COUNTER FRAUD AND INVESTIGATION WORK PLAN 2014/15

The Committee received a report which set out the Counter Fraud and Investigations Work Plan for 2014/15. Members were advised that the Council's counter fraud arrangements demonstrated its continued commitment to strong governance and best use of resources. The Council's response to central government's expectations for tackling fraud and corruption was reflected in the draft 2014/15 Counter Fraud Plan. It was important that a counter fraud response was maintained and was resilient as the changes to Council service delivery continued to evolve.

It was reported that officers would aim to continue to focus on prevention, detection and investigation work. The whistleblowing and counter fraud awareness activity would continue throughout 2014/15 and more engagement with managers, members and staff was planned.

RESOLVED

That the Counter Fraud Work Plan for 2014/15 be approved.

The meeting closed at 1.00 pm