

**AUDIT COMMITTEE
22 SEPTEMBER 2014**

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

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

Officers in attendance:-

Tony Crawley (KPMG), David Forbes (County Finance Officer), Mark Housley (Assistant Director for Safer Communities), Claire Pemberton (Assistant Head of Finance), Lucy Pledge (Audit and Risk Manager), Donna Sharp (County Service Manager (Registration, Celebratory & Coroners Services)), Richard Wills (Executive Director for Environment and Economy) and Rachel Wilson (Democratic Services officer)

17 APOLOGIES FOR ABSENCE

No apologies for absence were received.

18 DECLARATIONS OF MEMBERS' INTERESTS

Councillor Mrs E J Sneath wished that it be noted that in relation to agenda item 4, page 22, her grandson was in receipt of home to school transport.

19 MINUTES OF THE MEETING HELD ON 21 JULY 2014

RESOLVED

That the minutes of the meeting held on 21 July 2014 be agreed as a correct record and signed by the Chairman.

20 INTERNAL AUDIT PROGRESS REPORT TO 31 AUGUST 2014

Consideration was given to a report which provided an update on progress made against the Audit Plan 2014/15 and provided summaries of all audits completed within the period April to August 2014.

It was reported that during this period, 11 County audits had been completed, 8 to final report and 3 to draft report stage, as well as 9 schools audits. Overall, 25% of the plan had been completed.

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Members were advised that there were two auditors working almost full-time advising/support the Agresso implementation project. The input of Internal Audit was a significant part of the work over the year, and represented 10% of the audit plan. Regular highlight reported would be provided to the Section 151 Officer and Project Board, and updates would also be brought to the Committee over the coming year.

It was also noted that there were eight audits in progress, as well as additional work being undertaken on the Birth to Five Service, the Libraries Judicial review and Information Governance. Visits to each of the Academies for which the County Council carries out internal audit work had also been undertaken.

Members were informed that the assurance levels provided for 2014/15 had been amended in response to the introduction of other UK Public Sector Internal Audit Standards and were based on the Institute of Internal Auditors professional practice. The new levels of assurance would be as follows:

- Effective
- Some improvement needed
- Major improvement needed
- Inadequate

Members were provided with the opportunity to ask questions to the officers present in relation information contained within the report as well as audits where assurance had been assessed as 'no' or 'limited', and some of the points raised during discussion included the following:

- The Agresso implementation would be complicated as it was a self-build, which would give the authority the resource to maintain and monitor the system itself. It was noted that the project had now reached the build phase. The financial systems were broadly on target, however, payroll was behind target due to a lack of resources from Serco and Mouchel. It was expected that this would be back on target by the end of October. It was also expected that the build phase would be complete by the end of October 2014, the system would then enter the testing phase, and three parallel runs with the payroll system would be carried out. Members were advised that there were contingency plans in place in the event of problems, but the liability would be with Serco to resolve them;
- A package of financial services had been put together which schools would be able to buy back, and meetings with schools had taken place to explain what would happen;
- The new Agresso system would be more user friendly than the SAP system;

Coroners – Limited Assurance/Major Improvement Needed

- Major improvement had been asked for, and so some challenge was expected;
- There were two part-time senior Coroners covering two areas/jurisdictions, and were line managed by the Chief Coroner or Lord Chief Justice. They were not employees of the authority, and no Council Officer had line management responsibility for them;
- Officers had started to tackle some of the major issues;

- The audit had been commissioned by the Service, as officers were keen to get an external view on the historic working practices;
- There had been a lot of changes which had allowed greater opportunities to provide greater accountability;
- There had been some issues around budget accountability, and more robustness in challenging spending was required, as it had been increasing;
- One of the challenges was around process and policy, as the two coroners could not be forced to work together as they were independent, however, discussions had been taking place around bringing them together and working together in one location, and involving business support with the processes. The intention was to bring them together in one location, with one IT solution, to provide a hub service which could serve the whole county;
- There had been a delay in completing some of the management actions as it had not been possible to meet with both coroners until 5 September 2014;
- Officers had been working very hard with the Coroners to change the policies and processes which were in place, to ensure that their views were taken into account;
- Members were assured that there was confidence that all recommendations would be completed, although some may take a little longer to implement;
- Concerns were raised regarding budget control and monitoring as there had been considerable overspending. Members were advised that this was one area where it was difficult to set a budget as it depended on the nature of an inquiry and how many expert witnesses were required. However, officers would continue to challenge;
- Members acknowledged the reasoning behind the idea of a hub, but there were concerns about job losses, and how the service would continue to serve the whole county. Members were advised that having a single hub would not affect the service, as the Coroners were keen to hold local inquests and travelled to where the inquest was, and it was not expected that there would be job losses, in fact there was a possibility that more staff could be required;
- Central Government additional funding would generally not be made available for exceptional cases, unless it was a major incident, when the Ministry of Justice would support the costs of an inquiry;
- It was noted that there had been an increase in the number of referrals for post mortems, and it was reported that this had come in with the new Coroner, who was very keen to improve the health services in the south of the County. It was noted that it was a judicial decision to order a post mortem;
- It was requested that the Committee receive a progress report, and it was suggested that a follow up audit could be carried out in 6 – 12 months. The issues faced by the service were appreciated;

Risk Management – Limited Assurance/Major Improvement Needed

- Some areas of good practice were found, for example in how strategic risks were managed;
- Some improvement was required in relation to key decisions, as reports to the Executive did not always clearly articulate the risks associated with the recommendations/proposal, and actions and controls to manage to manage risks were rarely included. Therefore decisions may be made without full

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knowledge and understanding of the risks involved and how they would be managed;

- Key projects had their own risk register;
- Strategic risks were all included on the Corporate Risk Register, and if a project had a project risk register, this would form part of the normal handover arrangements in the event of absence of key members of staff;

MIMS Insurance Management System – No Assurance/Inadequate

- This was a small, but important system, however, the level of error found was higher than expected;
- Following this audit, a manual intervention was implemented to ensure that reports were accurate and complete;
- Clear individual targets had been set, and one of the key issues within the team had been a lack of guidance notes;
- A clear action plan had been put in place and was being monitored and taken forward;
- It was found that 52% of claims had errors. It was found that many of the errors were in relation to category of claim, specifically potholes. The claim itself was correct, but the way it had been categorised was not;
- This may not have been picked up previously as there had been a recent change in staffing;
- The Insurance Manager met with the supplier in order to get a better understanding of the capabilities of the system;

Other issues

- All school audits were on track;
- In relation to the Debtors audit, David Laws had provided a response after the report had been published, good progress was reported, and key recommendations were being acted upon. The briefing paper would be circulated to members of the Committee;
- In relation to the Domestic Abuse audit, a briefing paper would again be circulated setting out the current actions, it was noted that many were around participation at MARAC meetings.

RESOLVED

That the outcomes of the Internal Audit Work be noted.

21 APPROVAL OF THE COUNCIL'S ANNUAL GOVERNANCE STATEMENT 2014

Consideration was given to a report which provided the Committee with the opportunity to consider the content of the Council's Annual Governance Statement 2014.

It was reported that each year the Council was required to reflect on how well the Council's governance framework has operated during the year and identify any governance issues that needed to be drawn to the attention of Lincolnshire residents. Good governance underpinned everything the Council did and how services were delivered often came under close scrutiny.

Members were advised that a 'good' Annual Governance Statement was an open and honest self-assessment of how well the Council had run its business – with a clear statement of the actions being taken or required to address any areas of concern. One of the roles of the Audit Committee was to oversee the development of the Annual Governance Statement and to recommend its adoption by the Council.

It was noted that all the issues highlighted by Members in the draft Annual Governance Statement had been addressed, including more explanation in relation to the outcomes of the judicial review. It was hoped that the document did now accurately reflect how the Council ran and that the actions identified had been amended.

It was commented that in relation to the Counter Fraud work the Statement did not seem to show any of the successes that the team had had. However, members were reassured that this information had been brought together in the Audit Committee's Annual Report.

Members were advised that the outcome of the Judicial Review into the libraries consultation did not mean that the proposals were unlawful, just that there were flaws in the consultation.

RESOLVED

1. That the Annual Governance Statement accurately reflects how the Council was run;
2. That the Statement includes the significant governance issues/key risks it would have expected to be published;
3. That the Audit Committee approve the Statement and recommend it for adoption by the Council.

22 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 2013/14

The Statement for Accounts for Lincolnshire County Council and for Lincolnshire County Council Pension Fund for the financial year 2013/14 had been completed and independently audited.

Consideration was given to a report which set out the External Auditors findings 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 the role of the Audit Committee to seek assurance over the adequacy of the External Audit Opinion on the Financial Statements and the Council's Value for Money arrangements and to ensure any issues/risks identified by the External Auditor were being effectively managed.

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Members were advised that the External Auditors proposed to issue an unqualified audit opinion on the financial statements. The audits had been completed and there were no outstanding issues.

The Committee was guided through the reports, with attention drawn to the Headlines and Specific VfM (Value for Money) risks. It was noted that there was one error found in the Pension Fund Statement of Accounts, as the value of an investment was actually in euro's but had been listed in sterling. This had led to an overstatement of the value of the investment. However, this had now been corrected and additional procedures had been put in place to ensure foreign exchange rates were accurate and consistent.

It was noted that the Letter of Representation was very similar to the letter that was approved the previous year.

RESOLVED

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

23 STATEMENT OF ACCOUNTS FOR LINCOLNSHIRE COUNTY COUNCIL FOR THE YEAR ENDED 31 MARCH 2014

Consideration was given to a report which presented the final Statement of Accounts for Lincolnshire County Council for the financial year 2013/14 for approval.

It was noted that Members of the Committee had listened to comments from the External Auditors in relation to the Statement of Accounts and it now for the Audit Committee to approve them.

The Audit Committee was presented with the draft Statement of Accounts for 2013/14 at its meeting on 21 July 2014, where members scrutinised and made comment on the accounts. Members reported that they had found the new format of the session where they considered the accounts to be more helpful than previous years.

The Chairman congratulated officers on the production of the Statement of Accounts and noted that good feedback had been received. On behalf of the Committee the Chairman passed on their congratulations and thanks to the team for all the work that had taken place, in particular the quality of work which had gone into the Energy from Waste facility accounting work.

The External Auditor requested that if any issues emerged between the date of the meeting and when the accounts were submitted, that they be dealt with by the Chairman of the Committee and the Section 151 Officer.

In relation to usable reserves, it was noted that the Council intended to add a substantial amount to the financial volatility fund, in order to help with the funding reductions that the council would be receiving in 2015, as there would be a requirement to save £90m over the next four years. Earmarked reserves would also be subject to a review when setting the Council's budget for 2015/16.

RESOLVED

1. That the explanatory foreword to the accounts help the public understand the authority's financial management of public fund; and
2. That the Statement of Accounts for 2013/14 be approved.

24 DRAFT AUDIT COMMITTEE ANNUAL REPORT

Consideration was given to a report which sought to show how the Audit Committee had discharged its terms of reference and had positively contributed to how well the Council had been run.

It was noted that reference to IT business continuity and disaster recovery had been included due to historic concerns of this Committee.

Members were informed that it was planned to set up a dedicated Governance page on the Council's website, and once the Annual Report was approved it would be available to view through this page.

It was noted that the final version of the Annual Report would be approved at full Council at its meeting on 19 December 2014.

It was requested that a picture and some narrative be included for the Independent Added Person, Mr D Finch.

RESOLVED

1. That the draft Annual Report adequately reflects the work done;
2. That any changes identified be made;
3. That the Chairman present the final version of the Audit Committee Annual Report to the meeting of full Council on 19 December 2014.

25 WORK PLAN

The Committee considered a report which provided information on the core assurance activities currently scheduled for the 2014/15 work plan.

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It was reported that there were no additional items which needed to be added to the November meeting. However, it was commented that it was likely that there would be a progress report following the Judicial Review into the Libraries Consultation.

It was noted that some time would be set aside following the November 2014 meeting to provide the Committee with the opportunity to meet with the external auditors.

RESOLVED

1. That the Audit Committee's work plan be reviewed and amended as necessary to ensure it contained the assurances necessary to approve the Annual Governance Statement 2015;
2. That the action plan be noted and the way forward/delivery of the actions be approved.

The meeting closed at 12.05 pm