

**AUDIT COMMITTEE
18 JULY 2016**

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

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

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

Officers in attendance:-

Rachel Abbott (Audit Team Leader), Claire Machej (Head of Finance (Corporate)), Lucy Pledge (Audit and Risk Manager), Richard Wills (Executive Director, Environment and Economy) and Rachel Wilson (Democratic Services Officer)

13 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Miss F E E Ransome.

14 DECLARATION OF MEMBERS' INTERESTS

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

15 MINUTES OF THE MEETING HELD ON 20 JUNE 2016

The Executive Director for Environment and Economy provided an update on the progress of the review by KPMG of the Serco contractual arrangements (minute number 5 refers). It was reported that KPMG had not yet received clearance from the Public Sector Audit Appointments Ltd that it could carry out this work, and it was taking longer than expected to obtain this approval.

It was still believed that this approval would be received and it was hoped that something could be reported to the Committee on 1 September 2016. Interviews had been arranged with key members of staff, so as soon as approval was received work was ready to begin.

RESOLVED

That the minutes of the meeting held on 20 June 2016 be signed by the Chairman as a correct record.

16 INTERNAL AUDIT ANNUAL REPORT - 2015/16

Consideration was given to a report which gave the Head of Internal Audit opinion on the adequacy of the Council's Governance, risk and control environment and delivery of the Internal Audit Plan for 2015/16.

It was reported that during 2015/16 there had been a number of areas where the need for improved compliance and strengthening of the control processes had been identified – most notably the Agresso system and the Council's IMT systems.

Due to the negative impact these have had throughout the Council, it had been assessed that overall both the financial and internal control environment had deteriorated since the Head of Audit opinion given the previous year. Therefore, both Internal and Financial control environment had been assessed as red/amber. This showed inadequate performance, where urgent management action identified (in progress) on major governance issues or high risk in a key system/process area which had a negative impact throughout the Council

However, on a more positive note, it was reported that the Council's governance and risk framework had been assess as green/amber and was performing well with some improvements identified.

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:

- 98% of the revised plan had been delivered. The changes to the plan had to be made due to a number of vacancies within the team and the amount of time it took to fill them.
- It was noted that the audit on SEND transport had been moved to the current plan.
- It was queried why South Holland District Council had terminated their use of the LCC audit services, and members were advised that there were complicated audit arrangements in place with South Holland, as they shared a senior management team with Breckland district council, and so in trying to streamline services, they agreed to used Breckland's audit services. It was noted that it was a mutually agreed parting.
- It was confirmed that the implementation of the Mosaic case management system was behind plan, but it was aimed to go live in October 2016. There would be a meeting with programme managers in order to give assurance around Mosaic.
- It was noted that although the recovered funds of £950 of the £97,380 lost through fraud cases was low, the fraud had been stopped therefore preventing further losses. Members were disappointed that more funds had been recovered, but it was noted that this was due to the burden of proof, and there not being enough evidence for a criminal case. However, the employees involved were dismissed.
- Members were advised that an informal meeting of the Committee would take place on 4 August 2016 to allow the Committee to fully discuss the reports for the two audits which received low assurance. It was noted that it was not appropriate to bring the reports to this meeting as they were not yet ready.

Relevant officers would also be available on this date to answer any queries from members.

- In relation to the delay in implementation of Mosaic, it was noted that the Director for Adult Care did not want this system to be rolled out until it could be properly supported by the IT systems.
- It was queried whether IT resilience could be guaranteed as there were increasing numbers of staff who relied on IT to be able to perform their roles.
- It was requested whether assurance could be given on the current status of the IT systems.
- It was reported that the previous year had been particularly challenging for the service as two key staff had left and recruitment had taken longer than expected. However, it was thought that there were sufficient resources to deliver the Audit Plan.

RESOLVED

1. That the content of the Head of Internal Audit's Annual report be noted.
2. That assurance be sought on the current status of the Council's IT systems.
3. That the Audit Committee meet informally to consider the two reports which received low assurance.

17 REVIEW OF GOVERNANCE FRAMEWORK & DEVELOPMENT OF ANNUAL GOVERNANCE STATEMENT 2016

Consideration was given to a report which provided the Committee with an opportunity to review the contents of the draft Annual Governance Statement, to ensure that it accurately reflected the committee's understanding of the Council's governance and assurance arrangements. It was noted that this was a key activity in the Committee's terms of reference.

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:

- It was noted that the Annual Governance Statement was part of the Statement of Accounts, and would be formally signed off at the September meeting of the Audit Committee.
- Officers were fully confident that the Statement was a realistic self-assessment.
- It was noted that schools were no longer automatically audited, but the authority would audit those schools which were causing concern or those schools who requested an audit. Internal audit was working with education to pull together an offer so if schools wished to procure audit services they could.
- Members were advised that if schools wished to use a different financial system to Agresso, this would not affect their ability to be audited.
- It was confirmed that the annual spend of Lincolnshire County Council was around £1.1bn. It was noted that the Council had a net budget which was agreed by Council, but £1.1bn was the amount that the Council spent, as it received money from other sources including grants.

RESOLVED

1. That the Committee agree that the Annual Governance Statement 2016 accurately reflects how the Council was run.
2. That the Committee agree that the Statement included the significant governance issues/key risks it would have expected to be published.

18 COUNTER FRAUD ANNUAL REPORT 2015/16

Consideration was given to a report which provided information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption and reviewed the delivery of the 2015/16 counter fraud work plan.

Members 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;

- It was reported that 86% of the 2015/16 work plan had been completed, and those areas which were outstanding were already at the advice stage.
- £30,000 had been recovered through the data matching work of the National Fraud Initiative (NFI).
- It was intended that proactive work would be increased in 2016/17.
- It was queried how it was tested that the counter fraud risks were being managed. Members were advised that there were certain areas which were dealt with more regularly, such as procurement, and so the number of referrals which were received would be examined.
- It was queried how the authority benchmarked against other councils, and it was reported that CIPFA did have a benchmarking club. However, in terms of recoveries, it was difficult to compare, as in some years there would be a very good level of recoveries. Members were advised that policies and strategies were tested against other areas. It was noted that Lincolnshire did seem to be ahead of the game in terms of forward thinking.
- It was queried how it was determined whether the whistleblowing policy was accepted by staff, and it was reported that at a recent procurement event, delegates were actively asked whether they were aware of the whistleblowing arrangements. This was something that needed to be done regularly to ensure that people were aware of the policy. 19 referrals had been received which related to LCC, however, the Lincolnshire Fraud Partnership received increased traffic which was then referred on to the relevant partner to follow up.
- It was confirmed that the authority was supportive of individuals who reported concerns, and advice would always be offered.
- It was noted that this was not an alternative way to raise a grievance, and the team was there to ensure that there was no victimisation of the individual.
- Any fraud that was identified would trigger the production of an action plan which would include who would be responsible for implementing the actions and timescales.

RESOLVED

That the Council's arrangements to counter fraud and corruption and the progress made to implement policy be assessed as effective.

19 INTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report which provided an update on the internal audit work undertaken in the period 1 June – 8 July 2016.

The Committee was guided through the report and the following was highlighted:

- The audit on the Integrated Community Equipment Scheme, which received high assurance, did not require any recommendations.
- There were two audits which received limited assurance – the Mental Capacity Act and Accounts Payable.
- In relation to the Mental Capacity Act, it was planned to do some additional work and revise and reissue this report, which would go to the September meeting of the committee.

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 included the following:

- It was queried whether the low assurance of the Pensions would affect the actuaries report. Members were advised that this would need to be answered by the appropriate manager.
- It was commented that a reference to a zero tolerance of duplicate payments would have been preferred. It was noted that duplicate payments had been a significant problem since the introduction of Agresso, but the situation was improving. The language used was to highlight that there had been an improvement.
- It was queried what the implications for the General Ledger were, and it was reported that officers were in the process of finalising the audit of the General Ledger.
- In relation to the Mental Capacity Act it was acknowledged that there had been some issues with capacity within adult care, and there would be an update on this situation when the report was reissued in September.
- Clarification was sought of the value of the duplicate payments, and what percentage of payments were affected.

RESOLVED

That the outcomes of Internal Audit Work be noted.

20 CORPORATE COMPLAINTS AND COMPLIMENTS

The Committee received a report in response to its request to provide an annual report reviewing the effectiveness of the Council's complaints and compliments process.

It was reported that an annual report could not be provided at this time as a new process of capturing data had been developed in response to the Corporate Complaints Review which took place the previous year. Lincolnshire County Council Complaints Review was presented to CMB in October 2015. One of the four objectives of the review was to look at ways to gather better data to improve intelligence and help shape services. To address the recommendations identified in the review a Working Group was set up in February 2016. The group produced a new Corporate Complaints and Compliments Policy and supporting procedure and developed a list of indicators to support data collection and further actions as proposed in the report.

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 data on complaints and compliments for each service area usually went to each of the relevant scrutiny committees.
- It was queried how this would be incorporated into the performance management system.
- It was suggested that the Committee should note the report rather than support it, as it did not want to be seen to be deciding the work.

RESOLVED

That the proposed indicators and the follow-on actions required to be undertaken by the Corporate Complaints and Compliments Work groups be noted.

21 WORK PLAN

Consideration was given to a report which provided the Committee with information relevant to the core assurance activities currently scheduled for the 2016/17 work plan.

It was reported that more work would be taking place regarding improving the effectiveness of the Audit Committee following the self-assessment workshop.

Members were advised that more formal agenda setting meetings would be taking place with the Chairman and Vice-Chairman a couple of weeks before the agenda was circulated.

RESOLVED

1. That the Audit Committee's work plan contained the assurances necessary to approve the Annual Governance Statement 2016
2. That the outstanding actions designed to improve the effectiveness of the Committee be noted.

22 DRAFT STATEMENT OF ACCOUNTS 2015/16

Consideration was given to a report which provided the members of the Audit Committee with an opportunity to scrutinise and comment on the draft Statement of Accounts for Lincolnshire County Council for the financial year 2015/16. 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.

Members were advised that there had been a number of problems preparing the accounts this year, and they may not be of the same quality as normal. A slightly revised set of accounts would be given to KPMG for when they started the process on 1 August 2016.

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:

- This was the draft Statement of Accounts, and it was good practice that the Audit Committee considered the draft statement before formal approval in September.
- There were no substantial changes to the format.
- Page 143 – reserves had been used during the year, and the underspend had been in schools.
- Page 147 – Pension Fund Liability
- Page 149 – this showed how reserves had moved. It was noted that the final reserves figure included both useable and unusable reserves (e.g. revaluations and pension fund reserves which could not be used to fund future spending).
- In terms of the reserves, there was £18m in the balance that belonged to schools.
- Ian Fifield from LG Futures advised that he was aware of the issues experienced by the authority during this year. It was noted that it would be difficult to compare this year with last year, and the audit report may be longer than normal.
- There would be a need to state what had been found and what had been changed
- It was commented that the funds in the financial volatility reserve were entirely appropriate in the current financial situation.
- Page 151 – the figure of £1.1bn for the spend of the authority was correct, as this was gross expenditure.
- In relation to the underspend on adult care, the outturn report would be going to the Executive in September. The underspend was due to the numbers of people coming into the service being a little lower than expected.
- It was queried whether in view of the issues with the general ledger, was there any notion of the potential margin of error that may be coming out of it. It was noted that the accounts were in a relatively reasonable state, and it was issues around feeder systems (e.g. payroll) that were the areas causing the most problems.

- The constitution stated that each service should only overspend or underspend by up to 1%. Every service area which had underspent had done so by at least 1% therefore, no service area should be disadvantaged by having to carry forward an overspend.
- It was noted that there had been a reduction in planning services income line in the Comprehensive Income and Expenditure Statement. This was due to Economic Regeneration which had had large amounts of income in previous years as a result of a large grant for 'Growing Places'.
- Differences in the expenditure of the corporate and democratic core was due to the costs of the elections in 2015.
- Page 152 – cash and cash equivalents – although the position appeared to be overdrawn at bank, the authority offset County Council and Pension Fund balances so had not gone overdrawn therefore had not incurred bank charges.
- There would be a big change in the asset values in the balance sheet from 2016/17 as highways assets would be valued in a different way (at current cost, rather than historic cost).
- Note 4 – it was queried whether any mention of the ongoing issues with Agresso would be included in the accounts, and members were advised that this would not be included here.
- It was noted that money from LEP contributions to county council schemes would be included in creditors paid. It was clarified that any money spent by the LEP would not form part of the County Council's accounts. Only funds that were paid to the council would be shown as an income to the Council.
- It was noted that any surplus from council tax collection would be included in the budget book. However, it was a relatively modest figure. This figure would be larger in 2016/17.
- Page 203 – this showed the breakdown of usable and unusable reserves.
- It was not believed that the figures would be incorrect to the magnitude that the accounts would be affected.
- Note 46 – there were no new contingent liabilities in 2015/16.

Pension Fund Accounts

- There had not been much variation in the value of the funds from the previous year.
- The Fire Fighters pension fund was unfunded, as it was part of a larger, national scheme.
- It was acknowledged that officers had had difficulty in producing these accounts this year and it was queried how much work was left to do. It was also commented that officers had done well to get the accounts to this stage. Members were advised that members of the team were still working on some aspects of the accounts that would normally be finished by this time. It was hoped that they would reach the minimum standard.
- Once these accounts had been completed the team would be starting to think about getting back to normal for 2016/17.

RESOLVED

That the comments made in relation to the draft Statement of Accounts for 2015/16 be noted.

The meeting closed at 12.55 pm