

**AUDIT COMMITTEE
26 SEPTEMBER 2016**

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

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

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

Councillors: Mrs A M Newton and B Young attended the meeting as observers

Officers in attendance:-

Rachel Abbott (Audit Team Leader), John Cornett (External Auditor, KPMG), David Forbes (County Finance Officer), Brian Goodwin (Contract Manager), Claire Machej (Head of Finance (Corporate)), Mike Norman (External Auditor, KPMG), Lucy Pledge (Audit and Risk Manager), Fiona Thompson (Service Manager People) and Rachel Wilson (Democratic Services Officer)

23 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor P Wood.

24 DECLARATIONS OF MEMBERS' INTERESTS

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

25 MINUTES OF THE MEETING HELD ON 18 JULY 2016

RESOLVED

That the minutes of the meeting held on 18 July 2016 be signed by the Chairman as a correct record.

26 INTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report which provided an update on internal audit work undertaken in the period 9 July to 12 September 2016. It was reported that 7 final reports had been issued, including one school report, and six corporate reports. Three of these received substantial assurance, and three received low assurance. Officers would be in attendance to discuss these audits later in the meeting. The audits which received low assurance were in relation to Payroll Key Controls; Pension Contributions 2015/16 and Concerto Property Asset Management System.

**AUDIT COMMITTEE
26 SEPTEMBER 2016**

Members were also advised that four audits were currently at draft report stage, and Internal Audit had completed 24% of the 2016/17 audit plan.

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 queried how the authority would proceed in the future in terms of EU procurement when the UK left the EU. It was reported that the authority would no longer be subject to EU procurement rules, however they had brought a level of discipline, and it was thought likely that they would be rewritten with some tweaks to suit the UK more.
- In terms of the Concerto Audit, it was queried whether there was assurance that appropriate checks had been put in place. Members were advised that Brian Goodwin from Corporate Property would be attending the meeting to provide an update on actions since the Concerto audit.

RESOLVED

That the outcomes of the Internal Audit work be noted.

26a Payroll and Pension Internal Audit

Consideration was given to a report which provided an update on the actions being taken to address and rectify the issues identified in both the Payroll and Pensions Audits. Both the Service Manager – People Management (LCC) and Delivery Director (Serco) were in attendance to discuss the findings of the audit.

It was reported that a very detailed action plan had been put together, and a number of actions had been implemented, including the appointment of two experienced and skilled payroll managers. A much more robust checklist for the running of payroll had been implemented along with improved error and warning reporting.

In terms of the Serco and LCC actions which had been identified for completion by the end of September 2016, they had were all either complete or partially complete (the latter the case where further work had been identified during the completion of the action).

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:

- It was queried how the Corporate Management Board and Executive were being kept informed of progress, and members were advised that Debbie Barnes, as the Executive Director responsible for People Management was accountable at senior manager level, and Councillor Young, as Portfolio Holder for Community Safety and People Management received updates on a monthly basis. There had also been reporting through the Recovery Board, of which Councillor Young was also a member.
- It was also queried how much additional time was being put into managing this contract, and what the costs of managing this contract were. In terms of pensions deductions, it was clarified that the outsourcing of Pensions had

worked well, however the issues related to the information being used to inform the deductions from payroll, which was undertaken by Serco payroll.

- It was acknowledged that there were some gaps in the transfer of information held between SAP and Agresso. It was also noted that Pension Schemes had become more complicated in the past 10 years.
- The action plan detailed those issues which were still outstanding, and officers were still working through the remaining actions, and the action plan would be revised regularly. The Audit Committee's concern had been whether issues were being dealt with in a timely manner.
- All actions which were due to be completed by the end of September had been completed. All high priority actions had also been completed.
- In terms of the mis-stating of national insurance numbers, assurance was requested that this would not impinge on the filing of RTI, and members were advised that Serco had been in close contact with HMRC throughout this process.
- It was confirmed that the KPI data for the contract would be presented to the Value for Money Scrutiny Committee meeting the following day.
- It was confirmed that Serco had previously been involved in the implementation of payroll systems, however, they had not previously implemented Agresso before. It was queried whether this had been sufficiently taken into account when awarding the contract, and it was reported that this would be addressed by the review being carried out by KPMG. It was expected that the report would be presented to the Audit Committee at its meeting in November 2016.
- It was confirmed that additional costs from the managing of this contract were being tracked, and was being managed by the Commercial Team, and being monitored through the Recovery Board. There was a need to see that systems were progressing in the right direction.
- It was reported that the action was updated in real time, and any member was welcome to contact the Delivery Director if they would like to like to go through it at any point.

RESOLVED

1. That the Committee note the approach and progress made with these audit actions.
2. That continued concerns regarding the additional costs of managing the contract be noted.
3. That an update on progress made with the action plan be provided at the meeting in November.

26b Concerto Audit

The Committee received a presentation from Brian Goodwin, Contracts Manager, in relation to the findings of the audit of the Concerto Property Management System. It was reported that Concerto had been working with the authority in order to address the issues raised by the audit, and the majority had been resolved.

**AUDIT COMMITTEE
26 SEPTEMBER 2016**

The audit report highlighted 27 issues, and of those, 20 were fully resolved. There were no 'red' issues highlighted, and the 7 remaining were 'amber' i.e. they were subject to further review and potential action if deemed necessary. The target date to resolve these remaining issues was 31 October 2016.

Concerto engaged a third party security advisor to support them in the testing of security aspects of the system, including a penetration test. Officers had also taken advice from Leicester City Council who had the same system, and they concurred that the amber items were easily remedied if there was requirement for changes. A meeting with Concerto in October 2016 had been agreed to finalise the report and any further actions which needed to be taken. A final report would then be submitted to the Audit Committee by 30 November 2016, which would outline all actions taken as a result of the security audit, with supporting information.

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:

- It was confirmed that no personal data was held on the LCC version of Concerto.
- The Concerto system went live on 1 April 2015.
- Concerto worked with the authority to develop the system, which was used for managing projects. Whilst it was accepted that there were flaws with the system, it was better than the one it replaced, and Concerto had been working with officers since it went live to get it to where officers wanted it to be. It was commented that Concerto had been very good, and were now rolling out this approach with other contracts.
- The system was used for estate management and covered everything owned by the County Council in Lincolnshire. Any changes in land prices would be updated manually by asset managers and building surveyors.
- It was commented that it was always better to go for a system that someone else had tested. However, it was noted that the authority did buy something that was used elsewhere, but then needed to determine how this authority needed it to work. The authority was aware of what it was getting from day one, and was buying into the potential of the system.
- One of the security was in relation to passwords, and who could make them and how complex they needed to be. This system could be used on any platform.
- It was emphasised that there were no breaches of data security.
- Members were satisfied that there was progress being made in relation to the actions identified.
- It was noted that when an audit was of a technical nature it was more difficult to get it closed down.

RESOLVED

1. That the update provided be noted.
2. That a copy of the recommendations from the Concerto audit be circulated to the Committee.

27 REVIEW OF AUDIT & INSPECTION FINANCIAL PROCEDURE 7 AND
INTERNAL AUDIT CHARTER

Consideration was given to a report which highlighted that one of the key roles of the Audit Committee was to ensure that the Council had effective audit arrangements in place. It was reported that there were two key policy documents which supported this activity which were Financial Procedure 7 – Audit and Inspection and the Internal Audit Charter. The report presented the Committee with the revised document, which took into account the recently updated UK Public Sector Internal Audit Standards and Accounts and Audit Regulations 2015.

It was noted that these documents were last updated in 2013, and the revised documents would be taken through Corporate Management Board in October, and the changes were currently applicable. It was acknowledged that whilst these documents did inform parts of the Council's Constitution, they did not need to be approved by the full Council.

Members commented that they liked the format of the document being printed with the tracked changes to enable them to see clearly what changes had been made, and be requested that this be repeated for any other documents which needed to be updated.

RESOLVED

1. That the revised Audit & Inspection Financial Procedure 7 be approved.
2. That the draft Internal Audit Charter be agreed subject to consultation and approval by the Corporate Management Team.

28 APPROVAL OF THE COUNTY COUNCIL'S ANNUAL GOVERNANCE
STATEMENT 2015-16

It was reported that each year the Council was required to reflect on how well the Council's governance framework had operated during the year and identify any governance issues that needed to be drawn to the attention of the Lincolnshire residents.

Good governance underpinned everything the Council did and how services were delivered often came under close scrutiny. A 'good' Governance Statement was an open and honest self-assessment of how well the Council had run its business across all activities – with a clear statement of the actions being taken or required to address any areas of concern. The Audit Committee considered the draft statement at its meeting on 18 July 2016.

Members were advised that the Statement had remained the same in terms of the areas being covered, and more detail being added in explanation of the Corporate Governance section.

RESOLVED

**AUDIT COMMITTEE
26 SEPTEMBER 2016**

1. That the Committee agrees that the Annual Governance Statement accurately reflected how the Council was run.
2. That the Statement included the significant governance issues/key risks it would have expected to be published.
3. That the Committee approve the statement and recommend it for adoption by the Council.

29 EXTERNAL AUDIT'S ISA 260 REPORT TO THOSE CHARGES WITH GOVERNANCE ON LINCOLNSHIRE COUNTY COUNCIL'S STATEMENT OF ACCOUNTS AND LINCOLNSHIRE COUNTY COUNCIL PENSION FUND ACCOUNTS FOR 2015/16

It was reported that the Statement of Accounts for Lincolnshire County Council and for Lincolnshire County Council Pension Fund for the financial year 2015/16 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 and Pension Fund Accounts.

The Committee received a detailed summary of the report from the Council's External Auditor, with specific focus on the following sections:

- Proposed audit opinions
- Key financial statement audit risks
- Accounts production and audit process – the Authority's financial statements
- Completion
- Other matters
- Change to financial and payroll systems

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:

- The audit was still in progress, but no material errors had been identified. It was noted that the work on the Pension Fund accounts was complete.
- Two risks were identified – the changes to Agresso and the change in the Pension Fund administration.
- There had been progress with payroll since the report was produced.
- It was believed that what had been incorporated into the accounts was correct and complete, but there was still some supporting information to be included.
- The year on year payroll costs were in line with expectations.
- It was confirmed that the audit opinion would not be affected by the outcome of the review of the Serco Contract which was being undertaken by KPMG.
- The work undertaken by internal audit would inform the work of the External auditors to determine where any further work needed to be done.
- It was confirmed that the final audit fee would be higher due to the additional time spent on this year's audit.
- It was reported that the authority would need to produce a set of accounts with a statement which said that the audit was not complete. It was noted that this statement could be as detailed or a brief as officers wished. An updated set of

accounts would then need to be published once the work was complete. Members were advised that the ability for the public to challenge the accounts had passed, however officers were still able to respond to questions received during the time that the accounts were able to be challenged.

- It was suggested that the Letter of Representation could be approved subject to any further amendments which may be required, and that authority should be delegated to the Chairman and Executive Director to agree those amendments.

RESOLVED

1. That the External Auditors Report to Those Charged with Governance (ISA 260) for Lincolnshire County Council and the Pension Fund be noted.
2. That the Letter of Representation be approved, subject to any further amendments, on behalf of the Council to enable the Audit Opinion to be issued.
3. That authority be delegated to the Chairman of the Audit Committee and the Executive Director for Finance and Public Protection to agree any amendments as necessary to the Letter of Representation.

30 STATEMENT OF ACCOUNTS FOR LINCOLNSHIRE COUNTY COUNCIL FOR THE YEAR ENDED 31 MARCH 2016

Consideration was given to a report which presented the final Statement of Accounts for Lincolnshire County Council for the financial year 2015/16 for approval. It was reported that all amendments had been picked up and worked through, and were not material in terms of the understanding of the accounts.

The Committee was asked to approve the set of accounts presented to be published on the County Council's website. It was also requested whether authority could be again delegated to the Chairman of the Audit Committee and the Executive Director to agree any amendments as required.

RESOLVED

1. That the Audit Committee approve the Statement of Accounts for 2015/16.
2. That authority be delegated to the Chairman of the Audit Committee and the Executive Director of Finance and Public Protection to agree any amendments as necessary.

31 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.

During discussion of the work plan the following points were noted:

- A pre-meeting had taken place with the Chairman and Vice-Chairman to work through the work plan in more detail.

8

**AUDIT COMMITTEE
26 SEPTEMBER 2016**

- The report of the final outcomes of the audit of the Serco Contract by KPMG would be presented to the Committee at its meeting in November 2016.
- It was planned to hold a meeting of the Audit Committee Forum on 11 October 2016 at North Kesteven District Council, and it had now been opened up to all committee members.

RESOLVED

That the work programme, as presented, be approved.

The meeting closed at 11.50 am