



## AUDIT COMMITTEE 20 JUNE 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

Officers in attendance:-

Debbie Bowring (Principal Risk Officer), John Cornett (External Auditor, KPMG), David Forbes (County Finance Officer), Claire Machej (Head of Finance (Corporate)), Mike Norman (External Auditor, KPMG), Lucy Pledge (Audit and Risk Manager), Richard Wills (Executive Director, Environment and Economy) and Rachel Wilson (Democratic Services Officer)

#### 1 APOLOGIES FOR ABSENCE

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

#### 2 DECLARATION OF MEMBERS' INTERESTS

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

#### 3 MINUTES OF THE PREVIOUS MEETING HELD ON 21 MARCH 2016

It was reported that there was a typographical error under minute 60, in the first paragraph - £17 should read £17m.

RESOLVED

That the minutes (including the amendment noted above) of the meeting held on 21 March 2016 be signed by the Chairman as a correct record.

#### 4 STATEMENT OF ACCOUNTS 2015/16 - RISK UPDATE

Consideration was given to a report which provided a summary of the key risks faced by the Council in producing the Statement of Accounts 2015/16 and progress in addressing these risks.

It was reported that officers were now looking at information for schools and work was still underway. The current timeframe was that the work should be completed by the end of term so schools would know their carry forwards when they returned in September.

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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:

- Other than the payroll issues with schools, all other issues were now listed as green or complete.
- Concerns were raised regarding the school payroll issues as schools were still working on their budgets, and in some cases had only just started to look at their budgets, and some needed to set extra meetings so they would meet the new deadlines.
- Members were assured that officers were confident that the accounts would be ready in time for KPMG to start work on them. However, they would not be of the quality of the previous years, but it was hoped that they would be acceptable.
- It was queried what was an acceptable level of balance in the suspense account, however members were advised that the suspense accounts had now been cleared. It was noted that a few balances had been written off.
- The Vice-Chairman thanked the staff and officers for working so hard over the past few months.
- It was reported that additional staff and agency staff had been used to assist the team in resolving the payroll issues.
- It was acknowledged that some other work had been pushed back in order to prioritise the production of the accounts. There would be a need to re-prioritise the work programme.
- It was commented that the quality of entries coming through from payroll was massively improved.

### RESOLVED

That the Audit Committee note the key risks, actions and contingency arrangements identified for the production of the 2015/16 Statement of Accounts.

## 5 REVIEW OF SERCO CONTRACT

Consideration was given to a report which recommended Terms of Reference for a review of the contract awarded to Serco. A review had been anticipated for a while but the Council resolved at its meeting in May to ask KPMG to undertake the review in accordance with terms of reference approved by the Audit Committee.

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 review would focus on the management of the contract.
- It was queried whether the report would come back to the Audit Committee before it went to the meeting of the County Council on 16 September 2016. Members were advised that they would need to agree whether they would like to hold an additional meeting before the meeting on 16 September 2016.

- It was queried whether the review would examine the handover process and how it was managed, as there had been a suggestion that Serco had found themselves without the staff who had the expertise which was required.
- It was queried what the mile posts were along the handover process, and were there indications from the beginning that the deadlines would not be met.
- Members were advised that they did not want to restrict KPMG in terms of time, as it was not known what time was needed in order to complete the work.
- It was commented that there were issues which had been flagged up to the Committee and it had discussed them previously. It had been acknowledged that there were issues and that they were being addressed.
- It had always been maintained that the issues would be looked at, but that there was a need for those issues to be resolved first.
- It was confirmed that it was anticipated that the handover would need to be examined and that this was covered by paragraphs 3(ii) and 3(iii).
- It was suggested that one of the issues could have been that the contract was moved from one external contractor to another external contractor. Members were advised that this could be covered by paragraph 2(i).
- It was queried when it was identified that there was a shortage of skilled people for the tasks ahead.
- The arrangements around TUPE would also be looked at, as in the future the authority would like to be able to protect itself a bit more, as these arrangements protected the employee more than the client.
- It was suggested there should be three areas of focus:
  - The contract design tender process and award
  - Transitional planning and implementation
  - Ongoing management of the contract
- It was proposed that the authority learned from this experience, in the event that a similar process had to take place again.
- Members were advised that officers were in the process of producing a list of people and organisations that KPMG should speak to during this review. However, it was noted that this list would not be exhaustive.
- It was confirmed that work would commence after this meeting, and it was commented that it was felt that it was the right decision to wait until this Committee had taken place. It was expected that a costed and timed proposal for this work would be received shortly.
- It was noted that in terms of non-audit work, there were constraints with the public sector contract, there would be a need for KPMG to write to public sector appointments to get authorisation for this work. However, the external auditors had already spoken to them about this work and the response had been positive.
- In order to ensure no conflict of interest, the review would be carried out by a different auditor, and there was confidence that he would be able to deliver the review and attend a meeting of the Audit Committee in late August or early September. One issue with the time scale would be the timing of the school holidays. However, members were advised that the team would be very keen to engage with schools very early in the process.

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- The Committee agreed that a further meeting should be held before the meeting of Full Council, and it was confirmed that this would be a single item agenda.

#### RESOLVED

1. That the Terms of Reference for KPMG's review of the Serco contract as indicated at Appendix A of the report, be approved.
2. That a special meeting of the Committee be held to oversee the Review before the meeting of the County Council on 16 September 2016.

#### 6 RISK MANAGEMENT PROGRESS REPORT - JUNE 2016

Consideration was given to a report which would assist the Committee in its role to gain assurance that the Council was effectively managing its key risks and had good risk management systems and processes in place that enabled decision makers to understand the level of risk being taken that the Council was prepared to accept. The report would provide an update on how well the Council's biggest risks were being managed as well as reporting on the progress made in assisting the Council to adapt and change the way it 'thinks' about risk.

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 three of the risks for adult care had limited assurance, and it was queried how much control the authority had over these risks and whether they were price led. Members were advised that there was a shortage of care workers. However, this was a national problem as well as a local one, but Lincolnshire was starting to move in the right direction.
- It was important to recognise that the environment that the public sector was working in had changed, and it was about recognising the level of risk that the authority was prepared to accept in each area of business.
- Different areas would have different appetites for risk, and it was about understanding the risk and ensuring that people who were making the decisions understood the level of risk. Members were advised that it was CMB and the Executive who set the risk appetite.
- 'Risk' implied that sometimes things would not always go in the authority's favour, but the purpose of the Audit Committee was to ensure that systems were in place to manage the risk and that they were being managed properly.
- It was commented that a common theme with a lot of the risks was recruitment and retention of staff. It was important to be able to develop people internally. It was queried whether there was a strategy to address the issue of being able to attract the right staff. It was commented that some businesses promoted courses at the university. Members were advised that these issues went beyond the County Council, and the LEP had an Employment and Skills Sub-Committee which was looking at the key areas. As a Council, directorates were about to do a major restructure, as Environment and Economy in particular was holding too many vacancies. This would be much more about

job matching, and some new jobs would be designed which had not been in the Council before.

- The authority was working with some specialists on what would make people in the social care sector come to Lincolnshire, and how it could attract professionals. There was a need for people to feel that the job was professionally challenging, but also that they would be looked after as an employee.
- The CMB was looking into a post-graduate apprenticeship scheme, but there were other elements happening as well. The Committee was advised that this information could be co-ordinated into a report for the meeting in September.
- It was commented that it was important that people felt there was a career path to follow. It was necessary for this committee to get assurance that the processes were in place to look at the authority's ability to recruit and retain staff.
- Members were advised that the operational risks from the Director areas were escalated to the Risk and Safety Group as and when required. However, the majority, if not all the risks were noted as strategic risks. It was reported that risks were monitored at a strategic level as well as at directorate level.
- It was suggested that when CMB and the Executive had refreshed the Risk Register the Committee should undergo some risk management training.
- It was commented that after the last election, there were a lot of new members, and it was suggested that it would be useful to have training on risk management.

## RESOLVED

That the Committee note the current status of the strategic risks facing the Council.

## 7 EXTERNAL AUDIT PROGRESS REPORT

The Committee received a report from KPMG, the County Council's External Auditors, giving an update on the 2015/16 Audit deliverables.

Members were advised that it had been a relatively quiet last quarter, and the main work had been around liaising with finance colleagues for the close down of accounts. They had also been liaising with Serco regarding the requirement for information for the agreed start date of 1 August 2016.

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 queried whether there were any issues with the Pensions scheme and the actuarial value of the fund. Members were advised that it had been properly reflected in the accounts.
- There was an increased risk this year about some form of qualification in the accounts. But this would depend on what came out of the work.

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- In terms of the value for money conclusion, there would be a need to consider the impact of the Serco contract.
- The external audit team was working closely with finance colleagues, but was not able to give a firm answer on the accounts until the work had been done. The most important aspect would be getting the opinion right, even if this meant missing the deadline.

RESOLVED

That the progress report be noted.

## 8

### INTERNAL AUDIT PROGRESS REPORT

Consideration was given to an update on internal audit work undertaken in the period 1 March to 31 May 2016.

It was reported that during this period, 6 county audits had been completed there were 13 audits in progress. All contracted Academy visits for 2015/16 were complete and the 2016/17 programme of work had started.

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 what the escalation process was for an audit in progress when management did not agree the actions. Members were advised that there was a protocol for agreeing the Terms of Reference for the audit prior to it commencing. If it took long to agree the actions, it would be escalated to the Audit and Risk Manager who would then approach the appropriate director. It was noted that it could sometimes take time to work through the different views.
- The Audit and Risk Manager's role was to be impartial, but also to work with those areas to implement the recommendations.
- In relation to the Coroners Service, of the 7 recommendations which were overdue, five were high risk and 2 were medium risk. It was queried whether these related to legal issues. It was also queried whether an update could be included regarding whether any of the recommendations were out of the control of the authority.
- It was suggested that recommendations which were out of the control of the authority should be removed as it gave a false impression.
- The outstanding actions relating to payroll would be followed up with the Head of HR and Serco, so a more up to date position could be presented at the meeting in July.
- It was confirmed that the BCF audit would be undertaken shortly.

RESOLVED

That the Audit Committee note the outcome of the Internal Audit work.

9      REVIEW OF DRAFT ANNUAL REPORT ON AUDIT COMMITTEE WORK

Consideration was given to a report which provided the results of the workshop held on 6 May 2016 which looked at the effectiveness of the Audit Committee helping to identify any areas of improvement. The report also provided an outline for the Audit Committee Annual Report 2016.

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:

- Members agreed that it had been a positive session, with a very relaxed feel which had helped people to express their thoughts.
- A member commented that they were happy with the Annual report. However, it was thought that the Audit Committee needed to be more effective, and it should always try and be positive about its work.
- It was suggested there was a need to raise awareness with officers about the role and remit of the committee, as on occasion the committee had received the same report as a scrutiny committee. There was a need for reports which were specific to the Audit Committee.
- It was suggested that if the Audit Committee were advised that the relevant scrutiny committee was aware of an issue, then that would provide a level of assurance.
- In terms of membership of the Committee, it was hoped that group leaders would look at their members to see who would be the most appropriate members to sit on the Committee, but sometimes it was down to availability. It was suggested that officers could work with Democratic Services on a councillor development. It was also suggested that it could be useful to look at the skills sets required for the Audit Committee rather than similar experience.
- It was commented that a few years ago the Committee held an informal session, with no agenda, and the managers went through the key risks in each area, and it was suggested whether another similar session could be held. The Audit and Risk Manager agreed to discuss this with CMB to identify whether they would be available to attend a workshop.
- It was commented that members should not feel worried about asking questions if they have not understood something.
- There was a need for officers to determine what they wanted members to take from the report, and it was commented that more active recommendations had been seen in other authorities. It was suggested that the recommendation should be written first, and then a report which supports the recommendation should be produced.
- When a report was produced, it should be considered what the Committee was being asked to do, and officers should always think about the Terms of reference. It was also noted that this approach would help with the writing of the Annual Report.
- It was commented that during the workshop, the suggestion of having a second independent member was discussed. It was felt that this was an idea which should be kept in mind.

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- It was commented that members brought something to committees that officers did not have – experience of their communities, but it was suggested that independent members could fill any gaps in the knowledge of the Committee as they were appointed on merit. The Committee commented that they welcomed the suggestion of a second independent person.
- It was suggested that it would be good practice for the Committee to meet with the external auditors once per year.
- It was commented that some of the agendas could be quite large, and it was queried whether the meeting cycle should be reviewed.

## RESOLVED

1. That the proposed improvement actions be approved.
2. That the Chairman and Vice-Chairman, in consultation with other members of the Audit Committee, draft the annual report.
3. That the comments and suggestions highlighted above be noted.

10 APPOINTMENT OF EXTERNAL AUDITORS

Consideration was given to a report regarding the appointment of External Auditors. It was reported that KPMG are the current external auditors of the Council, having been appointed under a national procurement exercise undertaken by the Audit Commission prior to its demise. The current contract would end with the audit of the 2017/18 financial statements. Under existing regulations, the Council needs to have appointed external auditors for the 2018/19 financial year by December 2017 to enable them to commence duties in April 2018. Members were advised that a number of options existed for the Council in taking this matter forward which were outlined by the report together with their respective advantages and disadvantages. It recommended that the option of participating in a national sector led procurement exercise was likely to deliver the best value for money outcome.

## RESOLVED

That the appointment of external auditors for the period commencing April 2018 by means of a sector led procurement initiative being undertaken by the Local Government Association be agreed.

11 REGULATION OF INVESTIGATORY POWERS ACT 2000

Consideration was given to a report which provided an update on the Council's compliance with the Regulation of Investigatory Act 2000 regarding the use of surveillance powers and the actions taken following the inspection of the Council by the Office of Surveillance Commissioners in January 2015.

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 commented that there would only be a few cases when the County Council would use these powers, and they would mainly be used by Trading Standards.
- It was queried whether this operated in areas where the Council had responsibility for safeguarding, and Members were advised that officers were not aware of this. It was noted that there was other legislation that the authority could use when dealing with safeguarding concerns.
- A member commented that they did not see the need for this policy for the County Council, but did understand how it would apply at district level. Members were advised that this would mainly be used by trading standards officers, although there were already proper mechanisms in place, but some officers could stray into this area without realising it.
- Members were asked to consider whether they thought this was a significant risk and there was a need for a policy around it.
- It was agreed that a policy be put in place, but it should be as an operational procedure.

RESOLVED

1. That the position in relation to the Council's compliance with the Regulation of Investigatory Powers Act 2000 be noted.
2. That the Committee endorse the proposal to prepare a policy on authorising surveillance where the provisions of the statutory regime do not apply.

12     WORK PLAN

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

It was requested that an update on Serco was brought to the meeting in September.

It was also agreed that an additional meeting of the Committee would be held at the end of August/beginning of September to allow members the opportunity to consider the report from KPMG on the review of the Serco contract.

RESOLVED

1. That the Audit Committee's work plan be noted
2. That the outstanding actions, designed to improve the effectiveness of the Committee be noted.

The meeting closed at 12.30 pm

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