

## **AUDIT COMMITTEE ANNUAL REPORT NOVEMBER 2016**

### **FOREWORD**

Councillor Mrs Susan Rawlins

Chairman of the Audit Committee

The Audit Committee is a key component of Lincolnshire County Council's corporate governance, providing an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. Its purpose is to provide independent assurance to members of the adequacy of the risk management framework and the internal control environment. These objectives are detailed within the Committee's Terms of Reference.

The Committee plays a vital "watchdog" role, promoting good governance and demonstrating accountability. Within this remit the Committee operates in a supportive, open and respectful environment. We have worked well with senior management with our discussion being frank and from varied perspectives, but always in an atmosphere of mutual respect. We believe that we have added strength to the internal audit function and that the Council values the Committee's deliberations and recommendations. The Committee in turn value and appreciate the support of Internal Audit, External Audit and the Council's Officers.

During the last year the Committee has engaged with the Council on a number of significant issues, particularly around the internal and financial control environment arising from the implementation of "Agresso". This will continue to be a key area of focus for the coming year and is examined in the Annual Governance Statement.

At the Audit Committee of 20<sup>th</sup> June 2016, Committee members considered a report which recommended the Terms of Reference for a review of the contract awarded to "Serco". A Review had been anticipated by the Committee but the Council had resolved at its meeting in May 2016 to ask KPMG to undertake a review in accordance with terms of reference approved by the Audit Committee. The review would focus on the management of the contract and would come back to the Committee before the Council meeting of 16 September 2016. It was proposed that the authority learned from the experience to inform similar processes in the future. KPMG presented their report on the "Serco" contract to the Audit Committee on 21<sup>st</sup> November 2016, (having experienced some delays in the external approval process for their work) detailing fifteen recommendations to the Council. The Committee accepted the report and sought assurances that the recommendations would be taken on board by the senior management and an action plan developed. The Committee instructed the Chairman to

feedback the outcome of their deliberations to the Chief Executive and Leader, which was duly undertaken.

The Council's Annual Governance Statement was reviewed at our Committee meetings on 18<sup>th</sup> July 2016 and 26<sup>th</sup> September 2016. Each year the Council reflects on how well its governance framework has operated during the year and identifies any significant governance issues that need to be drawn to the attention of its residents. The Audit Committee ensures the Statement reflects how the Council is run and identifies any improvement actions.

In addition to the review of the control environments, the Council faces financial challenges ahead, as a consequence of funding changes from central government and an ageing population, as well as issues around its risk culture and information and case management systems, all of which pose significant governance issues.

Audit Committee meetings are open to members of the public and I would encourage all to come along and see our work in action.

Finally, I should like to thank my Vice-Chairman, other members of the Committee and Officers for their support and contribution to its work.

## **REVIEW OF THE YEAR**

### **Major Themes**

The Committee's major themes for the year, in respect of internal control and governance, were as follows:

- the implementation of the new "Agresso" project from April 2015 particularly in terms of the recording and reporting of finance and payroll information.
- the role of Information Technology and the requirements of the ICO (Information Commissioner's Office),
- the Devolution agenda,
- Budgetary Pressures,
- the Libraries Action Plan

### **Governance and Internal Control**

One of the key ways we obtain assurance on the Council's control environment is through the work undertaken by Internal Audit. We receive copies of all reports on work completed and focus particular attention on areas of low or no assurance and management responses and action plans thereto, with follow-up reports to ensure recommendations are being instituted.

We have the ability to respond pro-actively and escalate areas we have identified as a concern. In the last year we have had a joint meeting with the Value for Money Scrutiny Committee at which members of each committee sought assurances from senior management representatives of "Serco" regarding the areas of concern surrounding the "Agresso" project. Representatives from "Serco" have also attended the Audit Committee in the last year.

The Chief Executive and Executive Directors attended the Committee on 23<sup>rd</sup> November 2015 to give briefings on assurance arrangements and Executive Directors attended the Committee on 25<sup>th</sup> January 2016 to respond to the "Combined Assurance Status Report" and give updates to the Committee on the "Agresso" project. On 20<sup>th</sup> June 2016, the Committee approved the terms of reference for KPMG's review of the "Serco" contract as resolved by Full Council on 20<sup>th</sup> May 2016.

The Committee also met informally on 4<sup>th</sup> August 2016 to again review progress regarding the payroll function. The Chairman has had informal discussions throughout the year with the Leader and Chief Executive at the request of the Committee, and presented the draft Annual Report to the Informal Executive on 20<sup>th</sup> September 2016. A member of the Committee sits on the Recovery Board. We have an independent member of the Committee who offers different perspectives on how the Council is run.

KPMG are the Council's External Auditor and attend the majority of the Audit Committee's meetings. They audit and provide an opinion on the Council's financial statements and how well the Council provides value for money for the people of Lincolnshire.

KPMG presented their report on the "Serco" contract to the Audit Committee on 21<sup>st</sup> November 2016, detailing fifteen recommendations to the Council.

### **Internal Audit**

The Council's Internal Audit service is provided by an in-house team, "Audit Lincolnshire". The Head of Internal Audit provides us with an Annual Report each year summarising the outcome of internal audit work and giving an opinion on the Council's control environment. We review this report.

Working with Internal Audit each Director provided the Committee with a "Combined Assurance Status Report" showing the level of assurances present across all critical activities, key risks and major projects in their service areas.

There are a number of areas where the management assurance provided was a low level of confidence and/or high risk currently facing the service with management action still required or where assurance information could not be co-ordinated. Areas where management assurance provided was of a low level of confidence and/or high level of risk currently facing the service include:

- Budget challenges and the implementation of the new finance system in Finance and Public Protection,
- Delays in the implementation of the case management system in Children's Services,
- Delays in the implementation of the case management system in Adult Care,
- ICT governance, service design and transition in Information and Commissioning,

In consequence the internal and financial control environments are assessed as Red/Amber.

### **Risk Management**

The Audit Committee is responsible for reviewing how effective the risk management procedures are, overseeing the update of the Council's Strategic Risk Register and ensuring that key risks are being well managed. It was reported to the Committee at our November 2015 meeting, that a full refresh of the risk register would be carried out in 2016. At the Audit Committee's meeting in November 2016, members reviewed a report from an independent external assessor on the Council's risk management maturity; the assessor was particularly impressed by the clear risk management from the very top of

the Council, giving a level four outcome – risk management being embedded and integrated within the organisation.

### **Counter Fraud**

Progress and delivery of counter fraud work is monitored through the Audit Committee, with an Annual Report produced to provide information on the overall effectiveness of the Council's Counter Fraud arrangements. The Council is dedicated to promoting a strong culture to prevent and detect fraud, with the Counter Fraud policy and annual work plan designed to reduce the Council's exposure to the risk of fraud.

### **Financial Reporting**

We reviewed the Council's Financial Statements for 2015/2016 at our Committee meeting of 18<sup>th</sup> July 2016. We asked questions on the content and format of the statements (supported by an independent advisor).

At our meeting of 20<sup>th</sup> June 2016, we received the External Audit Progress Report from our External Auditors, KPMG. An increased risk this year about some form of qualification on the Financial Statements and the consideration of the impact of the "Serco" contract on the value for money conclusion existed. The KPMG team have worked closely with the officers in our finance team to make sure their opinion work reaches the appropriate conclusions. The Council has received an unqualified opinion on the financial statements and an element of qualification on the value for money conclusion based on the Agresso related lack of information to manage the business during most of last year.

***A Summary of Committee Meetings and Outcomes from 22<sup>nd</sup> June 2015 to 21<sup>st</sup> November 2016 is appended.***

## **SUMMARY OF COMMITTEE MEETINGS AND OUTCOMES**

### **Meeting Date: 22<sup>nd</sup> June 2015**

#### *Audit Committee Advice / Recommendations: Internal Audit Progress Report*

Three auditors had been assigned to support the “Agresso” project post implementation, being a significant audit resource. Members were assured that the consultancy work undertaken by the internal audit team was not done so to the detriment of the team’s general work. Members noted that the performance indicator for draft reports issues within two months of field work commencing was 80% yet actual performance was at 69%. Members were assured that the team was examining the causes of this and that the target would remain at 80% for future years.

#### *Audit Committee Advice / Recommendations: External Audit Progress Report*

Members were advised that the Council would run a mini close-down of the financial accounts over the Winter of 2015, to trial “Agresso” prior to the scheduled close-down in March 2016.

#### *Audit Committee Advice / Recommendations: Counter Fraud Annual Report*

Members were advised that the Council’s counter fraud commitment remained strong and the appropriate and robust sanctions were applied in line with its Counter Fraud Policy.

#### *Audit Committee Advice / Recommendations: Information Governance Breaches – Internal Audit*

The aim of the audit was to provide management assurance on a number of key information governance areas, including training and awareness, security incident reporting and third party information sharing and processing. Members were assured that any breaches were effectively managed and were dealt with in a appropriate manner with robust processes in place.

#### *Audit Committee Advice / Recommendations: “Agresso” Update*

Members were reminded that the “Agresso” system went live on 7<sup>th</sup> April 2015. A small number of staff had not received any payments as part of the April 2015 payroll. In response to members’ questions, officers advised that the vast majority of the payroll issues related to the system itself and not its operation and that officers were satisfied that “Serco” were putting in the right level of resources to address the issues. It was noted that “Mouchel’s” payroll control team did not transfer over to “Serco” until 1<sup>st</sup> April 2015 with no training prior on the new system due to contractual conditions. Members

were assured that all the issues would be examined in depth once the system was fully operational.

Members were advised that there had been a change in process in accounts payable regarding the requirement of purchase order numbers prior to invoice approval and that there were problems with the system in producing purchase order numbers. A critical invoice process had been implemented for emergency payments were necessary. In response to members' questions, it was suggested that the end of contract processes were reviewed to provide assurance that any hand-over in future would not suffer from the issues highlighted above.

As part of the work plan members approved amendments that an update on "Agresso" be presented at its meeting on 20<sup>th</sup> July 2015 and that a report was received to review the system's implementation at the meeting on 23<sup>rd</sup> November 2015.

### **Meeting Date: 20<sup>th</sup> July 2015**

#### *Audit Committee Advice / Recommendations: Internal Audit Progress Report*

Members were advised that two audit opinions detailed "major improvement required", namely the Joint Commissioning Board and "Incendi" Fire and Rescue Trading Company. Significant governance, accountability and decision making issues had been observed with the Joint Commissioning Board in February 2015. Governance and business planning arrangements needed to be strengthened in relation to "Incendi". In response to members' questions, it was noted that the opinion given in relation to Joint Commissioning Board was due to the transition to a formal meeting setting to deal with the Better Care Fund. Regarding "Incendi", it was noted that the company was fully supported by Finance officers and the audit had been requested at an early stage due to the nature of the business.

Members were provided with an update on the audit team's work regarding the "Agresso" project. Members queried what costs would be passed onto "Serco" for the additional work which had been undertaken. Members were advised that officers were recording all the time that had been spent on the project to enable this to be quantified and that costs would be passed onto "Serco". The focus was on trying to get the system working properly. Members felt that further assurance was required regarding accounts payable and payroll.

*The Committee opted for a joint meeting with the Value for Money Scrutiny Committee on 21<sup>st</sup> September 2015, at which members could further raise their concerns.*

Members were reassured that the audit team had sufficient resources to examine critical areas and that the focus would be on a risk based approach.

*Audit Committee Advice / Recommendations: Internal Audit Annual Report 2014/2015*

Consideration was given to the Head of Internal Audit's opinion on the adequacy of the Council's governance, risk and control environment and the delivery of the Internal Audit Plan for 2014/2015. It was reported that one area which was deteriorating was the financial control environment, but the Council did have strong governance arrangements in place and were open and transparent regarding the situation. There was a need for the risks to be fully understood .

*Audit Committee Advice / Recommendations: Review of Governance Framework and Development of Annual Governance Statement 2015*

It was noted that good governance underpinned everything that the Council did and how services were delivered often came under close scrutiny. A "good" Annual 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 action being taken or required to address any areas of concern. The development of the Annual Governance Statement is overseen by the Audit Committee, which recommends its approval to Council.

Members agreed that there would be a need to examine more closely how well the hand-over from "Mouchel" to "Serco" took place.

Regarding budgetary pressures, it was noted that the Council now need to find savings of £66 million.

Regarding information governance, it was expected that there would be a dialogue with the ICO, as the Council wishes to obtain guidance in relation to information sharing.

*Audit Committee Advice / Recommendations: Draft Statement of Accounts 2014/2015*

Members noted that officers expected that it would take longer in 2015/2016 to prepare the financial statements due to the implementation of the new financial systems. As 2014/2015 statements had been completed early, officers would start their preparations in the Summer months.

As part of the work plan, members approved the joint meeting with the Value for Money Scrunity Committee. Members requested that the Portfolio holders for Finance and IT be invited to attend this meeting.

**Meeting Date: 21<sup>st</sup> September 2015**

*Audit Committee Advice / Recommendations: Internal Audit Progress Report*

Members were advised that officers were looking at the audit schedule for the remainder of the year and what work would be prioritised. Additional resources were

available through the partnership with Leicester City Council and other contracts could be extended to March 2016.

Members were advised that an estimated additional £67,000 for finance staff and £6,500 for audit staff had been costed regarding the "Agresso" project.

Adult safeguarding showed good levels of assurance. Members were advised that the scope of the audit was that learning from national Serious Case Reviews transferred into training of staff. Members were assured that there were some strong processes in place to implement recommendations which were made.

*Audit Committee Advice / Recommendations: Approval of the County Council's Annual Governance Statement 2015*

The Committee had considered the draft statement at its previous meeting. Sections of the statement had been updated to include the current position regarding "Agresso". In relation to the transition to "Agresso", members were advised that similar issues had been experienced on the introduction of the former SAP system. Members were concerned about the amount of time and effort involved and were advised that additional officer time and related costs were being tracked.

*Audit Committee Advice / Recommendations: External Auditors ISA 260 Report .....2014/2015*

The External Auditors reported that they anticipated an unqualified audit opinion on the Council's Financial Statements which would be issued by 30<sup>th</sup> September 2015. There were however steps which would need to be taken for them to be able to issue an unqualified opinion for 2015/2016. Additional risks were expected in relation to 2015/2016 around the "Agresso" project, but the External Auditors should be able to make use of the control mechanisms in place. Additional audit fees were likely as a result of the time involved.

*Audit Committee Advice/Recommendations: "Agresso" Update – Council's Financial Control Environment and "Serco" Performance – EXEMPT ITEM*

Representatives from "Serco" attended the second part of the meeting in the Council Chamber, including the Managing Director, together with members of the Value for Money Scrutiny Committee. Members resolved that a Recovery Board be established.

As part of the work plan, members approved a follow-up report on the Libraries project for the January 2016 meeting and suggested an update on the "Agresso" project for the November 2015 meeting.

**Meeting Date: 23<sup>rd</sup> November 2015**

*Audit Committee Advice / Recommendations: Chief Executive and Executive Director Briefings on Assurance Arrangements*

Members received a briefing in order to provide the Committee with some insight into how potential changes and financial challenges ahead may impact on assurance arrangements.

*The Chief Executive* advised that the expectation was that the Council was about half way through the spending deductions that it would be expected to make. £130 million had already been taken out of the budget and another £130 million or more may be required, resulting in very difficult budget decisions. The Council would have to address demand management, cost reduction, efficiencies and income, together with its risk culture.

Members queried how the Council would deliver the message to limit demand. They were advised that there were plans to make more use of online platforms, to minimise crisis treatment and prioritise spending on immediate risk areas, particularly safeguarding. Further, the national living wage would present budgetary pressures.

*The Executive Director for Adult Care* advised that over the last five years income and income generation had been a priority, and that there was the opportunity now to create more stability and less risk in some areas by working with health partners. The risks faced by the Council included the introduction of the Care Act in April 2015, the integration with Health and workforce supply and quality. He advised that assurance levels were good as services were commissioned properly, with robust controls in place.

*The Executive Director of Children's Services* advised that the Council faced specific challenge, particularly around demand management. The Council was a comparatively low spend authority nationally due to strong preventative services – the risk being that this may not be possible to continue. The introduction of the living wage and market failure of suppliers were also large areas of concern. In relation to schools, the Council's statutory duties had not changed, but funding had reduced.

*The Executive Director of Environment and Economy* advised that there had been large investment of capital but the revenue budget was only just adequate, but his department understood the Council's financial constraints. The East-West Link was progressing well, but the Council still awaited the outcome of the public enquiry for the Lincoln Eastern Bypass. There had been a 30% reduction in the year of financial support to bus operators, but good progress was being made on the Total Transport project. The Local Enterprise Partnership would be of great importance in relation to economic development. A scrutiny review needed to be implemented, with changes to the

committee structure to take place post the 2017 elections. The Boundary Commission would decide upon the Council's future size in terms and divisions and elected members.

The Director emphasised that organisational change was an issue which needed to be addressed, with more collaboration across commissioning arms. The Audit Committee would have to have given ongoing attention to the change management process.

*The Executive Director of Information and Commissioning* advised that there were concerns around maintaining the range of skills required in the commissioning process, with a higher risk profile.

*The Executive Director of Finance and Public Protection* advised that the funding from government had reduced in real terms by around 30% and that this would be compounded by the introduction of the living wage. In order to manage financial risk, the Council had built up a financial volatility reserve but this would largely be exhausted by the end of the following year. Any devolution deals would have to be cost neutral, with collaborations between authorities giving cost saving opportunities.

Members stated that the Committee would seek assurances on how change was to be managed and the risk profile thereto.

*Audit Committee Advice / Recommendations: Update on "Agresso" project*

A verbal update was received from the Chief Information and Commissioning Officer. She reported that there were some signs of progress, as "Serco" had decided to make some staff changes at the Lincoln office. Payroll improvements were expected in the coming months. There were concerns regarding information being available to finance officers facing the statutory filing deadline for the 2016 year-end.

Members queried why the Council had experienced so many issues with "Agresso", when the system was used by other authorities seeming effectively. Members still waited to be advised of the cost to the Council to resolve the issues involved. It was confirmed that HMRC had contacted the Council regarding "Rti" failings and officers were working with "Serco" to supply a response.

*Audit Committee Advice / Recommendations: Annual Audit Letter 2014/2015*

Members were advised that the External Auditor had issued an Annual Audit Letter summarising the findings of the 2014/2015 external audit and had issued an unqualified opinion.

*Audit Committee Advice / Recommendations: Review of Audit Committee Terms of Reference*

Members resolved that the new terms of reference, which had been reviewed and updated to reflect good practice guidance, be recommended to Full Council for approval.

*Audit Committee Advice / Recommendations: Outstanding Audit Actions*

Members were advised that 10 of the 27 recommendations had been auctioned within the agreed timescales. Details of delays and revised action plans were recorded with proposed completion dates.

As part of the work plan, members stated that the Committee should keep a watching brief on the “Agresso” situation. Also they noted that the pace and volume of change and funding issues were key risk factors.

**Meeting Date: 25<sup>th</sup> January 2016**

*Audit Committee Advice / Recommendations: Combined Assurance Status Report*

The Committee received a report in connection with the assurances across the Council’s critical services, key risks and projects. Executive Directors attended to provide comments and to the Committee.

Monitoring and management were in place for the “Serco” contract. There were still outstanding issues regarding payroll – overpayments, pension deductions and HMRC. It was not possible to give an end date when the payroll and purchase ledger issues would be finalised. In addition, there were still some IT systems implementations behind schedule – these would be highlighted in the Annual Governance Statement.

The implementation of “Agresso” by “Serco” would be subject to a separate report in due course. Costs incurred by the Council as a result of “Serco’s” performance were reviewed on a monthly basis.

The Committee agreed to monitor the potential risks caused by any delay in the implementation of the MOSAIC package. Members were advised that appropriate back-up systems were in place in the event of problems with the package.

*Audit Committee Advice / Recommendations: Update on Libraries Action Plan*

Officers stated that the main issues learned from the Judicial Review was the need to ensure that the alternative options were evaluated and that statutory consultation and community engagement was undertaken fully – a toolkit had been produced to aid staff in the regard.

As part of the work plan, members resolved that officers consider the comments made by the Committee in identifying and ensuring that risks were managed in connection to the “Serco” contract.

**Meeting Date: 21<sup>st</sup> March 2016**

*Audit Committee Advice / Recommendations: External Audit Progress Report*

The External Auditors drew the Committee’s attention to the continuing work to resolve issues with the implementation of “Agresso”. The Chairman stated that a full enquiry into the implementation of the “Serco” contract would be carried out by the Council in due course.

*Audit Committee Advice / Recommendations: Draft Internal Audit Plan*

The Committee received an update in connection with the draft Audit Plan for 2016/2017. Members asked if the Council was satisfied that all its procedures were up-to-date following the Rotherham inquiry into child exploitation and were advised that issues raised would be reported to a future meeting. The Committee sought assurances from officers that the appropriate systems were in place to address issues raised by the Corner’s Service. The proposals announced by the Chancellor regarding devolution for Lincolnshire would need to be approved by Full Council and the internal audit team would be seeking assurances that necessary governance arrangements were in place.

*Audit Committee Advice / Recommendations: Internal Audit Progress Report*

Officers discussed the recent malware attack on the Council’s systems. A report was to be produced on the event and lessons learned thereto.

Internal Audit stated that they still had concerns over the necessary controls being in place in payroll and that there was still a low level of assurance.

**Meeting Date: 20<sup>th</sup> June 2016**

*Audit Committee Advice / Recommendations: Statement of Accounts 2015/2016 Risk Update*

The Committee considered a report which provided a summary of the key risks faced by the Council in producing the Statement of Accounts 2015/2016 and progress in addressing the same. Officers assured members that they were confident that the accounts would be available in time for the Council’s external auditors, KPMG, to undertake their work thereon, but that although the quality of the accounts who be acceptable it would not be of the same level as in previous years. It was acknowledged that some other work would have to be delayed in order to prioritise the accounts production.

*Audit Committee Advice / Recommendations: Review of the “Serco“ Contract:*

The Committee considered a report which recommended the Terms of Reference for a review of the contract awarded to “Serco“. A Review had been anticipated by the Committee but the Council had resolved at its meeting in May 2016 to ask KPMG to undertake a review in accordance with terms of reference approved by the Audit Committee.

Members asked questions of the officers present. The review would focus on the management of the contract and would come back to the Committee before the Council meeting of 16 September 2016. It was proposed that the authority learned from the experience to inform similar processes in the future. To avoid a conflict of interest the review would be undertaken by KPMG staff who were not part of the external audit team dealing with the Council.

*Audit Committee Advice / Recommendations: Risk Management Progress Report*

The Committee was provided with an update on how well the Council’s largest risks were being managed and the way in which it “thinks“ about risk. Sometimes events would not always go in the authority’s favour, but the Committee had to be assured that systems were in place to properly manage risk. Members noted that a common theme was the risks associated with the recruitment and retention of staff.

*Audit Committee Advice / Recommendations: External Audit Progress Report*

KPMG reported that there was an increased risk this year of some form of qualification in the accounts and that their team was working closely with the Council’s finance team.

*Audit Committee Advice / Recommendations: Internal Audit Progress Report*

Members considered internal audit work undertaken in the period from 1<sup>st</sup> March 2016 to 31<sup>st</sup> May 2016. Officers reported that outstanding actions relating to payroll would be followed up with the head of HR and “Serco“, with an up-to-date position presented at the July 2016 committee.

*Audit Committee Advice / Recommendations: Review of Draft Annual Report on Audit Committee Work*

Members considered the results of the workshop held on 6<sup>th</sup> May 2016 to look at the effectiveness of the Audit Committee and identify any areas of improvement. It was resolved that the Chairman and Vice-Chairman, in consultation with other members of the Committee, draft the annual report.

**Meeting Date: 18<sup>th</sup> July 2016**

*Audit Committee Advice / Recommendations: Matters Arising from Meeting of 20<sup>th</sup> June 2016*

The Executive Director for Environment and the Economy provided an update on the progress of the review by KPMG of the “Serco” contract. KPMG had not yet received clearance from “Public Sector Audit Appointments Limited” to carry out its work. An update would be provided to the Committee in September 2016. Interviews had been arranged with key members of staff.

*Audit Committee Advice / Recommendations: Internal Audit Annual Report 2015/2016*

Members considered a report which gave the opinion of the Head of Internal Audit on the adequacy of the Council’s governance, risk and control environment and delivery of the Internal Audit Plan for 2015/2016. There were a number of areas where there was a need for improved compliance and strengthening of the control processes – most notably “Agresso” and IMT systems. Accordingly, the financial and internal control environment had deteriorated from the previous year and had been assessed as Red/Amber. However, the Council’s governance and risk framework was assessed as Green/Amber and was performing well with some improvements identified.

Members noted the content of the report from the Head of Internal Audit and sought assurance on the current status of the Council’s IT systems. The Committee also resolved to meet informally to consider the two reports which received low assurance.

*Audit Committee Advice / Recommendations: Review of Governance Framework & Development of Annual Governance Statement 2016.*

Members considered the contents of the draft Annual Governance Statement for 2016, to ensure that it accurately reflected the Committee’s understanding of the Council’s governance and assurance arrangements. The Annual Governance Statement is part of the Statement of Accounts and the final version will be presented to the Committee in September 2016. The Committee agreed that that the Annual Governance Statement included the significant governance issues and key risks it expected and accurately reflected how the Council was run.

*Audit Committee Advice / Recommendations: Counter Fraud Annual Report 2015/2016*

Members considered the Counter Fraud Annual Report for 2015/2016, detailing the overall effectiveness of the authority’s arrangements to counter fraud and corruption. Officers reported that it was intended to increase proactive work in 2016/2017 and that the authority was supportive of individuals who reported concerns. The Committee

resolved that the Council's arrangements to counter fraud and corruption and the progress made to implement policy was effective.

*Audit Committee Advice / Recommendations: Internal Audit Progress Report*

Members considered internal audit work undertaken in the period from 1<sup>st</sup> June 2016 to 8<sup>th</sup> July 2016. Officers advised that the situation regarding duplicate payments within "Agresso" was improving. Members sought clarification on the value and percent of these.

*Audit Committee Advice / Recommendations: Work Plan*

Members considered the Committee's 2016/2017 work plan. Further work is taking place to improve the effectiveness of the Audit Committee following the self assessment workshop. Formal agenda setting meetings would be taking place with the Head of Internal Audit, the Chairman and Vice-Chairman a couple of weeks before the agenda was circulated.

*Audit Committee Advice / Recommendations: Draft Statements of Accounts*

Members were assisted the reviewing and scrutinising the Accounts by Ian Fifield from LG Futures, as had been the practice in previous years. The Committee's comments in relation to the Accounts were noted.

**Meeting Date: 16<sup>th</sup> September 2016**

*Audit Committee Advice / Recommendations: Internal Audit Progress Report*

Members considered internal audit work undertaken in the period from 9<sup>th</sup> July 2016 to 12<sup>th</sup> September 2016. It was reported that seven final reports had been issued, one school and six corporate (three with substantial and three with low assurance). Low assurance reports were in relation to pension contributions for 2015/2016 and the "Concerto" asset management system. In terms of the latter, members queried whether appropriate checks were in place. The relevant Corporate Property officer reported to the Committee that the majority of the issues raised had been resolved. Members raised questions about the security of the password system. They were advised that there had been no data breaches.

In relation to the payrolls and pension internal audit, members considered a report which provided an update on actions being taken. A detailed action report had been produced and a number of actions implemented thereto, with the appointment of two experienced payroll managers by "Serco". Officers reported that much more robust checking of the running of payroll had been implemented, including improved error and

warning reporting. Actions identified for completion by the end of September 2016 were complete or partially complete.

Members queried how the Corporate Management Board and Executive were being kept informed of progress. Members were advised that the Director responsible for People Management was accountable at a senior management level and the Portfolio Holder for Community Safety and People Management received updates on a monthly basis, with additional reporting to the Recovery Board.

It was acknowledged that there were some gaps in the transfer of information between “SAP” and “Agresso”. Officers reported that all priority actions due to be completed by the end of September 2016 had been completed. It was confirmed that KPI data for the “Serco” contract would be presented to the Value for Money Committee the following day. It was confirmed that “Serco” had previously implemented payroll; systems but had not previously implemented “Agresso”. Members queried whether this situation had been taken into account prior to awarding the contract. It was reported that this would form part of the KPMG review, due to be presented to the Committee in November 2016 due to the delayed starting date. It was confirmed that additional costs due to the management of the contract were being tracked and members resolved that this be noted.

*Audit Committee Advice/Recommendations: Approval of Annual Governance Statement 2015/2016*

Members considered the final Statement and were advised that it had broadly remained unchanged from the draft version, with more detail added in the corporate governance section. The Committee resolved that the Statement included the significant governance issues and key risks it would have expected and recommended its adoption by the Council.

*Audit Committee Advice/Recommendations: External Audit Report.....2015/2016*

Members were advised that the Statement of Accounts for the Council and the Pension Fund for 2016/2016 had been completed and externally audited and considered the findings thereto. The two risks identified were the changes to “Agresso” and the changes to the Pension Fund administration. It was confirmed that the annual audit fee would increase due to the additional work undertaken. Members resolved to note the report and approve the Letter of Recommendation from the external auditors. Members approved the Statement of Accounts for 2015/2016.

*Audit Committee Advice/Recommendations: Work Plan*

Members noted that a pre-meeting had taken place with the Head of Internal Audit, the Chairman and the Vice-Chairman to examine the work plan in more detail. Members noted that the final outcome of the KPMG review would be presented to the Committee in November 2016. An Audit Forum was to take place at NKDC on 11<sup>th</sup> October 2016 and was open to all members of the Committee to attend.

**Meeting Date: 21<sup>st</sup> November 2016**

*Audit Committee Advice/Recommendations: KPMG's Review of "Agresso" Implementation and Management of "Serco" Contract*

Members received a report by the Council's Monitoring Officer regarding KPMG's review and the report itself was presented by KPMG.

The Council's monitoring Officer summarized KPMG's report as follows:

KPMG's review concludes that the procurement philosophy was valid and the methodology and processes for the tendering and contract letting were sound. KPMG also identified how the Council might act differently in order to minimize the risk of service failure. KPMG have set out fifteen recommendations for the Council.

"Serco" accepted the contract on the understanding that there was only a twelve month mobilisation period. However insufficient resources were deployed during this period. The most obvious failing was in the implementation of the "Agresso" system, resulting to disruption in payroll and invoice payments. The contract allowed the council to impose service credits and this has occurred. "Serco's" performance had improved in the last six months, although there is outstanding transformation work which has been delayed as a result of the problems.

KPMG's findings and recommendations are intended to be lessons learnt, to be used by the Council in letting similar contracts and major procurements and to assist in managing the remaining period of the contract. The "intelligent client" has been important and would need to be properly resourced in a similar procurement. These procurements are complex and require good understanding of risk transfer and resource demands by all parties. However well technical risk is transferred, the Council will always carry the risk to its reputation.

The Chief Executive and other relevant officers will now consider the findings and recommendations and provide monitoring and progress reports to the Audit Committee in the normal way.

KPMG's key recommendations covered the following:

- *programme and project governance*

the Council should continue to maintain an “intelligent client” function, ensuring sufficient resources are employed; even where risk is transferred to the supplier the client needs to be in a position to hold them to account.

the Council should continue to use Programme Boards, with clear reporting and escalation processes including more detailed reporting to the CMB.

the Council should continue to have a dedicated programme manager to lead and coordinate for the Council.

the Council should in future consider whether to commission an Independent supplier to carry out programme assurance at key points.

- *tender evaluation*

the Council should in future ensure that when site visits are undertaken that they include the application and software versions being offered, a site where they are responsible for the delivery of the same package and the implementation timescale.

the Council should consider how it might manage its reputational risk.

the Council should challenge timescales.

specific implementation toolkits should be reviewed.

- *contingency arrangements*

in future the Council when outsourcing projects should always have an enforceable contingency plan in place, which is proportionate to risk.

- *data migration, parallel running and testing*

the Council should ensure for IT projects that it has adequate arrangements for data migration, that third parties carry out all their obligations and that there is adequate arrangements for the formal sign-off.

the Council should work closely with the supplier to ensure there is adequate information on testing and parallel running, with the appropriate formal sign-off arrangements.

for future IT outsourcing, the Council should ensure there are adequate change control mechanisms in place at all stages.

a procurement timescale should allow for eighteen to twenty-four months transition.

- *go live arrangements*

the Council should continue its appropriate governance arrangements are in place during the go live decision, with all parties being aware of the full implications.

- *services from 1<sup>st</sup> April 2015*

the Council needs to be in position to work with the supplier on staffing, quality, recovery, re-programming and sign-off.

Members questioned the Monitoring Officer and the Chief Information and Commissioning Officer. The Committee sought assurances from management that they had accepted the contents of the report and were confident that action would be taken from the lessons learnt – over the short, medium and long-term.

Members questioned the Monitoring Officer and the Chief Information and Commissioning Officer over the parallel running period, the contingency planning and the level of trust and confidence in the assurances given to management by “Serco”. The Committee asked how the Council could monitor the governance of third parties commissioned by the supplier to deliver services to the Council.

The Committee accepted the report and sought assurances that the recommendations would be taken on board by the CMB and an action plan developed. The Committee instructed the Chairman to feedback the outcome of their deliberations to the Chief Executive and Leader.

The Committee recommended that the Chief Executive acts on the findings and recommendations, especially in relation to future major procurements and monitors and reports on the progress of the actions taken.

#### *Audit Committee Advice/Recommendations: Internal Audit Progress Report*

Members considered internal audit work update for the period from 9<sup>th</sup> July 2016 to 12<sup>th</sup> September 2016. The Head of Internal Audit reported that progress was being made in relation to payroll and pension issues, but that there was still work to do. Members sought assurances that there would be follow-up reports from internal audit to confirm the adequacy of the control environment and that outstanding actions will be implemented.

#### *Audit Committee Advice/Recommendations: Internal Audit External Quality Assessment*

Members congratulated the Head of Internal Audit and her team on a successful review and the assessor’s very positive comments on the excellent work of Assurance Lincolnshire.

### *Audit Committee Advice / Recommendations: Risk Management Report*

The Committee reviewed an independent evaluation of the Council's risk management maturity from "Kerberos". The assessor was particularly impressed by the clear risk management from the very top of the Council, giving a level four outcome – risk management being embedded and integrated within the organisation.

### *Audit Committee Advice / Recommendations: Final External Audit ISA .....*

The Council's external auditors stated that the accounts will be unqualified, with an except for conclusion for Value for Money. The Committee was of the opinion that this was a good result in view of the challenges faced and asked to pass on their thanks to the finance team.

### *Audit Committee Advice / Recommendations: Counter Fraud Progress*

The Committee noted the increase in the number of investigation cases and that schools were still a particular area of concern. Members were assured that lessons would be learnt from investigations made and action taken to reduce the fraud risk.

## **LOOKING AHEAD**

The Committee aims to build on its role and will address the following for 2016/2017:

- review the Council's risk management strategy and continue to make good risk management integral to the way the Council conducts its business and makes informed decisions.
- review the organisational learning arising from the "Serco" review, identifying any opportunities to improve our governance framework, particularly around major contracts.
- ensure that the Council's governance framework remains fit for purpose, responding to changes in the organisational environment and the updated CIPFA / SOLACE guidance.
- seek assurance that the significant governance issues identified in the Annual Governance Statement are being addressed by management.
- review our work plan and identify ways in which we can work with other organisations through the Lincolnshire Audit Forum.
- continue our training programme to help with Committee effectiveness.
- produce the Council's Annual Governance Statement for 2017.
- review the effectiveness of the Council's standards regime, including how the Council has dealt with complaints, promoted and maintained standards and obtained assurances over the completeness and accuracy of the register of members interests.

- seek assurances from the Executive and Senior Management on their level of confidence in managing the Council's key risks associated with the business plan and medium –term financial strategy.