

**AUDIT COMMITTEE  
 23 JUNE 2014**

**PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)**

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

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

Councillors: M S Jones and C E D Mair attended the meeting as observers

Officers in attendance:-

Chris Avis (Programme Manager – Procurement and Contracting), Alex Botten (Procurement Lincolnshire), Tony Crawley (KPMG), David Forbes (Assistant Director Finance and Resources), Maggie Freeman (Head of Service - 14 to 19), Stephanie Kent (Audit Manager), Mike Norman (KPMG), Lucy Pledge (Head of Audit and Risk Management), Dave Ramscar (Chief Fire Officer), Sean Taylor (Lincolnshire Fire and Rescue - Group Manager), Sarah Tennant (Strategic Risk Manager), Tony Warnock (Head of Finance - Children's and Specialist Services) and Rachel Wilson (Democratic Services Officer)

1 APOLOGIES FOR ABSENCE

There were no apologies for absence.

2 DECLARATIONS OF MEMBERS' INTERESTS

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

3 MINUTES OF THE MEETING HELD ON 31 MARCH 2014

RESOLVED

That the minutes of the meeting held on 31 March 2014 be agreed and signed by the Chairman as a correct record.

It was noted that the Serco contract had been publicly signed at the Lincolnshire Show, where Members had been provided with the opportunity to discuss any general queries in relation to the contract.

In relation to minute 60, it was noted that Members would be provided with an opportunity to discuss the assurance map in more detail at the workshop which was planned for the afternoon.

4 CORPORATE AUDIT PROGRESS REPORT TO 31 MAY 2014

Consideration was given to a report which provided an update on progress made against the Audit Plan 2014/15 and provided summaries of all audits completed within the period March to May 2014. A more in depth update was provided for those audits which received 'limited' or 'no' assurance, Members were informed that managers from each of these areas would be in attendance to discuss actions taken since the audits were carried out.

It was reported that the most significant piece of work this year would be input into the Agresso project, regular highlights would be provided to the Section 151 Officer and Project Board, as well as this Committee over the coming year. Officers from internal audit would be involved in the project at key stages.

Members were informed that 24 audits had been completed since the last progress report in March 2014, of these 2 had received 'full' assurance, 17 received 'substantial' assurance, 4 received 'limited' assurance and 1 had received 'no' assurance. Of the 4 that received 'limited' assurance, 1 received a split assurance (substantial/limited). It was noted that audits in 2014/15 would be based on a new set of definitions. Seven audits were at the draft report stage, and details of these audits would be brought to the next meeting of this committee.

The Committee was provided with the opportunity to ask questions to the officers present in relation to the information contained within the reports, and some of the points raised during discussion included the following:

- Concerns were raised regarding the change of assurance definitions, and whether they would devalue the audit. Members were reassured that this would not happen as all four of the definitions would be changed. Further details would be brought to the next meeting of the Committee;
- It was clarified that payment to the contractor for the Agresso system was related to completion of key milestones. For the payroll system, there would be 3 parallel test runs;
- It was noted that the frequency of visits from HMRC was dependent on a risk assessment. The County Council had been assessed as a low risk and so would expect visits to be every 5-10 years. It was important to carry out internal audits into tax compliance to ensure that the authority remained as a low risk;
- The Lincoln Castle revealed project had been given a 'substantial assurance' opinion following its audit, and officers had a reasonable level of confidence that the project was on track. It was confirmed that the project was on time and on budget;
- Members were assured that the role of internal audit would not be compromised by its involvement in the Agresso project, as once the system is implemented the auditors involved would not be able to audit the system for at least two years;
- In relation to Agresso, there was a challenge in convincing the project team that the audit team was there to be helpful. The audit team were clear about how they could help and where they should not;

- Both the Agresso system and the Mosaic system for Adult Care were being developed at the same time so they should link together;
- An audit around safeguarding in adult social care would be undertaken following a serious case review;

#### Additional Needs

The Head of Service -14 to19 attended the meeting to respond to the audit of the Additional Needs service which had been assessed as 'no assurance'.

It was acknowledged that the management of the Additional Needs service had changed immediately prior to the commencement of the audit, and it was recognised that substantial effort had been put into establishing robust processes to improve the systems.

Members were advised that following the audit, work had very quickly been put in place, and all year 11 pupils in need of a Transition Plan had been identified. However, it was noted that some young people did not make a decision about what they would do next until quite late in year, sometimes when they received their exam results. It was reported that there were 453 pupils in year 11 this year who needed a Transition Plan, of those, there were only 18 who were undecided or the authority did not know what their plans were.

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 clarified that if a school converted to an academy, the local authority was still responsible for conducting the section139a assessment. However, it was the schools' responsibility to implement it;
- From September 2014, transition arrangements would be built into the Education and Healthcare Plans, therefore staff would be engaging with the young person from an earlier stage (year 9);
- Directorates received training on risk and the risk register;
- Officers were confident that the deadline of 31 August 2014 would be met in terms of transferring all pupils over to EHC plans;
- If a young person failed to attend college, the County Council would be able to recoup that cost;

#### Tax Compliance (LF&R)

The Chief Fire Officer and Group Manager attended the meeting to respond to the audit of Tax Compliance for Lincolnshire Fire and Rescue, which was assessed as having 'limited assurance'.

Members were advised that Lincolnshire County Council was responsible for complying with tax legislation set by HM Revenue and Customs. Lincolnshire Fire and Rescue (LF&R) were excluded from the 2012/13 tax compliance audit due to the ongoing negotiations with HMRC to agree the tax liability relating to emergency vehicles used by LF&R Senior Officers.

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It was reported that the key issue affecting the overall confidence in this area was the compliance issues associated with the HMRC agreement as well as leased vehicles which were also used for emergency purposes. It was noted that there was an exemption from the HMRC tax conditions, which related only to the Chief Fire Officer. It was found that this exemption had been applied by LF&R to four additional officers within the Chief Officers Group.

Members were informed that the relationship between HMRC and LF&R was currently exceptional, and officers were working on the exemption so it could be applied to the additional senior officers. LF&R were just waiting for the report to be submitted, but it was thought that it had now been agreed.

In relation to the leased vehicles, they were not classed as company cars, but emergency vehicles as their primary use was emergency response.

It was queried whether business mileage applied to travel between the work base and home. It was noted that there was not a consistent approach on this issue, either across all workplaces or occupational groups. However, the importance of good record keeping in relation to mileage was recognised.

It was also noted, that in terms of dealing with HMRC it was important to ask the right questions.

Members were advised that officers within Fire and Rescue would be undergoing a training exercise to ensure that mileage was being completed properly.

#### Public Health Contract Management

The Programme Manager – Procurement and Contracting attended the meeting to respond to the audit of Public Health Contract Management which was assessed as 'limited assurance'.

Members were informed that five key areas where improvement was required had been identified as follows:

- Regular Quality Assessment Framework (QAF) audits and Contract Management meetings should be held with providers;
- The number of extensions to contracts needed to be kept to a minimum;
- A central record of contracts and key data should be maintained and used for monitoring purposes;
- A routine quality review of Contract Management arrangements by Senior Officers should be undertaken to ensure consistency, quality and compliance with the toolkit;
- Documentation in relation to QAFs and Contract Management meetings needed to be completed promptly to ensure timely reporting;

Clarification was sought regarding contract extensions and what they were defined as. It was noted that all contracts had now been reviewed along with their timescales, and they had been going through Executive for approval;

It was reported that contract management meetings were taking place across all contracts and a programme of quality assessment framework (QAF) visits were also taking place during spring/summer 2014. These visits would combine a review of a provider's key policies and procedures, consultation with service users, staff and key stakeholders and key management personnel. Members were advised that all contract details were now included on the LCC Firefly system.

The Committee was informed that a Public Health assurance and clinical governance board had been recently established and the contract management processes were on the agenda to ensure that wider assurance within the directorate took place.

#### Procurement Card (Users)

Alex Botten, Procurement Lincolnshire, attended the meeting to respond to the audit of the procurement card (users) system, which was assessed as Limited assurance. It was noted that this had received split assurance – with substantial assurance for the central process and Procurement Lincolnshire's activities, and limited assurance for directorates and users.

It was reported that the procurement card process and control framework was sound and the Procurement Card team were proactive in identifying and addressing poor practice/non-compliance, but there were three compliance issues which were affecting the overall level of confidence which were:

- VAT – this was an ongoing issue and continuous training was being carried out;
- Security of cards – the importance of security and fraud awareness would be highlighted in the newsletter circulated to all procurement card users;
- Business Travel Policy – there was a lack of awareness of the approved process for procuring overseas travel;

Members were informed that there were 700 card holders and 3000 transactions were carried out each month. It was found that in all cases the transactions were valid, although more details could have been provided. It was confirmed that cards were being used for legitimate purposes, but there was a need to ensure that sufficient details was provided to accompany these transactions.

It was confirmed that individual members of staff would be spoken to directly if it was felt that the procurement cards were not being used correctly. The newsletters would then be circulated as a follow up to all card users to make them aware of the issues.

#### Debtors

The Head of Finance for Children's and Specialist Services was in attendance to respond to the audit regarding debtors, which was assessed as having limited assurance.

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It was acknowledged that there was a difference of opinion between management and internal audit in relation to the assurance level. The Council's senior financial managers had overall confidence in the debt recovery processes and did not share the opinion of audit on risk in this area. However, the ongoing and planned improvements were significant pieces of work which would assist in the transition to the new systems due to go live in April 2015. Whilst audit did concur with management in some areas it was believed that improvements were required to:

- Take decisive action on tackling long term debt;
- Reduce invoicing errors;
- Continue improving Adult Care systems to minimise the Authority's level of debt and reduce delays in raising debtor accounts;

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:

- The total value of debts which were greater than £25,000 was over £2m, but this had now reduced to approximately £800,000 within the past year. It was noted that there was an ongoing commitment to continue to reduce this debt;
- It was important to continue to educate and train people to understand the implications of this issue as a key strategy in making significant continuing progress in reducing outstanding debt. The recognition of this need to continue to identify training needs was welcomed by the Committee;
- It would be useful for the Value for Money Scrutiny Committee to be made aware that training needs were being identified and addressed;
- A lot of the outstanding debt was with other public sector bodies, and so there was considered to be a low risk of default;
- Work had taken place to raise the profile of this issue in order to change the culture. A model had been produced, and this now needed to be put in place and delivered;
- The amount of outstanding debt at any given time was approximately £10m. However, a lot of this was secured against property, so this was considered low risk;

#### RESOLVED

That the outcomes of the Corporate Audit Work be noted.

## 5 RISK MANAGEMENT PROGRESS REPORT TO 23 JUNE 2014

One of the key roles of the Audit Committee was to ensure that the Council had effective risk management arrangements in place. Members received a report which assisted the Committee in fulfilling that role, and provided 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 thought about risk.

The Committee was advised that over the past few months, officers had undertaken a complete refresh of the strategic risk register. In doing so, senior management

were consulted together with the Corporate Risk & Safety group for guidance as to what the strategic key risks were for the Council.

It was reported that the number of key risks had been reduced from 15 to 11. One new one had been added, which was the Integration of Health and Social Care Services, and a number of others had been merged together.

It was noted that the first risk on the register – Resilience (Business Continuity) did not have a risk score. The risk scores were in the process of being calculated and officers did not want to speculate.

Within the risk register there were some common themes, such as all directorates identified risks around finance. There was also now, a high level of management assurance for each of the top 5 risks. It was noted that none of these risks had been assessed as 'no' assurance.

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:

- A risk had been identified in terms of the recruitment and retention of staff, and it was queried if there was a budget allocated to this? Members were advised that this had been identified in a number of directorates, whilst there was not a dedicated budget for training, there was a budget code for training, and the authority would provide support to enable staff to be more resilient. It was also noted that training was carried out in ways other than running courses, such as secondments, shadowing and mentoring, which would not be coded to a particular budget;
- The top five risks to the Council were forward looking;
- It was planned to hold a series of fundamental budget review workshops, and risk assessments for each service area in relation to potential budget reductions would be factored in;
- Members commented that the new format was very readable;

#### RESOLVED

That the current status of the strategic risks facing the Council be noted.

#### 6 COUNTER FRAUD ANNUAL REPORT 2013/14

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

It was reported that Lincolnshire County Council's commitment to reducing fraud and error had been consistently strong over the past few years and had achieved savings and recoveries which compared favourably with similar authorities.

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In relation to investigations, Members were advised that 10 potential new fraud referrals had been received during 2013/14 – this was four fewer than the previous years. The total estimated value of fraud associated with the live cases running during the year was £460,150. The most common type of fraud was financial abuse of vulnerable adults, followed by abuse of position. Work in relation to direct payments had resulted in 6 referrals, but there was only one where there was sufficient evidence to refer to the police, and that person had now been charged.

Members were informed that data analytics had been used in due diligence audits of procurement to identify potential fraudulent use. This had identified unusual spending patterns, and all testing results were satisfactory. The same approach was also used throughout the year on the Council's key financial systems, such as creditors and payroll.

It was believed that the Council's counter fraud activities remained effective, and it was hoped to boost fraud awareness throughout 2014/15 by working with teams with the highest fraud risks e.g. procurement, contract teams and social care practitioners. The aim would be extend the fraud awareness work to key partners, service users and carers, where appropriate.

One member commented that they had been approached by a member of staff regarding the whistleblowing policy who had expressed how confident they felt with the process which was in place.

### **RESOLVED**

That the overall effectiveness of the Council's arrangements to counter fraud and corruption and the progress made to implement the policy be noted.

## **7 EXTERNAL AUDIT PROGRESS REPORT**

The Committee received a report from the Council's External Auditors, KPMG which set out the work performed by KPMG for 2013/14 financial year to date, as well as the work proposed over the next quarter. The report also provided an update on the Audit fee.

Members were advised that the draft statement of accounts had been received by KPMG on the previous Friday, as scheduled. Officers were confident that they would be ready for September, and that they would be completed to the same standard as the previous year.

It was reported that from the work which had been carried out already, there was nothing which needed to be raised with the Audit Commission in relation to the audit of accounts.

RESOLVED

That the progress report be noted.

8      WORK PLAN

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

Members were advised that the work plan was in draft form and was open for discussion at the workshop to be held in the afternoon following this meeting. It was noted that this workshop was a follow up to the one held following the meeting on 31 March 2014.

It was also noted that the CIPFA Audit Committee guidelines had been circulated to members and would be of help when looking at the effectiveness of this Audit Committee.

RESOLVED

That the Audit Committee's work plan be noted.

The meeting closed at 12.15 pm