

**AUDIT COMMITTEE
 24 NOVEMBER 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)

Officers in attendance:-

Debbie Barnes (Executive Director of Children's Services), David Forbes (County Finance Officer), Glen Garrod (Director of Adult Care), Judith Hetherington Smith (Chief Information and Commissioning Officer), Tony McArdle (Chief Executive), Liz Morgan (Consultant, Public Health (Health Protection)) Pete Moore (Executive Director of Finance and Public Protection), Stephanie O'Donnell (Audit Manager), Lucy Pledge (Audit and Risk Manager), Nigel West (Democratic Services Manager), Richard Wills (Executive Director for Environment and Economy) and Rachel Wilson (Democratic Services Officer)

26 APOLOGIES FOR ABSENCE

There were no apologies for absence.

27 DECLARATIONS OF MEMBERS' INTEREST

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

28 MINUTES OF THE MEETING HELD ON 22 SEPTEMBER 2014

RESOLVED

That the minutes of the Audit Committee held on 22 September 2014 be signed by the Chairman as a correct record.

29 COUNTER FRAUD PROGRESS REPORT TO 31 OCTOBER 2014

Consideration was given to a report which provided the Committee with an update on the Council's fraud investigation activities and information on progress made against the Counter Fraud Work Plan 2014/15.

The Committee was advised good progress against the work plan for 2014/15 had been made and work in a number of key fraud pro-active areas had been completed, in particular around fraud awareness.

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It was reported that seven fraud referrals had been received since April 2014. Of these, there were currently three live cases and four which had been concluded. There had been one successful prosecution since the last progress report which was a direct payments case, totalling just under £8,000. The money was repaid in full to the Council by the perpetrator and they were also given a Community Service Order of 200 hours, and ordered to pay costs of £145.

Members were informed that all counter fraud and whistleblowing promotional material had been distributed throughout the Authority, including schools. This would be supported by publications from the Council's Communication Team and repeated throughout the year to ensure maximum coverage. It was also reported that officers had successfully validated and uploaded data from 8 of the Council's systems for the 2014/15 National Fraud Initiative, a significant mandatory data matching exercise which was designed to provide participating bodies with the information to identify and investigate potential fraudulent transactions. It was expected that the data matches for Lincolnshire County Council would be received early in 2015.

A £16m funding pot had been made available to local authorities to enable them to develop their counter fraud arrangements, and Lincolnshire County Council had submitted two bids which it was hoped would be successful, and the results were expected imminently. It was noted that the two bids were for a grant for prosecution handling – to enable the Council to develop its capacity, expertise and governance framework to handle some or all of its fraud prosecution cases, and one for the Lincolnshire Fraud Partnership which recognised DCLG's desire for Local Authorities to work jointly against fraud, by creating a Lincolnshire Fraud Partnership which would comprise counter fraud specialists from the county council and the seven district councils.

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;

- Schools which had converted to academies were able to make use of whistleblowing arrangements, and if they wished the authority would carry out fraud checks. Officers would be carrying out some promotional work to make it known what services the authority could offer the academies;
- It was confirmed that when somebody died, all relevant organisations were notified, but there could be a time lag with some of them. However, the systems used in this process had improved greatly, including the interface between the adult care management system and the direct payments system;
- It was commented that a care home had a duty of care and should know to inform the authority when a resident had died and if they were still receiving payments for that resident;
- A joint protocol was being developed with safeguarding teams and social workers to deal with cases of suspected financial abuse;
- It was noted that it was hoped that the NHS would at some point be included in the fraud partnership. If they could be encouraged to join, then this would be a positive step;

- How many hours officers spent preparing and investigating a suspected fraud case before handing it over to the police, was information that was needed to support the business case for the funding for the authority to carry out its own prosecutions.

RESOLVED

That the outcomes of the counter fraud work be noted.

30 WHISTLEBLOWING ANNUAL REPORT

The Committee received a report which provided an overview of the Council's whistleblowing arrangements throughout the year 2013/14. Members were advised that whistleblowing activity was consistent with the previous year and 17 whistleblowing disclosures had been received throughout the year. It was noted that only four of these had been reported anonymously, which was encouraging. Of the 17 disclosures, three required a full investigation and four were closed down with recommendations for management action. Most were closed down with advice provided. It was ensured that all organisational learning resulting from these disclosures was picked up.

Members were advised that the Policy was updated in 2013 to reflect some changes in the law, but it was believed that the whistleblowing arrangements remained effective.

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

- It was suggested that the lower number of anonymous whistleblowing disclosures could indicate an improved confidence in the reporting arrangements, as staff were willing to share their identities. Members considered this to be a positive step;
- It was noted that one of the disclosures covered three different areas;
- The whistleblowing arrangements were a method for use when staff did not feel confident in the established processes;
- Feedback would always be provided to those who had raised an issue, even if there was no further action taken – unless contact details had not been provided;
- It was clarified that 'no further action' meant that no management action was required or no policy changes were required.

RESOLVED

1. That the whistleblowing activity for 2013/14 be noted;
2. That the ongoing work to raise awareness and provide assurance on the effectiveness of the Council's arrangements be noted.

31 REVIEW OF THE COUNCIL'S STANDARDS REGIME

Consideration was given to a report which updated the Committee on work which had been undertaken in relation to the standards regime of the Council.

Members were advised that the Overview and Scrutiny Management Committee had commenced a full review of the Constitution over a year ago, and had established a cross party Constitutional Review Working Group. It was hoped that the work would be concluded shortly and the final parts for approval would be going to Council in December 2014.

Members were advised that initial discussion had determined that there was a need for the Members Code of Conduct to be revised, but it was noted that the current version did achieve the requirements of the Localism Act. However, it had less explanation than the LGA's model code. It was reported that on 1 July 2012 the Standards Regime was changed under the Localism Act as it was felt that the previous legislation was no longer fit for purpose. The national system was abandoned as a result of this and Councils were required to introduce their own local standards code and protocols. This authority opted for a more streamlined code and no Standards Committee.

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

- Advice to members if they had concerns regarding declaring interests was always to over declare rather than to under declare;
- Under the new arrangements, once it had been concluded that there had been a breach of the Code of Conduct, the Audit Committee would need to convene a sub-group which would determine what action was to be taken;
- It was important to note that it was not the role of officers to judge members in relation to breaches of the Code of Conduct, and councillors should be the ones who judge their peers;
- It was noted that all authorities had their own way of dealing with standards issues, some had kept a standards committee whilst others had abolished them;
- It was queried how it would be monitored whether interests were not being declared. Members were advised that officers would not police councillors to ensure they were declaring everything they needed to, as the Code of Conduct required members to be responsible for their own declarations. However, members were periodically reminded that there was a need to update their interest forms if their situations changed;
- It was thought that a system whereby members could update their forms online would be useful, and a more database based approach which could be interrogated more easily was being considered;
- It was also suggested that the forms that members were required to complete could be redesigned as they did not always promote the right response;

- Members commented that they also found it useful that there was someone within Democratic Services that they could go to when they needed to update their interests form;
- It was commented that there was a need for a sensible approach in relation to the declaration of gifts and hospitality by both officers and members, and that only items over a certain amount should be declared. Members were advised that it was recommended that officers declare anything with a value of £25 and above, and it was noted that it should also be recorded if hospitality was refused. However, it was noted that a lot of the gifts were genuine and given to frontline staff;
- It could be guaranteed that the media would look at both Councillors declarations of interest and expenses claims;
- Generally, the Monitoring Officer would be dealing with 3-4 cases of an alleged breach of the Code of Conduct at any one time;
- The existing Members Code of Conduct was constructed on the principles that an elected member should not use public office for their personal gain. It needed to be considered whether member behaviour should be part of the Code of Conduct;
- It was noted that the Monitoring Officer dealt with all reports of breaches of the code of conduct as confidential, and it was uncertain what purpose it would serve if the number of reports received was to be reported this Committee.

RESOLVED

That the content of the report be noted.

32 CHIEF EXECUTIVE AND EXECUTIVE DIRECTORS UPDATE - PANEL DISCUSSION

The Chief Executive and all Executive Directors were invited to attend a Panel discussion around how well the Council's governance and assurance arrangements were working in the times of uncertainty and change, as well as the impact on the assurance arrangements following organisational change, fundamental budget reviews and the potential impact on management and corporate assurance functions.

The Chief Executive was invited to open the discussion and provided an introduction, he reported that it was only in recent years that the authority had had to start making reductions to its budget, but it was believed that this was starting from a good place. However, in some cases change was managed so well that people's perceptions were that nothing had changed.

The headlines of the changes were straight forward – the funding of the authority had reduced by a quarter, and the number of staff had also reduced by a quarter from four years ago. The authority would have considerably less funding available over the coming four years. During this period, paradoxically, productivity had increased and this could be for a number of reasons - the authority was finding more efficient and effective ways of doing things, and people being concerned about job security. The increased efficiency masked the fact that workloads had increased, as there

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were more children in care, and the number of adults requiring care had also increased for example. This was something that could be misunderstood and was a risk as there were fewer people doing the same amount of work.

On a positive note, it was reported that Lincolnshire was well ahead in responding to these changes when benchmarking against other authorities.

It was commented that one of the main issues was the County Council becoming a commissioning authority and that there were underlying concerns regarding whether the county council would have sufficient control over the organisations that would be delivering the services on behalf of the authority.

Members were reminded that becoming a commissioning council did not mean that all services would be outsourced, but that in house services would be treated in the same way as contracts. Each service would be examined and it would be determined what outcomes and objectives were required, and what level of budget was available to achieve them. This would determine the most appropriate delivery model.

Discussion took place over the degree of control that should be exercised over services which the authority no longer needed to deliver. Officer acknowledged that different management skills were needed, such as a commercial attitude.

The Committee welcomed Sean Hanson, the Managing Director of Serco, who was in attendance to respond to any concerns the Committee held in relation to the contract between the County Council and Serco.

The relationship with Serco would be very important in the coming years.

It was noted that the Value for Money Scrutiny Committee had looked at the Serco contract in great detail prior to it being signed, and assurance would be needed that the contract would deliver what the authority required.

The Managing Director of Serco responded to comments from the Committee and acknowledged that he understood why there would be questions following the recent article in the national press about Serco. Members were advised that the organisation had seen enormous change in the past three years with a new Chief Executive and Chief Financial Officer, and when new individuals came into an organisation, there was a need to look at the health of that organisation. As a result, there were certain aspects of the business which Serco no longer wanted to be involved in, and there were other areas, such as local authority partnerships which it wanted to focus on more fully.

Members were informed that in comparison to other authorities that Serco had talked to about commissioning, Lincolnshire's level of thinking was mature, which came through in the clauses and the flexibility which had been included in the contract. There was clear transparency about what was to be delivered and also flexibility in the operating model to change it if necessary.

Members commented that they were reassured by the fact that the Senior Management Team had attended the meeting in order to answer any questions they had, as the authority was going to go through some big changes in the coming years. During this time communication would be very important, and the Committee requested that they be kept up to date during these changes.

It would be important that officers quickly pick up on any issues which were highlighted by the press so that they could be included in any briefing to the Council. It was acknowledged that sometimes information may not be shared or communicated widely due to commercial sensitivity, but once public the authority should not be dependent on the media for telling the rest of the story.

Governance would be an important part of this partnership, and officers were keen to ensure that all formal processes were being carried out correctly, but the informal aspects were just as important. Councillors needed to be as well informed as officers and there was a need to test whether the relationship between members and officers was as good as it could be.

In terms of the contract with Serco, it was noted that the County Council had a job to do in being a good client, if the authority was a good client it was more likely to get a better deal. Being considered as a good client means being seen as paying on time, best price with fair profit, and having clear contracts as well as having good relationships with partners. It was commented that due diligence was now a two way process.

In response to a query from the Committee, it was reported that Serco was very happy with the contract that was in place between themselves and Lincolnshire County Council. Both organisations were comfortable and clear about what was needed and what was to be delivered by Serco.

It was also confirmed that Serco would carry out due diligence into issues such as whether they were likely to get paid, would they encounter any disputes etc. when entering into a contract. It was found that LCC had a very mature relationship with its contractors, and it had been a very considered decision by LCC to award the contract to Serco.

The Executive Director for Children's Services provided an update to the Committee regarding assurance arrangements which were in place in Children's Services. Members were advised that the work of Children's Services would be based on four broad commissioning strategies and officers would be working on developing outcomes. The four strategies would be:

- Ready to learn when starting school;
- All Children and Young People learn and achieve;
- All children are safe and healthy;
- Young people are prepared for adult life;

Over the next two years, officers would be going through the commissioning process to make a conscious decision on whether the authority is best placed to continue to deliver these services, or if they would be better provided by an external company. A

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new post had been established, the Commissioner for Learning, as the authority's relationship with schools was significantly changing, but there was still a statutory duty to ensure that all children received an education.

As there had been a structural change in the Director of Children's Services duties, an independent person had been commissioned to carry out a review of the governance arrangements in place in Children's Services and the Safeguarding Children Board. The report had been completed and would go before the Children and Young People Scrutiny Committee in due course. It was noted that there were external assurance arrangements in place as well as internal ones, for example, an Ofsted inspection had been recently completed, and the authority participated in peer review activity. In relation to internal assurance arrangements, the directorate made use of Internal Audit services. A lot of the work currently being done was in partnership with CCG's, and it was important to ensure that governance arrangements were robust and so it had been requested that this be added to the list of areas for internal audit to look at further.

It was hoped that an Education Board would be established, and this proposal would again be taken to the relevant Scrutiny Committee for consideration in the future.

Members were advised that the Ofsted report would go into the public domain on 6 January 2015. The Executive Director had been made aware of preliminary points following the inspection, but the draft report would be received on 9 December 2014. The authority would then have five days to respond on points of accuracy before the final document was prepared. This report would also be considered by the Children and Young People Scrutiny Committee.

It was queried how this Committee could be assured that the right mechanisms were in place to ensure that officers picked up problems such as those which had been experienced in Rotherham. Members were advised that the Authority had a strategy and action plan for addressing child sexual exploitation and had commissioned a review concerning historical issues. It was also noted that the report by a Parliamentary Select Committee into the situation in Rotherham had been recently released. It had highlighted that the problems had arisen not just through children's services, but also due to arrangements between officers and members in terms of good governance. Officers would be looking at the recommendations from this report in order to benchmark the authority and the Committee were assured that Democratic Services had also considered the report.

The Director of Adult Care provided the Committee with an update of activities that had taken place within Adult Care in response to the changes. It was reported that previously adult care would have been the largest directorate in the authority, and now it was 1/3 of the size in manpower terms. This meant that the directorate had been able to deliver a balanced budget for the past three years.

However, some serious decisions had to be made regarding which services to provide and how to do that, consequently the authority was dependent on small and medium enterprises (SME's) for providing the necessary services. This changed the approach to control as services for adult care were almost entirely commissioned.

The authority controlled the gateway to meeting the needs of service users. It was found that this was proving to be more efficient and staff were assessing people appropriately against a national template. A Quality Control Unit had been set up who worked closely with Procurement Lincolnshire to help gain assurance on services being delivered.

Members were advised that from 1 April 2015 the safeguarding of adults would become a statutory duty for the first time. It was also noted that the National Audit Office was testing for the preparedness for the introduction of the Care Act in 2015.

In relation to Public Health, it was reported that the Public Health team was not only managing the transformation within the Council towards becoming a commissioning council, but also was also still managing the move of public health services to the county council. A review was undertaken when public health services moved to the county council, and one of the issues which became apparent was the ramifications of the reorganisation of the NHS into clinical commissioning groups. There would be a need to be very careful when commissioning services to ensure that the authority did not end up with a service which was fragmented.

The Executive Director Finance and Public Protection informed members that managers would continue to risk assess all of the Council's activities and areas needed to have more of an appetite for risk. The budget for the next two years would be heavily supported by reserves in order to manage the changes.

It was noted that following the review of the Mouchel contract it was decided to bring some services back in-house including financial management and accountancy. It was hoped that this would provide the authority with more resilience.

It was also noted that it was not just local government that was coping with budget reductions, but also partner organisations, which could limit what could be done around some activities.

The Chairman thanked the Chief Executive, Executive Directors and Sean Hanson from Serco for attending the meeting and answering the questions of the Committee.

33 REVIEW OF DRAFT FINANCIAL PROCEDURE 6 - RISK MANAGEMENT

Consideration was given to a report which presented the revised Financial Procedure 6 for review and comment. It was reported that this procedure formed part of the Financial Regulations and Procedures in the Council's Constitution, and aimed to inform staff and members of the mandatory requirements and provide guidance on good practice in risk management, counter fraud and insurance.

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:

- Training material would be provided in relation to thinking about risk for members and officers;

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- Managers were responsible for ensuring that staff within their teams received all relevant and appropriate training;
- Risk management training had not been made mandatory, in order to make it mandatory a steer from the Executive Director for Resources and Public Protection would be required;
- Most training was dictated by the service needs. Training was also delivered through continuous professional development and on the job training. It was therefore difficult to quantify the amount spent on training by the Council outside of training budgets;
- Risk management had been built into people's overall development, and would be approached differently in different areas.

RESOLVED

That the comments made in relation to the revised Financial Procedure 6 – Risk Management be noted.

34 WORK PLAN

Consideration was given to a report which provided the Committee with information on the core assurance activities currently scheduled for the 2014/15 work plan.

It was noted that information requested at the previous meeting in relation to debtors and domestic violence had been included in the report.

Members were provided with an update on progress against the action plan.

It was confirmed that David Hair, Scrutiny and Member Support Team Leader would be presenting a report at the meeting on 26 January 2015 on Scrutiny and its relationship to the Audit Committee.

It was noted that feedback regarding a recent training session which had been held by CIPFA on Effective Audit Committees had been positive and members commented that it had been useful to meet with colleagues from other authorities. It was also noted that positive feedback had been received from the districts.

RESOLVED

That the Audit Committee's work plan and action plan be noted.

The meeting closed at 12.35 pm