

**PRESENT: COUNCILLOR B YOUNG (CHAIRMAN)**

Councillors W J Aron, Mrs C M H Farquharson, C Farrar, N I Jackson, Mrs P A Mathers and Mrs S Rawlins.

Mr D Finch (Added Independent Person).

Officers in attendance: Ruth Cumbers (Head of Service), Judith Hetherington-Smith (Chief Information Officer), Stephanie Kent (Audit Manager), David Laws (Head of Finance – Adult Social Care & Public Health), David O'Connor (Executive Director Performance and Governance), Claire Pemberton (Assistant Head of Finance (Corporate)), Lucy Pledge (Head of Audit) Dave Simpson (Head of Finance – Strategic & Communities), John Sketchley (Audit Manager), Rachel Wilson (Democratic Services Officer) and Mike Wood – Audit Commission (Audit Manager).

26. APOLOGIES FOR ABSENCE

Apologies for absence were received from Tony Crawley – Audit Commission (District Auditor).

27. DECLARATIONS OF MEMBERS' INTERESTS

Mr D Finch declared a personal interest as a non Executive Director of the Lincolnshire Partnership NHS Foundation Trust.

Councillor Mrs C M H Farquharson declared a personal interest in minute number 32, as a contributing member of the County Council Pension Fund.

28. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON 13 JUNE 2011

RESOLVED

That the minutes of the previous meeting held on 13 June 2011 be confirmed and signed by the Chairman as a correct record.

29. EXTERNAL AUDIT GOVERNANCE REPORT - LINCOLNSHIRE COUNTY COUNCIL PENSION FUND

(Councillor C Farrar declared a personal interest in this item as the Chairman of Lincolnshire County Council's Pension Committee;  
Councillor W Aron declared a personal interest in this item as a member of Horncastle Town Castle))

Consideration was given to a report presented by the External Auditor which provided the Members of the Audit Committee with the opportunity to consider the Annual Governance Report. The draft Statement of Accounts was presented to the Audit

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Committee at its meeting on 14 July 2011, and the work by the Audit Commission, the County Councils external auditor, on these accounts has now been completed. The Audit Committee was requested to consider the Annual Governance Report as presented by the External Audit, and some of the points raised during discussion included the following:

- There were no adjustments or errors to attention needed to be drawn;
- The audit fee would remain unchanged for 2010/11;
- The volatility of the stock market was not considered to be an issue at the moment;
- It was necessary to give a separate opinion on the Pension Fund Annual Report;
- The pension fund audit had gone very well;
- No weaknesses in the internal controls were found;
- Once the opinion had been given, nothing would change it, unless it was specifically requested;

### RESOLVED

1. That the External Auditors Annual Governance Report (AGR) be noted;
2. That the amendments made to the draft Pension Fund Accounts previously presented to this Committee as part of the Council's Statement of Accounts be agreed and that the revised Pension Fund Accounts be noted;
3. That the Letter of Representation be approved on behalf of the Council to enable the Audit Opinion to be issued.

### 30. PROGRESS REPORT – COUNTER FRAUD 2011/12

The Committee received a report from the Audit Manager (Counter Fraud and Investigations) which provided an update on the fraud investigation activities and information on progress against the Counter Fraud Work Plan 2011/12.

It was reported that following the Workforce Change process the Counter Fraud and Investigation Team had a wider remit and an improved resource. The work plan had been developed with the expectation of being fully resourced from the middle of 2011, as this had not happened it was now expected that the Counter Fraud and Investigation Team would be fully staffed by March 2012, and as such the work plan would be reduced accordingly, with some tasks being moved to the following year.

The Committee was informed that 40% of investigations were handled 'in house' with 60% either solely or jointly investigated with the Police. There were 15 live fraud cases ongoing, with the key areas being schools (school budget and school fund), contracts and insurance, with a combined value of £2.15million. It was reported that so far in 2011 £652k had been successfully recovered, and the suspected fraudulent insurance claims were 'on hold' pending the outcome of enquiries.

It was reported that in relation to the proactive exercise on the use of Imprest Accounts, which was nearing completion, each area had a non-interest bearing bank account, with a predetermined limit which ranged from £100 to £8,000, and it was thought there was scope to reduce the balances held in some of these accounts.

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It was commented that members were very pleased to see the recovery rate, however, it was acknowledged that time scales had slipped due to the workforce change process, but it was requested that the Committee be informed as soon as possible if any problems arose.

It was reported that in relation to the resource constraints referred to in the report, there would be a focus on direct payments, completing the National Fraud Initiative (NFI) testing and revising the counter fraud risk assessment in the coming year. There was confidence that other aspects of the teams work such as training, follow-up and pro-active exercises would be picked up in the new year.

In relation to NFI, data matching and information sharing took place with other counter fraud teams such as those within the NHS.

**RESOLVED**

That the outcome of the counter fraud work to date be noted.

**31. WHISTLEBLOWING ANNUAL REPORT**

The Audit Committee received a report presented by the Audit Manager which outlined the whistleblowing activity for 2010/11 and the plans to increase the level of understanding and awareness throughout the Council, including key partners and Lincolnshire residents. It was reported that the whistleblowing policy had been significantly overhauled in the previous year although the process, reporting arrangements and content remained fundamentally the same. It was accepted that there was scope to improve policy awareness, as due to resourcing and conflicting service demands, it was not possible to have a high profile relaunch. The Committee was informed that it was intended over the next year to improve awareness by running workshops, issuing guidance to managers and staff and producing articles for key council publications, a website was also being developed.

It was reported that there had been 19 whistleblowing disclosures during 2010/11 and the majority had come through the Council's dedicated whistleblowing hotline. Attention was drawn to the decrease in the number of concerns received in 2010/11 compared to 2009/10 in relation to Dignity at Work – bullying and harassment and also to the increase over this time of concerns relating to Financial (including fraud). It was suggested that the decrease in disclosures could be due in part to the Council's workforce change process, and it was probable that workload would increase following the conclusion of this process.

**RESOLVED**

That the whistleblowing activity for 2010/11 and the plans to increase the level of awareness and understanding throughout the Council, including key partners and Lincolnshire residents be noted.

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**32. STATEMENT OF ACCOUNTS FOR LINCOLNSHIRE COUNTY COUNCIL  
AND THE LINCOLNSHIRE COUNTY COUNCIL PENSION FUND FOR THE  
YEAR ENDED 31 MARCH 2011 AND EXTERNAL AUDIT UPDATE**

Consideration was given to a report which informed the Committee on the status of the Statement of Accounts for Lincolnshire County Council and the Lincolnshire County Council Pension fund for the financial year 2010/2011 which should be completed and independently audited to meet the statutory deadline to publish by 30 September 2011.

It was reported that the draft Statement of Accounts for 2010/11 were presented to the Audit Committee at their meeting on 14 July 2011. The difficulties which had been experienced in preparing the Accounts were discussed, and it was noted that these had continued and as such the Statement of Accounts remained behind schedule and so the statutory deadline of publishing audited financial statements by the end of September would not be met.

It was reported to the Committee that the accounts had now been finished, but the Audit Commission had had to delay when they came back with their completed audit, and was expected within 5 or 6 weeks. As a result of this delay, an extra meeting of the Audit Committee had been arranged for Monday, 31 October 2011 to provide the members of the Committee with an opportunity to consider the accounts.

The Committee was informed that the Pensions Fund accounts had been completed on time and the external auditors would be issuing an unqualified opinion on the Pension Fund accounts.

The Members of the Committee were provided with the opportunity to discuss the issues raised in the report, and some of the points raised included the following:

- The delay in publishing the accounts should not have any effect on the reputation of Lincolnshire County Council. The Audit Commission usually only named those authorities who had missed the deadline by more than a month;
- It was expected that the external auditors would finish their work in the week commencing 17 October 2011, as a good proportion of work had been carried out in July. There was not a great deal of issues which were coming out of this work. It was the intention to give the opinion by the end of October 2011;
- The Committee was reassured that measures were being put in place to ensure that this delay would not occur again;
- The main issue had been the transfer to the International Financial Reporting Standards (IFRS);
- Enquiries would be made to Mouchel regarding why the deadline was not achieved, and the County Council would be looking to pass any extra charges incurred on to Mouchel. It was requested that a report be brought back to the Audit Committee on this issue;

**RESOLVED**

1. That the current status of the Financial Statements and progress towards External Audit giving an opinion on the accounts be noted;

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2. That a report be brought back to this Committee setting out why the accounts were late and measures put in place for the future.

33. ANALYSIS OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AT 31 AUGUST 2011

Consideration was given to a report presented by the Audit Manager which provided an analysis of the high priority audit recommendations outstanding at 31 August 2011, as well as suggestions on how they should be managed. It was reported that 37 outstanding recommendations had been identified, of which 11 were identified as high priority.

It was reported that most of the recommendations would be followed up in quarter 4, and the Director of Adult Services would be invited to attend the next meeting. It was commented that it was understood that problems were created by the work force change process, but that they would not last forever, and what was important was how they would be resolved.

RESOLVED

1. That the contents of the report be noted;
2. That the suggested actions be agreed;
3. That the Director of Adult Services attends the next meeting of the Audit Committee to explain the problems which had occurred and how they would be resolved.

34. ANNUAL GOVERNANCE STATEMENT

Consideration was given to a report which set out the Annual Governance Statement 2011 to ensure that it accurately reflected the Council's governance and assurance arrangements. It was reported that the Council had a strong control environment which was demonstrated by the realistic and open assessment of its functions and activities. A number of governance issues had been identified by officers which were included in the Annual Governance Statement.

RESOLVED

1. That the Annual Governance Statement 2011 be approved;
2. That the statement be recommended for signature by the Leader of the Council, Chief Executive and the Executive Director – Resources and Community Safety.

35. WORK PLAN

A report by the Head of Audit was submitted which provided the Committee with progress on agreed actions together with its work plan up to December 2011.

It was reported that the work plan had been amended to include the extra meeting of the Audit Committee which had been arranged for 31 October 2011 in order for the

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Committee to approve the financial statements. It was also noted that the progress report on strategic risk management had been moved to the November meeting.

### RESOLVED

1. That the progress of the agreed actions, as detailed at Appendix A of the report, be noted;
2. That the work plan, as detailed at Appendix B of the report, be agreed.

### 36. CORPORATE AUDIT PROGRESS REPORT TO 31 AUGUST 2011

*Prior to consideration of the Corporate Audit Progress Report to 31 August 2011, it was agreed that the document attached as Appendix B, marked as 'exempt', to the report was deferred to a future meeting, a more detailed report was requested and it was also requested that the report be written so that it could be considered in an open meeting.*

The Members of the Audit Committee considered a report which provided an update on progress made against the Audit Plan 2011/12 as agreed by the Committee on 21 March 2011. It was reported that the audit reports had issued Limited Assurance for the Resource Allocation System and Direct Payments in Adult Services, and the Wolds East Educational Trust in Children's Services.

A discussion took place in which members of the Committee were provided with the opportunity to ask questions to the officers present in relation to the progress report, and the following points were raised:

- The actions in relation to the Adult Services Resource Allocation System (RAS) were completed by the end of July 2011, and a report went to the Executive in September 2011;
- Concerns were raised that mental health sufferers had found the questioning to identify their needs to be too traumatic and would not pursue it any further;
- There was a need to work sensitively when dealing with overpayments;
- The Direct Payments team had received additional resources in order to carry out the extra work, which had resulted in £160,000 being recovered. Assurance could be given that the recommendations in the report had been acted upon;
- An additional checking procedure had been put in place to look at overpayments, and it was ensured that there was a consistency in terms of the approach;
- In terms of the proposal to not report on outstanding recommendations for 'substantial' or 'full' assurance, it was reported that these would still be followed up and reported on in the annual report, and it would be visible if they had not been implemented;
- The Procurement Team was in the process of putting together a policy for the use of hire cars and had requested some advice on controls to put in place;
- There was an aim to encourage managers to be more accountable;
- The full impact of the workforce change process would not be known until it had been completed;

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- It was queried whether it was realistic to bring forward so many actions to quarters 3 and 4, and that Members would rather see a later, more realistic target than them have to be amended.

RESOLVED

1. That the outcomes of Corporate Audit work be noted;
2. That in future the progress report only includes details of outstanding recommendations where the activity received 'Limited' or 'No' assurance be agreed.

37. DISASTER RECOVERY – SAN REPLACEMENT

Consideration was given to a report by the Chief Information Officer which outlined the progress made with the replacement of the Storage Area Network (SAN) for the Council which was due to be completed in October 2011. The new SAN would include mirrored storage of data across two SAN devices, which had now been installed, configured and tested and data migration from the old SAN device was underway.

The loss of operational use of business critical ICT systems which was experienced by Lincolnshire County Council for five days during November 2010, was the result of the failure of a SAN device, a key piece of technology responsible for the storage of much of the Council's business critical data. It was emphasised to the Committee that no data was lost or compromised during this time, but it was simply that the data was inaccessible to staff providing Council services. The two new devices would be located on separate sites, to ensure both technological and geographical separation to provide further security for the Council's data.

It was reported to the Committee that the cost of replacing the SAN equipment was £800,000, however, this was an investment in the physical infrastructure and the upgrade would still have taken place without the failure of the IT equipment in November 2010. It was noted that there had not been any insurance in place for a failure such as this, as it was not an eventuality that would normally be insured against, as it was access to data which had been lost, not the data itself. Lessons had been learned from the IT failure, and some useful planning had taken place, it had been found that the levels of resilience people were requesting for their IT was higher in some places than required. The expenditure on the new SAN has provided a system with more resilience and a mirroring cycle when storing the data.

RESOLVED

That the progress made in replacing the Councils storage area network and approach to further disaster recovery considerations be noted.

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38. EXCLUSION OF PRESS AND PUBLIC

RESOLVED

That, in accordance with a restriction imposed by a government office the public be excluded from the meeting for the following item of business on the grounds that if they were present there would be disclosure of confidential information.

39. REGULATION OF INVESTIGATORY POWERS ACT (RIPA)

Consideration was given to a report presented by the Executive Director Performance and Governance which provided members of the Audit Committee with the outcome of a review of the Council's 'management of covert activities' within the Regulation of Investigatory Powers Act (RIPA) undertaken by the Office of Surveillance Commissioners (OSC).

It was reported by the Executive Director that he was currently in discussions with the OSC regarding whether further reports would be able to be taken as open items, as it was believed it was in the best interest of the public to be able to access these reports.

RESOLVED

That the review and Council response be noted.

The meeting closed at 12.15pm