

# Audit Committee Annual Report

December 2007

***“Audit Committees are a key component of corporate governance and are an important source of independent assurance about the Organisations arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance”***

(Guidance from CIPFA the leading professional accountancy body for public services)

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## Foreward

### **Councillor Mrs Edna Chapman Chairman of the Audit Committee**

In May 2006, the Council created an Audit Committee in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) best practice guidelines. The aim of the Audit Committee is to improve the Council's governance arrangements and provide independent challenge across the Council on:

- Internal Control
- Risk management
- Internal Audit
- External Audit
- Counter Fraud
- Financial Reporting

In its first year of operation the Committee has been successful in contributing to improvements in the implementation of audit recommendations, accountability where work has identified key issues and in improving the Council's control and governance arrangements.

I would like to thank Committee members and officers for their contribution to this success in supporting the Audit Committee's work and training programme in its first year. Committee members have constructively supported and challenged officers to ensure that our risk, control and governance arrangements are open and transparent.

I have enjoyed leading the Audit Committee in its first year and I look forward to building on its success in the forthcoming year.

## Membership 2006-07

### **Members :**

Councillor Mrs Edna Chapman  
*(Chairman)*

Councillor Graham Marsh  
*(Vice Chairman to May 2007)*

Councillor Mrs Charlotte Farquharson  
*(Vice Chairman from May 2007)*

Councillor Christopher Farrar

Councillor Neville Jackson

Councillor Robert Parker

Councillor Michael Clarke

Councillor Peter Heath  
*(from May 2007)*

Councillor Patrick O'Connor  
*(to May 2007)*

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## Introduction

The formation of an independent Audit Committee is good practice underpinning effective governance. The importance of Audit Committees was stressed by CIPFA within its publication 'Audit Committees - Practical Guidance for Local Authorities' issued in 2006. Lincolnshire County Council formed its Audit Committee in May 2006, approving its terms of reference in line with this good practice guidance. A copy of its terms of reference is shown in Appendix I.

Some of the benefits to be gained from operating an effective audit committee are to:

- raise greater awareness of the need for effective risk management and internal control and the implementation of audit recommendations
- increase public confidence in the objectivity and fairness of financial and other reporting
- reinforce the importance and independence of internal and external audit of any other similar review process.

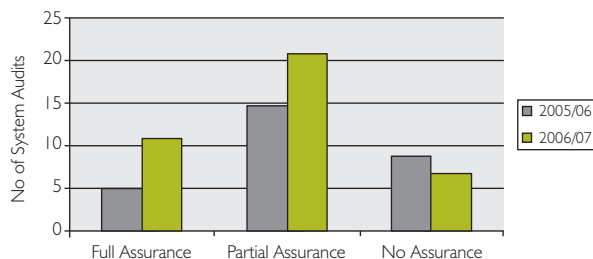
Over the year progress has been made in exploring and developing the role of the Committee and its members. This report outlines the key activities undertaken by the Committee in delivering its terms of reference.

The Audit Committee is accountable directly to full Council and its minutes are reported to each meeting of the County Council.

## Review of the Year 2006-07

### Internal Control

One of the key ways the Committee obtains assurance on the Council's control environment is through the work undertaken by Internal Audit. We receive copies of all reports from Internal Audit on work completed. The Committee then challenges Senior Officers on areas of 'No Assurance' in order to secure commitment to implement management action on high and medium risk areas. The graph below shows assurance opinions provided by Internal Audit for the year 2006/07. It shows an improvement of positive assurance compared with the previous year.



#### Key:

**Full assurance** – no significant issues

**Partial assurance** – some medium risk issues to be addressed

**No assurance** – a number of high risk issues that need to be addressed to ensure service or system objectives are achieved

The key areas of no assurance considered by the Committee during the year related to:

- Adult Social Care – Older People
- Learning Disabilities
- Contract Management with Children Services

The Committee has the ability to respond proactively to unforeseen events.

Regular updates have been received by the Committee on progress being made in these areas. Executive Councillors and management are held accountable for areas where 'no assurance' has been provided.

The Committee played a key role in the development and approval of the Council's Statement of Internal Control. The production of this statement comes from the Council's Assurance Framework (see Appendix 2). The Committee reviewed and challenged the information contained in the statement to ensure that it reflected the current status of the Council's control environment prior to it being presented to full Council for approval in June 2007. The key control issues identified within the Statement of Internal Control is shown in Appendix 3.

### Risk Management

The Council has developed a strong risk management framework. This year the Committee clarified its role and reviewed a report on the current progress in embedding risk management across the Council and its partnerships. Further work is planned in the current year, in particular updating the corporate risk register and strengthening the Council's business continuity arrangements.

### Internal Audit

The Council's Internal Audit service is provided by an in-house team. The formation of the Committee has improved arrangements for independence and reporting of Internal

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Audit work. The performance of Internal Audit is reviewed by the Committee through an annual assessment and benchmarking exercise. The Committee has assessed that an effective internal audit service is being provided.

Performance indicators have been set by the Committee and these are reviewed on a quarterly basis.

The Committee tracks the implementation of agreed Internal Audit report recommendations during the year. This provides additional assurance that audit recommendations are being put into practice.

## External Audit

The Council's External Audit provision is provided by the Audit Commission, who assess and report on the Council's performance and audit arrangements. They attend all Committee meetings.

## Counter Fraud

The Committee played a key role in the development of the Council's Counter Fraud strategy launched in February 2007. It has approved a work plan for 2007/08 designed to reduce the Council's exposure to the risk of fraud.

A member of the Committee, Councillor Neville Jackson, is taking a leading role in the future development of the Council's proactive counter fraud arrangements. This includes:

- raising awareness
- providing training for members and staff
- implementing good practice

- monitoring delivery of the plan

## Financial Reporting

The Committee reviewed the Council's financial statements for 2006/07 in June 2007. The Committee asked questions on the content and format of the statements to senior managers of the Council and its partner Mouchel Business Services. No issues were identified.

The Committee received an Annual Governance report in September 2007 from the External Auditor on the work they carried out during the 2006/07 audit of accounts. The recommendations made to discharge their statutory responsibilities to those charged with governance (in this case the Audit Committee) were considered at that time. The report also outlined their work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources and the conclusions reached.

External Audit issued an unqualified audit opinion on the financial statements, the firefighters' pension fund accounting statements and the local government pension fund accounts. They also reported that the Statement on Internal Control (SIC) was prepared in accordance with proper practice specified by CIPFA and was consistent with the findings from their audit. The work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources issued an unqualified conclusion on the Council's use of resources.

## Impact & Effectiveness

The Committee has demonstrated Councillor involvement in promoting strong governance and internal control arrangements.

There has been an improvement in the Council's risk management arrangements by a better Comprehensive Performance Assessment (CPA) – Use of Resources score 3 – performing well for 2005/06. Internal control remains 'adequate' overall for 2005/06.

The internal control assurance framework has been reviewed and enhanced.

The Council aims to be 'performing well' under the CPA – Use of Resources assessment for the Internal Control 2006/07 judgement.

Relationships with senior managers and internal audit have been constructive and supportive even when difficult issues have been raised by the Committee.

The Committee discharged its role as set out in its terms of reference.

In March 2007, to improve the effectiveness of the Committee, it was agreed that no 'substitutes' would attend meetings. This recognised the importance of having continuity of attendance to ensure consistency and understanding of information being presented to the Committee.

Audit Committee members skills and experiences have been assessed and a training programme developed. All members of the Committee are required to attend training.

A self assessment of effectiveness in its first year of operation has been undertaken by the Committee. Recommended improvements include a review of:

- membership;
- frequency meetings;
- sharing good practice with other Lincolnshire Public Sector audit committees;
- communication and awareness of the Committee's role.

The Council's External Auditor attends Audit Committee meetings. Verbal feedback received indicates that they feel that the Committee operates effectively. This annual report has been shared with them. An area of improvement recommended is to identify suitable outcome performance measures on the Committees effectiveness.

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## Looking Ahead

In 2007/08 the Committee aims to continue to build on its strong foundations and will:

- review its membership and frequency of meetings
- seek to set up and host good practice groups with other Audit Committees within public sector bodies in Lincolnshire
- raise awareness of the Committee's role
- seek assurance that action is being taken on risks identified by auditors and inspectors
- focus on risk management arrangements surrounding Adult Social Care, Supporting People and the Local Area Agreement.
- review the effectiveness of the Council's risk management arrangements including the refresh of the Corporate Risk Register
- review the Council's corporate governance framework and assurance arrangements in line with new good practice guidance, including the development of a local code
- seek assurance that significant control issues identified in the Council's statement on internal control for 2006/07 are being addressed by management
- produce the Council's annual governance statement for 2007/08 (replaces the statement on internal control)
- seek to aid the Council to improve its CPA (Use of Resources) assessment for 2007 and 2008
- collaborate with the Standards Committee to contribute to each others work and / or undertake joint work or reporting
- review the success of the Council's counter fraud policy and work plan
- seek to support sharing of counter fraud good practice and joint working with other public sector bodies
- identify suitable outcome performance indicators to appraise the effectiveness of the Committee.
- continue to review best practice and develop an appropriate training programme.



## APPENDIX I

### TERMS OF REFERENCE OF THE AUDIT COMMITTEE

#### **Audit Committee**

The Audit Committee will consist of 7 Non-Executive Councillors.

#### **Role:**

To fulfil the role of an Audit Committee in respect of the work of the Council

#### **Functions:**

##### **Audit Activity**

- to consider the Head of internal audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements
- to consider summaries of specific internal audit reports of significance or as requested
- to consider reports dealing with the management and performance of internal audit
- to consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale
- to consider the external auditor's annual letter, relevant reports, and the report to those charged with governance
- to consider specific reports as agreed with the external auditor
- to comment on the scope and depth of external audit work and to ensure it gives value for money

- to liaise with the Audit Commission over the appointment of the council's external auditor

#### **Regulatory Framework**

- to maintain an overview of the council's constitution in respect of contract and financial regulations and codes of conduct and behaviour
- to review any issues referred to it by the chief executive, director, or any council body
- to monitor the effective development and operation of risk management and corporate governance in the council
- to monitor council policies on confidential reporting code, anti-fraud and anti-corruption policy and council's complaint process
- to oversee the production of the council's Statement on Internal Control and to recommend its adoption
- to consider the council's arrangements for corporate governance and agree necessary actions to ensure compliance with best practice
- to consider the council's compliance with its own and other published standards and controls

#### **Accounts**

- to review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the council
- to consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

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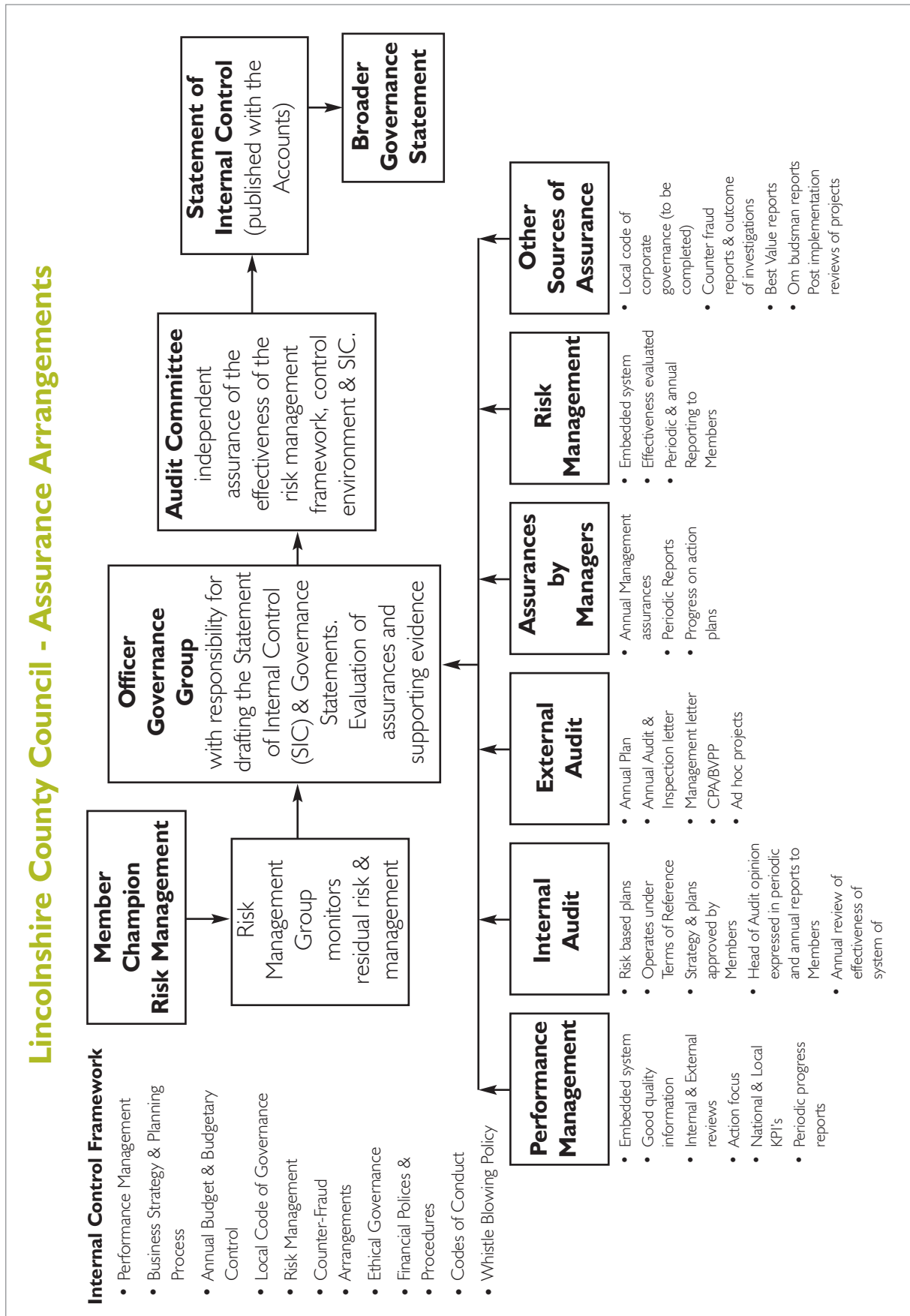
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## ***Time Limited Responsibilities***

- To consider and respond on behalf of the County Council to its auditor on all matters relating to his investigations arising from the accounts of 1998/1999 and 1999/2000 which do not require to be referred to Council
- To recommend to Council any steps which should be taken in light of the auditor's comments and the considerations of the Committee and
- To oversee the actual recovery of any unlawful payments.

APPENDIX 2

Lincolnshire County Council - Assurance Arrangements



## APPENDIX 3

### Statement on Internal Control for Lincolnshire County Council

The Statement of Internal Control was approved by full Council in June 2007.

*For the Year ended 31st March 2007*

*Extract Section 5*

### 5 SIGNIFICANT INTERNAL CONTROL ISSUES

#### Equality and Diversity

5.1 Significant progress has been made in a relatively short period. The Council is taking an approach that integrates all stands of equality & diversity which is very demanding at the moment but is helping to put firm foundations in place. Level 1 of the Equality Standard for Local Government was achieved in 2006 and work is progressing towards Level 2 in 2007. This is a focal area for all external reviews of the Council, part of our LEADS vision and a key element to putting all our customers first, so we will continue to provide special attention to making sure we take account of people's needs in what we do.

#### Performance Management

5.2 The Council's performance management framework was launched in the year and was an integral part of the 'You Here Now' events held throughout the County as part of embedding our approach and helping staff focus on achieving successful

outcomes and improving services. The framework requires services to produce service plans linked to the Council Business Plan and to reflect our commitments in the Local Area Agreement and Sustainable Community Strategy. Work will take place in 2007 to embed Council approaches further and to implement an effective performance framework for the Local Area Agreement with Partners. We shall also be working on performance management of our partnerships to make sure they add value to our work.

#### People Strategy

5.3 Of all the strategy documents that helps drive the Council forward, the People Strategy is one of the most important. The strategy comprises of a number of key projects to deliver improvements. It has been necessary to re-prioritise and re-phase this programme of work, in order to ensure delivery of the job evaluation project, which has been categorised as the top priority within the strategy.

Job evaluation is the process used by organisations to achieve equal pay by establishing the relative value of jobs. A major project has been underway within the council to implement a pay model that is fair and affordable. Due to the scale and complexity of this project, original timescales for the project were not achieved. However, a dedicated team has now been put in place to ensure that the revised timetable is met. Regular communication and engagement has been undertaken with Unions and staff

representative groups throughout the process, however by its very nature the exercise had caused some uncertainty amongst the workforce. During 2007/08 the Council has recognised that it is essential the key risks facing it are effectively managed and that appropriate resources are allocated.

The delivery of other strands of the People Strategy will also be progressed through the year with monitoring through the People Strategy Programme Board and regular reports to the Councillors and Senior Officers.

## **Risk Management / Business Continuity**

5.4 The Council has made significant progress in its risk management arrangements over the last year including the development of an Emergency Plan and outline Business Continuity Strategy.

To help deliver further improvements in the risk management strategy the key areas for improvement during 2007/08 will focus on:

Annual refresh of the corporate risk register which is planned for August 2007. This is in line with the strategy and will fit into the update of the Councils corporate business plan currently being undertaken and the refresh of service risk registers as a result of the 2007-08 service planning process. Implement the business continuity strategy across the Council and its key partnerships to help the Council to be able to deliver vital services in the event of disruption to normal working or a major disaster it needs to Implement robust risk management arrangements within the Local Area Agreement.

## **Councillor Learning & Development**

5.5 A group of Members is now steering this activity, which was highlighted as an area for improvement in the last Corporate Assessment. Members needs have been gathered and future work is focusing on more interactive approaches that are preferred by Members.

## **Financial Management in Schools**

5.6 The Standard is a simple statement of what a school that is financially well managed would look like. The Standard can be used as a benchmark tool that encourages self-improvement and help in evaluating the quality of financial management.

Financial management in schools is essential so that they can make the most of their resources, demonstrate Value for Money, exercise proper control over the significant amounts of public money delegated to them and allocate resources effectively to meet school priorities for development and improvement.

Secondary schools should have met the Standard by March 2007. Currently 78% of secondary schools have achieved the Standards. The remaining 22% have either deferred assessment to 2007/08 or have chosen not to participate. With effect from January 2007 meeting the Standard is now a legal requirement for schools, subject to the phasing that is for determination locally. Further roll out of the Standard is also planned over the next 3 years.

The Council is providing support during 2007-08 to schools to help achieve the Standard. This will be through training and awareness sessions, helping the schools in producing the evidence file and audit and sign off of their self assessment.

## **Review of Financial Processes and Scheme of Delegation**

5.7 Although there has been improvement in compliance with financial procedures there continues to remain pockets of poor practice. This, together with the upgrade of the Councils financial system SAP provides an opportunity to review existing processes and delegations. A project has been set up within the enhancing corporate governance programme to deliver these changes and improve compliance. This project is sponsored by Senior Management and delivery will be monitored through the Governance Group and performance management framework.

## **Adult Services**

5.8 The County Council is classified as 'coasting' by the Commission for Social Care Inspection. Steps have been taken to address short time priorities about accurate performance information through the 'Electronic Social Care Record' project. The 'Electronic Social Care Record' system is a shared project with Children Services, who have similar issues around the completeness and accuracy of performance and case management information. A significant improvement programme has been put

in place to redesign services to meet future needs in Lincolnshire.

There continues to be budget pressures on this service in general and Learning Difficulties in particular. These are now better understood as a result of a review in 2006 that has led to renegotiation of pooled finance agreements with the Health Service so that financial risks are shared more equitably.

## **Supporting People**

5.9 In February 2006 the outcome of an inspection of the supporting people services was published and this rated the service as poor. A voluntary inspection was undertaken in December 2006 and the outcome of this inspection was that whilst progress had been made more work was needed to ensure improved services, specifically around commissioning and procurement. Management have responded to this inspection positively with further resources being allocated to deliver improvements these improvements will help to ensure that all grant is used to provide supporting people services. Steps are in place to ensure that developments are sustainable once additional support is removed

## **Waste Management**

5.10 There are significant long term national issues to resolve around management of waste. These are also present in Lincolnshire even though recycling in the County is amongst the highest in the Country. The County wide partnership

has been refreshed and is working to develop a long term strategy.

## **Knowledge and Information**

5.11 There are challenges around information overload and effective use of information within the Council and shared information with partners. Work is starting, supported by the Society of IT Managers, to improve our approaches to managing knowledge and information.

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Ref: C009

Date published: December 2007