

Audit Committee

Annual Report

December 2008

“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)

Contents

Section	Page	
Foreword	1	
Membership	2	
Introduction	3	
Review of the year	4 - 6	
Impact & effectiveness	7 - 9	
Looking ahead	9	
Appendices		
1	Role of the Audit Committee – Terms of Reference	10 - 11
2	Council's Assurance Arrangements <i>(To be added)</i>	13
3	Annual Governance Statement for Lincolnshire County Council for the Year ended 31 st March 2008	13-15
4	Any others?? Eg resolutions?	

Foreword

Councillor Mrs Edna Chapman
Chairman of the Audit Committee

We provide an important source of independent assurance on the Council's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. It underpins the governance arrangements in constructively challenging that we are:

'doing the right things, in the right way, for the right people, in an open, honest, inclusive and timely manner'

We have constructively supported and challenged officers to ensure that our risk, control and governance arrangements are open and transparent. I feel we have made a real difference in how the council is run.

I would like to thank Committee members and officers for their contribution to this success in supporting the Committees work and training programme.

I have enjoyed leading the Committee *(further comments?)*

Membership 2008

Members :

Councillor Mrs Edna Chapman
(*Chairman*)

Councillor Mrs Charlotte Farquharson
(*Vice Chairman*)

Councillor Christopher Farrar

Councillor Neville Jackson

Councillor Robert Parker

Councillor Michael Clarke

Councillor Peter Heath

Introduction

The Audit Committee is a vital “watchdog” body promoting good governance and accountability.

It examines areas such as audit, risk management, measures to tackle fraud and reviewing financial reporting.

In all these areas, the status and independence of the Committee allow it to challenge how things are done and confirm that the right processes are in place.

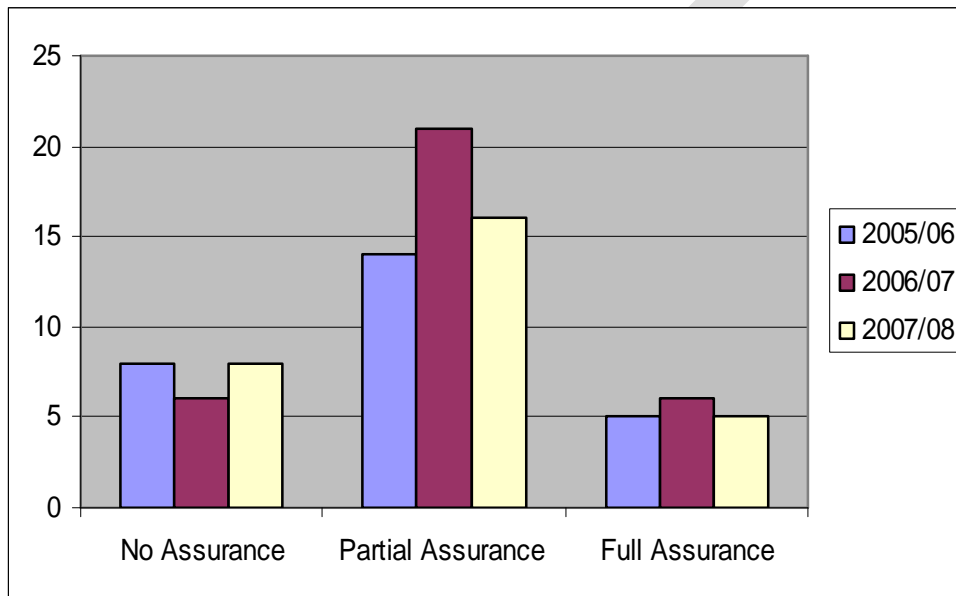
That, in turn, gives confidence to the people of Lincolnshire that the Council’s overall governance arrangements and financial stewardship can be relied on.

This report outlines the key activities undertaken by the Committee in delivering its terms of reference.

Review of the Year 2008

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. The graph below shows assurance opinions provided by Internal Audit for 2008. It shows a **decrease** of positive assurance by **8%** compared with previous year figures.



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

As well as internal audit providing us with information during the year we asked officers for further details and planned improvement actions for some key areas of the Council's business and where assurance opinions had worsened. These were:

- § Pension administration
- § Payroll
- § Business continuity & IT disaster recovery
- § Information governance & security
- § Compromise agreements
- § Extended provision – Children Centres

- § Review of core financial processes
- § Schools control environment
- § Waste management

We have the ability to respond proactively to unforeseen events and escalate areas we have identified as a concern to the Executive and / or full Council.

We play a key role in the development and approval of the Council's Local Code of Governance (Appendix 2) and its Annual Governance Statement. The information included in this statement is reviewed and challenged by us to ensure that it reflects the current status of the Council's governance and control environment before it is presented to full Council for approval. Areas for improvement identified within the Annual Governance Statement are shown in Appendix 3.

Risk Management

The Council has developed a strong risk management framework. Our role is to help it work effectively. To do this we have received and reviewed reports on the progress made in making risk management part of normal business operations in the way the Council and our partners work. Further work is planned in the current year, in particular *?add Suggestions*

§ Internal Audit

The Council's Internal Audit service is provided by an in-house team. The performance of Internal Audit is reviewed through an annual assessment and benchmarking exercise. *(insert outcome of annual assessment of the system of internal audit)*.

Performance indicators have been set and these are reviewed on a quarterly basis. A 100% of the revised plan has been delivered.

The Head of 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.

Implementation of agreed Internal Audit recommendations is tracked during the year. This ensures that audit recommendations are being implemented by management. *(insert position with outstanding recommendations at 31st March)*

External Audit

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

We held a private discussion with the Audit Commission (no officers present). This identified that they feel we are effective and focus on some of the key issues facing the Council. *(check comment with Audit Commission/Committee)*

Counter Fraud

We play a key role in the development of the Council's Counter Fraud strategy. We approved a work plan for 2008/09 designed to reduce the Council's exposure to the risk of fraud. This includes:

- § Raising awareness
- § Providing training for members and staff
- § Implementing good practice
- § Monitoring delivery of the plan

Councillor Neville Jackson acts as our champion in this area.

Financial Reporting

We reviewed the Council's financial statements for 2007/08 in June 2008. We asked questions on the content and format of the statements.

At the same time as we consider the financial statements we receive an Annual Governance report from the External Auditors on the work they carried out during the 2007/08 to discharge their statutory audit. The report also outlines 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 and the Council's arrangements for securing economy, efficiency and effectiveness of its use of resources.

Impact & Effectiveness

The way we work has demonstrated our involvement in promoting strong governance and internal control arrangements in the Council.

The outcome of our work resulted resources being deployed to improve systems and processes. An example of this is funding being allocated to IT disaster recovery and the receivership system.

This helped improve the Council's risk management and internal control Comprehensive Performance Assessment – Use of Resources judgement. We are currently performing well – score 3. We also meet some elements of level 4 (performing strongly).

The Council successfully maintained its overall score of 3 – performing well for its Use of Resources Judgement in 2007/08.

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

Members of the Committee attended the Internal Audit Service staff away day. This enabled us to meet the team that provides us with most of our assurance information and to share an understanding of our different roles.

We have discharged our role as set out in our terms of reference.

We attend training and development events to support our role. This year included the following:

- § Role and remit
- § Risk management
- § Enhanced partnership working and the role of the Committee
- § Questioning and listening skills

A key development for Lincolnshire audit committees this year was the setting up of the Lincolnshire Audit Committee Forum. This includes attendees from Health, Police, University of Lincoln and all Lincolnshire local authorities. The aim of the forum is to share experiences and work together to promote good governance and effective risk management across the public sector authorities of Lincolnshire.

We support the partnership formed between the County and City of Lincoln Internal Audit services and welcome their success in tendering for other District work. This, together with a closer working relationship with East Lindsey District Council, will enable shared learning and practice to be adopted.

We also look for ways we can operate better. We have appointed a non-elected member to the Committee. The ability of an independent member to offer different perspectives and constructive suggestions will improve the way we work.

The Council's External Auditor attends meetings. This annual report has been shared with them.

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Looking Ahead

In 2009/10 the Committee aims to continue to build on its role and will:

- § Work with the officer governance group to:
 - Raise awareness of our role;
 - Develop a governance web page for the Council;
 - Publish achievements.
- § Review our work plan and identify ways we can work with other organisations in the Lincolnshire Audit Committee Forum.
- § Develop a training programme for 2009/10.
- § Seek assurance that action is being taken on risks identified by auditors and inspectors.
- § Work with the Lincolnshire Audit Committee Forum to help streamline the assurance arrangements for Lincolnshire public bodies.
- § Focus on risk management arrangements surrounding:
 - partnerships;
 - putting people first change programme
 - *(Any areas of interest?)*
- § Review the Council's risk management strategy.
- § Raise awareness of the Council's corporate governance framework, and how we can show we are doing the right things in the right way.
- § Seek assurance that significant issues identified in the Annual Governance Statement are being addressed by management.
- § Produce the Council's annual governance statement for 2009.
- § Help the Council to show we are performing well in our Use of Resources organisational assessment.
- § Seek to support sharing of counter fraud good practice and joint working with other public sector bodies.
- § Develop a joint working protocol with other scrutiny functions to clarify roles and remits plus co-ordinate work plans where appropriate.
- § Review our work plan to help us focus on the key areas of our terms of reference and avoid overloading our agendas.

APPENDIX 1 - Role of the Audit Committee – Terms of Reference

7.06 Audit Committee

There will be an Audit Committee consisting of 8 members. 7 of the members will be Non-Executive Councillors and 1 member shall be an independent person who is not a Councillor or Officer of the Council.

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 relating to employees of the Council

- 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 Annual Governance Statement and to recommend its adoption
- to consider the council's arrangements for corporate governance and agreeing 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

Appendix 2

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APPENDIX 3 – Extract of Annual Governance Statement for Lincolnshire County Council for the Year ended 31st March 2008**5 Significant Governance Issues*****People Strategy***

- 5.1 The People Strategy remains one of our most important improvement programmes. Now the implementation of job evaluation is drawing to a close we will focus on the remaining strands of the programme. In 2008/09 workforce planning, leadership development, e-recruitment, managing attendance and the achievement of Investors In People accreditation will be our priorities.

Business Continuity

- 5.2 Significant progress has been made in the development and implementation of our business continuity strategy. During 2007/08 it was recognised that testing of plans for our critical services, including our ICT arrangements, was key to managing the risk of interruptions to service delivery. Some of our plans have been tested, however, during 2008/09 it is our intention to extend this to other areas of service delivery.
- 5.3 This area is being monitored by the Audit Committee as part of their role in effective risk management and independent challenge.

Financial Management Standard in Schools

- 5.4 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.
- 5.5 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.
- 5.6 During 2007/08 the requirement to meet the standard began to roll out to primary schools. Although support has been provided to help schools, concerns have been raised on the capacity and ability of schools to deliver this work. A review of our strategy and support arrangements is planned for 2008/09.
- 5.7 This area is being monitored by the Audit Committee as part of their role in effective risk management and independent challenge.

Core Financial Systems & Procedures

- 5.8 A review is planned of the financial regulations and procedures to take into account both changes in our constitution approved in May 2008 and the impacts arising from the new ways of working initiative. The project set up within the *enhancing corporate governance programme* aims to deliver these changes and improve compliance within systems.

Adult Services

- 5.9 In January 2008 the Department of Health laid out its expectations in relation to a national transformation programme for Adult Social Care. This involves giving the elderly and disabled people and their carers real choice and control over how they are supported. Investment has been made to deliver this challenging transformation and the improvements identified in our last inspection. In 2008/09 the focus will be to deliver improved outcomes to vulnerable adults and commence engagement and consultation on how services are delivered.

Supporting People

- 5.10 The Strategy for Supporting People in Lincolnshire was approved in March 2008. A robust improvement plan is in place. Focus for 2008/09 will be performance and delivery of outcomes within this strategy. An improved governance and control environment has been implemented to help provide assurance.

Adult Learning

- 5.11 The Lifelong Learning Service with Culture and Adult Education was inspected in February 2008. The service was judged as unsatisfactory but with satisfactory prospects to improve. A Post Inspection Action Plan (PIAP) addressing areas of improvement has been approved and is being implemented in partnership with the Quality Improvement Agency (QIA) and the Learning and Skills Council (LSC). A key element of the PIAP is the creation of a commissioning process to contract out at least 80% of the adult learning programme and it will be implemented in September 2008. This will minimise the risk at re-inspection, planned for spring 2009, ensuring an appropriate range of provision across the county and improve the value for money of learning provision.

New Ways of Working programme

- 5.12 The delivery of this programme is a key priority and is being managed through our performance framework. It has the potential to be a key risk for the Council as the *New Ways of Working* programme is focused

on enabling opportunities for new and flexible working, both internally and with partners. This will cut across many service areas and has the potential to radically change how we deliver services and engage with customers. For this reason it has been included in the Governance Statement.

Issues identified by the Audit Committee

5.13 At its meeting dated the 16th June 2008 the Audit Committee identified some other areas with potential significant governance issues. These areas set out below will be subject to further review to ascertain the significance of any potential risks. The areas are:

- § Children centres;
- § Community consultation and engagement;
- § Managing partnerships; and
- § Value for Money.

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