

PRESENT: COUNCILLOR Mrs C M H Farquharson

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

Officers in attendance: Tony Crawley (District Auditor), David Forbes (Assistant Director Finance and Resources), Stephanie Kent (Audit Manager), Lucy Pledge (Head of Corporate Audit and Risk Management), Dave Simpson (Head of Finance – Communities and Corporate), Mike Wood (Audit Commission) and Rachel Wilson (Democratic Services Officer).

Councillor Mrs C M H Farquharson in the Chair

Prior to the start of the meeting, Councillor Mrs Farquharson welcomed two work experience students to the meeting, who were spending the week with the Democratic Services team.

76. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor B Young and Mr D Finch (Independent Added Person)

77. DECLARATIONS OF MEMBERS' INTERESTS

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

78. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON 30 JANUARY 2012

RESOLVED

That the minutes of the previous meeting held on 30 January 2012 be confirmed and signed by the Chairman as a correct record.

79. PROGRESS REPORT – COUNTER FRAUD 2011/12

Consideration was given to a report presented by the County Council's Audit Manager, which provided an update to the Committee of the fraud investigation activities and information on progress against the Counter Fraud Work Plan 2011/12.

A summary of the activities was provided to the Committee and some of the highlighted activities included the following:

- A senior investigator had recently been appointed and the team was now fully resourced;
- All of the National Fraud Initiative work had been completed and £60,000 of over payments had been identified and so far almost £43,000 of this amount had been recovered. It was expected that the remainder of the amount would

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be recovered within the coming weeks. A more detailed report on this would be brought to a future meeting of this Committee;

- The Counter Fraud and Money Laundering Policies were being reviewed to take into account legislative changes, the latest guidance and best practice. These updated policies will be brought back to this Committee at a later date for consideration and approval;
- The Audit Manager was pleased to report that by the end of March 2012, the team would have recovered £791,000;
- Fieldwork was underway on a proactive fraud exercise in Adult Social Care – Direct Payments (Personal Budgets), as this area had been highlighted nationally as an emerging fraud risk;
- The Counter Fraud team was also working with the Economic Crime Unit and the authorities insurers, to recover losses under the Proceeds of Crime Act which were associated with two frauds which resulted in prosecution. It was reported that the authority was unlikely to recover all of the losses due to insufficient assets, but it was hoped that the shortfall would be covered by insurance. This should also include a percentage of the investigation costs;
- Internal investigations had concluded on one case of suspected fraud, and this had resulted in two dismissals. It was not possible to provide more detail at this stage due to ongoing Police investigations, but once these were concluded a report would be brought back to this Committee;

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

- The Team should be congratulated for the amount of money they had managed to recover;
- Most of the pensions overpayments had been due to the death of the recipient and had been discovered through the use of data matching, which was part of the National Fraud Initiative;
- Overpayments occur as following the death of a resident in a private care home, this information can take some time to reach all agencies, but the care home should inform the authority as soon as possible. This was an area that was being improved upon;
- Duplicate payments were to suppliers, and occurred where an invoice had been processed twice;
- The fraud risk from Direct Payments (personal budgets) was being examined by Adult Social Care and Counter Fraud for different reasons. Adult Social Care were focusing on why a personal budget had not been spent in line with the care plan, Counter Fraud was looking for possible fraud risk where a person might not need the level of care they were requesting, and would look in detail at the way they were spending their personal budget. It was a time consuming exercise, but it would be worthwhile;
- The Authority was responding to National Fraud Initiative guidance and was examining data sharing techniques between agencies in order to recognise improvements which needed to be made. It was recognised that the County Council had had a team in place for sometime to look into this, which put the Authority in a good position to respond to this;
- There was a clear commitment from central government for the data matching carried out by the Audit Commission to continue in some form;

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- Those people who were managing personal budgets (either their own or on behalf of someone else) were aware of how they could raise concerns;
- There were a lot fewer duplicate payments than there had been in previous years, as most of them were flagged up by SAP, as it had controls designed within it.

RESOLVED

1. That the outcomes of the counter fraud work to date be noted;
2. That further reports on the following areas be brought back to a future meeting of the Committee – Recovery of overpayments; Updated Counter Fraud and Money Laundering Policies and further details of the internal investigations once they were complete.

80. COUNTER FRAUD AND INVESTIGATIONS WORK PLAN 2012/13

The Committee received a report which provided information in relation to the 2012/13 work Plan which would help the Authority to respond to central government expectations to tackle fraud and error. Following changes to the way that Council services were delivered, the regulatory landscape and the economic pressures, it would be important to maintain the counter fraud response and continue to build the resilience of the County Council to the fraud threat. The Council's counter fraud arrangements demonstrated the commitment to strong governance and best use of resources.

The aim would be to focus more on data analysis capabilities which would improve the proactive fraud work which would cover the 2012/13 National Fraud Initiative and the areas of emerging fraud risk highlighted both nationally and locally.

Almost half of the counter fraud resources would be focused on, pro-active work which would provide sufficient time to action forthcoming recommendations from central government which it was planned would be implemented over the coming year.

In relation to the Midland Counties Fraud Group, the authority would like to share experiences and best practice, and it was known that the County Council was 'ahead of the game' in many aspects.

The Committee was advised that in terms of the recommendations for improvements to systems, from a fraud point of view, this specifically related to procurement and direct payments, and most of the authority's efforts would be put into reducing the fraud risk in these areas.

It was also noted that after each round of the National Fraud Initiative, the Audit Commission assessed each council using a 'traffic lights system', and for this year and previous years, Lincolnshire County Council had been assessed as 'green'. It was thought that it would be useful to include this information in the Audit Committee Annual Report, and the Head of Corporate Audit and Risk Management would liaise with the Audit Commission to obtain suitable wording to include within the report.

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RESOLVED

1. That the Counter Fraud Work Plan for 2012/13 be approved;
2. That the Head of Corporate Audit and Risk Management would liaise with the Audit Commission to obtain some wording for inclusion within the Annual Report.

81. CORPORATE AUDIT PROGRESS REPORT TO 31 JANUARY 2012

The Committee received a report from the Head of Corporate Audit and Risk Management which provided an update on progress made against the Audit Plan 2011/12 as agreed by the Committee on 21 March 2011 and 26 September 2011.

It was reported that there was a lot of work in progress and assurance was given to the Committee that all audit fieldwork was on track to be delivered by March.

Work was underway with the executive directors to complete the Assurance Map for the Council. There had been a positive response to this and it was encouraging that senior managers were taking ownership of the Map. The Assurance Map would be presented to the Committee at its meeting in June 2012.

In relation to the success of winning the tender to provide audit services to Newark and Sherwood District Council, Audit Lincolnshire had been working with Newark and Sherwood to transfer staff and develop their Audit Plan for 2012/13. This was moving forward, and three staff would transfer. The provision of audit services would commence on 1 April 2012.

Concerns were raised regarding the audit of Contract Management in Adult Services as it was indicated that there were still 23 outstanding recommendations, and the Committee was informed that there was still work being undertaken by the audit team to follow up on these recommendations. A separate report would be brought to a future meeting and the Assistant Director Adult Social Care would be asked to provide assurance that all recommendations had been completed. It was noted that Legal Services were now involved in the letting of Adult Social Care contracts, which would account for some of the delays, as extra processes were included.

RESOLVED

That the outcomes of Corporate Audit work be noted.

82. ANALYSIS OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AT 31 JANUARY 2012

Consideration was given to a report presented by the Head of Corporate Audit and Risk Management which provided the Committee with an analysis of the high priority recommendations outstanding at 31 January 2012, with suggestions for how they should be managed.

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It was reported that of the high priority recommendations outstanding, 36 related to four audits undertaken within Adult Services, in the areas of Contract Management, Direct Payments, Personal Budgets and Contact & Referral. A robust follow-up of these recommendations was being carried out by Corporate Audit in order to identify which still applied and which were outstanding.

More information was requested by the Committee in relation to the outstanding recommendation for Residence Orders and Regulation 38 Payments, however, it was reported that no update had been provided at the time of the report being produced, but the Head of Corporate Audit and Risk Management would go back to the relevant managers and request an update for the Committee.

It was planned to bring a separate report regarding the Wolds Collage to the June meeting of the Committee, but if the Committee wished an interim report could be prepared for the next meeting.

RESOLVED

1. That the contents of the report and suggested actions be noted;
2. That a further update be requested in relation to Residence Orders and Regulation 38 Payments;
3. That an interim report in relation to the Wolds College be brought to the next meeting of the Audit Committee on 23 April 2012

83. EXTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report presented by the Audit Manager (Audit Commission) which provided the Committee with an update on the 2011/12 external audit plan. It was noted that the 2011/12 audit planning had been updated and interim audit work was well underway.

The Committee were informed that the Audit Committee Update set out the progress to date and emerging national issues. It was also noted that good progress had been made on interim work including the completion of the Audit Commission walk through tests and control testing on the Authority's key financial systems including those covering the pension fund. No significant issues had arisen during this work. Specific aspects of the report which were highlighted to the Committee included the following:

- The annual IT risk assessment had been completed and remained as a low risk (in relation to the production of the financial statements). Some routine issues had arisen which would be reported to officers;
- A joint protocol document had been issued which was designed to promote joint working between the external audit team and those staff responsible for the preparation of the annual accounts. The protocol focused on timing issues and improving communication channels to ensure that staff work well together;
- In terms of VfM, initial planning and much of the detailed risk assessment had been completed. No specific risks had been identified and there were no major issues that required any additional audit work;

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- Staff from Lincolnshire County Council attended the Audit Commission final accounts workshop which was held in Nottingham during February 2012, which was designed to help with the preparation of the financial statements;
- A local professional development event was also held by Lincolnshire County Council's finance team on 12 March 2012, which the Audit Commission was able to contribute to;
- In terms of the latest position for future audit arrangements it was reported that the contracts would be let from 2012/13 on a five-year basis, and so the earliest opportunity for the authority to appoint external auditors would be 2017/18, and so there would be plenty of time to prepare for this;
- The successful bidder for the East Midlands lot was KPMG, but the Commission still needed to complete a formal consultation process for individual audit appointments. There would be an opportunity for the Authority to attend an introductory event with the Commission and the firm awarded the contract, which would take place in May 2012. It was thought likely that the Executive Director Resources and Community Safety and the Chairman of the Audit Committee would attend this event on behalf of the Authority;
- Audit Practice staff in each lot area would transfer to the successful bidders on 31 October 2012;

It was reported that with the introduction of the new arrangements, it was likely that the audit fees for the authority would reduce by up to 40% and there was work taking place to reduce the scale of fees, and rebates were being provided. The Commission would continue to monitor contracts.

Good progress was being made in relation to the protocol and action plan which had been developed to address the issues which had arisen following the closure of account for 2010/11, the document also pulled together instances of good practice.

The Assistant Director Finance and Resources provided a summary of the Key Considerations which were highlighted in the report, and it was noted that most of the issues had been addressed, but it was suggested that a short paper be brought to the next meeting which summarised the Authority's position in relation to each of the Key Considerations.

RESOLVED

That the report be noted

84. STATEMENT OF ACCOUNTS 2011/12

The Committee considered a report presented by the Head of Finance – Communities and Corporate which summarised the changes to the Code of Practice on Local Authority Accounting which would be incorporated into the 2011/12 Statement of Accounts and also the review of Accounting Policies.

The Committee was advised that there were changes to the Code of Practice every year, and some of the changes highlighted included the following:

- The adoption of the requirements set out in FRS 30 Heritage Assets. The valuation of heritage assets would need to be included on the Council's

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balance sheet, but only where practical to do so. It would be almost impossible to determine the value of some assets, such as the Castle, but there were other assets, such as museum collections or statues which would need to be included;

- There would be a need for additional disclosures in respect of remuneration and exit packages. The Code introduced a requirement to disclose the number and cost of exit packages agreed by the Council, in order to make it more transparent. However, there would not be a need to include names;
- Amendments to the related party disclosures required in respect of central government departments, government agencies, NHS bodies and other local authorities. There would also be the introduction of amendments to the definition of related party, related party transactions and close members of the family of a person;
- The introduction of the Carbon Reduction Commitment Scheme, where there would be an obligation to purchase and surrender Carbon Reduction Committee (CRC) Allowances in relation to carbon dioxide emissions. This would need to be reflected in the accounts with a provision at 31 March 2012. This scheme was similar to the need to purchase landfill allowances. There would not be a need to purchase allowances until 2013;

In relation to the proposals from central government to introduce a local pay strategy for local authorities, there were concerns as the average wage in Lincolnshire was low. It was not clear what the timescale for this was, if it was to be implemented. One of the main issues would be the deficit in the pension fund which would be created.

A query was raised regarding those schools which had PFI agreements and had given notice that they wished to become academies, and whether the Council would be left with any accountability? It was thought that this would need to be looked at in more detail, but the Council would retain liability on its balance sheet in relation to the capital element of the scheme.

RESOLVED

1. That the changes required to the Statement of Accounts from the Code of Practice 2011 be noted; and
2. That the Statement of Accounting Policies (attached as Appendix A to the report) be approved for use in drawing up the Council's accounts for the financial year 2011/12;

85. UPDATE ON PROGRESS ADDRESSING ISSUES ARISING FROM THE CLOSURE OF ACCOUNTS 2010-2011

Consideration was given to a report which provided an update on progress made against the action plan reported to the Audit Committee on 19 December 2011. It was reported that colleagues from Mouchel would be in attendance in order to provide the Committee with information about the measures which had been put in place.

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The Chairman welcomed Sue Kennedy (Deputy Partnership Director), Lynn Warburton (Payroll and HR) and Ralph Frost (Accountancy Manager) from Mouchel to the meeting.

It was reported to the Committee that 15 of the 30 actions from the action plan had now been completed and the action plan was on target.

The key issues had been around staffing and HR and ensuring that there were adequate staff with adequate skills and knowledge in place. Additional people had since been employed, and co-location of staff was being looked into. An audit of all the staff skills had been carried out to establish what skills were already within the team and identify any training needs. Training plans had been introduced, and staff had attended a number of training sessions and internal awareness sessions had been delivered.

The issues which arose in relation to the introduction of IFRS had been addressed. However, there had been some difficulties in relation to SAP, and officers were working closely with SAP to resolve these issues.

Regular meetings were also held to ensure that progress was properly tracked.

Members of the Audit Committee were provided with the opportunity to ask questions to the officers present and a query was raised in relation to four actions which had not been fully completed, but the target date had been February 2012. The Committee was reassured that this would not affect the closure of accounts. In relation to the IFRS Champion, an individual had been identified for this role and training had been carried out, but it had been decided that this role should continue until the closedown of accounts had been completed. In relation to action 30 – co-location of staff, this may take another month or so to complete. The Committee was provided with assurance that there was nothing which would stop the accounts from being completed on time.

It was also noted that annual leave would be restricted during preparation of accounts to when it was expected that the process would be finished to ensure that there would be enough staff available at critical times in the process. However, there had been some absences which could not be planned for.

The Committee was advised that the Assistant Director Finance and Resources was happy with the progress which had been made and was satisfied that the process was rigorous enough. An improved quality assurance process had now been built into the timetable.

RESOLVED

That the progress made against the action plan be noted by the Audit Committee.

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Consideration was given to a report presented by the Head of Audit which outlined progress on agreed actions and the Committee's work plan up to June 2012. The Committee was referred to Appendix A of the report which set out its Action Plan.

A number of changes to the Work Plan were identified as follows:

- Statement of Accounts be added to the 9 July 2012 meeting;
- School Control Environment be added to the 9 July 2012 meeting;
- Report on outstanding recommendations to be added to the 23 April 2012 meeting;
- Audit Assurance Map to be added to the 11 June 2012 Meeting;

It was noted that the workshop event planned for the afternoon of 23 April 2012 was likely to end at 5.00pm, as the Chief Executive, Executive Director for Resources and Community Safety and Executive Director Performance and Governance were not able to attend until 4.00pm.

RESOLVED

1. That the action plan and work plan be agreed;
2. That the changes identified be agreed.

The meeting closed at 11.35am