

**PRESENT: COUNCILLOR B YOUNG**

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

Also in attendance: Mr P D Finch (Independent Added Person)  
Councillor R B Parker was also in attendance.

Officers in attendance: Tony Crawley (Audit Commission), David Forbes (Assistant Director – Finance and Asset Management), Stephanie Kent (Audit Manager), David O'Connor (Executive Director Performance and Governance), Claire Pemberton (Assistant Head of Finance – Corporate), Lucy Pledge (Head of Audit and Risk Management), Dave Simpson (Head of Finance – Communities and Corporate), Mike Wood (Audit Commission) and Rachel Wilson (Democratic Services Officer).

11. APOLOGIES FOR ABSENCE

An apology for absence was received from Councillor N I Jackson.

12. DECLARATIONS OF MEMBERS' INTERESTS

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

13. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON 11 JUNE 2012

RESOLVED

That the minutes of the previous meeting held on 11 June 2012 be confirmed and signed by the Chairman as a correct record.

The Head of Audit and Risk Management and her team were congratulated on receiving another award - 'Highly Commended' in Strategic Risk in the Alarm (Association for Local Authority Risk Management) Awards 2012.

14. DRAFT REVISED COUNTER FRAUD POLICY 2012

Consideration was given to a report which explained the proposed changes to the Council's Counter Fraud Policy, which were necessary due to new legislation and recent publications from the National Fraud Authority.

It was reported that the Council's Policy had not significantly changed since 2007, other than one minor amendment in 2010. However, it was felt that there was a need to align the Policy to the national approach due to the new legislation and the introduction of a Local Government Fraud Strategy. The new Policy would incorporate the three themes of Acknowledge, Prevent and Pursue.

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One of the changes involved The Bribery Act 2012, which came into force in July 2011. The existing policy included definitions of corruption, but did not refer to the Act or the new offences. Two references to the Bribery Act had been included in the revised policy, which were as follows:

- Senior Officers could be convicted of an offence if they were deemed to have given their consent to giving or receiving a bribe;
- Failing to prevent bribery on behalf of a commercial organisation (corporate liability)

The Committee was advised that the Council's zero tolerance stance on fraud would remain the same.

Members were provided with the opportunity to ask questions to officers in relation to the information presented in the report and some of the points raised during discussion included the following:

- P.3 - Aims and objectives – it was thought that the wording of one of the points needed to be strengthened – 'Obligates the Council to apply appropriate sanctions and recover all losses' was suggested;
- There were concerns that there was no reference to training within the new policy, but the Committee was reassured that every opportunity for training to take place would be taken as it still had a part to play in the new policy;
- In terms of the reference to External Audit on page 4 of the policy, the external auditor would provide some wording for this section in light of the changes to the external audit arrangements which would be coming into force;
- Awareness of the revised policy would be raised risk assessments with all directorates, and senior managers within each directorate would be required to circulate this information. There would be some slides which would be available for use by the directorates to help with this process;
- It was noted that there was no reference to NFI within the policy, and it was suggested that this would be included within the section on external audit;

### RESOLVED

1. That the proposed changes to the Council's Counter Fraud Policy be approved subject to the amendments noted above;
2. That Tony Crawley (Audit Commission) feed in some wording to the Head of Audit and Risk Management regarding the section on external audit;

### 15. CORPORATE AUDIT PROGRESS REPORT

Consideration was given to a report presented by the Head of Audit and Risk Management which provided an update on progress made against the Audit Plan 2012/13. It was reported that there were four areas which had been assessed as having substantial assurance. Payroll had been subject to close scrutiny in the past as it had previously been assessed as no or limited assurance.

There were two systems with limited assurance which were procurement cards, and creditor payments, particularly with respect to retrospective payments. However, the latter should reduce greatly with the implementation of e-purchasing. It was noted that more work was needed around masterdata.

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Staff were being retrained, and there was a move towards the e-market place, which should eliminate the problems of retrospective ordering. There was a technical appraisal of SAP taking place regarding whether it was still suitable for the County Council. The e-purchasing system was being launched and was in use within Community Safety. It was noted that the potential replacement of SAP was approximately three years away.

It was noted that improvements would be reported back to this Committee. An audit looking at expenses and payroll was due to be started and it was hoped that this would provide continue assurance in relation to compliance.

It was reported that the issues which had been identified in relation to procurement cards, actions had been implemented to improve card provision and usage.

The Committee was advised that another issue which had been identified was that valid VAT receipts/invoices were not being obtained for all transactions, which meant that the VAT could not be reclaimed. However, this did tend to relate to on-line transactions where the purchaser was required to print out the receipt. Whilst the cash value of this per transaction tended to be quite low, it would add up to a substantial amount over all transactions. The average monthly spend on procurement cards, across the authority, was approximately £200,000.

A fortnightly newsletter and reviews of card users were two methods which would be used to ensure that proper processes were being followed, and they were already being implemented.

**RESOLVED**

That the outcomes of the Corporate Audit Work be noted.

**16. SUMMARY OF SCHOOL AUDIT WORK IN 2011/12**

The Committee received a report which provided information in relation to the work which had been completed in relation to schools during 2011/12. It was reported that the programme of audits at maintained schools had continued during 2011/12, and these audits provided an assessment of the schools control environment for headteachers, school governors and Children's Services. It was highlighted that these audit visits were planned for a five year cycle, and during 2012, interim 'healthcheck' visits had also been added to the audit plan. It was reported that 52 audits of schools had been carried out during the year. There were two schools which had been assessed as 'no assurance' which the audit team planned to go back to. However, these schools were likely to become academies, but they were still keen to go ahead with the audits which were planned for September 2012.

Members were provided with the opportunity to ask questions to the officers present in relation to the information presented within the report and some of the points raised during discussion included the following:

- The healthcheck visits could lead to full audits if it was felt that there were control weaknesses;

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- The healthchecks were carried out within the five-year cycles of audits, so a school could expect a visit every 2-3 years;
- Academies still recognise the importance of having a good external challenge;
- Academies did not have a requirement to have internal audit;
- Some of the requirements had been strengthened, and academies did need to have external audits as well as a responsible officer for financial affairs;

**RESOLVED**

That the report be noted

**17. ANNUAL GOVERNANCE STATEMENT 2012**

Consideration was given to a report which sought approval of the Council's Annual Governance Statement 2012 and that it accurately reflected the Council's governance and assurance arrangements. It was noted that any changes which were currently taking place would be reflected in the following year's Statement e.g. the changes to the Standards regime.

The Statement, when approved, would be signed off by the Chief Executive, the Leader and the Executive Director Resources and Community Safety.

It was noted that in relation to governance issues in Adult Social Care, Members had already received feedback on the potential gap in funding, and it was believed appropriate to offset some of the excess costs against reablement programme. It was requested that more specific implementation dates be included for the areas where further work was required to improve systems or monitor how the key risks facing the Council were being managed.

The Committee discussed the governance issues which were highlighted in the statement, and some of the points highlighted included the following:

- In terms of becoming a commissioning organisation, six key milestones and intermediate outcomes had been identified;
- The engagement strategy still needed to be finalised by the Executive Director for Communities, and it was requested that a report be brought to the next meeting;
- The Big Society Strategy was still out to consultation;
- There would be a requirement to be much more agile as a council;
- There was a need for a change of culture in how local government did business. Risk needed to be thought of in a different way;

**RESOLVED**

1. That the Annual Governance Statement 2012 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;
3. That the governance framework of the Council be reviewed once new guidance had been issued.

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The Committee was advised that there was statutory requirement for bodies such as the County Council to review the effectiveness of internal audit once a year, and for these findings to be considered by an appropriate committee of the Council. The report presented discharged this responsibility and reported the findings of a joint officer/councillor working group. The working group comprised the executive Director Performance and Governance, the Assistant Director – Finance and Asset Management, and the Chairman and Vice-Chairman of the Audit Committee.

It was reported that in relation to the issues which were identified the previous year in relation to compliance with the Cipfa good practice guide on the role of the Head of Internal Audit, action had been taken and recommendations had been implemented.

It was felt by the Review Group that the Audit Committee should undertake a self-assessment of its role and performance during early 2013, in light of the likely membership change of the Committee later that year following the May 2013 County Council elections.

Overall, the Review Group were of the opinion that the County Council had an effective system of internal audit.

**RESOLVED**

That the Audit Committee endorsed the view of the Review Group, that the County Council maintained an effective system of internal audit.

**19. EXTERNAL AUDIT PROGRESS REPORT**

The Committee received a report which provided an update on the 2011/12 external audit plan. Some of the key issues were highlighted to the Committee and included the following points:

- Officers were reporting that good progress had been made on the year end closedown and the quality assurance (QA) programme was complete apart from capital;
- It was planned to start the main audit of the Council accounts on 16 July 2012;
- Work on the pension fund accounts had been started much earlier planned, in June 2012 and the work was now almost complete, and the results would be reported at the same time as the accounts at the meeting in September 2012;
- In terms of value for money, no further work other than the planned routine work covering financial resilience would be required;

**RESOLVED**

That the report be noted.

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(During discussion of this item, Councillor C Farrar declared a personal interest in this item as Chairman of the County Council's Pensions Committee)

The Head of Finance – Communities and Corporate presented a report which provided the Committee to consider the draft Statement of Accounts for Lincolnshire County Council for the financial year 2011/12. The final Statement of Accounts for 2011/12 would be presented to the Audit Committee in September 2012 for approval.

It was reported that the Section 151 Officer signed the accounts off on 25 June 2012 and were available to view online.

The Committee was informed that officers had been working with colleagues in Mouchel in order to prepare the accounts. In 2011, there had been a move to using IFRS, and the changes had mainly been around how heritage assets were treated.

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 highlighted during the discussion included the following:

- The authority was in a position where the majority of issues from the previous year had been dealt with;
- The working papers had generally been of good quality;
- Everything possible had been done to prevent a repeat of the previous year;
- In terms of the Whole of Government Accounts, as much work as possible had been done on them, and the deadline was being worked towards;
- The Council's general reserves at 31 March 2012 were £15.900m of 3.5% of the total budget;
- P.13 – 'Non Distributed Costs' referred to pensions and settlement costs and were not charged to any service;
- P.6 - In terms of schools' budgets, any underspends were recycled back to the schools the following year;
- P.8 – it was important to ensure that the reserves remained as a contingency. An earmarked reserve was used to pay for redundancy costs. It was proposed to put another £4 million into the financial volatility reserve;
- Note 5 - when schools converted to academies, the land was still owned by the county council and remained on the books, but was given a nominal value;
- It would take approximately 9 months to repay the costs of the exit packages;
- It was not possible to put a value on some of the authorities oldest assets such as Lincoln Castle, the values allocated were from the cost of the works which had been carried out and did not reflect what the Castle was actually worth to the organisation or the people of Lincolnshire;
- The authority was in the process of purchasing the existing fleet of fire vehicles, and the repairs and maintenance contract would be re-tendered for this in the near future;
- Extra spending in Highways would be necessary due to the damage to roads following the periods of severe weather which had been experienced;
- In addition to the above the authority had been awarded £600,000 to spend on asset protection, which would go towards repairing roads which had been damaged by drought;

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- Note 43 – it was clarified that these costs were just what was spent with the media and did not include staffing costs;
- Note 40 – the total cost of exit packages did include contributions to the Pension scheme;
- There was between £3.5 - £4million of debt which was secured on property

It was noted that the draft Statement of Accounts was now available for inspection by the public.

**RESOLVED**

That the draft Statement of Accounts be noted and brought back to the September 2012 meeting of the Audit Committee for approval.

**21. WORK PLAN**

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 November 2012. The Committee was referred to Appendix A of the report which set out its Action Plan.

**RESOLVED**

That the work plan be approved.

The meeting closed at 4.00pm