

**AUDIT COMMITTEE  
21 JULY 2014**

**PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)**

Councillors Mrs E J Sneath (Vice-Chairman), N I Jackson, Miss F E E Ransome, S M Tweedale, W S Webb and P Wood

Also in attendance: Mr P D Finch (Independent Added Person)

Councillors: attended the meeting as observers

Officers in attendance:-

Tony Crawley (KPMG), David Forbes (County Finance Officer), Claire Pemberton (Assistant Head of Finance), Lucy Pledge (Audit and Risk Manager) and Rachel Wilson

9 APOLOGIES FOR ABSENCE

Apologies for absence were received from Pete Moore, Executive Director for Finance and Public Protection.

10 DECLARATIONS OF MEMBERS' INTERESTS

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

11 MINUTES OF THE MEETING HELD ON 23 JUNE 2014

RESOLVED

That the minutes of the meeting held on 23 June 2014 be agreed as a correct record and signed by the Chairman.

12 DRAFT STATEMENT OF ACCOUNTS 2013/14

Consideration was given a report which presented the draft Statement of Accounts for Lincolnshire County Council for the financial year 2013/14. Members of the Audit Committee were asked to scrutinise and comment on the draft Statement of Accounts. The final Statement of Accounts would be presented to the Audit Committee in September for approval. Ian Fifield from LG Futures was in attendance at the meeting to guide the Members through the Statement of Accounts and help them to fulfil their role to scrutinise and comment on the financial statements.

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The Members of the Committee were guided through the draft Statement of Accounts, and were provided with the opportunity to ask questions on each section. Some of the points raised during discussion included the following:

- The outturn report was currently being circulated which set out the source of the underspend for the year and proposals for its use. This would need to go to Full Council in September for approval;
- The final Statement of Accounts would be approved by the Audit Committee at its meeting in September 2014;
- There was a rolling 5 year programme for the valuation of land and buildings. In addition to this an assessment of the fair value of these assets would be made on 31 March each year;
- In relation the Castle, this was classes as a heritage asset and was included in the Council's books at historic cost. However, it was reported that it would be possible to have a current valuation on the Magna Carta exhibit as a new asset;
- There would be an opportunity with the Statement of Accounts for 2014/15 to look at what is included in the published accounts, in order to make the document shorter. The Committee had some discretion in deciding what should be included in the statement of accounts, and this was something which had the support of the officers;
- Page 81\* - the county council was wholly accountable for public health. The authority was the accountable body in terms of Learning Disability services, but not for mental health in terms of its joint working with health in these service areas;
- Clarification was sought regarding the contribution to reserves. It was noted that underspends would be transferred to a variety of reserves, but the majority would go to the financial volatility fund. This would however, need to be approved by the full Council in September. Note 10 provided further detail on all the different reserves;
- Directorates that underspend were able to keep the first 1% of that underspend;
- The difference between reserves and balances was clarified for the Committee;
- Page 83 – this provided a summary of the revenue outturn;
- The Committee was informed that there had been an underspend on the construction of the Energy from Waste plant, which was due to problems which were experienced during the commissioning phase, which led to this being extended. This provided a benefit to the authority as the price per tonne sent for processing during the commissioning phase was lower than the contractual rate which had been in place since the commissioning period ended;
- Money had been saved by not using external borrowing to fund capital projects;
- The authority benefitted if academies wished to purchase any services from the local authority;
- The difference between usable and unusable reserves was highlighted to the Committee. It was noted that the majority of reserves were in unusable reserves, and these tended to be valuations of assets and land;

- The authority did have a policy of not using external borrowing to fund projects, if capital receipts were not available as the preferred funding source;
- Any surplus or deficit from the Legal Shared Service was ring fenced for re-use by the shared service, or divided up amongst the partner authorities;
- Note 13 – it was noted that Council Tax income had fallen materially between the two years due to the impact of local council tax support schemes replacing the abolished national council tax benefit scheme. There was a new business rates system in place, which was provided locally and the county council received a local share and a top up grant from government. It was also noted that the Council Tax Freeze Grant had dropped and had been amalgamated into the Revenue Support Grant;
- In terms of government funding, it was difficult to compare one year with another as figures had been moved around and systems had changed;
- In relation to business rates, if a big business decided to move out of the county, the County Council would not lose out by a great deal, but it would have a significant impact on the appropriate district;
- The opportunity to charge for services within planning were limited;
- PFI contracts would only be included within the short term creditors depending on the timing of the payments, but generally they would not be included within this group;
- Note 24 – employee benefits accrual related to any unpaid leave;
- The Pension fund was very sensitive to long term interest rates;
- Short term borrowing had appeared to increase, but it was noted that this was due to a change in presentation between 2012/13 and 2013/14. Long term borrowing that only had one year of the term left had previously been included within Short Term Creditors rather than Short Term Borrowing;
- Questions were raised regarding Note 55 – Contingent Liabilities, particularly in relation to the Expansion of ESPO and the Lincoln Southern Bypass Blight Payments. In relation to the Lincoln Southern Bypass, it was noted that there were no plans to build the road at this time, but it was important to protect the route of the road;

Other noted brought to the attention of the Committee included the following:

- Note 3 – Critical judgements in applying accounting, and Note 4 – Assumptions made about the future and other major sources of estimation uncertainty. It was suggested that member review these notes and satisfy themselves with the judgements which had been made;
- The Council's County Farms Estate was valued on 31 March each year, and was currently valued at £82m. This was not an operational asset, but was a very valuable investment;
- Academies were classed as a leased asset, as the land and buildings were owned by the authority but not operated by it, and were given a de minimis value due to the length of the lease. If an academy closed, the asset would pass back to the authority, similarly, if the academy gave up the site, the lease would end and the asset would return to the local authority. If the academy chose to relocate and this was funded by the local authority, the new buildings would become a local authority asset (if the academy funded it themselves, they would own the asset);

Pension Fund Accounts

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- Page 198 – it was clarified that transfers in referred to anyone who had chosen to transfer pension benefits from another scheme into the Lincolnshire scheme;
- The pension fund was invested in companies worldwide;
- The Pension Fund Accounts would be considered in more detail by the Pensions Committee at its meeting on 24 June 2014;
- All work on the accounts was on time, and was prepared by the deadline.

(\*page numbers refer to the page of the agenda pack, not the Statement of Accounts)

It was reported that the Annual Governance Statement would need to be amended to include consideration of the decision of the High Court in relation to the libraries review.

#### RESOLVED

That the comments made in relation to the draft Statement of Accounts 2013/14 be noted.

#### 13 REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

Consideration was given to a report which discharged the statutory responsibility for bodies such as the County Council to review the effectiveness of internal audit once a year and for the findings of the review to be considered by an appropriate committee of the Council. The paper reported the findings of work undertaken by a joint officer/councillor working group. Whilst a few areas for ongoing monitoring and improvement were identified, the group concluded that the Council did have an effective system of internal audit.

It was noted that this was something the authority had been doing for a number of years, and there were two aspects to it – to review the effectiveness of internal audit and also the effectiveness of the Committee.

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 raised during discussion included the following:

- Services such as direct payments were audited, and this would be done by looking at a sample of people to ensure that they were spending their payments on what they were meant for. It was noted that as part of the audit quality assurance framework, direct payments were looked at in terms of system operation, counter fraud, contract management etc., Internal audit had a full right of access to look at any part of the business;
- Concerns were raised regarding the effect that potential reductions in resources could have on the service provided. Members were advised that

- risk assessments had been carried out in relation to this and how the service would be affected according to differing levels of budget reductions;
- The authority had a combined assurance model, and directors had been asked to attend the meeting in November 2014 in order to answer any queries the Committee had;

RESOLVED

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

14     INTERNAL AUDIT ANNUAL REPORT - 2013/14

Consideration was given to a report which gave the Head of Audit's opinion on the adequacy of the Council's governance, risk and control environment and delivery of the Internal Audit Plan for 2013/14.

It was reported that as part of this, a significant piece of work had been undertaken on the Council's financial systems, and it was found that the Council had good financial management processes in place, that generally worked well. The work did identify some areas of improvement over compliance with systems and controls. However, these were not significant enough to influence the overall opinion. Key control testing on all fundamental financial systems during the year also gave substantial assurance as a result of the work by Internal Audit.

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 raised included the following:

- 98% of the plan had been delivered;
- There should be no longer than two months between starting the field work and completing the final report for each audit. The target from April 2015 would be for 80% of audit work to be completed within this time frame;
- Draft reports should be issued within five days of completion of the fieldwork;
- It was felt that the target of 80% was both achievable and challenging;
- Responses from management for the reports were requested within five working days.

There was a request for volunteers from the Committee to meet before the September meeting to review the draft Annual Report, before it was presented to the Committee for approval. Councillors N I Jackson, P Wood and Mr P D Finch volunteered to take part in this review group.

RESOLVED

That the content of the Head of Audit Annual Report be noted.

15     REVIEW OF GOVERNANCE FRAMEWORK & DEVELOPMENT OF ANNUAL GOVERNANCE STATEMENT 2014

Consideration was given to a report which provided the Committee with the opportunity to review the contents of the draft Statement – to ensure that it accurately reflected the Committee's understanding of the Council's governance and assurance arrangements. This was a key activity in the Committee's terms of reference.

It was reported that each year the Council was required to reflect on how well the Council's governance framework had operated during the year and identify any governance issues which needed to be drawn to the attention of Lincolnshire's residents. Good governance underpinned everything the Council did and how services were delivered often came under close scrutiny.

Members were advised that a 'good' Annual Governance Statement was an open and honest self-assessment of how well the Council had run its business across all activities – with a clear statement of the actions being taken or required to address any areas of concern. The development of the Annual Governance Statement was overseen by the Audit Committee.

The Assistant Director Finance and Resources provided a brief update in relation to the outcome of the judicial review of the libraries service. It was noted that the lessons learned would need to be incorporated into the Annual Governance Statement. The final version of the Statement would be presented to the Committee for approval in September. Members were informed that in relation to the judicial review, the judge found in the council's favour in two aspects – that the proposals did not compromise the authority's statutory responsibility to provide a comprehensive library service and it was fully compliant in terms of equality and diversity. There were two areas where the judge asked the Council to re-think which were that the questions in the consultation were closed with limited scope to make alternative suggestions, and that the proposal from Greenwich Leisure should have had further consideration. It was reported that if the Council did wish to pursue the route of Greenwich Leisure's proposal, then a procurement exercise would need to be undertaken, and the library service would effectively be outsourced. Members were advised that there would be an internal review, and this may come to this Committee for consideration.

Members 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 raised during discussion included the following points:

- It was agreed that statistics into the number of contacts and complaints received through the Customer Service Centre could be included in the summary on the first page of the Statement;
- It was requested that the section entitled 'Our Audit Committee' on page 7 of the Statement be re-worded to include reference to the Committee's assurance role;
- All directors had been required to complete a pro-forma which set out the potential risks which could arise from the proposals being considered under the fundamental budget review;

RESOLVE

1. That the Committee agreed that the contents of the Annual Governance Statement accurately reflected how the Council was run;
2. That the Statement included the significant governance issues/key risks it would have expected to be published;
3. That the changes listed above be incorporated into the Statement.

16     WORK PLAN

Consideration was given to a report which provided the Committee with information on the core assurance activities currently scheduled for the 2014/15 work plan.

Members were provided with the opportunity to discuss the new layout of the work plan and the actions and some of the points raised during discussion included the following:

- It was queried whether it would be helpful for the Committee to review its terms of reference sooner rather than later?
- A fully revised Constitution would go to full Council in September 2014. The Head of Audit advised the Committee that she would pass on the CIPFA terms of reference to the Constitution Review group;
- Every paper which was presented to the Committee in future would be cross referenced with the terms of reference. The various ways of doing this was discussed by the Committee;
- It was thought important that a way for the committee to determine whether they had received the assurance they required for each report was included. The Head of Audit agreed to rethink the design of the work plan to see how this could be incorporated;

RESOLVED

That the design of the Work Plan and Action Plan be reworked as requested by the Committee.

The meeting closed at 1.30 pm