

# Audit Committee Annual Report

August 2014



“Audit committees are a key component of an authority’s governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.”

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

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## FOREWORD

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**Councillor Mrs Susan Rawlins**  
**Chairman of the Audit Committee**



This is my first Annual Report as Chairman of the Audit Committee. It shows the Committee's work and achievements over the 12 month period to July 2014.

We have a wide range of activities that we have to do as a Committee – all designed to help provide comfort that the Council is being run well.

In summary, the Committee plays a vital 'watchdog' role – promoting and ensuring good governance and demonstrating accountability.

The status and independence of the Committee allow us to challenge how things are done and confirm appropriate processes are in place. Where we identify shortcomings, we act swiftly to ensure that they are rectified. This should give confidence to the Council, and the people of Lincolnshire, that the Council's overall governance arrangements and financial stewardship can be relied upon.

Audit Committee meetings are open to members of the public and I would encourage all to come along and see our work in action.

As Chairman of the Committee I have always seen training and development as a key priority for myself and the other members of the Committee to undertake our roles effectively. The Committee continues to have a full and extensive programme of training and this year has been no exception.

Finally, I should like to thank my Vice Chairman, other members of the Committee and officers for their contribution to its work.

## MEMBERSHIP 2014/15



**Chair – Cllr Mrs Susan Rawlins**

Conservative Member for Welton Rural  
Cllr Mrs Rawlins was elected in 2009 and has been Chair of the Audit Committee since June 2013 when she replaced Cllr B Young .  
Cllr Rawlins also sits on the Pensions Committee.



**Vice Chair – Cllr Mrs Elizabeth Sneath**

Conservative Member for Spalding Elloe.  
Cllr Mrs Sneath was elected in 2013 and also sits on the Economic Scrutiny Committee.



**Councillor Stuart Tweedale**

Conservative Member for Ruskington and Cranwell  
Cllr Tweedale was elected in 2013 and also sits on the Children and Young People Scrutiny Committee and the Lincolnshire Health and Wellbeing Board.



**Councillor William Webb**

Conservative Member for Holbeach Rural  
Cllr Webb has served continuously since 2001 and also sits on the Planning and Regulation Committee



**Councillor Neville Jackson**

Labour Member for Lincoln Park  
Cllr Jackson has served continuously since 1997 and sits on the Pensions Committee and the Value for Money Scrutiny Committee



**Councillor Miss Felicity Ransome**

UK Independence Party Member for Boston Coastal  
Cllr Ransome was elected in 2013.



**Councillor Paul Wood**

Lincolnshire Independents Member for Hough  
Cllr Wood was elected in 2013 and also sits on the Economic Scrutiny Committee and the Value for Money Scrutiny Committee.

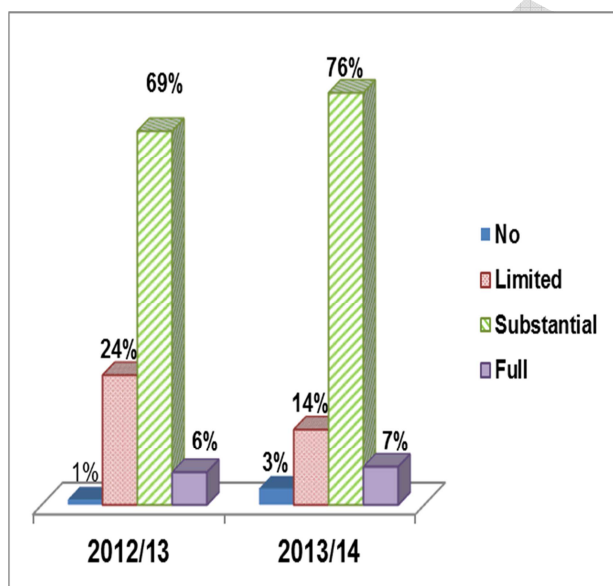
**Independent Added Person:** Peter David Finch

# REVIEW OF THE YEAR

## 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 2013/14. Although Internal Audit looks at different activities each year, the assurances given provide an insight on the Councils' control environment. The graph shows a **increase** of positive assurance by **8%** compared with previous year figures.

## Service Areas - Assurance Levels



### Key:

**Full assurance** – process operating effectively - no significant issues

**Substantial assurance** – some minor improvements required with medium / low risk issues to be addressed

**Limited assurance** – process not operating effectively with some medium / high risk issues to be addressed

**No assurance** – a number of high risk process failures identified to ensure service or system objectives are achieved

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 have not needed to do this in the last year.

We play a key role in the development and approval of the 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. Areas for improvement identified within the Annual Governance Statement for 2014 include:

- Maintaining Good Governance
- Integration of Health and Social Care
- Responding to the Care & Support Bill
- Capacity to deliver
- Future Delivery of Support Services
- Safeguarding Children
- Ensuring all children have access to a good education
- Organisational Learning around the Libraries Judicial Review

## Risk Management

Good risk management is part of the way the Council works. It is about taking measured risks when making decisions or where we need to encourage innovation in times of major change. This will put the Council in a stronger position to deliver its commissioning strategies and provide excellent services.

The Audit Committee is responsible for reviewing how effective the risk management procedures are, overseeing the update of the Council's Strategic Risk Register and ensuring that key risks are being well managed.



A recent Internal Audit has identified some opportunities to improve our risk management arrangements – particularly around reports to decision makers and decisions being made with full understanding of the risks involved.

### Internal Audit

The Council's Internal Audit service is provided by an in-house team (Audit Lincolnshire). The performance of Internal Audit is reviewed through an annual assessment and benchmarking exercise.

Performance indicators have been set and these are reviewed on a quarterly basis. They delivered **98%** of the revised 2013/14 plan. Feedback on the service remains 'good to excellent'.

New Public Sector Internal Audit Standards were introduced from 1<sup>st</sup> April 2013. Audit Lincolnshire operate in conformance to these standards.

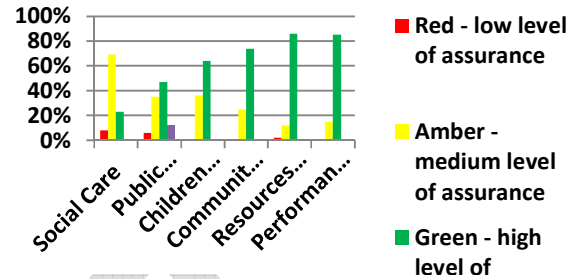
The Head of Audit provides us with an annual report each year summarising the outcome of internal audit work and giving an opinion on the Council's control environment. We review this report.

Implementation of agreed Internal Audit recommendations is tracked during the year. This ensures that audit recommendations are being implemented by management.

Over the past year management have implemented **86%** of the recommendations made by Internal Audit due by 31<sup>st</sup> March 2014. The Committee will continue to work with Internal Audit to improve implementation of recommendations and, where necessary, request explanations from Directors and Senior Manager on issues and actions being taken.

Working with Internal Audit each Director provided the Committee with a 'Combined Assurance – Status Report' showing the level

assurances present across all critical activities, key risks and major projects in their service areas. Overall a good level of assurance was provided – see graph below:



All this work seeks to give assurance to the Council that its governance framework and assurance arrangements are fit for the future and working well.

### External Audit

The Council's External Auditors are KPMG, who attend most of our meetings. They audit and provide an opinion on the Council's financial statements.

They also assess how well the Council manages its resources and provide value for money to the people of Lincolnshire.

### Counter Fraud

Progress and delivery of counter fraud work is monitored through the Audit Committee with an Annual Report produced to provide information on the overall effectiveness of the Council's Counter Fraud arrangements.

We are dedicated to promoting a strong culture to prevent and detect fraud.

Our Counter Fraud policy and annual work plan for 2013/14 was designed to reduce the Council's exposure to the risk of fraud.

The Council recovered **£450k** from fraud and losses in 2013/14.

## Financial Reporting

We reviewed the Council's financial statements for 2012/13 in June and September 2013. 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 2011/13 to discharge their statutory audit.

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.

We reviewed the financial statements for 2013/14 in June 2014. By asking questions (supported by an independent advisor) we help ensure the integrity of the Council's financial statements prior to audit / publication.

We have also asked officers to improve the explanatory forward to the financial statements to help the public understand the Council's management of public funds.

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## IMPACT & EFFECTIVENESS

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Our work has resulted in promoting strong governance and internal control arrangements in the Council.

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

Directors and Senior Management regularly attend the Committee to explain issues and actions to help the Committee to gain assurances around key risks. All this helps improve accountability.

Members of the Committee attended workshops and training sessions to help support their role and improve the effectiveness of the Committee. We undertook a self-assessment of the Committee effectiveness in March 2014.

We have discharged our role as set out in our terms of reference (with the

exception of the review of the Council's standards regime).

We support the Audit Lincolnshire partnership formed between the County and City of Lincoln Internal Audit services. Making sure that the Council maintains an effective Internal Audit Service.

The work on risk management also acknowledges how we are striving to support the Council as it responds to transforming its services to meet the challenges of the future. There is a greater understanding throughout the Council of assessment and management of strategic risks.

As already mentioned the Council's External Auditor attends meetings. This annual report has been shared with them.



## LOOKING AHEAD

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In 2014/15 the Committee aims to continue to build on its role and will:

- Review the Council's risk management strategy and continue make good risk management integral to the way the Council conducts its business and makes informed decisions.
- Review the organisational learning arising from the Libraries Judicial Review – identifying any opportunities to improve our governance framework.
- Ensure that Council's governance framework remains fit for purpose. Maintaining good governance in complex environments and in times of significant change can sometimes be difficult. The Council's governance arrangements will need adapting to respond to the changing organisational environment.
- Understand the assurance framework through these times of change and associated with the Commissioning Strategies. Particularly the impact on the assurance framework resulting from these changes, for example, senior management review, fundamental budget review and the impact on the 1<sup>st</sup> and 2<sup>nd</sup> lines of assurance (management / corporate functions).
- Seek assurance that significant issues identified in the Annual Governance Statement are being addressed by management.
- Review the Committees terms of reference
- Review our work plan and identify ways we can work with other organisations in the Lincolnshire Audit Committee Forum.
- Continue with our training programme to help with the Committee effectiveness
- Produce the Council's annual governance statement for 2015.
- Support the development of the Lincolnshire Fraud Partnership Bid – accessing the £16.6 million set aside by the Government.
- Review of the effectiveness of the Council's standards regime, including how well the Council:
  - Has dealt with complaints
  - Promoted and maintained standards
  - Obtained assurance over the completeness and accuracy of the register of interests
- Review how the Audit Committee can seek assurance from other Scrutiny Committees.
- Seek assurances over the implementation of the new financial system (Agresso).
- Revisit the assurance over the Councils Business Continuity and IT Disaster Recovery plans.

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

### 7.05 Audit Committee

There will be an Audit Committee consisting of eight members. Seven 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.
- 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
- duty to approve the authority's statement of accounts, income and expenditure and balance sheet

#### Standards

- promoting and maintaining high ethical standards by Councillors and non-elected members;
- assisting the Councillors and non-elected members to observe the Members' Code of Conduct;
- advising the Council on the adoption or revision of the Members' Code of Conduct;
- monitoring the operation of the Members' Code of Conduct;
- advising, training or arranging to train Councillors and non-elected members on matters relating to the Members' Code of Conduct;
- determining complaints of breaches of the Code of Conduct for Members referred for hearing by the Monitoring Officer ;

