

**AUDIT COMMITTEE
22 MARCH 2010**

PRESENT: COUNCILLOR B YOUNG (CHAIRMAN)

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

Mr D Finch (Added Independent Person).

Officers in attendance: Stuart Carlton, David Forbes, Claire Pemberton, Lucy Pledge, Dave Simpson, John Sketchley, Mark Suddaby, Sarah Tennant and Mike Wood (Audit Commission).

48. APOLOGIES FOR ABSENCE / REPLACEMENT MEMBERS

No apologies for absence or replacement members were reported.

The Chairman took this opportunity to welcome Mike Wood of the Audit Commission to his first meeting of Lincolnshire County Council's Audit Committee.

49. DECLARATIONS OF MEMBERS' INTERESTS

Councillor N I Jackson declared a personal interest in Minute number 57 as he was a Director of Lincolnshire Enterprise.

50. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON 1 FEBRUARY 2010

RESOLVED

That the Minutes of the previous meeting of the Audit Committee held on 1 February 2010 be confirmed and signed by the Chairman as a correct record.

51. STATEMENT OF ACCOUNTS 2009/2010

Consideration was given to a report by the Council's Financial Advisor, Development and Corporate, which outlined changes to the Statement of Recommended Practice 2009 that would affect the content and format of the Council's Statement of Accounts for 2009/2010. The report also presented the Committee with the proposed Accounting Policies and Financial Reporting Standard Seventeen assumptions from the actuary, which referred to retirement benefits, for consideration and approval.

It was reported that the Council was required to prepare its Statement of Accounts in accordance with the Local Authority Statement of Recommended Practice and the Best Value Accounting Code of Practice. The format of the accounts was largely the same as in 2008/2009, however, the Statement of Recommended Practice 2009 had introduced a small number of changes, which included the following as outlined within the report: -

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- Private Finance Initiative and similar contracts;
- Council Tax agency arrangements;
- officer remuneration disclosure;
- deleted disclosure notices.

The Committee was informed that an important section of the published accounts was the statement of accounting policies, which summarised the rules and codes of practice used for their preparation together with any estimation techniques adopted. The policies had been reviewed and were appended to the report.

Financial Reporting Standard Seventeen was one of the financial reporting standards with which the County Council had to comply with when producing its annual Statement of Accounts. The basic requirement of this standard was that an organisation should account for retirement benefits when it was committed to provide them, irrespective of when they were actually paid out. In order to calculate the cost of earned benefits, the scheme actuaries used certain assumptions to reflect expected future events that could affect the cost. It was an audit requirement that those charged with governance considered the assumptions proposed by the actuary for preparing the information for inclusion within the Council's Statement of Accounts. Details outlining the following assumptions were included as part of the report: -

- valuing liabilities – discount rate;
- price inflation assumption;
- salary growth;
- expected return on assets;
- morality assumptions;
- commutation assumption.

RESOLVED

- (1) That the changes required to the Council's Statement of Accounts from the Statement of Recommended Practice 2009 be noted.
- (2) That the Statement of Accounting Policies, as outlined in Appendix A to the report, for use in drawing up the Council's accounts for the financial year 2009/2010 be approved.
- (3) That the Financial Reporting Standard Seventeen assumptions proposed by the actuary for inclusion within the Council's accounts for the financial year 2009/2010 be approved.

52. AUDIT COMMISSION – ANNUAL AUDIT LETTER 2008/2009

The Committee considered a report, which summarised the findings from the Audit Commission's 2008/2009 audit of Lincolnshire County Council. The following key messages were highlighted: -

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The draft 2008/2009 financial statements were produced before the required statutory date. The final statements included the amendments identified as required and officers were taking the agreed actions to improve the Council's capital accounting.

It had also been concluded that a report in the public interest following an earlier objection to the Council's 2006/2007 accounts would not be issued.

ii) Organisational assessment

The Audit Commission's assessment of the County Council as an organisation was that it performed well. The Council had made good progress, improving frontline services and improving the efficiency of its own operations.

The Commission's assessment of the Fire and Rescue Authority was that it also performed well, was meeting its priorities and should continue to improve.

iii) Financial position

Spending was kept within the overall budget in 2008/2009 and the Council's current financial health was sound. Major challenges lay ahead in the light of the uncertain economic prospects and other operational and financial pressures and the Council had been taking steps to enable it to effectively plan and respond. The County Council should continue to maintain effective governance of financial and service planning, monitor regularly its financial position over the short and medium term and take appropriate decisions promptly in order to maintain good financial standing.

RESOLVED

That the Audit Commission's Annual Audit Letter for Lincolnshire County Council for 2008/2009 be noted.

53. DRAFT EXTERNAL AUDIT OPINION PLAN

Consideration was given to a report, which summarised the Audit Commission's Audit Opinion Plan for Lincolnshire County Council for 2009/2010.

It was reported that the Audit Commission issued its fees letter for 2009/2010 on 14 April 2009, which set out the work proposed to be undertaken in order to satisfy the Commission's responsibilities under its Code of Audit Practice. The Commission was required by professional auditing standards to specify the detailed risks that needed to be considered as part of the opinion planning work. As the letter was produced at the commencement of the financial year, at that time it was not possible to specify these risks. The Audit Commission was now in a position to undertake this piece of work and as a result would be required to: -

- identify the risk of material misstatements in Lincolnshire County Council's accounts;

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- plan audit procedures to address these risks;
- ensure that the audit complies with all relevant auditing standards.

The Audit Commission's approach to identifying audit risks was outlined as part of the report.

RESOLVED

That the Audit Commission's Audit Opinion Plan for Lincolnshire County Council for 2009/2010 be noted.

54. RISK MANAGEMENT – THIRD QUARTER UPDATE 2009/2010

The Committee considered a report by the Council's Strategic Risk Manager, which informed Members of progress up to the end of the third quarter of the year against the key aim of the Risk Management Strategy 'to drive forward the embedding of risk management through the organisation and its key partnerships'.

At the meeting of the Audit Committee held on 7 December 2009, it was agreed that further work would take place to obtain a more in depth level of assurance on the effectiveness of controls assigned to three specific strategic risks. A scope of assurance work for each of these strategic risks would be undertaken, with updates being presented in the form of three individual reports to the Audit Committee's meeting scheduled to be held on 14 June 2010, for consideration.

It was reported that the Strategic Risk Manager attended the meeting of the Council's Management Board held on 9 December 2009 in relation to items on economic scenario planning and the Corporate Business Plan. Consequently, the Corporate Risk Register had been updated to take account of the following emerging impacts and changes: -

- impact of economic slowdown – a new/developing control of 'review of budgets post election' had been added;
- all references to 'economic scenarios' as a new/developing control had been updated to reflect the more recent branding of 'Value for Money Programme';
- failure to recruit, retain and improve staff – an additional existing control of 'People Strategy Programme Board' had been added.

A copy of the Council's comprehensive Corporate Risk Register had been circulated to the Committee prior to the meeting. The register captured the key controls and contingencies that needed implementing in order to manage the biggest risks to the authority within an agreed level of tolerance. During the last quarter, review meetings had been held with each of the risk owners to assess progress with the fifteen strategic risks identified in the register. An overview of these risks was set out in the report, identifying levels of baseline risk exposure, current risk exposure and target risk exposure. Summaries on individual risks were also included within the report.

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The Committee was informed that there were a number of individual risks that would require close monitoring throughout the final quarter due to the high percentage carrying new or developing controls for completion around the end of the financial year. The timing of these controls and their successful implementation would be important in helping to keep the momentum of progress towards achieving the Corporate Risk Register's overall target risk score by the end of March 2011. Throughout the course of Quarter Four the Corporate Risk Management Team would be involved with a number of key tasks, as detailed within the report.

During discussion, reference was made to Information Communications Technology disaster recovery and a proposed business case that was scheduled to be considered by the Informal Executive and Management Board at its meeting held on 16 March 2010. The Committee requested an update on the outcomes of that meeting, however, it was noted that the accountable officer for this particular project was due to attend the next meeting of the Audit Committee, where an update could be provided. Executive Directors were scheduled to attend the meeting of the Audit Committee on 14 June 2010 to address any items on the Corporate Risk Register that came under their respective responsible service areas.

RESOLVED

That the report be noted.

55. CORPORATE AUDIT PROGRESS REPORT TO 28 FEBRUARY 2010

A report by the Council's Head of Corporate Audit and Strategic Risk Management was considered, which provided Members with an update of progress against the Internal Action Plan agreed by the Audit Committee on 23 March 2009.

Details relating to planned audits up to 28 February 2010 that had been issued as final reports were included as part of the report. The report also identified whether the particular audits identified no assurance, limited assurance, substantial assurance or full assurance. The Internal Audit standard definition of assurance was appended to the report, for information.

Updates on specific audits were provided at the meeting, for the Committee's information.

In terms of the New Ways of Working programme, which had been identified as having limited assurance, there were concerns that the programme was not being delivered as well as originally anticipated. It was reported to Members that the programme was not failing, however, some aspects were not progressing as well as they should be. Twenty percent of the programme fell under the direct control of the New Ways of Working Team, whereas the vast majority of the programme's successful delivery was dependent on other services or other County Council projects. Where there were delays in the programme, they were predominantly in these areas of dependency, meaning that the programme was unable to move forward on all fronts at the pace originally intended. Members were informed that the most noticeable area not being delivered related to Information Technology. It was reported that one of the main frustrations experienced in implementing the New

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Ways of Working project related to a lack of compliance and the fact that service areas did not recognise the authority of the New Ways of Working Project Board, preferring to only follow instructions from their own respective line management.

Questions were raised in relation to the management of the programme and the processes in place for addressing the failures in delivery by those individuals outside the direct control of the New Ways of Working Team. The Executive Director (Children's Group) was the lead officer on this project and the Committee requested his attendance at its next meeting, together with the Executive Councillor for Corporate Development, to provide an update on the management of the New Ways of Working programme.

Also outlined as part of the report were those audits in 2010/2011 proposed for cancellation or postponement.

RESOLVED

- (1) That the report be noted.
- (2) That the cancellation and postponement of the audits for 2010/2011, as outlined within the report, be agreed.

56. EXTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report by the Audit Commission, which summarised audits undertaken in 2008/2009 and 2009/2010 together with audit planning for 2010/2011.

RESOLVED

That the report be noted.

57. DRAFT INTERNAL AUDIT PLAN 2010/2011

The Committee considered a report by the Council's Head of Corporate Audit and Strategic Risk Management, which presented Members with the proposed Internal Audit Plan for the financial year 2010/2011.

The primary objective of the Council's internal audit function was that of an assurance function, providing an independent and objective opinion on the Council's control environment by evaluating its effectiveness in achieving the Council's objectives. It examined, evaluated and reported on the adequacy of the control environment as a contribution to the proper, economic and effective use of resources. The effectiveness of the Council's internal audit function would be evaluated by senior managers, the Audit Committee, external auditors and through inspection.

The combination of a risk based and assurance approach contributed to ensuring that the Council's governance framework was working as intended and helped provide an annual opinion on how effective the Council was at managing its risks. A

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flowchart outlining the Council's risk management and assurance cycle was included as part of the report.

A schedule of audits for 2010/2011 was currently being developed with the Council's Management Team, further details of which would be reported to the next meeting of the Audit Committee.

In order to develop the plan it was reported that Directorates within the County Council had been consulted, together with the Section 151 Officer and external auditors. The joint working protocol with external auditors was currently being reviewed in order to assist in co-ordinating the Council's work, ensuring that the Council got the best use out of its combined audit services.

It was reported that over the next few months, the Council's audit team would be working with managers to assess the amount of risk the authority would be prepared to accept, tolerate or be exposed to at any one point in time. A revised Audit and Risk Strategy would be developed from this piece of work. The Committee was invited to consider how it wanted to be involved or kept informed of progress, further to which it was suggested that a small number of Members, including the Chairman and the Vice-Chairman of this Committee, would be consulted upon throughout the course of this work.

RESOLVED

- (1) That the Audit Strategy and Annual Audit Plan for 2010/2011 be approved.
- (2) That a small number of Members, including the Chairman and Vice-Chairman of the Committee, be consulted upon as part of work by the Council's audit team to assess the amount of risk the authority will be prepared to accept, tolerate or be exposed to at any one point in time and the subsequent development of a revised Audit and Risk Strategy.

58. COUNTER FRAUD WORK PLAN 2010/2011

Consideration was given to a report by the Council's Audit Manager, Counter Fraud and Investigations Team, which outlined to the Committee how the County Council aimed to further develop its counter fraud arrangements, target its proactive work and investigate all cases of suspected fraud. The Counter Fraud Work Plan for 2010/2011 was appended to the report.

It was noted that stronger counter fraud arrangements were an essential component of the Council's governance framework and a key way of demonstrating how the authority was protecting taxpayer's money.

RESOLVED

That the Counter Fraud Work Plan for 2010/2011 be approved.

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NOTE – at this stage of the proceedings the Chairman left the meeting.

COUNCILLOR MRS C M H FARQUHARSON IN THE CHAIR

59. WORK PLAN

A report by the Council's Head of Corporate Audit and Risk Management was considered, which set out the Committee's proposed work programme up to December 2010.

Appended to the report was an action plan outlining agreed actions from the Committee's previous meetings or workshop events.

An updated work plan would be circulated to Members at the next meeting of the Audit Committee, reflecting necessary amendments as a result of this meeting's deliberations.

RESOLVED

That the work plan for the Audit Committee be noted.

Meeting closed at 1.00 p.m.