

**PRESENT: COUNCILLOR B YOUNG (CHAIRMAN)**

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

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

Officers in attendance: Tony Crawley (District Auditor), David Forbes (Assistant Director Finance and Resources), David O'Connor (Executive Director Performance and Governance) Lucy Pledge (Head of Corporate Audit and Risk Management), Louise Stables – Audit Commission (Team Leader) and Rachel Wilson (Democratic Services Officer).

64. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor C Farrar and Mike Wood (Audit Commission).

65. DECLARATIONS OF MEMBERS' INTERESTS

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

67. MINUTES OF THE MEETINGS OF THE AUDIT COMMITTEE HELD ON 19 DECEMBER 2011

**RESOLVED**

That the minutes of the previous meeting held on 19 December 2011 be confirmed and signed by the Chairman as a correct record subject to it being noted that in relation to minute 59, it be recorded that an action plan had been developed to assist in the production of the financial statements and accounts.

68. EXTERNAL AUDIT PLAN & LCC PENSION FUND 2011/2012

Consideration was given to a report presented by the District Auditor which set out the external audit work and fees that were proposed to undertake the audit of the financial statements and value for money conclusion for 2011/12.

It was reported that the Audit Plan for 2011/12 picked up the issues which were identified at the previous meeting relating to the preparation of the financial statements, and Mike Wood and Louise Stables from the Audit Commission would be meeting with officers on 23 February 2012. There was only one significant change to the preparation of the financial statements for 2011/12 under the IFRS regime and this was in relation to heritage assets as the CIPFA code for 2011/12 set new requirements for how councils should account for heritage assets. It was noted that for Lincolnshire County Council, heritage assets were likely to include some buildings and a range of archives and collections with a total estimated value of over

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£27 million. It was thought that some assets such as Lincoln Castle would be difficult to value, and so experts may be required in those situations.

In relation to the Authority's arrangements for ensuring value for money, it was reported that no significant additional work over and above the ongoing monitoring and assessment work taking place would be required.

It was also highlighted to the Committee that in relation to key milestones, there had been a change to the deadline for the Annual Audit letter to be produced from September to October, before the change of Auditor.

In relation to the fee for the audit for 2011/12, it was noted that the Audit Commission had set a scale audit fee of £238,500 which represented a 10% reduction on the fee for 2010/11. A rebate of 8% had already been received by the Authority. It was considered that there was no increased risk from the previous year, and that the problems completing the accounts were unlikely to occur again as there was commitment to the implementation of the action plan. It was expected that the audit would be completed on time the following year as normal.

In relation to independence and quality, it was highlighted that the Auditor had been made aware that a CIPFA trainee had disclosed that his wife was employed as a deputy head teacher at St Peter at Gowts Primary School, as a result it was agreed that he would not undertake any work which may directly or indirectly involve a school. This safeguard had been approved by the previous Regional Head of Audit (Central Region) and would be kept under review.

It was queried why there was no audit response in terms of the risk identified from the creation of many more academy schools in 2011/12 which would impact on asset valuations and revenue transactions in the Comprehensive Income and expenditure Statement (CI&ES), and it was noted that this was due to the detailed guidance from CIPFA which had not been released as quickly as expected. However, the External Auditor was happy with the Authority's position in relation to academies at the moment. The Committee was also advised that the liability issue regarding PFI schools who wished become academies still needed to be resolved.

In relation to heritage assets and in particular Lincoln Castle, it was suggested that if the Crown Court did move to alternative premises, and the subsequent planned improvements to the castle site which were expected to increase footfall, that these factors could have an impact on its value. It was recognised that there were difficulties with the valuation of heritage assets, and so if circumstances changed there would be a need to consider bringing in a specialist valuer.

The External Auditor also provided the Committee with a summary of the Audit Plan for the Lincolnshire County Council Pension Fund. It was commented that the accounting statements for the Pension Fund were straight forward and were completed on time. It was noted that there were no independence issues to report. The Assistant Director Finance and Resources commented that there was only one change from the County Council's perspective which was that now all detailed financial transactions were processed via systems maintained by the global custodian with summary information was still entered onto SAP.

RESOLVED

That the Audit Commission plans and comments be noted.

**69. CERTIFICATION OF CLAIMS AND RETURNS – ANNUAL REPORT**

Consideration was given to a report presented by Louise Stables from the Audit Commission, which summarised the findings from certification of 2010/11 claims. Funding from government grant-paying departments was an important income for the Council, and although the number of claims had reduced in recent years, the Council needed to manage the claiming of this income carefully and ensure the conditions attached to the grants were met.

The Committee was advised that in 2010/11, the external audit team certified 3 claims or returns (TRA11 Spalding to Eye (A1073) final claim, Sure Start Annual Financial Statement and Annual Teachers Superannuation Return), with a total value of £67 million. In 2009/10 there were 5 claims or returns with a total value of £101 million. It was thought that these were all low risk claims due to the internal control environment in the Authority. It was reported that no claims or returns were subject to amendment and were all certified by the deadline.

It was noted that historically there had been problems with getting information relating to teachers' pensions, as officers were dealing with schools, and they did not all use Mouchel. It was to Mouchel's credit that they had managed to gather all the information which was required.

RESOLVED

That the report and comments made be noted.

**70. EXTERNAL AUDIT PROGRESS REPORT**

Consideration was given to a report presented by Louise Stables from the Audit Commission which provided the Committee with an update on the 2011/12 external audit plan. The 2011/12 audit plan had been updated and interim audit work was underway.

It was reported that the interim audit work had only started recently and the initial walkthrough tests on the County Council's key financial systems had not yet been completed. It was planned for some of the controls testing to be undertaken by internal audit this year on the purchase ledger and Audit Commission would provide the necessary documentation to the Authority and liaise as necessary to ensure the work was completed satisfactorily.

It was highlighted that under ISA240 the Audit Commission was required to understand the Authority's management processes and the arrangements in place to respond to the risks of fraud; ensure compliance with laws and regulations; and identify potential litigation or claims likely to impact on the financial statements. The Committee was also advised that the Auditor had written to the Director of Resources and the Chairman of the Audit Committee asking them to respond to the questions by

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the Audit Commission on these matters. It was expected that a report would be presented to the 23 April 2012 meeting of the Audit Committee.

The Auditors also reported that the work on grant claims for 2010/11 had been satisfactorily completed and a separate report had been produced summarising these results and would be presented later in the meeting.

In relation to the 2011/12 final accounts workshops which had been arranged, it was noted that two officers had booked to attend these. The closest events for Lincolnshire County Council were noted as being held on 9 and 21 February 2012 and were to be held at Nottingham University.

The Executive Director Performance and Governance responded to a query regarding future requirements for pay policy statements. It was reported that there had been draft guidance published by CLG, however, the final guidance was still to be published and it was not known when this would be. In terms of implementation, it would be going to the Chief Officers' Salary Review Sub-Committee, which would make a recommendation to redesignate the Committee as the Pay Policy Committee. Lincolnshire County Council's Pay Policy statement would likely be a consolidation of existing processes and would meet the requirements of the guidance from CLG and the Localism Act. The Executive Director would be meeting with Legal Services in February to discuss this. It was thought that it was right to have transparency in senior officers pay, but there were concerns that amendments to any separate aspects in the pay policy would need to go Full Council for approval, and there were concerns that this could cause unnecessary delays. It was suggested that one option would be that only amendments which had a direct impact on pay should need to go to Full Council. It was requested that the Audit Committee be kept up to date with developments in this area.

In relation to the Key Considerations highlighted in the report, it was noted that the Committee would be given the opportunity to view the proactive Counter Fraud Plan, and the fraud briefing had been circulated to all schools, the slides from the presentation and information on successful fraud cases had also been circulated. It was also noted that several head teachers had been in contact with the authority to request some assistance with audit processes.

**RESOLVED**

That the report and comments made in relation to the External Audit Progress Report be noted.

**71. LGA PEER REVIEW**

The Committee considered a report presented by the Executive Director Performance and Governance which provided the final feedback slides from the LGA Peer Review and details of key actions which were needed.

It was reported that Lincolnshire was the first County Council to undergo a new-style Local Government Association Peer Review, feedback had previously been reported to this Committee and the Value for Money Scrutiny Committee.

It was emphasised that the Peer review was not an audit, but an opportunity for reflection and to receive feedback. The main questions posed during the Review included the following:

- Council Vision
- Big Society and community engagement
- Meeting budget targets in Adult Social Care
- Working with partners – the highlight of these sessions was the joint meeting with West Lindsey District Council, who have requested that they be able to work more closely with the County Council. They have proven that they want to put in the effort to work with the Authority.

Some key elements were reported in the early slides, and the Peer Review felt that the governance in place in the Authority was very good, and they were positive about it. The meeting they observed of the Governance Group was highlighted as a good example of best practice.

Concerns were raised regarding Big Society, and how, with an ever changing population, it would be ensured that people would be involved. It was reported that the document on Big Society Strategy which was currently out for consultation was seeking comments on what people thought Big Society was, and what the priorities should be. In relation to the changing population, such as the student population, it was thought that the resources would come from the institutions, rather than individuals.

In terms of next steps in relation to the Peer Review, it was noted that it was likely they would engage with the Authority again early in the next financial year, and likely before the summer. The LGA would be keen to see whether this was something that could be developed longer term. It would be examined to determine whether this process could be used to identify concerns within an authority, and then decide what further action would be required to determine if there was an actual problem.

## RESOLVED

That the final feedback and actions of the LGA Peer Review be noted.

## 72. GETTING THE MOST OUT OF INTERNAL AUDIT - THE ASSURANCE MAP FOR THE COUNCIL

Consideration was given to a report presented by the Head of Corporate Audit and Risk Management, which provided the Committee with information on the assurance arrangements for the Council and how it made the best use of the Internal Audit Resource.

It was reported that the strategy aimed to provide as complete a picture as possible of the Council's critical systems and the key risks it faces. The Map would be used to strengthen the assurance of the Council and allow the work of Internal Audit to be more focused and ensure that it was effective. It was noted that the Assurance Map would be an evolving document. It was highlighted that there were still gaps in the Map as it was still being built up. The first part of the Assurance Map would be presented to the Committee at its meeting in April for comment and approval.

In relation to working with Partners, it was noted that assurances were in place, and the partnership arrangements would be audited to ensure that the appropriate systems and due diligence was in place. Part of the concept would be to trust people to deliver what they said they would and also holding them to account. In addition, there were joint management boards for the partnerships which were in place, there would also be a structure which would set out the aims of the partnership, and there would be regular reports to that Board. Reporting processes would also be clearly identified. It was noted that some the partnerships had changed recently and so a lot of the work had to be restarted.

Members commented that they welcomed this approach to the assurance process and it should help to focus the work of this Committee. It was noted that there would always be a gap of some sort as it was not possible to have assurance for everything. It was proposed that the Committee would look at the Map in detail twice a year, the rest of the time it would be continually monitored by the Head of Corporate Audit and Risk Management. It was noted that Lincolnshire was one of the early counties to put this process into practice.

#### RESOLVED

1. That the report and comments in relation to the proposed assurance arrangements for the Council be approved;
2. That the Risk and Internal Assurance Strategy for the Council be approved

#### 73. FUTURE OF LOCAL PUBLIC AUDIT - UPDATE

Consideration was given to a report presented by the Head of Corporate Audit and Risk Management which provided an update on the future of local public audit. It was announced on the 13 August 2010 that the Secretary of State for Communities and Local Government planned to disband the Audit Commission, transfer the work of its in house practice into the private sector and put in place a new local audit framework, meaning that local authorities would be free to appoint their own independent local auditors.

The Committee was advised that further guidance had been published since the report had been written, and this would be circulated to the Committee. The key message of this guidance was that local appointment of an external auditor was not likely to happen until 2017/18, as these changes would need to go through legislation. There would be some critical information sharing around April 2012 regarding the appointment process, and there may be a need to set up an Appointments Panel. The Committee was assured that they would be kept up to date on further developments.

The winner of the contract for the East Midlands would be announced in March 2012, and members would be invited to meet the new representative. The contract would be awarded by the Audit Commission, who would also manage the contract. The contracts would run for either three or five years. It was reported that of the 13 bidders that participated in the national tender, it was not known how many of them were bidding for the East Midlands area, but it would hopefully be at least three.

It was highlighted that in terms of the fees, the Audit Commission was committed to providing a rebate to local government where possible. There was still a lot of detail which was needed in relation to providers, but it was thought local authorities would have until 2015/16 to get their framework set up.

It was noted that this item would be kept as an ongoing item on the work plan.

**RESOLVED**

1. That the contents of the report be noted;
2. That the Committee be kept up to date of further developments

**74. DEVELOPMENT OF AUDIT COMMITTEE ANNUAL REPORT – MARCH 2012**

The Committee received a report which set out the proposed approach for the development of the Audit Committee Annual Report. It was reported that the purpose of the Annual Report was to raise awareness of the Committee's role and how it had positively contributed to the way the Council was run.

The Committee was advised that the Head of Corporate Audit and Risk Management would be looking for volunteers to form a small task and finish group to assist with the development of the Annual Report. It was hoped that the Annual Report would go to Full Council in May 2012 for approval.

It was suggested that the Task and Finish Group should include Councillors Mrs C M H Farquharson and W J Aron, and Mr D Finch as an independent person. The Head of Corporate Audit and Risk Management would organise for a session to be set up in February.

It was agreed that the Committee was broadly happy with the format and content from past Annual Reports as a basis for the next one.

**RESOLVED**

1. That the proposed content of the Annual Report be approved;
2. That a small task and finish Group be set up to help develop the Annual Report, and the draft report be presented to the April meeting;
3. That the following members be part of the task and finish group: - Councillors Mrs C M H Farquharson, W J Aron and Mr D Finch.

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

It was highlighted to the Committee that the only change to the Work Plan was that the Workshop event scheduled for 19 March 2012, would now be held on 23 April 2012 instead. The Chief Executive, the Leader of the Council and the Executive Director Performance and Governance would be invited to attend the workshop session to discuss the changes and risks facing the Council.

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It was suggested that the workshop session scheduled for 9 July 2012 be held in the morning and the meeting in the afternoon.

It was noted that there were further items which needed to be added to the Work Plan following this meeting, which included an IFRS Action Plan update (including heritage assets) and the Pay Policy statement.

**RESOLVED**

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

The meeting closed at 11.35am