

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Finance and Public Protection

| | |
|------------|--|
| Report to: | Audit Committee |
| Date: | 20 June 2016 |
| Subject: | Audit Committee Annual Report July 2016 |

Summary:

This paper provides the results of the workshop held on 6th May 2016 which looked at the effectiveness of the Audit Committee - helping to identify any areas of improvement.

It also provides an outline for the Audit Committee Annual Report 2016.

Recommendation(s):

That the Audit Committee:

1. Approves the proposed improvement actions, subject to any changes it wishes to make
2. Agree that the Chairman and Vice Chairman, in consultation with other members of the Audit Committee, draft the annual report

Background

1. On the 6th May 2016 the Audit Committee held a workshop to review its effectiveness - with the following members of the Committee in attendance:
 - Cllr Sneath
 - Cllr Webb
 - Cllr Jackson
 - Cllr Wood
 - Mr David Finch
2. The workshop reviewed its key areas of activity looking at:
 - What went well
 - What we could do better
 - What difference we have made
 - Message to full Council

3. The workshop also discussed its effectiveness – using KPMG Audit Committee Institute ‘Effective audit committee meetings: warning signals and potential responses’ as a guide.
4. We also completed the CIPFA Audit Committee Good Practice self-assessment - attached in Appendix A.
5. The key messages arising out of the workshop were:

Internal Audit

- Good working relationship with Internal Audit being responsive, professional and effective.
- Combined Assurance works well
- Value private meeting
- Value open and constructive (challenging) discussions with audit and senior managers
- External Quality Assessment will help provide independent assessment
- Key messages to the Council:
 - Independent and correct access rights
 - Adequate resources
 - Some information of delivery and performance

External Audit

- Good working relationship and attendance
- Values pragmatic approach to working through the issues of closedown of accounts
- Value of private meeting and transparency of discussions
- Key message to the Council – would welcome feedback from KPMG on the Audit Committees effectiveness

Governance, risk and control

- Outcome of whistleblowing and counter fraud provided insight on how effective the arrangements are.
- More assurance needed over the key risks facing the Council on the balancing of the budget and effective service delivery
- Committee hasn’t looked at complaints so don’t know if there any issues – need to be more forceful in requirements on agenda items
- Key message to the Council:
 - People can be confident in the governance framework and that whistleblowing works effectively
 - Executive (audit ctte?? need more frequent review of strategic risks
 - Significant governance issues – Agresso / Serco – Malware attack (report and learning)

Accounts

- Being kept up to date on the risks and progress
- Key message to the Council (possibly the Executive) – remains a concern re timeliness and qualification

Standards

- One standards panel work held this year but no other work

- Key message to the Council – need assurances around terms of reference on standards – will build into work plan and liaise with Monitoring Officer

Effectiveness of the Audit Committee Meetings

- Generally worked well but there were the following observations were made:
 - Help people feel confident to speak up
 - Need to raise awareness with officers on the role and remit of the committee – help minimise discussions and debate becoming too operational. Papers need to be written for the audit committee's role and members need to manage the desire to personally influence and solve the issue. (differentiate between the councillor role vs Audit Committee role)
 - Briefing and update on key risks (between meetings)
 - Would welcome an additional independent member
 - Value private meetings with internal and external audit – perhaps have more often?
 - End the meeting with a short debrief / post meeting lunch
 - Some of the meetings have been very long – this creates time pressures on the debate and ability to challenge (concentration and hungry!).

6. It was proposed that the Annual Report format used in 2014 should still be followed for this year's report and it was suggested that Lucy Pledge, Audit and Risk Manager to move the drafting of the Annual Report forward with Chairman and Vice Chairman. The draft report should be considered at the July Committee and presented to full Council in September. An outline of the report is attached in Appendix B.

Conclusion

The Audit Committee continues to play a vital role in the Council's assurance arrangements – promoting good governance and accountability.

It remains effective but seeks to continually improve the way it works and the impact it has. The workshop has identified a number of areas of improvement which will help in this regard.

Good practice advocates publishing an Annual Report and the Audit Committee aims to do this – presenting the report to full Council at its September meeting.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

| | |
|---|---|
| These are listed below and attached at the back of the report | |
| Appendix A | CIPFA Audit Committee Good Practice Self-assessment |
| Appendix B | Outline Audit Committee Annual Report |

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, who can be contacted on 01522-553692 or lucy.pledge@lincolnshire.gov.uk.

Self-assessment of Good Practice

Where an audit committee has a high degree of performance against the good practice principles then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

| Good practice questions | | yes | partly | no |
|---|---|-----|--------|----|
| Audit committee purpose and governance | | | | |
| 1 | Does the authority have a dedicated audit committee? | ✓ | | |
| 2 | Does the audit committee report directly to full council? (applicable to local government only) | ✓ | | |
| 3 | Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement? | ✓ | | |
| 4 | Is the role and purpose of the audit committee understood and accepted across the authority? | ✓ | | |
| 5 | Does the audit committee provide support to the authority in meeting the requirements of good governance? | ✓ | | |
| 6 | Are the arrangements to hold the committee to account for its performance operating satisfactorily? | ✓ | | |
| Functions of the committee | | | | |
| 7 | Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement? | | | |
| | ▪ Good governance | ✓ | | |
| | ▪ Assurance framework | ✓ | | |
| | ▪ Internal Audit | ✓ | | |
| | ▪ External Audit | ✓ | | |
| | ▪ Financial reporting | ✓ | | |
| | ▪ Risk management | ✓ | | |
| | ▪ Value for money or best value | ✓ | | |
| | ▪ Counter-fraud and corruption | ✓ | | |
| 8 | Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas? | ✓ | | |

| Good practice questions | | yes | partly | no |
|--------------------------------|--|-----|--------|----|
| 9 | Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them? | ✓ | | |
| 10 | Where coverage of core areas has been found to be limited, are plans in place to address this? | n/a | | |
| 11 | Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose? | ✓ | | |
| Membership and support | | | | |
| 12 | Has an effective audit committee structure and composition of the committee been selected? This should include: <ul style="list-style-type: none"> ▪ Separation from the executive ▪ An appropriate mix of knowledge and skills among the membership ▪ A size of committee that is not unwieldy ▪ Where independent members are used, that they have been appointed using an appropriate process. | ✓ | | |
| 13 | Does the chair of the committee have appropriate knowledge and skills? | ✓ | | |
| 14 | Are arrangements in place to support the committee with briefings and training? | ✓ | | |
| 15 | Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory? | | | ✓ |
| 16 | Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer? | ✓ | | |
| 17 | Is adequate secretariat and administrative support to the committee provided? | ✓ | | |
| Effectiveness of the committee | | | | |
| 18 | Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work? | | ✓ | |
| 19 | Has the committee evaluated whether and how it is adding value to the organisation? | | ✓ | |
| 20 | Does the committee have an action plan to improve any areas of weakness? | | ✓ | |

Audit Committee Annual Report

July 2016



“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)

CONTENTS

| Section | Page |
|------------------------|-------------|
| Foreword | 1 |
| Membership | 2 |
| Review of the year | 3 - 5 |
| Impact & effectiveness | 6 |
| Looking ahead | 7 |

Appendices

- 1 Role of the Audit Committee – Terms of Reference
- 2 Audit Committee Agenda Items from April 2015 to June 2016
- 3 Work planned for 2016 / 17

FOREWORD

Councillor Mrs Susan Rawlins
Chairman of the Audit Committee



Explore with Chairman what the key message they would like to say here – possible areas to cover:

- *Importance of committee - having a supportive, open and respectful environment*
- *Worked well with senior management, with healthy dose of mutual respect – frank discussion and varied perspectives.*
- *How the committee has added strength to the internal audit function and the value of the Committee advice / thinking*
- *Mention how committee appreciated the support of IA / EA / Officers*
- *Engaged with the Council on a number of significant issues – particularly around financial control and Agresso – this will continue to be a key area of focus for the coming year*
- *Annual Governance Statement – some areas of particular interest ??*

MEMBERSHIP 2015/16



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:

Mr David Finch

Mr David Finch joined the Audit Committee in 2009. An independent member helps offer different perspectives on how the Council is run.

REVIEW OF THE YEAR

Propose to include the following areas:

- What are your major themes?
- Review the key questions you raised during the year and what advice and action you recommended
- How you sought management level of confidence in managing the key risks facing the Council and whether you were assured or not!
- Your key message to the Council
- Include specific comments on the Committees activities around terms of reference
 - ❖ Governance and Internal Control
 - ❖ Risk Management
 - ❖ Internal Audit
 - ❖ External Audit
 - ❖ Counter Fraud
 - ❖ Financial Reporting

IMPACT & EFFECTIVENESS

What difference the committee has made?

- ❖ Culture and relationships
- ❖ Accountability
- ❖ Training & development
- ❖ Self assessment
- ❖ Effectiveness of Internal Audit
- ❖ Relationship with External Audit

LOOKING AHEAD

In 2016/17 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 SERCO review – identifying any opportunities to improve our governance framework , particularly around major contracts.
- Ensure that Council's governance framework remains fit for purpose. The Council's governance arrangements will need reviewing to respond to the changing organisational environment and the updated CIPFA / SOLACE guidance.
- Seek assurance that significant issues identified in the Annual Governance Statement are being addressed by management.
- 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 2017
- 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
- Seek assurances from the Executive and Senior Managers on their level of confidence in managing the Council's key risks associated with the business plan and medium term financial strategy.

Appendix 1 – Audit Committee Terms of Reference

There will be an Audit Committee consisting of eight members. Seven of the members will be Non-Executive Councillors and reflect the political balance overall. One 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.

- ❖ Our Audit Committee is a key component of Lincolnshire County Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- ❖ The purpose of the Audit Committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of Lincolnshire County Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Functions:

Audit Activity - Internal

- ❖ approve the internal audit charter
- ❖ To consider the Head of Internal Audit's annual report and opinion.
 - a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.
 - b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.
- ❖ To consider summaries of specific internal audit reports of significance or as requested
- ❖ To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

- ❖ To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- ❖ To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- ❖ To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers or internal audit services. These will include:-
 - a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
 - b) Regular reports on the results of the Quality Assurance and Improvement Programme.
 - c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
- ❖ To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- ❖ To support the development of effective communication with the head of internal audit.

Audit Activity – External

- ❖ 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 appropriate body over the appointment of the Council's external auditor.
- ❖ To commission work from internal and external audit.
- ❖ To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Regulatory Framework – Governance, Risk and Control

- ❖ 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 progress in addressing risk-related issues reported to the committee.
- ❖ To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- ❖ To monitor the counter-fraud strategy, actions and resources.
- ❖ To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- ❖ To review the council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
- ❖ To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- ❖ To consider the council's compliance with its own and other published standards and controls.
- ❖ To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

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 added 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 added 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.

Appendix 2 - Audit Committee Agenda Items from April 2015 to June 2016

June 2015

- Internal Audit Progress Report
- External Audit Progress Report
- Counter Fraud Annual Report 2014/15
- Information Governance Breaches – Internal Audit
- Agresso Update
- Work plan

July 2015

- Draft Statement of Accounts 2014/15
- Internal Audit Progress Report
- Review of Effectiveness of Internal Audit
- Internal Audit Annual Report 2014/15
- Review of Governance Framework and Development of the Annual Governance Statement 2015
- Work plan

September 2015

- Internal Audit Progress Report
- Approval of the County Council's Annual Governance Statement 2015
- External Audit ISA 260 Report on LCC's Statement of Accounts and Pension Fund Accounts 2014/15
- Statement of Accounts for the year ended 31 March 2015
- Work plan
- Agresso Update

November 2015

- CX & Exec Directors' briefings on assurance arrangements
- Agresso update
- Counter Fraud Progress Report
- Risk Management Progress Report
- Internal Audit External Quality Assessment
- Review of Audit Committee Terms of Reference
- Annual External Audit Letter 2014/15

- External Audit Progress Report
- Outstanding Audit Actions Report
- Work plan

January 2016

- Combined Assurance Status Reports
- Update on Libraries Action Plan
- Audit of Coroners' Service – update
- Whistleblowing Annual Report 2014/15
- Agresso update
- Internal Audit Progress Report
- External Audit Progress Report
- Work plan

March 2016

- External Audit Plan 2015/16
- External Audit Progress Report
- Statement of Accounts
- International Audit Standards – Response to Management Processes Questions
- Counter Fraud and Investigations Work plan 2016/17
- Draft Internal Audit Plan 2016/17
- Internal Audit Progress Report
- Work plan

June 2016

- Statements of Accounts – update
- Terms of Reference for Review of Performance of Serco Contract
- Risk Management Progress Report
- Internal Audit Progress Report
- Review of the Draft Annual Report on the Audit Committee Work
- Report on the appointment of the Council's External Auditor
- Review of Compliance with RIPA
- Work plan

Appendix 3 – Work Planned for 2016/17

| Forward Plan | Agenda Item | Planned training |
|----------------|--|------------------|
| June 2016 | <ul style="list-style-type: none"> ▪ Risk Management Progress Report ▪ Update on progress regarding the annual Statement of Accounts. ▪ Review of draft Annual Report on the work of the Audit Committee ▪ Report on the appointment of the Council's external auditor commencing in April 2018. ▪ Terms of Reference for the external review of the SERCO Contract ▪ Internal Audit Progress Report ▪ Review of compliance with Regulation of Investigatory Powers Act. ▪ External Audit Progress Report ▪ Work plan 2016/17 | |
| July 2016 | <ul style="list-style-type: none"> ▪ Review of Head of Internal Audit's Annual Report and Opinion 2016 ▪ Scrutiny of the Council's Financial Statements 2015/16 ▪ Review of the Council's Governance and Assurance arrangements and the Draft Annual Governance Statement 2016 ▪ Annual Report reviewing the effectiveness of the Council's complaints and compliments process ▪ Approval of Counter Fraud Annual Report 2015/16 ▪ Work plan 2016/17 | Counter Fraud |
| September 2016 | <ul style="list-style-type: none"> ▪ Review of report on SERCO Contract ▪ Internal Audit Progress Report ▪ External Audit Progress Report and plan ▪ External Audit Governance Report on the Audit of the Council's Financial Statements ▪ Approval of the Council's Statement of Accounts for 2015/16 ▪ Approval of the Council's Annual Governance Statement 2016 ▪ Work plan 2016/17 | |
| November 2016 | <ul style="list-style-type: none"> ▪ Outcome of the Internal Audit External Assessment ▪ Counter Fraud Progress Report ▪ Whistleblowing annual report ▪ Risk Management Progress Report ▪ Work plan 2016/17 | |
| January 2017 | <ul style="list-style-type: none"> ▪ Outstanding recommendations update – including | |

| | | |
|------------|--|--|
| | <p>SERCO report</p> <ul style="list-style-type: none"> ▪ Internal Audit Progress Report ▪ External Audit Progress Report and Plan ▪ Combined Assurance Status Reports inc Executive Director update ▪ Review of accounting policies ▪ Work plan 2016/17 | |
| March 2017 | <ul style="list-style-type: none"> ▪ Internal Audit Progress Report ▪ External Audit Progress Report ▪ Draft Internal Audit Plan 2017/18 ▪ Draft Counter Fraud Plan 2017/18 ▪ International Audit Standards on the risks associated with the impact of potential fraud and error on the Financial Statements ▪ External Audit Plan 2017/18 ▪ External Audit Grant Certification Report ▪ Work plan 2016/17 | |

This page is intentionally left blank