

Audit Committee Annual Report 2018

“Audit Committees are a key component of corporate governance and are an important source of independent assurance about the Council’s arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance”

Draft



The 10 General Principles of Public Life

<p>Selflessness Members should serve only the public interest and should never improperly confer an advantage or disadvantage on any person.</p>	<p>Personal Judgement Members may take account of the views of others, including their political groups, but should reach their own conclusions on the issues before them and act in accordance with those conclusions.</p>
<p>Honesty and Integrity Members should not place themselves in situations where their honesty and integrity may be questioned, should not behave improperly, and should on all occasions avoid the appearance of such behaviour.</p>	<p>Respect for Others Members should promote equality by not discriminating unlawfully against any person, and by treating people with respect, regardless of their race, age, religion, gender, sexual orientation or disability. They should respect the impartiality and integrity of the authority's statutory officers and its other employees.</p>
<p>Objectivity Members should make decisions on merit, including when making appointments, awarding contracts, or recommending individuals for rewards or benefit.</p>	<p>Duty to Uphold the Law Members should uphold the law and, on all occasions, act in accordance with the trust that the public is entitled to place in them.</p>
<p>Accountability Members should be accountable to the public for their actions and the manner in which they carry out their responsibilities, and should cooperate fully and honestly with any scrutiny appropriate to their particular office.</p>	<p>Stewardship Members should do whatever they are able to do to ensure that their authorities use their resources prudently, and in accordance with the law.</p>
<p>Openness Members should be as open as possible about their actions and those of their authority, and should be prepared to give reasons for those actions.</p>	<p>Leadership Members should promote and support these principles by leadership, and by example, and should act in a way that secures or preserves public confidence.</p>

Contents

Opinion of the Audit Committee Page 1

Foreword by Cllr Sue Rawlins, Chairman of Committee

Our opinion for 2017/18

Significant issues and how the Audit Committee addressed the issue

Our work in 2017/18 Page 3

Finance

Governance, risk and internal control

External Audit

Internal Audit

Looking ahead to 2018/19 Page 6

Our work plan

Impact and effectiveness

Your Audit Committee Page 7

What we do and why

Appendices Page 8

Appendix 1 - Composition and attendance

Appendix 2 - Audit Committee terms of reference

Appendix 3 - Audit Committee activities

This report has been prepared solely for the use of Members and Management of Lincolnshire County Council. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work plan or not brought to our attention. The opinion is based solely on the work undertaken as part of the Audit Committee work plan.



The Audit Committee is the Council's vital "watchdog" promoting and ensuring good governance and accountability



I am pleased to present our annual Audit Committee Report which provides an insight into our work, the issues handled and the focus of the Audit Committee during 2017/18.

The Audit Committee looks at areas such as governance, audit, risk management and measures to tackle fraud, as well as reviewing financial reporting.

In all these areas, the status and independence of the Committee allow it to challenge how things are done and confirm that appropriate processes are in place. Where we identify shortcomings, we act swiftly to ensure that they are rectified.

We have developed the Council's Annual Governance Statement for 2017/18, with specific attention given to topics we considered particularly significant – including such issues as the Council's financial systems (including payroll), faster closedown to produce the Council's financial statements and IT Governance. These are discussed in more detail later in this report together with how we addressed them.

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

Cllr Sue Rawlins
Chair of the Audit Committee
July 2018



Overall Opinion & Key Issues



Overall Opinion

Based on the information presented during 2017/18, it is the view of the Audit Committee that the Council does, for the most part, have adequate financial controls and governance arrangements. In place that generally work well.

The Strategic Risks represent the challenges facing the Council and are well captured and reviewed on a regular basis by Senior Management.

The Council's Annual Governance Statement provides an open and honest account on how well the Council is being run.

During the year the Audit Committee assessed the following key issues and although we were satisfied that management were taking action we have limited assurance that the action taken addressed the issue. As part of this assessment, the Audit Committee received reports, requested and received clarification from Management and sought assurance from the internal and external auditors.

The Chairman briefed the Chief Executive and Leader of the Council as necessary.

Key Issues

Financial Control – Payroll System

Over the past 2 years Internal Audit has given **low assurance** around the completeness and accuracy of the payroll system. In June 2018 the assurance level improved to **limited assurance**.

We addressed this issue by reviewing management updates on progress in implementing improvement actions and sought further independent assurance from internal audit. This issue remains on the Audit Committee work plan for 2018/19 – it is anticipated that substantial assurance will be attained in Autumn 2018.

IT Governance

To be added following July 2018 meeting.



Financial Reporting

The Council has little discretion to influence the content of the statements as they are prepared in accordance with proper accounting practices

We reviewed and had the opportunity to comment on the on the statements of accounts and the narrative that accompanies them during the drafting process to ensure that the key messages in the narrative clearly gave fair and balanced information so that people could understand the Council's financial position.

We received and considered the External Auditor's report and opinion.

Further content to be added following receipt of External Audits governance report and opinion - after the July meeting

Counter Fraud

The Council has a **zero tolerance** to fraud.

Any instances of fraud or misconduct reported through the Council's whistleblowing arrangements should be reported to our Internal Audit function, who then evaluate each incident for action / investigation.

The Audit Committee plays a key role in monitoring the effectiveness of counter fraud and whistleblowing arrangements. We have assessed the overall effectiveness and the progress made to implement policy as good.

£56K

**The Increase in
financial
recoveries
from fraud
since 2016/17**





Governance & Risk



Governance

The Audit Committee reviewed and discussed regular reports on risk, controls and assurance, including the:

- Executive Directors annual assurance reports – reviewed in January & March 2018.
- The Head of Internal Audit Annual Report and Opinion on the Council's Governance, Risk and Control Environment – reviewed June 2018
- Updates on outcomes from Internal Audit & External Audit work throughout the year..

The Audit Committee oversees the development of the Annual Governance Statement (AGS) and recommends its adoption by the Council to ensure it gives a true representation of how the Council was run.

The Council was required to reflect on how well the Council's governance framework had operated during the year and identify any governance issues that needed to be drawn to the attention of Lincolnshire's residents.

During the year the Council's governance arrangements were assessed as **performing well**.

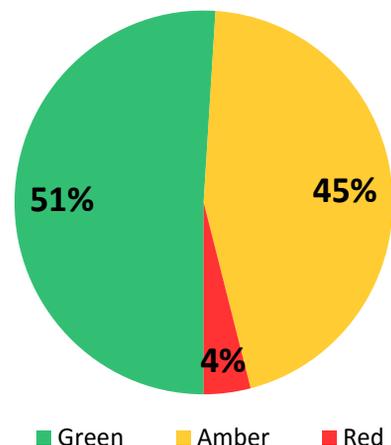
Risk & Internal Control

The role of the audit committee on risk management covers 3 key major areas;

- Assurance over the governance of risk
- Keeping up to date with the risk profile and the effectiveness of risk management
- Monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management

During the year the Council's risk management and internal control arrangements were assessed as **performing adequately – some improvements required**.

Overall Assurance Status 17/18



Assurance over 8% of activities has increased from Low to Medium since 2016/17



External and Internal Audit



Audit quality is a key requirement

External Audit

The Audit Committee has responsibility for overseeing the Council's relationship with the external auditor, including reviewing the quality of their performance, their external audit plan and process, their independence and fees.

Public Sector Audit Appointments, appointed our external auditors, who are currently KPMG. Mazars take over from 2018/19 financial year.

Prior to the statutory audit, KPMG presented their strategy, key risks and scope of the audit. On completion of their work KPMG provide an opinion on the Council's financial statements and its arrangements for securing value for money.

During the year the Committee met with the external auditor without management being present. This meeting provided the opportunity for direct feedback between the Committee and the auditor, where they discussed some of the key issues facing the Council.

This year was a faster closedown – where the audit needed to be completed by the end of July.

Further content to be added following receipt of External Audits governance report and opinion - after the July meeting

Internal Audit

The Committee reviewed and agreed the internal audit plan, which the Committee believes is appropriate for the Council - in terms of focus and resources. The internal audit plan is risk based.

The Committee reviewed reports from the Head of Internal Audit at its quarterly meetings. These reports enable the Committee to monitor progress against the internal audit plan, discuss any key findings with the auditor and senior management - securing improvement actions.

The Committee reviewed the effectiveness of the internal audit function and confirmed that its professional practice conforms to the Public Sector Internal Audit Standards.



In 2018/19 the Audit Committee aims to continue to build on its role and will set out to seek assurance on the following:

- Commercialism – transparency and accountability
- IT Governances
- Payroll System and Processes
- The Council's Strategic Risk Register is updated and its risk appetite is clearly understood and applied throughout the Council
- The Corporate Support Services Programme
- Financial resilience following the reports published about Northamptonshire County Council



Your Audit Committee

The Audit Committee is a regulatory committee made up of 7 councillors and 1 independent member. We have already felt the benefits of the knowledge, expertise and keen interest of our independent member and we aim to add another member to the committee later in 2018. The composition and attendance of the Committee during the year can be found in **Appendix 1**.

The importance of the Audit Committee remains vital in looking forward to 2018/19 and beyond – in the context of continued financial pressures, reshaping of services, new models of service delivery and the growing demand for public services. Our role is to increase public confidence about how well the Council is run – providing independent assurance and challenge to the Executive – over governance, risk management and control processes. Our terms of reference can be found in **Appendix 2**.

The Committee met 6 times during the year ended 31st July 2018. Our work plan can be split into two areas - core items of business reviewed regularly and special interest areas where the Committee requires further assurance. The activities of the Audit Committee are noted in **Appendix 3**.

Effectiveness

In March 2018 the Committee held a self assessment workshop, where the performance was reviewed against a CIPFA best practice framework. This

provided a good level of assurance in the delivery of the Committees core role and function.

CIPFA has updated this best practice guidance - It emphasises the importance of audit committees and recognises the key part they play in governance. The publication covers:

- Core functions
- Possible wider functions
- Independence and accountability
- Membership and effectiveness
- Suggested terms of reference
- Audit committee members – knowledge and skills framework

We will review our terms of reference in light of this guidance.

The **Lincolnshire Audit Committee Forum** is a networking group which enables the sharing of good practice, emerging governance and risk issues and hot topics for public sector audit committees. It is designed to help and support the effectiveness of audit committees. We will be hosting the forum in October 2018.



Appendix 1

Audit Committee Composition & Attendance



Chairman

**Councillor
Mrs S Rawlins**



Vice Chairman

**Councillor A
Spencer**



**Councillor
P Coupland**



**Mr P Finch
(Independent Added
Person)**



**Councillor
A Maughan**



**Councillor
P Skinner**



**Councillor
R Parker**



**Councillor
A Stokes**

Name	Audit Committee Attendance (Out of 7 possible Meetings)
Councillor S Rawlins	7
Councillor A Spencer	6
Councillor P Coupland	3
Mr P D Finch	6
Councillor A Maughan	7
Councillor P Skinner	5
Councillor R Parker	7
Councillor A Stokes	7



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.
- ❖ The 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

Internal Audit

- ❖ Approve the internal audit charter
 - ❖ To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendation
 - ❖ 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.



Audit Committee Terms of Reference

- b) 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. 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 consider summaries of specific internal audit reports of significance or as requested
- ❖ 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 Committee Terms of Reference

External Audit

- ❖ 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.



Audit Committee Terms of Reference

- ❖ 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 summaries of specific internal audit reports of significance or as requested
- ❖ 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.
- ❖ 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.



Appendix 2

Audit Committee Terms of Reference

Accounts

- ❖ 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 3

Audit Committee Activities

Audit Committee activities	Sept	Nov	Jan	March	June	July
Financial Reporting						
Consider Accounting Policies				•		
Review financial statements					•	•
External Auditors				•		
E A Progress Reports				•		
E A Annual Audit Plan				•		
Internal Audit						
I A Annual Report 2018					•	
I A Progress Reports	•		•	•		
I A Annual Plan				•		
Governance and Risk Management						
Annual Governance Statement 2018				•	•	
Risk Management update on Strategic Risk Register				•		
Annual Report on the Effectiveness of the Council's Compliments and Complaints Process						•



Appendix 3

Audit Committee Activities

Audit Committee activities	Sept	Nov	Jan	March	June	July
Counter Fraud						
Counter Fraud Plan				.		
Counter Fraud Policy Review		.				
Annual Report on the Council's Whistleblowing Service		.				
Counter Fraud Risks Register	.					
Counter Fraud Progress Report		.				
Audit Committee Annual Report 2018						.
Special Interest Items						
Payroll Control Environment Update		.			.	
ICT Review	.			.		.
Combined Assurance Reports			.			