

Audit Committee Annual Report 2019

Draft



“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”



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>

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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 the Annual Report of the Audit Committee which describes our achievements, the issues handled and the focus of the Audit Committee during 2018/19.

The report helps to demonstrate the vital role that is carried out by the Audit Committee and the contribution that it makes to the how well the Council is run – its governance arrangements.

We look 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 identified shortcomings, we acted swiftly to ensure that they were rectified or have an improvement plan in place.

It added value by maintaining open and professional relationships with internal and external audit, our counter-fraud team and Executive Directors / Senior Management. It carried out its work diligently, discussed issues openly and robustly, and kept the Executive apprised of any possible issues or risks.

We have developed the Council's Annual Governance Statement for 2018/19, with specific attention given to topics we considered particularly significant – including the Council's financial resilience, value for money, the production of our financial statements and IT Governance. These are discussed in more detail later in this report together with how we addressed them.

We also worked with the Overview and Scrutiny Management Board to share information and help with our respective roles and remit.

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
Chairman of the Audit Committee
August 2019



Overall Opinion & Key Issues



Overall Opinion

Based on the information presented during 2018/19, 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 were satisfied that management were taking action to address 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.

Financial Control – Payroll System

We are pleased to report that the assurance over the Council's payroll system has reached **substantial**.

Our oversight involved reviewing management updates on progress in implementing improvement actions and sought further independent assurance from internal audit.

We would like to acknowledge the hard work to improve the controls in the payroll processes. We look forward to these being integrated in the next phase of the system and expect the control environment to remain **substantial**.

IT Governance and Assurance

IT Governance and Cyber Security has been identified as a key risk and issue for the Council. We received assurances and information on how this high profile risk is being managed and the steps being taken to improve the Council's IMT arrangements. This area remains on the Audit Committee forward plan for 2019/20.

Financial Resilience

The financial problems at Northamptonshire County Council have been widely publicised. The Council's Audit Committee and Overview and Scrutiny Management Board, together with officers from Finance and Audit have identified what lessons could be learnt – improving our financial governance and internal controls as appropriate.



Finance



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 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.

The closedown timetable was achieved and we are pleased to say that the Council's External Auditors reported the following on our:

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**.

We had lower amounts recovered in 2018/19 although counter fraud controls directly contributed to preventing several other frauds being perpetrated – including stopping a £1.5m mandate fraud.

£25K

The decrease in financial recoveries from fraud since 2018/19



Financial statements	Issued an unqualified opinion on both the Council's and Pension Fund financial statements – 2018/19.
Control Environment	Determined the overall control environment was adequate.
Accounts Production	Stated that they did not encounter any significant difficulties during the audit and had the full co-operation of management and staff.
Value for Money arrangements	That the Council has made proper arrangements to secure economy, efficiency and effective use of its resources. This is about the arrangements to ensure properly informed decisions are taken and resources are deployed to achieve planned and sustainable outcomes for the taxpayer and local people.



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 2019.
- The Head of Internal Audit Annual Report and Opinion on the Council's Governance, Risk and Control Environment – reviewed June 2019.
- Updates on outcomes from Internal Audit & External Audit work throughout the year.
- Governance review of culture and values which showed that the Council's core values were at the heart of what the Council does – being open, transparent and inclusive. The report provided the Council with suggested improvements to help embed good governance across the organisation.

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 areas:

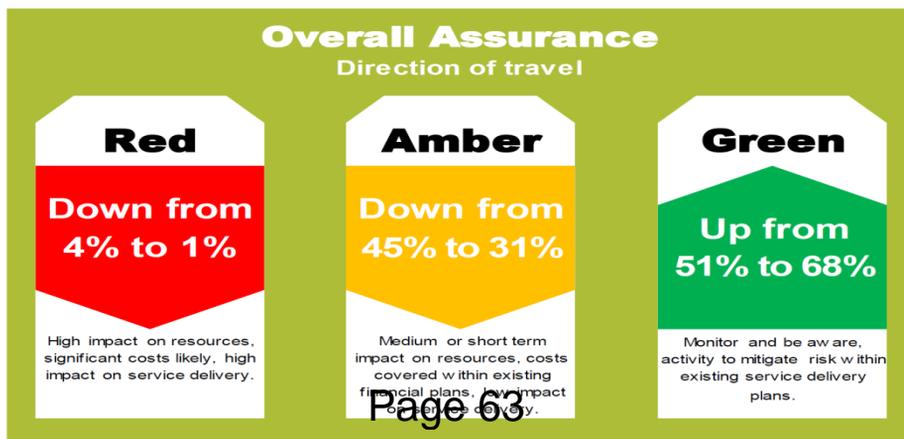
- Assurance over the governance of risk.
- Keeping up to date with the risk profile of the Council and the effectiveness of risk management.
- Supporting the development and embedding of good practice in risk management.

Senior Leadership changes provided the Council with the opportunity to review its risk and control arrangements. Oversight of these changes will be included on our forward plan.

The Council's risk appetite and update of the Strategic Risk Register was completed during 2018/19 .

There continues to be **Limited Assurance** over some of the Council's Strategic Risks.

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





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.

This first year audit carried out by Mazars has been challenging - given the tight timescale to complete the work and for management to respond to audit queries.

The Audit Committee fully reviewed the draft financial statements but had very little time to consider the External Auditors report as their work was still being completed at the date of the July 2019 Committee. We have requested that a debrief is held to learn lessons and minimise the risk of this happening again.

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

They also provided an opinion on the Pension Fund financial statements.

The Chairman of the Audit Committee and the Executive Director – Resources confirmed to the Auditors that:

- the financial statements give a true and fair view of the Council's financial position; and
- have been properly prepared on a going concern basis.
- all necessary information has been provided.

Internal Audit

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

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

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



In 2019/20 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 Governance.
- The Council's ERP system – Business World On.
- The Council's Strategic Risk Register is updated following the publication of the new Corporate Plan and its risk appetite is clearly understood and applied throughout the Council.
- We will meet with the Corporate Leadership Team to fully understand the updated accountability and assurance framework.
- Financial management – seeking assurance around the implementation of agreed actions following our review of the lessons learnt at Northamptonshire County Council.
- Oversight of any changes to the risk management framework of the Council.

We will continue to develop a strong working relationship with **Overview and Scrutiny Management Board** – setting up regular liaison meetings and sharing work plans as appropriate.

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 2019.

We have already felt the benefits of the knowledge, expertise and keen interest of our two independent members who have joined the Committee this year.



Your Audit Committee

The Audit Committee is a regulatory committee made up of 7 councillors and 2 independent members. 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 2019/20 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 up to 22nd July 2019.

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 June 2019 the Committee held a self assessment workshop, where our performance was reviewed against a CIPFA best practice framework.

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

Effectiveness (cont)

Our self assessment provided a good level of assurance over the delivery of the Committees core role and function. It also identified some actions for us, namely:

- Improving attendance – Chairman to meet with each member to obtain feedback on the Committee.
- Meeting with the Corporate Leadership Team to gain an understanding of the revised accountability and assurance framework – following the publications of the Corporate Plan, strategies etc.
- Obtaining greater awareness of key partnership assurance.
- Exploring integrated assurance with the NHS (working within the existing governance framework).
- Looking at better ways to feedback the outcome of our meetings eg key points from the meeting briefly summarised at the end of meeting to help inform the update to CEX / Leader.
- Diarise meeting between Chairman and CEX / Leader.
- Re-look at venue and time of meetings.



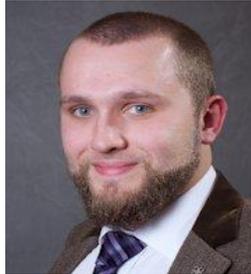
Appendix 1

Audit Committee Composition & Attendance



Chairman

**Councillor
Mrs S Rawlins**



Vice Chairman

**Councillor A
Spencer**

Name	Audit Committee Attendance (Out of 6 possible Meetings)
Councillor S Rawlins	6
Councillor A Spencer	5
Councillor P Coupland	3
Councillor A Maughan	3
Councillor P Skinner	5
Councillor R Parker	3
Councillor A Stokes	3
Mr Ian Haldenby*	2 of 2
Mr A Middleton*	2 of 2



**Councillor
P Coupland**



**Councillor
A Maughan**



**Councillor
P Skinner**



**Councillor
R Parker**



**Councillor
A Stokes**



**Mr A Middleton
(independent
Added Person)**



**Mr I Haldenby
(Independent
Added Person)**

*** Independent Added
Person since March
2019**



Audit Committee Terms of Reference

There will be an Audit Committee consisting of nine members. Seven of the members will be Non-Executive Councillors and reflect the political balance overall. Two members 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 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 of approve the authority's statement of accounts, income and expenditure and balance sheet.



Appendix 2

Audit Committee Terms of Reference

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.



Audit Committee Activities

Audit Committee activities	Sept	Nov	Jan	March	June	July
Financial Reporting						
Consider Accounting Policies				x		
Draft Statement of Accounts 2018/19					x	x
International Audit Standard – Response to Management Processes Questions				x		
Statement of Accounts for Lincolnshire County Council & Lincolnshire Pension Fund for the year ending 31 March 2019						x
External Auditors						
Progress Reports			x			
External Audit Strategies – Lincolnshire County Council and Pension Fund 2018/19				x		
Audit Completion report on the financial statements and value for money conclusion						x
Internal Audit						
Annual Report 2019					x	
Progress Reports	x	x	x	x	x	
Draft Annual Plan 2019/20				x		



Appendix 3

Audit Committee Activities

Audit Committee activities	Sept	Nov	Jan	March	June	July
Governance and Risk Management						
Draft/approval of Annual Governance Statement 2019				x	x	
Risk Management update on Strategic Risk Register	x		x			
Annual Report on the Corporate and Statutory Complaints and Compliments						x
Governance Review – Culture and Values Report				x		
Members Standard Arrangements				x		
Counter Fraud						
Counter Fraud Plan 2019/20				x		
Annual Report on the Council's Whistleblowing Service		x				
Counter Fraud Risks Register	x					
Counter Fraud Progress Report		x				
Counter Fraud Annual Report 2018/19					x	



Appendix 3

Audit Committee Activities

Audit Committee activities	Sept	Nov	Jan	March	June	July
Special Interest Items						
Payroll Control Environment Update	x					
Combined Assurance Reports			x			
Audit Committee work plan	x	x	x	x	x	x
Update on actions arising from audits in Adult Care	x					
Payroll Progress Report		x				
IMT ICT Governance Update		x				
IMT Assurance / Cyber Security Update		x		x		
Northamptonshire County Council Best Value Inspection – Lessons Learned			x			
Changes to contract regulations				x		

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