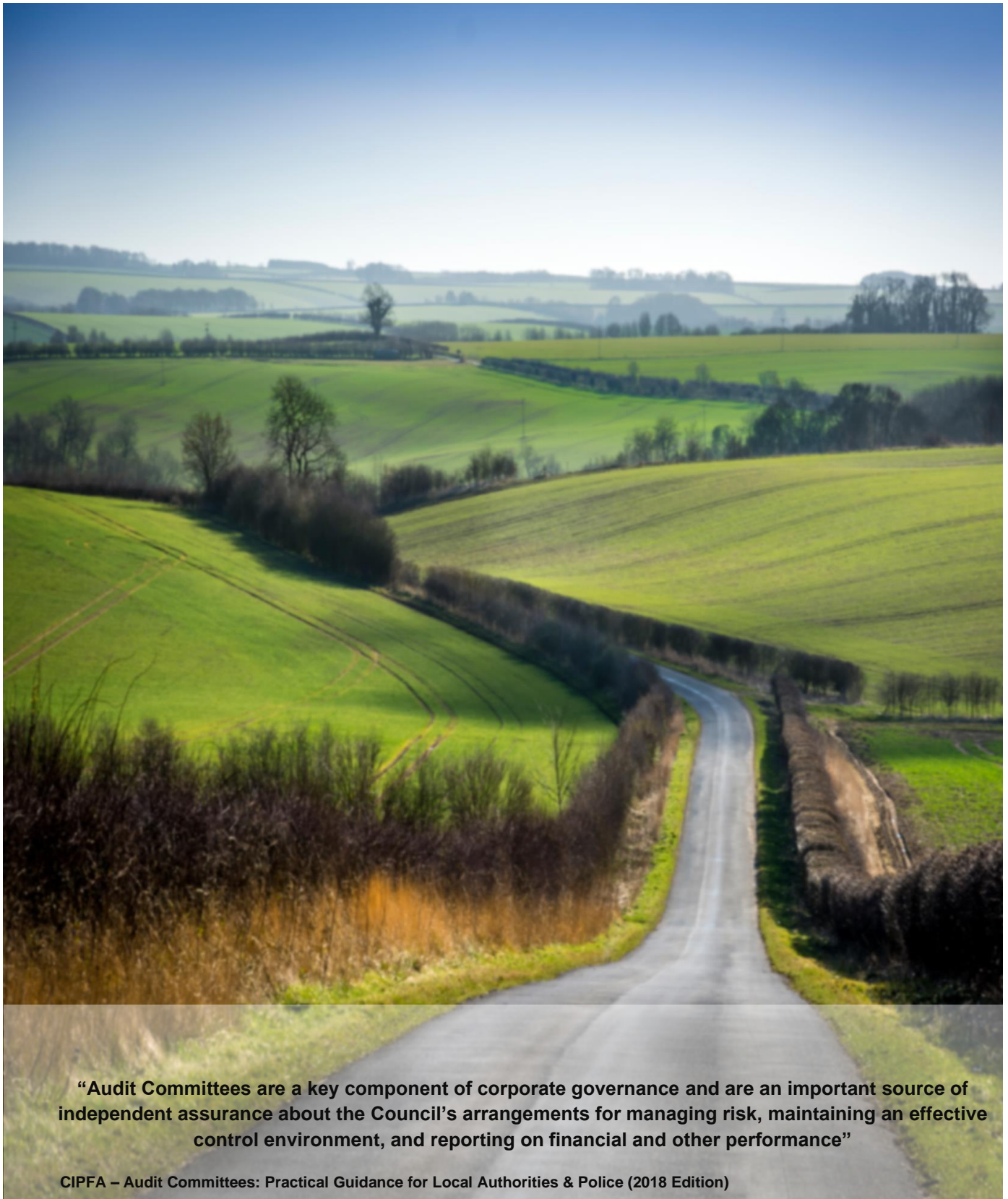




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# Agenda Item 5

## Draft - Audit Committee Annual Report 2021



## Contents

The 10*General Principles of Public Life .....	2
Chairmans statement .....	3
Overall Opinion .....	4
Finance .....	5
Governance and Risk .....	8
External and Internal Audit.....	9
Looking Ahead.....	10
Your Audit Committee .....	11
Appendix 1 - Audit Committee Composition and Attendance 2020/21 .....	12
Appendix 2 - Audit Committee Terms of Reference .....	14
Appendix 3 - Audit Committee Activities .....	17
Appendix 4 – External Auditors Annual Report 2021	

# The 10\*General Principles of Public Life

\* Based on the 7 Nolan Principles and others relevant to local government act

<b>Selflessness</b>  Members should serve only the public interest and should never improperly confer an advantage or disadvantage on any person	<b>Personal Judgement</b>  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.
<b>Honesty and Integrity</b>  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.	<b>Respect for Others</b>  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.
<b>Objectivity</b>  Members should make decisions on merit, including when making appointments, awarding contracts, or recommending individuals for rewards or benefit.	<b>Duty to Uphold the Law</b>  Members should uphold the law and, on all occasions, act in accordance with the trust that the public is entitled to place in them.
<b>Accountability</b>  Members should be accountable to the public for their actions and the manner in which they carry out their responsibilities and should co-operate fully and honestly with any scrutiny appropriate to their particular office.	<b>Stewardship</b>  Members should do whatever they are able to do to ensure that their authorities use their resources prudently, and in accordance with the law.
<b>Openness</b>  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.	<b>Leadership</b>  Members should promote and support these principles by leadership, and by example, and should act in a way that secures or preserves public confidence.

# **The Audit Committee is the Council’s vital “watchdog” promoting and ensuring good governance and accountability**



The Annual Report for the Audit Committee (the Committee) for 2020/2021 looks at the issues the Committee has focused upon during the year with a key emphasis on its very important contribution to the Council’s governance arrangements – namely to how well the Council is run. It also aims to show how the Committee delivers the responsibilities delegated to it by the Council - as set out in the Constitution and in line with guidance and best practice.

The Committee, in its vital role of promoting and ensuring good governance and accountability, has focused on the oversight of:

- systems of internal control with particular emphasis on the implementation of “ Smarter Working” - with staff continuing working from home during the pandemic and IT support to these staff and those working in the field - looking to future work practices post-pandemic.
- risks around people recruitment and retention, technology, Adult Social Care, information assurance on data security and financial resilience.
- counter fraud arrangements identifying inherent risks and the need to remain vigilant.
- the Council’s financial reporting process and governance – supporting good governance and strong financial management.

The Committee welcomed Members after the local elections in May 2021 and recommenced face-to-face Committee meetings.

I wish to thank Members of the Committee for all their hard work during the year and extend my sincere thanks to the Executive Director – Resources, Director – Finance , Internal and External Auditors and to Officers of the Council, for all their help and support.

Cllr Sue Rawlins  
Chairman of the Audit Committee  
February 2022

# Overall Opinion

Given the opinion of both the internal auditors and the external auditors, as expressed in their annual reports, together with other information available to it from its work during the year, the Committee can give:

**‘reasonable assurance\* that the Council’s governance, risk and control mechanisms are working satisfactorily’**

This report looks back on 2020/21 – giving us an opportunity to reflect on our activities and achievements. Some of the key achievements we are pleased to report are:

- Unqualified account opinions on both the County Council and Pension Fund – with the Committee providing robust review and challenge.
- Our External Auditors provided us with a positive Annual Report for 2020/21. They reviewed the Council’s arrangements to secure economy, efficiency, and effective use of resources. No significant issues were identified in these arrangements.
- In completing the review of the Council’s governance and assurance arrangements no significant governance issues were identified.
- Raising awareness of control improvements and management actions – ensuring that audit recommendations are implemented.
- Maintaining a detailed focus on the actions being taken to combat fraud. Over the last 10 years the Council’s counter fraud work has saved the taxpayer over £12m through recoveries and fraud stopped.
- The Corporate Leadership Team giving us an account of the assurances in place over critical business activities, key risks, projects and partnerships – with the Committee providing robust review and challenge.
- Our Internal Auditors provided us with positive assurance on the Council’s governance, risk, financial and internal control environments.
- Reviewing the Council’s financial resilience and ensuring compliance with best practice.
- Our two independent members serving on the Committee provided an independent viewpoint.
- Continuing to maintain good working relationships with the Council’s internal and external auditors and management.

\*reasonable assurance – is a high level of confidence but recognises that this judgement is not absolute and that some improvements are needed in the application of controls to manage risks.

# Finance

## Finance Reporting

The statement of Accounts 2021/22 provides a summary of the Council's financial transactions in the year, and a "snapshot" of the Council's financial position as of 31 March 2021. It is therefore a key document for the Council and the Committee, with their responsibility for corporate governance.

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.

The coronavirus pandemic has resulted in the audit deadline being moved to 30 November 2021. The Council published its accounts on the 16<sup>th</sup> December 2021 – once the External Auditors had completed their work.

No material issues have been identified by our External Auditors – they:

<b>Financial statements</b>	Issued an unqualified opinion on the County Council and Pension Fund accounts.
<b>Control Environment</b>	Identified no significant deficiencies in internal controls.
<b>Accounts Production</b>	<p>Stated that they did not encounter any significant difficulties during the audit and had the full co-operation of management and staff. Whilst challenging at times, through the effective use of technology and close liaison with finance and other officers of the Council these challenges were overcome.</p> <p>The Committee would like to thank the Finance Team for their hard work in producing the accounts as well effectively discharging additional activities arising from Covid-19.</p>
<b>Value for Money arrangements</b>	<p>That the Council has made proper arrangements to secure economy, efficiency, and effective use of its resources.</p> <p>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.</p>

## External Audit Annual Report

The National Audit Office have implemented a new Code of Audit Practice from April 2020 which makes changes to the way auditors report on arrangements to secure value for money.

Auditors are still required to be satisfied about arrangements to secure VFM but no longer issue a single conclusion as part of their opinion on the financial statements. No significant weaknesses were reported.



# Finance

The reporting criteria are:

**Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services.

**Governance** - How the Council ensures that it makes informed decisions and properly manages its risks.

**Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our External Auditors Annual Report was issued on the 16<sup>th</sup> December 2021 is attached in **Appendix 4**.

## Financial Management Code

The Chartered Institute of Public Finance and Accountancy (CIPFA) published the Financial Management (FM) Code which provides guidance for good practice and assist Council's to assess their financial resilience.

Compliance with the code is required from 2021/22 but due to the pressures relating to the Covid-19 response CIPFA has encouraged a proportionate approach to be taken and recognises in practice this is likely to mean that adherence to some parts of the Code will demonstrate a direction of travel.

An assessment against the requirements of the FM Code has been undertaken – further compliance actions have been identified. The Committee will follow up progress in 2022/23 - confirming continuous improvement.

## 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**.

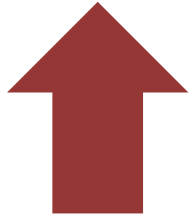
We received regular updates on performance against the 2019/20 Counter Fraud Work Plan and the outcomes of proactive fraud work and investigations.

During the year we received assurances on the effectiveness of the Counter Fraud arrangements by reviewing:

- details of counter fraud activities – ensuring that these arrangements continued to deliver a proportionate response to fraud seeking appropriate sanctions and redress.
- the fraud risk register and associated mitigating actions.
- fraud awareness – promoting good practice in fighting fraud.

Over the last 10 years the Council's counter fraud work has saved the taxpayer over £12m through recoveries and fraud stopped.

During 2019/20 we have:



**£77.5k - Small business grant payments stopped**

**£60K – Fraud stopped**

**£4.5m – Large fraud stopped**

# Governance and Risk

## Governance

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

- Executive Directors annual assurance reports – reviewed in February 2021& 2022.
- The Head of Internal Audit Annual Report and Opinion on the Council's governance, risk, and control environment – reviewed July 2021.
- Updates on outcomes from Internal Audit and External Audit work throughout the year.
- Development and approval of the Council's Annual Governance Statement

The Council has responded swiftly to the ever-changing environment to deliver new and existing operations during the pandemic. Appropriate governance, risk and control systems were in place.

Corporate oversight and risk reporting is undertaken during the year by the Corporate Leadership Team. During the year council's governance arrangements were assessed as **performing adequately – some improvements required**.

## Risk and Internal Control

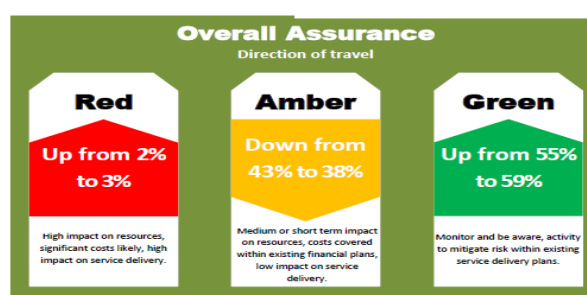
The role of the Committee on risk management covers 3 key areas:

- 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.

The Committee received the Combined Assurance Report produced by the Corporate Leadership Team - which provides insight of assurance levels over critical functions, key risks, projects, and partnerships. Overall, there is a positive assurance picture for the Council but one that reflects the complex environment in which we operate – recognising that some areas will remain at Amber – see table below.

There continues to be **Limited Assurance** over some of the council's Strategic Risks. The single biggest risk to the Council remains a successful cyber attack which results in significant impact on delivery of council services. Assurances were received that the Council's Information Assurance team and technical staff in IMT and SERO continue to monitor and improve cyber security.

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 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.

One implication of COVID-19 for the Council was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. The closedown deadline was met by the Finance Team – a great achievement given the challenges they faced. Our External Auditor expressed their thanks for the team’s assistance during the audit.

The Committee fully reviewed the draft financial statements in July and Sept 2021 - prior to the statutory audit – our External Auditors (Mazars) presented their strategy, key risks, and scope of the audit.

Our External Auditor completed their work on the financial statements and value for money arrangements for the year ended 31 March 2021 in December 2021.

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 an on-going concern basis.
- all necessary information has been provided.

Two recent reviews into the external audit of local authority accounts and reports on their key findings were considered by the Committee: The Redmond Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, as well as the Financial Reporting Council Report on Audit Quality Inspection.

These reviews have led to a number of recommendations which have been welcomed, and the majority of these recommendations are being either consulted or implemented. This should lead to an improvement in the quality of local audits.

The Committee considered options for the appointment of external auditors, recommending to the Council to opt into the national procurement and appointment of external auditors for a contract period 2023 – 2028. Providing best value for money and seeking to improve quality and consistency of practice.

## Internal Audit

The Audit Committee reviewed and agreed the internal audit plan, which we believe is appropriate for the Council - in terms of focus. The internal audit plan is risk based and was updated to reflect the current risk and assurance environment. The Head of Internal Audit has reported recruitment challenges during 2021 which has impacted on the delivery of the internal audit plan. Additional resources have been secured but have taken time to put in place.

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 Committee reviewed the effectiveness of the internal audit function and confirmed that its professional practice conforms to the Public Sector Internal Audit Standards - re-enforcing the importance of its independence. An External Quality Assessment is being undertaken in February 2022.

## Looking Ahead

In 2021/22 the Committee aims to continue to build on its role and will set out to seek assurance on the following:

- Review assurance arrangements on the transformation programme – including better governance and oversight of key projects (including benefit realisation).
- Review of contract management and associated commercial / third party risks.
- Implementation of improvements over our risk management arrangements.
- Reviewing the effectiveness of the decision making and scrutiny processes.
- Implementation of improvement actions arising from the Employee Survey.
- Review our terms of reference in light of new good practice guidance – due in 2022.
- Review the outcome of Internal Audit External Quality Assessment – being undertaken in February 2022.
- Monitor progress re the FM code and Value for Money arrangements.

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

# Your Audit Committee

The Audit Committee is a regulatory committee made up of seven councillors and two 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 five times up to 13 July 2021. Our March Committee was cancelled due to the pandemic lockdown.

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 September 2020 the Committee completed a self-assessment survey, where our performance was reviewed against a CIPFA best practice framework.

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:

- obtain feedback from other council members on our impact and how we can enhance our effectiveness.
- review and update our training programme – undertaking a blended approach with a combination of face to face and virtual training events.
- further risk management training – raising awareness and understanding on effective risk management in an uncertain and rapid changing environment.
- ‘deeper dive’ assurance into some of the key risks facing the council and mitigating control actions.

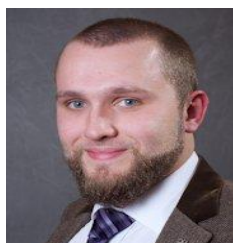
The above will be reviewed in light of updated good practice guidance – due to be published in 2022.

# Appendix 1 - Audit Committee Composition and Attendance 2020/21



**Chairman**

**Councillor Mrs  
S Rawlins**



**Vice Chairman**

**Councillor A  
Spencer**

Name	Attendance (out of 4 possible meetings) (September 2020 – March 2021)
Cllr S Rawlins	4
Cllr A Spencer	1
Cllr P Coupland	4
Cllr A Maughan	4
Cllr P Skinner	4
Cllr R Parker	4
Cllr A Stokes	2
Mr I Haldenby	4
Mr A Middleton	4



**Councillor P  
Coupland**



**Councillor A  
Maughan**



**Councillor P  
Skinner**



**Councillor  
R Parker**



**Councillor A  
Stokes**



**Mr A Middleton  
(independent  
person)**



**Mr I Haldenby  
(independent  
person)**

# Appendix 1 - Audit Committee Composition and Attendance 2021/22



**Chairman**

**Councillor Mrs  
S Rawlins**



**Vice Chairman**

**Councillor M  
Allan**

Name	Attendance (out of 4 possible meetings) (June 2021 – November 2021)
Cllr S Rawlins	3
Cllr M Allan	4
Cllr S Bunney	4
Cllr A Stokes	3
Cllr P Coupland	3
Cllr P Skinner	3
Cllr J King	1
Mr I Haldenby	2
Mr A Middleton	4



**Councillor S  
Bunney**



**Councillor A  
Stokes**



**Councillor P  
Coupland**



**Councillor P  
Skinner**



**Cllr J King**



**Mr A Middleton  
(independent  
person)**



**Mr I Haldenby  
(independent  
person)**



## Appendix 2 - 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; or a former Officer of the Council if their departure was in the last five years.

### 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.
  - b) The opinion of 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 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.

## Appendix 2 - Audit Committee Terms of Reference

- 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.

### 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.
- 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, considering internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.

## Appendix 2 - Audit Committee Terms of Reference

- 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.

### 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 2020	Nov 2020	Feb 2021	Mar 2021	June 2021	July 2021	Sept 2021	Nov 2021
<b>Financial Reporting</b>								
Draft Statement – Accounting Policies				*				
CIPFA Financial Management (FM) Code					*			
Annual Audit letter for County Council & Pension Fund for year ending 31.03.20				*	*			
Draft/Approval Statement of Accounts for Lincolnshire County Council and Lincolnshire Pension Fund	*			*		*	*	*
External Auditor's Annual Report and Audit Completion Reports 2020/21		*						*
International Standards of Auditing - response to External Audit Management questions				*				
<b>External Auditors</b>								
Auditor Appointment								*
External Audit Strategy LCC 2020/21					*			
External Audit Quality				*				
Updated Audit Completion Report 2019/20 LCC		*						
Update on progress of external audit of accounts 2020/21						*		
Audit Completion and Annual Report - 2020/21								*
<b>Internal Audit</b>								
Internal Audit Plan – 2021/22					*			*

## Appendix 3 - Audit Committee Activities

Audit Committee activities	Sept 2020	Nov 2020	Feb 2021	Mar 2021	June 2021	July 2021	Sept 2021	Nov 2021
Internal Audit Progress Report	*	*		*	*		*	
Internal Audit Annual Report – 2020/21						*		
Internal Audit – External Quality Assessment							*	
<b>Governance and Risk Management</b>								
Monitoring Officer's Annual Report						*		
Information Assurance Annual Report 2020/21						*		
Review of Council's Governance Arrangements & approval of Annual Governance Statement						*		
Risk Management Progress Report	*			*			*	
<b>Counter Fraud</b>								
Annual Whistleblowing Report – 2020/21		*				*		
Counter Fraud Annual Report – 2020/21						*		
Counter Fraud Risk Register	*							
Counter Fraud Progress Report		*						*
Counter Fraud Plan 2021/22				*				
<b>Special Interest Items</b>								
Combined Assurance Reports			*					
Draft Audit Committee Annual Report 2019/20		*						

Smarter working policy								*
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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 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.

# Auditor's Annual Report

Lincolnshire County Council – year  
ended 31 March 2021

December 2021

Page 23



# Contents

- 01 Introduction
- 02 Audit of the financial statements
- 03 Commentary on VFM arrangements
- 04 Other reporting responsibilities

Page 24

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales



# 01

## Section 01: **Introduction**

# 1. Introduction

## Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Lincolnshire County Council ('the Council') for the year ended 31 March 2021. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Page 26



### Opinion on the financial statements

We issued our audit report on 16 December 2021. Our opinion on the financial statements was unqualified, but modified to include an emphasis of matters paragraph to draw attention to the financial statement disclosure explaining that COVID-19 had contributed to 'material valuation uncertainty' in the valuation of the Council's land and buildings.



### Value for Money arrangements

In our audit report issued we reported that we had completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the Council's arrangements.



### Wider reporting responsibilities

We have not completed our work on the Council's Whole of Government Accounts return because, as at 15 December 2021, we have not received the group audit instructions from the National Audit Officer

# 02

Section 02:

## **Audit of the financial statements**

# 2. Audit of the financial statements

## The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material aspects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2021 and of its financial performance for the year then ended.

Our audit report, issued on 16 December 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021:

"In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2021 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21."

In forming our opinion, we drew attention to Note 3 and 15 of the financial statements, which describes the effects of the Coronavirus pandemic on the valuation of the Council's land and building assets. As disclosed in Note 3 and 15 of the financial statements, the Council's valuers included a 'material valuation uncertainty' declaration within their report as a result of the Coronavirus pandemic. Our opinion is not modified in respect of this matter.

## Internal control recommendations

As part of our audit, we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

As set out in our Audit Completion Report, issued in November 2021, and our Audit Completion Update Letter issued in December 2021, we did not report any significant deficiencies in internal controls.

# 03

Section 03:

**Commentary on VFM arrangements**

### 3. VFM arrangements – Overall Summary

#### Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks.
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Our assessment of what constitutes a significant weakness is a matter of professional judgement, based on our evaluation of the subject matter in question, including adequacy of the Council’s responses. The National Audit Office’s guidance states that a weakness may though be said to be significant if it:

- Exposes (or could reasonably be expected to expose) the body to significant financial loss or risk;
- Leads to (or could reasonably be expected to lead to) significant impact on the quality or effectiveness of service or on the body’s reputation;
- Leads to (or could reasonably be expected to lead to) unlawful actions; or
- Involves a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement.

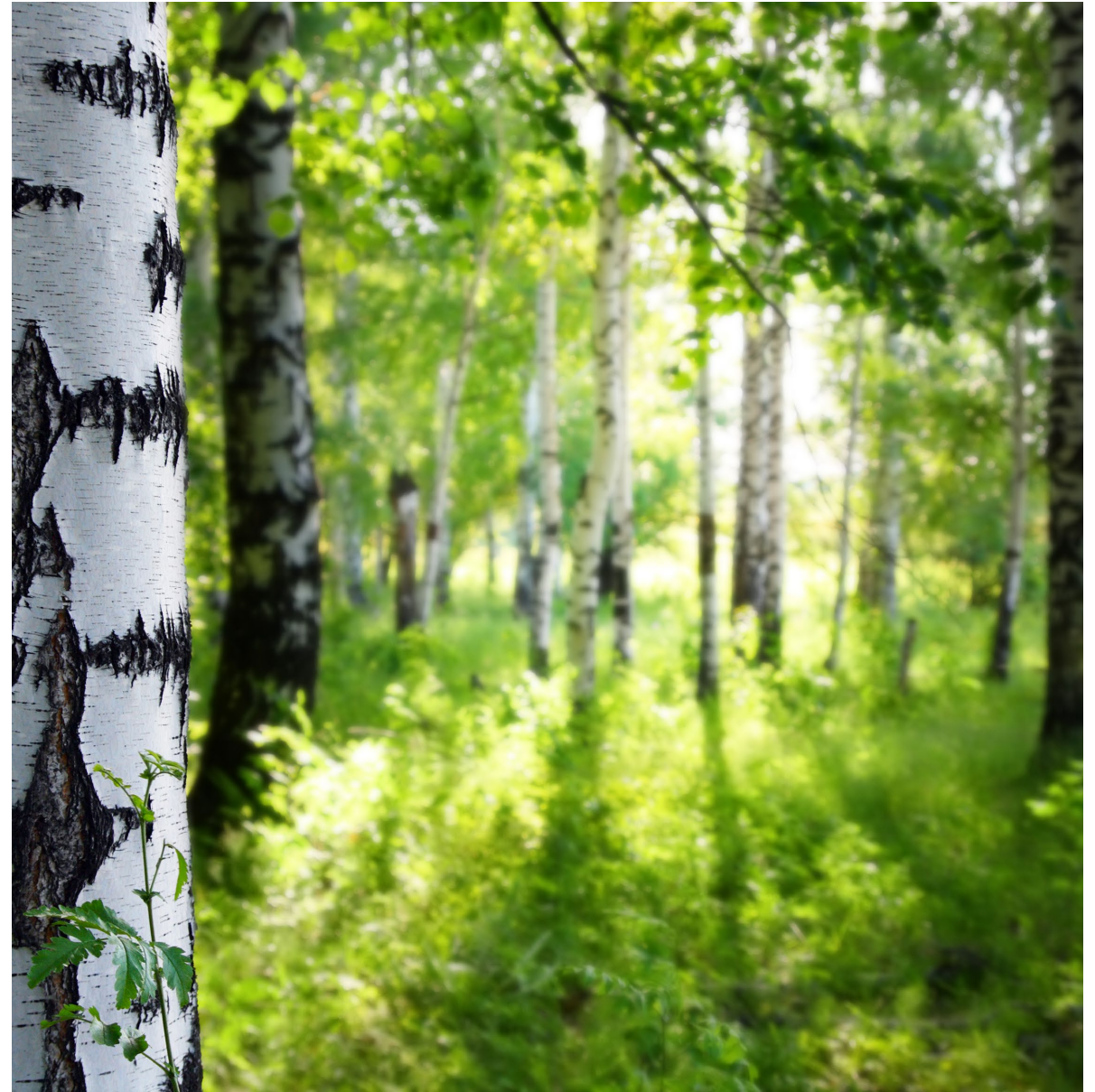
The table below summarises the outcomes of our work against each reporting criteria. On the following page we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	9	No	No
Governance	15	No	No
Improving economy, efficiency and effectiveness	22	No	No

# Commentary on VFM arrangements

Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

Page 31



# VFM arrangements: financial sustainability

## Covid-19: Context & Financial Impact

We obtained Local authority Covid-19 financial impact monitoring information published by the Ministry of Housing, Communities & Local Government and Department for Levelling Up, Housing and Communities, which is summarised in the following tables. It shows £6.9billion in additional expenditure and £5.1billion in income losses.

The Council has described the financial impact of Covid-19 in Note 4 of the financial statements, which is summarised as:

- £75m expenditure included in the cost of services; and
- £88m in government grants and reimbursements

With the net amount carried forward into 2021/22 for ongoing costs. Our testing of the financial statements, including grant income did not identify any significant issues.

As set out in the 2021/22 budget, the Government has supported the additional costs and losses the Council has incurred in response to the Covid-19 pandemic. The Council's budget for 2021/22 assumes immediate costs and losses will continue to be supported via these government grants and the papers set out the types of pressures the Council expects to face.

There is no denying the financial impact of the pandemic, but as long as the Government remains committed to supporting public finances, there is no indication of a significant weakness in the Council's arrangements for financial sustainability as a result of Covid-19.

	2020-21 Additional expenditure due to Covid-19 by class of authority (£'m)	2020/21: Income losses due to Covid-19 by class of authority (£'m)
Shire District	330	1,308
Shire County	2,111	259
Unitary Authority	1,791	1,114
Metropolitan District	1,504	1,053
London Borough	1,127	1,343
Total	6,863	5,077

2020-21: Additional expenditure due to Covid-19 by class and service area (£'m)						
	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Adult Social Care – total	-	1,255	849	663	414	3,181
Children's social care - total (excluding SEND)	-	95	131	90	63	379
Housing - total (including homelessness services) excluding HRA	63	5	75	42	113	299
Environmental and regulatory services - total	34	68	68	67	64	299
Finance & corporate services - total	48	53	84	77	78	341
All other service areas not listed in rows above	185	635	585	565	395	2,364
Total	330	2,111	1,791	1,504	1,127	6,863

2020-21: Income losses due to Covid-19 by class and source of income (£'m)						
	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Business rates	276	-	194	207	538	1,216
Council tax	399	-	218	191	233	1,041
Sales fees and charges	516	195	554	397	476	2,138
Commercial income	82	24	121	204	52	484
Other	33	40	27	54	45	199
Total	1,308	259	1,114	1,053	1,343	5,077



# VFM arrangements: financial sustainability

## Matters brought forward from 2019/20

As reported in our Audit Completion Report for 2019/20, we confirmed we had:

- reviewed the 2019/20 financial performance and forecasts during the year and considered the Council's financial outturn position as presented in the financial statements.
  - Reviewed the 2020/21:
    - Revenue and Capital budgets and Medium Term Financial Plan;
    - Treasury Management Strategy, incorporating the Minimum Revenue Provision Policy and Capital and Investment Strategies;
    - Considered the Council's latest financial monitoring information and its updated medium term outlook.
- Updated our risk assessment for any new or emerging issues through discussions with management and updating our review of committee reports.
- Reviewed the Council's Annual Governance Statement for any significant issues.
- Considered the general findings from our audit work in other areas.

Our 2019/20 Conclusion was that “On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, Lincolnshire County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.”

We therefore have no risks of a significant weakness in the Council's arrangements brought forward from 2019/20 into the current year.

## 2020/21 Financial Statement Performance

We have carried out a high level analysis of the financial statements subject to our audit, including the Movement in Reserves Statement and the Balance Sheet, our work has not highlighted any risks of significant weakness in arrangements or indicators of a risk to the Council's financial sustainability.

The Council's useable reserves have increased from £337m to £366m in 2020/21, with:

- General Fund & Earmarked Reserves of £247m, up from £211m in the prior year
- School Reserves of £26m, up from £25m in 2019/20
- Capital Reserves of £93m, down from £102m in 2019/20 in line with funding of capital expenditure.

The Council's reserves position does not indicate a risk of significant weakness in VFM arrangements for financial sustainability.

# VFM arrangements: financial sustainability

## 2020/21 Financial Statement Performance (continued)

The Council's balance sheet remains stable over the prior year, with large movements in cash and cash equivalents offset by the movement in short-term investments, such that net current assets (being current assets less current liabilities) have increased by 3% from £203m to £209m.

The most significant change in the balance sheet relates to movements in the Council's share of the pension fund net liability (being a deficit position) of £801m, up from £617m in the prior year as shown in Note 29 of the financial statements. The main movements being:

- an increase in the value of pension assets from £1,147m to £1,400m
- offset by a larger reduction in the value of pension liabilities from £1,763m to £2,200m.

The Fire-fighters Pension Fund net liability has increased from £240m to £311m.

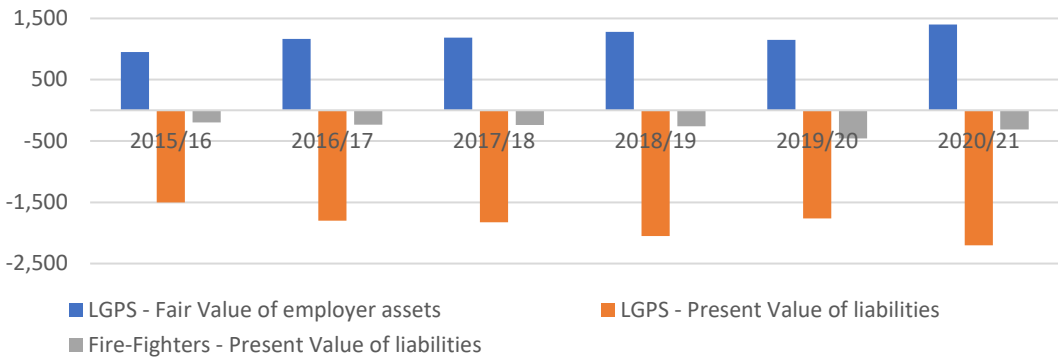
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Increase since 2015/16
Net liability - LGPS	(550)	(638)	(643)	(770)	(617)	(801)	(251)
Liability - Fire-Fighters	(196)	(233)	(240)	(263)	(461)	(311)	(115)

In the past few years, it is not unusual to see material movements in the net pension liability and this is consistent with our experience at other councils.

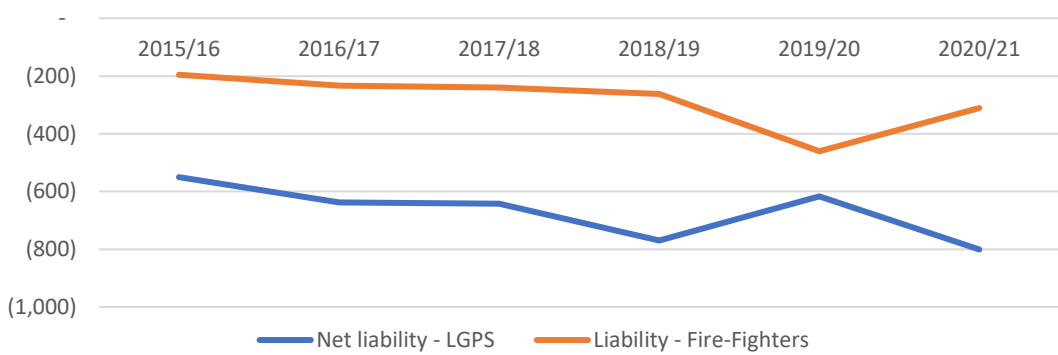
We have tracked the movement in the net pension liability over a five year period to illustrate the changes and summarised in the table below and the charts opposite.

The deficit position is not unusual to Lincolnshire County Council and is a recognised area of financial challenge for local authorities.

Pension fund assets and liabilities over time (£'m)



Pension fund net liabilities over time (£'m)



# VFM arrangements: financial sustainability

## 2020/21 Financial Performance: Net Revenue Expenditure

We have met regularly with Officers during the year and read the Quarterly Reports to Executive. Each report summarises the financial position of the Council and is supported by a set of appendices that adequately enable Members to assess revenue performance by service (such as Children’s Services, Place etc). We note the reports explain the variance to budget, which increased in size from Quarter 3 through to the year end: this is shown in the table below. The reports also include an adequate summary and explanations of the financial impact of Covid-19.

Reports to Executive include the monitoring of planned savings of £9.4m for 2020/21 and £12m for 2021/22. These savings are built into budgets and triangulate with the individual service level reports included in the supporting appendices to the Quarterly Revenue reports to Executive. There are no material unidentified saving or funding gaps for 2020/21 or 2021/22.

We also reviewed Note 14 of the financial statements, setting out earmarked reserves, and in particular the Financial Volatility Reserve that was established to help the Council deal with the future uncertainties around Local Government funding. The Council used £12.2m of this reserve in the year, leaving a balance of £40m as at 31 March 2021.

In July 2021, the Executive were informed that there had been:

- A £15m underspend on Services (3.5%) and £13m underspend on other budgets (16.5%), mainly being capital charges of £9m linked to underspending on the capital programme.
- £14m underspend via dedicated schools grant (169%).
- Paragraph 1.21 explains that these underspends are mainly the result of Covid-19.

Overall, the Council’s arrangements for reviewing revenue financial performance are adequate, however there are areas for improvement and management are considering areas alongside our suggestions for:

- Incorporation of specific and agreed financial performance indicators in each report (such as cashflow headroom, debtor days, creditor payment days)
- More integrated reporting with the Council’s resources, such as workforce (such as staff sickness, agency costs, headcount), estates (such as asset utilisation), and key performance indicators (covering each service)

Source	Short Heading	Total including schools			Total excluding schools		
		Budget	Forecast	Variance	Budget	Forecast	Variance
Revenue Budget Monitoring Report 2020/21 - Quarter 1. Executive, September 2020, Appendix A	Q1 2020/21	489,894	491,974	(2,080)	492,570	496,125	(3,555)
Revenue Budget Monitoring Report 2020/21 - Quarter 2. Executive, December 2020, Table 1	Q2 2020/21	509,191	510,805	(1,614)	497,598	495,626	1,972
Revenue Budget Monitoring Report 2020/21 - Quarter 3. Executive, March 2021, Table 1	Q3 2020/21	510,256	498,951	11,305	496,663	481,285	15,378
Review of Financial Performance 2020/21, Table B. Executive, July 2021	Outturn 2020/21	525,218	482,920	42,298	516,966	488,644	28,322
Revenue Budget Monitoring Report 2021/22 - Quarter 1. Executive September 2021, Appendix A	Q1 2021/22	511,427	510,018	1,409	505,494	504,299	1,195

Excluding schools, there has not been more than 5% movement in reported figures, which we do not judged to be indicative of a significant weakness in arrangements

# VFM arrangements: financial sustainability

## 2020/21 Financial Performance: Capital Programme

We have reviewed capital expenditure as presented in the financial statements and tested capital additions, with no material issues arising over the £132m additions to Property, Plant & Equipment set out in Note 15 of the financial statements.

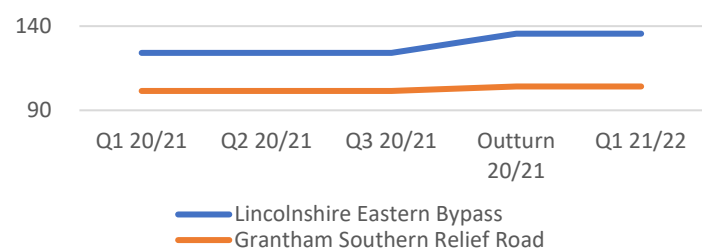
We also reviewed the “Review of Financial Performance 2020/21” presented to Executive on 6 July 2021. Paragraph 1.12 explains the Council spent £168m on the County's major assets, in particular on road schemes and schools. We have reconciled this to the financial statements, noting a trivial variance of £0.6m between the figures reported to Executive and that in the financial statements.

We reviewed the capital outturn report to the July meeting of the Executive, who informed that the capital outturn for 2020/21 was 53% less than planned (para 1.36), with Highways being underspent by £34m (para 1.47) mainly: the Lincoln Eastern Bypass, the Grantham Southern Relief Road, the A46 Welton Roundabout, the Holdingham roundabout and the A52 Skegness Roman Bank reconstruction; and the Highways Asset Protection block budget. Appendix A to the Report provides a status report on major schemes, which provides members a summary of capital project including:

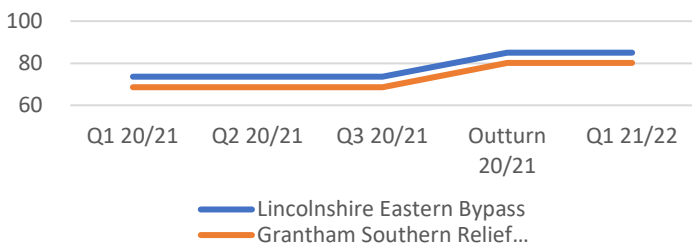
- Spending for the financial year
- Changes in the budget
  - Whole life-time financial information
  - Purpose and performance of the scheme

This demonstrates adequate arrangements for monitoring the capital programme, not just on a year to year basis, but over the life of the project.

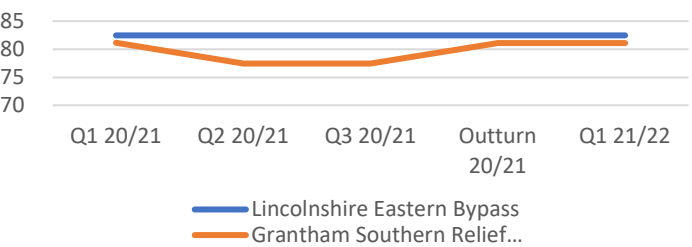
Gross Expenditure Budget (£'m)



Net expenditure budget (£'m)



Scheme total forecast (£'m)



## Capital Monitoring

We reviewed a sample of capital budget monitoring reports for 2020/21, starting with the “Capital Budget Monitoring Report 2021/22 - Quarter 1 to 30 June 2021” discussed at Executive on 7 September 2021 as well as the comments from the Overview and Scrutiny Management Board that supported the paper. This process demonstrates an appropriate level of scrutiny through Member oversight of the capital programme.

We also considered the consistency of capital programme monitoring, by reviewing a sample of reports to the Executive, reconciling inputs and considering the consistency of narrative. In our review of the capital programme, we considered the progress reports on three largest schemes: Lincolnshire Eastern Bypass, Grantham Southern Relief Road, which showed the Gross Expenditure Budget increased by £14m between Quarter 1 2020/21 and Quarter 1 2021/22, **this is shown in the charts below**. Separately, we noted Spalding Western Relief Road (Phase 5) also increased by £16m between Quarter 1 2020/21 and Quarter 1 2021/22.

The reports provide sufficient detail to understand the programme as a whole, as well as the current position and any significant matters arising. However, the reporting could be improved and management are considering options alongside our suggestions:

- Reporting could be improved by including the start and end date of projects in order to more clearly set out the uncertainty and risk in forecast whole life projects, including the impact of any re-profiling. For example, in July outturn report, members were informed that £18m of costs on the Grantham Southern Relief Road has been moved into 2021/22, but there is no explanation on whether this also pushes out the expected completion date of the project.
- Reporting would also be improved by Risk Rating the forecast and capital schemes. For example, in reporting the performance of the Lincoln Eastern Bypass scheme, there has been a consistent concern raised on forecasts risks and uncertainties, however there is no quantification of this in the report.



# Commentary on VFM arrangements

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Page 37



# VFM arrangements: governance

## 2021/22 Budget Setting and the Medium Term Financial Strategy

In 2019, the Council received an LGA Peer Assessment that we have reviewed. It includes the following comments that remain relevant to 2020/21:

- “There is financial stability in the organisation and the Council has a proven track record of delivering savings while maintaining front-line services
- The budget process for 2020/21 is strong with good engagement of Members and the Corporate Leadership Team (CLT) carrying out deep dives”

We have read a variety of reports to Overview & Scrutiny Management Board, the Executive and Council covering budget setting for 2021/22 and the Medium Term Financial Strategy. We have also held a number of meetings with Officers throughout the year.

Each service directorate supports the development of the budget, identifying cost pressures and delivery needs within the Corporate Plan before presenting a combined report on the budget and Medium Term Financial Strategy for scrutiny by the corporate leadership team, Overview & Scrutiny Management Board, the Executive and full Council. The arrangements in place for budget setting and updating the Medium Term Financial Strategy are as expected for a County Council, with arrangements for: consultation, scrutiny, evaluation of financial risk, alignment to directorate/business plans and sources of funding.

There is no indication that the Council’s Medium Term Financial Strategy and budget setting process is not aligned to supporting plans given the Council has a track record of delivering against budget, albeit with some variation this year due to unpredictability arising from Covid-19.

A budget consultation presentation was made to Overview & Scrutiny in January 2021 adequately summarises the financial context of the authority, including the impact of Covid-19 cost pressures, which were c£94m in additional expenditure and income loss during 2020/21, mostly covered by government grant. Whilst the costs

are significant, there is recognition that there will be future support to councils to continue to tackle covid-19 impacts such as local lockdowns. Members are aware of the Council’s positive track record in financial delivery, which is consistent with our knowledge, including the ability to maintain financial balance with minimal use of reserves.

Budget reports presented to Executive and Overview & Scrutiny Management Board include management’s assertion, and Members’ agreement that “The budget proposals reflected the level of government funding expected to be available to the Council and a proposal to increase general Council Tax in 2021/22 by 1.99%. A thorough review of the Council’s services was carried out during the budget process which had identified unavoidable cost pressures, some savings with minimal or no impact on the level of service provided and the capital programme had been reviewed. The budget proposals therefore aimed to reflect the Council’s priorities whilst operating within the resources available to it.” We are satisfied that these reports adequately describe the risks and proposals for setting the 2021/22 Budget and the Medium Term Financial Strategy.

We read the assumptions underpinning the Medium Term Financial Strategy as included in reports to the January meeting of the Executive and the January 2021 meeting of Overview & Scrutiny Management Board. In our view, these include an adequate level of detail over the assumptions and cost pressures facing the council, which are consistent with our experience at similar sized authorities and therefore not unreasonable. In addition, there is sufficient narrative to explain the rationale and key financial risks.

With regard to the 2021/22 Budget and Medium Term Financial Strategy, we have noted:

- it adequately sets out the context and approach to delivering the financial strategy
- It sets out an immaterial deficit over 2021/22 to 2023/24 of c£13m, which is sufficiently covered by reserves.

We have not identified a risk of significant weakness in arrangements.

# VFM arrangements: governance

## CIPFA Financial Management Code

The Chartered Institute of Public Finance and Accountancy (CIPFA) has published its Financial Management (FM) Code to provide guidance for good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The first full year of compliance with the FM code is 2021/22.

In June 2021, the Audit Committee received management's assessment of compliance against the CIPFA Financial Management code. We have discussed the document with Officers to confirm the arrangements described in the document have been in place through 2020/21. The areas where the Council aims to improve are not, in our view, areas of significant weakness in arrangements, but are areas for the Council to focus on for 2021/22 and we expect the Audit Committee to receive an update on progress during 2021/22:

- Longer term financial planning, with clear links to the corporate plan, service performance, asset management strategies and capital investment.
- Clear methodology for options appraisal, to support decision making with full consideration of value for money.
- More transparency of our financial resilience assessment, including management of risks, and key areas of risk in our balance sheet (e.g. debtors).
- Continued improvement in our reporting particularly of our MTFP assumptions and LCC Companies.
- Improved stakeholder engagement.
- Continued development of financial literacy in the organisation, and skills in the finance team, supporting an enabling financial management style.

## Governance

The Authority has a full suite of governance arrangements in place. These are set out in the Annual Governance Statement, which is reviewed as part of our audit where we confirmed they were consistent with our understanding of the Council's arrangements in place for 2020/21.

We confirmed that the Council has an [approved constitution](#) that is regularly reviewed and updated. The Constitution explains how the Council operates and makes decisions. It ensures that the Council is efficient, transparent and accountable for what it does:

- The Council comprises of all 70 councillors, meeting together to make decisions about policies and to set the Councils' budget. All 70 councillors take part in the business of the Council.
- The Executive is currently made up of nine councillors, from the majority political group, and is chaired by the Leader of the Council. Each Executive Councillor is allocated a particular area of responsibility. The full terms of reference for the Executive are set out in Part 2 of the Council's Constitution.
- The Council's Chief Officer group form a corporate leadership team and each Executive Director is responsible for their specific area.

We consider the committee structure of the Authority is sufficient to provide assurance that decision making, risk and performance management is subject to appropriate levels of oversight and challenge.

We have reviewed Council and Committee Reports and minutes during the year as well as key documents in relation to how the Council ensures that it makes informed decisions and properly manages its risks. Our review of Council and Committee papers confirms that a template covering report is used, ensuring the purpose, consultation, and recommendations are clear. We have confirmed with the Monitoring Officer that every decision-making report that comes before the County Council, the Executive or an individual Executive Councillor is required to contain a Legal Comment. As a result there is a process for identifying the legal issues raised by any proposed decision and ensuring that these are addressed in the Report.

Minutes are published and reviewed by each committee to evidence the matters discussed, challenge and decisions made.



# VFM arrangements: governance

## Risk management

The Audit Committee is responsible for overseeing the effectiveness of the Council's risk management arrangements, challenging risk information and escalating issues to the Executive. A Quarterly report is prepared on behalf of the Executive Director – Resources for the Audit Committee.

We reviewed the Risk Management Progress Reports presented to Audit Committee during the year, including that reported in March 2021. The report provides an update on the activities being undertaken and the key strategic and operational issues facing the Council since the last update in September 2020. The report shows 22 high risks and 15 high issues, with most of the risks remaining static or improving. The main category of risk continues to be within the area of People, with the main issues being Technology and Economic. Appendix 1 to the Report sets out a breakdown of the risks, issues and status by directorate.

From our attendance at the meeting and review of the minutes, we note that, with regard to the limited assurance on market supply for adult care, it was advised that the Executive Director of Adult Care and Community Wellbeing, as the risk owner, would be asked to attend a future meeting on mitigating factors. Similarly, in relation to the assessment of safeguarding children, the Executive Director for Children's Services, as the risk owner, would be invited to attend a future meeting to discuss this topic.

In our view, there is sufficient evidence of Member oversight of risk management, including holding Officers to account.

We reviewed the Strategic Risk Register reported to the March 2021 Audit Committee and determined it is adequate for the Council's purposes, given it links the risk to the corporate strategy, includes a risk owner and current and target risk scores, assurance status and existing controls. In our view, however, there are aspects that would improve clarity and understanding of the risk and its impact on the Council, including:

- Tracking the risk score by quarter
- Separating controls from assurances and including gaps in controls and gaps in assurances

- Confirming the date of last review by the risk owner
- Setting risk appetite (eg treat, tolerate)
- Specifying actions required (and confirming when these have been implemented).

## Combined Assurance Report

The Audit Committee receive a 'Combined Assurance Report' to provide the Audit Committee with insight on the assurances across all the Council's critical services, key risks, partnerships and projects. We obtained and read the report to the February 2021 audit committee confirming that each Executive Director, with the Chief Executive's overview, is responsible for the annual Combined Assurance Status Report. Each Executive Director provides an overall assurance level, based on information across:

- critical service delivery activities;
- key risks;
- key projects;
- key partnerships.

The Combined Assurance report provides the Audit Committee with a good understanding about the level of assurances in place. It overlays the Strategic Risk Register, but in a more understandable format. The report and its content is demonstrative of adequate arrangements in place over risk management.



# VFM arrangements: governance

## Audit Committee

The Council has an established Audit Committee that comprises seven councillors, who represent the political balance of the Council, plus two independent persons who are not a councillor, or an officer of the Council. The Audit Committee is responsible for establishing and maintaining an effective system of governance in a way that supports the organisation's objectives. It achieves this by:

- Reviewing the work and findings of internal audit and external audit;
- Reviewing the Annual Governance Statement and the financial statements; and
- Reviewing reports on risk management and internal control.

We have reviewed supporting documents and confirmed the Audit Committee meets regularly and reviews its programme of work to maintain focus on key aspects of governance and internal control. In response to Covid-19, the Council moved Committee meetings on-line. Our attendance at Audit Committee has confirmed there is an appropriate level of effective challenge.

## Internal Audit

We have met with management and the Head of Internal Audit regularly during the year, reviewed Audit Committee reports and attended Audit Committee to observe the performance of Internal Audit and the Audit Committee. We have documented our understanding of the Internal Audit function, which is provided by an in-house team which operates as part of Assurance Lincolnshire - supported by additional resources procured via external support framework contracts. The Council's Financial Regulations set out Internal Audit requirements and the Head of Internal Audit has direct access to all levels of management, all employees and to all elected members and particularly to those charged with governance

We reviewed the Head of Internal Audit Annual Report that was presented to Audit Committee on 12 July 2021, where the overall opinion is split across four themes:

- Governance – “performing adequately” being a consistent rating as the prior year.

- Risk – “performing well”, showing improvement over the prior year.
- Internal control – “performing adequately” being a consistent rating as the prior year.
- Financial control – “performing adequately” being a consistent rating as the prior year.

In our view, the Head of Internal Audit Opinion is sufficiently detailed to explain how each rating was determined. We confirmed there are no “High Priority” recommendations overdue, with only one Internal Audit review cited as “low assurance” (being the lowest possible ranking) and relating to the Implementation of Mosaic Finance. The facility to hold officers to account therefore exists and we attended the June 2021 Audit committee where this report was presented, where the responsible officers for the project were in attendance to respond to questions on this issue, but none were raised.

We have confirmed that the Head of Internal Audit Opinion has been adequately reflected in the Annual Governance Statement to provide assurance that there is no significant weakness in arrangements for 2020/21.

## Whistleblowing & Counter-fraud

We reviewed the annual whistle-blowing report presented to the July meeting of Audit Committee. The report provides a summary and analysis of whistleblowing disclosures received by the Council during the period from April 2020 to March 2021. The number of whistleblowing concerns (29) raised around Lincolnshire County Council activity in 2020/21 represented the first decrease on the previous period's activity in several years.

We also reviewed the Annual Counter Fraud Report as presented to the July Audit Committee. The Counter Fraud Annual Report provides an overview of the investigation and proactive counter fraud work completed in 2020/21. The level of fraud referrals remained consistent with those recorded in the previous year and we identified an increase in the number of cases involving procurement fraud.

There are no systemic or material matters impacting our Value For Money considerations and the existence of the programme, its work and progress reporting to Audit Committee is evidence of adequate arrangements for counter-fraud.

We are unaware of any allegations or incidences of major fraud or corruption.

# VFM arrangements: governance

## Monitoring officer and Conduct

The Monitoring Officer has three main roles:

1. To report on matters he/she believes are, or are likely to be, illegal or amount to maladministration;
2. To be responsible for matters relating to the conduct of Councillors and officers; and
3. To be responsible for the operation of the Constitution.

We have reviewed the Monitoring Officer's Annual Report presented to the Audit Committee in July 2021 and met with the Monitoring Officer throughout the year. Our observations being:

The report confirms there were no occasions where the Monitoring Officer had to issue a formal report relating to the lawfulness of a decision.

In 2020/21 there were 48 referrals to the Local Government and Social Care Ombudsman (LGO), down from 55 in 2019/20. On 16 March 2021 the Ombudsman issued a public report finding maladministration in the way that the Council charged a flat rate for short term care which he found was not in accordance with Guidance. This is further considered in Table 2c row 2 – the financial impact being £0.5m and immaterial.

- Standards Complaints: From 1 April 2020 to 31 March 2021 there were 5 complaints of breach of the Code of Conduct. This is two less than in 2019/20
- No issues reported in relation to the Register of Councillors' disclosable pecuniary interests or the Register of Officers' Interests.

The annual report of the monitoring officer demonstrates arrangements are in place to monitor and support lawful and informed decision making, with no indications of a significant risk in arrangements.

## Scrutiny

In September 2021, Full Council received and approved the Annual Report for Overview and Scrutiny for 2020/21. We have read the report which highlights the scrutiny work that has taken place throughout the last year. The report focuses on the key successes and achievements of Overview and Scrutiny over the past year. The Annual Report is usually put before the annual meeting of the County Council for approval. In years when

elections are held, the Annual Report is considered at the first appropriate meeting after the annual meeting.

As set out in the first page of the report "Despite the impact of the pandemic, 67 scrutiny committee meetings were held, and 65% of all formal decisions were considered by a scrutiny committee in 2020/21 prior to them being made".

There is no evidence of inadequate arrangements in informed decision making in this report.

## Covid-19: Governance

We have reviewed the Annual Governance Statement, which includes a specific section on the Council's response to Covid-19. We are satisfied that the Annual Governance Statement is a reasonable reflection of the Council's arrangements.

The Government asked councils to develop local political leadership through setting up outbreak management boards with key local partners. If small outbreaks in communities, schools or even an individual street are identified, a Local Outbreak Engagement Board can take measures to isolate the problem. Instead of national lockdowns, individual isolation and local action will tackle an outbreak. We confirmed the Local Outbreak Engagement Board had approved a Local Outbreak Management Plan in July 2020, which was revised in March 2021 and submitted to the Department of Health and Social Care to comply with an assurance process with the regional Public Health England team.

We have reviewed Committee Reports of the Executive and the Health and Wellbeing Board, including the Director of Public Health Annual Report presented in March 2021. The Director of Public Health has a statutory duty to produce an independent report on the state of health of the people they serve on an annual basis, which must be published by the Council. We read the report, which is focused on Covid-19 and its impact on Lincolnshire. The report highlights:

- health inequalities that exist in Lincolnshire; and
- that there will be long-term impacts such as increased issues in mental health.

Whilst there are clear challenges arising from Covid-19 in governance and the management of risk, there is no evidence of a significant weakness in the Council's arrangements.

# VFM arrangements: governance

## Regulators

We reviewed regulatory reports, including OFSTED and the Care Quality Commission, where inspections were paused as a result of Covid-19. The Council's rating's are carried forward from 2019:

- OFSTED rate Children Services as “Outstanding”
- The Care Quality Commission rate Lincolnshire County Council as a provider as “Good”

Her Majesty's Inspector for Fire & Rescue Services was due to inspect Lincolnshire Fire & Rescue Service in 2020/21, however this was postponed due to Covid, therefore its official rating for 2020/21 remained “Good” as at 31 March 2021, however, as set out on page 26, the delayed inspection was published in December 2021 with a rating of “Requires Improvement”.

## Local Government Ombudsman

On the 16 March 2021 the Local Government Ombudsman published a public report following an investigation into how Lincolnshire County Council charged individuals for respite care. It found that the policy of charging a “flat rate” did not accord with the Care Act 2014.

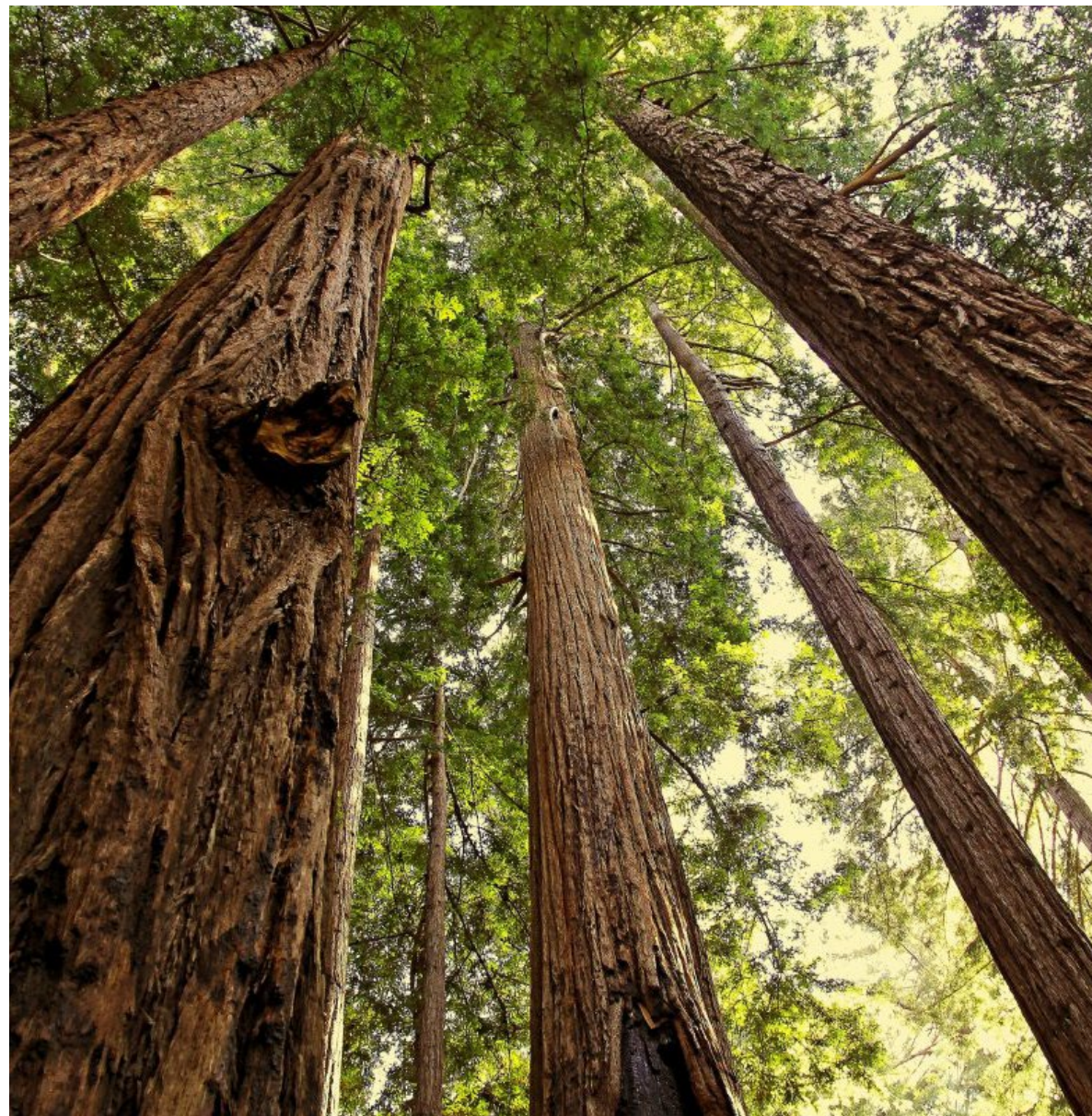
We reviewed the Monitoring's Officers Annual Report to Committee that was presented to Audit Committee before being considered by Executive in September 2021. The Council has calculated the financial effect to be £0.5m and has taken steps to address the root cause in April 2020, by removing the flat rate charge and requesting all individuals to complete a financial assessment. Overall, we do not believe this indicates a significant weakness in the Council's arrangements.



# Commentary on VFM arrangements

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

Page 44



# VFM arrangements: improving economy, efficiency and effectiveness

## Local Government Association - Peer review

We revisited the 2019 LGA Peer Assessment, which includes the following comments that, based on discussions with management and our cumulative audit knowledge and experience, remain relevant to 2020/21:

- “Lincolnshire County Council is a stable, reliable and solid organisation delivering good quality services to its residents
- There is a transparent system of governance within the Council
- There is financial stability in the organisation and the Council has a proven track record of delivering savings while maintaining front-line services

The Council has a wealth of knowledge, data and experience which needs to be utilised more effectively as part of its development

Lincolnshire County Council has sound knowledge of the local place and context generally and a deeper understanding of service needs within individual departments, albeit with a silo view of localities.

- The budget process for 2020/21 is strong with good engagement of Members and the Corporate Leadership Team (CLT) carrying out deep dives
- Whilst the Council has clearly adapted to and survived austerity well, it is well behind in terms of having ongoing major transformation programmes”

In our view, the Peer review does not indicate a significant weaknesses in the Council’s arrangements for financial sustainability, governance or improving economy, efficiency and effectiveness.

## Corporate Plan

The Council’s arrangements are consistent with the prior year with the Council’s Corporate Plan setting out what it wants to achieve for local residents and communities and is published on its website.

The Corporate Plan underpins the ‘One Council’ approach, which aims to ensure all services are working towards shared goals and will help different areas of the Council work together more effectively. The Council’s overall financial objectives and strategy are documented in the Council’s budget and Medium Term Financial Strategy which is reviewed and updated annually. The Council’s budget endeavours to ensure the provision of the appropriate resources required to deliver the Council’s Plan, and the types of action necessary to enable them to be affordable, to allow balanced budgets to be delivered.

## Performance monitoring

The Executive and Overview and Scrutiny Management Board receive regular reporting on the measures contained within the Council Business Plan. The Council has chosen key performance measures and targets to demonstrate to elected members and the public that the directorate is achieving the priorities within each strategy area.

We reviewed reports to Executive as evidence of the Council’s approach to evaluating performance. Reports are presented to Committee by the Performance and Equalities Manager contain sufficient narrative, including the appendices, to demonstrate that there are adequate arrangements for scrutiny in assessing performance and identifying areas for improvement. We also reviewed the performance outturn for 2020/21 presented to Executive in July 2021, where performance against the Corporate Plan shows that Covid-19 was continuing to have an impact, with 66% of the 53 activities with milestones due to be reported in Quarter 4 either On plan or Ahead of plan.

Our review of the minutes shows that the Chairman of the Overview and Scrutiny Management Board confirmed that the Board had recorded its support for the recommendations to the Executive. Minutes also record Member challenge, such as requesting further information in relation to the life expectancy for Lincolnshire residents, and evaluation, such as reflecting on the reduction in people Killed or Seriously Injured on Lincolnshire’s roads.

Overall, we believe this is sufficient evidence to demonstrate adequate arrangements for performance monitoring at the Council.

# VFM arrangements: improving economy, efficiency and effectiveness

## Performance monitoring (continued)

We reviewed minutes and reports to Overview and Scrutiny Management Board during 2020/21 including the Quarter 3 HR Management Information and Workforce Plan Update from July 2021 as evidence of arrangements to consider workforce performance indicators. The report provides an overview of staff headcount, sickness absence, agency costs and the health and wellbeing of the workforce. Members were informed that a regular review and monitoring of HR Management data at both Directorate Leadership Team (DLT) level and by Corporate Leadership Team (CLT) was enabling oversight of the workforce and HR performance at both a local level and for the organisation and helping Officers identify priorities and solutions required to address current and future workforce challenges, in particular to attract, recruit and retain skills in high risk areas. The report adequately summarises key issues and, alongside Member scrutiny, is indicative of adequate arrangements in monitoring workforce indicators.

## Core Spending Power

We have also considered the Council's financial position in relation to spending power using publicly available information published by the Ministry of Housing, Communities & Local Government in February 2021.

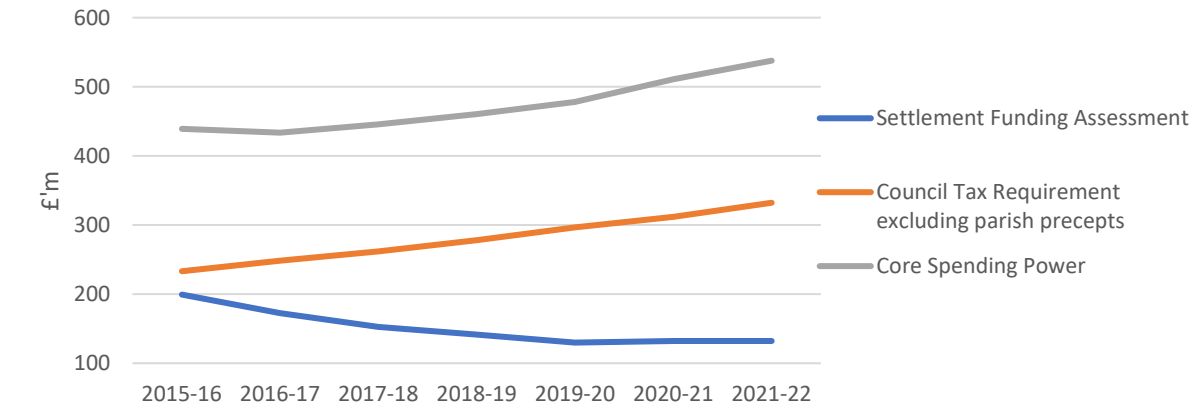
Overall spending power has increased year on year and in line with all English Councils. The increase in the council tax requirement compensates for the reduction in the settlement funding assessment, which is in line with Government Policy, which includes the ability to add a social care premium in the more recent years. For Lincolnshire, there has also been an additional Social Care Grant of £20m in 2020/21 and £26m in 2021/22.

There is no indication of a significant weakness in arrangements.

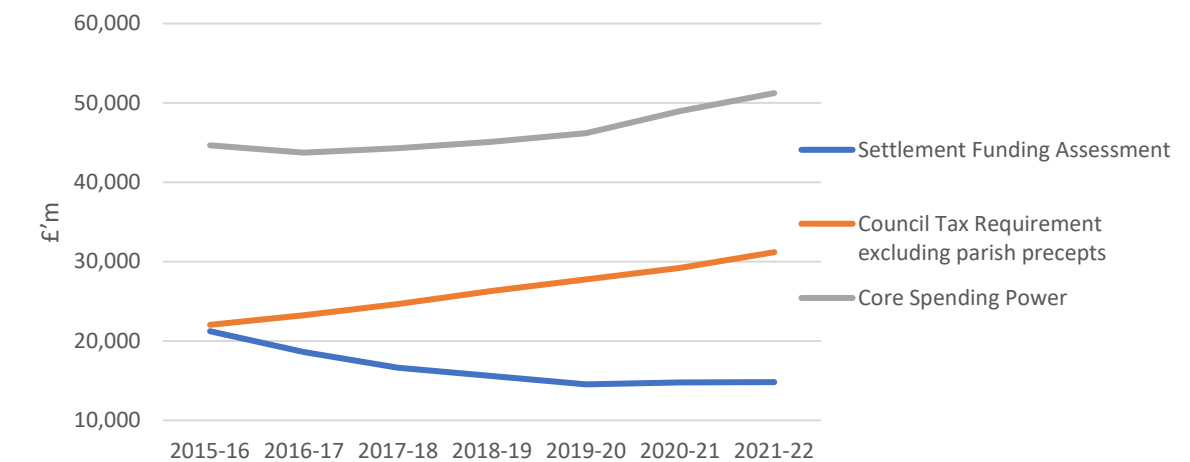
## Benchmarks

We reviewed a selection of benchmarking data available to us, including the CIPFA financial resilience index and the VFM profiles provided via the Local Government Association (called LG Inform Vfm available from the following link: <http://vfm.lginform.local.gov.uk/>). We did not identify any indicators of a significant weakness in arrangements for 2020/21.

## Lincolnshire County Council: Core Spending Power



## England: Core Spending Power





# VFM arrangements: improving economy, efficiency and effectiveness

## Partnerships and Commissioning

### One Council Commissioning Framework 2021-2024

In 2020, the Council undertook a piece of work with external consultants, Impower, to review the current commissioning model and overall approach in use across the Council to consider how current commissioning practices could be more effective. This was partially in response to the Peer Review in December 2019, which we reviewed as part of our prior year audit.

We reviewed the report presented to the Overview and Scrutiny Management Board on 17 March 2021, which considers the Draft One Council Commissioning Framework 2021-2024, subsequently to be presented to the Executive on 07 April 2021. The views of the Board were reported to the Executive as part of its consideration of this item.

Having read the document, we are satisfied this is indicative of adequate arrangements for strategic commissioning.

### Better Care Fund (BCF)

Note 33 of the Council's Financial Statements explains the Council is the host for pooled budgets relating to: Proactive Care, Specialties including Learning Disabilities, Integrated Community Equipment Service, and Child & Adolescent Mental Health Services; and is responsible for their financial administration. Outside this Better Care Fund is a stand-alone Section 75 Agreement for Sexual Health. Our testing of the financial statements has not identified any material issues over these disclosure notes, which show each pooled budget remains in balance.

We also reviewed minutes and reports to Lincolnshire Health and Wellbeing Board, including the year end report on the Better Care Fund presented on 22 June 2021. An update regarding the Better Care Fund was received by the Board in March 2021, which clarified that although the financial elements of the 2021/22 plan had been agreed, there is no further information regarding the next planning cycle or the assurance model to be used. It has however been indicated that a further roll over year is expected pending the multi-year spending review expected in the autumn. The Better Care Fund has an annual assurance and reporting mechanism into NHS

England/Improvement. Due to the Covid-19 pandemic 2020/21 assurance has been more light touch; however an end of year finance report has been submitted and there has been quarterly performance and finance reports throughout the year, with notable highlights being:

- Plans covering all mandatory funding contributions have been agreed by Health and Wellbeing areas and minimum contributions are pooled in a section 75 agreement (an agreement made under section 75 of the NHS Act 2006).
- The contribution to social care from the Clinical Commissioning Group the Better Care Fund is agreed and meets or exceeds the minimum expectation.

We have not identified any significant weakness in arrangements.

### Serco contract

We reviewed a report from the Assistant Director, Commercial, and the Serco Contract Manager, on the Performance of the Corporate Support Services Contract presented to Overview and Scrutiny Management Board in March 2021. The report provided an update of Serco's performance against contractual Key Performance Indicators specified in the Corporate Support Services Contract covering the period October 2020 to February 2021. The last report to the Overview and Scrutiny Management Board was on 29 October 2020.

The report highlighted that the majority of Key Performance Indicators were either at and above the Target Service Level and the number in mitigation as a result of Covid-19 had fallen to just one in January and February. The Customer Service Centre had continued to be under significant pressure, showing some sharp increases in abandoned call rates towards the end of 2020. However, the situation had been much improved in January and February, and Members were informed that Serco deployed additional resource in response to the continuing high call handling times in the Care and Wellbeing Hub and also no longer required Council support.

The role of the Overview and Scrutiny Management in reviewing performance of major contracts, and the report not identifying any significant issues, means there is no indication of a significant weakness in the Council's arrangements.

# VFM arrangements: improving economy, efficiency and effectiveness

## Fire & Rescue Regulatory Compliance

Her Majesty’s Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) independently assesses the effectiveness and efficiency of police forces and fire & rescue services – in the public interest. Lincolnshire was due for inspection of the fire service for 2020/21, however this was postponed due to Covid.

HMICFRS did conduct a Covid-19 inspection and we reviewed the report it issued in January 2021, which:

- 1. Highlights areas of good governance, such as business continuity planning, working effectively with the Lincolnshire Local Resilience Forum and that the service’s financial position hadn’t been significantly affected by the pandemic.

However, paragraph 6 of the of the Report states: “while Lincolnshire Fire and Rescue Service maintained its response and prevention functions, it didn’t offer the range of protection measures expected during the early stages of the pandemic. Between April and June 2020, it stopped the majority of its routine protection activity, thereby not auditing for compliance with fire safety regulations those buildings it had identified as being at the highest risk from fire. This approach was not in line with national expectations. While this work has since restarted, at the time of our inspection it had a considerable backlog of premises to work through.”

We have discussed this with Officers and obtained further information to put the findings into context:

- As set out in the Comprehensive Income and Expenditure Statement in the financial statements provided for audit, the net expenditure for Fire & Rescue and Community Safety was £26m for 2020/21. Officers have shown us that the budgeted cost of the ‘Protection’ service, which is that referred to in the second bullet point, is £0.9m.
- For the period where protection measures were paused, this was due to Covid-19 challenges and Officers have informed us that these were not statutory services.

- At the end of 2020/21, the official rating of the service remains “Good”.

The delayed HMICFRS inspection was carried out during summer 2021, with the report issued on 15 December 2021. HMICFRS had identified two areas of concern:

- how the service hasn’t taken sufficient action since the last inspection to appropriately resource its protection function; and
- how is hasn’t done enough since the last inspection to improve equality, diversity and inclusion in the service.

Making recommendations against these and reporting on the progress made since these concerns were raised in April and May 2021, we read the progress report, where HMICFRS said that “The service has detailed action plans covering our causes of concern... The service has shown a strong commitment to carry out the action plan. You have put in place appropriate governance arrangements to monitor progress against the plan... Some of the actions had been completed.”

We have read the inspection report and HMICFRS has found services to be:

Domain	Prior Rating	Current Rating
Effectiveness	Good	Requires Improvement
Efficiency	Good	Requires Improvement
People	Requires Improvement	Requires Improvement

In our view, whilst there is some deterioration in the domain ratings, there is no indication of a significant weakness in arrangements.



# VFM Progress Report – initial observations on arrangements for improving economy, efficiency and effectiveness

## Lincolnshire Sustainability And Transformation Partnership (Covid-19: Improving economy, efficiency and effectiveness)

Sustainability and transformation partnerships (STPs) were introduced in 2016. They bring together local NHS organisations and local authorities (county/ unitary councils) to develop proposals to improve health and the quality of care to provide better services for patients in the areas they serve.

The Council is part of the Lincolnshire Sustainability And Transformation Partnership, along with:

- NHS Lincolnshire CCG
- United Lincolnshire Hospitals NHS Trust
- Lincolnshire Community Health Services NHS Trust
- Lincolnshire Partnership NHS Foundation Trust
- East Midlands Ambulance Service NHS Trust
- LinCA
- Lincolnshire VET.

During 2020/21, the Care Quality Commission (CQC) undertook a review of how providers have worked collaboratively during the response to Covid-19. The CQC have reviewed arrangements in 11 systems, of which Lincolnshire is one. This review focused on the Local Authority area of Lincolnshire, the geographical footprint of which, is consistent with the Lincolnshire sustainability and transformation partnership (STP).

We reviewed the feedback provided by the CQC, which noted the following:

- Joint working across the STP was led and coordinated through a local resilience forum (LRF) and comprehensive cell structure, which included representation from a broad range of stakeholders.

- There was good oversight of the needs of the population with recognition of health inequalities in those areas of deprivation across Lincolnshire STP. Partnership working across the health and social care footprint connected residents with local support networks and mechanisms.
- In the early phase there was a rapid development of command and control and strategic cell structure with the focus very much on finding solutions at pace.
- Outputs from this review suggest the STP has an effective platform to progress to Integrated Care System status from 2021.

We are therefore satisfied that there is no indication of a significant weakness in arrangements.

# 04

Section 04:

## **Other reporting responsibilities**

Page 50

## 4. Other reporting responsibilities

### Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

### Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data and to carry out certain tests on the data. As at the date of reporting, we have not received instructions from the NAO to enable us to complete this work.

# Mark Surridge

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