

**AUDIT COMMITTEE**  
**13 JULY 2020**

**PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)**

Councillors A P Maughan, R B Parker, P A Skinner and A N Stokes.

Also in attendance: Mr I Haldenby (Independent Added Member) and Mr A Middleton (Independent Added Member).

Officers in attendance:-

Julie Castledine (Principal Auditor), David Coleman (Chief Legal Officer), Andrew Crookham (Executive Director Resources), Cheryl Evans (Democratic Services Officer), Michelle Grady (Assistant Director for Strategic Finance), David Ingham (Head of Information Assurance), Claire Machej (Accounting, Investment and Governance Manager), Sue Maycock (Head of Finance (Corporate)), Lucy Pledge (Head of Internal Audit and Risk Management), Jill Thomas (Principal Auditor) and Matthew Waller (Internal Audit Manager).

1 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors P E Coupland and A J Spencer.

2 DECLARATION OF MEMBERS' INTERESTS

There were no declarations of interest.

3 MINUTES OF THE MEETING HELD ON 15 JUNE 2020

RESOLVED

That the minutes of the meeting held on 15 June 2020 be signed by the Chairman as a correct record.

4 INTERNAL AUDIT ANNUAL REPORT 2019/20

A report from the Head of Internal Audit and Risk Management was considered, which presented the Head of Internal Audit's opinion on the adequacy of the Council's Governance, Risk and Control environment and the delivery of the Internal Audit Plan for 2019/20.

The Committee was advised that the Annual Internal Audit Report, which was set out at Appendix A to the report, presented a summary of the audit work undertaken over the last twelve months.

It was highlighted that for the twelve months ended 31 March 2020, the Council's arrangements for governance, risk management and control had performed 'adequately' and had been unaffected by the coronavirus. The Head of Internal Audit's opinion had taken into account the impact of coronavirus on the Council's governance, risk and control environment and the impact of the virus would materialise in the Head of Internal Audit's opinion in the coming year.

The Audit Committee had previously approved the 2019/20 original audit plan of 1,075 days in March 2019. The plan was reduced in November 2019 to 851 days with the agreement of the Committee. 94% of the revised plan had been delivered, which amounted to 780 days. The difference between the original and resourcing plan was a combination of a reduction in resources and the impact of the coronavirus. The Head of Internal Audit expressed gratitude for the efforts of her team in achieving 94% of the revised plan during challenging times.

The delivery of the IT Audit had remained challenging and planned audits had been deferred owing to the impact of coronavirus. These audits were now scheduled for August - September 2020.

During the discussion, the Committee made the following comments:

- The external assessment was always undertaken by an accredited qualified assessor, as determined by the Institute of Internal Auditors. The approach for external assessments was approved by the Audit Committee. Typically the County Council opted for a full external assessment, rather than a partial self-assessment. The full external assessment involved meetings with the audit committee; key stakeholders; and reviewed work undertaken by Internal Audit, and was considered to be a rigorous process. An independent report was provided following the full external assessment. The procurement for an external audit would commence in September, to allow ample time for procurement processes.
- The assurance framework had changed owing to the impact of coronavirus and the plan would be recast and be based on risk. The revised plan would be presented to the Committee on 28 September 2020.
- In response to a question, it was agreed that the Committee would receive an informal briefing paper on recent assurances in Adult Care services, particularly those areas which had previously received high and substantial or limit and low assurances. The report would cover information on risk and recovery.
- The seven overdue actions, as detailed on page 35 and Appendix 3 of the agenda pack, owing to the coronavirus pandemic. Information on the reasons behind the seven overdue actions would be circulated on email.

## RESOLVED

- (1) That the content of the Head of Internal Audit Annual Opinion and Report be received.

- (2) That the results of Internal Audit work and delivery of the Internal Audit Plan be received.

5 APPROVAL OF THE COUNCIL'S ANNUAL GOVERNANCE STATEMENT 2019/20

Consideration was given to a report by the Head of Internal Audit and Risk Management, which sought approval for the Annual Governance Statement for 2019/20. The statement was set out at Appendix A to the report.

The Committee had considered the draft Annual Governance Statement 2019/20 at its meeting on 15 June 2020 and the comments of the Committee had been included in the latest version. The key amendments to the revised statement were detailed on page 59 of the agenda pack.

It was highlighted that the significant governance issue for the Council, as detailed on page 55 of the report, was to: *Review lessons learned from the Council's response to Covid-19 – implementing a re-set plan over the short, medium and longer term.*

**RESOLVED**

- (1) That it be recorded that the Annual Governance Statement 2019/20 accurately reflected how the Council was managed.
- (2) That it be recorded that the Annual Governance Statement 2019/20 included the significant governance issues and key risks.
- (3) That the Annual Governance Statement 2019/20 be approved and recommended for adoption by the Council.

6 MONITORING OFFICER'S ANNUAL REPORT

Consideration was given to the Annual Report of the Monitoring Officer for 2019/20.

In presenting the report, the Monitoring Officer highlighted the following areas:

- All decision-making reports that were considered by the County Council; the Executive or an Executive Councillor were reviewed by legal services and included a legal comment. Therefore the County Council had a robust process for identifying any legal issues raised by any proposed decision.
- In 2019/20 there had been 55 referrals to the Local Government Ombudsman, down from 77 in 2018/19. Of the 55 referrals, in 40 instances no fault had been found; nine referrals were ongoing; and six cases of fault had been found. Details of the six referrals where fault had been found were summarised on page 81 of the agenda pack.
- Under the Regulation of Investigatory Powers Act 2000, the Council was able to authorise the use of covert surveillance of two types: directed surveillance; and the use of covert human intelligence sources. Trading Standards had been the only department to use covert surveillance during 2019/20, which

had included five operations (one directed surveillance; and four covert human intelligence source operations).

The following points were made by the Committee:

- Reference was made to the six Local Government Ombudsman referrals where fault had been found. Of the six referrals, three had related to Education, Health and Care Plans. Assurance was sought that there were appropriate policies and system controls in place and it was also queried whether financial remedy adequately compensated for a child's loss of education. In response, the Committee was advised that the Local Government Ombudsman considered maladministration as part of their investigations and whether appropriate policies were in place, and any concerns would be highlighted in their report. Financial remedy had been recommended by the Local Government Ombudsman, as financial recompense was one of the remedial powers available to them.
- As there had been three referrals relating to Education, Health and Care Plans, it was suggested that this could be an area of interest for Internal Audit. The Head of Internal Audit and Risk Management agreed to include this in the Council's risk based assessment for consideration.
- The Monitoring Officer agreed to share details of the nine ongoing cases, in particular the service areas, to ascertain whether there were any areas of concerns for the Committee to consider.
- The Monitoring Officer confirmed that where fault had been found, the complainant received an apology alongside the finding. However, as two of the six cases where fault had been found did not refer to an apology, the Monitoring Officer agreed to ascertain whether this had been the case.

## RESOLVED

That the Monitoring Officer's Annual Report 2019/20 be received.

## 7 LOCAL GOVERNMENT ASSOCIATION MODEL CODE OF CONDUCT

Consideration was given to a report which informed the Committee of the publication by the Local Government Association (LGA) of a consultation draft of a model Code of Conduct for Council members and invited the Committee to consider how to respond to the consultation. A copy of the Model Code was detailed at Appendix A to the report.

Following an initial comparison of the LGA's Model Code with the County Council's recently revised Code, the Monitoring Officer advised that there were differences between the two and in particular the inclusion in the LGA's Model Code of:-

- A requirement not to bring the Council into disrepute including by acting dishonestly.
- A requirement to act with civility.

- A requirement not to compromise the impartiality of anyone who works for or on behalf of the Council.
- A requirement not to misuse Council resources and facilities.
- A wider range of declarable interest going beyond the Disclosable Pecuniary Interests defined in law.

The LGA had initiated a period of consultation ending on 17 August 2020 and had identified a number of questions set out in Appendix B to the report.

It was advised that the Audit Committee was being consulted as the Committee with responsibility for reviewing any proposed changes to the Constitution. The County Councillors would also receive the Monitoring Officer's response to the LGA.

## RESOLVED

- (1) That the draft Model Code of Conduct issued for consultation by the Local Government Association be noted.
- (2) That the Monitoring Officer be delegated authority to determine the final form of the Council's response to the Local Government Association, in consultation with the members of the Audit Committee, and such other members as he considered appropriate.

## 8 INFORMATION ASSURANCE ANNUAL REPORT 2019/20

The Head of Information Assurance presented the Information Assurance Annual Report 2019/20, which summarised some of the key activity undertaken by the Information Assurance team during 2019/20. It focused on three core domains: data protection; records management; and information security (including elements of cyber security). Its purpose was to provide assurance to the Audit Committee, that the information assurance function was effective and responsive to challenges affecting the Council.

Three themes were highlighted:

- the focus on risk management;
- the need for continual improvement, both within the team and corporately; and
- the importance of positive engagement, for example with partners, suppliers and members of the public.

The Head of Information Assurance also highlighted that there were 259 security incidents during 2019/20. Of these, 89% had been due to human error, and were largely related to the unauthorised disclosure of information. For context, each year six million emails were sent outside the organisation.

The annual report also referred to engagement with the Information Commissioner's Office in two areas. Firstly, there had been twelve complaints of data protection infringement, of which seven had been upheld and three partially upheld, but all had now been resolved to the satisfaction of the Information Commissioner's Office.

Secondly, twelve data breaches were also reported to the Information Commissioner's Office, all of which had been resolved.

The following issues were raised by members of the Committee:

- The 25 instances of lost data / hardware often related to the laptops being stolen from vehicles. These losses were mitigated by the encryption of hardware, with all devices removed from the network. Processes were in place to check the loss of data from hard copy documents. The number of instances had fallen compared to the previous year.
- There was a potential reputational risk from security incidents and unauthorised disclosure. Only data breaches reaching a threshold, namely, where it was likely to pose a risk to the individual concerned, were reported to the Information Commissioner's Office. No concerns had been raised by the Information Commissioner's Office. Assurance was given that the Information Assurance Team was continually looking at ways of reducing the number of incidents and breaches.
- There was a request for the annual report to contain more information on the future focus of the Information Assurance Team, for example, hard copy legacy records. There was also a risk that the impact of Covid-19 had led to the creation of records outside the document management processes, which would be addressed in the recovery phase. In the meantime, guidance has been issued, for example to reducing paper copy formats outside the Council's offices.
- Council hardware items cannot be traced, as encryption was considered more appropriate to protect data, and the items could no longer connect to the network.
- Social workers were more likely to create manual records outside the organisation. However, they tended to be used to these ways of working and were provided guidance on how to manage the information they held appropriately.
- The percentage of staff trained on information governance e-learning had fallen from 90% in 2018/19 to 86% in 2019/20, owing to the impact of Covid-19 during March 2020, when most members of staff were expected to complete their information governance training, but could not do so, owing to the pressure on the Council's network at that time. E-learning has been supported by face to face training for example, on cyber security and records managements.
- In terms of state sponsored cyber-security threats, the County Council was a target, albeit low-level. Criminal activity, more specifically, phishing emails, represented the most prevalent threat, whereby an email to an individual member of staff would request sensitive information enabling the phisher to make financial gain or cause negative impact to the network. Recent improvements to the Council's network had provided additional protection and further reduced the Council's exposure, although vigilance would continue to be required at all times.

RESOLVED

- (1) That the information assurance activity for 2019/20 be noted.
- (2) That the key activity designed to give the Audit Committee confidence that the information assurance function remained effective and relevant to the Council's needs be noted.

9 DRAFT STATEMENT OF ACCOUNTS 2019/20

Consideration was given to a report by the Assistant Director – Strategic Finance, which presented the draft Statement of Accounts for Lincolnshire County Council; Local Government Pension Scheme and the Fire and Rescue Pension Fund for the financial year 2019/20. The draft Statement of Accounts was set out at Appendix A to the report.

The Committee was invited to scrutinise and comment on the draft Statement of Accounts for 2019/20. The final Statement of Accounts for 2019/20 would be presented to the Committee on 28 September 2020. Although the Government had deferred the deadline for publishing accounts to the end of August 2020, owing to the coronavirus pandemic, the County Council had made a decision to work to the earlier deadline and had published its accounts for public inspection on 1 July 2020. It was highlighted that auditors were already carrying out its annual audit on the draft statement of accounts.

The Committee had attended informal training on statement of accounts prior to the Committee's meeting on 13 July 2020. A note of the questions, answers and issues raised had been circulated in advance of the meeting and published to the Council's website.

It was highlighted that the coronavirus pandemic had resulted in increased uncertainty with some of the asset valuations in the Pension Fund accounts, which were detailed in the Statement of Accounts (page 160 of the agenda pack onwards). The fair value of unquoted assets (including alternatives and private equity holdings) was unavoidably subjective in normal circumstances and Covid-19 disruptions could increase this.

The Fund expected to start receiving the 31 March valuations in July 2020. When the valuations had been received, Fund Officers would consider their materiality, both individually and collectively, and revise the accounts to reflect the valuations if necessary. If these actual valuations were materially different from the original estimated valuations provided then this could indicate that a revised actuarial valuation of the pension fund net liability within the main accounts was required, as this could also have changed materially. If this was the case then revisions would be made to the main accounts and the amendments would be presented for auditing.

The following points were highlighted to the Committee:

- It was highlighted that the narrative report, which started on page 143 of the agenda pack, had also included the Revenue Budget Outturn Position 2019/20; Capital Gross Programme Outturn Position 2019/20; and the Council's Assets and Liabilities.
- Long term liabilities had included pension fund liabilities. The reduction in long term liabilities was largely as a result of the triennial valuation at April 2019. The pension fund's investment strategy had delivered a return of 32% over the previous triennial review period, versus the assumed growth of 4% per annum.
- Note 3 of the accounts sets out the Council's assumptions made about the future and other major sources of estimation uncertainty. Owing to the current uncertainties resulting from the coronavirus pandemic, the Council's assumptions would continue to be reviewed on a regular basis throughout the auditing of the accounts to ensure the assumptions were realistic.
- The Comprehensive Income and Expenditure Statement 1 April 2019 to 31 March 2020; Movement in Reserves Statement 1 April 2019 to 31 March 2020; the Balance Sheet as at 31 March 2020; and the Cash Flow Statement as at 31 March 2020; which were the key elements of the statement of accounts were detailed on pages 163-166 of the agenda pack.
- Comprehensive Income and Expenditure Statement 1 April 2019 to 31 March 2020 (Page 163) – the significant difference between 2018/19 and 2019/20 for *Sustaining and Growing Business and the Economy* was owing to a charge back of REFCUS [Revenue Expenditure funded from Capital under Statute], effectively where capital expenditure was charged back to revenue. Another area with a large variation was *Other Budgets*, this was owing to the adjustments made to the 2018/19 accounts because of the impact of the McCloud judgement on the pension contributions. Similarly with *other operating expenditure* – this was where the loss of assets was recorded and this could include when schools converted to academy status. There had also been a change to the *re-measurement of the net defined benefit*, which was owing to the pension liability as referred to above.
- The Lincolnshire Fire and rescue Pension Fund and the Local Government Pension Scheme accounts were set out from pages 292 onwards.

During discussion, the Committee made the following comments:

- Authors were commended for making the accounts accessible, through the narrative statement, notes and the overall presentation of information.
- It was reiterated that owing to the current uncertainties resulting from the coronavirus pandemic, the Council's assumptions would continue to be reviewed on a regular basis to ensure the assumptions were realistic.
- The Council had incurred an increase in cost and expenditure as a result of the coronavirus pandemic and although the Council had lost a relatively small amount of income (through the closure of heritage services) and this had not been to the same level as other authorities which had relied on commercial income. The Council had, to date, received £35 million of grant funding from the Government for coronavirus related activity and the use of this grant



funding, including any forecast expenditure, was being reported back to Government daily. The vast majority of expenditure had been used on personal protective equipment and support the adult care market. It was possible that the Council could exceed the £35 million grant funding. However, additional grant funding was anticipated.

- The Overview and Scrutiny Management Board was scheduled to consider the Council's standard budget monitoring reports at the end of summer 2020. The Committee was assured that scenario planning for any future coronavirus expenditure was taking place as part of the budget monitoring process.
- It was recognised that during the pandemic there would be savings being made across the Council and this would include savings through a substantial reduction in the amount of travel claims and printing requirements.

#### RESOLVED

That the comments of the Committee on the draft Statement of Accounts 2019/20 be noted.

#### 10 WORK PLAN

Consideration was given to a report which provided the Committee with information on the core assurance activities scheduled for the 2020/21 work plan.

The Committee was advised that members would receive a survey in August 2020 on the annual report. The Audit Committee Annual Report would be presented to the Committee for approval at its meeting on 28 September 2020.

The item on *Annual Audit Letters for Lincolnshire County Council & Lincolnshire Pension Fund for the year ending 31 March 2020* had been deferred from 28 September 2020 to 16 November 2020.

#### RESOLVED

- (1) That the Work Plan be amended accordingly.
- (2) That the actions identified in the Action Plan be noted.

The meeting closed at 1.00 pm.