

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

Councillors M G Allan (Vice-Chairman), S Bunney, P E Coupland and P A Skinner.

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

Officers in attendance:-

Katrina Cope (Senior Democratic Services Officer), Andrew Crookham (Executive Director Resources), Michelle Grady (Assistant Director – Finance), Claire Machej (Accounting, Investment and Governance Manager), Sue Maycock (Head of Finance (Corporate)), Lucy Pledge (Head of Internal Audit and Risk Management) and Amanda Reid (Senior Finance Technician).

9 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors J L King and A N Stokes.

It was noted that Councillor J L King was observing the meeting via Microsoft Teams.

10 DECLARATIONS OF MEMBERS' INTERESTS

Councillor M G Allan and P E Coupland wished it to be noted that they were members of the Lincolnshire Pension Fund Committee.

11 MINUTES OF THE MEETING HELD ON 13 JUNE 2022

RESOLVED

That the minutes of the Audit Committee held on 13 June 2022 be confirmed and signed by the Chairman as a correct record.

12 DRAFT STATEMENT OF ACCOUNTS 2020/21

Consideration was given to a report from Sue Maycock, Strategic Finance Lead – Corporate, which invited the Committee to scrutinise and comment on the draft Statement of Accounts 2020/21 for the Council and the Lincolnshire Pension Fund.

In a short introduction, Michelle Grady, Assistant Director of Finance advised the Committee of the background behind the report, the timescales for publishing the draft accounts, and

reassured the Committee that the draft accounts had been prepared in accordance with proper accounting practices and codes.

The Committee were invited to initially focus on the narrative report within the Statement of Accounts, which provided an overview of the Council's financial health, performance and highlighted the most significant areas of financial activity for the year for both the Council and the Lincolnshire Pension Fund.

The Committee was advised that the final audited accounts would be presented to the Committee at their meeting 14 November 2022, at which Mazars LLP would be attending to present their report and the outcomes of their audit.

Clarification was provided as to the taxation and non-specific grant income (Note 8), an updated sheet was circulated to all members of the Committee.

During consideration of this item, officers responded to the following points:

- The timetable for the process for the statements of accounts and whether there was likely to be any variation. The Committee was advised that the finance team were aware of their deadlines and that there were plans in place to ensure they met them. It was noted that previous delays had been caused by questions raised from the external auditors, and that these had been taken into consideration and incorporated within the timetable document. It was highlighted that the timetable for publishing the final accounts for this year was the end of November 2022, and that as far as officers were aware, the external auditors were able to resource that deadline. It was reported that the only challenge was the change in the code relating to infrastructure assets and the work required to ensure this was completed on time. It was noted that the timetable for next year would be the publishing of draft accounts by 31 May 2023, and final accounts by 30 September 2023. Reassurance was given that officers were in regular contact with the external auditors throughout the whole process;
- Reassurances were given that the Council was happy with the assumptions made in Notes 1 and 2;
- Clarification of underspends within the report with the use of brackets;
- The potential impact of the code changes and whether any external expertise was required. The Committee was advised that the main changes relating to leases; and that as a result of CIPFA training, the in-team had the expertise to deal with these changes;
- Reassurance was sought that going forward, with the potential changes to the code regarding infrastructure assets, the team had the necessary expertise in place. The Committee was advised that all authorities were in the same position, and that the Society of County Treasurers and CIPFA were looking into the matter and that CIPFA would be providing the necessary guidance required;
- Note 36 on page 121 – Exit Packages – Some concern was expressed to the number of redundancies, when there was a shortage of staff in some areas within the

Council; and whether staff had been offered the opportunity to train for re-deployment. The Committee was advised that changes had been around the delivery of efficiency savings; and the re-engineering of the Business Support function, making it more reliant on technology. It was noted that training and re-deployment was part of the process, but that some areas struggling to recruit were more specialist areas, such as social workers and childcare lawyers;

- The financial resilience of the Council for the next two/three years and how increasing costs would be managed. It was highlighted that the next three years would be difficult with the public sector pay debate (potentially 4%); householder increases; and the impact of the national living wage on outsourced contracts. There was recognition that for the next three to five years there needed to be a sustainable budget; and that more information regarding this matter would be known later in the autumn;
- Income and energy costs. Reassurance was sought as to how future costs pressures for i.e., Adult Social Care/health would be picked up and managed. It was noted that post pandemic, the Council had seen a sizeable increase in the children in care numbers, and the volatility of the care market in Lincolnshire. It was highlighted that there would be other factors to consider in the medium term budget position, as there was a lot of volatility overall. Reassurance was given that the Council was monitoring the national picture regarding national insurance. Reference was also made to the Integrated Care Partnership and its commitment to deliver integrated social care, and the implications arising from that resulting in increased costs in making the job roles in adult social care more attractive as a career;
- Pensions – Note 14, a question was asked when investment asset valuations using the three level fair value hierarchy would be used, and the overall risks associated with level three in the valuation of pension fund assets. It was noted that levels one and two looked at market evidence, including the underlying assets for pooled funds. At level three the biggest areas were unquoted holdings, including private equity, and private debt. These valuations were based on audited accounts and cashflow. It was highlighted that there were long-term investments, and that the valuation only reflected a point in time. Reassurance was given that valuations were subject to external audit of the investments accounts and were checked by the Fund's custodian. It was highlighted that the investment managers were also subject to an audit control regime which was tested and reviewed on an annual basis;
- Some concern was expressed that in the last financial year, earmarked reserves had been used and had not been replenished. The Committee noted that there would always be significant movement as grants were handled. It was highlighted that there would only be concern if reserves were used to fund ongoing costs, as normally reserves would be for one off costs, or limited costs;
- Annual Governance Statement. It was reported that the annual governance statement formed part of the draft accounting process, and that a report would be considered by the Committee at its September meeting. Some reference was made to the non-trading of Lincolnshire Future and Lincolnshire County Property. The Committee was advised that a review of the property function was currently being carried out, and that further information would be available to the Committee in due course;

- A joint meeting of the Chairmen/Vice Chairmen of the Overview and Scrutiny Management Board and Audit Committee on the 1 September 2022 to consider the budget in more detail;
- The impact of schools becoming academies or transferring to Multi-Academy Trusts on the valuation of assets. It was reported that as schools converted to academy status, their land and buildings were removed from the balance sheet along with the responsibility for maintaining these assets. It was reported that such transfers did not affect the Councils financial sustainability. It was highlighted further that it was proposed that the timeframe for the Government's proposal for all schools to convert to academies was 2030;
- PFI contracts and whether these transferred with the schools. It was noted that each individual case was assessed. The Committee was advised that the Council still had some PFI contracts relating to academy schools and that these were due to end in the year 2032; and
- The effect on cash flow concerning the non-collection of council tax. It was reported that budgets were set based on information received from district councils on their collection fund status, and that the district councils made assumptions regarding non-collection.

The Chairman extended thanks on behalf of the Committee to the team for producing the statements of accounts.

#### RESOLVED

That the comments raised by the Audit Committee on the draft Statement of Accounts 2021/22 be noted.

#### 13 INTERNAL AUDIT ANNUAL REPORT 2021/22

The Committee considered a report from Lucy Pledge, Head of Internal Audit and Risk Management, which provided the Head of Internal Audit's opinion on the adequacy of the Council's Governance, Risk and Control environment and delivery of the Internal Audit Plan for 2021/22.

Detailed at Appendix A to the report was a copy of the Internal Audit Annual Report 2021/22 for the Committee to consider.

During consideration of this item, the Committee raised some of the following comments:

- Staffing Issues – The Committee was advised that six new auditors had been recently appointed. However, the labour market was still turbulent, and as a result the team were making use of apprenticeships and building capacity within the team by developing and training existing staff in both leadership and professional skills; as the 25% turnover of staff had been unprecedented. Congratulations were extended to the internal audit team for their achievements;

- Whether reduced resources had affected engagement with management. It was reported that the team were working with client senior management to improve progress and delivery of audits in a remote (hybrid) working environment;
- Whether succession planning was in place. Reassurance was given that succession planning was in place, with coaching and mentoring and a recruitment plan. It was confirmed that recruitment was in-line with current processes;
- Reassurance was given that a robust performance framework was in place, which was monitored by the Corporate Leadership Team; and
- Overdue Actions – page 289, some concern was expressed at the length of time taken to complete two actions: Cyber Security and Treasury Management and Investment Strategy. It was reported that an update would be provided to a future Committee.

**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 – evaluating the overall effectiveness of the Internal Audit function in discharging its statutory responsibilities and meeting the Council’s ‘third line of defence’ assurance needs be noted.

**14      COUNTER FRAUD ANNUAL REPORT 2021/2022**

Consideration was given to a report from Matthew Waller, Audit Manager, which provided information on the overall effectiveness of the Authority’s arrangements to counter fraud and corruption and reviewed the delivery of the 2021/22 counter fraud work plan.

The Head of Internal Audit and Risk Management presented the report and assured the Committee that the arrangements in place to counter fraud remained effective. It was reported that the number of referrals received in 2021/22 had decreased, as had the level of recoveries. The Committee noted that the team had been able to deliver 90% of the work tasks included within the annual Counter Fraud Plan, a copy of which was attached at Appendix A to the report for the Committee to consider.

The Committee was also advised that the Lincolnshire Counter Fraud Partnership had continued its successful collaboration with its partner authorities, and that the key focus during 2021/22 had been a review of Single Person Discount, which had seen a positive impact as it increased Council Tax revenue collection, which benefitted both the district councils and Lincolnshire County Council.

During consideration of this item, the Committee raised the following comments:

- Thanks were extended to the Head of internal Audit and Risk Management and the Team for delivering 90% of the work tasks included in the Counter Fraud Plan;

- Clarification was sought regarding whistleblowing activity as shown on page 18 of the report pack that South Kesteven District Council and the City of Lincoln had seen the largest number of reports for 2021/22. The Committee was advised that that the activity related to contact and not to the number of fraud cases; and that there was no obvious reason why referrals related mainly to those two districts. It was however highlighted that the reason might be because the two districts had in-house fraud resources. Reassurance was given that all district councils took fraud very seriously;
- The positive work of the Lincolnshire Counter Fraud Partnership; and
- Investigation Outcomes – It was noted that significant fraud had been prevented to the value of £450,000, but what was the cost to fraud team. The Committee was advised that there was an allocated budget, and that during the past year the team had made the best use of its skill set. Some concern was raised that this area needed further investment as there was not enough resilience within the team. Reassurance was given that this matter was monitored through the annual plan and that there was a commitment by the Council to counter fraud and that the team were making sure that resources were used smarter.

On behalf of the Committee, the Chairman extended thanks to the Head of Internal Audit and Risk management and her team for all their hard work.

#### RESOLVED

That the overall effectiveness of the Council's arrangements to counter fraud and corruption and the progress made to implement the policy be noted.

#### 15 WORK PROGRAMME

The Head of Internal Audit and Risk Management introduced the work programme, which provided the Committee with core assurance activities currently scheduled for the 2022/23 work programme. A copy of the said work programme was attached at Appendix A to the report presented.

Also, detailed at Appendix B to the report was a copy of the Audit Committee Action Plan for 2022/23 for the Committee's consideration.

It was agreed that the Head of Internal Audit and Risk Management would liaise with the Chairman and Vice Chairman after the meeting regarding the number of items currently scheduled for the 26 September 2022 meeting.

#### RESOLVED

That the work programme presented, as amended above be received.

The meeting closed at 12.30 pm