



## **AUDIT COMMITTEE 25 MARCH 2019**

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

Councillors A P Maughan and P A Skinner

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

Officers in attendance:-

Rachel Abbott (Audit Team Leader), David Coleman (Chief Legal Officer), Dianne Downs (Team Leader - Counter Fraud and Investigations), David Forbes (County Finance Officer), Cheryl Hall (Democratic Services Officer), David Ingham (Information Assurance Manager), Claire Machej (Accounting, Investment and Governance Manager), Sue Maycock (Head of Finance (Corporate)), Mike Norman (External Auditor, Mazars), Lucy Pledge (Audit and Risk Manager), Sophie Reeve (Chief Commercial Officer), Alastair Simson (Principal Auditor), Nigel West (Head of Democratic Services and Statutory Scrutiny Officer) and John Wickens (Chief Digital Officer)

### 60 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors P E Coupland, R B Parker, A J Spencer and A N Stokes.

### 61 DAVID FORBES, COUNTY FINANCE OFFICER - RETIREMENT

The Chairman stated that this was the last meeting of the Audit Committee that David Forbes (County Finance Officer) would be attending and, on behalf of the Audit Committee; the Chairman wished David a long and happy retirement.

### 62 DECLARATION OF MEMBERS' INTERESTS

Andrew Middleton declared an interest as a lay member and Vice-Chairman of South West Lincolnshire Clinical Commissioning Group governing body. The Clinical Commissioning Group had a joint interest in Public Health Lincolnshire and formed part of the pooled budget for the Better Care Fund.

### 63 MINUTES OF THE MEETING HELD ON 28 JANUARY 2019

RESOLVED

That the minutes of the meeting held on 28 January 2019 be approved as a correct record and signed by the Chairman.

**64      EXTERNAL AUDIT STRATEGIES - LINCOLNSHIRE COUNTY COUNCIL  
AND PENSION FUND - 2018/19**

Consideration was given to a report by Mike Norman (Senior Manager, Mazars), which provided an update on the 2018/19 Audit Strategy and deliverables. The draft External Audit Strategy Memorandum for Lincolnshire County Council – 2018/19; and the draft External Audit Strategy Memorandum for Lincolnshire Pension Fund – 2018/19 were detailed at Appendices A and B to the report.

The Senior Manager of Mazars presented the appendices to the Committee and highlighted that the purpose of the draft external audit strategy documents was to summarise Mazar's audit approach; to highlight significant audit risks and areas of key judgements; and to provide details of Mazar's Audit Team.

Consideration was given to Appendix A (External Audit Strategy Memorandum for Lincolnshire County Council – 2018/19). Members were provided with an opportunity to ask questions, where the following points were noted: -

- Reference was made to the summary risk assessment, as detailed in a table on page 29 of the report, which highlighted those risks that were deemed to be significant or enhanced. It was advised that although Risk 3 – Revenue recognition had been identified as having a low financial impact and low likelihood, the risk would remain as a feature in Mazar's report. It was highlighted that under the International Standard on Auditing (ISA) 240, there was a presumed risk that revenue may be misstated owing to improper revenue recognition. Mazar's planned response was outlined on page 31 of the report. It was recognised that this would be of a more increased risk in the commercial sector, rather than in local authorities, however it was prudent to monitor this;
- It was confirmed that the Council's *draft Statement of Accounts* would be considered by the Committee at its meeting on 17 June 2019 and the *final Statement of Accounts for Lincolnshire County Council for the year ended 31 March 2019* at the meeting on 22 July 2019.

Consideration was given to Appendix B (External Audit Strategy Memorandum for the Lincolnshire Pension Fund – 2018/19). Members were provided with an opportunity to ask questions, where the following points were noted: -

- Reference was made to the summary risk assessment, as detailed in a table on page 50 of the report, which highlighted those risks that were deemed to be significant or enhanced;
- The framework for how Mazar's would liaise with Border to Coast Pensions Partnership Ltd, of which Lincolnshire was a partner, was yet to emerge. However, there would be a need to share information on risks;
- It was confirmed that the Council's Pension Committee was responsible for the approval of the investment strategy for the pension fund. It was also advised that the Lincolnshire Pension Board scrutinised the activities of the Committee.

Members of the Pension Committee were required to undertake relevant training before being able to sit on the Committee.

RESOLVED

That the content of the draft External Audit Strategy Memorandum for Lincolnshire County Council – 2018/19; and the draft External Audit Strategy Memorandum for Lincolnshire Pension Fund – 2018/19 be supported.

65 DRAFT INTERNAL AUDIT PLAN 2019/20

Consideration was given to a report by Lucy Pledge (Audit and Risk Manager), which presented the draft internal audit plan for 2019/20. The draft audit plan for 2019/20 was detailed at Appendix A to the report.

The Committee was advised that the plan had been developed using a combination of:

- the Council's combined assurance model – which was a record of all assurances against the Council's critical activities and key risks;
- an assessment of risk – based on the significance and sensitivity of key activities;
- consultation with senior management; and
- issues raised by the Audit Committee.

The Audit and Risk Manager highlighted page 68 of the report, which detailed the dynamic internal audit plan. The dynamic plan provided information on current planned audits, in order of priority. It was confirmed that this was updated on a quarterly basis.

It was also highlighted that the budget for the Internal Audit function for 2019/20 was £488,926, which would deliver 1,740 days to the Council and included increased capacity supporting the Council's workforce strategy. The number of planned days had increased by circa 400, which included these posts and the resource required in developing the next generation of auditors (via supporting two university graduates as part of their degree through professional placements; establishing three apprenticeships; and providing Easter and summer work placements for University students).

It was confirmed that the audit area on 'Future Funding of Adult Care – Green Paper', as detailed on page 69 of the report, would address the issues of the Better Care Fund. Furthermore, it was confirmed that the Council's Audit Team would welcome working collaboratively with the local NHS audit teams. A key aspiration of the Council's Management Board was to increase collaborative working with the local NHS.

The Committee supported the content of the draft plan and complimented officers for how clearly it had been written.

## RESOLVED

That the draft Internal Audit Plan for 2019/20 be approved.

**66      REVIEW OF GOVERNANCE FRAMEWORK AND DEVELOPMENT OF  
THE ANNUAL GOVERNANCE STATEMENT 2018/19**

A report by Lucy Pledge (Audit and Risk Manager) was considered, which provided the Committee with the opportunity to review the contents of the draft Annual Governance Statement 2018/19, ensuring that it accurately reflected the Committee's understanding of the Council's governance and assurance arrangements. The draft statement was detailed at Appendix A to the report.

It was highlighted that the Council had a strong control environment, which was demonstrated by the realistic and open assessment of its functions and activities. A number of governance issues had been identified for inclusion in the Annual Governance Statement.

The final Annual Governance Statement would be presented to the Committee at its meeting in June 2019 for approval.

Reference was made to page 89 of the report, which detailed two significant governance issues for improvement: IT Governance; and Fairer Funding – Financial Sustainability. The Council's Corporate Management Board had requested that Fairer Funding – Financial Sustainability be removed from this list, as it was deemed that good governance processes and structures were already in place. The Committee supported this request.

The Committee suggested the following amendments to page 95 of the report:

- Reference was made to the information contained in the fourth paragraph relating to business rates collection. It was suggested that this information be removed, as it did not add any strength to the overall statement.
- That statistical information be included to support the statement that '...there has been no general increase in public dissatisfaction across the board'.

## RESOLVED

That the content of the draft Annual Governance Statement 2018/19 be supported, subject to the above amendments being made.

**67      COUNTER FRAUD ANNUAL PLAN - 2019/20**

Consideration was given to a report by Matt Drury (Principal Investigator), which provided the Committee with information on the proposed counter fraud activities for 2019/20 and draft Counter Fraud Work Plan.

The Team Leader – Audit presented the report and in doing so, highlighted that the Counter Fraud Plan 2018/19 had been developed to deliver a proportionate response

to the risk of fraud for both Lincolnshire County Council and its partners in the Lincolnshire Counter Fraud Partnership. The Council's counter fraud arrangements had been designed to adhere to the principals and specific areas expected and identified in the CIPFA's Code of Practice.

The draft work plan, which was detailed at Appendix A to the report, had followed best practice guidance and addressed priorities highlighted in the Council's fraud risk assessments.

It was highlighted that the Lincolnshire Counter Fraud Partnership had been established in 2015 and comprised all local authorities and the Police in Lincolnshire. The potential for incorporating the local NHS in the partnership was discussed and it was agreed this would be explored.

In response to a question, it was confirmed that the Committee received counter fraud progress reports and the counter fraud annual report at meetings programmed throughout the year, as identified in the Committee's work programme.

#### RESOLVED

That the Counter Fraud Work Plan for 2019/20 be approved.

#### 68 INTERNATIONAL AUDIT STANDARD - RESPONSE TO MANAGEMENT PROCESSES QUESTIONS

Consideration was given to a report by Dianne Downs (Team Leader – Audit), which provided the Committee with an assessment around whether the County Council and Pension Fund financial statements might be misstated owing to fraud or error.

It was highlighted that each year the Council's external auditors were required to obtain an understanding of the Council's management processes in a number of areas. The International Auditing Standards specified the areas concerned, which were detailed in the report, together with details of the Council's current processes.

The County Council had been assessed by the external auditors as 'low risk' that the financial statements might be materially misstated owing to fraud or error.

#### RESOLVED

That the Committee's view that the assessment accurately reflects the Council's management processes to minimise the risk of fraud or error in the County Council and Pension Fund financial statements be recorded.

#### 69 STATEMENT OF ACCOUNTS 2018/19 - ACCOUNTING POLICIES

A report by Sue Maycock (Head of Finance – Corporate) was considered, which summarised changes to the Code of Practice on Local Authority Accounting; the broad requirements of the Accounts and Audit Regulations 2015; and the review of

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the Council's accounting policies for both the main financial statements and the Lincolnshire Pension Fund statements.

The Head of Finance – Corporate presented the report to the Committee and in doing so advised that the amended accounting requirements and disclosures as required by the Code of Practice would be incorporated into the Statement of Accounts for 2018/19.

It was confirmed that the Statement of Accounts would be prepared using the Accounting Policies, as detailed in the report.

**RESOLVED**

- (1) That the changes required to the Statement of Accounts from the Code of Practice 2018/19 be noted.
- (2) That it be noted that no amendments had been made in 2018/19 to the Accounts and Audit Regulations 2015.
- (3) That the Statement of Accounting Policies, as detailed at Appendix A to the report, be approved for use in preparing the Council's accounts for the financial year ending 31 March 2019.
- (4) That the Statement of Accounting Policies, as detailed at Appendix B to the report, be approved for use in preparing the Local Government Pension Scheme Pension Fund accounts for the financial year ending 31 March 2019.

**70      CHANGES TO THE COUNCIL'S CONTRACT REGULATIONS**

Consideration was given to a report by Sophie Reeve (Chief Commercial Officer), which proposed changes to the Contract Regulations in the Council's Constitution, firstly to increase the threshold above which the Council must seek competitive quotes, and secondly to amend the thresholds governing who could take decisions to approve exceptions to the Contract Regulations.

The Committee, in accordance with its terms of reference, was asked to consider the proposed changes and recommend those changes for adoption to the meeting of County Council in May 2019.

The Committee accepted the rationale for the proposals set out in paragraphs 1.7 and 1.8 of the report relating to increasing the threshold above which the Council was required to seek competitive quotes for low and medium value procurements.

The report also included the following specific proposals (paragraph 1.12 of the report):

- setting the exception route threshold for chief officers at £250,000 (subject to consultation with the relevant executive councillor for contracts valued between £75,000 and £250,000);

- setting the exception route thresholds for an executive councillor decision between £250,000 and the EU's health and social care contract threshold (currently £615,278); and
- setting the exception route threshold for the Executive at contracts valued above the EU's health and social care contract threshold (currently £615,278).

The Committee gave more detailed consideration to the rationale for the above proposals and more clarification was requested on the supporting rationale.

It was agreed that the following comments of the Committee be included in the report to the County Council:

The Committee supported the proposals set out in paragraphs 1.7 and 1.8 of the report relating to increasing the threshold above which the Council was required to seek competitive quotes for low and medium value procurements. However the Committee felt further justification for the proposed changes in paragraph 1.12 was required to support the rationale, as outlined in the report.

#### RESOLVED

That the following comments of the Committee be included in the report to the County Council:

The Committee supported the proposals set out in paragraphs 1.7 and 1.8 of the report relating to increasing the threshold above which the Council was required to seek competitive quotes for low and medium value procurements. However the Committee felt further justification for the proposed changes in paragraph 1.12 was required to support the rationale, as outlined in the report.

#### 71 INTERNAL AUDIT PROGRESS REPORT

A report by Rachel Abbott (Team Leader – Audit) was considered, which provided details of the audit work during the period of 11 January to 12 March 2019; advised on progress with the 2018/19 plan; and raised any other matters that might be relevant to the Committee.

The Principal Auditor presented the report to the Committee and in doing so advised that during the period thirteen audits had been completed: six final assurance reports; three consultancy reports; and four school audit reports.

Of the six final assurance reports: Health and Safety; and Pension Admin had received high assurance; Interests, Gifts and Hospitality Registers (Members) had received substantial assurance; and Cyber Security; Tax Compliance Employee Expenses and Benefits; and Interests, Gifts and Hospitality Registers (Officers) had received limited assurance.

The Committee received information on those areas that had received limited assurance.

Cyber Security

The outcome of the work on Cyber Security would be covered under Minute 76, IMT Assurance.

Tax Compliance Employee Expenses and Benefits

The Chief Finance Officer advised that the review had identified that clear responsibility for ensuring compliance with HM Revenue and Customs requirements on employee benefits and expenses had not been indicated owing to a change in personnel.

It was advised that an agreement had been made that this responsibility should rest with human resources staff, as it was deemed not to be a finance function. This would ensure clear accountability would lie with human resources, which would assist in ensuring compliance.

It was also advised that external expertise would undertake a review into the County Council's processes and this would commence in 2020.

Interests, Gifts and Hospitality Registers (Officers)

The review had found that although some monitoring and governance controls were in place, there was some evidence of non-compliance with the policy; the quality of the information provided on the declaration forms could be improved; and the supporting guidance could be clarified.

The Head of Democratic Services advised that the content of the policy was currently being reviewed so that all staff understood their responsibilities in declaring interests, gifts and hospitality. Managers would be offered training to assist with understanding and the declaration forms would be amended to reduce the risk of any confusion and non-compliance.

**RESOLVED**

That the outcomes of Internal Audit's work be noted.

**72**     MEMBER STANDARDS ARRANGEMENTS

A report by David Coleman (Chief Legal Officer and Monitoring Officer) was considered, which proposed the establishment of a working group of members to consider the Committee on Standards in Public Life report on *Local Government Ethical Standards* and invited the Committee to consider whether changes to the Code and Local Arrangements should be made as a result of the report.

The Committee was reminded that the Council had adopted its Member Code of Conduct ("The Code") and Local Arrangements for Dealing with Standards Complaints ("The Local Arrangements") in 2012. The Code consisted of the seven

Principles of Public Life, supplemented by the addition of a further principle: "Respect".

The publication of a report on *Local Government Ethical Standards* by the Committee on Standards in Public Life in January 2019 and the outcome of a recent Internal Audit report on Officers and Members Gifts and Hospitality provided the Council with the opportunity to review its current standards arrangements, including both the Code of Conduct and the Local Arrangements.

The Committee supported the proposal to establish a working group. It was advised that group leaders would be invited to provide nominations to form part of the group, with a membership of between seven to nine councillors.

Any proposed changes to the Code or the Local Arrangement by the working group would be presented to the Audit Committee, prior to a meeting of County Council.

#### RESOLVED

That support be given to the proposal, as outlined in the report, to establish a working group of members to:

- 1) Consider the Committee on Standards in Public Life report on Local Government Ethical Standards.
- 2) Consider whether changes to the Code and Local Arrangements should be made as a result of the Report or otherwise.
- 3) Consider whether any changes should be made to any other elements of Part 5 of the Constitution which relate to standards.

#### 73 GOVERNANCE REVIEW - CULTURE AND VALUES REPORT

Consideration was given to a report by Lucy Pledge (Audit and Risk Manager), which presented the Governance Review – Cultures and Values Report.

The Committee was advised that the review had focused on the Council's awareness and understanding of its culture and values, highlighting how well the Council's governance arrangements worked in practice.

The review had identified that the Council had well-defined values that were understood and influenced the culture of the authority. Although cultural differences across the service areas had been found, they were seen to be beneficial for the differences between the service areas.

The review had concluded that overall the Council had reached Level 3, with a good culture and ethical framework that was working well for the Council and its partners.

The report contained thirteen recommendations, which were detailed on pages 254-255.

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In response to a question, it was advised that staff surveys were undertaken every two years. The response rate by officers and councillors were discussed and although it was overall a positive message, further improvements to this could be made.

RESOLVED

That the report be noted and that the implementation of agreed actions be tracked in the Committee's work plan for 2019.

74     WORK PLAN

Consideration was given to a report which provided the Committee with information on the core assurance activities currently scheduled for the 2018/19 work plan.

The Committee was reminded that a joint workshop with the Overview and Scrutiny Management Board on the *lessons learned from Northamptonshire County Council – Culture and Accountability* had been arranged for the afternoon of 30 May 2019. The Chairman encouraged the Committee's attendance at this workshop.

The availability of each member of the Committee was sought for dates in early June 2019 to undertake training in readiness for the annual statement of accounts. It was requested that the Democratic Services Officer seeks the availability of those members not present and to circulate information on the date of the session.

RESOLVED

- (1) That the work plan be approved.
- (2) That the Democratic Services Officer be requested to liaise with members of the Committee on their availability for training in early June 2019 on the annual statement of accounts and to circulate details of the identified date.

75     CONSIDERATION OF EXEMPT INFORMATION

RESOLVED

That in accordance with section 100(A) (4) of the Local Government Act 1972, the public and press be excluded from the meeting for the consideration of the following item of business on the grounds that if they were present there could be a disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

76     IMT ASSURANCE

Consideration was given to an exempt report by John Wickens (Chief Digital Officer) and David Ingham (Information Assurance Manager) on IMT Assurance.

The Committee, during its consideration of the report, asked questions on the content of the report and officers present responded to those questions.

**RESOLVED**

- (1) That the content of the exempt report be noted.
- (2) That the Committee receive a further update on IMT Assurance as part of the annual Combined Assurance reporting in January 2020.

The meeting closed at 1.15 pm.

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