

Audit Committee Annual Report 2020 Draft

“Audit Committees are a key component of corporate governance and are an important source of independent assurance about the Council’s arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance”



The 10 General Principles of Public Life

<p>Selflessness Members should serve only the public interest and should never improperly confer an advantage or disadvantage on any person.</p>	<p>Personal Judgement Members may take account of the views of others, including their political groups, but should reach their own conclusions on the issues before them and act in accordance with those conclusions.</p>
<p>Honesty and Integrity Members should not place themselves in situations where their honesty and integrity may be questioned, should not behave improperly, and should on all occasions avoid the appearance of such behaviour.</p>	<p>Respect for Others Members should promote equality by not discriminating unlawfully against any person, and by treating people with respect, regardless of their race, age, religion, gender, sexual orientation or disability. They should respect the impartiality and integrity of the authority's statutory officers and its other employees.</p>
<p>Objectivity Members should make decisions on merit, including when making appointments, awarding contracts, or recommending individuals for rewards or benefit.</p>	<p>Duty to Uphold the Law Members should uphold the law and, on all occasions, act in accordance with the trust that the public is entitled to place in them.</p>
<p>Accountability Members should be accountable to the public for their actions and the manner in which they carry out their responsibilities, and should cooperate fully and honestly with any scrutiny appropriate to their particular office.</p>	<p>Stewardship Members should do whatever they are able to do to ensure that their authorities use their resources prudently, and in accordance with the law.</p>
<p>Openness Members should be as open as possible about their actions and those of their authority, and should be prepared to give reasons for those actions.</p>	<p>Leadership Members should promote and support these principles by leadership, and by example, and should act in a way that secures or preserves public confidence.</p>

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This report has been prepared solely for the use of Members and Management of Lincolnshire County Council. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work plan or not brought to our attention. The opinion is based solely on the work undertaken as part of the Audit Committee work plan.



The Audit Committee is the Council's vital "watchdog" promoting and ensuring good governance and accountability



I am pleased to present the Annual Report of the Audit Committee which describes our achievements, the issues handled and the focus of the Audit Committee during 2019/20.

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

It also aims to show how the Audit Committee continues to deliver the responsibilities delegated to it by the council - as set out in the Constitution and in line with guidance and best practice.

The Audit Committee has once again had a positive and productive year – delivering on a challenging program of work which has focussed on the oversight of:

- ✓ the council's financial reporting process.
- ✓ internal and external audit arrangements and outcomes.
- ✓ systems and processes for managing risk and internal control – particularly gaining assurance on how the changing service delivery models arising from the coronavirus pandemic impacts the council's governance, risk and control environment.
- ✓ counter fraud arrangements.
- ✓ the council's governance arrangements – supporting good governance and strong public financial management.

I wish to thank the members of the Committee for their hard work during the year. I also wish to record my thanks to the Executive Director – Resources, Assistant Director – Finance, Internal and External Auditors, Democratic Services and to Officers of the Council, for their help and support.

Cllr Sue Rawlins
Chairman of the Audit Committee
August 2020



Overall Opinion & Key Issues



Overall Opinion

The onset of Covid19 has had a significant impact on all areas of the public sector and peoples lives.

The council has had to respond swiftly to the ever changing environment to deliver new and existing operations. Whilst it is recognised that 2019/20 was largely unaffected by the pandemic the Audit Committee has sought assurance on how well the council's governance, risk and control mechanisms stood up to these rapid, exhaustive and dynamic changes.

Based on the information presented during 2019/20, it is the view of the Audit Committee that:

- ✓ the governance framework has adapted well and operated adequately in these challenging times.
- ✓ risk reporting was ramped up - with embedding of a more continuous risk sensing process and more frequent oversight being undertaken by the Corporate Leadership Team.
- ✓ Internal Audit responded appropriately by re-focussing it's assurance plans. They worked collaboratively with the risk function to provide assurance where it was needed most – particularly on emerging risk issues.
- ✓ The council expects to have positive financial and value for money opinions for 2019/20.
- ✓ The council's Annual Governance Statement provided an open and honest account on how well the council is being run – referencing the impact of Covid-19.

These assurances aim to give Lincolnshire residents confidence in how the council continues to deliver vital public services - demonstrating strong financial management of public funds.

As a result of our work, the Audit Committee would also like to draw to the attention of the Council the following governance issue:

Significant Governance Issue

Reviewing lessons learned from our response to Covid-19– implementing a re-set plan over the short, medium and longer term.

Transformation and recovery critical success factors will be monitored throughout the year by the Executive and Corporate Leadership Team.



Overall Opinion & Key Issues



Overall Opinion (continued)

Key Issues

During the year the Audit Committee, in addition to its core activities, assessed the following key issues and were satisfied that management were taking action to address the issue. As part of this assessment, the Audit Committee received reports, requested and received clarification from management and sought assurance from the internal and external auditors.

The Chairman briefed the Chief Executive and Leader of the Council as necessary.

IT Governance and Assurance (July 2020)

IT Governance and Cyber Security continues to be a key risk and issue for the council. We received assurances and information on how this high profile risk is being managed and the continued steps being taken to improve the Council's IMT arrangements.

Adult Care & Community Wellbeing – Financial Assessments (November 2019)

We received assurances from the Executive Director - Adult Care & Community Wellbeing on the improvements made to the financial assessment process – confirming that:

- ✓ revisions had been made to the charging policy for both residential and non-residential clients, which had simplified the process and introduced electronic ways of working.
- ✓ backlogs had reduced and will be cleared by January 2020.
- ✓ support had been provided to Serco in terms of staff resilience and capabilities, with staff turnover reducing significantly.

Strategic Risk – Adult Care - Market Supply (November 2019)

We received assurances from the Executive Director - Adult Care & Community Wellbeing on how this high risk was being managed and the continued steps being taken to strengthen the sector. The council has provided support and advice to its supply chain through the pandemic – ensuring that vital services continue to be delivered.

Moving forward to the 'new normal' will demand an adjustment to business processes, with technology and data at the centre of it. We will be seeking assurance on the impact of Covid-19. Evaluating the adequacy of the changing governance, risk and control environment emerging from new operating models and ways of working / delivering services. This will be a key focus for 2021.



Financial Reporting

The council has little discretion to influence the content of the statements as they are prepared in accordance with proper accounting practices.

The Statement of Accounts 2019/20 provides a summary of the council's financial transactions in the year, and a "snapshot" of the Council's financial position as at 31 March 2020. It is therefore a key document for the Council and the Audit 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 closedown timetable was achieved.

The coronavirus pandemic has resulted in the audit deadline being moved to 30th November 2020.

No material issues have been identified from the work carried out by External Audit to date. External Audit are proposing to issue unqualified opinions – with an **emphasis of matter*** paragraph in the audit opinion for both the Council and Pension fund in response to the disclosed material uncertainty in asset valuations caused by Covid19.

* This is a statement to a **matter** appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

We anticipate that the Council's External Auditors will report the following on our:

Financial statements	Issue an unqualified opinion on both the Council's and Pension Fund financial statements – 2019/20. An emphasis of matter paragraph will be included in the audit opinion for both the Council and Pension fund in response to the disclosed material uncertainty in asset valuations caused by Covid19.
Control Environment	Determined the overall control environment was adequate.
Accounts Production	Stated that they did not encounter any significant difficulties during the audit and had the full co-operation of management and staff. A major achievement during the coronavirus pandemic, the rapid change to remote working and is down to the hard work of the council's Finance Team.
Value for Money arrangements	That the Council has made proper arrangements to secure economy, efficiency and effective use of its resources. This is about the arrangements to ensure properly informed decisions are taken and resources are deployed to achieve planned and sustainable outcomes for the taxpayer and local people.



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.

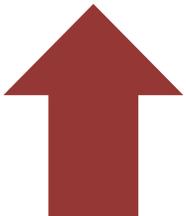
The Audit Committee plays a key role in monitoring the effectiveness of counter fraud and whistleblowing arrangements. We have assessed the overall effectiveness and the progress made to implement policy as **good**.

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

Cllr A Maughan acts as our counter fraud champion.

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.



£114K - The increase in financial recoveries from fraud

£1.56m – Large fraud stopped



Governance & Risk



Governance

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

- Executive Directors annual assurance reports – reviewed in February 2020.
- The Head of Internal Audit Annual Report and Opinion on the council's governance, risk and control environment – reviewed July 2020.
- Updates on outcomes from Internal Audit & External Audit work throughout the year
- Outcome of the peer review.

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 put in place.

Corporate oversight and risk reporting was ramped up – with embedding of a more continuous risk sensing process and more frequent oversight being undertaken by the Corporate Leadership Team.

During the year council's governance arrangements were assessed as **performing adequately – some improvements required.**

Risk & Internal Control

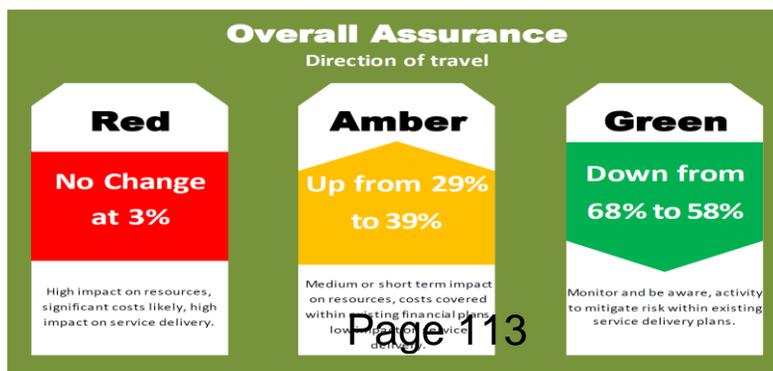
The role of the Audit Committee on risk management covers 3 key areas:

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

The Audit 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.

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





External and Internal Audit



Audit quality is a key requirement

External Audit

The Audit Committee has responsibility for overseeing the council's relationship with the external auditor, including reviewing the quality of their performance, their external audit plan and process, their independence and fees.

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 teams assistance during the audit.

The Audit Committee fully reviewed the draft financial statements in July & Sept 2020 Committee.

Prior to the statutory audit - Mazars presented their strategy, key risks and scope of the audit.

Our External Auditor, has substantially completed their work on the financial statements and value for money opinion for the year ended 31st March 2020.

On completion of their work they will provide an opinion on the council's financial statements and its arrangements for securing value for money.

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

We anticipate the final External Audit Report and Audit Letter in November / December 2020.

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. have been properly prepared on a going concern basis.
- all necessary information has been provided.

Internal Audit

The Audit Committee reviewed and agreed the internal audit plan, which we believe is appropriate for the Council - in terms of focus and resources. The internal audit plan is risk based and was rapidly updated to reflect the current risk and assurance environment resulting from Covid-19.

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

The Audit Committee reviewed the effectiveness of the internal audit function and confirmed that its professional practice conforms to the Public Sector Internal Audit Standards. An External Quality Assessment is planned for late 2021.



Looking Ahead



In 2020/21 the Audit Committee aims to continue to build on its role and will set out to seek assurance on the following:

- we will meet with the Corporate Leadership Team to fully understand the updated accountability and assurance framework.
- moving forward to the 'new normal' will demand an adjustment to business processes, with technology and data at the centre of it. We will seek assurance around the transformation programme and its key projects – including the implementation of the council's ERP system (Business World On) and the SMARTER working operating model.
- the council's Strategic Risk Register is updated following the publication of the new Corporate Plan and its risk appetite is clearly understood and applied throughout the council.
- 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 Peer Review 2019 & Governance Review 2019 (where relevant in the current operating environment).
- Implementation of improvement actions arising from the Employee Survey 2019 (where relevant in the current operating environment).

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 7 councillors and 2 independent members. The composition and attendance of the Committee during the year can be found in **Appendix 1**.

The importance of the Audit Committee remains vital in looking forward to 2019/20 and beyond – in the context of continued financial pressures, reshaping of services, new models of service delivery and the growing demand for public services. Our role is to increase public confidence about how well the Council is run – providing independent assurance and challenge to the Executive – over governance, risk management and control processes. Our terms of reference can be found in **Appendix 2**.

The Committee met 5 times up to 13th July 2020. 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:

- meeting with the Corporate Leadership Team to gain an understanding of the revised accountability and assurance framework – following the publications of the Corporate Plan, strategies etc.
- obtain feedback from other council members on our impact and how we can enhance our effectiveness.
- establish practical ways we can undertake post meeting reviews / debrief to help inform the Chairman's update to the Leader / Chief Executive.
- 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.



Appendix 1

Audit Committee Composition & Attendance



Chairman

**Councillor
Mrs S Rawlins**



Vice Chairman

**Councillor A
Spencer**

Name	Audit Committee Attendance (Out of 5 possible Meetings)
Councillor S Rawlins	5
Councillor A Spencer	4
Councillor P Coupland	4
Councillor A Maughan	5
Councillor P Skinner	5
Councillor R Parker	5
Councillor A Stokes	4
Mr Ian Haldenby	5
Mr A Middleton	5



**Councillor
P Coupland**



**Councillor
A Maughan**



**Councillor
P Skinner**



**Councillor
R Parker**



**Councillor
A Stokes**



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



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



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.



Audit Committee Terms of Reference

- 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 the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those sources.
 - ❖ To approve significant interim changes to the risk-based internal audit plan and resource requirements.
 - ❖ To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.
 - ❖ To consider reports from the Head of Internal Audit on internal audit's performance during the year. These will include:-
 - a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
 - b) Regular reports on the results of the Quality Assurance and Improvement Programme.
 - c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
 - ❖ To consider summaries of specific internal audit reports of significance or as requested
 - ❖ To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
 - ❖ To support the development of effective communication with the Head of Internal Audit.



Audit Committee Terms of Reference

External Audit

- ❖ To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- ❖ To consider specific reports as agreed with the external auditor.
- ❖ To comment on the scope and depth of external audit work and to ensure it gives value for money.
- ❖ To liaise with the appropriate body over the appointment of the Council's external auditor.
- ❖ To commission work from internal and external audit.
- ❖ To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Regulatory Framework – Governance, Risk and Control

- ❖ To maintain an overview of the Council's Constitution.
- ❖ To review any issues referred to it by the Chief Executive, Director or any Council body.
- ❖ To monitor the effective development and operation of risk management and corporate governance in the Council.
- ❖ To monitor progress in addressing risk-related issues reported to the committee.
- ❖ To review the assessment of fraud risks and potential harm to the council from fraud and corruption.



Audit Committee Terms of Reference

- ❖ To monitor the counter-fraud strategy, actions and resources.
- ❖ To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- ❖ To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances
- ❖ To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
- ❖ To consider the Council's compliance with its own and other published standards and controls.
- ❖ To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

Accounts

- ❖ To review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- ❖ To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- ❖ Duty of approve the authority's statement of accounts, income and expenditure and balance sheet.



Appendix 2

Audit Committee Terms of Reference

Standards

- ❖ Promoting and maintaining high ethical standards by Councillors and non-elected members.
- ❖ Assisting the Councillors and added members to observe the Members' Code of Conduct.
- ❖ Advising the Council on the adoption or revision of the Members' Code of Conduct.
- ❖ Monitoring the operation of the Members' Code of Conduct.
- ❖ Advising, training or arranging to train Councillors and added members on matters relating to the Members' Code of Conduct.
- ❖ Determining complaints of breaches of the Code of Conduct for Members referred for hearing by the Monitoring Officer.



Appendix 3

Audit Committee Activities

Audit Committee activities	Sept	Nov	Feb	March	June	July
Financial Reporting						
Financial Regulations Update	x	x				
Accounting Policies					x	
Draft/Approval Statement of Accounts for Lincolnshire County Council & Lincolnshire Pension Fund						x
External Auditors						
Annual Audit Letters for Lincolnshire County Council and Lincolnshire Pension Fund	x					
Progress Reports			x			
External Audit Strategies – Lincolnshire County Council and Lincolnshire Pension Fund					x	
Internal Audit						
Head of Internal Audit Opinion & Annual Report						x
Internal Audit Plan – revised & impact of Covid-19						x
Progress Reports	x	x	x		x	



Appendix 3

Audit Committee Activities

Audit Committee activities	Sept	Nov	Feb	March	June	July
Governance and Risk Management						
Risk Management update on Strategic Risk Register	x		x			
Draft/Approval of Annual Governance Statement					x	x
Report on Corporate and Statutory Complaints			x			
Governance Review – Culture and Values Report			x			
Code of Conduct – working group feedback on model code		x				x
Monitoring Officer’s Annual Report						x
Counter Fraud						
Annual Report on the Council’s Whistleblowing arrangements		x				
Counter Fraud Risk Register	x					
Counter Fraud Annual Report					x	
Counter Fraud Progress Report		x				



Appendix 3

Audit Committee Activities

Audit Committee activities	Sept	Nov	Feb	March	June	July
Special Interest Items						
Financial Assessments and the Strategic Risk – Market Supply		x				
Review of Audit Committee Terms of Reference and Internal Audit Charter		x				
Developments in Audit and Governance		x				
Combined Assurance Reports			x			
Information Assurance Annual Report						x
Audit Committee work plan	x	x	x		x	x
Audit Committee Annual Report	x					

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