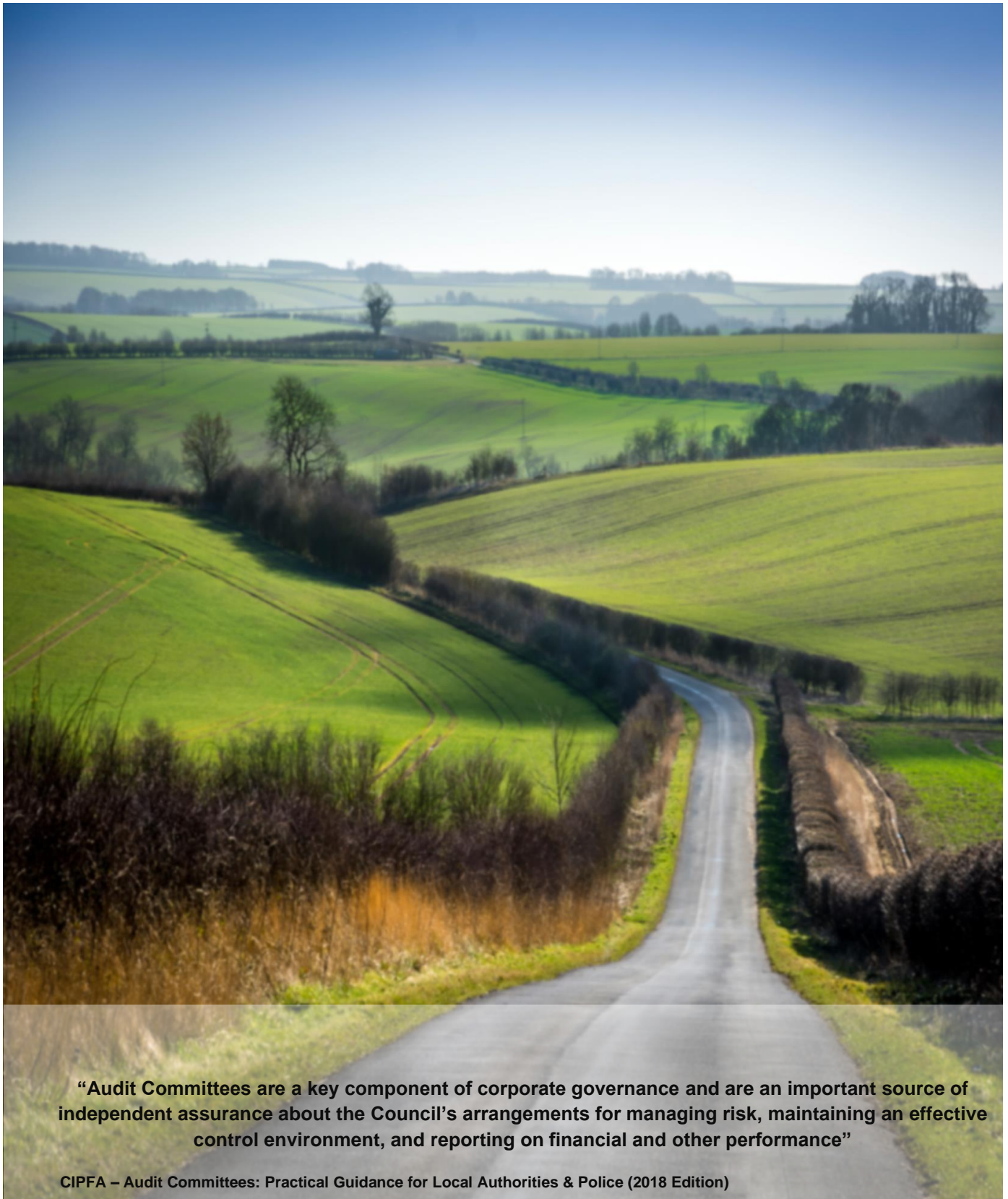


# Agenda Item 5

## Draft - Audit Committee Annual Report 2021



## Contents

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

# The 10\*General Principles of Public Life

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

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

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



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

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

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

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

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

Cllr Sue Rawlins  
Chairman of the Audit Committee  
February 2022

# Overall Opinion

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

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

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

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

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

# Finance

## Finance Reporting

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

We reviewed and had the opportunity to comment on the statements of accounts and the narrative that accompanies them during the drafting process to ensure that the key messages in the narrative clearly gave fair and balanced information so that people could understand the Council's financial position.

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

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

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

## External Audit Annual Report

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

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



# Finance

The reporting criteria are:

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

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

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

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

## Financial Management Code

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

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

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

## Counter Fraud

The Council has a **zero tolerance** to fraud.

Any instances of fraud or misconduct reported through the Council's whistleblowing arrangements should be reported to our Internal Audit function, who then evaluate each incident for action / investigation.

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

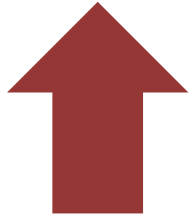
We received regular updates on performance against the 2019/20 Counter Fraud Work Plan and the outcomes of proactive fraud work and investigations.

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

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

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

During 2019/20 we have:



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

**£60K – Fraud stopped**

**£4.5m – Large fraud stopped**



# Governance and Risk

## Governance

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

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

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

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

## Risk and Internal Control

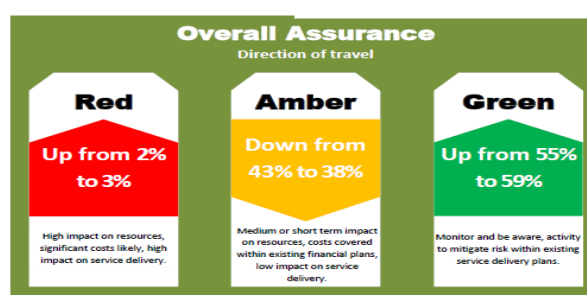
The role of the Committee on risk management covers 3 key areas:

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

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

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

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



# External and Internal Audit

**“Audit quality is a key requirement”**

## External Audit

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

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

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

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

The Chairman of the Audit Committee and the Executive Director – Resources confirmed to the Auditors that:

- the financial statements give a true and fair view of the Council’s financial position and have been properly prepared on an on-going concern basis.
- all necessary information has been provided.

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

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

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

## Internal Audit

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

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

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

## Looking Ahead

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

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

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

# Your Audit Committee

The Audit Committee is a regulatory committee made up of seven councillors and two independent members. The composition and attendance of the Committee during the year can be found in **Appendix 1**.

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

The Committee met five times up to 13 July 2021. Our March Committee was cancelled due to the pandemic lockdown.

Our work plan can be split into two areas - core items of business reviewed regularly and special interest areas where the Committee requires further assurance. The activities of the Audit Committee are noted in **Appendix 3**.

## Effectiveness

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

Our self-assessment provided a good level of assurance over the delivery of the Committees core role and function. It also identified some actions for us, namely:

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

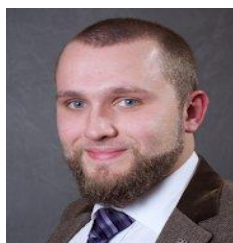
The above will be reviewed in light of updated good practice guidance – due to be published in 2022.

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



**Chairman**

**Councillor Mrs  
S Rawlins**



**Vice Chairman**

**Councillor A  
Spencer**

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



**Councillor P  
Coupland**



**Councillor A  
Maughan**



**Councillor P  
Skinner**



**Councillor  
R Parker**



**Councillor A  
Stokes**



**Mr A Middleton  
(independent  
person)**



**Mr I Haldenby  
(independent  
person)**

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



**Chairman**

**Councillor Mrs  
S Rawlins**



**Vice Chairman**

**Councillor M  
Allan**

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



**Councillor S  
Bunney**



**Councillor A  
Stokes**



**Councillor P  
Coupland**



**Councillor P  
Skinner**



**Cllr J King**



**Mr A Middleton  
(independent  
person)**



**Mr I Haldenby  
(independent  
person)**

## Appendix 2 - Audit Committee Terms of Reference

There will be an Audit Committee consisting of nine members. Seven of the members will be Non-Executive Councillors and reflect the political balance overall. Two members shall be an independent person who is not a Councillor or Officer of the Council; or a former Officer of the Council if their departure was in the last five years.

### Role

To fulfil the role of an Audit Committee in respect of the work of the Council:

- The Audit Committee is a key component of Lincolnshire County Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- The purpose of the Audit Committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of Lincolnshire County Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

### Functions

#### Internal Audit

- Approve the internal audit charter.
- To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendation.
- To consider the Head of Internal Audit's annual report and opinion.
  - a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.
  - b) The opinion of the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.
- To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.



## Appendix 2 - Audit Committee Terms of Reference

- To consider reports from the Head of Internal Audit on internal audit's performance during the year. These will include: -
  - a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
  - b) Regular reports on the results of the Quality Assurance and Improvement Programme.
  - c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
- To consider summaries of specific internal audit reports of significance or as requested
- To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- To support the development of effective communication with the Head of Internal Audit.

### External Audit

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

### Regulatory Framework – Governance, Risk and Control

- To maintain an overview of the Council's Constitution.
- To review any issues referred to it by the Chief Executive, Director, or any Council body.
- To monitor the effective development and operation of risk management and corporate governance in the Council.
- To monitor progress in addressing risk-related issues reported to the committee.
- To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- To monitor the counter-fraud strategy, actions, and resources.
- To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, considering internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.

## Appendix 2 - Audit Committee Terms of Reference

- To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances
- To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
- To consider the Council's compliance with its own and other published standards and controls.
- To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

### Accounts

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

### Standards

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

## Appendix 3 - Audit Committee Activities

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

## Appendix 3 - Audit Committee Activities

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

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

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