

SOUTH LAKELAND DISTRICT COUNCIL

AUDIT COMMITTEE

ANNUAL REPORT 2020/21

Chairman's Foreword

The Committee's role is to provide the Council and the public with independent assurance that it is operating securely and effectively within a sound governance framework. The Committee's brief covers risk management, performance management, governance and constitutional arrangements as well as traditional finance activities. The role is to oversee the management of those processes to ensure that robust procedures are in place **without being involved in the detailed operation**.

Audit Committee Members take their role seriously and are committed to their work. We set out a full annual work programme that is monitored at each meeting and revised as necessary. We have been trained on a range of relevant subjects and understand the nature of local government audit.

The Audit Committee was established in October 2006 to provide the Council with effective leadership on governance, financial reporting and audit issues. The Council also had an Accounts Committee to approve the draft and audited Statement of Accounts. From May 2012 the responsibility for the functions of the Accounts Committee transferred to the Audit Committee.

The Committee's terms of reference allow it to meet privately with External and Internal Audit (without council officers); earlier this year the meeting took place with these two organisations to discuss topical issues.

The Committee has good working relationships with the respective Audit Managers. All of their reports are presented to the Committee which pursues identified weaknesses in control systems to make sure that they are corrected. In the Committee's experience, council officers are receptive to the necessary changes and seek improvements wherever possible.

I am pleased to present this report on behalf of the Committee. It confirms the progress that we have made and that we continue to be an effective independent element of the Council's governance arrangements. We know that Local Government doesn't stand still and the Committee will continue to develop so that it is always able to anticipate and deal with new aspects of finance and governance.

Councillor Stephen Coleman
Chairman of the Audit Committee
April 2021

Purpose of the Report

This report summarises the work carried out by the Audit Committee during the year. It demonstrates to Council and stakeholders the effectiveness of the Committee in assessing and maintaining the organisation's internal control environment and governance arrangements.

Background

The Audit Committee was established in October 2006 to provide the Council with effective leadership on governance, financial reporting and audit issues. The Council also had an Accounts Committee to approve the draft and audited Statement of Accounts. As a result of the changes introduced by the Account and Audit Regulations 2011 which no longer required member approval of the draft Statement of Accounts, the Accounts Committee was discontinued with effect from the Annual General Meeting of Council in May 2012 and from that date the responsibility for the remaining functions of the Accounts Committee transferred to the Audit Committee

The Terms of Reference for the Committee have been modelled on CIPFAⁱ guidance and hence represent best practice. A fully functioning Audit Committee needs to provide effective challenge across the Council's activities together with independent assurance on the risk management framework and associated internal control environment to Members and the public and to demonstrate the impact of its work. The Terms of Reference are reviewed annually with no substantive changes required in 2020/21.

This Annual Report of the Committee, covers the period from May 2020 to April 2021. This reporting timescale matches both the Council year and the external auditing cycle. The Committee structures and plans its work around four main functional areas: external audit, internal audit, accounts and regulatory framework. This report follows the same format in its summary of the year's activities.

The Committee

Following the expansion of the duties of the Audit Committee to include the functions of the Accounts Committee the Committee has increased in size from five Councillors to seven. During 2020/21 it was then reduced down to six Councillors. All Councillors are independent of the Council's Cabinet and the Committee membership is politically balanced. Councillor Stephen Coleman has served as Chairman since May 2008. The Committee met on three occasions this year: due to the additional workload on officers due to Covid-19 and the requirements to set-up virtual meetings the Audit Committee meeting for April 2020 was cancelled and the meeting due to be held in July 2020 was delayed until September 2020. Additionally the meeting planned for February 2021 was cancelled.

The External and Internal Auditors, Chief Finance Officer and Monitoring Officer are invited to all Committee meetings. In addition its Members meet periodically with both Audit Managers to discuss topical issues without officers being present. The Committee has the ability to seek attendance from any officer or Member of the Council and has exercised this right on several occasions.

Training is an essential element for an Audit Committee. The Committee receive annual training, have been updated on statutory accounting requirements and are alert to the possibility of areas in which their knowledge could be extended.

The Committee has developed a structured work programme which maps out its activities on an annual basis. This programme is supplemented by new requirements as they are identified. Progress against the programme is monitored at each Committee meeting.

Covid-19

As well as the disruption to the Audit Committee meetings calendar for 2020/21 there have been a number of areas covered by the Committee where Covid-19 has had a direct impact,

particularly around the timing of work and the need to carry out the majority of work remotely. This was only possible due to the excellent arrangements already made over many years by the Council's IT team and finance staff for processing and authorising tasks electronically. Audit Committee considered a summary report in September 2020 which reviewed the changes to the Council's finances and governance arrangements as a result of Covid-19 including new delegations, cancellation of elections, virtual meetings, remote working, procurement and acceptance of tenders, grant schemes, treasury management arrangements, income collection, accounting and budgeting and service delivery.

Further details are set out under each area below.

External Audit

The Government changed the arrangements for the delivery of external audit for local government following the announcement of the abolition of the Audit Commission. The external audit contract for the North West was awarded to Grant Thornton from September 2012 for five years and re-awarded following a tender exercise in 2017 for a further five years. It should be noted that there is a two-term limit for external audit contractors.

The Audit Committee receives and approves the external auditor's Annual Audit Plan. It comments on the fee rates and work programme consultation carried out by Grant Thornton based on fees set by Public Sector Audit Appointments Ltd, the independent company set up by the Local Government Association with delegated statutory functions to set audit fees and make arrangements for certain audits. Audit Committee receives the Annual Findings Report and the annual Grant Certification Report and monitors actions against the recommendations within these reports. A Use of Resources judgement is included in the Annual Governance Report indicating whether the Council has adequate arrangements to secure Value for Money in the use of resources.

The Annual Audit Letter summarised the auditor's work for the year and opinion on the Council's financial statements and value for money arrangements, as summarised later in this report. An unqualified opinion was issued in December 2020 on the Council's financial statements for 2019/20. An Emphasis of Matter was included in the audit report highlighting property, plant and equipment valuation material uncertainties in respect of the Council's own assets and those in the Council's share of pension fund assets: this is included in all local authority accounts for 2019/20 and reflects Covid-19 effects and potential effects. They also issued an unqualified opinion for Value for Money that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources.

From 2021 it is expected that the External Audit opinion on the Council's accounts will be reported to a meeting of Full Council.

The External Auditor has statutory powers under the Local Audit and Accountability Act 2014, including public interest reports: they have not exercised any of these additional statutory powers or duties for 2019/20.

Internal Audit

The Committee oversees the work of Internal Audit. The internal audit service has been provided by TIAA Ltd since April 2016. The internal auditor's terms of reference are formally reviewed each year to ensure they continue to meet professional standards and good practice.

At the beginning of the year the Committee approves the internal audit plan which sets out the individual audits to be carried out: coverage of the Council's activities is informed by a risk-based audit needs assessment. This process, introduced from April 2015, now focusses internal audit resources at areas of known or perceived risk within the Council, thereby increasing the possibility of lower levels of assurance.

Performance against the plan is monitored by formal progress reports to each Committee meeting, supplemented as necessary by verbal updates from the Internal Audit Manager. The Committee closely monitors the implementation of recommendations made by both External and Internal Audit.

All individual audit reports are presented to the Committee. During the year, 10 reports have been considered (with one report issued in draft) which recorded the following assurance levels:ⁱⁱ

Assurance Level	2020/21	2019/20	2018/19	2017/18	2016/17
Substantial	2	2	2	3	0
Reasonable	9	8	10	8	9
Limited	0	1	0	1	3
None	0	0	0	0	0
Total	11	11	12	12	12

The Committee concentrates its attention on high priority recommendationsⁱⁱⁱ made in reports. Where a report carries limited or no assurance, the Committee has adopted the practice of requiring the relevant Lead Officer to attend its next meeting where appropriate to demonstrate that progress is being made in implementing its recommendations. If necessary, Members have requested subsequent update reports.

The Internal Audit Manager will present his Annual Report for 2020/21 to the Committee in July 2021. This will summarise the results of his work during the year and contains his opinion of the overall adequacy and effectiveness of the Council's internal control environment. As the fieldwork for 2020/21 has been largely completed and the outcome of most of the reviews are known, the opinion will conclude that, for the areas reviewed during the year, there is reasonable assurance that effective risk management, control and governance processes are in place at the Council to manage the achievement of its objectives. In the Internal Audit Manager's experience, this profile of assurance is comparable with other local authorities.

In April 2021 the Committee considered a review of the effectiveness of the system of Internal Audit by reference to Public Sector Internal Audit Standards (PSIAS) and associated Local Government Application Note (LGAN). This showed that TIAA Ltd fully complied with the relevant standards and concluded it was operating effectively.

The Council's Internal Auditors operate within a broad framework set by the contract between the two organisations. It is a requirement of the mandatory Public Sector Internal Audit Standards that the Council has an audit charter in place, which has been approved by senior management and the Audit Committee. Key elements of the Charter are:

- Reference to the mandatory nature of the Public Sector Internal Audit Standards.
- The functional reporting line of internal audit to the Audit Committee to maintain audit independence.
- The requirement for internal audit to provide an annual opinion on the Council's arrangements for governance, risk management and internal control.
- Internal Audit's right of access to all activities, premises, records, personnel, cash and stores as required to undertake agreed internal audit assignments.
- The responsibility of the Head of Internal Audit to prepare an annual risk based audit plan for approval by senior management and the Audit Committee.
- Certain specific responsibilities of the Head of Internal Audit

Accounts

Each year CIPFA updates the accounting requirements for statutory accounts by issuing a revised Code of Practice. The Committee is informed of these changes by means of an informal training session and approves the resulting amendments to the Council's Accounting Policies. In December 2019 the Committee noted a draft set of Accounting Policies that would be applicable for the preparation of the 2019/20 Statement of Accounts.

Changes to the Accounts and Audit Regulations no longer require Member approval of the draft Statement of Accounts prior to its submission for audit. Instead the Council's Chief Finance Officer, the Finance Lead Specialist approved the draft Statement in June 2020, within the revised statutory deadline of 31 August 2020.

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council with additional challenges of reopening services under new government guidelines. The Finance team have had to adapt to working remotely, with system access being aided by the introduction of a new server for home working and rollout of a new home working app.

In November 2020 the Audit Committee received the Audit Findings Report from Grant Thornton, incorporating their draft opinion on the 2019/20 accounts, and approved the audited Statement of Accounts. The auditors reported their intention to provide an unqualified opinion on the financial statements. Their key message was that the Council produced good quality financial statements that were free from material error and supported by comprehensive working papers.

One adjustment to the primary financial statements was made following a re-run of the actuary's report that resulted in a decrease in the fair value of pension plan assets and corresponding increase in net pension liability. This resulted in a £999,000 adjustment to the Council's Comprehensive Income and Expenditure Statement and Balance Sheet, in respect of the pension reserve and pension asset and liability position. Recommendations were raised for management as a result of the External Audit work in, which have all been accepted by management.

The External Audit opinion was unqualified but included an Emphasis of Matter paragraph, highlighting property, plant and equipment valuation material uncertainties in respect of the Council's own assets and those in the Council's share of pension fund assets.

In respect of the Authority's arrangements for securing value for money, Grant Thornton reported proper arrangements were in place to secure economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets and is challenging the way it delivers its services to ensure cost reductions are achieved, whilst maintaining service delivery. One recommendation was made:

The Council's 2019/20 outturn demonstrates that it is able to deliver ambitious transformation programmes. Given its heavy reliance on income generation to deliver a balanced budget, the Council will need to undertake further transformation to meet its medium term shortfall. It is recommended it carries out a post-implementation review of the Customer Connect programme, to ensure the benefits articulated in the original business case have been delivered against and to identify areas where the governance and financial management arrangements over savings delivery can be further strengthened.

The Annual Audit Letter, reported to Audit Committee in April 2021, confirmed the audit conclusions in relation to 2020/21 were:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2020 and its income and expenditure for the year;

- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Council is normally required to produce the draft Statement and have that externally audited by 31 May and 31 July respectively. As a result of Covid-19 the deadlines for 2020/21 and 2021/22 have been revised to 30 July and 30 November respectively.

Regulatory Framework

Corporate Governance

Following drafting work by the Audit Committee using a framework produced by CIPFA and SOLACE^{iv}, Council approved a Local Code of Governance in May 2008. The Committee reviews this Code annually. CIPFA published a revised version of their governance framework in 2016 which applied from 1 April 2016. Audit Committee considered and approved a re-written Local Code of Governance in December 2016 and further minor changes considered by Audit Committee in April 2021 and will be recommended for approval by Council in May 2021.

The Council is required to formally review its governance arrangements annually and the Committee carries out this work on its behalf. This is achieved by the production of an Annual Governance Statement (AGS) which is a far-reaching review of the effectiveness of the Council's governance, including departmental assurance statements and Internal Audit's annual opinion report.

The final Statement provides a thorough review of governance arrangements. Audit Committee members will revisit the subject when they review the 2020/21 AGS alongside the Statement of Accounts in July 2020.

The Audit Committee normally conducts an annual review of the Constitution. During 2015/16 substantial changes were made to improve the financial management and contract management processes of the Council including changes to reflect statutory changes in the Public Contracts Regulations 2015 with only minor changes since. There has been no review during 2020/21: the Council's Monitoring Officer is reviewing many aspects of the Constitution through the officer Governance and Accountability Group and proposals will be included in updates to Audit Committee, where required, in 2021/22.

Fraud Prevention and Whistleblowing

The promotion of fraud awareness is important to Audit Committee Members who encourage officers in their efforts; as a visible demonstration of this commitment, the Committee has introduced an annual report of anti-fraud activity, the first being presented in 2009. Following the transfer of much of the benefit-related anti-fraud activity to the DWP the Council retained one member of the counter-fraud team as a Corporate Anti-Fraud Officer. Following the Customer Connect staff review, the Fraud Specialist is now part-time and part of the Operational Specialist team alongside the revenues and benefits specialist. The Fraud Specialist has also been involved in raising the profile of anti-fraud and corruption in the authority. This has included attending team meetings, briefing managers and reviewing policies and practices. Inevitably much of the time for 2020/21 have been involved in Covid-19 related grant work due to the number and value of payments. The Council is also working with South Lakes Housing to review all applications for Right-to-Buy as this has been identified nationally as an area of high risk and high value. The annual review for 2020/21 will be reported to Audit Committee in summer 2021.

Risk Management

The Committee receives annual progress reports on the Council's risk management arrangements. The Committee maintains a risk register relating to its own activities and reviews this periodically. The experience gained from the years of the Committee's existence has enabled it to manage its risks effectively within its agreed risk appetite.

Performance Management

The Committee receives an annual progress report on the Council's performance management arrangements. The Committee received the annual review of the Performance Management Framework in April 2021. The framework describes how the Council monitors its performance and is intended to support the Council in developing and embedding a high performance culture to further enhance the quality of services for the people of South Lakeland.

Effectiveness of the Audit Committee

Officers from the Council used a checklist to test the effectiveness of the Committee produced by CIPFA as part of its Practical Guidance for Local Authority and Police Audit Committees in 2018. The conclusion was that the Committee has been established in accordance with best practice and is operating effectively in all material respects. Minor weaknesses identified in past reviews have been recognised and addressed, including the introduction of separate meetings with the Internal and External Audit Managers; however Members need to be continually aware of areas in which they should be challenging the performance of the Cabinet and Council generally.

Customer Connect

Audit Committee receive regular reports on the progress of the Customer Connect programme, mainly focussing on the Risk, Issue and Dependency Logs, the Change and Product Logs.

Conclusions

This Annual Report has summarised the work of the Committee over the last twelve months, indicating that it is functioning in accordance with best practice and providing independent assurance of the Council's governance arrangements. Committee Members believe that it is carrying out this role effectively, an opinion supported by the officer review.

The Committee will continue to develop its role and impact through ongoing Member training and refinement of its work programme in order to meet future challenges.

ⁱ The Chartered Institute of Public Finance and Accountancy, which sets standards for local government accounting and audit.

ⁱⁱ Internal Audit terminology for assurance levels given to individual audits by Internal Audit are:

Substantial:	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.
Reasonable:	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.
Limited:	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk. This was previously known as partial assurance.
None:	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and

expose the system objectives to a high degree of risk. This was previously known as limited assurance

iii Internal Audit report recommendations are prioritised as:

1	Urgent	Fundamental control issue on which action should be taken immediately
2	Important	Control issue on which action should be taken at the earliest opportunity.
3	Routine	Control issue on which action should be taken.

Recommendations are also made to improve operational effectiveness.

iv The Society of Local Authority Chief Executives and Senior Managers.