

AUDIT COMMITTEE

Minutes of the proceedings at a meeting of the Audit Committee held in the Lowther Room, Kendal Town Hall, on Wednesday, 8 December 2021, at 6.30 p.m.

Present

Councillors

Stephen Coleman (Chairman)
Tracy Coward (Vice-Chairman)

Kevin Holmes

Kevin Lancaster

Officers

Lawrence Conway	Chief Executive
John Davies	Case Management Officer
Julia Krier	Legal, Governance and Democracy Specialist
Adam Moffatt	Legal, Governance and Democracy Specialist
Simon Rowley	Director of Customer and Commercial Services
Helen Smith	Finance Lead Specialist (Section 151 Officer)
David Sykes	Director of Strategy, Innovation and Resources

Also in attendance were Hebe Dyson (External Audit), Peter Harrison (Internal Audit Manager) and Gareth Kelly (External Audit Manager).

AUD/21 MINUTES

Members thanked Officers for the response to the query raised at the previous meeting by the Internal Audit Progress Report 2021/22 (AUD16), regarding the review of Contract Management and two important action points highlighted in the report.

RESOLVED – That the Chairman be authorised to sign, as a correct record, the minutes of the meeting of the Committee held on 23 September 2021.

AUD/22 DECLARATIONS OF INTEREST

No declarations of interest were raised.

AUD/23 LOCAL GOVERNMENT ACT 1972 - EXCLUDED ITEMS

There were no excluded items on the agenda.

AUD/24 AUDIT COMMITTEE 2021/22 WORK PROGRAMME (DECEMBER 2021)

The Finance Lead Specialist (Section 151 Officer) introduced the 2021/22 Work Programme. Five items contained within the Programme had been delayed until the April 2022 meeting: External Auditor Update; Review effectiveness of Internal Audit; Review of Whistleblowing Policy; Review Audit Committee's effectiveness and Customer Connect Business Case & Updates.

Members raised a query relating to the impact of Shadow Authority elections in May 2022 and in general the progression of Local Government Reorganisation (LGR) on the Audit Committee's role. The Chief Executive of the Council informed Members that as part of ongoing work streams related to LGR these questions were being discussed and it was felt that there would be no significant impact on the Audit Committee.

RESOLVED – That the progress against the Audit Committee's 2021/22 Work Programme be noted.

AUD/25 INTERNAL AUDIT PROGRESS REPORT 2021/22

Note – as requested at the previous meeting, Members received an additional Appendix (3a) containing a response and explanation to a question raised at the meeting held on 23 September 2021 (AUD/16).

Note – following a request from the Chairman, Members agreed to consider Agenda Item No. 7 Internal Audit Progress Report 2021/22 following the conclusion of Agenda Item No. 5 Audit Committee 2021/22 Work Programme (December 2021).

Peter Harrison, Internal Audit, introduced the Internal Audit Progress Report 2021/22. The report provided a summary of the progress against the Internal Audit Annual Plan to date.

Following the Internal Audit Plan's approval in April 2021, four assurance reviews had been finalised, relating to Information Governance, Treasury Management, Customer Connect – My Account and ICT Cyber Maturity. In addition, a draft report had been issued on Covid-19 Grant Schemes with fieldwork underway on a further review of Budgetary Control. Mr Harrison informed Members that no changes had been proposed to the Annual Plan at this time.

The Review of Information Governance had resulted in a reasonable assurance assessment. Two important action points had been identified as well as 6 routine action points. In response to a query linked to the lack of training on GDPR and meetings of the Information Governance Group (IGG) the Chief Executive of the Council informed Members that the capacity to respond had been limited by the ongoing Covid-19 pandemic, business as usual activities, the Customer Connect Programme as well as LGR which had been ongoing since Spring 2020. He added that he agreed with the recommendations and assured Members that it was a priority to catch up and keep on track with training and meetings of the IGG.

Further discussion raised the importance of cyber security, Peter Harrison (Internal Audit) emphasised this point by stating that all sectors needed to take cyber security seriously. The Chief Executive of the Council agreed, adding that a neighbouring Council had been the victim of a cyber-attack and assured Members that this was taken seriously and reviewed on a regular basis. The Chairman of the Audit Committee suggested quarterly reviews could be necessary to ensure the Council's cyber security was sufficiently reviewed.

The Review of Treasury Management had resulted in a reasonable assurance assessment. One important action point had been identified regarding a contract for treasury management advice, it was recommended that the contract, which ended on 31 March 2021 be formally extended to cover the ongoing service provision. The review noted that the Council continued to receive services from Link as detailed within the contract. Members thanked officers for their hard work to receive a positive outcome on this review.

The Review of Customer Connect – ‘My Account’ had resulted in a reasonable assurance assessment. Three important action points had been identified. Management responses had just been received and it was agreed that this report would come back to the next meeting of the Committee.

The Cyber Security Maturity Assessment noted that the Council had high dependency on information technology and recognised that cyber-crime was a significant risk. The maturity assessment was summarised in a radar diagram in the report and highlighted significant gaps of 2 or more maturity steps which existed between the aspirational level and the assessed level of maturity for the following areas: Cyber Governance Arrangements; Risk Management Regime; Network Security; User Education & Awareness; Removable Media Controls; Secure Configuration; Incident Management Monitoring and Home & Mobile Working. It was noted that the Assessment still needed to be sent for the input of the Council’s Head of Shared IT Service and so would be brought back to the next meeting of the Committee.

Peter Harrison (Internal Audit) highlighted the follow up review which detailed a number of implemented and outstanding recommendations. The Director of Strategy, Innovation and Resources added that additional focus was required to complete the outstanding recommendations of Internal Audit and proposed discussions with Internal Audit to look at the current position and how to move forwards with the completion of the recommendations and in light of Local Government Reorganisation and to come back to the April 2022 Audit Committee meeting.

RESOLVED – That the following be noted:-

- (1) The progress achieved in 2021/22 in delivering the Audit Plan and the outcomes of completed audit reviews, as set out in Appendix 1 to the report;
- (2) The audit reports, as set out in Appendix 2 to the report; and
- (3) The status of outstanding recommendations contained within the follow up report, as set out in Appendix 3 to the report.

AUD/26 EXTERNAL AUDITOR'S ANNUAL REPORT 2020/21

Note – Copies of the report, which had been marked “to follow” on the Agenda, had been circulated to Members on Thursday, 2 December 2021.

The External Auditor’s Annual Report 2020/21, which summarised the key findings arising from work carried out by External Audit at the Council for the year ended 31 March 2021, was presented by Gareth Kelly, External Audit.

The key messages were that External Audit had provided an unqualified opinion on the Council’s financial statements on 23 September 2021. External Audit concluded that there had been no significant weaknesses in arrangements identified for financial sustainability, governance and improving economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2021. External Audit had certified that it had completed the audit of the accounts of South Lakeland District Council in accordance with the requirements of the National Audit Office’s Code of Audit Practice 23 September 2021.

Members raised a query relating to the terms ‘discretionary’ and ‘non-discretionary’. The Finance Lead Specialist (Section 151 Officer) informed Members that she had considered

this matter previously and highlighted some examples of difficulties in accurately defining the Council's discretionary and non-discretionary functions. The Finance Lead Specialist (Section 151 Officer) suggested that the terms 'controllable' and 'non-controllable' were perhaps more appropriate. Gareth Kelly (External Audit) added that upon reflection, the terminology could be changed if deemed necessary and that this should link into the Council Plan priorities.

A question related to an improvement recommendation on benchmarking costs and performance against similar bodies was raised by Members. In response the Chief Executive of the Council explained that benchmarking was done internally as an authority and gave the example of housing and planning targets. He added that benchmarking tended to swing in and out of fashion over time.

Following up the previous question, Members raised a query regarding if the Council benchmarked its progress with the zero carbon targets against other Councils with similar goals. The Chief Executive of the Council responded, informing Members that South Lakeland District Council had been ahead of many other authorities regarding its activity in addressing the climate emergency and biodiversity loss. He added that the Council remained committed to the 2030 and 2037 targets and that robust systems had been put in place to achieve those ambitious targets. Gareth Kelly (External Audit) added that in terms of benchmarking, a number of platforms had emerged to assist local authorities in driving even better performance.

Gareth Kelly (External Audit) referred to an incomplete review of the Council's response to Covid-19 and informed Members that the Council had processed 101% more grants compared to district comparators. The Finance Lead Specialist (Section 151 Officer) added that the Internal Audit review had been completed, but not in time to be on the agenda for this meeting.

RESOLVED – That the contents of the External Auditor's Annual Report 2020/21 be noted.

AUD/27 2021/22 ACCOUNTING POLICES

The Finance Lead Specialist (Section 151 Officer) presented a report outlining proposed accounting policies to be adopted for the 2021/22 financial year and to be used in the preparation of the Statement of Accounts for the financial year ending 31 March 2022. These had been prepared in line with the Chartered Institute of Public Finance and Accounting's (CIPFA) Code of Practice on Local Authority Accounting in the UK 2021/22 (the Code). Adopting the proposed policies would support timely production of a high quality set of annual accounts.

The 2021/22 CIPFA Code of practice was not expected to have any changes for accounting policies compared to 2020/21. The Finance Lead Specialist (Section 151 Officer) informed Members that CIPFA had delayed the introduction of IFRS 16 leases until 1 April 2022 which meant that the 2022/23 Accounts will be the first accounts that would need to be prepared in line with this standard. She added that production of the 2021/22 Statement of accounts would have to disclose Accounting Standards that had been issued but not adopted yet and the likely impact on the accounts which was shown in Appendix 2 to the report.

No Members having raised questions when asked by the Chairman, it was

RESOLVED – That

- (1) the accounting policies at Appendix 1 for the 2021/22 financial year be approved to be used in the preparation of the Statement of Accounts for the financial year ending 31 March 2022; and
- (2) the forthcoming changes to lease accounting as detailed in Appendix 2 be noted.

AUD/28 REVIEW OF FINANCIAL PROCEDURE RULES

The Finance Lead Specialist (Section 151 Officer) presented the Review of Financial Procedure Rules Report which identified four areas which required clarification or updating which were as follows:-

- Useable Earmarked Reserves – required clarification that the transfer limit was per year not per transfer;
- External Arrangements (partnerships, External Funding Arrangements and Work for Third Parties) – changes were still being developed;
- Investments, Borrowings Leasing and Trust Funds – updated to reflect new leasing requirements; and
- Insurances – updated to reflect rules for setting claims.

No Member having raised any questions when asked by the Chairman, it was

RESOLVED – That the recommended amendments to the Finance Procedure Rules contained within the report be referred to Council for approval.

AUD/29 ANNUAL REVIEW OF ANTI-FRAUD POLICY & ACTIVITY

The Finance Lead Specialist (Section 151 Officer) informed Members that Appendix 7 to the report, which had been marked to follow on the agenda would be circulated to Members following the meeting as it had not been ready to circulate before the meeting. She informed Members that this report was normally an annual report, but due to the high volume of Covid-19 grants that had been paid out, the review and report had been delayed.

The report set out the results of the Review of Anti-Fraud Policy and Activity, it was felt that the Anti-Bribery, Fraud and Corruption Policy, which formed part of the Council's Policy Framework was still suitable, with minor amendments having been made following the review in September 2019. In addition, the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption and a Counter-Fraud Assessment Tool had been included at Appendix 4 to the report.

The report highlighted that local authorities had made significant progress in tackling fraud by acknowledging and understanding the risks faced, collaborating and using technology. The Finance Lead Specialist (Section 151 Officer) highlighted that the Council had controls in place in order to prevent and identify tax evasion but that it would be good practice to have a formal policy and procedures to cover this area. A draft Tax Evasion Policy Procedures and Reporting Arrangement had been prepared for consideration by Audit Committee. She added that this policy, if agreed, would be referred to Council for approval.

No Member having raised any questions when asked by the Chair, it was

RESOLVED – That

- (1) the review of the Anti-Bribery, Fraud and Corruption Policy (Appendix 1) and the Anti-Money Laundering Policy (Appendix 3) be noted;
- (2) the Counter Fraud Strategy 2021-2024 and the -Tax Evasion Policy Procedures and Reporting Arrangements be recommended to Council for approval;
- (3) the review against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption Counter-Fraud Assessment Tool and Fighting Fraud and Corruption Locally 2020 Checklist be noted; and
- (4) the anti-fraud activity be noted.

AUD/30 RISK MANAGEMENT UPDATE

The Case Management Officer (Support Services) presented the latest Strategic Risk Register. The Register contained all those risks above the line of risk tolerance. The Case Management Officer (Support Services) informed Members that following a review of the Strategic Risks for Quarter 4 2019/20 it was found that 65% of risks were above appetite which was due to the pressure caused by Covid-19. However the review for Quarter 2 2021/22 had shown significant improvement with the number of risks above appetite being reduced to 19%. He added that risks above appetite had been reviews at least on a quarterly basis.

Members raised a query regarding the impact of Storm Arwen and any new risks as a result of the storm. The Case Management Officer (Support Services) responded by informing Members that no new risks had been identified.

Members expressed their thanks to Officers for their work on Storm Arwen and felt that the reduction in the number of risks above appetite, highlighted a real focus and understanding of risks and how to mitigate them.

RESOLVED – That the Strategic Risk Register, as at Appendix 1 to the report, be noted.

AUD/31 AUDIT COMMITTEE RISK REGISTER

The updated Audit Committee Risk Register was presented by the Finance Lead Specialist (Section 151 Officer). The Risk Register had last been reviewed by the Audit Committee in April 2021.

The Finance Lead Specialist (Section 151 Officer) informed Members that this report had been delayed from the September 2021 meeting. She highlighted three live risks which were challenges due to inexperience, inability to carry out statutory requirements and delays in reports coming through to committee, all three of the risks had been positioned below the line of appetite.

The report set out a new proposed risk linked to the impact of Local Government Reorganisation and the potential redirection of resources which reflected delays to the submission of reports to this Committee.

Members raised a query regarding the impact of Local Government Reorganisation on the functioning of the Audit Committee running in parallel to any potential Shadow Authority meetings. Gareth Kelly (External Audit) explained that it was necessary to maintain functioning up to vesting day as there would still be auditing taking place. He added that following the start of the new authority, there would still be activity to audit and that planning was key to ensure that the various elements had been factored in.

RESOLVED – That the updated Audit Committee Risk Register be noted.

AUD/32 REVIEW OF LOCAL CODE OF GOVERNANCE AND GOVERNANCE UPDATE

The Finance Lead Specialist presented an update on the Review of Local Code of Governance and Governance Update. The report highlighted that it was good practice to review arrangements on a quarterly basis with overarching requirements having been set out for governance. The last review in April 2021 had updated the Local Code to include an emphasis on the inclusion of ethics in consideration of the organisation's values and added a new requirement C14 to ensure the Council fully complies with the requirements of the CIPFA Financial Management Code. No further amendments had been proposed to the Local Code as a result of the current review.

An action plan to address areas for improvements in the Council's governance arrangements was presented as part of the preparation of the 2020/21 Annual Governance Statement, which had been presented to Audit Committee in September 2021. The Finance Lead Specialist informed Members that Appendix 6 gave an update on the progress against the various actions. The 2020/21 identified that the Council's partnership governance arrangements were now out of date, not effective and were not being followed. Draft Partnership Guidance and checklists were proposed to address these issues and were attached at Appendix 3.

No Member having raised concern when asked by the Chairman, it was

RESOLVED – That

- (1) The review of the Local Code of Governance and associated documents be noted; and
- (2) The proposed Partnership Guidelines at Appendix 3 be approved.

At this stage in the proceedings, the Chairman noticed that there was no regular item for "Other Significant Financial Issues". The Finance Lead Specialist (Section 151 Officer) provided a verbal financial update to Members.

AUD/33 DECISION TO OPT-IN TO THE NATIONAL SCHEME FOR AUDIT APPOINTMENTS

Note – Following a request from the Chairman, Members agreed that Agenda Item No. 9 Decision to Opt-in to the National Scheme for Audit Appointments be taken following the conclusion of Agenda Item No. 14 Review of Local Code of Governance and Governance Update

Note - The subject of the report concerning recommendations regarding the options for appointment of external auditors, representatives of the incumbent external auditors (Hebe Hebe Dyson (External Audit), Peter Harrison (Internal Audit Manager) and Gareth Kelly (External Audit Manager) left the meeting for Agenda Item No. 9

The Finance Lead Specialist (Section 151 Officer) presented a report regarding a proposal to opt-in to the National Scheme for Audit Appointments. The report highlighted the current appointment arrangements which applied to 31 March 2023.

The Finance Lead Specialist (Section 151 Officer) explained that the new authority would need an auditor and it would be up to the new authority to opt-in to a similar scheme. She added that in order for the Council to be covered in all eventualities for the coming years, it was good practice for South Lakeland District Council to opt-in to the National Scheme for Audit Appointments now as there would be no option to join at a later date. In addition Public Sector Audit Appointments (PSAA) had advised all existing Councils to consider opting in to this exercise as a contingency against the delay in creating the new unitary authorities for Cumbria.

Following a question from Members, the Finance Lead Specialist (Section 151 Officer) informed Members that Grant Thornton would complete the 2022/2023 accounts and the new authority would have auditors to pick up any outstanding issues.

RESOLVED – That the Audit Committee recommend to Council that the Council accepts Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.

The meeting ended at 8.06 p.m.