

**SOUTH LAKELAND DISTRICT COUNCIL**

**AUDIT COMMITTEE**

**DRAFT ANNUAL REPORT 2021/22**

**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 2022

## **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 CIPFA<sup>i</sup> 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 2021/22.

This Annual Report of the Committee covers the period from May 2021 to April 2022. 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 four occasions this year.

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.

## **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. The Council has opted into the 'appointing person' national auditor appointments

process for the appointment of auditors covering audits for 2023/24 to 2027/28 even though it is expected that the Westmorland and Furness Council will exist from 1 April 2023 and will need to appoint their own external auditors.

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 audit opinion was issued on 30 September 2021 on the Council's financial statements for 2020/21. More details can be found in the Audit Findings Report which was published and reported to the Audit Committee on 23 September 2021.

Under the National Audit Office (NAO) Code of Audit Practice the auditors are also required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified Value For Money (VFM) conclusion. Instead, auditors report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under three specified criteria:

- Financial Sustainability
- Governance
- Improving economy, efficiency and effectiveness.

In all three areas there were no risks of significant weakness identified and no significant weaknesses in arrangements identified but improvement recommendations were made.

To support the audit of the Whole of Government Accounts (WGA) the auditors are required to review and report on the WGA return prepared by the Council. As the return, guidance and tools have not yet been issued by the Government the auditors have been unable to complete their work in this area.

From the 2021/22 accounts 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 2020/21 or 2021/22 to date.

### **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, 13 reports have been considered which recorded the following assurance levels:<sup>ii</sup>

Assurance Level	2021/22	2020/21	2019/20	2018/19	2017/18	2016/17
Substantial	4	2	2	2	3	0
Reasonable	9	9	8	10	8	9
Limited	0	0	1	0	1	3
None	0	0	0	0	0	0
Total	13	11	11	12	12	12

The Committee concentrates its attention on high priority recommendations<sup>iii</sup> 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 2021/22 to the Committee in July 2022. 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 2021/22 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 2022 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 April 2020 the Committee noted a draft set of Accounting Policies that would be applicable for the preparation of the 2020/21 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 2021, within the revised statutory deadline of 31 July 2021.

The outbreak of the Covid-19 coronavirus pandemic has a major impact on the Council's accounts with significant new disclosures and higher than normal values. Auditing was also done remotely.

In September 2021 the Audit Committee received the Audit Findings Report from Grant Thornton, incorporating their draft opinion on the 2020/21 accounts, and approved the audited Statement of Accounts. The auditors reported their intention to provide an unqualified opinion on the financial statements.

Adjustment to the primary financial statements were made reflecting amendments to the treatment of Covid-19 grants, particularly relating to agency payments, the amended value of a government grant announced after the draft accounts were complete, and a revising to the treatment of deferred capital receipts. Amendments were also made relating to a re-run of the actuary's report that amended the fair value of pension plan assets and corresponding amendments to the net pension liability. Recommendations were raised for management as a result of the External Audit work in, which have all been accepted by management and implemented.

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<sup>iv</sup>, 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 were approval by Council in May 2021. No further amendments were identified in the review in December 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 2021/22 AGS alongside the Statement of Accounts in July 2021.

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. Minor changes were proposed in December 2021.

#### *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.

#### *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 2022. 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 received 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.

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

<sup>ii</sup> 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

<sup>iii</sup> 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.

<sup>iv</sup> The Society of Local Authority Chief Executives and Senior Managers.