

## AUDIT COMMITTEE

4.30 P.M.

24TH MARCH 2021

**PRESENT:-** Councillors Paul Stubbins (Chair), Geoff Knight (Vice-Chair), Abbott Bryning, Keith Budden, Oliver Robinson, Katie Whearty and David Whitworth

Apologies for Absence:

Councillor Stephie Barber

Officers in attendance:

Paul Thompson	Chief Financial Officer (Head of Finance & Section 151 Officer)
Joanne Billington	Internal Audit and Assurance Manager
Dawn Allen	Principal Auditor
Haley Garstang	Senior Enforcement Officer
Sarah Moorghen	Democratic Support Officer
Eric Marsden	Democratic Support Officer

Also in attendance:

Paul Hewitson	Deloitte LLP
Helen Taylor	Deloitte LLP

### 28 MINUTES

The minutes of the meeting held on 25<sup>th</sup> November 2021 were agreed as a true record and would be signed by the Chair at a later date.

### 29 ITEMS OF URGENT BUSINESS AUTHORISED BY THE CHAIR

There were no items of urgent business.

### 30 DECLARATIONS OF INTEREST

There were no declarations of interest.

### 31 ANNUAL REVIEW OF AUDIT COMMITTEE TERMS OF REFERENCE

The Internal Audit and Assurance Manager (IAAM) presented a report on the Annual Review of the Audit Committee Terms of Reference (TOR).

The IAAM reported that since the TOR was last reviewed, in February 2020, no further amendments had been made. However, it was noted that whilst the Committee had approved the TOR for the last two years, they had yet to be presented to Full Council for endorsement, this would be rectified at the Full Council meeting that immediately followed this meeting.

It was proposed by Councillor Paul Stubbins and seconded by Councillor Geoff Knight:

“That the recommendations as set out in the report be approved”.

It was agreed by all, and the Chair declared the proposal to be carried.

***Resolved:***

- (1) That the Audit Committee's Terms of Reference be accepted and adopted and referred to Full Council for approval.

**32 ANNUAL REVIEW OF THE INTERNAL AUDIT CHARTER**

The Internal Audit and Assurance Manager presented a report which sought approval of the Annual Review of the Internal Audit Charter.

It was reported that the annual review of the Audit Charter had only identified one minor change in relation to paragraph 6.8 (page 15 of the Agenda). The Charter now clearly documented the existing arrangements for reporting audit assurance opinions to the Committee and the escalation processes should an audit opinion remain limited / minimal following two follow-up reviews.

It was proposed by Councillor Geoff Knight and seconded by Councillor David Whitworth:

“That the recommendations as set out in the report be approved”.

It was agreed by all, and the Chair declared the proposal to be carried.

***Resolved:***

- (1) That the Audit Committee agree the revised Internal Audit Charter.

**33 INTERNAL AUDIT STRATEGY AND DRAFT AUDIT PLAN PRIORITIES 2021-22**

The Internal Audit and Assurance Manager presented a report which sought the Committees approval of the Internal Audit Strategy and consideration and approval of the Draft Audit Plan Priorities for 2021/22.

It was reported that no changes had been made to this strategy since it was last reviewed by the Audit Committee in February 2020. However, the IAAM advised the Committee that at present, Internal Audit were not in a position to successfully deliver on all of its responsibilities as identified in the strategy. Help from the Executive Team was needed to enable the Internal Audit Team to meet its obligations to the organisation and ensure that standards of risk, governance and internal control were improved.

The Internal Audit and Assurance Manager explained that owing to a number of uncertainty over the coming months it seemed more appropriate to present the Audit Committee with a draft quarterly audit plan instead of the usual annual plan. A further audit plan for the remaining three quarters of the year would need to be presented to the Audit Committee for approval at a later date. It was hoped that the development of strategic and operational risk registers would assist with the drafting of the future plan. The Internal Audit and Assurance Manager explained that the first section of the plan was work identified as a priority and which required completion during the first quarter (April – June). The second section detailed known forthcoming priorities for quarter 2-4. It was recognised however, that these would need to be revised.

It was proposed by Councillor Geoff Knight and seconded by Councillor Keith Budden:

“That the recommendations as set out in the report be approved”.

It was agreed by all, and the Chair declared the proposal to be carried.

***Resolved:***

That;

- (1) The Internal Audit Strategy be approved by the Audit Committee and it be noted that the IAAM was reporting that at present the work of the Internal Audit Team was not fully aligned to the current strategy.
- (2) The Audit Committee considered and approved the draft audit plan priorities for Quarter 1 of 2021/22 and note that further development of the plan is required to ensure an overall audit opinion can be delivered as at the 31 March 2022.
- (3) The Audit Committee note that the current arrangements with Wyre Borough Council for the sharing of the Chief Internal Auditor role will cease on the 31 March 2021.

**34 ANNUAL REVIEW OF THE COUNCIL'S COUNTER FRAUD POLICIES**

The Internal an Audit and Assurance Manager presented a report on the Annual Review of the Council's Counter Fraud Policies.

It was reported that no changes had been made to either policy since they were last reviewed by the Audit Committee in February 2020.

The Internal Audit and Assurance Manager (IAAM) explained that the Money Laundering Policy will be brought to the next Audit Committee for approval and that the Raising Concerns Policy will be approved by the Personnel Committee at a later date. Given one of the Audit Committee's responsibilities is the oversight of the Council's counter-fraud arrangements, the IAAM advised the Audit Committee going forward to monitor any significant changes made to this policy.

It was proposed by Councillor Paul Stubbins and seconded by Councillor David Whitworth:

“That the recommendations as set out in the report be approved”.

It was agreed by all, and the Chair declared the proposal to be carried.

***Resolved:***

That;

- (1) That the Audit Committee approve the refreshed counter fraud policies, namely;
  - a) Anti-Fraud, Corruption and Bribery Policy; and
  - b) Sanctions Policy.

- (2) The Audit Committee note the Raising Concerns Policy (formally Whistleblowing Policy) will be reviewed by the Monitoring Officer and approved by the Personnel Committee in accordance with their Terms of Reference later in year.
- (3) The Audit Committee note that the Anti-Money Laundering Policy will be reviewed by the Money Laundering Officer and approved by the Audit Committee at their meeting on the 26 May 2021.

### 35 RISK MANAGEMENT PROGRESS REPORT

The Internal Audit and Assurance Manager presented a report which updated the Audit Committee on the progress made in relation to both strategic and operational risk management and sought approval of the council's refreshed Risk Management Policy.

The Committee were advised that the work completed in 2019 and early 2020 included the development and approval of a Risk Management Policy, which had been approved by Audit Committee in November 2019, the procurement of risk management software, in January 2020, and the production of a strategic risk register.

It was reported that there had been little change to the strategic risk register since it was last reported to the Audit Committee in November 2020. Whilst it was hoped that the Internal Audit Plan for 2021/22 would have been derived from the strategic risk register this had not been possible given the register was still considered to be in its infancy and required further development.

It was agreed with the Director of Corporate Services that risk management training would be delayed whilst Internal Audit worked with Service Managers to identify key operational risks for their services. This was to allow a more tailored training package to be delivered ensuring it was appropriate for the varying levels of knowledge and understanding of risk across the organisation. To date approximately eleven service areas have returned their key operational risks. Internal Audit are currently populating the GRACE risk management software with these risks and mitigating action plans.

It was proposed by Councillor Geoff Knight and seconded by Councillor Paul Stubbins:

"That the recommendations as set out in the report be approved".

It was agreed by all, and the Chair declared the proposal to be carried.

***Resolved:***

- (1) The Audit Committee notes the progress made in relation to both the council's strategic and operational risk management arrangements and notes the amended strategic risk register at Appendix A of the report.
- (2) That the Audit Committee approves the refreshed Risk Management Policy at Appendix B of the report.

### 36 PROPOSED ACCOUNTING POLICIES TO BE USED IN THE PREPARATION OF THE STATEMENT OF ACCOUNTS 2020/21

The Chief Finance Officer presented a report which sought approval from the Committee

in respect of the changes to the Council's Accounting Policies for the 2020/21 financial year.

The Committee was advised that there had been no changes from the policies used to prepare the 2019/20 Statement of Accounts.

It was reported that International Financial Reporting Standard (IFRS) 16 was meant to have been introduced for Local Authorities from 1<sup>st</sup> April 2020 which meant that the annual accounts for 2020/21 should have been the first set of accounts produced in accordance with that standard. However, due to COVID-19 and additional pressures on Local Authorities the Financial Reporting Advisory Board (FRAB), had announced the deferral of IFRS 16 implementation to 2022/23.

The IFRS 16 was designed to improved levels of accuracy and transparency to the reporting process and in practical terms officers would need to identify and review the existing lease arrangements in the forthcoming year.

The Committee were advised that The Code of Practice on Local Authority Accounting required the Council to disclose as a note in the 2020/21 accounts, information relating to the impact of an accounting change required by a new standard that had been issued but not yet adopted by the 2020/21 Code.

It was proposed by Councillor Paul Stubbins and seconded by Councillor Geoff Knight:

"That the recommendations as set out in the report be approved".

It was agreed by all, and the Chair declared the proposal to be carried.

***Resolved:***

- (1) That the Committee approves the accounting policies set out in Appendix 1 of the report.

**37 STATEMENT FROM OUTGOING CHIEF INTERNAL AUDITOR (Pages 6 - 9)**

The outgoing Chief Internal Auditor read out a statement to the Committee which was to assist the Council and the incoming Chief Internal Auditor in relation to the current position of the organisation in relation to risk management, governance and internal control. The statement is appended to these minutes.

---

Chair

(The meeting ended at 5.30 p.m.)

**Any queries regarding these Minutes, please contact  
Sarah Moorghen, Democratic Services - email [smoorghen@lancaster.gov.uk](mailto:smoorghen@lancaster.gov.uk)**

Thank you Chairman

Before I get into the detail of my statement, I would like to take this opportunity to thank a number of people here at Lancaster. The Audit Committee, in particular the Chairman, the current and previous Section 151 Officers (Paul, Dan and Nadine), our External Auditors, especially Paul Hewitson and finally my Principal Auditor; Dawn. Thank you for all your continued support over the last four years.

It's not been an easy task coming into the organisation one day a week, having to hit the ground running, getting up to speed with the week's events and then cracking on with the day job – and I couldn't have done this without all your support and encouragement. So thank you. I would also like to thank your opposite numbers at Wyre who have similarly helped me to maintain services there in order to allow this arrangement to continue beyond what we thought with Nadine would be just a couple of years.

This statement also gives me the opportunity to provide what I hope will be a useful position statement as the outgoing Chief Internal Auditor.

Reflecting on the past four years has, for me highlighted the success of the partnership with Wyre Council and the high standard of the work of internal audit. It has also focused my awareness on the work that is still ongoing and I would like to draw the committee's attention to the areas that need to be kept under review going forward.

At the moment I am preparing my annual overall opinion for the year ending 31 March 2021, which I will be sharing with the Section 151 officer and the External Auditor on my departure. This will provide the committee and the incoming Chief Internal Auditor a more detailed account of my opinion of the council's risk management, internal control and governance arrangements across the organisation.

What started off as an interim arrangement back in May 2017 following the retirement of the Audit and Assurance Manager, it was agreed with the Section 151 Officer and the Audit Committee that owing to the success of the shared arrangements a more permanent contract would be put in place. However owing to my recent promotion, I am now needed back at Wyre full time to manage additional services, therefore the shared chief internal auditor post arrangements will come to an end on the 31 March 2021.

The shared Chief Internal Auditor post has benefited both authorities, allowing an opportunity to learn from each other, share best audit practices and benchmark similar council services.

There have been challenges though. Through natural wastage the Internal Audit Team has significantly reduced over the last four years, reducing from four full time equivalents in 2017 to now only 1.2 full time equivalents. The reduced in-house team has been bolstered by employing Lancashire County Council, Fylde Borough Council and also more recently, Merseyside Internal Audit Services to undertake key pieces of work.

Unfortunately owing to the on-going pandemic and the limited internal audit resources across Lancashire, understandably I was unable to secure any assistance to help deliver the 2020/21 audit plan.

It is unclear at the moment whether the same issue will arise in 2021/22 as we are still in the response phase of the pandemic. It should be a key priority of the organisation to ensure that service continuity is established as soon as possible and a replacement Chief Internal Auditor arrangement is found as this position is critical to the effective control environment at the council.

I have offered to provide a handover to any incoming Chief Internal Auditor and this position statement and my annual overall opinion is intended to support that process.

One of the challenges that I and the S151 officer face each year is ensuring that there is sufficient audit coverage across the organisation allowing an overall audit opinion to be made in respect of the council's control environment. Given our limited resources and the omission of risk registers across the organisation, myself and Dawn looked for other ways to gain our assurance, to allow the overall audit opinion to be delivered.

In late 2018, Assurance Mapping Declarations were introduced which allowed more targeted audit work to be completed and also helped avoid any duplication with other inspection regimes. This new and innovative approach was borne out of the limited risk management regime at Lancaster and the modest resources in the internal audit team but still allowed a more accurate internal overall audit opinion to be provided.

Whilst the External Auditors and the Section 151 officer have been comfortable with this approach, I would encourage the Audit Committee to review the current internal audit resources going forward, giving consideration to increasing the internal audit provision, to allow the internal audit team to respond positively to the additional workload that the development of the risk registers should generate.

Overall internal control across the organisation will be reported as being adequate and effective in my annual opinion and whilst the on-going pandemic has impacted the amount of work we have been able to complete this year, we are in the process of drawing on assurance statements to give us that additional assurance in relation to the areas we have not been able to review.

As previously reported to the Committee in November, a piece of work was completed in October in respect of the controls, systems and processes in the HR team. A comprehensive action plan was formulated and accepted by the Director of Corporate Services and I understand that a full service review is underway which will address the 35 recommendations made. However as yet, neither internal audit, the Section 151 officer nor the Audit Committee Chairman have seen a completed action plan.

The Committee should note that the draft Audit Plan you approved tonight includes a piece of work in the first quarter to review the progress made in this area and I would **strongly** encourage the S151 officer and the Audit Committee to ensure that this piece of work is completed at the earliest opportunity.

Whilst only contracted to work one day a week as the Chief Internal Auditor providing support to the in-house team, given my responsibilities and expertise at Wyre Council, I was soon asked to add Risk Management and the production of the Annual Governance Statement to my duties.

Whilst I have done my best over the past four years, it has been a significant challenge trying to contribute and improve the current processes whilst also trying to retain my independence to allow me to make an opinion on the effectiveness of these arrangements.

It's important going forward that the Committee keep a close watch on where the administration of Risk Management and the production of the Annual Governance Statement sits and that future arrangements allow internal audit to remain as independent as possible of both areas.

As the Committee will recall over the last four years, there have been a number of reasons why progress in relation to Risk Management has been slow. However I do feel the organisation is finally starting to make some progress, particularly with operational risk. The Risk Management Policy has been approved, risk management software has been purchased to relieve the administration burden on risk owners and the operational risk registers are starting to be populated across the organisation.

I have already shared my concerns with you tonight about the strategic risk register and I am hoping that the new Director will champion this in the future allowing the register to constructively shape internal audit work in the coming months.

Going forward, I would encourage the Committee to continue to push for the improvement of risk management by requesting progress reports to be brought to each committee, which will allow you to continue to discharge your responsibilities in relation to risk.

Looking ahead to what's around the corner for Internal Audit - The next PSIAS peer review is in 2023, so this gives the organisation a little breathing space to ensure effective internal audit arrangements are in place well before then. The last review in March 2018 was very positive and it concluded that the Internal Audit Service 'conformed' to best practice'. It is important that the organisation aims to maintain this high standard at the next review, and it will need effective arrangements in place in order to do so.

The 2018 peer review relayed some really positive feedback about the Internal Audit Team and reported that the Team did add value to the governance of the organisation and also to the systems of internal control. The external assessment team also made reference to Chief Officers and Managers stating how my role in particular was having a positive impact on the development of internal audit team members and also in respect of service delivery.

Only minor observations were made and having re-read the report in preparation for my departure, there is a concern that some of the issues raised back in 2018 are still 'live' and need to be resolved prior to the next review. For example it was



commented on that the annual audit plan was being based on internal audit professional knowledge and judgement and that there was a lack of communication and involvement from senior management relating to the corporate priorities and corporate risks.

I have already covered this tonight when presenting my Audit Strategy and I am hoping given the work being carried out in relation to risk, the next peer review team will see an improvement here. The Committee will need to help ensure that this momentum is built upon to avoid any stalling if there are delays to strengthening what remains of the internal audit service.

I currently sit on Lancashire's PSIAS moderation panel; so I am very much looking forward to seeing and hearing how the council delivers the service in the future and builds on the improvements made over the last four years.

I want to finish off by wishing the audit team and wider colleagues here at Lancaster lots of luck for the future and I am sure that whilst challenging times lie ahead, there will be exciting opportunities for growth and development. Given we Auditors move in the same circles, and my offer of a handover session, I will look forward to catching up with your new Chief Internal Auditor in the near future and I wish them and the organisation every success.

Thank you