

Present: Councillor Tom Ashton (Chairman), Councillor George Cornah (Vice-Chairman), Councillors Alison Austin, Anton Dani and Mr Alan Pickering

In attendance: Councillor Jonathan Noble, Portfolio Holder for Finance

Officers –

Section 151 Officer, Assistant Director – Organisation and Corporate Services, Head of Internal Audit (City of Lincoln Council), Principal Auditor (City of Lincoln Council), Manager – Public Sector, Mazars, Senior Technical Services Engineer (PSPS), Head of ICT & Digital, PSPS and Senior Democratic Services Officer

## **75 MINUTES**

The minutes of the last meeting, held on 29<sup>th</sup> March 2021, were agreed as a correct record and signed by the Chairman.

## **76 APOLOGIES**

There were apologies for absence from Councillors Richard Austin and Peter Watson. It was noted that Councillor Anne Dorrian was no longer a Member of the Committee.

## **77 DECLARATION OF INTERESTS**

None.

## **78 PUBLIC QUESTIONS**

None.

## **79 AUDIT COMPLETION REPORT FOLLOW-UP LETTER**

Mark Surridge presented Mazars' follow-up letter, which set out the conclusion of those matters marked as outstanding within the Audit Completion Report dated 16 October 2020.

Mr Surridge explained that it had been a considerable length of time since Mazars' last report to the Committee because of the significant efforts made by officers to provide evidence regarding the Council's 'State Street' loan. The evidence had not been forthcoming and officers had ceased payment of the interest on the loan in order to obtain the usual letter of confirmation provided for loans. Mazars had decided that it was appropriate to draw a line under the situation, though this resulted in the unusual situation of the Council having received a modified opinion.

The remainder of the letter covered the conclusion as well as confirmation that all other matters for 2019/20 were clear, including the Council's arrangements for value for money. In context, the 2019/20 value for money conclusions included an increased number of qualified conclusions highlighting significant weaknesses and arrangements across the country; therefore, the Council receiving an unqualified opinion was a positive result.

In response to questions regarding withholding interest payments on the 'State Street' loan, the Section 151 Officer advised Members that interest payments would continue to be withheld until the company provided the necessary statement required. Provision had been made for the payment, which would be paid if the statement was provided. Should a position be reached in the long-term where payment had not been pursued, the money would be considered as surplus funds to the Council.

It was noted that previous officers and Chairmen had researched the details of the loan in vain, though some paperwork had been produced.

**Action: Councillor Dani**

Pass paperwork relating to the Council's loan originally taken out with State Street to the Section 151 Officer.

The Chairman thanked Mazars for their work, welcoming the conclusion that the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year and the certificate confirming the Council had been given a clean bill of health.

## **80 ANNUAL AUDIT LETTER**

Mr SurrIDGE presented the Annual Audit Letter, which summarised the work Mazars had undertaken as the auditor for the Council for the year ended 31 March 2020.

The letter was designed to be read by a wider audience including members of the public and other external stakeholders.

The auditor's report, issued on 12 May 2021, included Mazars' opinion, except for the matters described in the Basis for Qualified Opinion section, that the financial statements:

- gave a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and
- had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2019/20.

Mazars' opinion was that the other information in the Statement of Accounts was consistent with the audited financial statements.

The report concluded that Mazars were satisfied that in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

A Member expressed gratitude for Mazars work in the difficult circumstances resulting from the pandemic and for the Council's satisfactory financial situation, which compared favourably with some other authorities.

## 81 INTERNAL AUDIT - PROGRESS REPORT 2021/22

John Scott reported on progress with the work undertaken by Internal Audit in 2021/22.

As at 31<sup>st</sup> March, 97% of the revised 2020/21 Audit Plan had been completed. In this period, five assurance reviews had been completed and had received the following assurance ratings:

- Council Tax – Substantial
- IT Assurance Map update – Limited
- Housing Benefit & Council Tax Support – Substantial
- Accountancy Key Controls – High
- Payroll – Substantial

Two further audits were at the draft stage: *Governance* and *Risk Management & Counter Fraud*.

The IT Assurance Map update, a review against IT security best practice conducted by Internal Audit's ICT auditor, had made 4 High priority and 9 Medium priority recommendations. There were still further actions to be completed, particularly around the development of IT security policy and procedures.

The IT team at Boston had joined with PSPS and, over time, would adopt their IT governance arrangements. PSPS and its team would address and monitor the agreed actions, and provide updates to management through the Assistant Director – Organisation and Corporate Services, who oversaw the PSPS ICT Service Level Agreement, and the Audit and Governance Committee during 2021-22 as part of their implementation plan.

The report highlighted the control areas that needed improvement. However, it was found that many areas were operating in accordance with good practice. Further details were contained in Appendix 1.

An update giving the position of all recommendations as at 31<sup>st</sup> March was attached at Appendix 3. The 2021/22 Audit Plan, which would start May, was shown in Appendix 4.

In response to questions, it was explained that ISO 2701 stood for International Standard for Information Security.

A Member queried whether the Council had not taken action where needed with respect to IT because it was moving over to PSPS.

Mr Scott confirmed there had been some delay in completing some previous actions and some remained outstanding. However, it was hoped that the transition to PSPS and the capacity available within PSPS would ensure that those areas were addressed quickly. This would be monitored and regular updates would be reported to the Committee, as requested by the Chairman.

A Member was concerned the transition could leave the Council open to risk of cyber hacking etc. and felt it would be essential to keep the Committee up to date on a regular and timely basis.

The Assistant Director – Organisation and Corporate Services recognised the number of outstanding recommendations from the audit and assured the Committee that the move to PSPS would provide the ICT service with much greater capacity and expressed confident that the service was addressing them in as short a timescale as possible.

The Chairman commended the move to PSPS and felt reassured that many issues would be resolved and that the Committee would receive regular updates on progress.

Other Members agreed. It was remarked that although some should perhaps have been resolved sooner, this was certainly not a criticism of the Council's IT staff, who were an excellent team, but did not have the capacity to deal with all the current demands, particularly security.

In response to a question about ensuring council tax payments were up to date as EU nationals left the country as a result of Brexit, the Section 151 Officer explained that council tax was a tax on the property, not the individual, which minimized the risk to some extent. There were processes in place to make sure that people paid their council tax up to the time of leaving. It was not anticipated that a large number would leave at the end of June. However, the comments would be fed back to the manager for her view.

**Action: AS**

Contact the Housing Benefit and Council tax Manager for her view on the effect of the resettlement of EU nationals on arrears of council tax.

The report was noted and the progress reported was commended.

## **82 RISK REPORT QUARTER 3 2020/21**

The Assistant Director – Organisation and Corporate Services presented a report, which set out an update on risks as at the end of Quarter 3 of 2020/2021 (April to December 2020) to provide assurance to the Committee that corporate governance arrangements were in place and functioning effectively.

The corporate management team reviewed strategic risks in Quarter 1, particularly with regard to the impact of Covid-19 and the Strategic Alliance with East Lindsey District Council, and in Quarter 2, in light of the change in management structure. They would be reviewed again in the light of the new Corporate Plan in Quarter 4.

The report summarised the strategic risks with full details set out in Appendix A. The two high strategic risks remained as Housing and Budget. There had been no change to the strategic risk scores in Quarter 3.

For 2021/22, the IT & Transformation Manager would be working towards having a single risk management approach across the Alliance, with strategic and operational risks reviewed as part of service planning.

Management of strategic and operational risks continued in accordance with the Risk Management Framework.

It was remarked that running a single approach across the alliance appeared a sensible way forward and would present another opportunity to retain the areas of best practice from both authorities

**Action: SR**

Advise Members whether potential changes to planning legislation would have a positive or negative effect on the Housing risk.

The report was noted.

### **83 INTERNAL AUDIT ANNUAL REPORT 2020/21**

John Scott presented the Internal Audit Annual Report for the Council for 2020/21.

The report presented a summary of the audit work undertaken over the past year. In particular, it included an opinion on the overall adequacy of and effectiveness of the governance framework and internal control system and the extent to which the Council relied on it; and information on how the plan had been discharged and the overall outcomes of the work undertaken.

The internal audit plan had been reduced by 25% due to the impact of COVID and the new Strategic Alliance and this reduction had been agreed with the Section 151 Officer.

From the work undertaken, Internal Audit found that, despite the significant pressures caused by Covid and the new Alliance, governance risk and control had not been significantly affected. Internal Audit had not been asked to provide any direct (non-audit) support relating to Covid. There were some access issues, but generally, across the whole plan, this was not significant.

Despite the reduction in the audit plan and other factors impacting the Council Internal Audit had obtained sufficient assurance across all aspects of the opinion and were therefore able to issue an audit opinion. Taking all information into account as set out in the report, the governance framework, risk management and financial control were all assessed as green, performing well. The internal control environment was assessed as Amber, performing adequately, mainly due to the ICT improvement areas outlined in the progress report. Overall, the assessment was green, performing well.

In response to questions, it was reported that 100% of questionnaires issued were returned from between 8-10 managers who rated the Internal Audit service as excellent.

**Action: JS**

Email Members with the list of audits deferred due to the 25% reduction of the 2020/21 audit plan, as reported in November 2020.

The Chairman commented that the information was very reassuring and the Committee noted the report.

## **84      TRANSFER OF INTERNAL AUDIT SERVICE**

The Committee received a report by the Section 151 Officer, regarding a proposal to transfer the internal audit function to Lincolnshire County Council.

The Council's internal audit function was currently undertaken through Lincoln City Council. Transferring the function to Lincolnshire County Council (LCC) would provide a greater level of resilience and consistency in approach across the Strategic Alliance.

Officers recommended that the Committee send this recommendation to Cabinet to effect the transfer.

Whilst there were no specific issues highlighted with the current service provision, there was an increasing need for specialist audit capacity specifically around areas such as fraud and ICT, and with a relatively small team, it was difficult to develop the required range of expertise.

More generally, a shared approach would allow the following benefits to be secured:

- Streamlined service with single set of personnel for both Councils within the Alliance and PSPS
- Combining all oversight work for both Councils into one principal officer thereby merging liaison meetings, management team and committee attendance and reports
- Combined audit reviews providing assurance across the Alliance that would potentially reduce the number of days on each audit as there would be one audit report and closure process rather than two
- Shared intelligence and highlighting of inconsistent practices.
- A reduced day rate allowing annual savings of around £3,000.
- Reduced impact on PSPS as not having two sets of auditors reviewing the same systems.
- Access to other expertise from the Assurance Lincs offer (Risk, Fraud, Health and Safety and Audit specialisms)
- Increased resilience provided by a larger team to mitigate against sickness, loss of key staff etc.

The provisional date for the transfer of the internal audit service, subject to necessary approvals and agreed contractual terms, was 1<sup>st</sup> July 2021. Whilst it was not currently proposed to make any changes to the level of audit days, this would be reviewed during the year as the risk environment changed and efficiencies could be achieved.

The Section 151 Officer stressed that the proposal purely concerned realigning the internal audit function between the two authorities under one manager to achieve a greater degree of consistency and resilience built into the service. The small budget saving was incidental and the proposal did not involve PSPS. The Portfolio Holder for Finance had considered the proposal and was satisfied with this approach.

In response to questions, the Section 151 Officer reported that City of Lincoln had not been approached to take on the internal audit work for both authorities purely due to LCC's greater degree of resilience.

Boston's treasury management function had transferred to PSPS, but was carried out by separate staff currently. Discussions had taken place with respect to the payroll function, but due to the timing of the PSPS proposal, it would remain with North Kesteven District Council for the current year.

**Action: AS**

Advise Councillor Dani of any potential fraudulent activity relating to Government grants paid to businesses to assist with the impact of the pandemic.

Councillor Alison Austin and the Chairman declared that they served as Members of Lincolnshire County Council, but had not had any input to the proposal. It was confirmed that this did not preclude them from taking part and voting on the officer's recommendation to put the proposal to Cabinet for approval.

Members recognised the advantages of the proposal in terms of capacity, specialism and consistency. They then proposed a vote of thanks to the current internal auditors for the work they had done for the Council over the years.

**RESOLVED: That it be recommended to Cabinet that the Council's Internal Audit function be transferred to Lincolnshire County Council.**

**85 ANNUAL FRAUD PERFORMANCE REPORT**

The report was noted.

**86 WORK PROGRAMME**

The Chairman remarked that it was a priority for the Committee to consider the new model Code of Conduct not that the Local Government Association had adopted it. It would go to the Councillor Development Group to consider first and then the Standards Sub-Committee, but it was hoped the Committee would be able to consider it at its September meeting.

A Member echoed the Chairman's comments feeling that the Code of Conduct needed to be ratified and made part of the Council's constitution as soon as possible.

A national code of conduct for all, from parish councils through to mayoral unitary authorities was highly welcome. It was crucial to the reputation of the Council to have a code of conduct that was fit for purpose.

Members then put forward a vote of thanks to Councillor Ashton for his chairmanship, which was very much appreciated. In turn, the Chairman thanked Members for their dedication as a Committee and for the work and responsibility they had taken on.

The Meeting ended at 7.40 pm