

## **AUDIT AND ASSURANCE COMMITTEE**

Minutes of a Meeting of the Audit and Assurance Committee held on Thursday, 30 June 2022 at 10.30 am at Conference Room A/B, Cumbria House

### **PRESENT:**

Mrs HF Carrick (Chair)

Mr NH Marriner  
Mr GD Cook

Mr FI Morgan (Vice-Chair)  
Mr J Bell

### **Also in Attendance:-**

Ms P Duke	-	Director of Finance (Section 151 Officer)
Ms C Parkinson	-	Chief Legal Officer
Mr R McGahon	-	Group Audit Manager
Ms F Parker	-	Group Finance Manager - Corporate Accounting
Mr P George	-	Group Finance Manager - Pensions, Investments and Insurance
Mrs P Cameron	-	Directorate Finance Manager
Mr D Hamilton	-	Democratic Services Officer
Mr G Kelly	-	Engagement Lead - Grant Thornton

### **PART 1 – ITEMS CONSIDERED IN THE PRESENCE OF THE PUBLIC AND PRESS**

#### **1 APOLOGIES FOR ABSENCE**

Apologies were received from Mrs E Mallinson.

#### **2 MEMBERSHIP**

There were no changes to the membership of the Committee on this occasion.

#### **3 DISCLOSURES OF INTEREST**

There were no disclosures of interest on this occasion.

#### **4 EXCLUSION OF PRESS AND PUBLIC**

**RESOLVED** that, there were no items on the agenda which required the exclusion of press and public.

## 5 MINUTES

**RESOLVED** that, the minutes of the previous meeting held on 24 March 2022 be agreed as an accurate and complete record.

## 6 DEEP DIVE RISK ANALYSIS

The Deep Dive presentation for this meeting focussed on the specific risk relating to ***Financial Sustainability***.

The presentation was delivered by the Director of Finance (s151 Officer) and the Group Finance Manager and covered the following:

- Scope of Deep Dive
  - 2021/22 - key internal controls to ensure financial sustainability
  - 2022/23 – additional internal controls & transition plan for two new Unitary Councils
  - Implications of increasing Inflation and the ‘cost of living’ crisis on 2022/23 & future Council budgets
- Financial Sustainability Risk – Key causal factors
  - Slippage and non-delivery of existing savings
  - Underspending / overspending of budgets
  - Overspending / underspending / slippage of capital budgets
  - Underachievement of income budgets
  - Uncertainty of local government funding framework
  - Increased demand for Statutory Services
- Key Internal Control
  - Monthly Revenue Monitoring report to CMT
  - Quarterly Monitoring reports to Cabinet (Revenue and Capital)
  - Quarterly Review of savings delivery
  - 2021/22 Period 10 and outturn analysis of one off and ongoing pressures and underspends. Focus on these areas to continue in 2022/23
- New Internal Controls
  - Report presented to CMT in May - 2022/23 impact of pressures identified in 2021/22 as part of P10 and outturn reports
  - Potential impact of inflation at higher levels than that included in MTFP - CMT agreed management action
  - Identify ongoing underspends and mitigations and report as part of Q1 reporting - Quarterly Review of 2022/23 savings delivery
  - Scenario planning of key high demand areas
- Transition Plan
- Impacts of Inflation & Cost of Living Crisis
- Cumbria CC’s approach to delivering financially sustainable organisations

Members discussed the Fire Service and the proposal which would be decided by the Secretary of State to incorporate the Fire Service into the Police and Crime Commission (PCC). The Director of Finance (s151 Officer) explained that if the Fire Service did become part of the PCC the rules around the police precept would apply and they would take responsibility to all applicable funding. It was added that if it were to become a Single Fire Authority it would instead be limited by the uplifts that were available to Single Fire Authorities.

A discussion took place regarding Council Tax harmonisation and the responsibility of County Council in budget planning and in providing support for the decision making which would take place within the new Unitary Authorities. The External Auditor's commented on the position and progress of audits of other Local Authorities in the area and the impact this could have.

Following this the Director of Finance (s151 Officer) provided assurance regarding the new authorities high-level blueprints which would be made available to the public through the Communications team over the next few weeks.

A discussion took place regarding the element of uncertainty that would inevitably surround the transition to Unitary Authority. The Director of Finance (s151 Officer) explained that the financial sustainability work would play a significant role in ensuring that that the new authorities had all the budget information necessary to able to meet service needs after vesting day.

The Chair concluded the item by reflecting on the role of the Audit and Assurance Committee within the current Council and commenting on the capability of the Finance team.

## **7 2021/22 QUARTER 4 CORPORATE RISK REPORT**

Members considered a report from the Director of Finance which presented the status of the Council's corporate risks at the end of March 2022. The report which also contained a look ahead into 2022/23 and outlined the complexity of the risk landscape for the coming year and the strategic risks that had been considered for inclusion in the 2022/23 risk register.

The Group Audit Manager provided the background to the contents of the Risk Register for the Quarter 4 period reminding members of the impact of the Omicron wave of infections in January and the removal of all Government COVID-19 restrictions in February. Following the removal of COVID-19 restrictions the effect of the Ukraine/Russia conflict began to impact upon inflation, and causing additional supply chain issues adding to a worsening cost-of-living crisis. In March the LGR Structural Change order came into effect for Cumbria, leading to the new Joint Committees ahead of the two new Shadow Committees.

Members heard that at the end of Quarter 4 the Council had 13 corporate risks on the register, 9 high risks and 4 medium risks. There had been no new risks had

been added to the register. There had been no risks have been closed off the register.

There had been only one change of risk score that related to the Cumbria COVID-19 Local Outbreak Control Plan risk, the risk had been reduced from a score of 12 to that of 9. The Group Audit Manager explained that there was still uncertainty around the emergence of new COVID-19 variants and therefore the Council's Public Health team would continue to monitor the virus and be ready to respond to resurgences and new variants should they arise.

Members heard that the Council continued to experience ongoing challenges across the Care Market, Health & Social Care and Children's Services and although those risks remained high, work continued to evaluate and introduce new controls to manage those challenges.

A discussion took place regarding the knock-on effect of inflation and the cost of living crisis on other risk areas. The Group Audit Manager explained that the cost of living crisis was an emerging risk for the period which the report was concerned with but it had been identified and would appear in the Quarter 1 report as a standalone risk.

The Chair asked whether the Adult Social Winter Action Plan was still in place and the Director of Finance (s151 Officer) explained that it had reverted back into Promoting Independence work stream.

The Chair then concluded the report by commenting on the effectiveness of the Council's efforts to manage and maintain risks at their current level in the face of mounting additional pressures.

**RESOLVED** that,

- 1) members note the contents of the report.
- 2) members note the presentation on the *Financial Sustainability Corporate Risk*.

## **8 2022/23 CORPORATE RISK REGISTER REFRESH**

Members considered a report from the Director of Finance which provided a review of the corporate risks for the current financial year 2022/23 and also presented an opportunity for any new corporate risks should be added to the risk register at this stage.

The Group Audit Manager introduced the report and highlighted the high-level overview of the risk landscape for 2022/23 and identified key areas of change and uncertainty. These key areas ranged from LGR, the resurgence of COVID, policy

reform, climate change, but members heard that one of the most significant areas of impact is that of increasing inflation and the worsening cost-of-living crisis.

Members heard that the report proposed that 13 risks remain risk register for 2022/23, with 8 rolling forward unchanged and the remainder being partly or fully rewritten. This meant that there were currently no new corporate risks to be added to the register and no risks to be removed.

Members heard that, the Local, National and Global context in which the Council continued to operate would be subject to great change and uncertainty over the next 12 months. The Risk Owners Group continued to consider the main areas of reform, change and uncertainty that were most likely to impact Cumbria County Council over the period and advise DMT's and CMT accordingly

One of the more significant areas of concern for 2022/23 would be the worsening impact of the 'cost of living crisis'. The Group Audit Manager explained that there was a need to understand the full impact of this crisis on current Council Services and therefore the County Council had been analysing the growing crisis and its implications in terms of National Policy responses.

The Vice-Chair commented on his concerns regarding information security and the sharing of data between sovereign council's in the lead up to Vesting day. The Director of Finance (s151 Officer) provided assurance that work was taking place regarding data treatment and that this would be the responsibility of the Assistant Director - Organisational Change going forward.

**RESOLVED** that, members note the summary of refreshed risks and agree that they adequately cover all areas of Strategic Risk for 2022/23.

## **9 INTERNAL AUDIT ANNUAL REPORT 2021/22**

Members considered a report from the Group Audit Manager Internal Audit Annual Report for 2021/22 which provided a summary of all internal audit work for the year and builds upon the quarterly progress reports that had been presented to CMT and Audit & Assurance Committee during 2021/22.

The Group Audit Manager explained that despite the challenges faced in the year 2021/22 with the ongoing impact of COVID-19 and the added challenge of progressing local government reorganisation, he was still confident that he would be able to deliver the overall opinion this year without significant caveats.

Members heard that the annual opinion was of Reasonable Assurance which was consistent with the previous year. From all the assurance work (including schools) undertaken in the year (completed and the draft report), 80% resulted in

Reasonable or Substantial assurance. Only 1 audit review in 2021/22 was given the lowest assurance level of 'limited' and this related to a school.

79% of risk-based audits had resulted in Reasonable or Substantial assurance. The Group Audit Manager explained that this showed an improvement on 2020/21 outcomes where 71% received substantial or reasonable assurance. It was highlighted that Internal Audit covered different areas each year and so the overall assurance rating could change each year without it necessarily meaning that internal control arrangements had gotten better or worse.

The Group Audit Manager explained that that overall audit coverage had been sufficient to provide an opinion in terms of the level of coverage across the directorates. Therefore, the annual opinion could be made without any limitation of scope based upon, 25 reviews completed or at draft stage (compared with 27 reviews for 2020/21) which represented 76% of audit reviews that would have been given a scored assessment.

The Group Audit Manager then addressed the safeguards which were in place to mitigate any actual or perceived threats to the Internal Audit's independence is addressed and mitigated.

Regarding the arrangements for risk management, governance and internal control, members heard that the Council continued to maintain sound arrangements in those areas. The Group Audit Manager provided an example from risk management where there was recognition of the continued impact of COVID-19 on the Council's corporate risks and the emergence of two new risks in 'Achieving Net Zero Greenhouse Gas Emissions by 2037' and 'The impact of Local Government Reorganisation on the sustained quality provision of Council Services'.

With regards to governance the Group Audit Manager stated that in recent years there had been continued improvements made to areas such as operational risk management, performance management and maintenance of policies, protocols, strategies and procedures. He continued by reiterating the importance of ensuring all procedure notes were in place, as required, and that they were periodically reviewed.

Members sought assurance regarding the response from management to Internal Audit. The Group Audit Manager explained that some of the best evidence for this came from the follow up reports, 3 (50%) had resulted in improved assurance ratings and were now reasonable assurance whilst the other 3 (50%) had remained at partial assurance. Although, not as positive a position as the previous year, the Annual Report reflected specific issues around staffing changes / capacity and the impact of COVID on the ability to progress the implementation of recommendations.

In response to a question regarding high priority recommendations, the Group Audit Manager explained that high priority recommendations were followed up by Internal Audit over a period of 6 to 12 months after the original report. Members heard that any resolutions would then be reflected in a forthcoming summary report.

The Chair congratulated the Group Audit Manager on achieving sufficient coverage in what had been a challenging year.

**RESOLVED** that,

- 1) members note the progress in delivering the 2021/22 audit plan and the outcomes of completed audits set out at Appendix 1 of the report,
- 2) members note the Head of Internal Audit's opinion of reasonable assurance over the adequacy and effectiveness of the Council's arrangements for governance, risk management and internal control for the year ended 31 March 2022,
- 3) members note the Head of Internal Audit's declaration of conformance with the mandatory PSIAS,
- 4) members note the Head of Internal Audit's declaration of safeguards put in place to protect Internal Audit's independence as required by the PSIAS,
- 5) members note the results of the Quality Assurance and Improvement Programme.

## **10 ANNUAL REVIEW AUDIT AND ASSURANCE COMMITTEE EFFECTIVENESS 2021/22**

Members considered a report from the Director of Finance (s151 Officer) which provided a review of the work of the Audit and Assurance Committee against the core functions of an audit committee as defined within the CIPFA Position Statement on Audit Committees: Practical guidance for Local Authorities and Police 2018.

Members were reminded that as a part of the Annual Governance Statement it was required that an assessment of the effectiveness of key elements of the governance framework take place including the Audit Committee.

The Director of Finance (s151 Officer) provided a background by reminding members that the Committee met five times during 2021/22, in June 2021, the Committee considered the Annual Governance Statement for 2020/21 and were advised that no significant governance issues had been identified. The Monitoring Officer highlighted that the review had demonstrated that while the Council experienced significant disruption to its day to day operations as a result of the

coronavirus pandemic, the governance arrangements that the Council had in place prior to the pandemic provided a strong foundation for the governance of the Council's response to the pandemic. It was also confirmed that the local code of governance was still an accurate reflection of how governance had operated in 2020/21.

The Director of Finance (s151 Officer) commented on the Committee's continued interest in the arrangements for effective risk management illustrated by their participation in a number of deep dive presentations on specific corporate risks and the arrangements in place to manage them.

Over the course of the year the Committee also continued to receive regular progress reports on the work of Internal Audit. In March 2022 the Committee approved the Audit Plan and Audit Charter for 2022/23 and considered the Internal Audit annual report for 2020/21 in June 2021

The Committee also approved the Audited Accounts for 2020/21 for Cumbria County Council, Cumbria Local Government Pension Scheme and the Port of Workington Harbour in September 2021. The Director of Finance (s151 Officer) described this as a significant achievement as Cumbria County Council was one of only 9% of local government bodies that received their 2020/21 account's opinion from their external auditor by the 30 September 2021 deadline.

The key message from the Director of Finance (s151 Officer) was the conclusion of the report that stated the, 'The Audit and Assurance Committee compares well against the CIPFA core purpose statements for audit committees'. Following a discussion on CIPFA, members heard that CIPFA was currently updating its guidance publication for Audit committees and that the new edition would be published in late Summer 2022.

**RESOLVED** that, members noted the report and confirmed the assessment of conformance with the core functions of an audit committee per the 2018 CIPFA Guidance as set out at Appendix 1 of the report.

## **11 LOCAL CODE OF GOVERNANCE**

Members considered a report from the Monitoring Officer which sought to inform the committee of the need to extend the existing Local Code of Governance, which was due to expire at the end of this year, until 31 March 2023 when the Council would be dissolved in accordance with the Cumbria (Structural Changes) Order 2022.

The Monitoring Officer explained reminded members that the Cumbria County Council's Local Code of Governance 2018-22 was adopted in 2018 and was based on the framework and guidance issued by CIPFA and SOLACE. Each year the



Council carried out a review of its governance structures against this framework, the findings of which were published as the Annual Governance Statement.

Members heard that a review of the Local Code of Governance had been carried out to ensure that it continued to take account of best practice and that governance arrangements continued to reflect the most recent guidance. The review had not identified that any significant changes would need to be made to the Local Code of Governance. The Monitoring Officer explained that some minor changes had been identified to reflect current governance arrangements within the Council and these were highlighted for members.

A discussion took place regarding governance oversight for the transition from Shadow Authorities into the new Unitary Council's.

**RESOLVED** that, consider the changes to the Local Code of Governance as set out in Appendix 1 of the report and agreed that it should be extended to 31 March 2023.

## **12 ANNUAL GOVERNANCE STATEMENT**

Members considered a report from the Monitoring Officer which presented the draft Annual Governance Statement. Members were reminded that the Annual Governance Statement was a key document for providing an assessment of the Council's governance arrangements.

The review had been undertaken with reference to the Council's Local Code of Governance in 2018/2022, which was approved by the Audit and Assurance Committee in March 2018 and was due for review.

The Monitoring Officer provided assurance that the impact of the COVID-19 pandemic on governance arrangements had been considered and reference had also been made to Advisory Note 1 CIPFA Practice Oversight Panel.

A discussion took place regarding the Cumbria (Structural Changes) Order 2022 which came into force on 18 March 2022 and provided for the creation of two new unitary authorities for Cumbria. Members heard that this would continue to have a significant impact on the governance arrangements of the Council during 2022/23. The discussion turned to the new Shadow Authorities and how they could benefit from learning from the annual review of governance in developing their governance structures in preparation for taking over full local government responsibilities and functions from 1 April 2023.

The Council's governance arrangements would be kept under review up to final publication of the Annual Governance Statement in September 2022 and any updates to the statement would be made to reflect any developments prior to final publication. However, members heard that at the current stage of the assessment there were no significant governance issues.

**RESOLVED** that,

- 1) members reviewed and noted the draft Annual Governance Statement of Cumbria County Council for 2021/22 before its publication as a draft on the Council's website.
- 2) members authorise the Chief Executive and the Leader of the Council to sign the Annual Governance Statement on behalf of the Council.

### **13 ACCOUNTS PREPARATION UPDATE 2021/22**

Members considered a report which provided an update on the previous report to the March 2022 Audit and Assurance Committee and summarised the progress to date on the preparations for the Council's and Cumbria Local Government Pension Scheme Statement of Accounts 2021/22 and the Council's Value for Money conclusion.

The Director of Finance (s151 Officer) introduced the report and then the Group Finance Manager explained that the unaudited Statement of Accounts would be published in late June ahead of the statutory deadline of 31 July 2022, in accordance with the Accounts and Audit (Amendment) Regulations 2021. The audited Statement of Accounts would be presented to Audit and Assurance Committee once the audit was completed.

Members heard that an update on the timetable for the External Audit would be provided in the next agenda item as part of Grant Thornton's update. However, the significant risks for 2021/22 as reported by Grant Thornton were unchanged from the previous years and were:-

- Valuation of land and buildings and Investment Property
- Valuation of pension fund net liability
- Management over-ride of controls

Members were reminded that Grant Thornton also focused on the level of understanding those charged with governance had with regards to the estimates which were said to have high estimation uncertainty, or which require significant judgement.

The estimates were covered as part of the Finance team briefing for Committee members held on 12 May, whereby members focused on the areas of the Council's Accounts where significant estimates were used. These were:-

- Valuations of land and buildings
- Depreciation
- Year-end provisions and accruals
- PFI liability
- Fair value estimates

Members heard that for 2021/22 there were initially no significant technical accounting changes in the Code, although preparations for the implementation of IFRS16 Leases on 1 April 2022 (i.e. financial year 2022/23) was included. Late in the financial year, the CIPFA consulted on three additional issues:

- an adaptation to the allow for a pause in valuations of operational property, plant and equipment for up to two years, this approach also explores the use of an index to be used to increase or decrease that valuation.
- deferring the implementation of IFRS16 Leases for a further year
- accounting for infrastructure assets.

A conversation took place regarding the third issue relating to infrastructure assets and it was explained that though there had been no official confirmation from CIPFA it had been proposed that within the accounts it would only be shown the net book value of the relevant infrastructure assets. This was seen as a short term solution and CIPFA would address the issue with a long term solution through a consultation later in the year.

An update was then provided on the preparation of the Local Government Pension Scheme accounts. Members heard that in producing the 2021/22 Cumbria LGPS Financial Statements, the Fund had followed the same process as in previous years including setting a cut-off date (17<sup>th</sup> May 2022) at which time all estimates within the accounts were revised to reflect any non-trivial adjustments advised to the Pension Fund by this date.

The Director of Finance (s151 Officer) provided assurance that Finance team were confident that they would be able to sign off the unaudited accounts by the afternoon of 30 June, a month ahead of the statutory deadline.

**RESOLVED** that,

- 1) members note the high level timetable for the closedown of the Council's and the Cumbria Local Government Pension Scheme 2021/22 accounts.
- 2) members to confirm in respect of the use of estimates that:
  - They have been appropriately briefed on how accounting estimates are used.
  - There has been an opportunity to consider the areas where estimates are used.
  - There has been an opportunity to challenge the approach / methodologies.
  - That the approach taken by management is reasonable.

**14 (GRANT THORNTON ITEMS)**

**a External Audit - Progress report**

Members considered a report from the External Auditors which provided an update on progress in delivering the annual audit as well as providing a summary of emerging national issues.

Members heard that the initial planning for the 2021/22 audit was undertaken in March 2022 and that it was expected that Grant Thornton would begin work on the Council's draft financial statements in late July.

Regarding the Value For Money (VFM) area of the Audit the Engagement Lead explained that the Head of Local Government for VFM at Grant Thornton had been asked, due to his experience with Local Government Reorganisation, to engage with members as part of the process.

Members heard that Grant Thornton were in the process of auditing the late accounts of local authorities across Cumbria in an effort to bring them up to date before Vesting day. The delay in release of some of these accounts would likely have a knock-on effect on the audit of Cumbria County Council and LGPS accounts. However, members were given assurance that the Council's and LGPS account would be prioritised if the local authorities in question were not forthcoming and delays continued.

A conversation took place regarding the financial landscape and delivery timetable relating to the auditing of the accounts of other local authorities in the area. The discussion centred around the implications for the new Unitary Authorities and the assistance that may be needed in bringing their accounts up to date.

The Chair was assured that as far as possible those Councils who had produced accounts to a good quality standard would not be penalised for the inability of other Councils.

**15 FORWARD PLAN - AUDIT AND ASSURANCE COMMITTEE**

The Chair asked that the Forward Plan be brought up to date to reflect the change in relation to the position of Senior Risk Officer (SIRO).

**16 DATE & TIME OF NEXT MEETING**

The next meeting of the Audit and Assurance Committee is due to take place on 8 September 2022 at 10:30 am in Conference Room A/B, Cumbria House.

The meeting ended at 12:40 pm