

AUDIT AND ASSURANCE COMMITTEE

Minutes of a Meeting of the Audit and Assurance Committee held on Wednesday, 29 July 2020 at 2.00 pm via Microsoft Teams.

PRESENT:

Mrs HF Carrick (Chair)

Mr GD Cook
Mr F Cassidy

Mr SB Collins
Mrs EA Mallinson
Mr F Morgan (Vice-Chair)

Also in Attendance:-

Mr D Hamilton	-	Democratic Services Officer
Mrs J Crellin	-	Director of Finance (Section 151 Officer)
Dr D Roberts	-	Executive Director - Corporate, Customer and Community Services
Ms A Clark	-	Senior Manager - Pensions and Financial Services (Deputy S151 Officer – Pensions)
Mr P Robinson	-	Assistant Director - Organisational Change
Mr R McGahon	-	Group Audit Manager
Ms I Puzio	-	Chief Legal Officer (Monitoring Officer)
Ms J Atkinson	-	Assistant Director - Strategic Commissioning
Ms H Kirk	-	Senior Risk Officer
Ms F Parker	-	Group Finance Manager - Corporate Accounting
Mr P Turney	-	Senior Manager - Accountancy (Deputy s151 Officer)
Mr G Kelly	-	Engagement Lead – Grant Thornton

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

49 APOLOGIES FOR ABSENCE

A minutes silence was held in remembrance of the late Mr Lawrence Fisher.

Apologies were received from Mrs Carni McCarron-Holmes and Mr Nick Marriner.

50 MEMBERSHIP

Members were informed that Mrs Elizabeth Mallinson had become a new permanent member of the Audit and Assurance Committee for the Conservative Group, replacing the late Mr Lawrence Fisher.

Members were then informed that Mr Frank Morgan would be substituting for Mrs Carni McCarron-Holmes for this meeting only.

51 DISCLOSURES OF INTEREST

There were no disclosures of interest made at the meeting.

52 EXCLUSION OF PRESS AND PUBLIC

There were no items on the Agenda for which the press and public should be excluded.

53 MINUTES

RESOLVED that, the minutes of the meeting held on 9 December be agreed as a correct record and signed by the Chair.

54 2019/20 QUARTER 4 - CORPORATE RISK REPORT

A report was considered from the Director of Finance (s151 Officer) regarding the 2019/20 Quarter 4 Corporate Risk Report. The report provided Members with a progress update on the Council's 2019/20 corporate risks at the end of the fourth quarter to 31 March 2020.

During the fourth quarter of 2019/20 and specifically from early March, the coronavirus (COVID-19) spread across Cumbria and impacted on the delivery of Council services. Council meetings were suspended for a period, including the Audit and Assurance Committee Meeting of 17 March. Members were informed that although the Quarter 3 Risk Report was published for the 17 March meeting the covering report presented in the current agenda pack reflected the key updates to the corporate risks for both Quarter 3 and Quarter 4.

The Senior Risk Officer summarised the comparative risk scores for Quarter 3 and Quarter 4 as described in the Corporate Risk Summary at Appendix 1 of the report. She identified the additional high risk at Quarter 4 as the 'Impact of COVID-19 on the delivery of Council Services'. This additional risk resulted in a total of 12 risks, 7 high risks and 5 medium risks. The COVID-19 outbreak had been highlighted as an emerging risk in the Quarter 3 risk report. Since then a new COVID-19 corporate risk had been developed which captured the key internal controls and measures implemented during March 2020 (Quarter 4) as well as the continued implementation of controls and measures during Quarter 1 of 2020/21. The risk was scored at 20 (in Quarter 4) and the year-end target for 2019/20 was to remain 20.

During Quarter 3 and 4 there were no changes to any of the actual risk scores for any of the identified corporate risks. However, during quarter 3 the end of year

target score for the risk 'To Deliver a Financially Sustainable Authority' was increased from 15 to 20. Additionally, there were three other corporate risks with targeted lower year-end scores these included the 'Work Force Capacity' risk, 'Learning Disability Partnership Arrangements' risk and the 'Information Security Arrangements' risk. The end of year scores for these 3 risks were challenged at Quarter 3 and the risks did in fact not reach their target score at the end of Quarter 4.

Two emerging risks have remained during the last 2 quarters. The first being Brexit, although UK / EU trade negotiations were disrupted over the last two quarters due to COVID-19 negotiations have now recommenced. In addition, the UK / EU agreed at the end of June not to extend the Brexit Transition period beyond 31 December 2020. The Council would continue to track Brexit related risks and implications and will put in place any necessary measures in the run up to the scheduled end of the Transition Period.

The second notable emerging risk was that of Climate change and the challenge of achieving a net zero carbon position. It was explained that the Cumbria Climate Change Working Group (CCWG), with the County Council as Joint Chair, had commissioned a carbon baseline assessment to evaluate a district level cross sector breakdown of carbon emissions across Cumbria. This assessment had now been completed and would allow partners to establish clear work streams to deliver carbon savings.

The Senior Risk Officer informed members that in the coming months work was to be carried out to refresh the Council's Corporate Risk Register and confirmed that the refreshed risk register within the Quarter 1 Risk Report would be presented at the September meeting.

Members sought assurance that the impact of COVID-19 had been factored into assessments of existing risks. The Senior Risk Officer confirmed that it had and drew member's attention to the risk owner's comments within the report. She added that the Quarter 1 Risk Report would provide further detail on the COVID-19 response phase where the impact on existing risks had more fully materialised.

Concerns were raised regarding information security and the increase in hostile action during the COVID-19 response. The Assistant Director - Organisational Change assured members that though consideration would be given to raising the risk score from 15, due to heightened activity, the existing controls had been effective in keeping the network secure.

In response to a question concerning the management of significant contracts and workforce capacity the Executive Director – Corporate, Customer and Community Services assured members that the organisation was aware of the challenges of balancing the increased work pressures and diversion of resources into new areas in light of COVID-19. Work was currently being undertaken to refresh Council priorities for the next year as part of the Council Plan Delivery Plan. Further detail and discussion on the response to these challenges would be expected as part of

the review of activity in the Quarter 1 Risk Report which would be presented at the September meeting.

Officers were asked to consider the possible impact of Scottish independence. The Director of Finance (Section 151 Officer) agreed that the suggestion be considered as part of the horizon scanning carried out by officers.

A discussion took place regarding the complexities of absence management during the COVID-19 response. The Executive Director – Corporate, Customer and Community Services informed members that the Corporate Management Team (CMT) had been provided with sickness figures for Quarter 1 and had begun to identify trends and patterns in different areas of the organisation. The coding mechanism used to identify sickness and absence had been updated at the beginning of the outbreak which allowed management to distinguish between COVID-19 related absences. On 10 September the Scrutiny Management Board would be due to receive an update on sickness in the context of broader organisational development work.

The Chair proposed that COVID-19 be the subject of a deep dive for the next meeting of the Audit and Assurance Committee.

RESOLVED that,

- 1) Members note the updates on Corporate Risks for Quarter 3 and Quarter 4 and agree that the report provides sufficient assurance that the current Risk Management arrangements are both robust and effective.

55 ANNUAL REVIEW AUDIT AND ASSURANCE COMMITTEE EFFECTIVENESS

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 in Local Authorities and Police 2018.

The Director of Finance (s151 Officer) reviewed the committee's activities over the year 2019/20 and highlighted the cancellation of the final meeting of 2019/20 scheduled for 17 March 2020 as a result of the COVID-19 outbreak. She also commented that these were 'unusual times' and as much of what was planned to have been considered at the March meeting was being considered at this meeting, that it was reasonable to include the 29 July 2020 meeting as part of this year's assessment of the effectiveness of the Audit and Assurance Committee.

Over the year 2019/20, the Committee continued to monitor the effectiveness of the Council's arrangements for risk management and received regular progress reports on the work of Internal Audit. The Director of Finance (s151 Officer) confirmed that against the CIPFA core purpose statements for audit committees, the Audit and Assurance Committee compared well.

RESOLVED that,

- 1) Members note the report and confirm 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.

56 INTERNAL AUDIT ANNUAL REPORT 2019/20

Members considered a report from the Group Audit Manager which provided a summary of the outcomes of the work of Internal Audit for 2019/20 and included the Head of Internal Audit's annual opinion on the effectiveness of the Council's arrangements for governance, risk management and internal control in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS).

The Group Audit Manager highlighted the key points of the report and informed Members that 79% of audits with an assurance rating (including schools) had received a substantial or reasonable rating. There were no audit reviews in 2019/20 given the lowest assurance level of 'limited'.

Members were informed that based on the work undertaken by internal audit during 2019/20 the Group Audit Manager was able to provide reasonable assurance over the effectiveness of the Council's arrangements for governance, risk management and internal control. The opinion was based on the work undertaken on the audit plan approved by the Audit and Assurance Committee in March 2019.

The Group Audit Manager highlighted to members that the Chartered Institute of Internal Auditors had commented that the annual opinion of the Head of Internal Audit should be based on the percentage of work completed due to COVID-19 and that where a limited amount of work had been done the Head of Internal Audit should report to the Committee that the opinion was based on that limited amount of work. The Group Audit Manager commented that sufficient work had been undertaken. In overall terms the opinion was based on 34 reviews completed or at draft stage (compared with 44 reviews for 2018/19). The expectation was that, without the impact of COVID-19, there would have been 42 reviews completed or at draft report stage at the time of giving the Head of Internal Audit Opinion.

The Group Audit Manager highlighted two areas where further work was required. Firstly, more consistency in operational risk management in terms of periodically reviewing risks and being able to demonstrate that this had been done. Secondly, he recommended the updating of procedure notes that were in place in certain areas to reflect current circumstances.

Regarding follow up audit reports, members heard that there had been a positive response with 14 out of 15 follow up reports bringing about an improved assurance rating. All 14 of those which improved were now reasonable assurance with 6 out of the 14 having previously received the lowest level of assurance.

The Group Audit Manager was satisfied that there had been sufficient coverage across the directorates and thanked colleagues for providing their support and for working with the Internal Audit team over the year.

The Chair responded to the significantly increased assurance provided by the follow up audit reports and thanked the Group Audit Manager and the Internal Audit team for their work.

RESOLVED that,

- 1) Members note the progress in delivering the 2019/20 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 2020,
- 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.

57 DRAFT INTERNAL AUDIT PLAN 2020/21

Members considered the draft audit plan report from the Group Audit Manager which had been prepared in consultation with senior management and was judged to conform to the Public Sector Internal Audit Standards (PSIAS). The original audit plan for 2020/21 was produced in March 2020. As the March 2020 meeting was cancelled the plan had been re-assessed with senior management and a number of changes had been made which were outlined in this report.

The Group Audit Manager outlined to members the changes made to the original audit plan produced for the March 2020 meeting. These changes included removal of some audit reviews where the risk may have reduced and addition of some audit reviews for 2019/20 where the work had commenced last year. Reablement / Homecare - Shift based Commissioning was cited as a specific example of an audit review that was removed because this review had been carried forward from the 2018/19 audit plan but the service had improved since 2018/19 which meant that was less of a priority for an audit review.

Members were informed that an audit review for Community Development Centres had been added to the plan and that time had been factored in to address issues arising as a result of COVID-19.

The Group Audit Manager outlined three pieces of work where the Internal Audit team were giving support to the wider Council. He gave assurances to members that before redeployment of Internal Audit resources to different areas of the Council the potential impact on Internal Audit independence had been fully considered. He confirmed that this work was administrative support and not decision making roles and this did not conflict with the independence of the audit function and their ability to assess operational activities.

The internal audit charter had been updated and was included as an appendix to the audit plan report for re-approval by the Audit and Assurance Committee. There were only minor changes to the Charter from 2019/20.

A discussion took place regarding safety issues relating to hospital discharges and the Group Audit Manager was asked whether work should be carried out to provide a review of practices as soon as is possible. In response to this the Group Audit Manager explained that the Internal Audit review had been scheduled for Quarter 4 as there was ongoing work within the directorate relating to hospital discharges. It was agreed that further clarification be provided from the directorate to provide assurances to the Audit and Assurance Committee.

RESOLVED that, Members approve the draft audit plan for 2020/21 and the audit charter

58 ACCOUNTS PREPARATION 2019/20

Members considered a report from the Director of Finance (s151 Officer) This report summarised the progress to date on the preparations for the Council's and Cumbria Local Government Pension Scheme Statement of Accounts 2019/20 and provided an update on the previous report which would have been presented to the March 2020 Audit and Assurance Committee, and was attached as Appendix 2 to the report for information.

The unaudited Statement of Accounts will be published before the statutory deadline of 31 August 2020, in accordance with the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, and the Audited Statement of Accounts will be presented to the Audit and Assurance Committee once the audit is completed. The Council intended to publish its draft accounts by 31 July 2020, in advance of the statutory deadline of 31 August 2020.

Each year the Financial Reporting Council (FRC) undertake a review of a number of audits undertaken by private sector audit firms. In respect of Grant Thornton, the Council's 2018/19 audit file was one of those randomly selected by the FRC for review. The Audit for 2018/19 was completed by 31 July 2019 and the Committee was pleased to receive an unqualified audit opinion.

In relation to the process undertaken by the FRC, all aspects of the external audit are reviewed. In responding to a query in June 2020 from the Grant Thornton team relating to Plant, Property and Equipment, the Council's in-house Valuation Team identified that they had, unfortunately included an arithmetic error in the depreciated replacement cost (DRC) valuation template used to calculate the value of some of the Council's buildings in 2018/19. The Director of Finance (Section 151 Officer) assured members that the Finance team had undertaken a considerable amount of work in conjunction with the Valuation Team to understand the impact on the 2018/19 valuation of assets and reassess them where necessary.

The Balance Sheet will be restated for 2018/19 and will be included in the 2019/20 unaudited Accounts by adjusting the 2018/19 comparative figures and associated notes and disclosures. These adjustments will then be subject to audit in the usual manner as part of the external audit of the 2019/20 annual accounts.

The external audit to be undertaken by Grant Thornton was now scheduled for September and October with Grant Thornton's Audit Plan to be presented to the Audit and Assurance Committee on 17 September 2020 and the audit findings being reported to the 23 November meeting.

The Director of Finance (s151 Officer) provided a background to the Cumbria Local Government Pension Scheme (the Fund) accounts and explained that the unaudited accounts were presented to the Cumbria Pensions Committee on 23 June and these are publically available as part of the agenda papers for that meeting.

In March, CBRE Limited, the Council's independent property valuers, advised the Fund that, due to the impact of COVID-19 on the property market, it had concluded that it could attach less weight than in prior years to previous market evidence for comparison purposes used to inform opinions of value. As a result, CBRE had incorporated a 'material uncertainty' clause in their valuation. This was consistent with the approach taken nationally and both CIPFA and the Royal Institute of Chartered Surveyors (RICS) had indicated that this does not necessarily imply that the valuation could not be relied upon.

A discussion took place regarding the 'material uncertainty' clause and the importance of recognising the likelihood of continued use of the clause over coming years. The Engagement Lead - Grant Thornton reassured members that the 'material uncertainty' disclosure was a standard approach in response to a national issue relating to Plant, Property and Equipment. The Engagement Lead – Grant Thornton highlighted that this may lead to an 'emphasis of matter' paragraph in their audit opinion for 2019/20 but stressed this was not a qualification but a way of highlighting an important issue to the reader of the accounts.

The Chair thanked the Finance team and the Valuation team for their thorough response to the error found in the valuation template and their work to rectify it.

RESOLVED that, Members note the revised High level timetable for the closedown of the Council's and the Cumbria Local Government Pension Scheme 2019/20 accounts to comply with statutory requirements.

59 ANNUAL GOVERNANCE STATEMENT

Members considered a report from the Chief Legal Officer (Monitoring Officer) which presented the draft Annual Governance Statement 2019/2020.

The Council is required to carry out an annual review of its corporate governance arrangements. The Chief Legal Officer (Monitoring Officer) explained that following the annual review of the effectiveness of the Council's corporate governance framework, no significant governance issues had been identified.

In addition to this, a review had been carried out into the impacts of the coronavirus pandemic on the Council's governance, in line with guidance issued by CIPFA in April 2020 - 'The Annual Governance Statement 2019/20: Matters to consider as a result of the coronavirus pandemic'. This review has demonstrated that while the Council experienced significant disruption to its day to day operations, robust emergency planning and business continuity arrangements ensured that the Council could both respond effectively and maintain an effective response to the continuing pandemic.

The Annual Governance Statement is required to be up to date at the time of final publication. Therefore, the review will continue to monitor the ongoing impact of the coronavirus pandemic up to final publication in November 2020. Consistent with normal practice the Corporate Management Team is due to carry out a more general review of the Council's response to the coronavirus pandemic in due course to ensure that learning informs continuous improvement of arrangements, in particular for emergency planning and business continuity.

RESOLVED that,

- 1) Members review the draft Annual Governance Statement of Cumbria County Council for 2019/2020 before its publication as a draft on the Council's website,
- 2) Members note that the Leader of the Council and the Chief Executive will sign the draft Annual Governance Statement prior to publication.

60 (GRANT THORNTON ITEMS)

a Grant Thornton - External Audit - Audit Scope Letter

Members had before them the Audit Scope Letter from the External Auditor, Grant Thornton. The Engagement Lead – Grant Thornton introduced the letter and drew

member's attention to the date that it had been sent (19 February 2020). The proposals laid out in the letter were agreed in principle with the Director of Finance (s151 Officer), but the Engagement Lead recognised that the situation had changed and agreed that an up to date Audit Scope Letter will be issued.

A discussion took place regarding the proposed general increase of cost involved due to the higher volume and widened scope of audit work designed to ensure an adequate level of audit scrutiny over the assumptions that underpin Property, Plant and Equipment valuations. A number of updates to current scope letter were highlighted with regards to fees which would no longer be required, such as those associated with the work of the out-of-area audit team and those no longer required due to the delay in the implementation of IFRS9 and IFRS15.

Members asked that Grant Thornton accommodate carbon reduction requirements and that use of electric cars in particular be reflected in the fees. This observation was welcomed and would be taken into account when considering financial sustainability and value for money.

A discussion then took place regarding the challenges that had arisen from carrying out audit activities remotely and the additional work that had to be completed as a result. It was suggested that this would have implications for the fee and possibly for the timetable of delivery.

The Chair received the letter with gratitude and would welcome the updated letter to a forthcoming meeting of the Committee.

b Grant Thornton - External Audit - Audit Plan Cumbria Local Government Pension Scheme 2019/20

Members considered the Audit Plan Cumbria Local Government Pension Scheme 2019/20 which provided an overview of the planned scope and timing of the statutory audit of Cumbria Local Government Pension Scheme ('the Pension Scheme') for those charged with governance.

The Engagement Lead – Grant Thornton introduced the Audit Plan by highlighting those risks requiring special audit consideration. These were identified as:-

- Management over-ride of controls
- Valuation of Level 3 Investments
- Valuation of Directly Held Property

The Engagement Lead – Grant Thornton explained that they will communicate significant findings on these areas as well as any other significant matters arising from the audit, to the Committee in the Audit Findings (ISA 260) Report.

c Grant Thornton - External Audit - Progress and Update Report

The Engagement Lead – Grant Thornton provided Members with an update on the progress of the external audit whereby he reminded Members that due to the significant ethical matter discussed at December's Audit and Assurance Committee, there would be a revised timetable for the delivery of the 2019/20 Council audit.

The appointment of the previous audit manager to the role of Group Finance manager at the Council had created a perceived and real threat to the independence, objectivity and integrity of Grant Thornton. After consulting with the firm's central ethics function they were satisfied that the engagement manager and engagement lead continue in their roles on the grounds of seniority. However, the remainder of the audit team would now need to be staffed by a team from outside of the Carlisle office.

d Grant Thornton - External Audit - Teacher's Pension return: Confirmation Letter

A detailed discussion of this topic had taken place at the 9 December 2019 meeting of Audit and Assurance Committee. At the July 2020 meeting a further discussion took place regarding the payroll provider for schools and the systems issues which were introduced by the provider's new payroll system. An extensive piece of internal qualitative review work had been carried out before the pensions return was submitted for 2019/20.

The Chair commented to say that the thoroughness with which discrepancies were investigated and responses provided gives the Committee confidence.

61 FORWARD PLAN - AUDIT AND ASSURANCE COMMITTEE

It was agreed that the Senior Information Risk Owner (SIRO) and Information Governance Annual Report be brought to the next meeting of the Audit and Assurance Committee on 17 September 2020.

In the light of the recently scheduled meeting on 23 November 2020, it was agreed that the 8 December 2020 meeting be rescheduled for the beginning of the New Year.

62 DATE & TIME OF NEXT MEETING

The next meeting of the Audit and Assurance Committee will be held on 17 September 2020.

The meeting ended at 16:40pm