

## **AUDIT AND ASSURANCE COMMITTEE**

Minutes of a Meeting of the Audit and Assurance Committee held on Thursday, 24 March 2022 at 10.30 am at Conference Room A/B, Cumbria House

### **PRESENT:**

Mrs HF Carrick (Chair)

Mr NH Marriner  
Mr GD Cook

Mr J Bell

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

- |                |   |
|----------------|---|
| Dr D Roberts   | - Executive Director - Corporate, Customer and Community Services                   |
| Mrs P Duke     | - Director of Finance (s151 Officer)  |
| Ms A Clark     | - Senior Manager - Pensions and Financial Services (Deputy S151 Officer – Pensions) |
| Mr R McGahon   | - Group Audit Manager   |
| Mrs H Kirk     | - Senior Risk Officer   |
| Mr D Hamilton  | - Democratic Services Officer   |
| Ms F Parker    | - Group Finance Manager - Corporate Accounting                                      |
| Ms D Middleton | - Senior Manager Finance  |
| Mr G Kelly     | - Engagement Lead - Grant Thornton  |
| Mrs N Ayre     | - Auditor-in-charge   |

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

#### **183 APOLOGIES FOR ABSENCE**

Apologies were received from Mrs E Mallinson and Mr S Collins.

#### **184 MEMBERSHIP**

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

#### **185 DISCLOSURES OF INTEREST**

There were no disclosures of interest made on this occasion.

## 186 EXCLUSION OF PRESS AND PUBLIC

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

## 187 MINUTES

**RESOLVED** that, the minutes of the previous meeting held 7 December 2021 be agreed as an accurate and complete record.

## 188 DEEP DIVE RISK ANALYSIS

The Deep Dive presentation for this meeting focussed on the specific risk relating to the ***Impact of Local Government Reorganisation on the sustained provision of Council Services.***

The presentation was delivered by the Executive Director – Corporate, Customer and Community Services and the Director of Finance (s151 Officer) and covered the following:

- The Corporate Risk Description and Risk Score
- The link between this LGR Organisational Risk and other risks on the Corporate Risk Register
- Clarity around the two sets of LGR risks being managed, the LGR Organisational risk being managed by the County Council as part of their Corporate Risk Register and the full set of LGR Programme risks being managed by the LGR Programme Board as part of their LGR Programme risk register.
- Delivery of the County Council Statutory Responsibilities & Safe Transition of Services to vesting day.
- Engagement of the County Council within the LGR Programme and Management of County Council resources.
- Overview of the revised LGR Programme Board, Key Themes and Board membership
- Outline of the new political governance arrangements for the Shadow Authorities.
- Overview of the additional LGR Programme Capacity and Resources in place to support the programme delivery through the LGR Implementation Reserve
- Links between the Phases of the LGR Programme and timeline for the Joint and Shadow Committees as well as the shadow executives
- Assurances on the management of the County Council Legacy tasks and impact on A&AC forward plan for 2022/23.
- What support the Audit and Assurance Committee can provide over the next 12 months.

Members discussed the role of the incoming Shadow Authority Councillors on the work of the existing authorities. The Director of Finance (s151 Officer) explained that the Shadow Authorities would not be directly delivering any services and their functions would be in relation to the establishment of the new Unitary authorities in respect of structure, Council Plan and service delivery options, 2023/24 revenue budget and Medium Term Financial Plan all of which would need to be implemented for vesting day. It was confirmed therefore that Shadow Authority members would not have the remit to make decisions that impact the services of existing sovereign authorities.

Members sought assurance that members and officers would be involved in providing a knowledge base for incoming members so as to ensure that the new authorities were able to take County Council services forward. The Director of Finance (s151 Officer) explained that actions and mitigations relating to the transition was being managed through the LGR Programme Board and induction and briefings for new members will be available. Regular appropriate updates would be brought to the Audit Committee through the Quarterly Risk Reports to update on the mitigations in place. The Executive Director – Corporate, Customer and Community Services explained that there were other means through which members could access LGR Programme information (the monthly briefings and newsletters). Regarding the safe transition of services specifically, there were blueprints for all services for the two councils being developed as well as Day 1 readiness assurance work.

The Executive Director – Corporate, Customer and Community Services was asked about member oversight of the LGR Programme – Theme Risks and she explained that responsibility sat with the Programme Board and the Programme Director. As the Programme moved towards Joint Committees and Shadow Authorities these bodies would then take over responsibility for the implementation plan, transition plan and the responsibility for the monitoring and risk management.

The Chair reiterated that the responsibility of this Audit & Assurance Committee was to seek assurance regarding the management of existing services through the period of transition until vesting day. However, she raised concerns about how audit oversight might be provided in the current transitional period of implementation. The Director of Finance (s151 Officer) explained that through the Corporate Risk Register assurance would be provided to ensure the County Council risk management approach was effective.

### **189 2021/22 QUARTER 3 – CORPORATE RISK REPORT**

Members considered a report from the Director of Finance which provided a progress update on the Corporate Risk Register to 31 December 2021.

The Senior Risk Officer provided the context and background for the Quarter 3 /early Quarter 4 period outlining the various challenges in place at that time. These included:-

- The Omicron variant and its impact on staffing capacity within Health and Social Care and also its impact more broadly across non-care staff who were in a supporting and enabling role during that time - such as HR and Finance teams as well as others.
- Storms and weather events including storm Arwen and Storm Barra and since then we have had other named storms throughout Jan and February 2022.
- The LGR programme.

Members heard that there were 13 corporate risks on the register from across the Council. There were 9 high risks and 4 medium risks. These numbers were unchanged compared to Quarter 2. There had also been no new risks added to the register and no risks closed off at the end of Quarter 3.

With regard to changes to Risk Scores, at the end of Quarter 3, two risks - the *Resilience of the Care Sector and impact on meeting care needs* risk and the *Health & Social Care Demand and System Failure* risks – had reached the highest risk score of 25 and both showed a continued state of decline during Q3. Specifically, the *Health & Social Care Demand and System Failure* risk had increased in score from 16 to 25 in Q3.

The Senior Risk Officer reminded members that a request was made at the last Audit & Assurance Committee to revise the descriptions of the risk causal factors for the two previous new risks from Quarter 2, these were the risks relating to the *Reduction of the Council's Green House Gas Emissions* and the *Impact of LGR on the provision of Council Services*. The causal factors had now been amended slightly and the risk description of the net zero risk had been revised to include the need for organisational resilience / adaptation going forward as well as the need to cut carbon emissions.

On the topic of Horizon Scanning and Emerging Risks, members heard that during Quarter 4 and beyond, especially in respect of the potential impact of the Russia/Ukraine situation, all areas of evolving risk would be continuously monitored. The capacity issues across the wider Council in context of LGR, managing business as usual and specifically within Health & Social Care would also continue to be monitored, managed and mitigated accordingly.

The Senior Risk Officer concluded by explaining that for the next Audit and Assurance Committee members would consider both the Quarter 4 risk report and a Risk Register refresh.

The Chair sought to understand what would happen regarding the now realised risks (*Resilience of the Care Sector and impact on meeting care needs* risk and *Health & Social Care Demand and System Failure*). The Senior Risk Officer explained that a reassessment would be carried out in order to clarify and redefine the risk descriptions to reflect the ongoing relevance of the risks in context of the current organisational situation. The Vice-Chair voiced his concern on the fragility of the Health and Social Care system. The Director of Finance (s151 Officer) reminded members that there had been additional national funding made available to support

the care market throughout January - March 2022 in addition to the Council's Market sustainability Fund and explained that there was an ongoing conversation around what additional measures could be brought in to continue to try to mitigate the risk of market failure.

The Committee acknowledged the current and ongoing challenges and the effort required by Managers and Officers to maintain and keep improving the numerous risk controls. Members of the Committee gave their recognition to all parties involved across all directorates who have and continue to successfully manage their risks.

**RESOLVED** that,

- 1) members note the updates on Corporate Risks for Quarter 3 2021/22 and agree that this report provides sufficient assurance that the current Risk Management arrangements are both robust and effective,
- 2) members receive a presentation relating to the *Impact of Local Government Reorganisation on the delivery of Council Services* corporate risk.

## **190 ACCOUNTS PREPARATION 2021/22**

The report before the Committee set out the arrangements that were in place for the preparation and audit of the 2021/22 Accounts for the Council and the Pension Fund.

Members were reminded of the Council's strong track record in accounts preparation and heard that Cumbria County Council was one of only 9% of all local authorities to meet the 30 September deadline for the sign off of the audit for their 2020/2021. The Audit Findings Report (AFR) for the Council's 2020/21 Accounts concluded that again the Council achieved a very high quality of financial reporting, with working papers being to a good standard. Grant Thornton commented positively on the effective response time to their audit queries. Overall, the very small number and the nature of the adjustments reflect the sustained improvement and substantial progress the Council has made in strengthening the accounts compilation process.

The Senior Manager – Accountancy and Financial Planning explained that the proposed deadline for the sign off of the unaudited accounts by the Director of Finance was 30 June 2022. This was in advance of the statutory deadline of 31 July and the Audited Statement of Accounts would be reported to Audit and Assurance Committee once the audit was completed in September.

In relation to IFRS16 Leases, CIPFA had launched an urgent consultation with a view to deferring their new requirements due to the pressures across local government and the audit sector as part of the Government's response to the

Redmond Review. Indications from the consultation showed that IFRS16 would likely be deferred by 2 years to 24/25 and was due to be ratified by the financial Reporting advisory Board in early April.

The Senior Manager - Pensions and Financial Services reported on the Audit Findings Report 20/21 from a Cumbria Local Government Pension Scheme (LGPS) perspective. Members heard that the audit work undertaken by Grant Thornton identified no significant control weaknesses within the LGPS and no recommendations were included within its Audit Findings Report. It is intended that the 2021/22 Cumbria LGPS Financial Statements follow the same process as in previous years. The Fund would continue with its approach to set a cut-off date (16 May 2022) at which time all estimates within the accounts would be revised to reflect any non-trivial adjustments advised to the Pension Fund by this date.

In producing the 2020/21 financial statements, the Fund included an estimate of the impact of the McCloud case on the present value of past service liabilities on both a valuation basis and an IAS19 basis. The Fund was to include a similar estimate in production of the 2021/22 accounts. However, details of the resolution to McCloud would be expected to be finalised during 2022/23. Members heard that dependent upon the timing of this announcement Officers may need to reconsider the impact of the resolution and potentially adjust the accounting entries.

In a discussion regarding the unfolding of the humanitarian crisis in Ukraine. Members heard that investments in the Fund had been reviewed and it was identified that just over £3.2m (approximately 0.1% of the Fund) was invested in either Russia, Belarus or Ukraine. The Senior Manager – Pensions and Financial Services explained that from an accounting perspective this fell well below the materiality level. However, the finance team were working closely with investment managers to determine our next steps in relation to those investments.

The Chair reiterated the significant achievements of the Finance Team, those in the wider organisation and the External Auditors in producing the accounts to such a high standard each year. The Chair continued by stating that the fact that Cumbria County Council was one of only 9% of all local authorities to meet the 30 September deadline for the sign off of the audit for 20-21 was an achievement to be particularly proud of. The Committee thanked all those involved in the preparation of the County Council and LGPS accounts for their hard work.

**RESOLVED** that, members note the contents of the report.

## **191 INTERNAL AUDIT PROGRESS REPORT TO 31 JANUARY 2022**

Members considered a report from the Group Audit Manager which summarised progress on audit work included within the 2021/22 audit work plan and provided a link to the next agenda item on the draft Internal Audit plan for 2022/23.

The Group Audit Manager began by discussing the audits which were completed in the 3 months to 31 January 2022. There were 9 audits completed in the period and

they reflected a positive position with 7 Reasonable, 1 Partial and 1 Limited. These audits consisted of 4 risk based reviews, which were as follows:-

- Sufficiency of Early Years Places – Reasonable
- Corporate Complaints system – Reasonable
- Follow up – CNDR Connect - Partial
- Bridges and Structures - Reasonable

In addition to those risk based audits, there were 5 school audits

- St Bridget's RC School, Egremont – Reasonable
- Ellenborough and Ewanrigg Infants School - Reasonable
- St Benedict's Catholic High School, Whitehaven - Reasonable
- Parkview Nursery School - Reasonable
- Lakes School, Windermere – Limited

There were currently 2 reviews at draft report stage and the initial assurance levels both of those reviews received reasonable assurance and would contribute to the 2021/22 Head of Internal Audit Opinion. Members heard that of all the reviews completed to at least draft report stage, 81% received reasonable or substantial assurance which is higher than the 73% at the same stage in 2020/21.

Members heard that 1 follow up had been completed and 1 draft follow up report had been issued, with one having improved its assurance rating from partial to reasonable assurance (the highest opinion available for a follow up audit) whilst the other remained at partial assurance. A further 6 follow ups were also being undertaken.

The Group Audit Manager reflected on the scope of coverage and explained that at 31 January 2022 there had been 21 audit reviews in total completed. Of these, 14 were assurance reviews, there were a further 2 assurance reviews at draft report stage, giving a total of 16 assurance reviews to be considered for the 2021/22 Head of Internal Audit Opinion.

The Group Audit Manager highlighted the 2 latest assurance reviews which had received 'reasonable' assurance - Carlisle Southern Link Road (CSLR) governance arrangements (28 February) and Client Affairs – Follow up (8 March).

The Group Audit Manager explained that as part of work on the quarterly update and the production of the draft internal audit plan for 2022/23, audit reviews deemed 'Not yet started' as at 31 January 2021 were considered. In some cases the Audit team had discussions with the directorates and it became clear that, due to the continued impact of COVID-19, undertaking the review during 2021/22 would not have been appropriate. There were 2 reviews removed from the 2021/22 audit plan (LEP Funding and Transforming Care Implementation for learning disabilities) and 8 reviews which were rolled forward into the draft 2022/23 audit plan as follows:

- New Highways Information Management System
- Capital Programme – Monitoring and Management of Consultancy Spend and Utilisation
- CFRS - Asset Management
- CFRS - Maintenance of Operational Equipment
- COVID grants
- Regional Adoption Agency
- Follow ups:
  - Data Protection (GDPR)
  - ICT service continuity

**RESOLVED** that,

- 1) members note the progress and the outcomes of internal audit work,
- 2) members approve the changes to the 2021/22 Audit Plan.

## **192 DRAFT INTERNAL AUDIT PLAN 2022/23**

Members considered a report from the Group Audit Manager which presented the draft Internal Audit Plan 2022/23. The Group Audit Manager explained that as in previous years the audit plan was aligned with the Council's corporate, directorate and service level risks. The audit plan summarised the risks, controls and other assurances also described in the Corporate Risk Register and shows the internal audit work planned in 2022/23 against each corporate risk as well as the work done in the past five years.

Members heard that the number of audit days in the 2022/23 audit plan had been reduced by 100 days to reflect the fact that one part-time member of staff was taking early retirement in April 2022. The Group Audit Manager explained that coverage was considered adequate for 2022/23 to provide an overall opinion on the Council's arrangements for governance, risk management and internal control as required under the Public Sector Internal Audit Standards (PSIAS). The overall number of assurance audit reviews was less than in previous years as, due to local government reorganisation, there would be no ability to rollover partially completed audit reviews into 2023/24. It was also explained that the Internal Audit team had operated with 1.5 FTE staff vacancies due to uncertainty around the future of the Cumbria Shared Internal Audit Service and therefore, even though the shared service would cease on 31 March 2022, resources would not increase.

In producing the 2022/23 plan, 120 days had been included relating to support and assurance work in respect of Local Government Reorganisation (LGR) and an additional 60 days had been allocated for ongoing assurance work on the £18.9 million LGR Implementation Reserve.

Members heard that amendments to the plan, if required would be sought where appropriate. The Group Audit Manager explained that in line with the PSIAS, and in accordance with the Internal Audit Charter, he will keep the plan under review and as appropriate, seek approval for amendments to ensure the plan continued to reflect the Council's significant risks.

Members heard that Internal Audit would continue to follow up all audits resulting in 'Partial' or 'Limited' assurance and in line with the approach introduced in 2019/20 which had a focus on high priority recommendations.

To conclude, the Group Audit Manager highlighted that the Internal Audit Charter had been updated to remove any references to the Cumbria Shared Internal Audit Service which would cease on 31 March 2022.

Members sought assurance regarding the high priority risks which related to CNDR Connect. The Group Audit Manager explained that the original report was carried out in Spring 2019, a new team had been put in place and improvement was expected over the coming months because of increased resource. The Group Audit Manager added that because of the nature of the contract, Internal Audit had been asked to carry out a return review in 2023 once they had time to address the issues.

The Chair commented on the clarity of the report and showed her appreciation for the balance which had been adopted within the Audit team so as to successfully balance empathy for the pressures of the challenges of the last two years whilst retaining sufficient coverage to give an Internal Audit opinion.

**RESOLVED** that, the Audit and Assurance Committee approves the draft audit plan for 2022/23 and the Audit Charter for 2022/23.

### **193 INTERNAL AUDIT – MANDATORY EXTERNAL ASSESSMENT**

Members considered a report from the Group Audit Manager which provided a recommendation as to whether the Council should undertake the next External Quality Assessment (EQA) of its internal audit arrangements which is due no later than November 2022.

The Group Audit Manager explained that the mandatory Public Sector Internal Audit Standards (PSIAS) require all public sector internal audit functions be subject to an external assessment at least once every five years. The Council's current EQA reported in November 2017 and concluded that the Council's Internal Audit service 'generally conforms' to the standards; this is the highest possible assessment. Members heard that the next EQA was due no later than November 2022. However, with Local Government Reorganisation in Cumbria, any improvements identified by the EQA would have limited value, and were unlikely to be implemented, as the current Internal Audit team would only exist for another five months prior to the Council's demise.

The Group Audit Manager explained the options available to the Committee and the reasoning behind the recommendation which was that the Committee agree that the External Quality Assessment (EQA) of the Council's Internal Audit arrangements was NOT to be undertaken, which would result in one area of non-compliance with PSIAS, for the last five months of 2022/23, and would therefore need to be reported in the 2022/23 Annual Governance Statement.

It was added that the view of CIPFA was that as long as the Internal Audit service could demonstrate a robust internal assessment and evidence that the service was in conformance with all other aspects of PSIAS, then it would seem reasonable for the Audit and Assurance Committee and leadership team to accept that the service would not conform for the remaining few months. Members noted that the External Auditor shared this view.

**RESOLVED** that,

- 1) members approve not to undertake the External Quality Assessment (EQA) of the Council's Internal Audit arrangements, due in November 2022, and that this one area of non-compliance with PSIAS, for the last five months of 2022/23, be reported in the 2022/23 AGS,
- 2) members note that each year the Group Audit Manager confirms compliance with the PSIAS including that a Quality Assurance and Improvement Programme (QAIP) is in place and that progress has been made on implementing the recommendations arising from the November 2017 EQA.

## **194 (GRANT THORNTON ITEMS)**

### **a External Audit - Audit Plan Cumbria County Council**

The Engagement Lead – Grant Thornton introduced the Audit Plan for Cumbria County Council and highlighted the results of the FRC quality inspection which found that Grant Thornton had improved the quality of their audits significantly over the last year and of the audits which had been reviewed none were found to require significant improvement.

Members heard that significant risks were in line with those presented in previous years. The Audit Manager explained that the Management Override of Controls risk was a default risk in all audits and the other two risks related to valuation of pension fund net liability and valuation of land and buildings, which would be the areas of key focus for the 2021/22 Audit.

Relating to Cumbria Holdings, the Audit Director explained that an issue that arose last year relating to valuation of specialist waste assets had now been closed and those final valuations were in line with historic valuations.

Members heard that an emerging theme which appears to be a focus for regulators is the valuation of infrastructure assets. The Audit Director explained that early conversations were already taking place with the Finance Team on how to reflect expenditure over time and updates would be provided to future meetings.

The Auditor In Charge stated that she was content with the progress made so far, there were no anticipated issues and work was on track for starting the field work in July and aiming for the September deadline.

The Director of Finance (s151 Officer) provided assurance to members that work was taking place to ensure that Cumbria County Council was able to offer support for the audit of other local authorities in Cumbria to ensure their reviews were completed in the lead up to vesting day.

The Chair congratulated the Grant Thornton team on the result of the FRC quality inspection stating that the acknowledgment of the External Auditors high standard provided still greater assurance to the Committee.

#### **b External Audit - Audit Plan Cumbria Local Government Pension Scheme**

The Engagement Lead – Grant Thornton introduced their Audit Plan for the Cumbria Local Government Pension Scheme and highlighted the matters and risk areas which had been taken into account in the plan.

Members heard that significant risks were in line with those presented in previous years. The Audit Manager explained that the Management Override of Controls risk was a default risk in all audits and the other two risks related to valuation of Level 3 investments and directly held investment property, which would be the areas of key focus for the 2021/22 Audit. Members heard that communication between Finance and the Internal Auditors was strong and so there were no anticipated issues with regards to the timetable.

With regards to audit fees, there were national conversations taking place regarding fees and the Committee would be brought up to date in June when a decision had been taken.

### **195 FORWARD PLAN - AUDIT AND ASSURANCE COMMITTEE**

The Group Audit Manager explained that the Forward Plan had been amended so as to bring forward the Draft Internal Audit Annual Report 2022/23, the Annual Governance Statement 2022/23 and the Annual Review Audit and Assurance Committee Effectiveness 2022/23 to the March 2023 meeting instead of the June meeting.

He explained that the rationale for this decision was so that these items could be brought before the current Audit and Assurance Committee who were best placed to consider the reports.

#### **196 DATE & TIME OF NEXT MEETING**

The next meeting was due to take place on 27 June 2022 at Cumbria House, Carlisle.

The meeting ended at 13:15 pm