

REPORT UNDER RULE 2(VI) OF THE COUNCIL PROCEDURE RULES

Report by Councillor Geoff Ellis, Chair of the Audit Committee

Mr Mayor, Members of the Council

Introduction

This report summarises the work of the Audit Committee to date in the year ending April 2019 and is to confirm that the Committee's function is consistent with best practice as well as demonstrating the positive impact of its work.

There are 6 meetings of the Committee during the period up to April 2019.

Purpose of the Audit Committee

The Audit Committee, as a key part of the Council's corporate governance arrangements, oversees and assesses the Council's risk management, control and governance arrangements and advises the Council on their adequacy and effectiveness.

It also has responsibility for reviewing the statutory financial reporting process through approval of the Statement of Accounts and receiving key reports from the External Auditor.

Specifically it provides:

- Oversight and challenge to the Statement of Accounts
- Oversight and review of the Annual Governance Statement
- A review of the Internal Audit Strategy and Audit Plan
- A review of Internal Audit progress reports and recommendations including appropriate follow up actions for outstanding Audit recommendations
- An examination of the External Audit Plan
- Consideration of External Audit reports, including the "report to those charged with governance", the "Annual Audit letter" and "certification of grant claims and returns report"
- Review of Counter Fraud arrangements and associated monitoring reports
- Annual review of the Council's Treasury Management Policy/Strategy
- Annual review of risk management arrangements
- Oversight of Information Governance including data protection

Membership and Independence

The Audit Committee comprises seven Councillors and (since 2013) one Independent Member. The current Independent member, Jane Nellist is from the University of Lincoln. Jane has good knowledge of public sector finance and business accountancy and was appointed from April 2016. Having one or more Independent Members is

seen as best practice, as their experience and expertise assists the Audit Committee to more effectively discharge its role. The Audit Committee and the Officers have found the Independent member's contribution to be particularly useful and I would like to offer my thanks for the Independent Members continued support.

As Chairman of the Committee, I confirm I am free from Executive functions, and have not had my independence impaired during my time to date as Chair.

Membership during 2018-19

The membership for 2018/19 has remained fairly constant and is similar to 2017/18. I took over as Chair from May 2018, Councillor Sue Burke became Vice-Chair and Councillor Laura McWilliams also joined the Committee.

The full list of Councillors are:

Councillor Geoff Ellis (Chair)
Councillor Sue Burke Vice-Chair
Councillor Thomas Dyer
Councillor Jim Hanrahan
Councillor Gary Hewson
Councillor Ronald Hills
Councillor Laura McWilliams
Jane Nellist (Independent Member)

Relationships

I am happy to report that there continues to be a sound working relationship between officers and Members of the Committee.

Internal Audit functional responsibility rests with Jaclyn Gibson (Chief Finance Officer) on behalf of the Chief Executive whilst the Audit manager has a direct reporting line to all levels of the Authority both at officer and member level.

I am satisfied through discussions with External Audit representatives and Internal Audit that relationships between Internal and External audit have been satisfactory and are effective.

Mazars are the new External Auditor with effect from September 2018.

The external auditor takes consideration of and uses the work of our internal auditors in connection with their integrated audit of the Council's financial statements and other work. External and internal auditors collaborate to minimise duplication of effort and work in tandem to help management and the Audit Committee ensure that the Council's financial reports and other information are accurate and that its system of internal control is effective. Internal audit have also audited elements of the housing benefit subsidy claim on behalf of the external auditor, which also provides a saving on the audit fee.

Audit Committee - Review and Terms of Reference

CIPFA (Chartered Institute of Public Finance and Accountancy) guidance on Audit Committees, which sets out various requirements, has been incorporated into the terms of reference of the Audit Committee. The Audit Committee terms of reference were updated in July 2018.

Two of the main changes were:

- a) To support the review of External Audit the Audit Committee will consider any issues raised by PSAA (Public Sector Audit Appointments) in its annual report. This summarises results from quality reviews and was received by the Audit Committee in December 2018 which showed the Council's new External Auditors (Mazars) had received the highest assurance rating.
- b) To review the governance and assurance arrangements for significant partnerships or collaborations. It was agreed that an annual report on partnership governance arrangements would be provided to the Audit Committee.

Other improvements and changes were agreed:

- In terms of any external audit control recommendations - to ensure that they are tracked and regularly reported back to Audit Committee it was felt that they should be included with the internal audit recommendation follow up system.
- CIPFA core knowledge and skills training will be disseminated
- Implementation of audit recommendations. Members have already taken the initiative to undertake greater scrutiny of overdue recommendations with officers commencing December 2018.
- Public Interest Entity Requirements (PIE) linked to the Council's Treasury Stock. During 2018 it was communicated by the External Auditor that PIE accounting requirements meant that the Audit Committee should have the following: "At least one member of the audit committee must have competence in accounting and auditing The Chief Financial Officer agreed to raise the matter again with the new External Auditors.
- It was felt that a specific annual report on value for money arrangements would be useful for the Committee to receive as this is part of their terms of reference.

Audit Committee Training

Committee Members have received (or plan to receive) relevant training during the year, including:

- Training linked to understanding the Council's financial statements
- Treasury management
- Corporate governance

- Counter fraud arrangements
- Risk management.
- Internal audit and Audit Committee arrangements/effectiveness

CIPFA (Chartered Institute of Public Finance in Accountancy) have produced updated information on Audit Committee core knowledge and skills – the former is dealt with mainly through the range of reports received by Committee. It was agreed by the Audit Committee that training would be developed and offered to cover these areas

The Audit Committee highlighted the fact that for any new members the committee very quickly get into detail on complex reports such as the statement of accounts so any training needs to be delivered in a timely manner.

Officers are reviewing training options available both internally and externally.

Information governance

A considerable volume of work has now taken place across the Council, to meet the requirements of the General Data Protection Regulations (in force from April 2018) and the new Data Protection Act 2018 (DPA).

In July 2018 the Audit Committee reviewed a range of Information Governance policies before Council approval. The Council needs to have policies to enable the Council to be compliant with the new legal framework and the information governance team needed to roll out the policies in order to increase awareness of the GDPR to officers' and councillors.

Therefore members of the public can be confident that the organisation are aware of their responsibilities of the new legal framework.

The following policies were considered:

- Appendix A The General Data Protection Regulation and Data Protection Policy*
- Appendix B The General Data Protection and Data Protection Policy Summary Sheet*
- Appendix C Information Governance Policy*
- Appendix D Legal Responsibilities Policy*
- Appendix E Information Sharing Policy*
- Appendix F Data Quality Policy*
- Appendix G Data Protection Breach Management Policy*
- Appendix H Freedom of Information Policy & Environmental Information Regulations Policy*
- Appendix I Records Management Policy*
- Appendix J Retention and Disposal Policy*

As part of GDPR/Data Protection a Senior Information Risk Officer (SIRO) is required, as well as the Data Protection Officer (DPO). The Director of Housing and Investment currently undertakes this role. The SIRO is a champion for good information governance practices. The SIRO works closely with the DPO and IT where required in respect of Information Governance and Cyber Security and oversees signing off risk

in Data Protection Impact Assessments (DPIA's) related to this and new technologies where required.

The Committee regularly reviews the Annual Governance Statement (AGS) status for the Information Governance section which is now amber, and all the ongoing work being undertaken for the implementation of the GDPR will be reviewed again in due course to see whether the Council might improve this status. There is still work to be done around training, data protection impact assessments, contract clauses, asset register and data retention.

It is essential that DP training is renewed every two years. All new staff receive training on induction. Training for new members was delivered May 18 and all Member training in October 18. A follow up session for non-attendees was also being offered to members.

The Audit Committee has considered three reports on information governance as well as three Annual Governance statement update reports.

The Audit Committee recognises this is a significant area and presents a number of risks which are being adequately addressed.

Internal Audit and the Audit Committee

Independence

To comply with best practice, I can confirm that the Audit Committee is suitably independent and that the Committee's terms of reference are consistent with (CIPFA) best practice guidance. Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the City Council's operations.

Operationally it sits under the Chief Executive and has freedom to report to any level within the organisation.

Audit Plan, progress reports and the annual internal audit report

The Audit Committee approves the Annual Internal Audit Plan and the Internal Audit Strategy.

The work of internal audit is reviewed at each meeting. This review includes a summary of audit reports as well as performance against the plan and other measures. It is pleasing to note that the majority of audits achieve a high level of assurance, reflecting that in most areas risks are being effectively managed and the control environment is sound. Those audits which require a greater degree of improvement are classed as having limited or no assurance. There were just two areas which received a Limited Assurance during 2018/19.

An annual report by the Audit Manager is presented to the Audit Committee following the end of the financial year, which also helps to support the Annual Governance Statement.

The 2017-18 annual internal audit report to the July 2018 meeting gave a substantial (green) assurance across areas of governance, risk and control.

Counter Fraud

The Committee also reviews counter-fraud arrangements, receiving a 6 monthly update report, and it has in the past received a presentation on the Lincolnshire Fraud Partnership – this is a partnership of Lincolnshire Councils who successfully bid for and received government funding to tackle fraud locally. The partnership continues until at least March 2019 under current arrangements.

The Committee considers relevant corporate counter fraud policies and any updates, as well as information on fraud risk and fraud training. It has recently reviewed the counter fraud strategy, anti-money laundering policy and counter fraud risk register.

Recent work on Council Tax single person discount identified several hundred incorrect discounts which were recently removed therefore increasing Council Tax revenue. Tenancy fraud (such as unauthorised sub-letting) is also a current project and results are expected in the New Year.

The Council continues to be involved with the National Fraud Initiative which involves national data matching using a range of Council data sources. Matches are received and reviewed by officers. The last review found 1 fraud and 40 errors, recovering around £26,000

The cyber fraud threat is an ongoing risk to the Council and the Committee has received reports on anti-malware and IT Disaster recovery in the past. Internal Audit is also reviewing with IT the recent cyber security stocktake results from the Local Government Association self-assessment.

Staff and Members have recently been sent a training course on counter fraud, developed through the Lincolnshire Counter Fraud Partnership, and all Members will receive an offer of further training taking place in March 2019. The Council's main fraud strategies can be found on the Councils' website.

Audit Recommendations and Agreed Action

Another important part of the Committee's role is helping to ensure that audit recommendations are implemented. The Committee ensures that officers are acting on recommendations from both internal and external audit with updates being received at each meeting.

The Audit Committee have recently asked for more information on older outstanding recommendations and managers have attended to provide more detailed information. This approach will continue and appears to have had a positive effect.

Audit recommendations are integrated into the Council's performance management system and are regularly reviewed by Managers, Directorate Management teams and CMT as well as Portfolio holders. The number of high priority recommendations outstanding is low.

Assurance Lincolnshire Partnership

The Council's Internal Audit Team is part of the wider Assurance Lincolnshire Partnership which includes the City of Lincoln Council, Lincolnshire County Council, East Lindsey District Council and more recently Nottinghamshire County Council. Assurance Lincolnshire provides internal audit services to several District Councils in Lincolnshire and one in Nottinghamshire. There are also other income generation opportunities that are currently being explored.

The partnership is making good progress and yielding positive benefits for the internal audit service in Lincoln. As part of the partnership arrangements the Council contracts directly with Boston Borough Council providing its internal audit service. The current contract runs until 31st March 2020.

Audit standards

The City of Lincoln Council and the wider Assurance Lincolnshire Partnership comply with internal audit standards and passed their external quality assessment review (EQA) in September 2016, which must be undertaken within a 5 year period.

Audit Committee work programme

The Committee receives reports mainly from the Audit Manager, the Chief Finance Officer and the External Auditor covering a wide range of topics.

A selection of what we have covered/reviewed this year includes:

- Annual Governance Statement (review of AGS and update reports on significant issues)
- Information Governance updates and policies
- Statement of Accounts (review)
- Treasury Management Policy and Strategy (consultation prior to approval by Council)
- Annual Internal Audit Report
- Internal Audit Strategy and Plan
- Internal audit progress reports
- Counter Fraud Reports
- Risk Management Annual Report
- Report to those Charged with Governance
- Annual Audit Letter (External Audit)

The resourcing for the audit plan remains at a satisfactory level enabling appropriate coverage across key financial and corporate systems, with sufficient resources to respond to emerging risks.

The Audit Committee received its fourth "Combined Assurance" report in April 2018. Working with management, Internal Audit records first, second and third line assurances for all the key areas of Council business. The aim is to give Senior Management and the Audit Committee an insight on assurances across all critical

activities, key risks and projects. Assurances are drawn from the “three lines of defence” including management, corporate business assurance functions such as performance management and internal audit plus other third parties. The report also feeds into the Audit Manager’s annual internal audit opinion, internal audit plan and annual governance statement. The next report will be presented to the Audit Committee in April 2019.

External Audit Arrangements, Reports and Conclusions

The external auditor’s primary role is to express an opinion on whether management has given a true and fair view of the information in its financial statements. The auditor expresses this assurance in an auditor’s report.

External auditors also examine and express an opinion on grant claims and returns made by the Council, to ensure that accurate figures are reported to Central Government, and that claims for grant funding are made in accordance with relevant rules.

Currently, External Audit assess whether the Council has appropriate arrangements to deliver value for money and this is also reported annually.

The Council’s external audit is provided for 2017-18 by a private sector accountancy firm, KPMG.

Through Public Sector Audit Appointments (the organisational route agreed by Council to procure new external auditors), Mazars will be the Council’s new external auditors taking over in September 2018, to audit the 2018-19 accounts.

The Audit Committee has a role to comment on the scope and depth of external audit work, through considering plans and reports to ensure the work gives value for money.

The Committee considers the reports of External Audit and inspection agencies, including the External Auditor’s “Annual Audit Letter”, relevant reports, and the report to “Those Charged with Governance”.

The Committee has considered the 2017/18 Annual Governance Report and Annual Audit letter from the External Auditor and on behalf of the Committee, I am pleased to report that the 2017/18 final accounts were presented by the Council for audit by the required statutory date and were free from material error, and the External Auditor issued an unqualified opinion on the Council’s 2017/18 financial statements in July 2018

The Auditor also confirmed that the Council had put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources and gave an unqualified value for money conclusion. As part of this conclusion the external auditor also reviewed two specific value for money audit risks - Financial resilience – as a result of reductions in central government funding, and other pressures and - Major projects as the Authority continues to have a number of major projects in progress which are relatively high risk.

Furthermore, the Auditor did not identify any significant weaknesses in the council's internal control arrangements.

Regulatory Framework

Risk management

The Committee has a role (through its terms of reference) in overseeing risk management strategies and also receives an annual report. I am pleased to report that risk management arrangements are working well and risk management is used effectively to help manage our most significant strategic, operational and project risks.

Financial statements

The Committee reviews the authority's financial and assurance statements, including the Statement of Accounts and the Annual Governance Statement, ensuring the latter properly reflects the risk environment and any actions required to improve it and then to recommend its adoption.

Annual Governance statement and Code of Corporate Governance

The Annual Governance Statement is a statutory statement and provides an overview of key governance arrangements within the Authority, including any significant control issues arising during the year. This is signed by the Leader of the Council and Chief Executive and is presented to Council in September each year. The Audit Committee monitors all "significant issues" arising from the Statement approximately each quarter. This is currently Information Governance, which has an Amber rating but as previously discussed is making good progress.

The Committee reviewed the Council's original Code of Corporate Governance in 2016/17 reviewed and an updated version in 2017/18. The Audit Committee subsequently asked for more detail around some sections to better gain an understanding of how the Code had been developed.

City of Lincoln Council must ensure that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, and used economically, efficiently and effectively. It also has a duty under the Local Government Act 1999 to secure continuous improvement in the way our functions are exercised, having regard to economy, efficiency and effectiveness. In discharging this overall responsibility, the council must put in place proper governance arrangements for our affairs.

The Council's Code of corporate Governance is about how we ensure that we are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

The Code of Corporate Governance sets out the documentation, systems and processes by which the authority transparently controls its activities. It enables us to monitor the achievement of our strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The code is based on a set of seven core principles:

Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Core Principle B: Ensuring openness and comprehensive stakeholder engagement

Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits

Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

Core Principle F: Managing risks and performance through robust internal control and strong public financial management

Core Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The Committee considers whether there are any concerns arising from the financial statements or from the audit (including the external audit report to those charged with governance on issues arising from the audit of the accounts) that need to be brought to the attention of the Council. There are no such issues arising to date during 2017/18.

Treasury Management

It is also worth noting the Committee's role in relation to Treasury Management. Guidance has meant that the Audit Committee has an increased role in assessing the robustness of Treasury Management policy. Training is provided to the Committee by the Council's Treasury Management consultants.

The Committee reviews the Strategy and considers the adoption of Treasury Management indicators prior to Council approval.

The Council's Constitution

The Committee has a role in reviewing certain aspects of the Council's Constitution, in particular contract procedure rules and financial procedure rules when changes occur.

The Audit Committee reviewed an update for the Financial Procedure rules update in March 2018

Effective Challenge

The Committee provides effective challenge across the full range of Council services and provides independent assurance on the risk management and governance framework and associated internal control environment to the Council and the public.

The Committee has received a variety of reports from both Internal and External Audit during the year. It has scrutinised and challenged the findings of audit reports on risk and control issues, sought clarification and in some cases required detailed explanations and action plans to address significant issues.

Impact of the Audit Committee's Work

By completing the work programme and providing challenge where required, the Audit Committee has:

- increased public confidence in the Council's governance arrangements;
- reinforced the importance and independence of internal and external audit and other review processes that reported to the Audit Committee;
- assisted in the co-ordination of assurance with internal audit and, in so doing, made management more accountable;
- provided additional assurance through a process of independent and objective review; and raised awareness of the need for internal control and
- helped ensure the timely implementation of audit recommendations.

Conclusions

This annual report has summarised the work of the Audit Committee over the last twelve months and has demonstrated the breadth and impact of the Committee's work.

I confirm therefore that the City Council's Audit Committee and Audit function is consistent with best practice

In conclusion I would like to express my appreciation and thanks to Sue Burke Vice-Chair, Jane Nellist, the Independent member and to all those elected members who have served on the Committee, and to Jaclyn Gibson, Rob Baxter, John Scott and the Internal Audit team, Becky Scott, Sally Brooks and all those officers that have provided reports, training and guidance to the Committee.

Councillor Geoff Ellis
Chair of Audit Committee