

AUDIT COMMITTEE

Thursday, 23 July 2020

5.00 pm

Virtual Meeting

Membership:	Councillors Geoff Ellis (Chair), Laura McWilliams (Vice-Chair), Thomas Dyer, Gary Hewson, Jackie Kirk, Rebecca Longbottom and Bill Mara
Substitute member(s):	Councillors Pat Vaughan
Independent Member:	Jane Nellist
Officers attending:	Paul Berry, Democratic Services, Jaclyn Gibson and John Scott

VIRTUAL MEETING

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Alternatively, please join the meeting by telephone by calling 0330 0885830 using the following ID:

ID: 919 4652 9929

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Please note that, in accordance with the Members' Code of Conduct, when declaring interests members must disclose the existence and nature of the interest, and whether it is a disclosable pecuniary interest (DPI) or personal and/or pecuniary.	
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- Present:** Councillor Geoff Ellis (*in the Chair*)
- Councillors:** Thomas Dyer, Gary Hewson, Ronald Hills, Rebecca Longbottom and Pat Vaughan
- Independent Member:** Jane Nellist
- Apologies for Absence:** Councillor Laura McWilliams and Councillor Jackie Kirk

44. Confirmation of Minutes - 17 December 2019

RESOLVED that the minutes of the meeting held on 17 December 2019 be confirmed.

45. Declarations of Interest

Councillor Pat Vaughan declared a Personal Interest with regard to the agenda item titled 'Prudential Indicators 2019/20-2022/23 & Treasury Management Strategy 2020/21'.

Reason: His granddaughter worked in the finance section at the City of Lincoln Council.

46. Change to Order of Business

RESOLVED that the order of business be amended to allow Item No 4: Prudential Indicators 2019/20-2022/23 and Treasury Management Strategy 2020/21 to be considered before the remaining agenda items.

47. Prudential Indicators 2019/20-2022/23 & Treasury Management Strategy 2020/21

Sarah Hardy, Principal Finance Business Partner:

- a. presented a report for Audit Committee to scrutinise and recommend to the Executive for approval the adoption of the 15 statutory prudential indicators and 8 local indicators for the period 2019/20 to 2022/23, together with the 2020/21 Treasury Management Strategy, prior to being reported to Council for final approval
- b. referred to training undertaken prior to the start of this meeting in relation to Treasury Management in order to help members take an informed view on the contents of this report
- c. summarised the key prudential indicators which had been incorporated into the 2020/21 strategy; the projected capital expenditure would determine the capital financing or borrowing requirement, which would in turn determine the actual level of external borrowing taken and hence, cash balances available for investment
- d. reported on the methodology employed for selecting investment counterparties as detailed at paragraph 2.2 of the report

- e. advised that the strategy for 2020/21 had been prepared taking into account changes in the Prudential Code and Treasury Management Code
- f. outlined the operation of the Council's prudential indicators, its treasury function and its likely activities for the forthcoming year, incorporating the four key Council reporting requirements as follows:
 - Prudential and Treasury Indicators
 - Minimum Revenue Provision (MRP) Statement
 - Treasury Management Strategy
 - Investment Strategy
- g. referred to information provided at paragraph number 4.1.2 of the report in relation to Capital Expenditure and Financing, which would be broken down further between the General Fund and Housing Revenue Account as requested by members
- h. requested that Audit Committee review the content of the report and its associated appendices and recommend to Executive and Council for approval.

Members considered further the content of the report.

Members referred to paragraph 5.7 of the Treasury Management Strategy 2019/20 at Appendix 3 of the report, and queried what consideration was given to the criteria for investment counterparties in terms of choosing ethical companies and those that supported our policies.

Sarah Hardy, Principal Finance Business Partner referred to a weighted scoring system culminating in a series of colour coded bands which indicated the relative creditworthiness of counterparties, used by the council to determine the suggested duration for investments.

RESOLVED that:

1. The prudential indicators detailed in Section 4.1 and Appendix 1 of the report be recommended to Executive and Council for approval.
2. The Treasury Management Strategy (including the Treasury Management Prudential Indicators and the Investment Strategy) as set out in Section 4 and Appendix 3 of the report be recommended to Executive and Council for approval.
3. The revised MRP policy detailed in Appendix 2 of the report be recommended to Executive and Council for approval.
4. The revised Treasury Management Practices and Schedules detailed in Appendix 2 of the report be recommended to Executive and Council for approval.

48. Internal Audit Progress Report

John Scott, Audit Manager:

- a. presented the Internal Audit Progress Report to Audit Committee, incorporating the overall position reached so far and summaries of the outcome of audits completed during the period December 2019 to January 2020, as detailed at Appendix A
- b. highlighted that Audit Committee held the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan as a key requirement of public sector internal audit standards
- c. detailed the content of the report covering the following main areas:
 - Progress Against the Plan
 - Summary of Audit Work
 - Implementation of Audit Recommendations
 - Current Areas of Interest Relevant to the Audit Committee
- d. detailed audit work completed and a final report issued in respect of:
 - Housing Rents (Substantial)
 - Recruitment (Substantial)
- e. highlighted consultancy work completed during the period in relation to Fire Risk - High Rise Blocks
- f. advised that following members observations and comments at the last meeting of Audit Committee a recommendation follow up protocol was presented at Appendix 3 of his report for consideration and comments
- g. reported on an audit report at draft stage in respect of Licensing which was with management for approval
- h. reported on work in progress in relation to:
 - Treasury Management
 - Payroll
 - ICT Anti-Malware Arrangements
 - Sports Pitches Improvements
 - Homelessness
 - Efficiency Savings
 - Housing Allocations (Choice Based Lettings)
 - Western Growth Corridor
 - Partnerships (Consultancy)
 - De Wint Extra Care Facility
 - Project Management
- i. reported on other work ongoing in the following areas:
 - Combined Assurance Map Update
 - Audit Strategy and Plan 2020/21
 - Bribery/Whistleblowing Policy Review
 - NFI Completion
 - Tenancy Fraud

j. highlighted the following audits being prepared for Quarter 4:

- Performance Management
- Website Security
- IT Combined Assurance
- Governance/Risk Management
- Economic Development/Growth
- Office 365 Project (may be deferred)
- Counter Fraud Training (Consultation)
- Fraud Health Check
- Money Laundering Risk Assessment
- Identity Fraud

k. detailed other matters of interest in relation to

- Planning Guidance
- Business Rates Avoidance Survey Report 2019

l. highlighted performance against a range of indicators, with good achievement secured in respect of Audit KPI's to date

m. detailed the contents of the Audit Plan Schedule at Appendix 4 of the report

n. requested members' consideration of the report.

Members discussed the content of the report in further detail, commenting as follows:

- Question: Were rent collection figures worse or better with the introduction of Universal Credit?
- Response: Rent collection performance figures were on target so far for the financial year 2019/20. Performance indicators had been slightly revised to take into account Universal Credit. These figures would be presented to Performance Scrutiny Committee in due course.
- Question: It was noted that 28% of tenants paid their housing rents by direct debit. How did the remaining tenants settle their accounts?
- Response: A high proportion of housing rent accounts were settled by card payment. The council's current policy was not to make an administration charge for this. The service endeavoured to encourage payment by direct debit wherever possible as the cheapest method for the council.
- Question: Had the planned audit of ICT Mobile Office 365 been deferred?
- Response: The new system was still in the first part of the trial period, a consultant had been taken on board to assist with its implementation. Performance Scrutiny Committee would receive regular updates throughout.
- Question: It was noted that the Local Government Association estimated that around 1% of total business rates income was lost to business rates avoidance each year. Could examples be given of this across our city?
- Response: There were ways to avoid business rates which were not considered to be fraudulent. For example, letting the premises to charities, premises used for storage which could then claim back business rate charges.
- Question: How many times in a month had the target rent not been applied to new tenants if not previously charged?

- Response: There had been 300 new tenancies of which the rents of 102 had been reviewed. There had been only two instances that hadn't been moved to the target rent and the rent lost had been 'negligible'. The difference in the increase in rent had been just pence.

RESOLVED that the contents of the report and continuation of further monitoring arrangements be noted.

49. Audit Committee Work Programme

John Scott, Audit Manager, presented a report to inform members of Audit Committee on the work programme for 2019/20 as detailed at Appendix A.

RESOLVED that the contents of the Audit Committee work programme 2019/20 be noted.

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AUDIT COMMITTEE

23 JULY 2020

SUBJECT: INTERNAL AUDIT PROGRESS REPORT

REPORT BY: AUDIT MANAGER

LEAD OFFICER: AUDIT MANAGER

1. Purpose of Report

1.1 To present the Internal Audit Progress Report to the Audit Committee, incorporating the overall position reached so far, and summaries of the outcomes of audits completed during the period.

2. Executive Summary

2.1 The report highlights progress against the audit plan.

3. Background

3.1 A key requirement of public sector internal audit standards is that Internal Audit should report progress periodically to those charged with governance. The Audit Committee has within its terms of reference the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan.

3.2 Internal Audit Progress Report

3.3 The Internal Audit progress report attached (Appendix A) covers the following areas :-

- Progress against the plan
- Summary of Audit work
- Implementation of Audit recommendations
- Current areas of interest relevant to the Audit Committee

3.4 Audit Plan 2020-21

3.5 In line with the corporate strategy responding to the pandemic, audit resources have been redeployed to deliver key services, supporting business and protecting the most vulnerable.

3.6 As a result the 20/21 audit plan has not yet commenced, other than some initial work on housing benefit subsidy testing. The audit team have been supporting business services and grants administration. A much smaller, revised plan will be developed for 20-21 taking account of COVID risks/issues and be presented at the August or September 2020 Audit Committee. Sufficient audit coverage will be

undertaken to meet statutory responsibilities and provide an audit opinion for 2020-21.

4. Organisational Impacts (nb. Finance, Legal and E & D sections below are mandatory, others to be completed only where there is an impact)

4.1 Finance (including whole life costs where applicable)

There are no direct financial implications arising as a result of this report.

4.2 Legal Implications including Procurement Rules

There are no direct legal implications arising as a result of this report.

4.3 Equality, Diversity & Human Rights (including the outcome of the EA attached, if required)

There are no direct E and D implications arising as a result of this report.

5. Recommendation

5.1 Audit Committee is asked to note the content of the latest Internal Audit Progress Report, position with the internal audit plan, and consider whether any of the following options are relevant :-

- Report and make recommendations to the Executive if they feel it appropriate.
- Refer any matter under review they feel appropriate to the relevant Portfolio Holder, Scrutiny Chair or Committee.
- Seek responses from Officers on matters arising (written or verbal) to be submitted to the next Audit Committee on any of the issues raised within this report or associated Appendices. Members may further wish to request the presence of the relevant Managers at the meeting to explain performance / specific issues.
- Accept the report and continue to monitor arrangements.

Key Decision No

Do the Exempt Information Categories Apply? No

Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply? No

How many appendices does the report contain? One

List of Background Papers:
Lead Officer:

Audit Manager Telephone 873321

Internal Audit Progress Report



City of Lincoln Council
July 2020

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Appendices

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1 Limited Assurance Reports
2 Assurance Definitions

John Scott - Audit Manager (Head of Internal Audit)
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Paul Berry – Principal Auditor
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This report has been prepared solely for the use of Members and Management of Boston Borough Council. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period February to June
- Advise on progress with the 2019/20 Plan and the 2020/21 Plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

In line with the corporate strategy responding to the pandemic, audit resources have been redeployed to deliver key services, supporting business and protecting the most vulnerable. This has caused a delay in completing the 2019/20 plan due to officer availability as resources were prioritised towards responding to the pandemic. As a result three audits are still at draft report stage awaiting agreement with management. In relation to the 2020/21 Plan, this was produced and approved by management but unfortunately this was not presented to Audit Committee for approval due to the 'lockdown'. This will however need to be significantly amended in line with revised priorities as the Council continues to implement it's recovery plans and also in line with available resources. Discussions will be held with management in July/August with a revised plan to be presented to Audit Committee in September 2020. As a result of the this no planned audits have yet been undertaken in 20/21, the Audit team have been completing 19/20 work and have been heavily involved in assisting with the provision of grants to the Business sector (audit checks/assessment) and undertaking the Housing Benefit Subsidy Testing work. As a result of the delay in implementation of the 20/21 audit plan, and after considering further options for redeployment of the audit team, one member of the team was placed on furlough for a 4 week period.

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1.



High Assurance

Treasury Management is an important part of the overall financial management of the Council's affairs. Previous audits in 2015 and 2017 on traditional TM activities gave high assurance and following the Council's decision to adopt a commercial approach to generate new income streams this audit has examined TM activities linked to property / commercial investments.

Current commercial investments are spread across differing sectors (car park, tourism, retail park); all the agreements include rent reviews. Risks associated with each proposal were identified and alternative options explored if the tenant should go into liquidation.

CIPFA have recently published a new Financial Management Code. Guidance notes that accompany it have been delayed so a full assessment against it will be undertaken in 20/21. The first full year of compliance with the code is 2021/22.

We found that;

- Commercial investments & property acquisitions (former council houses) have been bought in accordance with approved strategies / policies and authorised at the correct level.
- A minimum net yield has been set for the return on investments; this has been revised from 4% to 5-8% following the introduction of the Commercial Property Investment strategy in March 2019.
- Proposals for the purchase of investment properties include estimated costs of borrowing and identified annual net income; all agreements include rent reviews at fixed points.
- The return on investment properties is being reported in the Capital Strategy
- Long term borrowing is in accordance with the strategy; loans have been secured with the PWLB at favourable rates and prior to the 1% increase.
- Minimum Revenue Provision has been considered as part of each property investments; the method of calculation has been reviewed and approved by external audit.

We did not identify any areas requiring improvement and no recommendations have been made.

Treasury Management

High Assurance

The objective of the audit was to review the operation and management of the payroll processing service level agreement with NKDC to ensure that a timely, accurate and complete payroll service is delivered.

We found that;

- There is a good separation of duties
- Access to the I-Trent system for staff in HR and Payroll is appropriate, however there needs to be a formal process to record authorisation of users by the manager – this will be put in place
- The Authorised Signatory schedule (which includes payroll documentation) needs to be refreshed and this will be facilitated by Internal Audit.
- A robust process is in place for changing bank account details to manage the risk of fraudulent requests
- The processing timetable is being adhered to so that payments are made on the correct date
- Detailed testing found that;
 - Standing data is correct
 - Additional payments and starters and leavers are supported by authorised documentation and accurately input
 - An independent officer authorises the BACS file to be processed
- There is an up to date SLA in place and delivery of the service is monitored at periodic liaison meetings
- The SLA was extended in 2018 to include pension administration and this is operating as expected
- The SLA contains requirements to handle data in accordance with the requirements of the Data Protection Act 2018 and General Data Protection Regulations and processes are in place (at COLC & NKDC) to comply with these requirements. Data handling isn't discussed at SLA liaison meetings but this will be introduced going forwards.

Payroll

High Assurance

The Council must continue to reduce its levels of expenditure or identify additional income generation streams and the TFS programme continues to play a vital role in ensuring that the Council maintains a sustainable financial position and delivers the required reductions in the net budget.

Our review was **completed prior to the Covid-19 pandemic** and the subsequent impact that this will have on the Council's financial resilience.

We found that the Council has effective arrangements in place to identify, monitor and manage the financial aspects of the Towards Financial Sustainability Programme; however this assurance does not provide certainty that the Council will meet the savings targets that have been identified;

- The Council's MTFS is appropriately linked to the TFS programme
- Savings targets are set for individual projects and approval of each project is at an appropriate level.
- The programme is effectively managed; the TFS Programme Team monitor and report on project managers achievements against timescales on a regular basis. The Chief Finance Officer reports to the TFS board on the achievement of overall and individual savings targets.
- Directors obtain updates on saving projects through DMT meetings and / or 1-1 meetings with Assistant Directors.
- LPMM should be adopted for all projects; testing confirmed that is was applied for the two saving projects that we reviewed.
- Service area budgets are reduced to reflect the reduced expenditure, or increased income levels.
- The invest to save fund, which supports delivery of projects, is effectively managed with protocols in place for authorising payments in and out of the fund.

We did not identify any areas that require improvement.

Efficiency Savings

Substantial Assurance

Licensing is an important statutory service for the Council and its residents, helping to ensure that relevant activities and businesses are licensed. The Licensing team that ensure that licensed individuals and businesses conform to the legal conditions and requirements of the license awarded.

We found that systems and controls on the whole are operating effectively.

There is an established staff structure with experience across licensing and enforcement processes. A Licensing committee is in place, along with sub-committees with a clear delegation of functions agreed. The Statement of Licensing Policy is updated so that it can be taken into account when considering applications.

Time is spent by officers at the beginning of the process offering advice to ensure all relevant information is captured and conditions set.

Enforcement is currently reactive rather than proactive. It was agreed that proportionate enforcement action will be taken and a strategy will be developed.

Licensing

Safeguarding is a key element of the licensing process. We found that the service has robust application controls in place which provide assurance that only bona fide driver and vehicle applications are processed. Despite the varied controls, safeguarding will always be an area of risk due to the impact of any one incident. The service are aware of the risk and have learnt lessons from others both nationally and locally.

Formal complaints are captured within the council complaints process, however we found that informal complaints are not consistently captured on the APP system. These will be logged more consistently on the software in future.

Individual officers specialise in areas of licensing. For transparency and appropriateness it was agreed supervisors would complete more formal quality control of license processing. Also any conflicts of interests (if they arise) would also be clearly documented.

In terms of performance measures consideration will be given to developing more meaningful KPI's for the service and an annual report for the Licensing Committee.

Substantial Assurance

We are providing Substantial assurance on the Council's arrangements for managing malware risks. Whilst there are some recommendations to address, software has been installed in a controlled manner, with consultancy support, and is providing the protection required.

There are some areas which are work in progress including the Council's updated IT Security policy which is in draft and should be finalised shortly.

There were some agreed recommendations:

- Ensuring the video training / user education is rolled out to all staff as soon as possible
- Reviewing options for a Code of Connection for 'access by Third-party organisations to the CoLC network'
- Obtaining secondary review/opinion of software settings by the Principal IT officer and other relevant professionals
- Cascading guidance /training to other IT officers on anti-malware software use
- Create a new Incident management response plan (sitting below the IT Security policy) and above the Malware response plan
- Ensure that any configuration changes to the AV solution (and other pertinent security controls) are subject to careful consideration and documented.

ICT Anti-malware

Substantial Assurance

To enable Internal Audit to give an opinion on the Council's governance arrangements for its Annual Report a high level review has found that;

- The External Auditor's ISA260 report for 2018/19 stated that the AGS has been reviewed for any significant issues – no adverse comments were made.
- Management rated Corporate Governance as Green in the 2020 Combined Assurance map.
- The Code of Corporate Governance is due for review in 2020.
- The process to produce the AGS and identify any potential significant governance issues is robust. A wide range of intelligence is gathered and the Council's statutory officers are interviewed. Two different officer groups consider and refine potential significant issues before they are considered by CLT and CMT, and finally Audit Committee.
- During 2019/20 Audit Committee received quarterly updates on the one significant issue in the 2018/19 AGS, and the four areas to watch were monitored regularly by the High Performing Services group.
- Audit Committee receive periodic updates on Information Management, six-monthly Fraud & Error reports, an annual Complaints report and in 2020 will also receive a Partnership governance report. Other Audit committees in Lincolnshire also receive annual reports on Safeguarding and Health & Safety and an advisory point has been made to consider whether the Audit committee would benefit from receiving this type of assurance information.
- The previous Governance audit in 2018/19 found that a register of Policies had been created but approximately 25% were due for review. Work to update and use the register and review these policies has been delayed due to capacity and other priorities but it is hoped that some time can be found in 2020.

This report is based on work undertaken and information obtained prior to the outbreak of the Covid-19 virus. Any impacts of the virus on the Council's governance framework won't be known for some time and to reflect this a Substantial assurance has been given, even though no areas for improvement have been identified.

Substantial Assurance

To enable Internal Audit to give an opinion on the Council's governance arrangements for its Annual Report a high level review has undertaken.

This audit was undertaken before the impact of the Covid-19 virus and the findings reflect pre-virus ways of working.

We found that;

- There is a current Risk Management Strategy, which states that the Council's risk appetite is 'Creative and Aware'. The Strategy sets out the responsibilities for risk management at strategic and operational levels, and is due for review by 2021.
- The Strategic risk register is being regularly reviewed by CMT and presented to the Executive. Strategic risks have an owner and any actions have a target date.
- Directorate risk registers are, on the whole, being periodically updated but the Major Developments risk register has not been updated for over a year (it was last produced in February 2019). It has agreed that the DMD risk register will be updated as soon as possible and refreshed periodically going forwards.
- Training was given to managers in mid-2018 by Lincolnshire County Council's Strategic Risk Management Team, the Council's risk advisor. In 2020/21 HR are introducing a new formal Service Manager Induction Checklist process which includes risk management.
- The Fraud risk register was refreshed and presented to the Audit committee in December 2019

Risk management should be also operating in other areas such as programme and project management, partnerships, Medium Term Financial Planning, strategies and committee reporting. Separate audit work in these areas has found that it is generally in place but some improvements are required in project management and partnership working (recommendations have been made in separate audits).

Risk

Substantial Assurance

The main purpose of the audit was to give assurance on the arrangements to construct the facility and consider the preparations being made for operating the facility. The operational requirements will be subject to a more detailed review during 2020/21.

We found that;

- Appropriate governance arrangements are in place
- Contract documentation has been completed and lodged with Legal, although the Deed of Novation of Contract was found not to have been signed by the Architect. A High priority recommendation was made and this has now been completed
- Risks are being identified and managed
- Effective budget monitoring is in place
- Effective progress monitoring is in place but the client project plan (covering construction, the operational tasks and critical paths and dates) needed to be updated. A High priority recommendation was made and this has now been completed
- A variations procedure is in place
- Procedures are in place to verify the accuracy of payments. A High priority recommendation was made to improve the audit trail for the invoice checking process and this is now in place
- Work has commenced on the operational requirements using specialist working groups. A Lettings Policy has been approved by the Executive

Consultancy

As part of recent combined assurance work we undertook to review ICT in more detail, in particular mapping assurances against ISO27001 headings (one of the main IT security standards). We also used an external IT auditor for advice. ISO 27001 is a specification for an information security management system (ISMS). An ISMS is a framework of policies and procedures that includes all legal, physical and technical controls involved in an organisation's information risk management processes.

The map will also help inform the proposed (ICT) audit plan for 2020/21

Progress on the majority of actions will be reported into the Technology Group or CLT or both. Monitoring of both infrastructure and security related projects will be undertaken by the Technology Group (One Council) with specific governance related matters being taken to CLT for review.

Some of the key current projects include:

Completion of the IT security policy and standards (Autumn 2020)

Completion of the Hamilton House infrastructure to improve DR and allow update of the IT DR plan (Ongoing)

Formal project and programme management for IT projects (security and infrastructure) and the monitoring of these by the new One Council Technology group (Ongoing)

Development and monitoring of an IT risk register (May 2020)

PSN compliance (July 2020 re-submission)

ICT Assurance Map

Other work

Audit Recommendations

Follow up will be reported in September 2020

Work in Progress

- Homelessness – draft report with management
- Housing Allocations (Choice Based Lettings) – draft report with management
- Western Growth – this is in progress and will be completed in 20/21
- Partnerships (Consultancy). Internal Audit provided consultancy advice around the register. CLT were due to review the registers in March 2020 – this was postponed due to Covid-19.

Other work

- Combined Assurance Map – the Map has been refreshed for 2020 and was presented to CMT. Key highlights are included within our annual report.
- Audit Strategy and Plan 2020/21 – a Draft Plan has been produced. This will be refreshed due to Covid-19 and presented to Audit Committee in September 2020
- Advice work on the expenses claim for the 2019 Parliamentary Election has been completed – no issues were found
- Whistleblowing Policy review – see attached report
- NFI completion - Ongoing
- Tenancy fraud – Ongoing

The 20/21 Audit Plan will be reviewed and revised once it becomes clearer what the new priorities are and what resources are available.

Scale Fees

Letter to Section 151 Officer and Audit Committee Chair, April 2020

Fee Scale for the Audit 2020/21 and update on 2019/20

I am writing to notify you of your 2020/21 audit scale fee. In previous years your auditor has been required to write to you to do this. However, going forward, we have agreed with the audit firms that it is more efficient for PSAA to write out to all bodies directly. PSAA commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of the financial year, and we published the 2020/21 scale fees on our website on 31 March 2020. In addition to notifying you directly of your scale fee, this letter provides you with key updates and information on audit matters in these difficult times.

We wrote to all S151 officers on 12 December 2019 describing that local audit and audit more widely is subject to a great deal of turbulence with significant pressures on fees.

These pressures still apply and the key aspects are summarised below;

-It is apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon has reviewed the audit product.

-It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

Scale Fees (continued)

How we set your scale fee

We consulted on the 2020/21 Scale of Fees in early 2020 and received a total of 54 responses. We published the final document on our website (Scale fee document). In it we explained that although we have set the scale audit fee at the same level as for 2019/20, we do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage.

The impact of these changes is likely to vary between bodies depending on local circumstances, and information to determine that impact with any certainty is not yet available. Our view is that it would also be inappropriate to apply a standard increase to all authorities given the differing impact of these changes between bodies. As the impact of these changes is understood, fee variations will need to be identified and agreed reflecting the impact on each audit

City of Lincoln Council

Scale fee for the audit 2020/21 £36,332

Scale fee for the audit 2019/20 £36,332

As well as the Scale of Fees document, we have also produced a Q&A which provides detailed responses to the questions raised as part of the consultation. We will update the Q&As periodically to take account of ongoing developments affecting scale fees.

The fee for the audit is based on certain assumptions and expectations which are set out in the Statement of Responsibilities. This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of both in certain areas.

The final fee for the audit will reflect the risk-based approach to audit planning as set out in the Code. Under the Code, auditors tailor their work to reflect local circumstances and their assessment of audit risk. This is achieved by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting audit responsibilities or financial reporting standards.

Scale Fees (continued)

Fee Variations

As noted above, we recognise that with so much turbulence and change in the local audit environment, additional fee variations are likely to arise for most if not all bodies.

The amount of work required on arrangements to secure VFM is a matter of auditor judgement and is based on the requirements set out in the new Code and supporting guidance which will be published later in 2020. Once the Auditor Guidance Notes have been published we will be able to consider the impact of the new requirements in more depth, and may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

Given that local circumstances at each audited body are key to determining the assessment of risk and the audit work required, we would encourage early dialogue with your auditor to determine any related implications for fees. The process for agreeing fee variations begins with local communication, and ideally agreement. We have produced a fee variation process note which is available on our website (Fee variations process). Please note that all fee variations are required to be approved by PSAA before they can be invoiced.

Quality of Audit Services

We are committed to do all we can to ensure good quality audits and a high-quality service for the bodies that have opted into our arrangements. The service that you can expect to receive from your auditors is set out in their Method Statement, which is available from your auditors.

Whilst professional regulation and contractual compliance are important components of the arrangements for a quality audit service, so too is the aspect of relationship management. We recently commissioned a survey via the LGA Research team to obtain audited bodies' views of the audit service provided to them. The themes and improvement areas from the survey will be discussed with firm contact partners for development at a local level. The results from our 2018/19 survey of all opted-in bodies will be available on our website in May and we will notify all S151 officers and Audit Committee Chairs.

Scale Fees (continued)

Impact of COVID-19 on current 2019/20 audits

The global COVID-19 pandemic has created further turbulence impacting on all aspects of the economy including the public sector. There are potentially significant repercussions for the delivery of audits, audit-related issues and delays to signing audit opinions for 2019/20. MHCLG has acted to ease these pressures by providing more flexibility in the 2019/20 accounts preparation and auditing timetable by temporarily revising the Accounts and Audit Regulations. This has extended the period which an authority has to publish its draft financial statements until 31 August, and importantly there is much greater flexibility for the public inspection period as it is now required to start on or before the first working day of September 2020. The revised date for publishing audited accounts (if available) is 30 November 2020. We recommend that you discuss with your auditors the use that can be made of this flexibility in meeting mutual governance and assurance responsibilities, noting that in a letter to all local authority Chief Executives on 22 April, MHCLG encouraged approval of pre-audit accounts earlier than 31 August if possible.

We have referred to the importance of audit quality in this letter, and just as important is the quality of the pre-audit financial statements and the working papers that are prepared by bodies. The disruption caused by COVID-19 will impact on areas of judgement and creates uncertainty in preparation of the financial statements, and it is key that bodies ensure there is sufficient focus upon financial reporting and related processes and controls, and that the planned timetable allows for sufficient internal quality assurance and review of financial reporting issues taking into account the wider impact of the pandemic on the officers' time.

Local Audit Quality Forum

Our Local Audit Quality Forum focuses on providing information to support audit committees (or equivalent) in delivering their remit effectively. We are disappointed that we are not able to host our planned event this summer due to the COVID-19 pandemic. However, we plan to host our next event towards the end of the year. It will provide an opportunity to discuss a range of relevant topics and themes. If there are any particular areas you would like to see included on a future agenda, or if you wish to raise any other issues with PSAA, please feel free to contact us at generalenquiries@psaa.co.uk

Your auditor will, of course, be best placed to answer any questions you may have with regard to your audit.

Yours sincerely,
Tony Crawley
Chief Executive

CIPFA Financial Management Code 2019

CIPFA have updated their financial management code for UK Local Authorities to acknowledge the pressures of a tightening fiscal landscape. The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code therefore for the first time sets the standards of financial management for local authorities. The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- Financially manage the short, medium and long-term finances of a local authority
- Manage financial resilience to meet unforeseen demands on services
- Manage unexpected shocks in their financial circumstances

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team.

The first full year of implementation of the CIPFA FM code is from 21/22 and that an assessment against the requirements of the code will be undertaken during 20/21 with an action plan developed if necessary to ensure compliance.

The Redmond Review

The Redmond review is an independent review to determine whether the requirements of the Local Audit and Accountability Act 2014 are being fulfilled. It will look to test the assurance processes in place with regard to the value for money arrangements together with financial resilience in local councils and the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England.

A consultation exercise was undertaken in late 2019 and the consultation paper can be found at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/850638/Redmond_Review_Call_for_Views_-_Extended.pdf

UK Public Sector Internal Audit Standards Advisory Board – Conformance with the PSIAS during the coronavirus pandemic

All internal auditors of any organisation in countries significantly affected by COVID-19 will be reassessing their work plans and staff priorities. For public sector internal auditors there is an additional responsibility. All staff in a public service body have a responsibility to work in the public interest. At a time of national crisis there is a need to act in the best interests of the health, safety and livelihoods of the public as well as supporting the operational needs of the organisation.

As a result very few internal auditors will be operating under ‘business as usual’ conditions. At the very least they will be doing the majority of work remotely, and staff in many teams are likely to be taking on different roles to support their organisation and the public interest.

The primary concern of heads of internal audit will be to support their organisation and its functions together with concern for the wellbeing of their staff. They may also be worried that the decisions they take could lead to non-conformance with UK Public Sector Internal Audit Standards (PSIAS2).

This guidance should reassure heads of internal audit and the audit committee that diversion from planned audit work will not automatically mean that they do not conform. There are however some basic steps to take to safeguard the longer-term position of internal audit.

The Mission of Internal Audit is ‘To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.’ In the current circumstances internal auditors will be fulfilling their Mission in different ways than usual. However the critical point is that they should still fulfil that Mission. Ideally, this will provide enough assurance to support audit opinions, and for the Governance Statement, although it will certainly be appropriate to draw attention to the context within which this assurance was gained and potential limitations. If it is not possible to achieve sufficient depth or coverage it will be necessary to caveat opinions and/or the Governance Statement, and explain the impact of this and what will be done to retrieve the position in future. However, the key point is to protect organisational value.

Examples of ways that internal audit can protect organisational value are:

- Helping **protect** the organisation’s operations by helping management to find new ways of working
- Providing real-time **advice** and **insight** in the development of new systems and controls. For example where the organisation has to implement a new and urgent government policy.

-
- Ensuring that internal audit's work remains **risk-based**, but continuously reassessed to reflect the significant changes and escalation of risk levels being experienced.
 - Providing real-time **assurance** to the board and audit committee on the actions and decisions being made.
 - Helping the organisation to understand and plan for longer term risks resulting from the current crisis to **protect** the organisation and its services going forward.

Whatever internal audit work is undertaken, it should be in accordance with PSIAS. In practice the operational situation is likely to make this more challenging. Challenges might include:

- **Diversion of internal audit staff to other work:** this may reduce capacity to carry out audit work, capacity to monitor the quality of that work, and may make it harder to manage threats to independence
- **Diversion of operational staff to other duties:** this may make it difficult to access information or obtain responses to audit queries.
- **Home-working of the majority of staff:** depending on the effectiveness of business continuity arrangements in a home-working environment, both internal audit and operational staff may have reduced access to systems and resources. This may be a particular issue for smaller public sector organisations.
- **Increased levels of sickness absence/sick leave:** these may exacerbate the above issues

However each internal auditor retains their personal responsibility for operating in accordance with PSIAS and should aim to act professionally. The Core Principles in the International Professional Practices Framework articulate internal audit effectiveness, and are short and focused reminders of the professionalism of an internal auditor. There will clearly be strains on resources, and this will make it more difficult to maintain quality and adherence with professional standards. There will often be pressures to contribute to the first and second lines of defence rather than providing assurance, and this may in turn create threats to independence which need to be managed.

High

Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.

The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.

Substantial

Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.

Limited

Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.

The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.

Low

Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

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SUBJECT:	ANNUAL INTERNAL AUDIT REPORT
REPORT BY:	AUDIT MANAGER
LEAD OFFICER:	AUDIT MANAGER

1. Purpose of Report

1.1 To receive and comment upon the Annual Internal Audit Report.

2. Executive Summary

2.1 The purpose of the annual internal audit report (Appendix A) is to provide a summary of Internal Audit work undertaken during 2019/2020 timed to support the Annual Governance Statement by providing an opinion on the organisation's governance, risk management and internal control environment.

Overall our opinion in the four areas was substantial (green) which indicates performing well: no concerns that significantly affect the governance framework and successful delivery of the Council priorities.

3. Annual Audit Report

3.1 The Annual Internal Audit Report of City of Lincoln Council aims to present a summary of the audit work undertaken over the past year. In particular:

- Include an opinion on the overall adequacy of and effectiveness of the governance framework and internal control system and the extent to which the Council can rely on it;
- Informs how the plan was discharged and of overall outcomes of the work undertaken;
- Draws attention to any issues particularly relevant to the Annual Governance Statement.

3.2 This Annual Report is based on work undertaken and opinions obtained prior to the outbreak of the Covid-19 virus.

In line with the corporate strategy responding to the pandemic, audit resources have been redeployed to deliver key services, supporting business and protecting the most vulnerable.

3.3 The impacts of the virus on the Council's governance framework and internal controls will be assessed and a report to Audit Committee will follow in due course.

The virus has made it difficult to close down some audits but in these cases

sufficient work had been done to be able to give an audit opinion.

4. Organisational Impacts

4.1 Finance (including whole life costs where applicable)

There are no financial implications

4.2 Legal Implications including Procurement Rules

To ensure compliance with the Accounts and Audit regulations and Internal Audit standards an annual report should be produced

5. Recommendation

5.1 That Audit Committee note the contents of the report and appendices.

Is this a key decision? No

Do the exempt information categories apply? No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply? No
:

How many appendices does the report contain? Two

List of Background Papers: None

Lead Officer: John Scott, Audit Manager
Telephone (01522) 873321



Appendix A

City of Lincoln Council

Internal Audit Annual Report – 2019/20



This report has been prepared solely for the use of Members and Management of City of Lincoln Council. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely on the work undertaken as part of the agreed internal audit plan.

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Purpose of Annual Report	03
Our opinion on governance, risk and the control environment	03
How we came to our opinion	04
Scope of work	06
Delivery of internal audit plan 2019/20	08
Restrictions on scope	08
Effectiveness of Internal Audit	08
Quality Assurance	09

Appendix 1- Internal Audit Assurances Given 2019/20

Appendix 2 - Quality Assurance Framework

Appendix 3 – Glossary of terms

Appendix 4 - Continuous Improvement Plan

Distribution List

Chief Executive & Town Clerk; Directors, Chief Finance Officer, City Solicitor, Leader of the Council, Chair, Audit Committee.

Management Summary

Purpose of Annual Report

The Annual Internal Audit Report of City of Lincoln Council aims to present a summary of the audit work undertaken over the past year. In particular:-

- Include an opinion on the overall adequacy of and effectiveness of the governance framework and internal control system and the extent to which the Council relies on it;
- Inform how the plan was discharged and the overall outcomes of the work undertaken;
- Draw attention to any issues particularly relevant to the Annual Governance Statement.


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Key

Red	Inadequate Performance – Critical action required by management throughout the Council.
Amber	Performing Adequately – Some improvement required to manage a high risk in a specific business area and medium risks across the Council.
Green	Performing Well – No concerns that significantly affect the governance framework and successful delivery of the Council priorities

Our annual assurance ratings link to our four standard audit assurance ratings; High and Substantial (Green), Limited (Amber) and Low (Red).

Direction of Travel

No change -stable	Improving	Reducing
		

Opinion on the Governance Framework and Internal Control Environment

For the twelve months ended 31 March 2020, based on the work we have undertaken and information from other sources of governance, my opinion on the adequacy and effectiveness of City of Lincoln Council's arrangements for governance, risk management and control is shown in below; there was one limited assurance audit report (see Appendix 1).

This Annual Report is based on work undertaken and opinions obtained prior to the outbreak of the Covid-19 virus. In line with the corporate strategy responding to the pandemic, audit resources have been redeployed to deliver key services, supporting business and protecting the most vulnerable. The impacts of the virus on the Council's governance framework and internal controls will be assessed and a report to audit committee will follow in due course. The virus has made it difficult to close down some audits but in these cases sufficient work had been done to be able to give an audit opinion.

Assurance across Governance, Risk and Control

Governance	Green - Substantial*
Risk	Green - Substantial*
Internal Control	Green - substantial*
Financial Control	Green - Substantial*

Direction of travel; No change – stable



The assurance rating means that we have no concerns that significantly affect the governance framework and successful delivery of the Council priorities. Across the four areas of governance there are some ongoing or planned improvements. These are detailed in the sections below.

How we came to our opinion

Governance – *“If management is about running the business – Governance is about seeing that it is run properly”*

Local Government has been and will continue to undergo significant change. The way it operates and delivers services – either directly, with or through other organisations will provide challenges for managing risk, ensuring transparency and demonstrating accountability. The importance to aim for the standards of the best and ensuring governance arrangements should not only be sound but also seen to be sound has never been greater.

Good governance underpins everything the Council does and how it delivers services often comes under close scrutiny. It is therefore vital that resources focus on agreed policy and priorities; that there is sound and inclusive decision making with clear accountability for the use of those resources. This ensures that the Council achieves the desired outcomes for the people of the City of Lincoln Council.

The Audit Committee helps to ensure that these arrangements are working effectively. They regularly review the governance framework and consider the draft and final versions of the Annual Governance Statement (AGS).

CIPFA guidance on Delivering Good Governance in Local Government was produced in 2016. An assessment against the requirements was completed and formed the basis of the Council's Code. The Code and assessment is due for review in 2020

High-level governance audit work in 2020 and 2019 did not identify any significant issues.

There are some governance-linked actions to complete and these are within existing action plans and progress should be made during 20-21. Project management received limited assurance in 2020, however other related audit work in the past had been awarded substantial assurance. Management have commissioned a post implementation review of the project management framework, guidance and monitoring arrangements and this is due to report later in 2020.

Officers and members have maintained a focus on the AGS significant issue (IT Disaster Recovery) during the year; as at the 31st March 2020 further actions are still required which will be completed in 20/21.

There were some Governance areas within our Combined Assurance assessment, which were rated Amber assurance; however these all have mitigation in place.

Existing action plans include developing areas through One Council – charter and organisational development; ICT (for example finalising the IT security policy), partnership governance, the information governance action plan and other areas.

Taking the above information into account we have assessed the governance framework as **Green-substantial** – performing well.

Internal Control

We took account of the outcome of our internal audit work during the year. Our work identified only one area where a 'Limited' assurance opinion was given.

At the end of March there were a small number of high priority audit recommendations which are in progress but remain to be fully implemented, including updating and re-issuing guidance for IT applications, IT Security training, reviewing IT Security policies and HMO system improvements.

Our Combined Assurance report for 2019/20 showed that the Council has good levels of assurance (63% Green, 34% Amber and 3% Red). This is a slight increase in amber and red assurance levels however mitigation actions are in place.

We took account of external audit's 2018/19 annual opinion on statement of accounts, VFM opinion – both unqualified.

We took account of our counter fraud work during the year. There were no significant internal control issues.

See also comments in the risk and governance sections, which also apply to internal control.

Taking all of the above information into account we have assessed the internal control environment as **Green – substantial** performing well.

Risk Management

There is an established risk management framework in place for the Council to manage the key risks facing it at strategic and operational levels, with regular reporting to management and members.

Risk audits in 2020 and 2019 provided substantial assurance. Risk management was given a GREEN assurance as part of the Combined Assurance work.

“Risk” overall is generally well managed both formally and informally; Strategic and Directorate risks are being well managed with regular reviews. One Directorate risk register needed updating at the year end.

The Council receives professional risk management support from Assurance Lincolnshire - comprehensive guidance has been given to officers and members during 2019/20.

Our internal audits have not identified any significant issues in this area; there have been a small number of risk management related recommendations

There is an annual Risk Management report to Audit Committee – the 2018/19 report did not identify any issues. The 2019/20 report was deferred due to COVID

On this basis we have assessed risk management as **Green –substantial** performing well.

Financial Control

Our work provides an important assurance element to support the External Auditor's opinion on the Council's Statement of Accounts.

During the year we reviewed:

- Boutham Park – Final Account
- Procurement
- Treasury Management
- Payroll
- Rental income
- Licensing
- De Wint Court project management

The Council has good financial management processes in place that work well. Our work identified no areas where a 'Limited' or 'Low' assurance opinion was required.

We took account of external audit's 2018/19 annual opinion on statement of accounts, VFM opinion

We note the current financial position and MTFS 2020/25 which highlights medium term complexity and uncertainty about future funding. The overriding financial strategy has been, and is, to drive down the net cost base to ensure it maintains a sound and sustainable financial position. The key mechanism for carrying out this strategy is through the Towards Financial Sustainability (TFS). As part of developing the MTFS 2020-25, due to changes in key assumptions, it has been necessary to increase and re-profile the existing savings target with new targets from 2020/21 onwards.

Reserves remain at a prudent level. Over the MTFS general reserves are maintained in line with a prudent minimum and show an estimated balance of £1.645m by the end of 2024/25.

Work on combined Assurance noted TFS as an Amber area and the development of a programme to achieve increased targets is currently underway. TFS is also the subject of an internal audit for 19-20 which will be completed in 20-21.

Taking the above information into account we have assessed financial control as **Green –substantial** performing well.

Roles and Responsibilities

The Council is responsible for establishing and maintaining risk management processes, control systems and governance arrangements. Internal Audit plays a vital role in providing independent

risk based and objective assurance and insight on how these arrangements are working. Internal Audit forms part of the Council's assurance framework.

Where Internal Audit work has identified improvements, we have worked with management to agree appropriate corrective actions and a timescale for improvement. It is the responsibility of management to implement the agreed actions.

The Council is responsible for developing and publishing an Annual Governance Statement – reporting how they have monitored the effectiveness of their governance arrangements during the year – providing information on any significant governance issues.

The Annual Internal Audit Report should inform the Annual Governance Statement. We recommend that the 'low or limited' assurance areas identified in Appendix 1 are considered in the development of the Council's Annual Governance Statement together with the information contained in the Council's Combined Assurance Status Report, specifically the Red and Amber assurances on service areas and risks.

Red Combined Assurance areas:

- Bereavement services (*linked to risks around the project for crematorium development*)
- Private Sector Housing - DFG
- Housing standards and HMO's

Limited Assurance Audits:

- Project management

19/20 Audit work was pre-covid and this has undoubtedly impacted on the council's financial position and will be a key issue to address.

Scope of Work

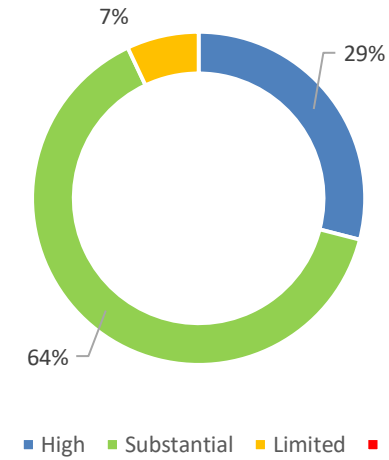
The charts in **Figure 3** shows the assurance opinions given in 2019/20 compared to those in 2018/19. Our audit plan includes different activities each year – it is therefore not unexpected that these vary; however, the assurance levels do give an insight on the application of the Council's control environment.

The overall assurance levels have remained broadly similar during 2019/20.

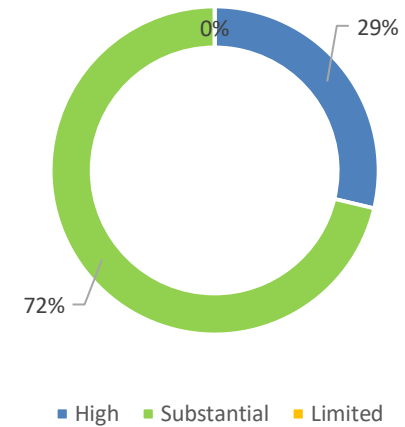
Comparison of Assurances (finalised audits only)

	2018/19	2019/20
High	4 (29%)	3 (28%)
Substantial	9 (64%)	8 (72%)
Limited	1 (7%)	0
Low	0	0

Assurance levels 2018/19



Assurance levels 2019/20



The charts in **Figure 4** show the comparison of internal audit recommendations made in 2018/19 compared to 2019/20. Details of systems reviewed can be found in Appendix 1

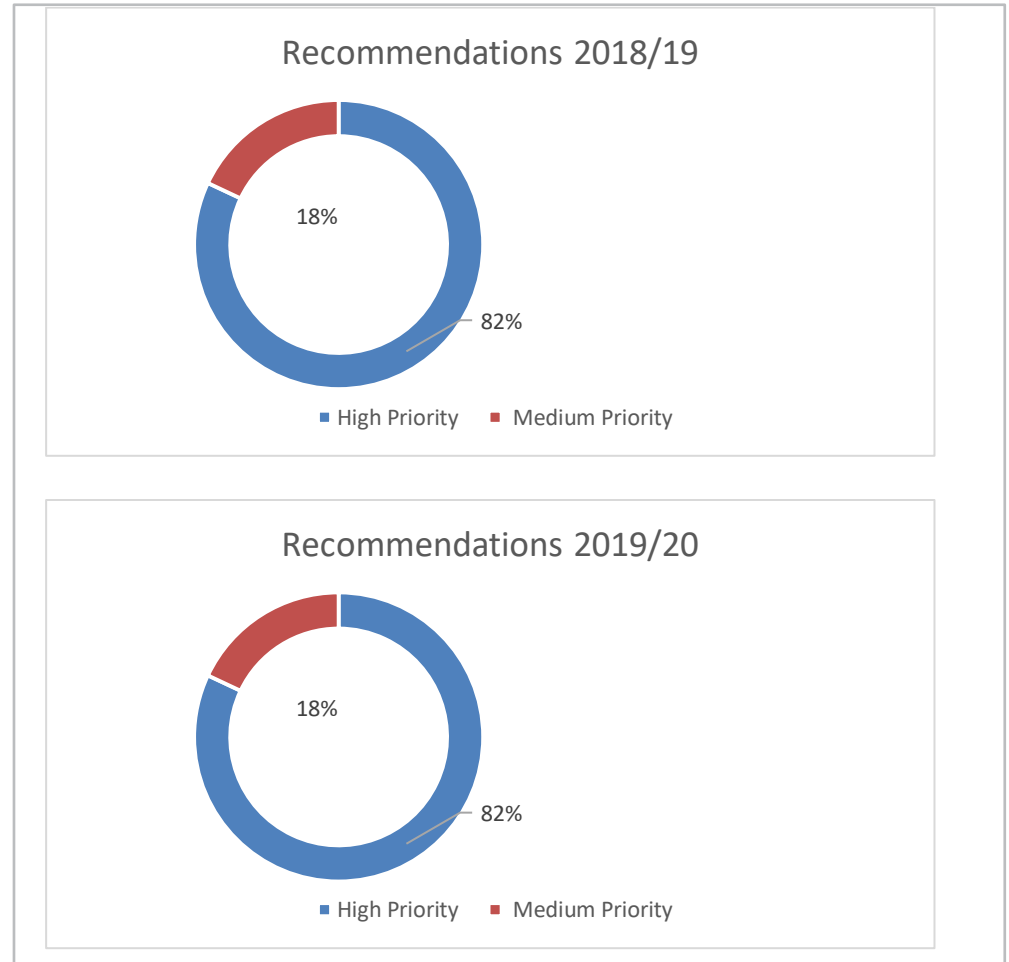
We track the implementation of agreed actions. Over the year management have implemented 83% of the recommendations due by the 31st March 2020, an increase from 2018/19 (79%). Details of outstanding recommendations can be found in Appendix 1.

Number of recommendations made (finalised audits only)

	2018/19	2019/20
High	8	11
Medium	36	51
Total	44*	62

**NB some audits were being finalised and these numbers are not included*

Figure 4 – Recommendations Made



Delivery of internal audit plan 2019/20

The Audit Committee approved the Audit Plan on 7th February 2019. We delivered 96% of the revised plan by the end of the financial year.

Internal Audit's performance is measured against a range of indicators. The table below shows our performance on key indicators at the end of the year. We are pleased to report successful achievement against most of our targets and will be closely monitoring the others to try to improve performance.

Performance Indicator	Target	Actual @ 31/03/2019
Percentage of revised plan completed.	100%	96%
Percentage of key financial systems	100%	75%*
Percentage of recommendations agreed	100%	98%**
Percentage of recommendations due implemented	100% or escalated	83%
Timescales:		
Draft report issued within 10 working days of completing audit	100%	100% (10 out of 10)
Final report issued within 5 working days of closure meeting / receipt of management responses	100%	100% (5 out of 5)
Period taken to complete audit within 3 months from fieldwork commencing to the issue of the draft report	80%	90% (9 out of 10)
Client Feedback on Audit (average)	Good to excellent	Good to excellent

*Key financial systems - relates to partial completion of the Efficiency audit; will be completed in early 2020/21

**1 Medium priority recommendation not agreed in the Recruitment audit

Restrictions on Scope / Disagreements

In carrying out our work we identified no unexpected restrictions to the scope of our work and we can confirm that Internal Audit's independence has not been impaired during the year.

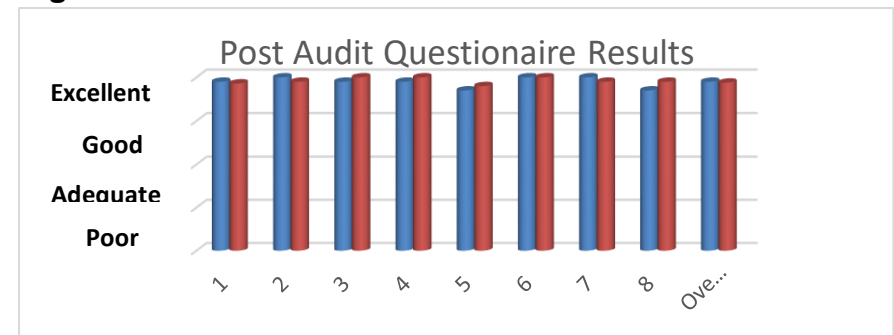
Audit work is scheduled to fit around the work demands of the client and it is very rare that we have difficulties in gaining access to staff, which results in some delay or inability to deliver planned work within the expected timescales.

Effectiveness of Internal Audit

We regularly canvass opinions on audit planning, reporting and communication from management responsible for activities under review. They score the effectiveness of our service as excellent, good, adequate or poor.

The table in **Figure 5** shows the responses by management on our service provided. For 2019/20 there was an 80% questionnaire return rate (similar to the previous year) and the good to excellent average rating was maintained with similar scores across all areas.

Figure 5 – Client Feedback



Key: Blue: 2018/19, Red: 2019/20.

Audit Planning

1. Consultation on audit coverage
2. Fulfilment of scope and objectives

Audit Report

3. Quality of report
4. Accuracy of findings
5. Value of Report

Communication

6. Feedback during the audit
7. Helpfulness of auditor (s)
8. Prompt delivery of report

Quality Assurance

We recognise the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards. We continually focus on delivering high quality audit to our clients – seeking opportunities to improve where we can.

Our commitment to quality begins with ensuring that we recruit develop and assign appropriately skilled and experienced people to undertake your audits.

Our audit practice includes ongoing quality reviews for all our assignments. These reviews examine all areas of the work undertaken, from initial planning through to completion and reporting. Key targets have been specified - that the assignment has been completed on time, within budget and to the required quality standard.

Our Quality Assurance Framework (**Appendix 2**) includes all aspects of the Internal Audit Activity – including governance, professional practice and communication. We are able to evidence the quality of our audits through performance and delivery of audits, feedback from our clients and an annual self-assessment and the annual review of the effectiveness of the Internal Audit Function by the Council.

There is a financial commitment for training and developing staff. Training provision is continually reviewed through the appraisal process and regular one to one meetings. A training programme has been developed to ensure that staff are kept up to date with the latest technical / professional information and to ensure that they are equipped with the appropriate skills to perform their role.

Assurance Lincolnshire conforms to the UK Public Sector Internal Audit Standards including the Code of Ethics and we can confirm that we are complying with the Core Principles. As part of our quality assurance framework we maintain a continuous improvement plan (QAIP)

We have reviewed our internal quality assurance assessments and can confirm that our processes for planning, fieldwork and communicating results adhere to audit standards. Our review work did not identify any significant areas of non-compliance.

An external quality assessment was completed in October 2016, which found general compliance with PSIAS, and was reported separately to Audit Committee.

Although internal and external auditors carry out their work with different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will place reliance and assurance upon internal audit work.

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. We confirm that the internal audit activity is organisationally independent and resources available are adequate.



Appendix 1 Internal Audit Assurances Given 2019/20

Audit Area	Date	Assurance	Total High / Med Recs	Outstanding			Notes	Direction of Travel
				Implem'd	High	Medium		
Completed Work								
Emerging Legislation	June 2019	High	0	N/A				↔
Information Management	June 2019	Substantial	16 (3H 13M)	15		1		Not previously audited
Boultham Park (Final Account)	July 2019	Substantial	1 (M)	1				↔
Procurement	July 2019	Substantial	4 (4M)	3		1		↔
Fire safety*	July 2019	Substantial*	7 (3H 4M)	7				Not previously audited
Housing Benefit Subsidy	July 2019	Testing	N/A				Work on behalf of External Audit	
Election Claim (May 2019 European)	Oct 2019	Testing	N/A					
Private Sector Housing HMO (previously Limited)	Nov 2019	Follow up	20	17	2	1	Not counted in rec stats as follow up.	N/A
Recruitment	Dec 2019	Substantial	7(2H 5M)	6			1 (H)	Not previously audited
Housing Rents	Dec 2019	Substantial	4(2H 2M)	1	1	2		↔
Values & Behaviours	Jan 2020	Consultancy	4 (4M)				4	Not previously audited
Treasury Management	Feb 2020	High	0	N/A				↔
Licensing	Feb 2020	Substantial	7(7M)				7	Not previously audited
Payroll	Mar 2020	High	2 (2M)			1	1	↑
ICT assurance map	Mar 2020	Consultancy	0*				0*	*Existing ICT action plan
ICT Anti-Malware	Mar 2020	Substantial	10 (1H 9M)	1		1	8 (1H)	↔
Total			62	34	1	6	21	

Appendix 1 Internal Audit Assurances Given 2019/20

Audit Area	Date	Assurance	Total High / Med Recs	Outstanding			Notes	Direction of Travel
				Implem'd	High	Medium		
<u>Work To Be Finalised</u>								
Homelessness	Draft Mar 2020	Substantial	2 (2M)				2	Not previously audited
De Wint Court	Draft Mar 2020	Substantial	6(3H 3M)				6	Not previously audited
Governance	April 2020	Substantial	0				0	
Risk management	April 2020	Substantial	1 (1M)				1	↔
Housing Allocations	Draft May 2020	Substantial	4 (4M)				4	↑
Efficiency Savings	May 2020	High	0				0	↔
Election Claim (Dec 2019 Parliamentary)		Testing						
Western Growth	C/F to 2020/21	In progress						
Project management	Draft	Limited*	4(3H 1M)	1	2		1	Pending project management PIR ↓
<u>Other work</u>								
Housing ASB		Advice work	N/A					
Sports and Leisure Pitches		Advice work	N/A					
Brexit		Advice work	N/A					
Counter Fraud		NFI	N/A					NI work completed
Counter Fraud		Tenancy	N/A					Tenancy fraud –ongoing
Counter Fraud Policies		Policies	N/A					Anti-bribery & Whistleblowing policies updated

Appendix 1 Internal Audit Assurances Given 2019/20

Audit Area	Date	Assurance	Total High / Med Recs	Outstanding			Notes	Direction of Travel
				Implem'd	High	Medium		
Counter Fraud		Training	N/A				Training delivered and in progress	
Counter Fraud		Risk register	N/A				Risk register updated	
Counter Fraud		Scams	N/A				Publicity completed	
Combined Assurance		Consultancy	N/A				Completed	
Partnership management / assurance		Advice work	N/A				Completed	

Audits Deferred

Scrutiny committee - operation & Member training
 Apprentice scheme - financial arrangements (not 20/21)
 Housing Repairs - interaction between reactive repairs & planned maintenance
 Housing Strategy - implementation of the Housing Strategy including links with Major Development
 Performance management - new system
 Growth and Regeneration - strategies, investment, partnerships, infrastructure
 Fraud – health check, money laundering risk, identity fraud
 Refuse and recycling – procurement arrangements

Work brought in

Housing ASB
 Brexit
 De Wint Risk assessment

Appendix 1 Internal Audit Assurances Given 2019/20

Total High / Medium 2019/20 Recs Made = 62 (Completed audits only)

Total not yet due = 21

Net = 41

Implemented in full = 34

% Implemented = 83% (H&M)



Appendix 2 - Quality Assurance Framework



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Quality outcomes / process designed to deliver a consistently high quality audit service to our clients - fit for purpose / meet client expectations / conform to PSIAS

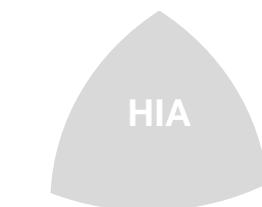


Quality improvement plan - HIA reporting to Audit Committee on the outcome of Quality Assurance – with improvement action plan and any significant non-conformance included in the Annual Report / Annual Governance Statement



Ongoing monitoring – quality built into the audit process

Quality checks and oversight are undertaken throughout the audit engagement ensuring that processes and practice are consistently applied and working well.



Annual self- assessment

- Head of Internal Audit - develop & maintain Quality Assurance Improvement Programme (QAIP) & improvement action plan
- Focus on evaluating conformance with Internal Audit Charter, definition of Internal Audit, Code of Ethics & the Standards
- Arrange an External Assessment – co-ordinated with Audit Committee (completed 2016)



Periodic quality assurance assessments

- Obtain periodic assurance that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Provide HIA with quarterly highlight reports on outcome of reviews



- Conduct all audit engagements in accordance with audit practice standards / PSIAS
- Behave at all times in accordance with the Code of Ethics / Code of Conduct
- Promote the standards and their use throughout the Internal Audit activity
- Commitment to delivering quality services



- Obtain on-going assurance that that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Undertake engagement supervision and review

Appendix 3 - Glossary of Terms

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<p>High</p>	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>
<p>Substantial</p>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
<p>Limited</p>	<p>Our critical review or assessment on the activity gives us a</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>
<p>Low</p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p>

<p>Significance</p>
<p>The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.</p>
<p>Head of Internal Audit Annual Opinion</p>
<p>The rating, conclusion and/or other description of results provided by the Head of Internal Audit addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the Head of Internal Audit based on the results of a number of individual engagements and other activities for a specific time interval.</p>
<p>Governance</p>
<p>Comprises the arrangements (including political, economic, social, environmental, administrative, legal and other arrangements) put in place to ensure that the outcomes for intended stakeholders are defined and achieved.</p>
<p>Risk</p>
<p>The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.</p>
<p>Control</p>
<p>Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management - plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved</p>

Appendix 4 - Continuous Improvement Plan

See attached.

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The quality assurance framework is designed to ensure quality outcomes. The audit process is designed to deliver a consistently high quality audit service to our clients – one that is fit for purpose / meets client expectations and conforms to public sector internal audit standards. The quality improvement plan below provides details of planned, completed and ongoing improvements to strengthen our arrangements. Any significant non-conformance would be included in the Internal Audit Annual Report.

Ongoing monitoring for quality is built into the audit process. Checks and oversight are undertaken throughout the audit engagement ensuring that processes and practice are consistently applied and working well. This provides on-going assurance that that engagement planning, fieldwork conduct and reporting / communicating results adheres to audit practice standards

We review and update the QAIP action plan regularly and focus on evaluating conformance with Internal Audit Charter, definition of Internal Audit, Code of Ethics & the Standards. We arrange an external quality assessment periodically – co-ordinated with Audit / Audit and Governance Committee (last completed 2016)

We undertake periodic quality assurance assessments covering engagement planning, fieldwork, conduct and reporting / communicating results, ensuring we adhere to audit practice standards.

Quality Assurance Improvement Programme (Action plan)

Opportunities for Improvement	Date	Status	Resp
1.Complete values/behaviours review – ColC	-	Completed	AM
2.Complete values/behaviours review - BBC	-	Completed	AM
3.Complete governance review BBC/COLC	-	Completed – (Annual)	AM
4.PSIAS – communicate standards/regular practice discussions with staff	Sept 19	Self-assessment completed	AM/AL
	Mar 21	Ongoing	
5.PSIAS – Update Internal Audit Charter (covers BBC/ColC)	-	Completed	AM/AL
6.Improve in-year reporting to CMT (BBC/ColC)	20-21	Establish a (summary) quarterly or six monthly CMT report over and above existing Audit Committee and PH reporting	AM

7. Review practice notes/processes	Mar 21	Part complete	AM/AL
New guidance / template index	July 20	Ongoing	
Ensure "Governance" (coverage) is formally within STEPS	July 20	New Index	
Ensure data analytics is within STEPS	-	Completed	
Use of audit de-brief record	20-21		
8. Dynamic audit planning - practice note	-	Completed	AM/AL
9. Audit planning – update risk scores using new methodology BBC/COIC	-	Retained existing scoring system	AM
10. Dynamic audit planning - consider approach 19/20, BBC/COLC	20-21	Review at least every six months.	AM/AL
11. Improve cross partnership working <ul style="list-style-type: none"> • Strategy – feed into the Assurance Lincolnshire strategy (Completed) • Digital and data analytics (Ongoing) <ul style="list-style-type: none"> ○ Carry out an assessment of our teams digital maturity, identify gaps and produce action plan ○ Implement (where possible) data analytics across the service ○ Identify where and how digital can expand the products and services we offer ○ Improved awareness in the team • Resource sharing – LCC/CoIC/NCC (Completed) • ICT audit – best practice development (Ongoing) • Develop a methodology for improving sharing risk intelligence with clients (Ongoing) • Audit scheduling / work across the partnership (Ongoing) • Embed Lean thinking in our operations. Review and improve our processes (Ongoing) • Develop and implement our Quality Assurance Framework (right first time) Ongoing 	Mar 21	Ongoing	AM/AL
12. Improve monitoring of audit recommendations (CoIC)	-	Completed New protocol	AM
13. External Audit (Mazars) –consider IA/EA protocol	-	Discussed – no plans for a	AM/AL

		"formal" agreement	
14. Review and report on assurances linked to Northamptonshire (governance) report CoIC	Mar 21	Part completed Further reports from CFO 20-21	AM/AL
15. Review and report on assurances linked to Northamptonshire report BBC	Mar 21	Completed Further reports from CFO 20-21	AM/AL
16. Review audit software process steps	-	Completed	AM/AL
17. Review security of data transfer BBC/CoIC	-	Completed	AM/AL
18. Review IA/AC effectiveness (using new CIPFA guidance) CoIC Consider inviting auditees to review of effectiveness The outcome of our Quality assurance work will be formalised with an annual report being presented to the Review Group	20-21	Schedule	AM/AL
18. Review IA/AC effectiveness (using new CIPFA guidance) BBC Consider inviting auditees to review of effectiveness	20-21	Schedule	AM/AL
19. Review AC terms of reference (new CIPFA guidance) CoIC	-	Completed	AM/AL
20. Review AC terms of reference (new CIPFA guidance) BBC	-	Completed	AM/AL
20. Review (specialist) IT audit provision 19/20	-	Completed	AM/AL
21. CPD/training and development Assurance Lincs/CIPFA/Audit groups/other	April 21	Part completed Ongoing	AM/AL
Staff complete an updated audit skills matrix – use the Assurance Lincs version	July 20		
Training logs are up to date	July 20		
Staff receive a copy of the annual fraud report (CoIC/BBC)	July 20		
Circulate the draft IT security policy – audit staff	July 20		
Plus the assurance map (audit staff)	July 20		
22. GDPR – review agreements for contract compliance (BBC)	Dec 20	Part completed Ongoing	AM/ BBC
23 Audit - Code of Ethics. Reminder to staff + declaration of interest form	April 20		AM
24. CIPFA Role of Head of Internal Audit practice note (2019) reviewed and complied with.	June 20		AM
25. Update AM JD	Sept 20		AM/CFO
26. Ensure QAIP reported to AC in July, October and February	Mar 21		AM
27. All audits signed off on Pentana (19-20) Detailed quality check sample (19-20)	April 20	Completed	AM

28. Ensure “separate” audit strategy document for 21-22 (can be developed 2020)	Mar 21		AM/AL
29. Respective priorities of audit work – ensure included in 20/21 plan <ul style="list-style-type: none"> • Assess priority work in plan based on (likely) reduced resource; take account of Covid-19 • Consider other relevant Covid risks for updated plan – e.g. grant assurance work 	May 20		AM/CFO
30. Ensure the audit plan (20/21) is explicit in terms of assurance around shared services, partnerships, joint committees. May need to go separately so strategy is explicit. (See 28)	July 2020		AM
31. Update the annual report format for 20-21 (BBC/CoIC)	Mar 21		AM/AL
32. Review audit planning and engagement to ensure compliance with standards.	July 20		AM

AM – Audit Manager

AL – Assurance Lincolnshire

BBC – Boston Borough Council

SUBJECT: AUDIT COMMITTEE WORK PROGRAMME 2020/21

REPORT BY: AUDIT MANAGER

LEAD OFFICER: AUDIT MANAGER

1. Purpose of Report

1.1 To provide details of the Audit Committee work programme for 2020/21

2. Executive Summary.

2.1 The Audit Committee approves a work programme each year and monitors progress.

3. Details

3.1 The proposed work programme is attached at Appendix A. The frequency of meetings has been reviewed and is considered appropriate for 2020/21.

3.2 COVID has impacted on the work programme and Audit Committee meetings were missed in March and June. The accounts and annual governance statement (AGS) have been delayed (and so has the deadline) and officers are working on finalising these by end of July so an additional meeting may be required in August. In addition the publication date for the audited accounts has moved from 31st July to 30th November so it is likely that we will need an additional meeting mid-November to sign off the final audited accounts.

3.3 Other reports that should have come to the July meeting such as the 12 month fraud and error report will be updated and submitted later in 2020/21. The work programme identifies what is being moved and future dates for these reports.

4. Organisational Impacts

4.1 Finance

There are no direct financial implications arising as a result of this report.

4.2 Legal Implications including Procurement Rules

There are no direct legal implications arising as a result of this report.

4.3 Equality, Diversity & Human Rights

There are no direct E and D implications arising as a result of this report.

5. Recommendation

5.1 That Audit Committee comment on and agree the work programme for 2020/21.

Key Decision No

Do the Exempt Information Categories Apply? No

Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply? No

How many appendices does the report contain? One

List of Background Papers: None

Lead Officer: Audit Manager Telephone 873321

AUDIT COMMITTEE AUDIT WORK PROGRAMME FOR 2020/21

Meeting dates	Audit Items – Original Agenda	Audit Items – Revised Agenda	Training (Suggested)
May/June 20	<ul style="list-style-type: none"> • Internal Audit Progress report (July 2020) • Statement of Accounts (Draft) (Aug 2020) • Annual Governance Statement (Draft) (Aug 2020) • Annual Internal Audit Report (July 2020) • External Audit Progress report (Aug 2020) • Information Governance update report (Sept 2020) • Audit Committee Work Programme (July 2020) 	Meeting cancelled	
23 July 20	<ul style="list-style-type: none"> • 12 month Fraud and Error report (Sept 2020) • Review of the effectiveness of Internal Audit and Audit Committee (Dec 2020) • Audit Committee terms of reference review (Dec 2020) 	<ul style="list-style-type: none"> • Annual Internal Audit Report • Internal Audit Progress report (19/20) 	<ul style="list-style-type: none"> • Audit Committee effectiveness (Dec 2020)

<p>Aug 20 (date to be confirmed)</p>	<p>Not originally scheduled.</p>	<ul style="list-style-type: none"> • Statement of Accounts (Draft) • Internal Audit Plan 20-21 • Annual Governance Statement (Draft) • External Audit Progress report • Audit Committee Work Programme 	<ul style="list-style-type: none"> • Local Government Financial Statements explained • Annual Governance Statement/Corporate Governance (Part of Meeting)
<p>24 Sept 20</p>	<ul style="list-style-type: none"> • Internal Audit progress report • Annual Complaints report • Audit recommendations report • Information Governance Update • Annual Governance Statement update report • Fraud policy review • Audit Committee Work Programme • Financial Management Code / Financial Resilience 	<ul style="list-style-type: none"> • Internal Audit progress report • Annual Complaints report • Audit recommendations report • Information Governance Update • Fraud policy review • 12 Month fraud and error report • Audit Committee Work Programme • 	
<p>Nov 20 (date to be confirmed)</p>	<p>Not originally scheduled.</p>	<ul style="list-style-type: none"> • Audit recommendations report • Statement of Accounts / Annual Governance Statement (Final) • Annual Governance Report / Auditors Report (External Audit) 	

<p>15 Dec 20</p>	<ul style="list-style-type: none"> • Audit recommendations report • Internal Audit progress report • Six Month Fraud and Error report • Annual Governance Statement - monitoring • Audit Committee Work Programme • Counter fraud policies • Fraud risk register • Terms of Reference review - Internal Audit (Audit Charter) • Annual Audit Letter (External Audit) 	<ul style="list-style-type: none"> • Audit recommendations report • Internal Audit progress report • Six Month Fraud and Error report • Annual Governance Statement - monitoring • Audit Committee Work Programme • Counter fraud policies • Fraud risk register • Terms of Reference review - Internal Audit (Audit Charter) • Annual Audit Letter (External Audit) • Financial Management Code / Financial Resilience • Audit / Audit Committee effectiveness and terms of reference 	<ul style="list-style-type: none"> • Counter Fraud (Via e-learning) • Lincolnshire Audit Committee Forum (TBC) • Audit Committee effectiveness
<p>2 Feb 21</p>	<ul style="list-style-type: none"> • Internal Audit Progress report • Treasury management policy and strategy (consultation prior to approval by Council) • Audit Committee Work Programme • Information Governance update 		<ul style="list-style-type: none"> • Treasury Management

<p>23 Mar 21</p>	<ul style="list-style-type: none"> • Internal Audit Progress report • Audit recommendations report • Combined Assurance report • Annual Governance Statement –update report • Internal Audit Strategy and Plan 19-20 • Risk Management Strategy / annual report • Statement on Accounting Policies • External Audit Inquiries – 19/20 • Statement of Accounts (those charged with governance) • IAS19 – Assumptions used to calculate pension entries in the Statement of Accounts and Audit Regulations • External Audit plan • Audit Committee Work Programme 		
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A private meeting between the Audit Committee and internal and external audit managers can be arranged outside of the meeting agenda times.