

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

Report by Councillor Tony Speakman, Chair of the Audit Committee

Mr Mayor, Members of the Council

Introduction

This report summarises the work of the Audit Committee to date in the year ending April 2018 and is to confirm that the Committee's function is consistent with best practice as well as demonstrating the positive impact of its work.

There are 5 meetings of the Committee during the period up to April 2018.

Purpose of the Audit Committee

The Audit Committee, as a key part of the Council's corporate governance arrangements, oversees and assesses the Council's risk management, control and governance arrangements and advises the Council on their adequacy and effectiveness. It also has responsibility for reviewing the statutory financial reporting process through approval of the Statement of Accounts and receiving key reports from the External Auditor.

Specifically it provides:

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

At its December 2015 meeting the Audit Committee accepted the responsibility to lead monitoring of the Information Governance Strategy and Action Plan, with the Chair to be lead member on the Information Governance Board. A considerable volume of work has now taken place across the Council, in terms of identifying documents for retention or disposal, training and roll out of new Information governance policies, the provision of guidance to staff and work on information sharing.

Data Protection breaches are recorded and lessons are being drawn to improve future performance.

Work is therefore well underway to ensure compliance with the European General Data Protection Regulation (GDPR), which will be in force for May 2018 and which will increase the level of fines for breaches to a maximum of 20,000,000 Euros or 4% of total worldwide turnover. It is not yet known what level of fines Local Authorities can expect, however it is likely

to be more than the current maximum of £500,000. This is a significant change and is currently being adopted into UK law.

The Audit Committee has considered two reports on information governance during 2017/18 and is monitoring the relevant action plans.

I am pleased to report that whilst there is still work to be completed, we have a high level of confidence that the Council will be GDPR compliant by 31st May 2018

Terms of Reference

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

Training

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

- Internal audit and Audit Committee effectiveness
- Training linked to understanding the Council's financial statements
- Treasury management
- Corporate governance
- Counter fraud arrangements
- Risk management.
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Membership and Independence

The Audit Committee comprises seven Councillors and (since 2013) one Independent Member. The current Independent member, Jane Nellist from the University of Lincoln who has good knowledge of public sector finance and business accountancy was appointed from April 2016. Having one or more Independent Members is seen as best practice, as their experience and expertise should assist the Audit Committee to more effectively discharge its role. The Audit Committee and the Officers have found the Independent member's contribution to be particularly useful during the last 2 years.

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

Membership During 2017-18

Councillor Tony Speakman (Chair)
Councillor Geoff Ellis (Vice Chair)
Councillor Thomas Dyer Councillor Jim Hanrahan
Councillor Gary Hewson
Councillor Ronald Hills
Councillor Jackie Kirk
Jane Nellist (Independent Member)
•Councillor Paul Gowen (Substitute)

Relationships

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

Audit function responsibility rests with Rob Baxter (Interim Chief Finance Officer) on behalf of the Chief Executive.

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

Joint working arrangements between Internal Audit and KPMG, the External Auditors have been agreed during the year.

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

Internal Audit and the Audit Committee

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

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

The Audit Committee approves the Annual Internal Audit Plan and the Internal Audit Strategy. The work of internal audit is reviewed at each meeting. This review includes a summary of audit reports as well as performance against the plan and other measures. It is pleasing to note that the majority of audits achieve a high level of assurance, reflecting that in most areas risks are being effectively managed and the control environment is sound. Those audits which require a greater degree of improvement are classed as having limited or no assurance. There is just one area which received a Limited Assurance during 2017/18

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

The 2016-17 annual internal audit report to the July 2017 meeting gave a substantial (green) assurance across governance, risk and control.

The Committee also reviews anti-fraud arrangements, receiving a 6 monthly update report on counter-fraud, and it has in the past received a presentation on the Lincolnshire Fraud Partnership – this is a partnership of Lincolnshire Councils who successfully bid for and received government funding to tackle fraud locally. The partnership continues until at least March 2018 under current arrangements. The Committee considers relevant corporate counter fraud policies and any updates, as well as information on fraud risk and fraud training. Another important part of the Committee's role is helping to ensure that audit recommendations are implemented. The Committee ensures that officers are acting on recommendations from both internal and external audit with updates being received at each meeting. Where necessary, directorate officers are asked to attend Committee to provide further explanation. Implementation of recommendations remains an area that the Committee is determined to keep focussed on. Audit recommendations are integrated into the Council's

performance management system (IMPS) to increase their status and visibility and are now linked to the relevant Portfolio holders and are discussed at Portfolio Holder meetings. The number of high priority recommendations outstanding is very low.

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

The partnership is making good progress and yielding positive benefits for the internal audit service in Lincoln. As part of the partnership arrangements the Council contracts directly with Boston Borough Council. The current contract runs until 31st March 2019.

The City of Lincoln Council and the wider Assurance Lincolnshire Partnership (ELDC and County Council) received their most recent external quality assessment review (EQA) in September 2016 which was undertaken by CIPFA -both were found to be compliant with required standards and some very positive comments were received.

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

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

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

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

The Audit Committee received its third "Combined Assurance" report in April 2017. Working with management, Internal Audit has been able to show what assurances the Council currently has for the areas of the business that matter most. The aim is to give Senior Management and the Audit Committee an insight on assurances across all critical activities, key risks and projects. Assurances are drawn from the "three lines of defence" including Management (controls), internal audit and third parties (including corporate business assurance functions such as performance management). The report also feeds into the Audit Manager's annual audit opinion. The next report will be presented to the Audit Committee in April 2018.

External Audit Arrangements

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

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

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

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

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

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

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

The Committee has considered the 2016/17 Annual Governance Report and Annual Audit letter from the External Auditor and on behalf of the Committee, I am pleased to report that the 2016/17 final accounts were presented by the Council for audit by the required statutory date and were free from material error, and the External Auditor issued an unqualified opinion on the Council's 2016/17 financial statements in September 2017.

The Auditor also confirmed that the Council has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources and gave an unqualified value for money conclusion. Furthermore, the Auditor did not identify any significant weaknesses in the council's internal control arrangements.

However, the audit identified a number material audit differences, which were corrected by management. These were due to unprecedented resourcing pressures within Finance in the months before the audit and arrangements have since been put in place to ensure that robust arrangements are in place for 2017/18 and the 2017/18 year end. These arrangements are being monitored by the Committee during 2017/18.

Regulatory Framework

The Committee has a role (through its terms of reference) in overseeing risk management strategies.

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

The Annual Governance Statement is a statutory statement and provides an overview of key governance arrangements within the Authority, including any significant control issues arising during the year. This is signed by the Leader of the Council and Chief Executive and is presented to Council in September each year. The Audit Committee monitors all "significant issues" arising from the Statement approximately each quarter.

The Committee in 2016/17 reviewed a new Code of Corporate Governance and self-assessment which takes account of updated guidance.

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

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

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

The Council's Constitution

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

Effective Challenge

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

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

Some specific examples of where the Committee has requested further reports or action are as follows:

- Rigorous challenge on the Annual Governance Statement and Statement of Accounts
- Requirement for progress reports, officer attendance and CMT referral for appropriate areas
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Impact of the Audit Committee's Work

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

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

Conclusions

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

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

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

Councillor Tony Speakman
Chair of Audit Committee