

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

Report by Councillor Geoff Ellis, Chair of the Audit Committee

Mr Mayor, Members of the Council

Introduction

This report summarises the work of the Audit Committee to date in the year ending April 2021 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 seven meetings of the Committee during the period up to April 2021; the June meeting (eighth meeting) was cancelled due to Covid-19.

Covid-19 has obviously had a significant impact on the Council including the operation of Committees. Whilst the first meeting of the year was cancelled, meetings have continued since then and will continue as planned until the year end. Further details on the impact of Covid-19 is covered in the relevant sections below.

Purpose of the Audit Committee

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

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

Specifically it provides:

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

Membership and Independence

The Audit Committee comprises seven Councillors and (since 2013) one Independent Member. The current Independent member, Jane Nellist is from the Education sector, is a qualified accountant with experience of public sector finance and was appointed from April 2016. Having one or more Independent Members, particularly with a financial background, is seen as best practice, as their experience and expertise assists the Audit Committee to discharge its role more effectively. The Audit Committee and the Officers have found the Independent Member's contribution to be particularly useful and I would like to offer my thanks for the Independent Member's continued support.

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

Membership during 2020-21

The membership for 2020/21 has remained fairly constant and is similar to 2019/20. I took over as Chair from May 2018 and Councillor Laura McWilliams is Vice-Chair
The full list of Councillors are:

Councillor Geoff Ellis (Chair)
Councillor Laura McWilliams (Vice-Chair)
Councillor Thomas Dyer
Councillor Jackie Kirk
Councillor Gary Hewson
Councillor Bill Mara
Councillor Rebecca Longbottom
Jane Nellist (Independent Member)

Relationships

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

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

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

Mazars are the External Auditors with effect from September 2018.

The external auditor takes consideration of and uses the work of our internal auditors in connection with their integrated audit of the Council's financial statements and other work. External and internal auditors collaborate to minimise duplication of effort and work in tandem to help management and the Audit Committee ensure that the Council's financial reports and other information are accurate and that its system of

internal control is effective. Internal audit have also audited elements of the housing benefit subsidy claim on behalf of the external auditor, which also provides a saving on the audit fee.

The 2019/20 statement of accounts audit progressed more smoothly than 2018/19; issues that arose as part of the 2018/19 accounts were addressed by both parties.

Audit Committee - Terms of Reference

The Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on Audit Committees, which sets out various requirements, has been incorporated into the terms of reference of the Audit Committee. The Audit Committee terms of reference were updated in July 2018 and were reviewed again in February 2021 (there were no changes in 2021).

Two of the main changes in 2018 were:

a) To support the review of External Audit the Audit Committee will consider any issues raised by PSAA (Public Sector Audit Appointments) in its annual report. This summarises results from quality reviews and was received by the Audit Committee in December 2018 which showed the Council's new External Auditors (Mazars) had received the highest assurance rating.

The Audit Committee received a further update on external audit quality in its December 2020 meeting which showed that there were some quality issues with firms and Mazars responded specifically on matters that related to them.

b) To review the governance and assurance arrangements for significant partnerships or collaborations. It was agreed that an annual report on partnership governance arrangements would be provided to the Audit Committee.

An annual assurance report was scheduled to be received by the Audit Committee in March 2020 however due to Covid-19 this has been delayed; partnership arrangements will be considered by management in February and hopefully an annual report can be presented in March or early in the new financial year.

Internal Audit Terms of Reference

These were updated in December 2019, to reflect changes to national standards although only relatively minor changes were made. The changes were reviewed by the Audit Committee. A further review took place again in February 2021,

Audit Committee Training

Committee Members receive relevant training during the year, including:

- Training linked to understanding the Council's financial statements
- Treasury management
- Corporate governance Counter fraud arrangements (through specific counter fraud training material)

- Risk management
- Internal audit and Audit Committee arrangements/effectiveness

Some training has been deferred due to Covid-19 and will recommence in 21-22

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

Officers will review training options available both internally and externally for 21-22.

Information Governance and Data Protection

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

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

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

The Committee receives a regular update report on Information Governance from the Data Protection Officer (DPO).

The Audit Committee recognises this is a significant area and presents a number of risks which are being adequately addressed. There is always further work to be done around training, asset registers, new systems etc and this work in progress.

Internal Audit and the Audit Committee

Independence

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

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

Audit Plan, Progress Reports and the Annual Internal Audit Report

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

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

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 2019-20 annual internal audit report to the July 2020 meeting gave a substantial (green) assurance across areas of governance, risk and control.

The Covid-19 emergency impacted on the internal audit plan and a revised (reduced) plan was agreed by Audit Committee in September 2020. The audit team for a while were diverted to help support the emergency response. Completion of the revised plan will ensure sufficient coverage across governance, risk and control. The revised plan includes work on Covid-19 risks.

Counter Fraud

The Committee also reviews counter-fraud arrangements, receiving an annual report in September 2020 and a 6 monthly update report in December 2020. The Council is part of the effective Lincolnshire Fraud Partnership (LCFP) – this is a partnership of Lincolnshire Councils who successfully bid for and received government funding to tackle fraud locally. The partnership continues with a small annual financial contribution until at least March 2022 under current arrangements. During 2020/21 LCFP has continued to support nominated fraud representatives by raising awareness of emerging fraud risks, including those linked to Covid-19 and arrangements during a pandemic emergency. The focus of work in 21-22 will be around business rates, council tax single person discount and cyber-crime.

The Committee considers relevant corporate counter fraud policies and any updates, as well as information on fraud risk and fraud training. It will review the anti-money laundering policy in March 2021 and recently reviewed an updated counter fraud risk register.

Some fraud projects have been delayed due to Covid-19 including work on Council Tax single person discount however this will commence in 2021. This has the potential to increase Council Tax revenue.

Tenancy fraud (such as unauthorised sub-letting) is also a current project and this is also a high-risk area nationally.

The Council continues to be involved with the National Fraud Initiative (fraud and error) which involves national data matching using a range of Council data sources. Matches are received and reviewed by officers. Data has been submitted for 2020 and new matches will be reviewed in 2021.

The cyber fraud threat is an ongoing risk to the Council and the Committee monitors agreed actions relating to anti-malware and IT Disaster recovery. The Audit Committee is monitoring IT Disaster recovery arrangements as this is currently a significant issue on the Annual Governance Statement.

Further counter fraud training for officers and members will be offered in 2021.

The Council's main fraud strategies and policies can be found on the Councils' website.

The City of Lincoln Council is a "friends against scams" organisation (www.friendsagainstscams.org.uk) to help protect the city's residents, staff and members from becoming victims of scams. The partnership with a National Trading Standards body, involves encouraging staff and others to take part in scam awareness and advice training. The Council works with partners to publicise and warn against scams operating nationally and locally.

The processing of significant amounts of Covid-19 grants has also involved officers in managing fraud risks and assurance reports are regularly provided to BEIS (Department for Business, Enterprise and Industrial Strategy). Grant data is also being submitted to NFI (National Fraud Initiative) for local and nationwide data matching.

Audit Recommendations and Agreed Action

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

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

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

The Audit Committee have also encouraged portfolio holders to take a greater interest in outstanding actions within their areas of responsibility.

Assurance Lincolnshire Partnership

The Council's Internal Audit Team is part of the wider Assurance Lincolnshire Partnership which includes the City of Lincoln Council, Lincolnshire County Council, and more recently Nottinghamshire County Council. Assurance Lincolnshire provides internal audit services to eight Councils in Lincolnshire and Nottinghamshire (including the three core partners).

The partnership is making good progress and yielding positive benefits for the internal audit service in Lincoln. As part of the partnership arrangements the Council contracts directly with Boston Borough Council providing its internal audit service. The current contract runs until 2021/22.

Audit Standards

The City of Lincoln Council and the wider Assurance Lincolnshire Partnership comply with internal audit standards and passed their external quality assessment review (EQA) in September 2016, which must be undertaken within a 5-year period. The next review will take place later in 2021.

Audit Committee Work Programme

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

A selection of areas covered/reviewed this year includes:

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

The resourcing for the audit plan remains at a satisfactory level enabling appropriate coverage across key financial and corporate systems, with sufficient resources to respond to emerging risks. There will be a small reduction in planned resources as a result of agreed savings from 2021-22.

The Audit Committee receives an annual “Combined Assurance” report. Working with management, Internal Audit records first, second and third line assurances for all the key areas of Council business. The aim is to give Senior Management and the Audit Committee an insight on assurances across all critical activities, key risks and projects. Assurances are drawn from the “three lines of defence” including management, corporate business assurance functions such as performance management and internal audit plus other third parties. The report also feeds into the Audit Manager’s annual internal audit opinion, internal audit plan and annual governance statement. The next report will be presented to the Audit Committee in June 2021.

External Audit Arrangements, Reports and Conclusions

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

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

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

The Council's external audit was provided for 2019-20 by a private sector accountancy firm, Mazars procured through Public Sector Audit Appointments

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 "Auditors Report" and the report to "Those Charged with Governance".

The Committee has considered the 2019/20 External Auditor's report. On behalf of the Committee, I am pleased to report that the 2019/20 final accounts were presented by the Council for audit by the required (revised) statutory date and the External Auditor was proposing to issue an unqualified opinion (this is still pending). As part of the audit work undertaken Mazars considered the internal controls in place relevant to the preparation of the financial statements. The findings of this work resulted in 3 recommendations being made in respect of IT General Controls, Expected Credit Loss Model and Asset Valuation Inputs which will be addressed.

The Auditor also confirmed that it expects to give an unqualified opinion on value for money (arrangements for securing economy, efficiency and effectiveness in its use of resources).

Regulatory Framework

Risk Management

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

Financial Statements

The Committee reviews the authority's financial and assurance statements, including the Statement of Accounts and the Annual Governance Statement, ensuring the latter

properly reflects the risk environment and any actions required to improve it and then to recommend its adoption.

Annual Governance Statement and Code of Corporate Governance

The Annual Governance Statement is a statutory statement and provides an overview of key governance arrangements within the Authority, including any significant control issues arising during the year. This is signed by the Leader of the Council and Chief Executive and is presented to Council alongside the Statement of Accounts. The Audit Committee monitors all “significant issues” arising from the Statement approximately each quarter. There is currently one “significant issue” in relation to IT disaster recovery, which is has an Amber rating. Good progress is being made with new IT infrastructure which will help mitigate the risks identified.

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

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

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

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

- Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- Core Principle B: Ensuring openness and comprehensive stakeholder engagement
- Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits
- Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes
- Core Principle E: Developing the entity’s capacity, including the capability of its leadership and the individuals within it

- Core Principle F: Managing risks and performance through robust internal control and strong public financial management
- Core Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The Committee considers whether there are any concerns arising from the financial statements or from the audit (including the external audit report to those charged with governance on issues arising from the audit of the accounts) that need to be brought to the attention of the Council. There are no such issues arising to date during 2020/21.

Treasury Management

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

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

The Council's Constitution

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

The Audit Committee reviewed an update for the financial procedure rules in March 2018.

Effective Challenge

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

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

Impact of the Audit Committee's Work

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

- increased public confidence in the Council's governance arrangements;
- reinforced the importance and independence of internal and external audit and other review processes that reported to the Audit Committee;

- assisted in the co-ordination of assurance with internal audit and, in so doing, made management more accountable;
- provided additional assurance through a process of independent and objective review; and raised awareness of the need for internal control and
- helped ensure the timely implementation of audit recommendations.

Conclusions

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

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

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

Councillor Geoff Ellis
Chair of Audit Committee