

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

Report by Councillor Rebecca Longbottom, Chair of the Audit Committee

Madam Mayor, Members of the Council

Introduction

This report summarises the work of the Audit Committee during the period January 2022 – December 2022 and is to confirm that the Committee’s function is consistent with best practice as well as demonstrating the positive impact of its work.

In this period, there were seven scheduled meetings of the Committee.

One meeting was cancelled, due to the national mourning period following the death of Her Majesty Queen Elizabeth II, all agenda items were deferred to the next available meeting.

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.
- Annual review of key partnership governance arrangements.

Membership and Independence

The Audit Committee comprises seven Councillors and (since 2013) one Independent Member. The current independent member, Jane Nellist, from the Education sector is a qualified accountant with experience of public sector finance and was appointed in 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.

Indeed, the Government announced in May 2022 its intention to legislate, once Parliamentary time allows, to make it mandatory to have at least one independent member. Further to this the Chartered Institute of Public Finance and Accountancy (CIPFA) recently published guidance on Audit Committees recommends that each Audit Committee should include at least two co-opted independent members to provide appropriate technical expertise. This latest Guidance is currently being reviewed, as set out below under the Audit Committee's Terms of Reference.

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 her 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 2022/23

The membership for 2022/23 is:

Councillor Rebecca Longbottom (Chair)
Councillor Helena Mair (Vice Chair) (Jan – May)
Councillor Jackie Kirk (Vice-Chair) (May – onwards)
Councillor David Clarkson
Councillor Thomas Dyer
Councillor Gary Hewson
Councillor Calum Watt
Councillor Rosanne Kirk (Jan – May)
Councillor Emily Wood (May – onwards)
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 while the Audit Manager (Amanda Stanislawski) 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 have been the External Auditors since 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 has also audited elements of the housing benefit subsidy claim on behalf of the External Auditor, which also provides a saving on the audit fee.

Audit Committee - Terms of Reference

The Audit Committee's Terms of Reference (ToRs) were last reviewed in February 2021 (no changes were required). The ToRs incorporated CIPFA guidance on Audit Committees, which sets out various requirements, which were in effect at that time.

CIPFA have recently issued a revised Position Statement on Audit Committees, setting out the principles recommended for committees operating in local government to follow. In addition to this, CIPFA have also published Audit Committees: Practical Guidance for Local Authorities. This guidance covers the core functions of committees including relevant legislation and professional standards that the members should be aware of and a framework to support the appointment, training and development of audit committee members.

Both the Position Statement and Guidance will now be reviewed to identify any necessary changes required in the Audit Committee's ToRs. This is due to be considered by the Audit Committee in June 2023.

Internal Audit Terms of Reference (IA Charter)

These were last reviewed in June 2022, with only minor changes made. The changes were reviewed by the Audit Committee.

Audit Committee Training

Committee Members received relevant training during the year, including:

- Understanding the Council's financial statements;
- Treasury Management
- Audit Committee Effectiveness

Further training on counter fraud will be provided when an e-learning product is available, and a refresher on risk management is currently being scheduled.

I was also delighted to attend the Audit Committee: Leadership Essentials Programme delivered by the Local Government Association. The programme, aimed at Audit Committee Chairs, discussed how Audit Committees can be most effective, drawing on the insights of auditors to ensure that the public can have confidence in the way the council is managing its financial affairs. This was a very informative and useful programme.

Regional Audit Committee Chair Forums

In late 2021 the Department for Levelling Up, Homes and Communities (DLUHC) announced a series of new measures aimed at improving local audit delays. This included a new measure to provide, via the Local Government Association sector grant, for a number of targeted training events for audit committee chairs. These targeted forums are intended to further strengthen the capability and skills of audit committee members.

I was able to attend the inaugural forum for the East Midlands region in March 2022 and the second one in June. Unfortunately, neither myself nor my Vice Chair were able to attend the latest meeting in November 2022. Whilst still at an early 'forming' stage, I am sure that these forums will prove a useful opportunity to share good practice and learn about the latest audit issues and network with other Audit Committee Chairs and Members.

Information Governance and Data Protection

The Committee continues to receive periodic update reports 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. I am particularly pleased with the new Data Protection training that has been delivered during 2022, with current completion levels of around 90%. However, there is always further work to be done around training, new systems, policy updates etc. and this is 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 ToRs are consistent with CIPFA best practice guidance (although the latest Guidance is currently being reviewed with any changes to the ToRs to be considered by the Committee). 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. Most audits achieve a substantial level of assurance, although this has reduced from the previous year when the majority of audits achieved a high level of assurance. However, the level of high priority recommendations has reduced, with more medium priority recommendations. This level of assurance reflects that whilst there are some improvements needed in the application of controls to manage risks, the controls are still operating sufficiently. Those audits which require a greater degree of improvement are classed as having limited or no assurance. There has been one limited assurance report during 2022.

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 2021-22 Annual Internal Audit Report to the June 2022 meeting gave a Performing Well (green) assurance across areas of governance, risk, and financial control and a Performing Adequately (amber) assurance to internal control. In terms of internal control, this level of assurance was due to a number of factors including recovery from coronavirus, similar levels of assurance to last year, and there were a high number of actions remaining to be implemented.

During 2021-22 the team were without an Audit Manager for almost 5 months and a revised (reduced) plan was agreed by Audit Committee for the remainder of that year. Although a new Audit Manager was in post ahead of the 2022-23 year, unfortunately both the Principal Auditor and Auditor posts have now been vacant since September 2022. Whilst three recruitment exercises have been undertaken, it has still not been possible to recruit to these roles. Some additional capacity has been provided through the Assurance Lincolnshire partnership, as well as through some temporary resource and through the buying in of external support. However, there has still been a reduction in the number of audit days available and a revised (reduced) plan was agreed by Audit Committee in November 2022. The revised plan focuses on core financial audits and other key areas to enable internal audit to provide an annual opinion on the governance, risk and control environment at the year end. Work continues to recruit to these roles to ensure a full audit plan for 2023-24.

Counter Fraud

The Committee also reviews counter-fraud arrangements and received an annual Fraud & Error Report in June 2022 and a six-monthly update in December 2022.

The Council is currently part of the Lincolnshire Counter Fraud Partnership (LCFP), a partnership of Lincolnshire Councils led by Lincolnshire County Council.

The focus of work in 2022-23 was to be around Money Laundering, council tax single person discount and Covid grants post assurance work. However, some projects have been delayed including the introduction of a continuous rolling review of the Council Tax single person discount, due to a re-prioritisation of resources to deliver the Council Tax Energy Rebate scheme, work will now commence on the review in early 2023.

The Committee considers relevant corporate counter fraud policies and any updates, as well as information on fraud risk and fraud training. It reviewed the Fraud Risk Register in March 2022, and the Whistle Blowing Policy in November 2022.

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

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 submitted in 2020 was reviewed in 2021/22.

The cyber fraud threat is an ongoing risk and the Council continues to place high importance on cyber security and has included it as an Amber risk within the Fraud Risk Register. The Committee monitors agreed actions relating to anti-malware and is also monitoring IT Disaster recovery arrangements as this is currently a significant issue on the Annual Governance Statement.

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.

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 alternating meetings. Committee agreed a revised Follow up protocol in July 2022 aimed at strengthening the process.

The Audit Committee have asked for additional 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.

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 Nottinghamshire County Council. Assurance Lincolnshire provides internal audit services to ten Councils in Lincolnshire and Nottinghamshire (including the three core partners).

The partnership continues to make good progress and yields positive benefits for the internal audit service in Lincoln.

Whilst the Audit Team is still committed to providing Audit staff to undertake audit work for Lincolnshire County Council, as a way of reducing the cost of audit for the Council, due to the current reduction in resources this has not been fully possible during 2022-23. However, reflecting the positive benefits to the audit service in Lincoln, the partnership has been able to provide Audit staff to the Council to support delivery of its 2022-23 audit plan.

Audit Standards

I am very pleased to report on behalf of the Committee that the City of Lincoln Council and the wider Assurance Lincolnshire partnership received their external quality assessment review (EQA) in February 2022 undertaken by CIPFA. Overall, the assessor concluded that the Partnership Fully Conformed to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. One action (low priority) and five enhancements (advisory) were made, these will be included in the Council's Quality Assurance Improvement Plan (QAIP).

The Internal Audit function are very pleased with the outcome of the External Quality Assessment. They pride themselves on being an experienced, competent and innovative internal audit provider, who strives to maintain and develop its service by embedding quality in all elements of internal audit activity. This assessment helps provide confidence to the Council over the quality of the service and the excellent people who deliver its internal audit work and plan.

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
- 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)
- Partnership Governance
- CIPFA Financial Management Code

The Audit Committee receives an annual “Combined Assurance” report. Working with management, Internal Audit records first, second and third line assurances for all of 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 March 2023.

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 for 2021-22 was provided 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 "Annual Auditor Letter" and the report to "Those Charged with Governance."

The Committee has considered the 2021/22 report to "Those Charged with Governance". On behalf of the Committee, I am pleased to report that the 2021/22 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 (at the time of writing this is still pending). As part of the audit work undertaken, Mazars considered the internal controls in place to be relevant to the preparation of the financial statements. The findings of this work resulted in one level 3 (low) priority recommendation being made in respect of journals, which will be addressed.

The External Auditor also confirmed that it has not identified any significant weaknesses in the Council's arrangements for securing economy, efficiency, and effectiveness in its use of resources (value for money approach), again the conclusion of this work is still pending.

Regulatory Framework

Risk Management

The Committee has a role (through its ToRs) in overseeing risk management strategies and 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 respect of IT Disaster Recovery which has an Amber rating. Good progress is being made to 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. It 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 approves the Code of Corporate Governance and updates – it was last reviewed in February 2022. The code is based on the set of seven core principles of Delivering Good Governance in Local Government (CIPFA / Solace 2016).

Treasury Management

The Committee’s role is to assess the robustness of the Council’s Treasury Management policy and strategy. 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. Financial Procedure Rules were reviewed in November 2022, with Contract Procedure Rules scheduled for later in 2023.

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 Jackie Kirk Vice-Chair, Jane Nellist, the Independent Member, to all of those elected members who have served on the Committee, to Jaclyn Gibson, Colleen Warren, and the Finance team, Amanda Stanislawski and the Internal Audit team, Sally Brooks and all of those officers that have provided reports, training, and guidance to the Committee.

Councillor Rebecca Longbottom
Chair of Audit Committee