

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

Report by Councillor Chris Burke, Chair of the Audit Committee

Mr Mayor, Members of the Council

Introduction

This report summarises the work of the Audit Committee during the period January 2023 – December 2023 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 in September was cancelled due to room availability and replaced with one in November to review the Final Statement of Accounts.

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. Under the terms of the current Person Specification, occupation of this role can only be extended up to a maximum term of eight years. We are currently looking to re-advertise the role and have the independent member appointed for the June 2024 meeting.

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 Chartered Institute of Public Finance and Accountancy (CIPFA) recent guidance on Audit Committees recommends that each Audit Committee should include at least two co-opted independent members to provide appropriate technical expertise. This was considered at the Audit Committee meeting in December and it was agreed to look into appointing a second Independent member.

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 2023/24 is:

Councillor Rebecca Longbottom (Chair) (Jan - May)
 Councillor Chris Burke (Chair) (May – onwards)
 Councillor Jackie Kirk (Vice-Chair) (Jan - May)
 Councillor Emily Wood (Vice-Chair) (May – onwards)
 Councillor David Clarkson
 Councillor Thomas Dyer
 Councillor Gary Hewson
 Councillor Clare Smalley
 Councillor Calum Watt
 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 but the appointment comes to an end following the audit of the 2022/23 accounts. The Council opted to be part of the Public Sector Audit Appointments (PSAA) process for appointing new external auditors. Following this process KPMG were appointed as the Council's External Auditors covering the accounts from 2023/24 – 2027/28. Introductory meetings have been held with staff and are arranged for myself and KPMG.

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 and Revenues staff have 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

CIPFA issued a revised Position Statement on Audit Committees in 2022, setting out the principles recommended for committees operating in local government. In addition to this, in October 2022 CIPFA 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 were reviewed to identify any necessary changes required in the Audit Committee's Terms of Reference (ToR). The revised ToRs were presented to the Audit Committee in December 2023 and will now be presented to Council for approval.

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. The Charter was reviewed and no changes made so was just circulated to all Members of the Committee in June 2023.

Audit Committee Training

Committee Members received relevant training during the year, including:

- Understanding the Council's financial statements;
- Treasury Management
- Audit Committee Effectiveness
- Risk Management – All members

Further training on counter fraud will be provided when we are able to secure training through Assurance Lincolnshire.

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. Training on Data Protection has been delivered during 2022, with completion levels of around 85%. Further training is being rolled out for officers with completion expected by the end of January 2024. This training includes new modules on 'Ransomware' and 'Phishing e-mail.' Members have also been offered face to face training scheduled for 29 February 2024.

Information Assets Owners have also been asked to complete the new version of the online refresher training.

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 2018 and once approved will be consistent with the revised 2022 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.

A progress report is presented to four meetings a year, with the Annual report being presented to another. These reports are reviewed and include a summary of audit reports as well as performance against the plan and other measures. Most audits achieve at least a substantial level of assurance, which means that there are some

improvements needed to manage risks but there is only a medium to low risk of the activity not meeting its objectives.

The 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 2022-23 Annual Internal Audit Report to the June 2023 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 an increase in Limited Assurance reports, increase in recommendations rated as High and external events having an impact on capacity. There were two Limited assurance reports issued during 2022/23, Stores and Performance Management. A Limited level of assurance means that the controls in place to manage risks require improvement and it is unlikely that the activity will fully meet its objectives.

The service continues to suffer from vacancies with both the Principal Auditor and Auditor posts remaining vacant for much of the year. The Principal role was temporarily occupied for around three months but unfortunately the postholder left in May. Despite several recruitment exercises it had not been possible to recruit to either role. However, after engaging an agency to actively search for potential candidates the position of Principal Auditor has now been appointed to with the new member of staff starting in February 2024. The Auditor post has been re-graded as a career graded post and is currently being advertised. A contractor has been engaged to fill some of the resource gap for the 2023/24 Audit Plan. However, there has still been a slight reduction in the number of audit days available and a revised (reduced) plan was agreed by Audit Committee in September 2023. 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.

Counter Fraud

The Committee also reviews counter-fraud arrangements and received an annual Fraud & Error Report in June 2023 and a six-monthly update in December 2023.

The focus of work in 2023-24 has been around updating the fraud training package for staff and other policies. There has also been support for the administration and completion of the review of the National Fraud Initiative (NFI) matches. The revenues team have carried out a review of Council Tax single persons discounts and are currently looking at solutions for a rolling review from 2024/25.

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 June 2023, and the Money Laundering Policy in March 2023

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

The Council continues to be involved with the NFI (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 2022 was reviewed in 2023/24.

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 and a Red risk in the Strategic Risk register.

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 and this has led to improved performance in managing the implementation of 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, as at 1 December there were none.

Assurance Lincolnshire Partnership

The Council's Internal Audit Team is part of the wider Assurance Lincolnshire Partnership which includes the City of Lincoln Council and Lincolnshire County Council. Nottinghamshire County Council were previously a member but have decided to withdraw. Assurance Lincolnshire currently provides internal audit services to most of the District Councils within Lincolnshire, various academies as well as the core partners.

Lincolnshire County Council appointed a new Head of Internal Audit early in the year following the retirement of the previous Head. This has led to a number of changes and the requirement to build up the relationship with the new Head of Internal Audit.

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 2023-24.

Audit Standards

A recent internal self-assessment of the effectiveness of Internal Audit resulted in a positive outcome, overall, the service continues to comply with the Public Sector Internal Audit Standards (PSIAS). The areas of improvement will help to future proof the service and ensure aspects are picked up when new staff are appointed. The main areas of improvement include managing staff resources, ensuring processes remain compliant with the new PSIAS, completing skills and training assessments and reviewing the feedback process.

The Internal Audit Standards are currently being revised by the Institute of Internal Auditors and it is anticipated that the new PSIAS which incorporates these will be issued by CIPFA in 2024 with compliance required by 2025. Once these are available a further self-assessment will be undertaken and an action plan drawn up to ensure that the service is compliant by the deadline set by CIPFA.

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

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 2022-23 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 2022/23 report to "Those Charged with Governance". On behalf of the Committee, I am pleased to report that the 2022/23 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 no recommendations being made.

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 are currently no “significant issues,” the previous issue in respect of IT Disaster Recovery has now been addressed as a disaster recovery plan is in place.

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 2024. The review of the Contract Procedure Rules has been delayed whilst the new legislation is passed through.

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.

The Committee are currently undertaking a bi-annual review of its effectiveness. This review considers how the Committee complies with the CIPFA Position Statement 2022 and their 2022 guidance for Audit Committees. As part of this review, it is necessary to obtain the feedback from others. Therefore, Council are asked to provide feedback on the work undertaken by the Committee and any suggestions for how the Committee could develop. The outcome of the review is being reported to the Audit Committee at the end of January 2024. This will include an Action plan covering the areas for planned improvement.

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 and this report complies with the requirements of the CIPFA Position statement.

In conclusion, I would like to express my appreciation and thanks to Emily Wood Vice-Chair, Jane Nellist, the Independent Member, to all of those elected members who have served on the Committee, to Jaclyn Gibson, Laura Shipley, 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 Chris Burke
Chair of Audit Committee