

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

**Report by Councillor Emily Wood, 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 2024 – December 2024 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 June was cancelled due to the General Election and a provisional one in September was cancelled as the external audit of the Council's Statement of Accounts was not complete at that point.

**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" and the "Annual Auditor 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 September 2024, two Independent Members. At the January Audit Committee, it was agreed to appoint a second Independent member in accordance with best practice. Following the expiration of the term of the current Independent Member, an exercise was carried out to recruit two Independent Members in June. There was a good response to the advert with six applications received of which four were interviewed. The previous independent member, Jane Nellist, was re-appointed along with Dave Carter who currently works as a sports and business advisor as well as being a Trustee for the Lincolnshire University Students Union having previously worked in senior and Director roles within private companies.

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 their continued support.

There have been a number of changes to the Audit Committee membership since the elections in May. I was appointed as Chair and Councillor Calum Watt was appointed as Vice-Chair from June 2024.

As Chair 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**

The membership for the period was:

Councillor Chris Burke (Chair Jan - May)  
 Councillor Emily Wood (Vice-Chair Jan - May) (Chair Jun – onwards)  
 Councillor Calum Watt (Jan – May) (Vice-Chair Jun – onwards)  
 Councillor David Clarkson (Jan – May)  
 Councillor Thomas Dyer (Jan – onwards)  
 Councillor Gary Hewson (Jan – onwards)  
 Councillor Clare Smalley (Jan – onwards)  
 Councillor Callum Roper (Jun – onwards)  
 Councillor Annie Currier (Jun – onwards)  
 Jane Nellist (Independent Member – Jan - onwards)  
 Dave Carter (Independent Member – Sept – onwards)

## **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 that relationships between Internal and External Audit have been satisfactory and are effective.

Mazars finished as the Council's External Auditors following the audit of the 2022/23 accounts. KPMG were appointed as the Councils External Auditors covering the accounts from 2023/24 – 2027/28.

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 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 issue guidance for Audit Committees and in 2022 issued a revised Position Statement 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.

The Terms of Reference for the Audit Committee were revised to comply with the Position Statement and the Practical Guidance and presented to the Audit Committee in December 2023. These were approved by Council in July 2024.

## **Internal Audit Terms of Reference (IA Charter)**

The Charter was last reviewed in May 2024, with no changes being made. As agreed with the Audit Committee previously this was circulated to all Members of the Committee in June 2024. In accordance with the new Global Internal Audit Standards a revised Charter will be presented to the Audit Committee early in 2025/26 and periodically thereafter for their approval.

## **Audit Committee Training**

Committee Members received relevant training during the year, including:

- Understanding the Council's financial statements
- Treasury Management
- Counter Fraud – All members

As Chair, I also attended the CIPFA training on an Introduction to the Knowledge and Skills of the Audit Committee in September.

As part of the review of the Audit Committee Effectiveness a skills and knowledge assessment was carried out with members of the Committee. The results of this have been fed into a Learning and Development plan for Committee members which was reported to them in September.

### **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 2023 and into 2024, with completion levels of around 91%. Further training is being rolled out for officers with completion expected by the end of January 2025.

### **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 2022.

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 was presented to three meetings this year, with the Annual report also being presented. 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 2023-24 Annual Internal Audit Report to the July 2024 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 there being two Limited Assurance reports, and resource capacity which can have an impact on the internal control environment. There were two Limited assurance reports issued during 2023/24, Contract Management and IT Asset 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 is now fully staffed following both the Principal Auditor and Auditor posts remaining vacant for the first few months of the year. The Principal role was temporarily occupied for a month but unfortunately the postholder left and a further recruitment exercise was undertaken with the post being occupied from July. The Auditor post was re-graded as a career graded post and following a recruitment exercise the postholder started in March. A contractor was engaged to fill some of the resource gap for the 2024/25 Audit Plan.

The 2024/25 Audit Plan was approved in March with a revised plan being approved in September. The revised plan took into account the remaining resources which were allocated according to the current risks within the Council.

## **Counter Fraud**

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

The focus of work in 2024-25 has been around arranging the fraud training for members and reviewing other policies. There has also been support for the administration and completion of the review of the National Fraud Initiative (NFI) data matches. The results of the 2022 review were reported as part of the six monthly fraud report in December. The data for the 2024 review has now been submitted.

The Committee considers relevant corporate counter fraud policies and any updates, as well as information on fraud risk and fraud training. It reviewed the Anti-bribery Policy in January, Fraud Risk Register in July, Counter Fraud Policy and Strategy in July, Whistleblowing Policy in September and the NFI Policy in December.

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

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 (combined with other IT related risks) 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. Reports were presented to the Committee in March, July and December.

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 was one.

## **Audit Standards**

Progress on the action plan following the 2023 internal self-assessment of the effectiveness of Internal Audit, continues to be made but has been delayed due to capacity within the Team and also the need to ensure compliance with the new Global Internal Audit Standards (GIAS) which supersede the Public Sector Internal Audit Standards (PSIAS). The main areas of improvement include managing staff resources, ensuring processes remain compliant, completing skills and training assessments and reviewing the feedback process.

The Global Internal Audit Standards were published by the Institute of Internal Auditors (IIA) in January and CIPFA were carrying out a review looking at how Public Sector bodies could apply them. This review concluded at the end of September and the consultation closed at the end of October. The results of the consultation are expected in December which does not leave much time to implement by 1 April 2025. However, the changes proposed were not significant and work is underway to review compliance against the checklist provided by the IIA. An action plan will be drawn up to ensure compliance is achieved and evidenced at the close of the 2025/26 financial year. Progress on this will be reported within the Progress reports to Committee.

## **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

- Audit Completion Report (IAS260)
- Annual Auditor Report (External Audit)
- Partnership Governance
- CIPFA Financial Management Code
- Annual Complaints Report
- Contract Procedure Rules

## **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. They also 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. Following the end of the contract the Public Sector Procurement Audit Appointments appointed KPMG from 2023/24.

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 Report" and the report to "Those Charged with Governance (IAS260)".

On behalf of the Committee, I am pleased to report that the 2023/24 draft Statement of Accounts were presented by the Council for audit by the required statutory date. The External Auditor provided a draft unqualified opinion in their report which was presented to Committee in December, with the final Statement of Accounts presented to this meeting of Council for approval. As part of the audit work undertaken, KPMG considered the internal controls in place to be relevant to the preparation of the financial statements. The findings of this work resulted in six, priority two (amber) recommendations being made.

The External Auditor also confirmed that it has not identified any significant weaknesses in the Council's arrangements for improving economy, efficiency, and effectiveness in its use of resources (value for money approach).

## **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. The audit of Risk Management carried out this year resulted in a Substantial audit opinion.

## **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" but there is one action on the action plan, which is to be monitored by Committee, complete a full review of the Lincoln Project Management Model by March 2025.

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 by Committee 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 Prudential Indicators and Strategy was presented to the Committee in January before being presented to Council for 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 and Contract Procedure Rules in 2024. A report covering the new Contract Procedure Rules and in particular the changes required by the new legislation were reported to Committee in December. The report covered the changes made to update the Rules to ensure the Council comply with the Procurement Act 2023. It also set out the new rules will currently apply to new procurements from 24 February 2025.

## **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 completed their bi-annual review of its effectiveness in January. This review considers how the Committee complies with the CIPFA Position Statement 2022 and their 2022 guidance for Audit Committees. I am pleased to report that the Committee achieved a good level of compliance against its assessment of good practice, impact and effectiveness. Following the review an Action Plan was drawn up and progress against this was reported to the Committee in September. At that time there were 19 actions on the plan and 11 had been implemented. As at December there are 3 remaining to be implemented. A further progress report will be presented to the Committee in the new year.

As part of this review the necessity to obtain the feedback from others was identified. Therefore, Council are again asked to provide feedback on the work undertaken by the Committee and any suggestions for how the Committee could develop.

## **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 Calum Watt Vice-Chair, the Independent Members, all of those elected members who have served on the Committee, 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 Emily Wood**  
**Chair of Audit Committee**

### **Recommendation**

Council are asked to consider the above report and provide feedback on the work undertaken by the Committee and any suggestions for how the Committee could develop further.