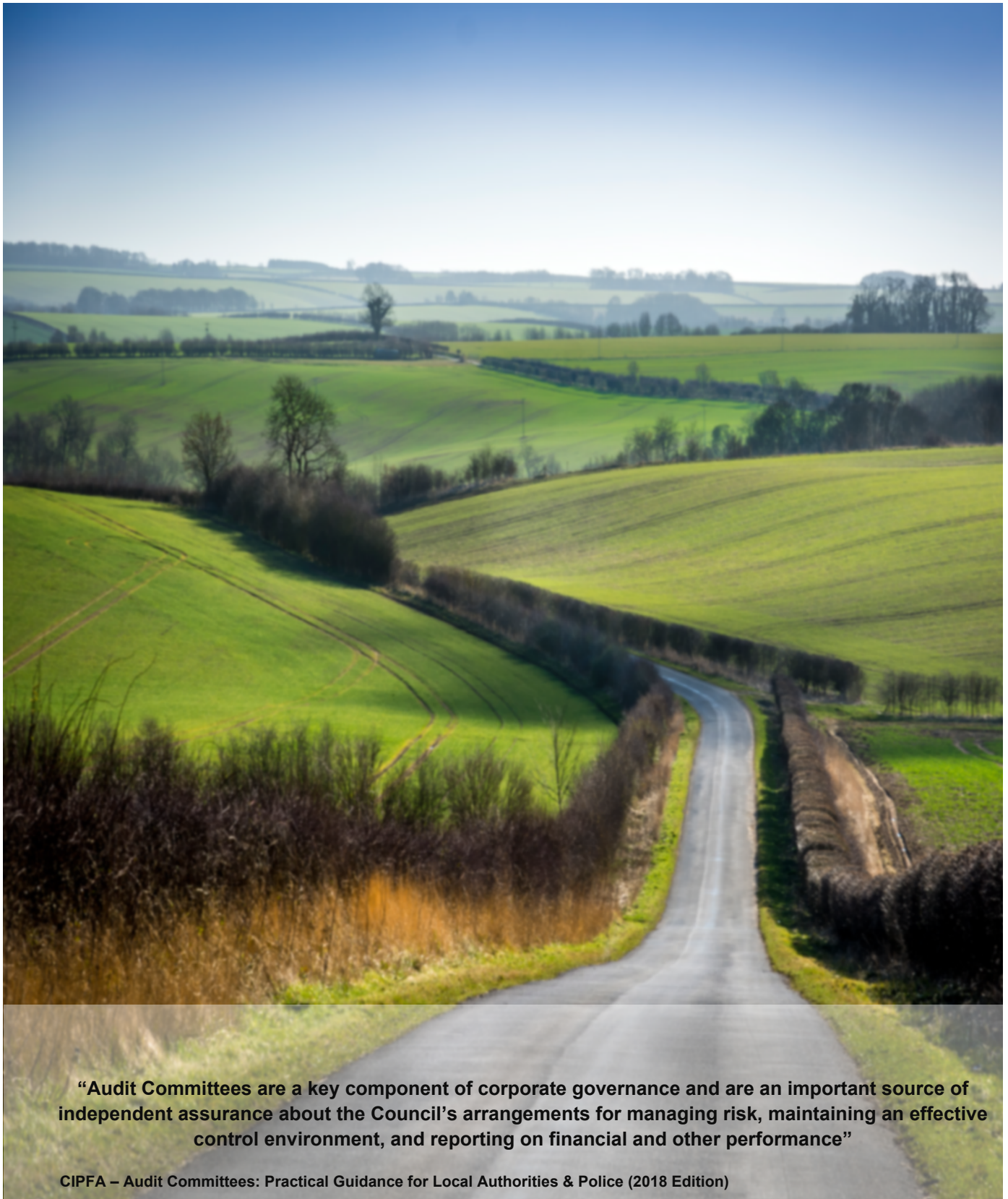


# Agenda Item 5

## Audit Committee Annual Report 2022



**“Audit Committees are a key component of corporate governance and are an important source of independent assurance about the Council’s arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance”**

CIPFA – Audit Committees: Practical Guidance for Local Authorities & Police (2018 Edition)

## Contents

The 10*General Principles of Public Life.....	2
Chairmans statement .....	3
Overall Opinion .....	4
Finance.....	5
Governance and Risk .....	7
External and Internal Audit.....	9
Looking Ahead .....	10
Your Audit Committee .....	11
Appendix 1 - Audit Committee Composition and Attendance 2022 .....	12
Appendix 2 - Audit Committee Terms of Reference .....	14
Appendix 3 - Audit Committee Activities .....	17

# The 10\*General Principles of Public Life

\* Based on the 7 Nolan Principles and others relevant to local government act

<p><b>Selflessness</b></p> <p>Members should serve only the public interest and should never improperly confer an advantage or disadvantage on any person</p>	<p><b>Personal Judgement</b></p> <p>Members may take account of the views of others, including their political groups, but should reach their own conclusions on the issues before them and act in accordance with those conclusions.</p>
<p><b>Honesty and Integrity</b></p> <p>Members should not place themselves in situations where their honesty and integrity may be questioned, should not behave improperly, and should on all occasions avoid the appearance of such behaviour.</p>	<p><b>Respect for Others</b></p> <p>Members should promote equality by not discriminating unlawfully against any person, and by treating people with respect, regardless of their race, age, religion, gender sexual orientation or disability. They should respect the impartiality and integrity of the authority's statutory officers and its other employees.</p>
<p><b>Objectivity</b></p> <p>Members should make decisions on merit, including when making appointments, awarding contracts, or recommending individuals for rewards or benefit.</p>	<p><b>Duty to Uphold the Law</b></p> <p>Members should uphold the law and, on all occasions, act in accordance with the trust that the public is entitled to place in them.</p>
<p><b>Accountability</b></p> <p>Members should be accountable to the public for their actions and the manner in which they carry out their responsibilities and should co-operate fully and honestly with any scrutiny appropriate to their particular office.</p>	<p><b>Stewardship</b></p> <p>Members should do whatever they are able to do to ensure that their authorities use their resources prudently, and in accordance with the law.</p>
<p><b>Openness</b></p> <p>Members should be as open as possible about their actions and those of their authority and should be prepared to give reasons for those actions.</p>	<p><b>Leadership</b></p> <p>Members should promote and support these principles by leadership, and by example, and should act in a way that secures or preserves public confidence.</p>

# The Audit Committee is the Council’s vital “watchdog” promoting and ensuring good governance and accountability



I’m pleased to present the Annual Report for the Audit Committee (the Committee) to Council for the calendar year of 2022. It sets out what the Committee has focused upon during the year with a key emphasis on its important contribution to the Council’s governance arrangements – namely to how well the Council is run. It also aims to show how the Committee delivers the responsibilities delegated to it by the Council - as set out in the Constitution and in line with guidance and best practice.

*Cllr Rawlins to insert additional commentary re key messages following Audit Committee on the 6<sup>th</sup> February 2023.*

I wish to thank Members of the Committee for all their hard work during the year and extend my sincere thanks to the Deputy Chief Executive & Director – Resources, Internal and External Auditors and to Officers of the Council, for all their help and support.

Cllr Sue Rawlins  
Chairman of the Audit Committee  
February 2023

# Overall Opinion

As a result of its work during the Committee can give:

**‘a good level of assurance\* that the Council’s governance, risk and control mechanisms are working satisfactorily’**

This report looks back on 2022 – giving us an opportunity to reflect on our activities and achievements. Some of the key achievements we are pleased to report are:

- The Committee providing robust review and challenge of the Council and Pension Fund statement of accounts. Whilst the 2021/22 accounts are yet to be published – no issues have been brought to our attention that would suggest adverse opinions.
- In completing the review of the Council's governance and assurance arrangements no significant governance issues were identified.
- Raising awareness of control improvements and management actions – ensuring that audit recommendations are implemented.
- Maintaining a detailed focus on the actions being taken to combat fraud. Over the last 11 years the Council’s counter fraud work has saved the taxpayer over £12.5m through recoveries and frauds have been stopped.
- Meeting with the Corporate Leadership Team as part of the assurance and accountability framework - giving us an account of the assurances in place over critical business activities, key risks, projects and partnerships – with the Committee providing robust review and challenge.
- Our Internal Auditors provided us with positive assurance on the Council’s governance, risk, financial and internal control environments.
- Continued oversight of the Council’s financial resilience and ensuring compliance with best practice.
- Our two independent members serving on the Committee provided an independent viewpoint.
- Continuing to maintain good working relationships with the Council’s internal and external auditors and management.
- Working effectively with Overview & Scrutiny Management Board – we re-introduced our regular meetings to share work programmes, risk intelligence.

*Add / amend following 6<sup>th</sup> February 2023 meeting*

\*a good level of assurance – is a high level of confidence but recognises that this judgement is not absolute and that some improvements are needed in the application of controls to manage risks.

# Finance

## Finance Reporting

The statement of Accounts provides a summary of the Council’s financial transactions in the year, and a “snapshot” of the Council’s financial position as of 31 March 2022. It is therefore a key document for the Council and the Committee, with their responsibility for corporate governance.

We reviewed and had the opportunity to comment on the statements of accounts and the narrative that accompanies them during the drafting process to ensure that the key messages in the narrative clearly gave fair and balanced information so that people could understand the Council’s financial position.

Earlier this year, the Government became aware of an issue relating to the reporting of infrastructure assets, which has led to delays in local authority audits. In response, CIPFA LASAAC Code Board agreed to try to assist in the resolution of the issue through changes to the Code of Practice on Local Authority Accounting (the Code). A consultation is on-going on the accounting treatment of infrastructure assets included on the Council’s balance sheet.

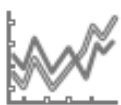
Although the audit of the 2021/22 accounts are yet to be concluded – no issues have been brought to the attention of the Section 151 Officer or the Audit Committee Chairman that would suggest an adverse opinion is expected.

The audit of Council’s accounts cannot be concluded until the current Infrastructure Assets accounting and reporting issue is resolved.

## External Audit Annual Report

Auditors are required to be satisfied about arrangements to secure VFM but no longer issue a single conclusion as part of their opinion on the financial statements.

The reporting criteria are:



### **Financial sustainability**

How the Council plans and manages its resources to ensure it can continue to deliver its services.



### **Governance**

How the Council ensures that it makes informed decisions and properly manages its risks.



### **Improving economy, efficiency and effectiveness**

How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

The audit has yet to be concluded and a final External Auditors Annual Report issued. We were provided with a progress report at our November meeting – no significant issues were identified at that time. Upon completion of the audit and receipt of the report, the Audit Committee Chairman will share the report and results. This is likely to be the September 2023 or December 2023 Council meeting.



# Finance

## Financial Management Code

The Chartered Institute of Public Finance and Accountancy (CIPFA) published the Financial Management (FM) Code which provides guidance for good practice and assist Council's to assess their financial resilience.

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority.
- manage financial resilience to meet unforeseen demands on services.
- manage unexpected shocks in their financial circumstances.

An assessment against the requirements of the FM Code has been undertaken – further compliance actions were identified, and an improvement plan developed. The Committee was provided an update on progress in September 2022. No significant non-compliance issues were identified in the self-assessment. The Council has also commissioned an external review – the results are expected in March 2023. This will help provide the Committee and Council with assurance on the Council's financial resilience during these challenging economic times.

## Counter Fraud

The Council has a **zero tolerance** to fraud.

Any instances of fraud or misconduct reported through the Council's whistleblowing arrangements should be reported to our Internal Audit & Counter fraud team, who then evaluate each incident for action / investigation.

The Audit Committee plays a key role in monitoring the effectiveness of counter fraud and whistleblowing arrangements. We have assessed the overall effectiveness and the progress made to implement policy as **good**.

We received regular updates on performance against delivery of Counter Fraud Work Plans and the outcomes of proactive fraud work and investigations.

During the year we received assurances on the effectiveness of the Counter Fraud arrangements by reviewing:

- details of counter fraud activities – ensuring that these arrangements continued to deliver a proportionate response to fraud seeking appropriate sanctions and redress.
- the fraud risk register and associated mitigating actions.
- fraud awareness – promoting good practice in fighting fraud.

Over the last 11 years the Council's counter fraud work has saved the taxpayer over £12.5 m through recoveries and fraud stopped.

During 2021/22 we have:



**£53K – Fraud recovered and potential recovery of £300k across other public sector bodies**

**£450k – Large fraud stopped**

# Governance and Risk

## Governance

The Committee reviewed and discussed regular reports on risk, controls, and assurance, including the:

- Executive Directors annual assurance reports – reviewed every February – the latest being February 2023.
- The Head of Internal Audit Annual Report and Opinion on the Council’s governance, risk, and control environment – reviewed July 2022.
- Updates on outcomes from Internal Audit and External Audit work throughout the year.
- Development and approval of the Council’s Annual Governance Statement

Corporate oversight and risk reporting is undertaken during the year by the Corporate Leadership Team.

The Audit Committee reviewed the Council’s Annual Governance Statement – no significant governance issues were identified. [\(insert link\)](#).

During the year council’s governance arrangements were assessed as **performing well**.

## Risk and Internal Control

The role of the Committee on risk management covers 3 key areas:

- Assurance over the governance of risk.
- Keeping up to date with the risk profile of the council and the effectiveness of risk management.
- Supporting the development and embedding of good practice in risk management.

The Committee received the Combined Assurance Report produced by the Corporate Leadership Team - which provides insight of assurance levels over critical functions, key risks, projects, and partnerships. Overall, there is a positive assurance picture for the Council but one that reflects the complex environment in which we operate – recognising that some areas will remain at Amber – see table below.

The Council's strategic risks continue to be managed pro-actively. There is a good level of awareness of the current and emerging risks, with positive action being taken, where appropriate. This is demonstrated by the inclusion of a further new risk and the changes to some of the risks within the register.

There continues to be **Limited Assurance** over some of the council’s Strategic Risks. The two biggest risks to the Council are:

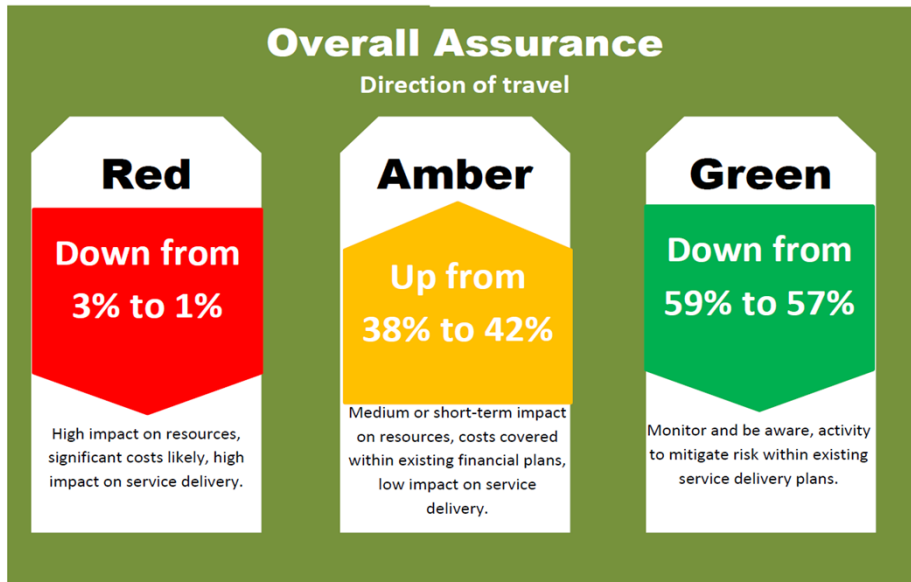
- a successful cyber attack which results in significant impact on delivery of council services. Assurances were received that the Council’s Information Assurance team and technical staff in IMT and SERO continue to monitor and improve cyber security.
- Inflation – impact on capital programme aspirations and threats to the sustainability of revenue budgets. This is mitigated through regular monitoring, impact assessments for key projects and contracts. Government settlement and our review / assessment of financial resilience.

An independent review of our risk management arrangements was also undertaken in 2022 – this showed risk management arrangements are embedded and integrated in the organisation.

The year the Council's risk management arrangements were assessed as **performing well**.



Our internal control arrangements were assessed as **performing adequately – some improvements required.**



*Note – Overall assurance status is inclusive of critical activities, key projects, key partnerships and key operational risks*

# External and Internal Audit

“Audit quality is a key requirement”

## External Audit

The Committee has responsibility for overseeing the Council’s relationship with the external auditor, including reviewing the quality of their performance, their external audit plan and process, their independence, and fees.

The Committee fully reviewed the draft financial statements - prior to the statutory audit – our External Auditors (Mazars) presented their strategy, key risks, and scope of the audit.

Following the recent procurement exercise undertaken by Public Sector Audit Appointments Ltd – KPMG LLP have been appointed as our new External Auditors for the 2023/24 financial year onward.

## Internal Audit

The Audit Committee reviewed and agreed the internal audit plan, which we believe is appropriate for the Council - in terms of focus. The internal audit plan is risk based and was updated to reflect the current risk and assurance environment. The Head of Internal Audit has continued to report the recruitment challenges faced by the team - which has impacted on the delivery of the internal audit plan. Additional resources have been secured to enable all plans to be delivered and building capacity remains a key priority during 2023.

We reviewed reports from the Head of Internal Audit at our quarterly meetings. These reports enable us to monitor progress against the internal audit plan, discuss any key findings with the auditor and senior management - securing improvement actions.

Every five years the Internal Audit Team is required to have an external assessment on compliance with professional standards. The Standards aim to promote consistency of practice and improvement in the professionalism, quality, and effectiveness of internal audit in both public and private sectors. The independent assessment undertaken in February / March 2022 confirmed that that Assurance Lincolnshire **Fully Conform** to the Public Sector Internal Audit Standards and CIPFA Local Government Application Note.

The Council’s Head of Internal Audit, Lucy Pledge announced her intention to retire in March 2023, after working for the Council for many years and leading the Corporate Audit & Risk Management team (Assurance Lincolnshire) for the last 17 years. We would like to thank Lucy for all her hard work and commitment over the years and wish her well for the future. Our new Head of Internal Audit is joining us in January 2023 to help with a smooth handover.

## Looking Ahead

Over the next 12 months we will be focussing on high risks areas identified in the Internal Audit Annual Report 2023 and the Annual Governance Statement 2023. We will also include the following in our work programme:

- Joint working with Overview & Scrutiny Management Board – supporting each other’s roles and effectiveness.
- Review our terms of reference in light of new good practice guidance – issued in October 2022.
- Monitor progress re the FM code and Value for Money arrangements.
- Seek assurance on the implementation of the new financial system – ensuring that there’s no significant adverse impact on the Council’s financial control environment.
- Review assurance arrangements on the transformation programme – including better governance and oversight of key projects (including benefit realisation).
- Review of contract management and associated commercial / third party risks.

**Insert any additional areas following meeting on 6<sup>th</sup> February 2023**

We will continue to develop a strong relationship with Overview and Scrutiny Management Board – reinstating regular liaison meetings and sharing work plans as appropriate.

# Your Audit Committee

The Audit Committee is a regulatory committee made up of seven councillors and two independent members. The composition and attendance of the Committee during the year can be found in **Appendix 1**.

The importance of the Audit Committee remains vital in looking forward to 2023 and beyond – in the context of continued financial pressures, reshaping of services, new models of service delivery and the growing demand for public services. Our role is to increase public confidence about how well the Council is run – providing independent assurance and challenge to the Executive – over governance, risk management and control processes. Our terms of reference can be found in **Appendix 2**.

The Committee met six times in 2022.

Our work plan can be split into two areas - core items of business reviewed regularly and special interest areas where the Committee requires further assurance. The activities of the Audit Committee are noted in **Appendix 3**.

# Appendix 1 - Audit Committee Composition and Attendance 2022



**Chairman**

**Councillor**

**Mrs S Rawlins**



**Vice Chairman**

**Councillor M  
Allan**

<b>Councillor</b>	<b>Attendance from January to December 2022 (Out of 6 possible meetings).</b>
Clr S Rawlins	6
Clr M Allan	6
Clr S Bunney	6
Clr A Stokes	5
Clr P Coupland	6
Clr P Skinner	4
Clr J King	1
Mr. I Haldenby	4
Mr. A Middleton	4



**Councillor S  
Bunney**



**Councillor A  
Stokes**



**Councillor P  
Coupland**



**Councillor P  
Skinner**



**Cllr J King**



**Mr A Middleton  
(independent  
person)**



**Mr I Haldenby  
(independent  
person)**

## Appendix 2 - Audit Committee Terms of Reference

There will be an Audit Committee consisting of nine members. Seven of the members will be Non-Executive Councillors and reflect the political balance overall. Two members shall be an independent person who is not a Councillor or Officer of the Council; or a former Officer of the Council if their departure was in the last five years.

### Role

To fulfil the role of an Audit Committee in respect of the work of the Council:

- The Audit Committee is a key component of Lincolnshire County Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- The purpose of the Audit Committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of Lincolnshire County Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

### Functions

#### Internal Audit

- Approve the internal audit charter.
- To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendation.
- To consider the Head of Internal Audit's annual report and opinion.
  - a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.
  - b) The opinion of the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.
- To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.



## Appendix 2 - Audit Committee Terms of Reference

- To consider reports from the Head of Internal Audit on internal audit's performance during the year. These will include: -
  - a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
  - b) Regular reports on the results of the Quality Assurance and Improvement Programme.
  - c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
- To consider summaries of specific internal audit reports of significance or as requested
- To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- To support the development of effective communication with the Head of Internal Audit.

### External Audit

- To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- To consider specific reports as agreed with the external auditor.
- To comment on the scope and depth of external audit work and to ensure it gives value for money
- To liaise with the appropriate body over the appointment of the Council's external auditor.
- To commission work from internal and external audit.
- To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

### Regulatory Framework – Governance, Risk and Control

- To maintain an overview of the Council's Constitution.
- To review any issues referred to it by the Chief Executive, Director, or any Council body.
- To monitor the effective development and operation of risk management and corporate governance in the Council.
- To monitor progress in addressing risk-related issues reported to the committee.
- To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- To monitor the counter-fraud strategy, actions, and resources.
- To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, considering internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.

## Appendix 2 - Audit Committee Terms of Reference

- To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances
- To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
- To consider the Council's compliance with its own and other published standards and controls.
- To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

### Accounts

- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- Duty of approve the authority's statement of accounts, income and expenditure and balance sheet.

### Standards

- Promoting and maintaining high ethical standards by Councillors and non-elected members.
- Assisting the Councillors and added members to observe the Members' Code of Conduct.
- Advising the Council on the adoption or revision of the Members' Code of Conduct.
- Monitoring the operation of the Members' Code of Conduct.
- Advising, training, or arranging to train Councillors and added members on matters relating to the Members' Code of Conduct.
- Determining complaints of breaches of the Code of Conduct for Members referred for hearing by the Monitoring Officer.

## Appendix 3 - Audit Committee Activities

Audit Committee activities	Feb 2022	Mar 2022	June 2022	July 2022	Sept 2022	Nov 2022
<b>Financial Reporting</b>						
Draft Statement – Accounting Policies		*				
Update on CIPFA Financial Management (FM) Code					*	
Draft/Approval Statement of Accounts for Lincolnshire County Council and Lincolnshire Pension Fund				*	*	
External Auditor's Annual Report and Audit Completion Reports 2021/22 – Update					*	*
International Standards of Auditing - response to External Audit Management questions		*				
<b>External Auditors</b>						
External Audit Strategy 2021/22		*				
Update on progress of external audit of accounts 2021/22					*	
<b>Internal Audit</b>						
Internal Audit Plan – 2022/23		*				
Internal Audit Progress Report		*				*
Internal Audit Annual Report – 2021/22				*		
Internal Audit – External Quality Assessment			*			

## Appendix 3 - Audit Committee Activities

Audit Committee activities	Feb 2022	Mar 2022	June 2022	July 2022	Sept 2022	Nov 2022
<b>Governance and Risk Management</b>						
Monitoring Officer's Annual Report					*	
Information Assurance Annual Report 2022			*			
Review of Council's Governance Arrangements & approval of Annual Governance Statement					*	
Risk Management Progress Report		*			*	
<b>Counter Fraud</b>						
Annual Whistleblowing Report – 2021/22				*		
Counter Fraud Annual Report – 2021/22				*		
Review of Counter Fraud Policies						*
Counter Fraud Progress Report						*
Counter Fraud Plan 2022		*				
<b>Special Interest Items</b>						
Combined Assurance Reports	*					
Draft Audit Committee Annual Report 2022	*					
Corporate & Statutory Complaints Report 2021/22		*				

This report has been prepared solely for the use of Members and Management of Lincolnshire County Council. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work plan or not brought to our attention. The opinion is based solely on the work undertaken as part of the Audit Committee work plan.