



County Offices
Newland
Lincoln
LN1 1YL

21 March 2014

Audit Committee

A meeting of the Audit Committee will be held on **Monday, 31 March 2014 at 10.00 am in Committee Room One, County Offices, Newland, Lincoln LN1 1YL** for the transaction of the business set out on the attached Agenda.

Yours sincerely

A handwritten signature in black ink, appearing to be "Tony McArdle", written over a horizontal line.

Tony McArdle
Chief Executive

Membership of the Audit Committee (7 Members of the Council + 1 Voting Added Member)

Councillors Mrs S Rawlins (Chairman), Mrs E J Sneath (Vice-Chairman), N I Jackson, C E D Mair, S M Tweedale, W S Webb and P Wood

Voting Added Member

Mr P D Finch

**AUDIT COMMITTEE AGENDA
MONDAY, 31 MARCH 2014**

Item	Title	Pages
1	Apologies for Absence	
2	Declarations of Members' Interests	
3	Minutes of the meeting held on 27 January 2014	1 - 10
4	Future Delivery of Support Services - Assurance and Handover Arrangements <i>(To receive a verbal update from Judith Hetherington-Smith, Chief Information Officer and FDSS Programme Director, which will provide the Committee with an update on the governance, risk and control arrangements for the Future Delivery of Support Services)</i>	Verbal Report
5	Combined Assurance Status Reports <i>(To receive a report from Lucy Pledge, Head of Corporate Audit and Risk Management, which provides the Committee with an insight on the assurances across all the Council's critical services, key risks and projects)</i>	11 - 28
6	Statement of Accounts 2013/14 <i>(To receive a report from Claire Pemberton, Assistant Head of Finance, which updates the Committee on the changes to the Code of Practice on Local Authority Accounting and seeks approval of the Council's Statement of Accounting Policies)</i>	29 - 56
7	International Audit Standard - Response to Management Processes Questions <i>(To receive a report from Lucy Pledge, Head of Corporate Audit and Risk Management, which provides the Committee with an assessment around whether the Council's financial statements may be mis-stated due to fraud or error)</i>	57 - 66
8	External Audit - Certification of Claims and Returns - Annual Report 2012/13 <i>To receive a report from the External Auditors, KPMG, which provides the Committee with the outcome of the External Audits certification of grants and returns work for 2012/13)</i>	67 - 70
9	External Audit Plan - 2013/14 <i>(To receive a report from the External Auditors, KPMG, which provides the Committee with information as to how External Audit will deliver their Financial Statement 2013/14 work for the Council)</i>	71 - 96

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| 10 | Corporate Audit Progress Report to 28 February 2014
<i>(To receive a report from Lucy Pledge, Head of Corporate Audit and Risk Management, which provides the Committee with an update on progress made against the Audit Plan 2013/14)</i> | 97 - 132 |
| 11 | Draft Internal Audit Plan 2014/15
<i>(To receive a report from Lucy Pledge, Head of Corporate Audit and Risk Management, which presents to the Committee the draft internal audit plan for 2014/15)</i> | 133 - 166 |
| 12 | Counter Fraud and Investigation Work Plan 2014/15
<i>(To receive a report from Lucy Pledge, Head of Corporate Audit and Risk Management, which asks the Committee to review and approve the Counter Fraud Work Plan for 2014/15)</i> | 167 - 170 |

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Please note: for more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting	
<ul style="list-style-type: none">• Business of the meeting• Any special arrangements• Copies of reports	
Contact details set out above.	
All papers for council meetings are available on: www.lincolnshire.gov.uk/committeerecords	



AUDIT COMMITTEE 27 JANUARY 2014

PRESENT: COUNCILLOR MRS E J SNEATH (CHAIRMAN)

Councillors N I Jackson, C E D Mair, S M Tweedale, W S Webb and P Wood

Also in Attendance: Mr P D Finch (Independent Added Person)

Officers in attendance:-

Debbie Barnes (Executive Director Children's Services), Sara Barry (head of Safer Communities), Zoe Butler (Head of Customer Services), Julie Castledine (Principal Auditor), Paul Coathup (Assistant Director Highways and Transportation), Tony Crawley (KPMG), David Forbes (Assistant Director Finance and Resources), Stephanie Kent (Audit Manager), Pete Moore (Executive Director Resources and Community Safety), David O'Connor (Executive Director Performance and Governance), John Sketchley (Audit Manager), Tony Warnock (Head of Finance - Children's and Specialist Services) and Rachel Wilson (Democratic Services Officer)

39 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Mrs S Rawlins.

40 DECLARATION OF MEMBERS' INTERESTS

There were no declarations of interest at this point in the meeting.

41 MINUTES OF THE MEETING HELD ON 11 NOVEMBER 2013

RESOLVED

That the minutes of the meeting held on 11 November 2013 be signed by the Chairman as a correct record.

42 CORPORATE AUDIT PROGRESS REPORT TO 31 DECEMBER 2013

Consideration was given to a report which provided an update on progress made against the Audit Plan 2013/14.

It was reported that the audit testing on the contract management activities with Public Health had been completed, and a due diligence audit had been scheduled for February 2014. It was noted that there was some significant work taking place in Public Health.

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The Committee was informed that reasonable progress had been made against the internal audit plan with 56% of the planned work for the year being completed. Remaining audits were scheduled in for the rest of the year and temporary audit resources to help complete the work had been engaged.

Since the last progress report, 5 County Council audits had been completed, 2 of which had resulted in limited assurance and one system which had received a split assurance. A further 27 County Council audits were in progress and 9 of these were at the draft report stage. Changes to the plan were agreed at the meeting in November 2013 due to long term sickness and vacancies, since that date a long serving member of staff sadly passed away and this vacancy would be carried forward into 2014/15. A Principal Auditor had also been recruited to the team and they would be taking the lead on Adults and Public Health.

At the last meeting, Members raised a concern regarding the level of audit work being undertaken in Public Health and as a result, the package of due diligence work had been increased with work covering payroll; awareness of LCC processes; budget holder awareness of responsibilities, processes etc.; testing of orders and payments and budget monitoring.

Three of the audits which had been completed had received substantial assurance, and three had received limited assurance. There were very few outstanding recommendations.

Senior officers representing Trading Standards and the Customer Services Centre were in attendance in order to reassure the Committee that the actions identified were being implemented.

Members of the Committee were provided with the opportunity to ask questions to the officers present in relation to the information contained within the report and some of the points raised during discussion included the following:

- Trading Standards had seen a significant reduction in budget (40%) since the Core Offer, and so had had to review the way that work was carried out. As well as a reduction in the number of staff, there had been a move from staff working in a specialised team (e.g. animals) to a more generic team. The strategic priorities for the Service had been identified and there were now 25 staff who were spread over four sites. It was noted that Lincolnshire was one of only a few authorities who still had trading standards staff in multiple sites;
- Concerns were raised regarding the increased use of 'legal highs' and the impact they were having in particular wards. The Committee was advised that one of the benefits of Trading Standards being within the remit of Community Safety was that there could be more joined up working on this. there would be a big information programme run involving teachers, carers and social workers. It was noted that 'legal highs' were increasingly being used by adults as well, and trading standards would be using every method they could to try and prevent them from being available;
- The management actions identified in the audit were being completed, with the exception of the outcome measures, as these had not yet been finalised. This

- had been identified as a key risk and would be included in the work programme for the coming year;
- The four Trading Standards teams were based in Lincoln, Boston, Grantham and Louth. It was noted that a further team based in Skegness would be useful as staff undertook a lot of summer work there;
 - There was a move back to teams carrying out work based around the key strategies, with some general work as well;
 - If there was another major trading standards issue such as the horsemeat incident, additional resources would be made available. There was a lot of joint working with the district councils which worked well;
 - Key risks were around managing public expectations, but since the core offer there was more resilience and flexibility around the staff. However, it was noted that a lot of the older, more experienced staff were lost from the team during the Core Offer process;
 - A transformation plan had started to be developed for the Customer Service Centre, as management were keen to modernise it. The areas which had been picked up by the audit were mainly around the customer experience, and so there was now a move away from the traditional performance measures such as the time taken to answer the phone. It was important to ensure that the right things were being measured. The Customer Service Centre staff used between 5 and 9 different IT systems, which required a lot of training, and so when an enquiry was received staff would often need to update several different systems;
 - Calls which related to Adult care or Children's Services were currently all recorded, but there was a move towards all calls being recorded;
 - Members were assured that the audit recommendations would form part of the transformation plan;
 - The Plan would be monitored by the Value for Money Scrutiny Committee;
 - The Customer Service Centre received 750,000 contacts per year, and there were 126 FTE staff based there, the majority of which were frontline advisors;
 - The management actions had not yet all been completed, however, it was noted that they were not all quick to implement, e.g. the IT systems, but they were all part of the transformation plan. The actions which could be implemented quickly would be;
 - The actions would be followed up as part of the tracking process;
 - In terms of the third audit where assurance was assessed as limited – Income – Business Support and Schools, it was noted that the problem area in terms of compliance was schools. The change from SAP to Agresso would be a challenge as every operator would need to be retrained on the new system. This training would also pick up the other weaknesses which had been identified in the audit. The system change would start in April 2014;
 - It would be up to schools to decide what financial system they used, however, most schools were currently using SAP, but they could choose to operate independently;

RESOLVED

That the outcomes of the Corporate Audit Work be noted.

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43 EXTERNAL AUDIT PROGRESS REPORT

The Committee received a report from the Councils External Auditor which provided an update on progress of work performed during the interim audit stage for the County Council and Pension Fund audits, as well as work planned for the next quarter.

Members were advised that the 12/13 work had just been completed, and the arrangements for the FDSS contract were in the process of being reviewed for the purposes of the VFM conclusion.

It was noted that the accounts closure would need to be done very quickly as SAP was scheduled to be switched off at the end of June 2015. This would only give 3 months to close the accounts in 2015.

RESOLVED

That the progress report be noted.

44 SUPPORTING SOUND FINANCIAL MANAGEMENT AND INTERNAL CONTROLS IN SCHOOLS AND ACADEMIES

The Committee received a report which provided an update on the ways in which Children's Services, the Mouchel Schools' Finance Team and Internal Audit supported schools to improve their financial management and internal control arrangements. The report also provided information on the assurance framework set out for academies by the Education Funding Agency.

Members were reminded that a report was provided in June 2013 on the work with schools during 2012/13 which highlighted an increase in the number of schools given Limited Assurance following an audit visit when compared with previous years. The Committee asked how the Authority worked with schools to address the issues identified by the audits, and the report presented provided details of this. It was noted that whilst officers were able to influence and advise schools, delegation meant that a school's Headteacher and governing body were ultimately responsible for ensuring that arrangements were adequate and protected staff, the school and the public purse.

The Committee was provided with the opportunity to ask questions to the officers present in relation to the information contained within the report and some of the points raised during discussion included the following:

- It was commented that one thing missing with self-reporting was which governors had attended training and when that training had taken place;
- Clarification was sought regarding delegation of responsibility and local authority risks in terms of maintained schools;
- Maintained schools reported through their financial statements and the authority would work with them in the event of any overspends. It was ultimately up to the governors of the school to manage any budgets which

- were allocated to a school. The local authority could not write off any overspends;
- The monitoring role for the authority was very important, and it had the right to enter and inspect the accounts of a maintained school at any time. Schools did work in a tight control environment if they were using SAP. The withdrawal of the delegation was one action which could be taken if the governing body was not functioning correctly;
 - In relation to SFVS (Schools Financial Value Standard), it was queried whether there were adequate controls in place to guard against fraud and theft;
 - It was reported that there were only two schools which failed to complete the SFVS, and a follow up check was requested;

It was suggested that as this was such a wide topic, whether it would be beneficial to hold a workshop for members of the Committee on risk management in schools

RESOLVED

1. That the content of the report be noted;
2. That a workshop on risk management in schools be arranged and added to the work plan.

45 COMBINED ASSURANCE STATUS REPORTS

Consideration was given to reports which provided an insight on the assurances across the Councils critical services, key risks and projects.

The Committee was guided through each assurance report by a senior officer and provided with an opportunity to ask questions in relation to the information contained within each report, and some of the points raised during discussion included the following:

Communities (presented by the Assistant Director Highways and Transportation)

- There was only one area which was identified as red, which was in Regeneration, which was mainly the Sutton Bridge Marina project, which had complex land ownership and legal issues which were outside of the authority's control, officers were working hard to resolve this;
- The assurances reported were on the processes and systems which were in place to deliver the work;
- The Highways and Transport Scrutiny Committee received regular updates on the performance of the Highways Alliance;
- Members were pleased with the support which was in place in respect of flood alleviation;
- An investigation into recent flooding events had been commissioned and published;

Resources and Community Safety (presented by the Executive Director Resources and Community Safety)

- Progress had been made in terms of overall assurance status;

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AUDIT COMMITTEE

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- The only area identified as red was in internal audit, but officers were confident that the action plans which had been put in place were more than adequate to deal with this issue;
- It was noted that the authority would be facing a period of change in the coming 12 months including the procurement of support services and systems;
- It was commented that it was an excellent report and contained a lot of information;

Children's Services (presented by the Executive Director Children's Services)

- An ofsted visit was due in relation to early help and safeguarding;
- Further details were requested in relation to the next steps identified in the report;
- Officers would be looking for what issues were picked up on in ofsted inspections of other authorities and ensuring Lincolnshire's arrangements met requirements;
- There had been some very high profile cases from serious case reviews ;
- The Lincolnshire Safeguarding Children's Board did have a risk register and this was reviewed at every meeting;
- Clarification was sort regarding the methodology for how assurance was given, and it was reported that the Executive Director had a huge raft of data at their disposal including ofsted reports, peer reviews, and significant amounts of performance information, which was used in agreeing the assurance level;
- The 5-11 age group was covered by the school improvement service;
- 15 hours of early education was important in areas of deprivation and a national requirement. There was a new initiative that 40% of two year olds in deprived areas should have access to good or excellent nursery care. The DfE had provided a £850,000 grant to provide capital support to the two year old offer, and there were four significant projects underway, but it was more about making smaller changes to offer more places;

RESOLVED

That the current status of the Executive Directors' assurance regime be noted.

46 COUNTER FRAUD PROGRESS REPORT TO 31 DECEMBER 2013

Consideration was given to a report which provided an update on the Council's fraud investigation activities and information on progress made against our Counter Fraud Work Plan 2013/4.

It was reported that since the last meeting, the data analytics capabilities had been developed on a joint fraud proactive/due diligence exercise on expenses and member allowances. The detailed testing which arose from this work was now complete and a report of findings was being prepared. Members were advised that there had been some slippage on the counter fraud awareness campaign due to

investigative demands, due diligence commitments and the need to co-ordinate promotional work with the development of the e-learning tool and website updates.

Work on the National Fraud Initiative was now complete, and the only area to still be uploaded to the NFI system related to Blue Badges. The Business Support Team had validated the matches in the area and the results would be posted shortly.

In terms of investigations, there were currently two fraud investigations with the Police; three cases had been investigated since the last meeting of this Committee, these cases have now been closed; the team was currently investigating five cases of suspected fraud.

It was reported that the Home Office had announced the closure of the National Fraud Authority from 31 March 2014, and the Authority's responsibilities would be realigned to reflect the creation of the National Crime Agency which became operational in October 2013. It was also announced in the Autumn Statement that new funding would be made available to councils to tackle non-benefit fraud. It was still to be decided by ministers how to distribute this two year funding, but if shared equally across all councils it would mean an additional £25,000 per year for the next two years.

Members were provided with the opportunity to ask questions to the officers present in relation to the information contained within the report, and some of the points raised during discussion included the following:

- It was acknowledged that sometimes it could be very difficult to get the police involved, which was why the authority had trained investigators who knew how to collect evidence which would be admissible in court. The authority would always carry out its own preliminary enquiries before contacting the police;
- Lincolnshire Police no longer had a trained fraud officer, and this could be a very complex and specialised area of policing. However, there was an Economic Crime Unit, and if there was a very complex case this unit would be contacted;
- Internet crime had been identified as a growing area, and there were some resources available at a regional level for tackling this;
- It was suggested that the whistleblowing process would be a good subject for a councillor development session which would be open to all members of the council;

RESOLVED

1. That the outcomes of the counter fraud work be noted;
2. That the possibility of holding a Councillor Development Session, open to all members, in relation to the whistleblowing process be examined.

47 UPDATED ANTI-MONEY LAUNDERING POLICY

Consideration was given to a report which covered the key aspects of the revisions to the Anti-Money Laundering Policy, explained the legal obligations on the Council and clarified the arrangements for raising awareness. It was noted that this policy

revision did not contain any new legislation and replaced the anti-money laundering statement and procedures, 2007. The revised policy aimed to clarify the legislative requirements and the responsibilities of the council, its key partners and employees; explain the relevant criminal offences; defined the reporting arrangements (internal and external) and expected response; provide a list of possible indicators of money laundering activity; and use plain English.

It was intended to promote this policy alongside the authority's counter fraud and whistleblowing awareness programme and supplement with targeted training for those staff groups most likely to encounter money laundering. It was noted that the authority had strong counter fraud and whistleblowing arrangements and so the risk to the council remained low.

Members commented that the document was very thorough and the importance of raising awareness was highlighted. These messages needed to be consistently reinforced.

These policies were applied to all strategic contracts. It was noted that both tenders for the FDSS contract required disclosure of this policy.

RESOLVED

That the content of the policy revision be noted.

48 UPDATE ON ANNUAL GOVERNANCE STATEMENT 2013

Consideration was given to a report which provided the Committee with information on the annual review of the Local Code of Governance and progress on agreed actions contained in the Council's Annual Governance Statement 2013.

Members of the Committee were provided with the opportunity to ask questions to the officers present in relation to the information contained within the report, and some of the points raised during discussion included the following:

- Members commented that it was a very well written and straightforward document;
- A report would be going to full Council in February 2014 regarding new monitoring officer arrangements;
- In terms of the Senior Leadership Programme, it was reported that there were a lot of managers who were just below Head of Service level entering this programme, as senior managers were too busy to attend. However, this was starting to develop future leaders;
- It was important to manage the expectations of members and the public in terms of what the council was able to do;
- The Sustainable Services Review would involve huge changes for the authority. The future governance framework would be quite complex;

- There was a synergy between assurance reports from executive directors and the Annual Governance Statement;
- Becoming a commissioning council would be a method used by the council to meet the financial challenges. The authority would redesign what it did, it would not stop doing things, but it would change the way that services were delivered. There would be closer working with health, and more effective working with district councils;
- Reviews of services would take place and it was aimed that changes would be implemented by May 2017;
- The programme itself was on track but some activities were one month behind;
- Procurement and contract management were big issues. Members were assured that officers had a good view of all contracts, and there was a contracts register. It was ensured that good quality outputs were there from the start of the contract;
- It was important to build up relationships with the suppliers to manage issues rather than just imposing penalties;
- It was queried whether any problems with NHS contracts was envisioned due to the integration with NHS functions. Members were advised that there were a number of national contracts, and many services were commissioned from inside of Lincolnshire. It was noted that the Council was now in a better position with the CCG's in terms of relationships than ever before, meetings were held every month, and services would be commissioned jointly through a Joint Commissioning Unit;

RESOLVED

1. That the effectiveness of the Council's Local Code of Governance be noted;
2. That the progress made on the Annual Governance Statement be noted.

49 WORK PLAN

The Committee received a report which provided information on progress on agreed actions and its work plan up to 31 March 2014.

Members were reminded that a workshop would be held following the meeting on 31 March 2014 to assess the effectiveness of the Audit Committee. It was also noted that the work plan would be considered during this workshop in order to plan future work for the Committee.

RESOLVED

1. That the progress of agreed actions in Appendix A to the report be noted;
2. That the work plan set out in Appendix B to the report be noted;
3. That a self-assessment on the effectiveness of the Audit Committee be undertaken following the meeting in March 2014.

The meeting closed at 1.00 pm

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Regulatory and Other Committee

Open Report on behalf of David O'Connor, Executive Director Performance and Governance

Report to:	Audit Committee
Date:	31 March 2014
Subject:	Combined Assurance Status Reports

Summary:

The aim of this report is to provide the Audit Committee with an insight on the assurances across all the Councils critical services, key risks and projects.

Recommendation(s):

That the Committee:

Notes the current status of the Executive Directors' assurance regime and makes recommendations on any further scrutiny requirements or actions.

Background

1. These reports aim to provide an insight (snapshot) on what assurances are currently in place on areas of the business that matter most ie.

'have a significant impact on the delivery of our priorities or whose failure could result in significant damage to our reputation, financial loss or impact on people'
2. The combined assurance gives an overview of assurance provided across the whole Council – not just those from Internal Audit – making it possible to identify where assurances are present, their source, and where there are potential assurance 'unknowns or gaps'.
3. Internal Audit have triangulated information to help ensure that it 'stacks up' and applied some constructive challenge on the assurance opinions being given **but** as accountability rests with management it is senior managers views that have determined the overall assurance status. This is in line with a control environment that promotes a culture where we:
 - take what we have been told on trust
 - encourages accountability with those responsible for managing the service
 - provide some independent challenge / insight where appropriate.

4. The detailed Combined Assurance Status Report for can be found in the Appendices.
5. The Committee is requested to consider the reports and the adequacy of the assurances given and any improvement actions.

Conclusion

6. Overall there is a high level of positive assurance on our critical systems, key risks and projects.
7. Where concerns have been raised these have been addressed within the suggested next steps section of the report.
8. The information obtained from the combined assurance model will:
 - inform the Council’s Annual Governance Statement 2014
 - streamline and avoid duplication of effort where assurance can be drawn from a third party or other sources
 - inform the Internal Audit Strategy.
 - help focus the Internal Annual Audit Plan by identifying where more independent assurance is required based on significance and risk of the activity – leveraging assurance from other sources where they can. Internal Audit continues to have the right to conduct its own assurance activity freely and independently in order to meets its role and remit. However, if they need to provide assurance through their work plans then the reasons will be clearly understood by the Management Board and Audit Committee.
 - inform the Head of Audit annual audit opinion 2014.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Combined Assurance Status Report - Public Health
Appendix B	Combined Assurance Status Report - Adult Care – To Follow
Appendix C	Combined Assurance Status Report - Performance & Governance – To Follow

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, who can be contacted on 01522-553692 or lucy.pledge@lincolnshire.gov.uk.

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Combined Assurance

Status Report *Public Health*



Contents

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Contact: Dr Tony Hill - Director of Public Health
Details: tony.hill@lincolnshire.gov.uk

Introduction

This is the first combined assurance report for the Council.

Working with management we have been able to show what assurances the Council currently has on the areas of the business that matter most – highlighting where there may be potential assurance ‘unknowns or gaps’.

We gathered and analysed assurance information in a control environment that:

- takes what we have been told on trust, and
- encourages accountability with those responsible for managing the service.

Our aim is to give Senior Management and the Audit Committee an insight on assurances across all critical activities and key risks, making recommendations where we believe assurance needs to be stronger.

Scope

For this first assurance map, we gathered information on our:

- **critical systems** – those areas identified by senior management as having a significant impact on the successful delivery of our priorities or whose failure could result in significant damage to our reputation, financial loss or impact on people.

Methodology

We have developed a combined assurance model which shows assurances across the entire Council, not just those from Internal Audit. We leverage assurance information from your ‘business as usual’ operations. Using the ‘3 lines of assurance’ concept:



Our approach includes a critical review or assessment on the level of confidence the Board can have on its service delivery arrangements, management of risks, operation of controls and performance.

We did this by:

- Speaking to senior and operational managers who have the day to day responsibility for managing and controlling their service activities.
- Working with corporate functions and using other third party inspections to provide information on performance, successful delivery and organisational learning.
- Using the outcome of Internal Audit work to provide independent insight and assurance opinions.
- We used a Red (low), Amber (medium) and Green (high) rating to help us assess the level of assurance confidence in place.
- The overall assurance opinion is based on the assessment and judgement of senior management. Internal audit has helped co-ordinate these and provided some challenge **but** as accountability rests with the Senior Manager we used their overall assurance opinion.

Key Messages



The Public Health Directorate delivers a mix of specialist public health advice and input; assurance on a range of issues which protect the health of the public; commissioning of some major services which affect wellbeing; and the delivery of a very small number of front line services.

Some of these functions and the statutory responsibilities and ring-fenced grant that accompany them, transferred to the County Council from the Primary Care Trust 1 April 2013. Most of the specialist professional public health advice is still given to NHS organisations, particularly Clinical Commissioning Groups. This is a statutory function with its components set out in statutory guidance.

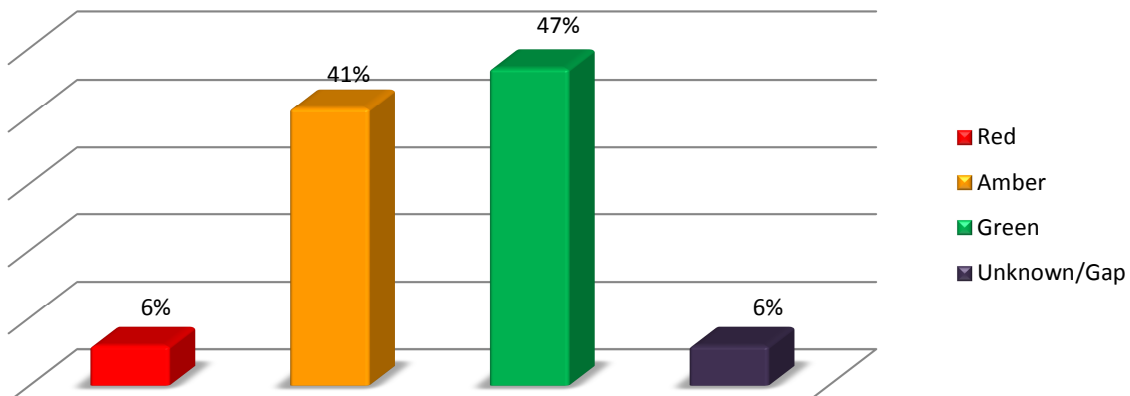
The Director of Public Health also has a role as the lead officer for health within the County Council. This role has been about building partnerships, including the Health & Wellbeing Board and joint commissioning arrangements.

The Directorate adopts the corporate methodology for managing risks and assessing our assurance status. I am satisfied that these are working effectively. It is pleasing to note that in a time of significant organisational and cultural change for Public Health that X % of critical activities are rated green. These do not represent the whole range of Public Health activities as lower risk activities are not included. I am confident that this proportion will continue to increase in the coming year.

We have few individuals who receive a direct service but the organisations we work with in local government, the NHS and the community and voluntary sector, generally give very positive feedback.

Figure 1

Overall Assurance Status - Critical Activities



Critical Systems



Overall, a high level of positive assurance exists around Public Health critical activities and systems. Assurance arrangements are working effectively with most assurances coming from managers – supported by a good level of corporate and third party assurance.

The Service has worked well with Internal Audit, highlighting areas for inclusion within this first Assurance Map, which will also be included within the 2014/15 Internal Audit Plan.

Assurances from the Internal Audit work currently underway will feed into the 2014/15 Assurance Map and Combined Assurance Report. Any recommended actions resulting from Internal Audit work will be monitored and tracked through the Audit Committee.

Figure 2 – Your Assurance Map Assurance

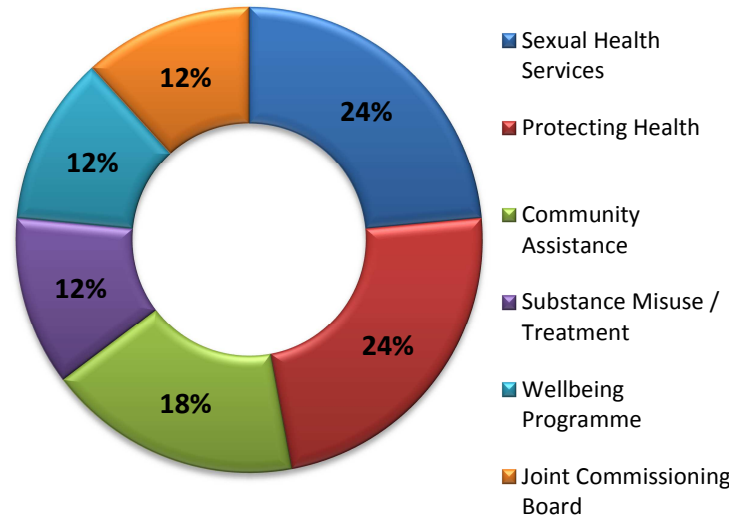
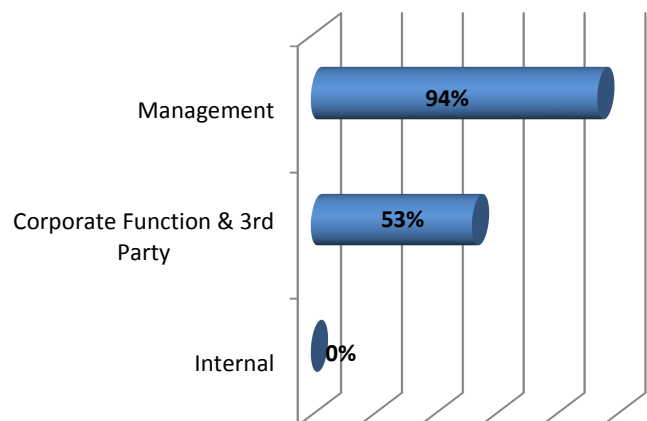
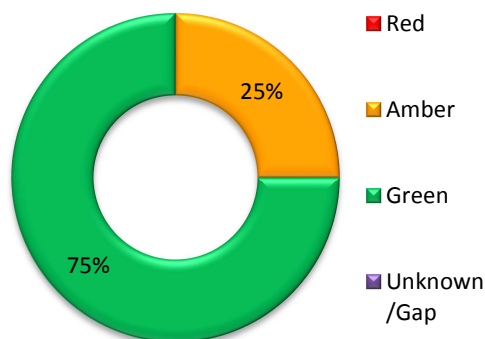


Figure 3 - Who Provides Your Assurance

Who Provides Your Assurance



Sexual Health Services



The sexual health service is fairly complex and encompasses open access Genitourinary Medicine (GUM) services, Contraception and Sexual Health (CASH) services and the provision of Long Acting Reversible Contraception (LARC), chlamydia screening aimed specifically at the 15 – 24 year old age group, HIV prevention and support and health promotion, and a number of services aimed specifically at reducing teenage pregnancies. Only some elements of the chlamydia screening programme are provided in-house, the remainder are all commissioned from specialist service providers, GPs, community pharmacies or the voluntary sector. The responsibility for commissioning these services passed to LCC in April 2013 and their provision is a mandatory responsibility of the Council. High uptake of services is encouraged to identify and treat asymptomatic and symptomatic infections which, if untreated can have long term consequences. At the same time, services encourage the consistent and correct use of condoms required to reduce the risk of Sexually Transmitted Infections (STIs), provide advice on reducing risky behaviour, and aim to encourage the use of LARC.

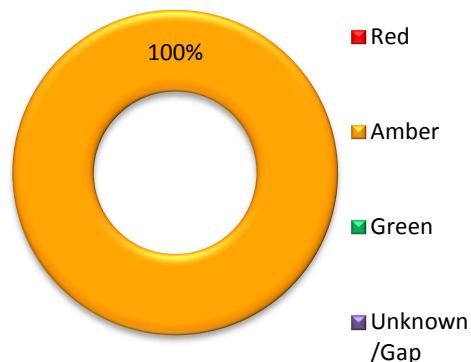
Other elements of sexual health, such as abortion and HIV services are commissioned by other organisations. They are integral to a holistic sexual health service and as such, it is critical that services which contribute to sexual health do not become fragmented as a result of the complicated commissioning arrangements currently in place.

There are a number of national performance measures and outcomes associated with sexual health (part of the Public Health Outcomes Framework (PHOF)); those which are also performance managed within LCC are:

- Crude rate of chlamydia diagnoses per 100,000 young adults aged 15-24. The target diagnosis rate is 2300/100,000 young adults.
- Under 18 years conceptions (no national target; target set internally).

These outcomes and measures are benchmarked and validated nationally, allowing us to compare outcomes with similar LAs and England. This provides us with a level of assurance that the services which contribute to these measures and outcomes are effective. Data from the chlamydia screening programme feeds into a national dataset which is reported quarterly. The performance management of GUM, CASH and other commissioned services is managed internally through monthly/quarterly reports from the provider.

Health Protection



There are 4 elements which contribute to the health protection function within Public Health: immunisations which form part of the national immunisation programmes; screening as part of the national screening programmes; infection prevention and control (IPC); and Emergency Planning Resilience and Response (EPRR). For immunisations and screening, the Directorate's role is largely related to the assurance of services commissioned and delivered by other organisations. For EPRR, the role is both assurance (of other organisations' plans and how healthcare organisations will work together to achieve a common aim in the event of an emergency) and more operational in terms of the delivery of public health support during emergencies. For IPC, the role is again assurance across the health and social care economy; strategic support to commissioners of healthcare services; and the provision of a community IPC service which is much more operational in nature.

For all 4 areas, a comprehensive assurance framework has been developed which articulates how assurance across these areas is to be achieved through key outcome measures. Quarterly and annual reports will be provided to the Lincolnshire Health Protection Board; the first annual report will be provided for 2013/14.

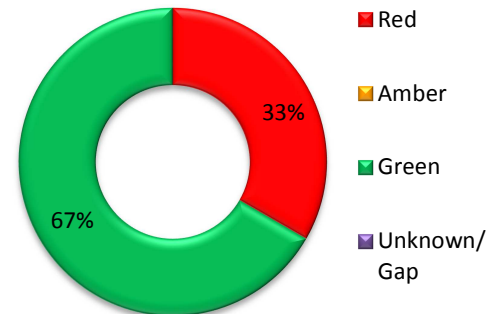
Immunisation and screening programmes are national with national performance measures which, like some of the sexual health outcomes, are part of the Public Health Outcomes Framework. They are reported quarterly and annually allowing Lincolnshire to be benchmarked against other LAs and England. Lincolnshire immunisation and screening boards and the local interpretation of data provide additional assurance by identifying issues, areas of poor performance and an action plan to address shortfalls.

All health and social care providers are required to be registered with the Care Quality Commission; CQC regularly inspect providers against some but not all of the essential quality standards which include IPC. Their reports contribute to external assurance in this area. Specific IPC performance measures exist for NHS Trusts and CCGs in the form of trajectories for specific healthcare acquired infections. Regular IPC meetings with NHS provider organisations and support for social care providers through IPC Link Practitioner meetings identify issues and training needs.

Assurance of EPRR is ascertained through a combination of assessment against NHS core standards in this area; stakeholder meetings at strategic and operational level (e.g. of the Local Health Resilience Partnership and Operational Sub-Group); exercises; and structured debriefing after exercises and incidents. Through the LHRP, health contributes to the Local Resilience Forum, ensuring that the overall response to any incident is timely, coordinated and appropriate.

Lincolnshire Community Assistance Scheme

This locally designed and commissioned scheme was developed following delegation of funds from the Department of Work and Pensions to top tier local authorities in April 2013. The scheme was designed to be able to provide a range of urgent support interventions to people in crisis in Lincolnshire and ensure they made some movement towards on-going interventions that might improve their resilience for the future.



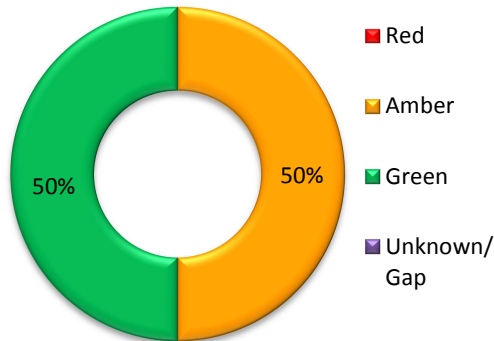
The service is a low threshold, telephone referral service that on evidence of meeting some locally designed eligibility criteria would give a service user access to a wide range of support from tickets to support urgent travel through to access to food banks. Agreement to subsequently access an ongoing support service like a debt advice service or credit union is a condition of provision of crisis support.

Initial screening of service, and some initial assistance, are provided by the Councils own customer service centre. Service users are also then referred onto a county-wide voluntary sector delivery partner which coordinates help, checks it has been received and validates take up of ongoing services. Goods and services are provided to service users through a wide range of existing voluntary sector agencies and occasionally by the for profit sector.

There is little external benchmarking opportunity for this scheme as all local authorities were given significant flexibility in the design and commissioning of local schemes, making comparison tricky.

A first year political review of the scheme is underway as this report is being drafted with an expectation that some changes to the operation of the scheme are likely to be recommended.

Substance Misuse



The responsibility for commissioning treatment services for adults and young people with substance misuse problems transferred to the Council in April 2013.

These services have a huge impact on the health of individuals with problems and those close to them as well as supporting safer communities. They protect people from harm from substances and things like blood borne viruses in the short term and in the longer term can help people turn their lives around and be productive members of society.

The investment in these services is the single largest commissioned service from this Directorate and therefore also carries a significant investment in contract and performance management.

Services offered within this programme are wide ranging, from the offer of clean injecting equipment to reduce spread of infections through vaccination for blood borne viruses up to a full community detoxification service for people with long term alcohol dependency. Service users run the full age range from children through to older people and people are treated in a wide range of settings by more than one organisation.

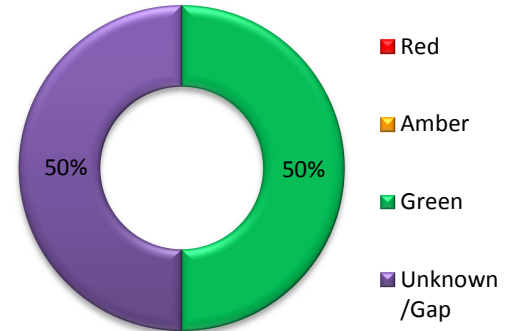
In order to maximise benefit and cost effectiveness payment by results is a feature of most services commissioned in this area, with the outcome being claimed for service users being externally validated. A specific governance service has been commissioned to undertake constant audit and validation of the service providers' application of complexity scores and their attendant service tariffs.

Performance data from these services is externally validated and benchmarked with UK and comparator authority area performance, giving a solid opportunity to gain assurance on the relative value for money of local services.

Wellbeing Project

The Wellbeing Programme is a large, complex area of work with outcomes and benefits straddling more than one area of the Council and the NHS.

All of the interventions being commissioned as part of this system are designed to help mitigate the forecast pressure on health and social care. This will enable more complex service areas to provide better safer care whilst reducing the overall investment required for them to be able cope with future demand.



As the first phase of this major programme, affecting more than 3000 vulnerable adults in Lincolnshire, is brought to conclusion the design for phase two begins. As such there is an element of action research in this area of work as we design learning from phase one into phase two.

Flexible and shared client intelligence is critical to the success of this area of work and there are big synergies with the case management programme and the Lincolnshire Sustainable Service Review.

This is a new service area, to be delivered by a range of delivery partners, including a new local partnership of agencies who have come together to better manage their engagement in a more integrated service environment. The assurance processes, and tracking of outcome for this new model of service are also therefore new.

Great attention will need to be paid to evaluating whether this investment is good value for money even though the interventions being commissioned are largely evidence based.

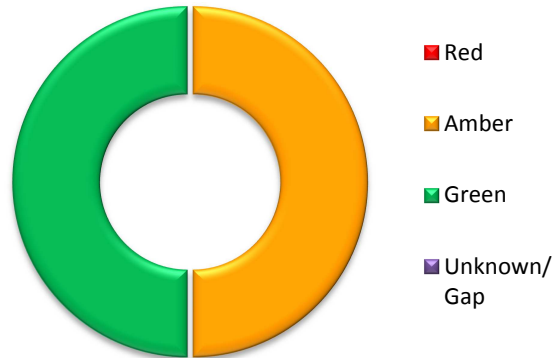
Joint Commissioning Board

The Lincolnshire Sustainable Services Review is driven by 4 concerns

- Quality of Care
- Financial Sustainability
- Work force issues
- The nation and local desire for integration between health and social care

The LSSR has resulted in an agreed Blueprint. The detailed Blueprint is currently under development including work on enablers such as workforce, transport, and IM&T.

It is clear that with integrated provision of care in the future, we will also need to have integrated commissioning. We have established a Joint Commissioning Board which has recently met for the first time. This includes representatives from LCC, the four CCGs and NHS England Area Team. The JCB has draft terms of reference and reports to the Health & Wellbeing Board. There will be a regular reporting mechanism.



Strategic Risks

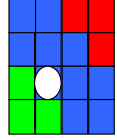
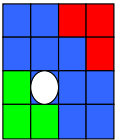


Council's highest rated Strategic Risks for this area of the business

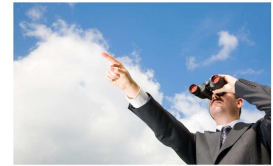
Integration with Health and Social Care

Combined Assurance – Status Report

Strategic Risk Register – Assurance Map as at February 2014

Strategic Risks - Assurance Map as at 31st October 2013	OWNER	RISK APPETITE	CURRENT RISK SCORE	TARGET RISK SCORE	DIRECTION OF TRAVEL	Management Assurance Status (Full, Substantial, Limited, No)	Corporate Functions & Third Party	Internal Audit	OVERALL ASSURANCE STATUS	COMMENTS
Integration with Health & Social Care Meeting planned for 09 April 2014 to review this risk.	Tony Hill	<p>Cautious</p> <p>(Willing to take risks but prefer to take the 'safe delivery option' - minimising the exposure with tight corporate controls over change)</p>			<p>↑</p> <p>Improving</p>	G	Unknown	Unknown	G	No update received from owner, however working with PH including training so risk is being managed.

Looking Ahead



The mechanisms that we have in place will continue to reduce risks and give assurance on these six critical issues. During the coming year we will also seek to extend this methodology to areas of our work at the next level of importance.

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Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Resources and Community Safety

Report to:	Audit Committee
Date:	31 March 2014
Subject:	Statement of Accounts 2013/14

Summary:

This report summarises:

- Changes to the Code of Practice on Local Authority Accounting which will be incorporated into the 2013/14 Statement of Accounts; and
- The review of the Council's Accounting Policies.

Recommendation(s):

The Executive Director of Resources and Community Safety asks Members of the Audit Committee to:

1. Note the changes required to our Statement of Accounts from the Code of Practice 2013/14; and
2. Approve the Statement of Accounting Policies (Appendix A) for use in preparing the Council's accounts for the financial year ending 31 March 2014.

Background

1.1 The Council is required to prepare its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) and the Service Reporting Code of Practice (SeRCOP). These both ensure the accounts are prepared using "proper accounting practice".

Changes to the Code of Practice on Local Authority Accounting for 2013/14

1.2 The format of the accounts and accounting requirements are largely the same as in 2012/13, however, the Code of Practice for 2013/14 has introduced a number of minor changes. These include:

- Revisions to IAS 19 Employment Benefits including: amendments to definitions, updated terminology, clarification of disclosure requirements and amendments to the recognition of termination benefits and post-employment benefits (retirement benefits). The change to IAS 19 for retirement benefits may result in the County Council having to disclose a prior period adjustment to reflect the amendment to the expected return on pension assets and revised presentation in the Comprehensive Income and Expenditure Account; and
- Business Rates year end debtors and creditors. The code adds new requirements for the County Council to account for its share of year end debtors and creditors which arise from the new retention business rate scheme. The accounting adjustments are similar to those already included within the accounts for the collection of Council Tax income, where the Lincolnshire District Council's act as Agent on behalf of the County Council.

1.3 There are also a number of changes to the Code that do not impact on the County Council in 2013/14. These are:

- Clarification of the recognition criteria for assets under construction and intangible assets included in Service Concessions or PFI type schemes under construction;
- Amendment to IFRS 7 Financial Instruments. New disclosures detailing the effect or potential effect of netting financial assets and liabilities;
- Amendments to IAS 1 Presentation of Financial Statements; and
- Amendments to IAS 12 Income Tax for Group Accounts.

Statement of Accounting Policies

1.4 An important section of the published Accounts is the statement of accounting policies. This summarises the rules and codes of practice used to prepare the Accounts, together with any estimation techniques adopted. The policies have been reviewed and are attached at **Appendix A** for consideration and approval by this Committee.

1.5 A small number of minor changes have been made to the accounting policies for 2013/14, these include:

- Inclusion of the Energy From Waste Plant in the capital accounting policies section;

- Changes for business rates agency arrangement;
- Update for changes to IAS 19 Employment Benefits. Update to the retirement benefits policy and minor amendments to clarify the termination benefits policy;
- Adding in NHS Pension Fund information for the staff joining the County Council from Public Health; and
- Updated allocations for Central Establishment Charges for the cost of support services.

Conclusion

2.1 Changes to the format of the accounts and accounting requirements will be incorporated into the Statement of Accounts for 2013/14 as required by the Code of Practice.

2.2 The Statement of Accounts will be prepared using the Accounting Policies approved by the Audit Committee at this meeting.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Statement of Accounting Policies 2013/14

Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013/14	Executive Director Resources and Community Safety

Service Reporting Code of Practice for Local Authorities	Executive Director Resources and Community Safety
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This report was written by Claire Pemberton, who can be contacted on 01522 553663 or claire.pemberton@lincolnshire.gov.uk.

Statement of Accounting Policies

1. General Principles and Concepts

The Statement of Accounts summarises the Council's transactions for the financial year 2013-14 and the position at the year-end 31 March 2014. The Statement of Accounts has been prepared in accordance with the Accounts and Audit Regulations 2011.

These regulations require the accounts to be prepared in accordance with proper accounting practice. These practices are set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 and Service Reporting Code of Practice 2013-14, supported by International Financial Reporting Standards and statutory guidance.

The accounting convention adopted in the Statement of Accounts is principally historical costs, modified by the revaluation of certain categories of non-current assets and financial instruments.

2. Changes in Accounting Policies

Changes in accounting policy may arise through changes to the Code or changes instigated by the Council. For changes brought in through the Code, the Council will disclose the information required by the Code. For other changes we will disclose: the nature of the change; the reasons why; report the changes to the current period and each prior period presented and the amount of the adjustment relating to periods before those presented. If retrospective application is impracticable for a particular prior period, we will disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

3. Prior period adjustments – estimates and errors

The Code requires prior period adjustments to be made when material omissions or misstatements are identified (by amending opening balances and comparative amounts for the prior period). Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

The following disclosures will be made:

- the nature of the prior period error;
- for each prior period presented, to the extent practicable, the amount of the correction for each Financial Statement line item affected; and
- the amount of the correction at the beginning of the earliest prior period presented.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change. They do not give rise to a prior period adjustment.

4. Non-Current Assets – Property, Plant and Equipment

Property, Plant and Equipment are assets that have a physical substance and are:

- held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- expected to be used during more than one period.

Classification

Property, Plant and Equipment is classified under the following headings in the Council's Balance Sheet:

Operational Assets:

- Land and Buildings;
- Vehicles, Plant, Furniture and Equipment;
- Infrastructure; and
- Community Assets.

Non-Operational Assets:

- Surplus Assets; and
- Assets Under Construction.

a) Initial Recognition

The cost of an item of Property, Plant and Equipment shall be recognised as an asset if, and only if:

- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

These costs include expenditure incurred to acquire or construct an item of Property, Plant and Equipment, costs associated with bringing an asset into use and costs incurred subsequently to add to, replace part of, or service it as long as the above criteria are met. All costs associated with a capital scheme will be settled on the asset created or enhanced. Initial recognition of Property, Plant and Equipment shall be at cost.

Further details relating to capital expenditure are set out in the Council's Capitalisation Policy.

De minimis level. The Council has set a de minimis level of £10k for recognising Property, Plant and Equipment. This means that any item or scheme costing more than £10k must be treated as capital if the above criteria are met. This relates to initial recognition and subsequent expenditure on assets.

De-recognition associated with asset enhancements. When capital expenditure occurs on an existing asset the element of the asset being replaced must be derecognised. Where the original value of the asset being replaced is not known the value of the replacement will be used as a proxy, and indexed back to an original cost; with reference to the asset's remaining life. De-recognition costs will be charged to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement (gain or loss on the disposal of non-current assets).

b) Measurement after Recognition – Valuation Approach

The Council value Property, Plant and Equipment using the basis recommended by CIPFA in the Code of Practice and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS).

The code requires the following valuation approaches to be adopted:

Operational Assets

- Land and property assets shall be measured at fair value, which is determined as the amount that would be paid for the asset in its existing use (EUV). For assets where there is no market-based evidence of fair value because of the specialist nature of the asset and

the asset is rarely sold, a Depreciated Replacement Cost (DRC) approach will be used (such specialised assets include schools);

- Non-property assets (including: vehicles, plant and equipment) shall be measured at fair value. These are determined to have short asset lives and historic cost is used as a proxy for fair value;
- Land, Property and Equipment associated with the Energy from Waste Plant shall be measured at fair value on a Depreciated Replacement Cost (DRC) approach as it is a specialised asset; and
- Infrastructure assets (such as roads and bridges) and community assets are measured at historic cost. NB: where historic cost information is not known for community assets these have been included within the Balance Sheet at a nominal value.

Non-Operational Assets

- Surplus assets (i.e. assets which the Council no longer operates/are no longer used for service delivery, but are not Investment Properties or meet the definition held for sale) are valued, measured and depreciated in line with the operational asset class; and
- Assets under Construction are held at cost. When these assets are operationally complete, they are reclassified into the appropriate asset class and valued under the adopted approach.

Valuation Programme

Assets are included within the Balance Sheet at fair value. The Council's land and property portfolio is revalued on a five year rolling programme. On an annual basis at year-end, all asset values are reviewed to ensure they are not carried at amounts materially different to fair value.

c) Revaluation Gains and Losses

Movements in asset value arising from revaluation are reflected in the value of these assets held on the Balance Sheet.

If a revaluation increases an asset's carrying amount then this increase will be credited directly to the revaluation reserve to recognise the unrealised gain. In exceptional circumstances, gains might reverse a previous impairment or revaluation decrease charged to the Surplus or Deficit on provision of service.

If a revaluation decreases an asset's carrying amount, the decrease shall be charged initially against any surplus balance in the revaluation reserve in respect of the individual asset. Any additional decrease is recognised in the relevant service revenue account in the Comprehensive Income and Expenditure Statement.

The revaluation reserve only contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Any movements on revaluation arising before this date have been consolidated into the Capital Adjustment Account (CAA).

d) Depreciation

Depreciation is charged on all Property, Plant and Equipment assets with a finite life and is the systematic allocation of its worth over its useful life. This charge is made in line with the following policy:

- Operational buildings are depreciated over their useful life. For buildings which are held at existing use value a useful life of 40 years has been assumed. Asset lives for buildings held on a depreciated replacement cost basis are reviewed as part of the rolling programme of revaluations and the Valuer estimates the useful life. Depreciation is charged on a straight line basis;
- Infrastructure assets, primarily roads, are depreciated over their estimated useful lives, varying from 1-3 years (for capital pothole filling) to 120 years (for bridge structures), on a straight line basis;
- Furniture and non-specialist equipment is depreciated over a period of 5 years, on a straight line basis;
- Vehicles, plant and specialist equipment (including computing equipment) are depreciated over their estimated useful lives, varying between 3 and 15 years. For vehicles purchased after 1 April 2004, the reducing balance method of depreciation is used;
- Land, Property and Equipment associated with the Energy from Waste Plant are depreciated over their useful life. These range from 70 years for Civils (including Building Structures) to 10 years for Instrumentation, Control and Automation assets (ICA); and
- Surplus assets are depreciated in line with the operational asset class.

No depreciation is charged on: Heritage Assets, Investment Properties; land; assets under construction; and assets held for sale.

Depreciation of an asset begins when the asset becomes available for use and ceases when the asset has been derecognised.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Component Accounting for Property, Plant and Equipment

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The Council has identified the following significant components within the property portfolio:

- DRC assets (including fire stations, schools, libraries and museums where the building is of a specialised nature): land, structures, services, roof and externals;
- Office Accommodation / Admin Buildings: land; structures, services, roof and externals;
- Other market value and existing use value assets (including economic regeneration units): land and buildings; and
- Energy from Waste Plant: Civils, Mechanicals and Instrumentation, Control and Automation (for each significant part of the plant).

e) Disposal of Property, Plant and Equipment

An item of Property, Plant and Equipment shall be derecognised on disposal, or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from disposals is shown in the Comprehensive Income and Expenditure Statement, on the Other Operating Expenditure line. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement, netted off against the

carrying value of the asset at the time of disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10k are categorised as capital receipts and can then only be used for new capital investment or to repay the principal of any amounts borrowed. It is Council policy to fully utilise these receipts to fund the capital programme in the year they are received. These receipts are transferred from the General Fund Balance via the Movement in Reserves to be utilised to fund the capital programme. Sale proceeds below £10k are below the de-minimis and are credited to the Comprehensive Income and Expenditure Statement.

The written-off value of disposals is not charged against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund through the Movement in Reserves Statement.

f) Impairment of non-Current Assets

If an asset's carrying amount is more than its recoverable amount, the asset is described as impaired. Circumstances that indicate impairment may have occurred include:

- a significant decline in an asset's market value during the period;
- evidence of obsolescence or physical damage of an asset;
- a commitment by the Authority to undertake a significant reorganisation; or
- a significant change in the statutory environment in which the Authority operates.

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Impairment losses are initially recognised against any revaluation reserve for that asset up to the balance available. Any remaining loss is charged in the Surplus or Deficit on provision of services. This is then reversed through the Movement in Reserves Statement and charged to the Capital Adjustment Account.

5. Intangible Assets

Intangible assets are defined as identifiable non-financial (monetary) assets without physical substance, but are controllable by the Council and expected to provide future economic or service benefits. For the Council the most common classes of intangible assets are computer software and software licences.

a) Recognition and Measurement of assets that qualify as intangible assets, shall be measured and carried at cost, as a proxy for fair value, as these are short life assets.

The Council has a set a de minimis level of £10k for recognising intangible assets. This means that any item or scheme costing more than £10k would be treated as capital if the above criteria are met.

b) Subsequent Expenditure. Costs associated with maintaining intangible assets are recognised as an expense when incurred in the Comprehensive Income and Expenditure Statement.

c) Amortisation. The carrying value of intangible assets with a finite life is amortised on a straight line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. Amortisation is charged to the relevant service area in the Comprehensive Income and Expenditure Statement. The useful lives for intangible assets are

between 3 and 7 years. Useful asset lives are determined by the ICT budget holder and reviewed and updated annually.

d) Impairment. On an annual basis the ICT budget holder is asked to consider if any indicators of impairment exist for intangible assets held by the Council.

6. Investment Properties

An Investment Property is defined as a property that is solely held to earn rental income or for capital appreciation or both. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods, or is held for sale.

a) Initial Recognition. As with Property, Plant and Equipment, initial recognition is at the costs associated with the purchase.

b) Measurement after Recognition. Investment Properties will be measured at fair value, which is the amount that would be paid for the asset in its highest and best use, (e.g. market value). The fair value of Investment Property held under a lease, is the lease interest in the asset. Investment Properties are subject to annual revaluations.

c) Revaluation Gains and Losses. A gain or loss arising from a change in the fair value of Investment Property shall be recognised in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. These are not permitted by statute to impact on the General Fund Balance. Therefore these gains or losses are reversed out of the General Fund Balance in the Movement on Reserves and posted to the Capital Adjustment Account.

d) Depreciation is not charged on Investment Properties.

e) Disposal of Investment Properties. Gains or losses arising from the disposal of an Investment Property shall be recognised in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. As with revaluation gains or losses, these do not form part of the General Fund Balance and are transferred to fund the capital programme via the Movement in Reserves Statement.

f) Rental Income. Rentals received in relation to Investment Properties are credited to the Financing and Investment Income line and results in a gain for the General Fund Balance.

7. Heritage Assets

Heritage Assets are defined as assets that are held by the Council principally for their contribution to knowledge or culture. Heritage assets held by the Council include:

- Historic Buildings including: Lincoln Castle, Temple Bruer and four historic windmills in Lincolnshire; and
- Collections including: Fine Art Collection; the Tennyson Collection; Local Studies and Archive Collections; Lincolnshire Regiment, Militaria and Arms and Armour Collections; and Agriculture Collections.

Heritage assets are recognised and measured (including the treatment of revaluations gains and losses) in accordance with the Council's accounting policy on non-current assets - Property, Plant and Equipment (accounting policy 4, above). However, some of the measurement rules are relaxed in relation to Heritage Assets. Details of this are set out below:

a) Initial Recognition

- Collections: The collections are relatively static, acquisitions and donations rare. Where they do occur acquisitions will be measured at cost and donations will be recognised at a valuation determined in-house.

b) Measurement after recognition:

- Historic Buildings – Windmills: will be valued at existing use value by the Council's Valuer. These valuations will be included on the Council's rolling programme and will be valued every 5 years.
- Historic Buildings – Lincoln Castle and Temple Bruer: will continue to be carried at historic cost as the Council does not consider that a reliable valuation can be obtained for these assets. This is because of the nature of the assets held and the lack of comparable market values.
- Collections: will be valued based on the insurance valuations held by the Council. Insurance valuations will be reviewed and updated on an annual basis.

c) Impairment and disposals are accounted for in line with the Council's policy on non-current assets – Property, Plant and Equipment (accounting policy 4: e) Disposal of Property, Plant and Equipment and f.) Impairment of non-current assets).

d) Depreciation is not charged on Heritage Assets.

8. Non-Current Assets Held for Sale

These are assets held by the Council which are planned to be disposed of. They meet the following criteria:

- The asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets;
- The sale must be highly probable (with management commitment to sell and active marketing of the asset initiated);
- It must be actively marketed for a sale at a price that is reasonable in relation to its current fair value; and
- The sale should be expected to qualify for recognition as a completed sale within one year.

a) Measurement. Non-Current Assets Held for Sale will be measured at the lower of carrying value and fair value less costs to sell (fair value here is the amount that would be paid for the asset in its highest and best use, e.g. market value).

b) Depreciation. Is not charged on non-current assets held for sale.

c) Disposal. Receipts from disposals are recognised in the Surplus or Deficit on provision of services.

Amounts in excess of £10k are categorised as capital receipts and can then only be used for new capital investment or to repay the principal of any amounts borrowed. It is Council policy to fully utilise these receipts to fund the capital programme in the year they are received.

9. Donated Assets

Donated assets are non-current assets which are given to the Council at no cost or at below market value. These assets are initially recognised in the Balance Sheet at this value and then measured at fair value. The difference between the fair value and any consideration paid is credited to the Taxation and Non-Specific grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally.

a) Where there are conditions associated with the asset which remain outstanding. The asset will be recognised in the Balance Sheet with a corresponding liability in the Donated Assets Accounts.

b) Where there are no conditions or the conditions have been met. The donated asset will be recognised in the Comprehensive Income and Expenditure Statement, then transferred to the Capital Adjustment Account through the Movement in Reserves Statement.

After initial recognition, donated assets are treated like all other non-current assets held by the Council and are subject to revaluation as part of the Council's rolling programme.

10. Charges to Revenue for the use of Non-Current Assets

Service accounts and central support services are charged with a capital charge for all non-current assets used in the provision of services to record the real cost of holding non-current assets during the year. The total charge covers:

- the annual provision for depreciation, attributed to the assets used by services;
- revaluation and impairment losses on assets used by services where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- amortisation of intangible assets attributable to services.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisation. However, it is required to make a prudent annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. Depreciation, impairment losses and amortisation are therefore replaced by revenue provision in the Movement on Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

11. Minimum Revenue Provision

The Council makes provision for the repayment of debt in accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008. This requires the Council to set a Minimum Revenue Provision (MRP) which it considers to be prudent. The approach adopted by the Council is to use the average life method (the average life of all the Council's assets) in calculating the MRP to be charged to revenue each year. MRP will be made in equal instalments over the estimated life of the assets acquired through borrowing.

12. Revenue Expenditure Financed through Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions, but does not result in the creation of a non-current asset in the Balance Sheet; has been charged as expenditure to the relevant service revenue account in the year.

Statutory provision reverses these charges from the Surplus or Deficit on provision of services by debiting the Capital Adjustment Account and crediting the General Fund Balance via the Movement in Reserves Statement.

13. Service Concession Agreements (including Private Finance Initiative (PFI) and similar contracts)

Service Concession Agreements are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the contractor. As the Council is deemed to control the services that are provided under such schemes and as ownership of the assets will pass to the Council at the end of the contract for no additional charge, the Council carries these assets used under the contracts on the Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. Assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

The amounts payable to the contractors each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge of 7.20% on the outstanding Balance Sheet liability, debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the contractor; and
- lifecycle replacement costs – recognised as additions to Property, Plant and Equipment on the Balance Sheet.

The Council has one PFI scheme for the provision of seven separate schools across the county, which is classified as a Service Concession Arrangement.

14. Borrowing Costs

The Council has adopted the accounting policy of expensing borrowing costs of qualifying assets to the Comprehensive Income and Expenditure Statement (disclosed within Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement) in the year in which they are incurred.

This is current practice based on the fact that borrowing undertaken is not attributed to individual schemes making capitalisation of costs complex with marginal benefit.

15. Classification of Leases

Leases are classified as a finance lease or an operating lease depending on the extent to which risks and rewards of ownership of a leased Property, Plant and Equipment lie with the lessor (landlord) or the lessee (tenant).

IAS 17 'Leases' includes indicators for the classification of leases as a finance lease. Within these indicators the Council has set the following criteria: the 'major part' of the asset life is determined to be 75%; and 'substantially all' of the value is determined to be 75%.

- Finance Lease: A lease is classified as a finance lease when the lease arrangement transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee.
- Operating Lease: All other leases are determined to be operating leases.

Where a lease covers both land and buildings, these elements are considered separately.

This policy on accounting for leased assets also includes contractual arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment.

a) Finance Leases

i) Lessee – Vehicles, Plant & Equipment will be recognised on the Balance Sheet at cost and depreciated on a straight line basis over the term of the lease (in line with the Council's capitalisation and depreciation policy for vehicles, plant and equipment).

ii) Lessee – Property will be recognised on the Balance Sheet at an amount equal to the fair value of the property, or if lower, the present value of the minimum lease payments, determined at the inception of the lease.

The asset recognised is matched by a liability representing the obligation to pay the lessor. This is reduced as lease payments are made. Minimum lease payments are to be apportioned between the finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement) and the reduction of the deferred liability in the Balance Sheet.

Statutory provision reverses the finance charge, depreciation and any impairment or revaluation from the Comprehensive Income and Expenditure Statement to the Capital Adjustment Account through the Movement in Reserves statement. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements.

iii) Lessor – Property. When a finance lease is granted on a property, the relevant assets are written out of the Balance Sheet to gain or loss on disposal of assets in the Other Operating Expenditure line of the Comprehensive Income and Expenditure Statement. A gain is also recognised on the same line in the Comprehensive Income and Expenditure Statement to represent the Council's net investment in the lease. This is matched by a lease asset set up in long term debtors in the Balance Sheet. The lease payments are apportioned between repayment of principal written down against the lease debtor and finance income (credited to the Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Initial direct costs are included in the initial measurement of the debtor and recognised as an expense over the lease term on the same basis as the income.

Rental income from finance leases entered into after 1 April 2010, will be treated as a capital receipt and removed from the General Fund Balance to capital receipts via the Movement in Reserves Statement.

The write off value of disposals is not a charge against council tax as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are

therefore appropriated to the Capital Adjustment Account from the General Fund Balance via the Movement in Reserves Statement.

b) Operating Leases

i) Lessee – Property, Vehicles, Plant & Equipment will be treated as revenue expenditure in the service revenue accounts in the Comprehensive Income and Expenditure Statement on a straight line basis over the term of the lease.

ii) Lessor – Property, Vehicles, Plant & Equipment shall be retained as an asset on the Balance Sheet. Rental income is recognised on a straight line, basis over the lease term, credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

c) Investment Property Leases (Lessee). In line with IAS 49 'Investment Properties', any lease which is assessed to be an Investment Property will be treated as if it was a finance lease. The fair value of the lease interest is used for the asset recognised. Separate measurement of land and buildings elements is not required when the leases are classified as an Investment Property.

16. Government Grants and Contributions

Government grants and contributions may be received on account, by instalments or in arrears. However, they should be recognised in the Comprehensive Income and Expenditure Statement, as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments. Conditions are stipulations that specify how the future economic benefits or service potential embodied in the grant or contribution must be consumed, otherwise the grant or contribution will have to be returned to the awarding body; and
- The grant or contribution will be received.

Grants and contributions received where the conditions have not yet been satisfied, are carried in the Balance Sheet as creditors and not credited to the Comprehensive Income and Expenditure Statement until the conditions are met.

Capital Grants and Contributions (non-current assets)

Capital grants and contributions are used for the acquisition of non-current assets. The treatment of these grants is as follows:

a) Capital grants where there are no conditions attached to the grant and the expenditure has been incurred. The income will be recognised immediately in Comprehensive Income and Expenditure Statement, in the taxation and non-specific grant income line.

Capital grant income is not a proper charge to the General Fund. It is accounted for through the Capital Financing Requirement (set out in statute) and therefore it does not have an effect on council tax. To reflect this, the income is credited to the Capital Adjustment Account through the Movement in Reserves Statement.

b) Capital grants where the conditions have not been met at the Balance Sheet date. At the Balance Sheet date the grant will be recognised as a Capital Grant Receipt in Advance in the liabilities section of the Balance Sheet. When the conditions have been met, the grant will be recognised as income in the Comprehensive Income and Expenditure Statement and the appropriate statutory accounting requirements for capital grants applied.

c) Capital grants where no conditions remain outstanding at the Balance Sheet date, but expenditure has not been incurred. The income will be recognised immediately in the Taxation and Non Specific Grant Income line of the Comprehensive Income and Expenditure Statement. As the expenditure being financed from the grant has not been incurred at the Balance Sheet date, the grant will be transferred to the Capital Grants Unapplied Account (within usable reserves section of the Balance Sheet), through the Movement in Reserves Statement. When the expenditure is incurred, the grant shall be transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account to reflect the application of capital resources to finance expenditure.

Revenue Government Grants and Contributions

Government grants and other contributions are accounted for on an accruals basis and recognised in the Comprehensive Income and Expenditure Statement when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received. Where the conditions have not been met these grants will be held as creditors on the Balance Sheet.

Specific revenue grants are included in the specific service expenditure accounts together with the service expenditure to which they relate. Grants which cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Comprehensive Income and Expenditure Statement after Net Cost of Services.

17. Debtors

Debtors are recognised in the accounts when the ordered goods or services have been delivered or rendered by the Council in the financial year but the income has not yet been received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risk and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council; and
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

Debtors are recognised and measured at fair value in the accounts. When considering the fair value of long term debtors, the Council has set a £50k de minimis limit. Below this amount, the carrying value of the long term debtor will be used as a proxy for fair value.

For estimated manual debtors, a de-minimis level of £10k for individual revenue items and £25k for capital items is set.

18. Creditors

Creditors are recorded where goods or services have been supplied to the Council by 31 March but payment is not made until the following financial year.

Creditors are recognised and measured at fair value in the accounts. When considering the fair value of long term creditors, the Council has set a £50k de minimis limit. Below this amount, the carrying value of the long term creditors will be used as a proxy for fair value.

For estimated manual creditors, a de-minimis level of £10k for individual revenue items and £25k for capital items is set.

19. Provision for Bad and Doubtful Debt

Where there is evidence that the Council may not be able to collect all amounts due to it, a provision for impairment is established. The provision made is the difference between the current carrying value of the debt and the amount likely to be collected. At the end of the financial year, bad debt provisions will be made for debts that have been outstanding for more than twelve months. The Council's policy is:

- Adult Social Care debtors are grouped by type and provided for on this basis plus the age of the debt; and
- Other aged debtors over 12 months old. Significant debtors are reviewed on a case by case basis, all remaining debtors are 100% provided for.

The provision for impairment is recognised as a charge to the relevant revenue service account in the Comprehensive Income and Expenditure Statement for the income that might not be collected.

20. Inventories

Inventory assets include and will be carried at the following values:

- Materials or supplies to be consumed or distributed in the rendering of services (e.g. highways salt). These are carried at the lower of cost (calculated as an average price) or current replacement cost (at the Balance Sheet date for an equivalent quantity); and
- Held for sale or distribution in the ordinary course of operations, are carried at the lower of cost or net realisable value.

The Council has set a de-minimis level for recognising inventories of £100k. Inventory balances below this level are not recorded on the Balance Sheet.

21. Cash and Cash Equivalents

a) Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

b) Cash Equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. The Council will classify these as follows:

- Instant Access Deposit Accounts or Overnight Bank Facilities set up for the purpose of meeting short term liquidity requirements and whose return (if any) does not make up the Average Yield Return on Investments, are to be classed as Cash Equivalents.
- Overnight Fixed Deposits, Deposit Based Bank Accounts and Net Asset Value Money Market Funds held for investment purposes for the returns offered, which make up the Councils Average Yield Return on its Investments, are to be classed as Short Term Investments.

c) Bank Overdrafts are to be shown separately from Cash and Cash Equivalents where they are not an integral part of an Authority's cash management. They are to be shown net of Cash and Cash Equivalents where they are an integral part of an Authority's cash management.

22. Provisions

The Council sets aside provisions for future expenses where: a past event has created a current obligation (legal or constructive) to transfer economic benefit; it is probable that an outflow of economic benefits or service potential will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Provisions are charged to relevant revenue service account in the Comprehensive Income and Expenditure Statement in the year the Council becomes aware of the obligation. When the obligation is settled, the costs are charged to the provision set up in the Balance Sheet. When payments are eventually made, they are charged against the provision carried in the Balance Sheet.

The Council has set a de-minimis level for recognising provisions of £100k.

Provisions contained within the Balance Sheet are split between current liabilities (those which are estimated to be settled within the next 12 months) and non-current liabilities (those which are estimated to be settled in a period greater than 12 months).

Provisions are recognised and measured at fair value in the accounts. When considering the fair value of long term provisions, the Council has set a £50k de minimis limit. Below this amount, the carrying value of the long term provisions will be used as a proxy for fair value.

23. Contingent Liabilities

A contingent liability is where there is a possible obligation to transfer economic benefit resulting from a past event, but the possible obligation will only be confirmed by the occurrence or non-occurrence of one or more events in the future. These events may not wholly be within the control of the Council. The Council discloses these obligations in the narrative notes to the accounts.

These amounts are not recorded in the Council's accounts because:

- it is not probable that an outflow of economic benefits or service potential will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability at the year end.

The Council has set a de-minimis level for recognising Contingent Liabilities of £100k.

24. Contingent Assets

A contingent asset is where there is a possible transfer economic benefit to the Council from a past event, but the possible transfer will only be confirmed by the occurrence or non-occurrence of one or more events in the future. These events may not wholly be within the control of the Council. The Council discloses these rights in the narrative notes to the accounts.

The Council has set a de-minimis level for recognising Contingent Assets of £100k.

25. Events after the Reporting Date

These are events that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue. The Council will report these in the following way if it is determined that the event has had a material effect on the Council's financial position.

- Events which provide evidence of conditions that existed at the end of the reporting period will be adjusted and included within the figures in the accounts; and
- Events that are indicative of conditions that arose after the reporting will be reported in the narrative notes to the accounts.
- Events which take place after the authorised for issue date are not reflected in the Statement of Accounts.

26. Recognition of Revenue (Income)

Revenue shall be measured at the fair value of the consideration received or receivable.

Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, with the exception of non-exchange transactions (such as Council Tax and general rate) where it is assumed there is no difference between the delivery and payment date.

27. Exceptional Items

Exceptional items are material amounts of income or expenditure which occur infrequently in the course of the Council's normal business and are not expected to arise at regular intervals. When these items of income or expense are material, their nature and amount will be disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts depending on how significant the items are to an understanding of the Council's financial performance.

28. Costs of Support Services

The costs of overheads and support services are charged to those who benefit from the supply of services in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013-14 (SeRCOP). The costs are recharged to services on the following basis:

Costs	Basis of apportionment
Accommodation	staff numbers
Accountancy services	estimated time
Business support	budget amount
Communications	gross expenditure and sales
Creditor payments	number of payments
Customer service centre	number and length of calls
Debtor services and income collection	number of debtor accounts and number of cash receipts
IT services	number of PC's
Payroll services	number of employees
People Management	number of employees
Programme Centre and Property Rationalisation Programme	gross expenditure and sales
Property services	number of properties
Adult Social Care (Assessments Team and associated Swift IT)	number of Adult Social Care clients

The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation; and
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Cost of Services.

29. Acquired and Discontinued Operations

Where the Council takes on new activities or ceases providing services, the costs relating to these activities will be identified in the Comprehensive Income and Expenditure Statement, on the surplus or deficit on discontinued operations line. These items will not form part of the net cost of services in the Comprehensive Income and Expenditure Statement in the year they occur.

30. Value Added Tax (VAT)

The Council's Comprehensive Income and Expenditure Statement excludes VAT. All VAT must be passed on (where output tax exceeds input tax) or repaid (where input tax exceeds output tax) to HM Revenue and Customs.

The net amount due to or from HM Revenue and Customs for VAT at the year-end shall be included as part of creditors or debtors balance.

31. Council Tax and Business Rates Income

The collection of Council Tax and Business Rates is in substance an agency arrangement with the seven Lincolnshire District Councils (billing Authorities) collecting Council Tax and Business Rates on behalf of the Council.

The Council Tax and Business Rates income is included in the Comprehensive Income and Expenditure Statement on an accruals basis and includes the precept for the year plus the Council's share of Collection Fund surpluses and deficits from the billing Authorities.

The difference between the income reported in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund, shall be taken to the Collection Fund Adjustment Account through the Movement in Reserves Statement.

The year-end Balance Sheet includes the Council's share of debtors (arrears and collection fund surpluses) and creditors (prepayments, overpayments and collection fund deficits).

32. 'Cap and Trade' Schemes

Landfill Allowance Trading Scheme – LATS (ceases 31 March 2013)

LATS is the only 'cap and trade' scheme that currently affects Lincolnshire County Council. The LATS scheme is recorded in our accounts as:

- an asset for allowances held;

- LATS grant income (treated as a revenue government grant); and
- a liability for actual biodegradable municipal waste landfill usage.

Allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority, shall be recognised as current assets. They shall be measured initially at their fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial measurement, Authorities shall re-measure the value of landfill allowances as the lower of cost or net realisable value.

As landfill is used, a liability shall be recognised for actual landfill usage. The liability is discharged by using allowances to meet the liability or paying a cash penalty to DEFRA. The liability is measured as the best estimate of the expenditure required to meet the obligation at the reporting date (this will be the present market price of LATS at the Balance Sheet date).

Carbon Reduction Commitment Scheme – CRC

The Council is required to participate in the CRC Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances.

The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Authority is recognised and reported in the costs of the Authority's services and is apportioned to services on the basis of energy consumption.

33. Reserves

a) Useable Reserves

The Council's general revenue balances are held in the General Fund. The Council also maintains a number of specific 'earmarked' reserves for future expenditure on either policy purposes or to cover contingencies. When expenditure is financed from an earmarked reserve, it is charged to the relevant revenue service account in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back to the General Fund Balance via the Movement in Reserves Statement, so that there is no net charge against council tax.

b) Unusable Reserves

Certain reserves are kept to maintain the accounting processes for non-current assets, financial instruments and employee benefits. These accounts do not represent usable resources for the Council. These include:

- Capital Adjustment Account;
- Revaluation Reserve;
- Financial Instruments Adjustment Account;
- Pension Reserve;
- Collection Fund Adjustment Account; and
- Accumulated Absences Reserve.

34. Employee Benefits – Benefits Payable during Employment

a) Benefits Payable During Employment – Short Term Benefits

These are amounts expected to be paid within 12 months of the Balance Sheet date. These include:

- Salaries, wages and expenses accrued up to the Balance Sheet date. These items are charged as an expense to the relevant service revenue account in the year the employees' services are rendered; and
- Annual leave and flexi hours earned, but not yet taken at the Balance Sheet date. An accrual is made for items at the wage and salary rate payable. The accrual is charged to the relevant service revenue account, but then reversed out through the Movement in Reserves Statement to the Accumulated Absences Account, so this does not have an impact on council tax.

Teacher Leave Accrual

The accrual for short term benefits for teachers is calculated using a standard methodology, reflecting the fact that teachers across the Council are subject to standard terms and conditions of employment. This methodology is based on the number of days of the Spring Term (both term-time and holiday) that fall within the financial year and the leave entitlement of the teacher (which varies according to whether an individual has left the teaching profession at the end of the Spring term).

b) Long Term Benefits

These are amounts which are payable beyond 12 months. The Council does not have any material long term benefits to be declared within the Financial Statements.

35. Employee Benefits – Termination Benefits

Employee termination benefits arise from the Council's obligation to pay redundancy costs to employees. These costs will be recognised in the Council's Financial Statements at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises the costs for a restructuring. For example; when there is a formal plan for redundancies (including the location, function and approximate number of employees affected; the termination benefits offered, and the time of implementation).

These items will be accrued in the Balance Sheet at the year end and charged to the relevant service revenue account. If payments are likely to be payable in more than 12 months from the year end, then these costs will be discounted at the rate determined by reference to market yields.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

36. Employee Benefits – Post Employment Benefits (Pensions)

Lincolnshire County Council participates in three different pension schemes which provide scheme members with defined benefits related to pay and service. The schemes are as follows:

- **Teachers' Pension Scheme:** This is a notionally funded scheme administered nationally by Capita Teachers' Pensions on behalf of the Department for Education (DFE). The pension contributions to be paid by the Council are determined by the Government Actuary and reviewed periodically. The scheme is accounted for as if it were a defined contribution scheme. There is no liability for future payments of benefits recognised in the Balance Sheet. All employer's contributions payable to teachers' pensions in the year are treated as expenditure on the education service line in the Comprehensive Income and Expenditure Statement.
- **National Health Service Pension Scheme (NHSPS):** This is a notional funded scheme administered national by NHS Pensions on behalf of the Department of Health (DoH) The pension contributions to be paid by the Council are determined by the Government Actuary and reviewed periodically. The scheme is accounted for as if it were a defined contribution scheme. There is no liability for future payments of benefits recognised in the Balance Sheet. All employer's contributions payable to the National Health Service Pension Scheme in the year are treated as expenditure in the Public Health service line in the Comprehensive Income and Expenditure Statement.
- **Uniformed Fire-fighters Pension Scheme (FPS):** From 1 April 2006, a new pension fund for Fire-fighters was set up. This scheme replaced the 1992 Fire-fighters scheme for new Fire-fighters. Both the 1992 and 2006 schemes remain unfunded but there are differences in the contributions payable into each scheme and the benefits paid to members. Both employee and employer contributions are paid into each fund, against which pension payments are made. Each fund is topped up by additional government funding if contributions are insufficient to meet the cost of the pension payments. Any surplus in each fund at the end of each year will be repaid back to the Department for Communities and Local Government (DCLG). Contributions in respect of ill health retirements are still the responsibility of the Council.
- **Local Government Pension Scheme (LGPS):** Other employees are eligible to join the LGPS. The Council pays contributions to a funded pension scheme from which employee pension benefits are paid out.

The pension costs included in the Statement of Accounts in respect of both the LGPS and the FPS have been prepared in accordance with IAS 19 Employee Benefits. The pension costs in respect of both the LGPS and FPS have been estimated by the Pension Fund actuary adviser and have incorporated an actual valuation of the accrued pension liabilities attributable to the Council as the scheme employer.

The Local Government Pension Scheme (LGPS)

The LGPS is accounted for as a defined benefits scheme:

- The liabilities of the Lincolnshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.5% (based on long term UK Government bonds greater than 15 years).

- The assets of Lincolnshire Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
 - quoted securities – current bid or last traded price;
 - unquoted securities – professional estimates;
 - unlisted securities – current bid price.

The change in net pensions liability is analysed into the following components:

- Service cost comprising:
 - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
 - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
 - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure; actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debit to the Pensions Reserve as Other Comprehensive Income and Expenditure; and
- contributions paid to the Lincolnshire Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The Council also pays any costs arising in relation to unfunded elements of pensions, paid to certain employees that have retired early and have been awarded discretionary compensation under the provisions of the Council's early retirement policy. These costs are charged to Non-Distributed Costs in the Comprehensive Income and Expenditure Statement.

37. Accounting for Schools Income, Expenditure, Assets, Liabilities and Reserves

In Lincolnshire, Local Authority education is provided in: Foundation, Voluntary Aided, Voluntary Controlled and Community Schools (all known as 'maintained schools').

Income and Expenditure

All income and expenditure relating to maintained schools in Lincolnshire is shown in the Council's Comprehensive Income and Expenditure Statement.

Non-Current Assets

Schools non-current assets will be accounted for by considering their substance and economic reality and not merely their legal form. The Code defines non-current assets as "a resource controlled by the Council as a result of a past event and from which future economic benefits or service potential are expected to flow".

If assets are owned by the Council, or the future economic benefits are identified to sit with the Council, then the non-current assets will be recorded in the Balance Sheet. Where the non-current assets and long term liabilities for a school are vested in the individual governing bodies, and it is assessed that the future economic benefits sit with the governing body of the school; no Property, Plant and Equipment is recorded in the Council's Balance Sheet.

The exception to this is for any finance leases for IT equipment taken out by the Council on behalf of a school; these remain within the Council's Balance Sheet as the Council retains the liability.

Assets and Liabilities

All assets and liabilities, excluding non-current assets which are covered above, relating to maintained schools are included within the Council's Balance Sheet.

Reserves

The Council maintains specific earmarked reserves for schools balances. At year end balances from dedicated schools budget including those held by schools under a scheme of delegation are transferred into the reserve to be carried forward for each school to use in the next financial year. This ensures that any unspent balances at the end of the financial year are earmarked for use by those schools as required by the Council's scheme for financing schools approved by the Secretary of State for Education.

38. Group Relationships

The Council assesses on an annual basis relationships with other bodies to identify the existence of any group relationships. A de-minimis level of £1.000m has been set for considering bodies to be included within group accounts.

The Council has not identified, and does not in aggregate have any material interests in subsidiaries, associated companies or joint ventures and therefore is not required to prepare group accounts.

39. Financial Instruments

a) Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount

at which it was originally recognised. All the Council's borrowings are carried at amortised cost and the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

No repurchase has taken place as part of a restructuring of the loan portfolio that included the modification or exchange of existing instruments. Therefore gains and losses on the repurchase or early settlement of borrowing are credited and debited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement and spread over future years under statutory regulation.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over ten years or the term that was remaining on the loan if less than ten years. The reconciliation of premiums / discounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund is managed by a transfer to or from the Financial Instruments Adjustment Account through the Movement in Reserves Statement.

b) Financial Assets

Financial Assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

i) Loans and Receivables

Loans and Receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the majority of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has a number of loans at less than market rates (soft loans) for the purpose of service objectives. When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be forgone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account through the Movement in Reserves Statement.

The Council has set a £50k de minimis limit to the value of soft loans or the discounting of interest rates. Below this amount the above accounting treatment for soft loans is not applied and the soft loans are shown in the accounts at their carrying value.

Where assets are identified as impaired, because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement or the relevant service (for receivables specific to that service). The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of the assets are credited/debited to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

ii) Available-for-sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis; and
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Where fair value cannot be measured reliably, the instrument is carried at cost (less impairment losses).

The Council holds a small equity holding of 14,000 of shares at £1 par value, in a company called 'Investors for Lincoln Ltd'. These shares do not have a quoted market price in an active market and therefore their fair value cannot be measured reliably, consequently they are shown in the Balance Sheet at cost.

Changes in fair value are balanced by an entry in the Available-For-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on revaluation of Available-for-Sale Assets. The exception is where impairment losses have been incurred and these are debited to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-For-Sale Reserve.

Where assets are identified as impaired, because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-For-Sale Reserve.

Open Report on behalf of Pete Moore, Executive Director Resources & Community Safety

Report to:	Audit Committee
Date:	31 March 2014
Subject:	International Audit Standard - Response to Management Processes Questions

Summary:

This report provides the Committee with an assessment around whether the Council's financial statements may be mis-stated due to fraud or error.

Recommendation(s):

To consider if the assessment accurately reflects the Council's management processes to minimise the risk of fraud or error in our financial statements.

Background

The External Auditors are required to obtain an understanding of the Council's management processes in a number of areas. The International Auditing Standards specify the areas concerned and each one of these is listed below together with the details of our current processes.

Note: A material mis-statement for the Council in 2013/14 is around £21m.

1. An assessment of the risk that financial statements may be materially mis-stated due to fraud

There are a variety of controls to ensure that the Council's accounts are accurate and reflect properly authorised expenditure and income due to the Council.

Accounting – the form of the accounts and accounting processes are determined by the Executive Director of Resources and Community Safety. There are regular reconciliations covering bank reconciliation, payments, payroll and suspense accounts. Access to make journal entries in the accounts is restricted and year end manual accruals in excess of £50k are subject to separate authorisation.

Orders and Payments – access is restricted through formal schemes of authorisation. Cheque payments in excess of £50k require release by

senior finance staff. There are formal procurement and tendering rules for contracts.

There is segregation of duties between purchase and payment and appropriate levels of authorisation have been set.

Monitoring expenditure and income – every area of expenditure and income is the responsibility of a named budget holder. Throughout the year Budget holders are required to regularly review the accuracy of payments and income. This is supplemented by specialist contract management expertise for larger contracts.

Statement of accounts – there are a variety of year end reconciliations and checks. There is also a robust statement of accounts quality assurance undertaken by specialist finance staff independently of staff who prepare the draft statements.

2. Identifying and responding to risks of fraud in the organisation

Our proactive counter fraud work and whistle blowing arrangements help us fight against fraud and reduce our exposure to the risk of fraud. Our annual report provides information on the outcomes of this work.

The Council has recognised the importance of protecting the public purse and has maintained a robust response through its dedicated Counter Fraud Team.

The risk of fraud is included in our risk management processes.

We also work with other local authorities to share good practice and undertake joint work e.g. raise awareness. We also take account of best practice and emerging fraud issues published by the National Fraud Authority and Audit Commission.

Outcomes and progress of our proactive counter fraud work is monitored by our Audit Committee.

Appendix A includes our response to a series of fraud related questions which will also help to inform External Audit's assessment of the risk of fraud and error within the financial statements.

3. Communication to employees of views on business practice and ethical behaviour

Employees are made aware of these via:-

- The induction process
- The Code of Conduct for Employees
- The Councils value statement

- The Constitution, particularly Financial Regulations
- Internal communications through our intranet GEORGE

4. Communication to those charged with governance of the processes for identifying and responding to fraud

The Audit Committee is informed by:-

- The review of the Counter Fraud and Whistle Blowing policies which are based on good practice.
- Approval and progress reports on the delivery of our Counter Fraud Work Plan
- The Authority's Annual Governance Statement
- Internal and External Audit Plans and Reports
- The Final Accounts scrutiny and other External Audit Reports

5 Awareness of any actual or alleged instances of fraud

During the last 12 months, our counter fraud team has been involved in a number of investigations. The combined value does not represent any material effect on the financial statements. The Authority has also recovered fraud losses in year and has taken all reasonable action to seek redress, where possible.

6 Compliance with laws and regulations and the potential for litigation and claims that would affect the financial statements

The Authority's Constitution provides the framework for the Council's governance arrangements and, as well as this:-

- The Monitoring Officer is responsible, after consultation, for reporting to full Council or Executive, if it is considered that any proposal, decision or omission would give rise to unlawfulness.
- Legal Comments are contained in reports to Council, the Executive and Committees to advise on compliance with the policy framework and the Constitution.
- The Executive Director – Resources and Community Safety has responsibility to highlight any proposal, decision or course of action which will involve any unlawful expenditure and the financial impact of any decision.
- The Council has a strong overall control environment which aims to reduce the risk of potential litigation and claims arising. Regular Internal Audit reviews occur to ensure compliance with established controls.
- A robust assurance framework underpins the Council's governance arrangements – it is regularly updated and periodically reviewed to ensure continued effectiveness.

- There are clear policies in place which are routinely updated and communicated throughout the Authority. The Council has strong, well established corporate functions which, along with the ongoing support from its legal advisors, help to minimise the risk of non-compliance with laws and regulations.
- The risk management process assesses the key risks facing the Council and takes measured risks that seek to minimise impact and maximise benefits / innovation.
- Our insurance cover helps us minimise our exposure to potentially large claims.
- Instances of potential claims will be acknowledged, if appropriate, as a contingent liability in the financial statements of the authority.

Conclusion

Given the above information the Council is assessed as **low risk** that the financial statements may be materially mis-stated due to fraud or error.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Response to fraud and error questions

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, who can be contacted on 01522-553692 or lucy.pledge@lincolnshire.gov.uk.

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Response to fraud and error questionnaire

No.	Questions for management	Managements response
1	Are you aware of any instances of actual, suspected or alleged fraud, within the authority as a whole during the period 1 April 2013 – 31 March 2014?	Yes – these are received and investigated by our dedicated counter fraud & investigation team. Head of Audit provides fraud updates (esp. material cases) to S151 officer, EA liaison and Audit Committee. Refer to EA liaison fraud update for cases during 2013/14.
2	<p>Do you suspect fraud may be occurring, within the authority?</p> <ul style="list-style-type: none"> ➤ Have you identified any specific fraud risks within the authority? ➤ Do you have any concerns that there are areas within the authority that are at risk of fraud? ➤ Are there particular locations within the authority where fraud is more likely to occur? 	<p>Yes – we acknowledge and understand our fraud risks – we have a dedicated counter fraud team to respond to these risks.</p> <p>Yes – revisiting fraud risk profile to update</p> <p>In line with key fraud risks highlighted by National Fraud Authority and Audit Commission we believe areas to focus on are:</p> <ul style="list-style-type: none"> ■ Procurement ■ Contracts ■ Schools ■ Direct Payments
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> ➤ If not where are the risk areas? ➤ What other controls are in place to help prevent, deter or detect fraud? 	<p>We are satisfied that the control framework is sufficient – we will continue to review this to ensure compliance where issues such as segregation of duties may become an issue. For example:</p> <ul style="list-style-type: none"> ■ Smaller schools ■ Establishments ■ 3rd parties / partners ■ Fewer managers / wider remits / new responsibilities – potential for gaps in control to develop ■ Whistleblowing arrangements ■ Robust CF Policy and zero tolerance stance to fraud ■ Proactive work programme – delivered by CF team (deter/detect) / analytical review ■ Due diligence activities on key financial systems throughout the

No.	Questions for management	Managements response
		<p>year (deter/detect)</p> <ul style="list-style-type: none"> ■ Accredited counter fraud investigators ■ Deterrence - case summaries on website / successful prosecutions in Echo / results and work of CF team periodically published in Echo (from Audit Committee reporting)
4	<p>How do you encourage staff to report their concerns about fraud?</p> <p>➤ What concerns about fraud are staff expected to report?</p>	<ul style="list-style-type: none"> ■ Whistleblowing arrangements ■ Counter Fraud Policy / leaflets / Fraud Response Plan ■ New Whistleblowing and Counter Fraud poster campaign due to start ■ Code of Conduct – reporting expectations ■ Dedicated counter fraud team ■ Fraud awareness e-learning tool in development ■ Assistant Directors and Heads of Service briefing <p>All suspicions re. fraud, corruption or theft.</p>
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your area of responsibility?</p> <p>➤ How are the risks relating to these posts identified, assessed and managed?</p>	<ul style="list-style-type: none"> ■ Bank and authorised signatories ■ Treasury management e.g. borrowing <p>Policies, procedures – managed by established control framework, overall scheme of delegation & assessed through recent audit process.</p>
6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>➤ How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Yes – in LCC Pensions and Mouchel Pensions (S151 officer aware / risks assessed & managed)</p> <p>Requirement for officers to declare any interests / personal relationships (Code of Conduct / Personal Relationships at Work Policy). Management responsible for assessing the risk and taking any control actions i.e. transferring responsibilities / decision making, removing delegated authority,</p>

No.	Questions for management	Managements response
		restricting access to information, meetings etc
7	<p>Are you aware of any entries made in the accounting records of the authority that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> ➤ Are there particular balances where fraud is more likely to occur? ➤ Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the authority? ➤ Could a false accounting entry escape detection? If so, how? ➤ Are there any external fraud risk factors which are high risk of fraud? 	<p>No</p> <p>Imprest (materiality low)</p> <p>No</p> <p>No</p> <p>No</p>
8	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> ➤ Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets? 	<p>No</p> <p>No</p>

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Agenda Item 8



Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Resources & Community Safety

Report to:	Audit Committee
Date:	31 March 2014
Subject:	External Audit - Certification of claims and returns - Annual report 2012/13

Summary:

This report presents the Committee with the outcome of External Audits certification of grants and returns work for 2012/13

Recommendation(s):

To note the unqualified return of the Teachers Pension Return - 2012/13.

Background

The Audit Commission requires our External Auditors (KPMG) to prepare an annual report on the claims and returns certified for each client. The results of this work is attached in **Appendix A** and related to the Teachers' Pension Return.

Conclusion

It is pleasing to report that External Audit's certification work did not identify any issues or errors on the Teachers' Pension Return and was unqualified.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	KPMG Annual Certification Report / Letter - 3 February 2014

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, who can be contacted on 01522-553692 or lucy.pledge@lincolnshire.gov.uk.



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Our ref LCC certification report
2012.13

3 February 2014

Dear Pete

Certification of claims and returns - Annual Report 2012/13

The Audit Commission requires its external auditors to prepare an annual report on the claims and returns it certifies for each client. This letter is our annual report for 2012/13.

In 2012/13 we carried out certification work on the following return:

■ **Teachers' Pension Return (Form EOYCd / Feb 2013)**

Our certification work did not identify any issues or errors with the claim, and we certified it as unqualified without amendment. However, we did need to carry out additional testing this year on the management information produced in support of the claim, and because that information was delayed, there was a late start to our testing. We have not made any formal recommendations to the Council to improve the claims completion process, as the delay was mainly a result of changes in the pension scheme itself. There were no recommendations made last year.

Audit Fee

The Audit Commission changed the basis of the certification fee in 2012/13 and set an indicative fee of £1,240. Our actual fee was higher than the indicative fee. The final fee is £4,933 and this compares to the 2011/12 fee for this claim of £4,630.

The indicative fee was based on Part A testing only, where we place reliance on the control environment and undertake limited tests to agree the form entries to underlying records. Audit Commission guidance requires additional testing in every case at least every three years. This is referred to as Part A and B testing, and we use our assessment of the control environment and



any changes in the arrangements to inform decisions on the level of testing (sample sizes) required.

The additional Part B testing required in 2012/13 has been compounded by a major change in the underlying basis of the Teachers' Pension Return with effect from 1st April 2012, with the introduction of 7 tiered contribution rates for all teachers nationally. The increase in transfers to Academy schools has also impacted on our work.

We have re-assessed the control environment in the light of these changes and carried out sample testing of the accuracy of the new reporting format. This testing has covered the correct application of the new rates to the various salary bands and the extraction of this data into the revised format of the return. Further complications arose from the large number of teachers (estimated at over 1,000) who had one or more rate change during the year.

Officers were able to successfully implement the new tiered teacher contribution rates, at relatively short notice, from 1 April 2012. They were not however, able to easily extract the necessary management information to breakdown the contributions over the 7 tiers, and this had to be done using ad hoc reports in conjunction with pivot tables over the full year. Our additional detailed testing work on this was deferred until mid November 2013, at the Council's request, to allow officers sufficient time to complete their own checks and provide the evidence needed to meet the audit requirements.

As stated above, although we needed to carry out additional work in order to meet the requirements of the certification instructions, we did not identify any issues or errors with the claim, and we certified the claim unqualified without amendment.

Yours sincerely

Mr Tony Crawley
For and on behalf of KPMG LLP, Appointed Auditor

Open Report on behalf of Pete Moore, Executive Director Resources & Community Safety

Report to:	Audit Committee
Date:	31 March 2014
Subject:	External Audit Plan - 2013/14

Summary:

This report describes how External Audit will deliver their Financial Statement 2013 / 14 work for the Council

Recommendation(s):

To consider the External Audit plan and any implications the plan has on the Council's governance, risk and control environment.

Background

The attached report (**Appendix A**) sets out how the Council's External Auditor will deliver their financial statement audit for both the Council and the Pension Fund. It also sets out their approach to Value for Money work for 2013/14.

CIPFA's Audit Committees practical Guidance for Local Authorities and Police - 2013 Edition includes the following core functions around External Audit relevant to the plan:

- Reviewing if the planned resources and team composition have the required seniority, expertise and experience to undertake the engagement.
- Reviewing details of any non-audit work being undertaken and how this may impact on the financial statement work.
- Assurances on any key risks identified.

Conclusion

External Audit are required to issue an audit report giving an opinion on the accounts (including the Annual Governance Statement) and the Council's use of resources (the value for money conclusion) as at 31st March 2014. The plan describes how this will be done.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	External Audit Plan 2013/14

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, who can be contacted on 01522-553692 or lucy.pledge@lincolnshire.gov.uk.



cutting through complexity™

External Audit Plan 2013/14

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Lincolnshire County Council (inc Pension Fund)

Final

March 2014



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.audit-commission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

This document describes how we will deliver our audit work for Lincolnshire County Council and Lincolnshire Pension Fund.

Scope of this report

This document supplements our *Audit Fee Letter 2013/14* presented to you in March 2013. It describes how we will deliver our financial statements audit work for Lincolnshire County Council ('the Authority') and Lincolnshire Pension Fund ('the Pension Fund'). It also sets out our approach to value for money (VFM) work for 2013/14.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements of the Authority and the Pension Fund and Value for Money audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks for the Authority.
- Section 5 explains our approach to VFM work and sets out our initial risk assessment for the VFM conclusion.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Audit approach	<p>Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with Head of Finance and Assistant Head of Finance.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
Key financial statements audit risks	<p>We have completed our initial risk assessment for the Authority's financial statements audit and have identified the following significant risk:</p> <ul style="list-style-type: none"> Local Government Pension Scheme Triennial Valuation - During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2013, with a large volume of data provided to the actuary to support this. As there is an inherent risk around the accuracy of this data, we will need to complete some targeted testing in this area. <p>This is described in more detail on page 9. We will assess the Authority's progress in addressing this risk area as part of our interim work and conclude this work at year end.</p>
VFM audit approach and risk assessment	<p>We have completed our initial risk assessment for the VFM conclusion and have identified the following significant risks:</p> <ul style="list-style-type: none"> Future Delivery of Support Services – The Authority has undertaken a major procurement exercise to re-award it's contract for Corporate Support Services. Serco has recently been announced as the recommended provider to deliver the contract, which will become live from 1 April 2015. <p>This is described in more detail on page 14.</p>
Audit team, deliverables, timeline and fees	<p>We have refreshed our audit team this year, following the retirement of your previous Manager, Mike Wood. The incoming Manager is Mike Norman and the new Assistant Managers are Louise Stables and Sayeed Haris for the Authority and Pension Fund audits respectively.</p> <p>Our main year end audit is currently planned to commence on 23 June with the audit of the Pension Fund commencing in line with this. Upon conclusion of our work we will again present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The overall planned fee for the 2013/14 audit is £167,450. This is unchanged from the position set out in our <i>Audit Fee Letter 2013/14</i>. This comprises £143,100 for the Authority's audit and £24,350 for the Pension Fund. There will be an added element for the additional work on the Future Delivery of Support Services exercise for the purposes of the VFM conclusion, referred to above. We will update the Committee when the additional amount has been agreed with officers and the Audit Commission.</p>

We undertake our work on your financial statements in four key stages during 2014:

- **Planning** (January to February).
- **Control Evaluation** (March to April).
- **Substantive Procedures** (June to August).
- **Completion** (September).

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We have summarised the four key stages of our financial statements audit process for you below.



Key: ● Authority and Pension Fund ▲ Authority only

During January and February 2014 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

We will issue our *Accounts Audit Protocol* following completion of our planning work.

Our planning work takes place in January and February 2014. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

In accordance with ISA 320 '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Accounts audit protocol

At the end of our planning work we will issue our *Accounts Audit Protocols*. Separate documents will be issued for the Authority and the Pension Fund. These important documents set out our audit approach and timetable. They also summarise the working papers and other evidence we require during our interim and final accounts visits.

During March to April 2014 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2013/14.

We work with your finance team and the pensions team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work to the Audit Committee.

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Our interim visit on site will be completed during weeks commencing 10 and 24 March 2014. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work internal audit have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the key financial systems identified as part of our risk assessment, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to the Head of Internal Audit if we place reliance on the work of internal audit.

Accounts production process

We raised two recommendations in our *ISA 260 Report 2012/13* relating to the accounts production process. The most significant of these were to:

- Comply fully with the Code guidance when disclosing member and senior officers' declarations of potential related party transactions by including all types of transactions and not just those which are grant related.
- Shorten the timescale so that the Governance Group signs off the Annual Governance Statement in time for inclusion in the draft accounts presented for audit on or before 30 June each year.

We will assess the Authority's progress in addressing our recommendations and in preparing for the closedown and accounts preparation.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Audit Committee in June 2014.

During June to August 2014 we will be on site for our substantive work on the Authority and the Pension Fund financial statements.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* for the Authority and Pension Fund audits to the Audit Committee in September 2014.

Our final accounts visit on site has been provisionally scheduled from 23 June to July for the Authority, with the authority visit scheduled to be completed in August. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Head of Finance and Assistant Head of Finance in July and August 2014, prior to reporting to the Audit Committee in September 2014.

Audit adjustments

During our on site work, we will meet with the Head of Finance and Assistant Head of Finance on a weekly basis for the Authority and Pension Fund to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee and Pensions Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue in September 2014.

Pension Fund Annual Report

We also issue an opinion on the consistency of the Pension Fund's accounts included in the *Pension Fund Annual Report* with those included in the Statement of Accounts. We intend to issue this opinion at the same time as our opinion on the accounts – this will require the Pension Fund Annual Report to be approved by Members prior to the opinion date.

In addition to auditing the financial statements, we review the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 16.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place which, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

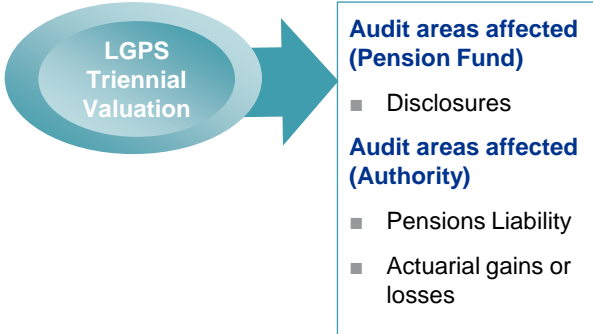
We confirm that as of the date of this report in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

In this section we set out our assessment of the significant risks to the audit of the financial statements for 2013/14.

For each key risk area we have outlined the impact on our audit plan.

The table below sets out the significant risks we have identified through our planning work that are specific to the audit of the financial statements for 2013/14.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Key audit risks	Impact on audit
 <p>Audit areas affected (Pension Fund)</p> <ul style="list-style-type: none"> ■ Disclosures <p>Audit areas affected (Authority)</p> <ul style="list-style-type: none"> ■ Pensions Liability ■ Actuarial gains or losses 	<p>Risk</p> <p>During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The share of pensions assets and liabilities for each employer is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.</p> <p>The IAS19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.</p> <p>The Pension Fund only includes limited disclosures around pensions liabilities but we anticipate that this will be identified as a risk area by some of the employers, whose pension liabilities represent a significant element of their balance sheet. This includes the Authority itself.</p> <p>Our audit work</p> <p>As part of our audit of the Pension Fund, we will complete some limited work to agree the data provided to the actuary back to the systems and reports from which it was derived, and to understand the controls in place to ensure the accuracy of this data. This work will be focused on the data relating to the Authority itself as largest member of the Pension Fund.</p> <p>If we receive specific requests from the auditors of other employers, we are required to support their audits under the protocols put in place by the Audit Commission for this purpose. If the work they request is over and above that already planned, there will be additional costs arising from this. The Pension Fund is able to recharge these costs to the relevant employers.</p>

In this section we consider the other issues we need to take account of in developing our audit approach to the financial statements in 2013/14.

Professional standards require us to consider two standard issues for all organisations. We are not elaborating on these standard issues in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below and on page 13.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; information from the Audit Commission's VFM profile tool and financial ratios tool; evidence gained from previous audit work, including the response to that work; and the work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Assessment of residual audit risk	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria. At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p>
Identification of specific VFM audit work	<p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> considering the results of work by the Authority, inspectorates and other review agencies; and carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We will conclude on the results of the VFM audit through our *ISA 260 Report*.

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VFM audit stage	Audit approach
Delivery of local risk based work	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
Reporting	<p>On the following page, we report the results of our initial risk assessment.</p> <p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

We have identified one specific VFM risk.

In most cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We will carry out additional risk-based work in the following areas:

Future Delivery of Support Services

Key VFM risk	Risk description and link to VFM conclusion
	<p>The Authority has undertaken a major procurement exercise to re-award its contract for Corporate Support Services. The contract will become live from 1 April 2015. It is expected to have a value of £71m over five years and is forecast to deliver savings of £14m over the period. In view of the importance of this contract we need assurance about the Authority's arrangements for the economy, efficiency and effectiveness criterion of the VFM conclusion.</p> <p>Because of the timing of the contract process, we have already needed to carry out our review of the arrangements and documentation used by the Authority for the selection of a provider, and the use of the OJEU Competitive Dialogue process. We have provided feedback to officers on this piece of work. We have not raised any significant issues. Based on the documentation that we have been provided with, the process has been clearly communicated to all parties and has been followed appropriately. We note that in the completed stages of the short-listing process, no challenges have been received from any unsuccessful bidders.</p> <p>We will also need to consider the arrangements in place for monitoring and mitigating the risks around handover of the contract to the new provider from 1 April 2015. A key issue will be reviewing the Authority's risk management around the transfer of data from the SAP general ledger system to Agresso.</p>

Tony Crawley (Director) was part of the audit team of Lincolnshire County Council audit last year. Mike Norman (Manager), Louise Stables (Assistant Manager) and Sayeed Haris (Assistant Manager) are new to the audit team for 2013/14. Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.

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Tony Crawley
Director

“My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Audit Committee and Chief Executive.”



Mike Norman
Manager

“I am responsible for the management, review and delivery of the audit of the Authority and of the Pension Fund.

I will liaise with the Head of Finance, Head of Internal Audit and Group Manager (Pensions and Treasury).”



Louise Stables
Assistant Manager

“I will be responsible for the on-site delivery of our work on the Authority’s financial statements. I will liaise with the Finance Team. I will also supervise the work of our audit assistants.”



Sayeed Haris
Assistant Manager

“I am responsible for the management, review and delivery of the audit of the Pension Fund.

I will liaise with the Pensions team.”

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report as appropriate with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> ■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures. 	March 2014
Control evaluation and Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report) - Authority	<ul style="list-style-type: none"> ■ Details control and process issues. ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements. 	September 2014
Report to Those Charged with Governance (ISA 260 Report) - Pension Fund	<ul style="list-style-type: none"> ■ Details control and process issues. ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. 	September 2014
Completion		
Auditor's Report	<ul style="list-style-type: none"> ■ Provides an opinion on the Authority's and Pension Fund accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2014
Whole of Government Accounts	<ul style="list-style-type: none"> ■ Provide our opinion on the Authority's WGA pack submission. 	September 2014
Pension Fund Annual Report	<ul style="list-style-type: none"> ■ We provide an opinion on the consistency of the Pension Fund annual report with the Pension Fund accounts, 	September 2014
Annual Audit Letter	<ul style="list-style-type: none"> ■ Summarises the outcomes and the key issues arising from our audit work for the year. 	November 2014

We will be in continuous dialogue with you throughout the audit.

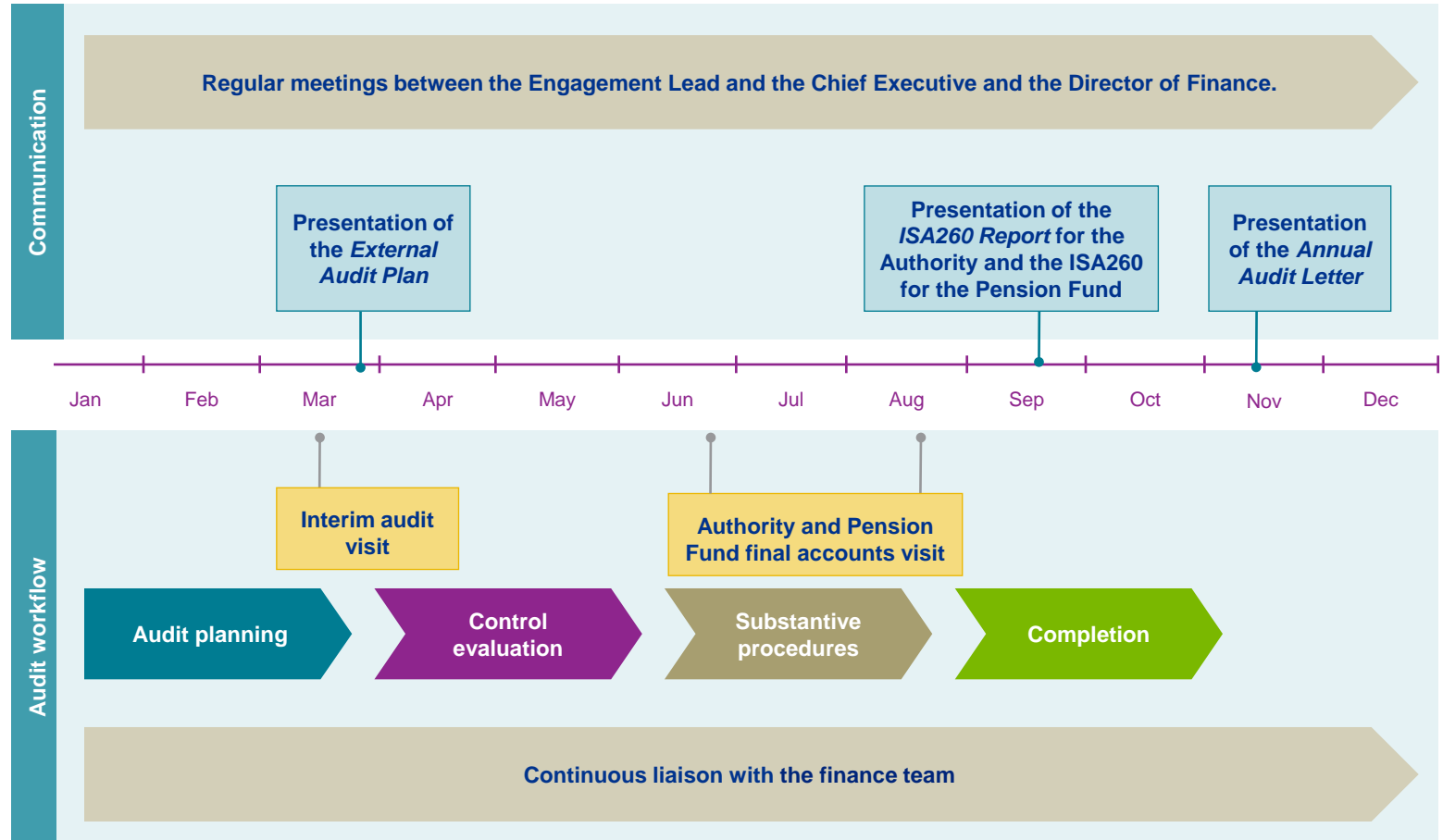
Key formal interactions with the Audit Committee are:

- March – External Audit Plan;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team throughout the year.

Our main work on site will be our:

- Interim audit visits during March.
- Final accounts audit during June to August for the Authority and for the Pension Fund.



Key: ● Audit Committee meetings.

The main fee for 2013/14 audit of the Authority is £143,400. The fee for our audit of the Pension Fund is £24,350. The fee has not changed from that set out in our *Audit Fee Letter 2013/14* issued in March 2013.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

Our *Audit Fee Letter 2013/14* presented to you in April 2013 first set out our fees for the 2013/14 audit. We have not made any changes to the agreed fees at this stage, but will need to do so as noted below regarding the VFM conclusion work.

Element of the audit	2013/14 (planned)	2012/13 (actual)
Main audit fee	*£143,400	£143,400
Pension Fund audit fee	£24,350	£24,350

Our main audit fee includes our standard work on the VFM conclusion and our audit of the Authority's financial statements.

*If we are required to undertake additional work to address the significant risk to the VFM conclusion an additional fee will be charged. We have set out previously in this plan that for 2013/14, we have assessed that we need to review arrangements in place relating to the Future Delivery of Support Services. We will agree the additional fee for that work with officers and then with the Audit Commission, and update the Committee accordingly.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of any significant developments impacting on our audit;

- you will identify and implement any changes required under the CIPFA Code of Practice on Local Authority Accounting in the UK 2013/14 within your 2013/14 financial statements
- you will comply with the expectations set out in our Accounts Audit Protocol, including:
 - the financial statements are made available for audit in line with the agreed timescales;
 - good quality working papers and records will be provided at the start of the final accounts audit;
 - requested information will be provided within the agreed timescales;
 - prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on the agreed systems and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the plan may be necessary during the year.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Head of Finance.

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff. KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

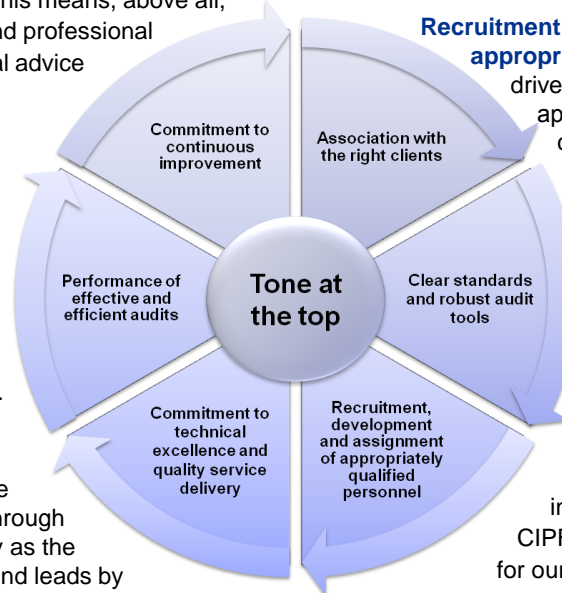
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drivers of quality through a focused and consistent voice. Tony Crawley as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudit application has significantly enhanced existing audit functionality. eAudit enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery:

Our professionals bring you up-to-the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviours in the performance of effective and efficient audits. The key behaviours that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2013) showed that we performed highly against the Audit Commission's criteria. We were one of only two firms to receive a combined audit quality and regulatory compliance rating of green for 2012/13.



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Open Report on behalf of Pete Moore, Executive Director Resources & Community Safety

Report to:	Audit Committee
Date:	31 March 2014
Subject:	Corporate Audit Progress Report to 28 February 2014

Summary:

This report provides an update on progress made against the Audit Plan 2013/14.

Recommendation(s):

That the Committee notes the outcomes of Corporate Audit work and identifies any actions it requires.

Background

This report provides an update on the progress made against the Audit Plan 2013/14. Details can be found in Appendix A, including:

- Key messages on Internal Audit work completed or in progress
- Other significant pieces of work undertaken
- Summaries of audits with Substantial or Full assurance
- Full report on audits with Limited or No assurance
- Detail of progress made against the audit plan 2013/14
- Other matters of interest

Conclusion

We have made good progress against the 2013/14 audit plan having completed 81% of our planned work – although there appears to be a number of audits currently in progress, in reality the majority of reports are either close to being finalised or the drafts will be completed by the end of March 2014. The fieldwork for a small number of audits currently in progress will run into April 2014 but we anticipate that these will be completed prior to Easter and will inform the Head of Audit's opinion and Annual Report.

The Committee should note the outcomes of the audit work undertaken and identify any action required.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Corporate Audit Progress Report

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, who can be contacted on 01522-553692 or lucy.pledge@lincolnshire.gov.uk.



Internal Audit Progress Report



Date: March 2014

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Introduction

1. The purpose of this report is to:
 - Advise of progress being made with the Audit Plan 2013/14
 - Provide details of the audit work during the period Jan to Feb 2014
 - Raise any other matters that may be relevant to the Audit Committee role

Key Messages

2. We have made good progress against the internal audit plan and have, as at 28 February 2014, completed 81% of the planned work for the year. The remaining audits are in progress and are scheduled to finish by the end of March 2014, unless otherwise noted. The reports for a small number of audits will be prepared and/or finalised in April.
3. We have completed 10 County Council audits since our last progress report, 1 which has resulted in limited assurance and 2 systems which have received a split assurance (substantial/limited). A further 33 County Council audits are in progress:
 - 11 currently at draft report stage
 - 15 will be at draft report stage by 31 March 2014
 - 7 will be completed by Easter

Other significant work in this period includes:

- MIMS – Insurance Management System
 - Birth to Five Service (Managed Service)
 - Tax Compliance – LF&R use of emergency vehicles
4. Changes to the plan were agreed at the November 2013 Committee due to long term sickness and vacancies. Since that point there have been 3 additions to the audit plan at the request of the client: MIMS, Birth to Five Service and Tax Compliance (LF&R). The following audits have either been cancelled or deferred to 2014/15:
 - Adult Services – Organisational Learning and Follow Up (postponed)
 - Adult Services – Reablement Service (Cancelled – service ending)
 - Due Diligence – Budget Management (Deferred 2014/15 audit plan)
 - Performance & Governance – Gifts, Hospitality and Register of Interests (Deferred to 2014/15 audit plan)

5. The key findings from the audit of Adult Services Case Management, Referrals and Contact Management have, to avoid duplication, been covered in an action plan resulting from a serious case review we have recently completed. The findings from that work will be considered by the Authority's Strategic Safeguarding and Dignity Board but the action plan will be monitored using our recommendations tracker and progress reported via the Audit Committee. The results from the serious case review have not yet been finalised – further detail will be reported to future Committees, when appropriate.

Internal Audit work completed from 1 January 2014 to 28 February 2014

6. The following audit work has been completed and a final report issued:

Full Assurance	Substantial Assurance	Limited Assurance	No Assurance
<ul style="list-style-type: none"> ■ Establishment Visit – Boston Registration Office 	<ul style="list-style-type: none"> ■ Adults Quality Assurance (3rd party) ■ Supported Childcare ■ CRC ■ Performance Management ■ Creditors (control framework) ■ Establishment Visit – the Beacon Children's Centre ■ Quarter 2 – Key control testing ■ Eventus Business Centre 	<ul style="list-style-type: none"> ■ Projects and Programmes ■ Creditors (compliance) ■ Horncastle Business Centre 	

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1.

7. We are reporting 3 limited assurance audits in this quarter, two of which are split assurances – substantial / limited (Creditors and Performance and Programmes). We split assurances where we feel it provides a more accurate position on the control environment and/or level of compliance, for example, centralised controls or the control framework within a service area may be adequate but the concerns may be with the level of user compliance.

8. Progress with the implementation of agreed management action on recommendations for audits resulting in 'No' or 'Limited' assurance will be tracked and reported to the next audit committee.
9. In the audits given Full and Substantial Assurance, we confirmed that the Council has sound and effective processes in place:

Supported Childcare – Substantial Assurance

We found that referrals for supported childcare placements are processed effectively and placements are set up in line with LCC procedures. Points of good practice identified during the review included:

- Entitlement of the child/family to other early years funding streams is adequately investigated
- Funding requests are documented on standard referral forms and these are authorised by appropriate officers
- The majority of providers used are rated good or outstanding by Ofsted and the appropriateness of all providers is monitored by the birth to five service
- Extensions of funding for placements have been authorised appropriately
- Detailed guidance and procedure notes have been provided to staff within the relevant teams.

The key area where processes could be strengthened is in relation to evaluation of outcomes. Through day to day work, various levels of staff gain their own assurances that outcomes for the child/family are being improved but there is little documented evidence of this. All staff interviewed during the audit agreed that this was an area for improvement. Until a mechanism is put in place to centrally monitor progress made, management cannot be fully assured that the funding is improving outcomes for families with young children.

Carbon Reduction Commitment (CRC) – Substantial Assurance

Our review of the 2012/13 submission to the Environment Agency provides assurance that the information in the return is accurate and can be traced back to source data. The correct amount of allowances have been purchased and surrendered within the Environment Agency's deadlines.

The submission is produced by an experienced member of the property team who has great knowledge of the TEAM software used to produce the energy data; however there is still an over reliance on this member of the team as there is no one trained to cover his role should he be unavailable.

Adults Quality Assurance (Third Party)

This has been subject to a peer challenge. The Peer Challenge Team identified a high level of commitment from staff and managers at all levels and were impressed with the consistent understanding of the need to ensure high quality services were available to communities.

The Team found that managers responsible for the development of quality assurance were clearly committed and passionate and have developed a comprehensive framework with an underpinning model of quality assurance that provides a sound basis for the future. Good examples of innovative developments such as “my choice my care” and the proposed introduction of “firefly” and the care management partnership programme were evidenced.

Current practice includes elements of quality assurance such as audits, stakeholder feedback and customer surveys. Through discussions with partners including providers of services it is clear that some mechanisms currently exist in order to facilitate engagement and involvement with other sectors in relation to quality assurance. Senior Managers gave confidence that new strategies are emerging providing much needed clarity and vision for the future with a range of associated policies procedures and guidelines in development.

Performance and Programmes (split assurance Performance – Substantial)

Performance management has been refined to focus on the things that matter most i.e. performance data associated with the Council's Business Plan. We found a good framework, with a clear process for capturing and reporting performance. A monthly quality assurance process provides confidence on the reporting of the Council's priority activities. Similarly, a data assurance checklist, signed off by the respective Head of Service, provides assurance on the reliability and accuracy of Business Plan performance – trusting people to deliver.

A small number of service performance measures need aligning to the Business Plan targets to avoid any impact on the overall level of confidence around reporting and service planning.

See separate section (Appendix 2) on Projects and Programmes which carries limited assurance.

Creditors (split assurance – control framework – substantial assurance)

The Council's Creditor payments system is robust and fit for purpose if the controls are consistently applied. However, the control framework is currently affected by compliance issues which has contributed to reduced payment performance and could impact upon effective budget management and value for money. See appendix 2 for full summary.

Boston Registration Office – Full Assurance

We found that Boston Registration Office manages its finances well. Managers and staff have a good understanding of financial procedures – consequently we found a high level of compliance and numerous examples of good practice.

There are particularly robust controls around preparation and monitoring of budgets, with evidence of a full service wide review being undertaken during the summer of 2013/14. All streams of income received are also well documented from the point of receipt through to banking.

The Beacon Children's Centre – Substantial Assurance

It was found that The Beacon generally manages its finances well. The review highlighted instances where enhancements to current procedures will improve processes:

- Budget projections suggest it will be approximately £12k overspent at the end of 2013/14. This is due to staff vacancies and sickness which are being covered at present by a combination of additional hours and relief staff. It is planned to address the budget and staffing issues as part of the expansion plans, but variances should be addressed regularly to ensure budgets set are realistic, reflecting the service provided by the home.
- We found no independent oversight of the Residential Support Assistant's procurement card usage.
- VAT receipts were not always obtained for VATable items purchased through the imprest account and procurement card.

Audits in Progress

10. The following audits are currently in progress:

Audits at draft report stage:

- Adults Performance Management
- Child Poverty Strategy
- Additional Needs
- Families Working Together
- Civil Parking Enforcement
- Castle Revealed
- Category Management
- Tax Compliance (LF&R)
- Procurement Card

- Establishment Visit – Lincolnshire Archives
- Establishment Visit – The Collection
- MIMS – Insurance Management System

Fieldwork in progress, draft report due by the end of March 2014

- Brokerage
- Police Notification of Domestic Violence
- F&R Fleet management
- Customer Finance and Direct Payments Team
- Debtors
- Coroners
- Pension Fund
- Pension Administration
- People Management
- Contract Management – Public Health
- Contract Management – Adult Care
- Birth to Five Service – Managed Service
- Public Health – Due Diligence
- Broadband in Lincolnshire
- Quarterly Key Control Testing

Fieldwork in progress, draft report due in April:

- Flood Management
- Adult Services Transport
- ICT Strategy
- Risk Management
- Contract Management (remaining directorates)

Performance Information

11. We reported on current performance against targets up to the end of quarter 3 at the last Audit Committee in January 2014 – we shall provide an analysis of our full year performance in our 2013/14 Annual Report.

Other Matters of Interest

12. Grant Thornton – Local Government Governance Review 2014

This report has been compiled by a detailed review of 2012/13 annual governance statements of 150 councils, fire & rescue authorities and police bodies – comparing them to Grant Thornton's best practice criteria. They have also analysed responses from their survey of 80 senior council officers and members. The report focuses on 3 particular elements of governance:

- Risk leadership
- Partnerships and alternative delivery models
- Public communication

Key messages:

Risk leadership – they conclude that in some local authorities risk management needs to step up a gear to provide full assurance about critical areas of responsibility and satisfy the ever-increasing level of scrutiny and regulation. However, the majority of survey respondents felt their organisations encouraged well-managed risk taking and innovation. The cautionary notes included concerns about the blame culture and lack of clear leadership from members about risk appetite.

Partnerships and alternative delivery models – they advise that councils and fire authorities need to reflect on the joint reporting and management of risk in partnerships and alternative delivery models and assess whether the governance arrangements are fit for purpose. The report focuses attention on the rising concerns about the level of transparency and accountability for service delivery under these arrangements – linking these concerns with the increased fragmentation of public service delivery. It says the public sector needs to learn the key lessons about contract management reported on by the National Audit Office and Public Accounts Committee in their reviews of outsourced services in central government. Survey respondents had doubts over:

- joint risk registers / meetings
- common understanding of risks (and risk terminology)
- resilience of contingency plans (in the event of partnership failure)
- ability of governance arrangements to identify potential service failures

Public communication – the report concludes that greater clarity is required on public reporting to give greater transparency and to address the demands of the interactive expectations of the public.

The report focuses on the reporting of the accounts – survey respondents were not convinced that the explanatory forewords to their accounts helped the public

understand the authority's financial management. Grant Thornton's analysis showed that most explanatory forewords just met the minimum standards and did not provide genuine insight to the accounts. They conclude that, although improvements have been made, generally accounts continue to be 'long and impenetrable'.

Just over a third of survey respondents felt that the Annual Governance Statement did not clearly explain how authorities handled risk. The report highlights that there is a growing need for local authorities to become more proactive in managing the way their performance is perceived by the public. They advise on more public engagement to establish what information the local public want to receive – this, they say, is necessary with the fast changing digital communications and rising demands for openness.

The main body of the report includes the research findings, examples of good practice and poses a number of questions for management and members, to help them assess the strength of their current governance arrangements. The full report can be found at: www.grant-thornton.co.uk under publications 2014.

Appendix 1 - Assurance Definitions¹

<p>Full Assurance</p>	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low.</p> <p>As a guide there are a few low risk / priority actions arising from the review.</p>
<p>Substantial Assurance</p>	<p>Our critical review or assessment on the activity gives us a reasonable level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls are in place and operating sufficiently so that the risk to the activity not achieving its objectives is medium to low.</p> <p>As a guide there are low to medium risk / priority actions arising from the review.</p>
<p>Limited Assurance</p>	<p>Our critical review or assessment on the activity identified some concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the risks are not always being operated or are inadequate. Therefore, the risk of the activity not achieving its objectives is medium to high.</p> <p>As a guide there are medium and a few high risk / priority actions arising from the review.</p> <p>Our work did not identify system failures that could result in any of the following:</p> <ul style="list-style-type: none"> - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements
<p>No Assurance</p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>Our work identified system failures that could result in any of the following:</p> <ul style="list-style-type: none"> - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements <p>The controls to manage the risks are not being operated or are not present. Therefore the risk of the activity not achieving its objectives is high.</p> <p>As a guide there are a large number of medium and high risks / priority actions arising from the review.</p>

¹ The assurance opinion is based on information and evidence which came to our attention during the audit. Our work cannot provide absolute assurance that material errors, loss or fraud do not exist.

Appendix 2 – Audits where assurance is assessed as ‘No’ or ‘Limited’

Projects and Programmes – Limited

The assurance role within the Performance and Programmes Service currently lacks clarity, Council-wide understanding and corporate authority. We were unclear on the expected level of third party project assurance the Council requires from this Service and found mixed views at directorate level on the added value of this assurance role. Conversely, those directorates accessing the support services valued that input and recognised the benefits.

The team's ability to effectively assess the management of priority projects is partly limited by the lack of a minimum project standard upon which to base any on-going evaluation. Equally, if the Service is to fulfil and develop its assurance role, we feel there is a need for an increased flexibility around how it achieves this.

The Service has no clear method of identifying where assurance resources should be targeted – internal gate or stage reviews are not agreed at project initiation and the Corporate Management Board do not currently direct project assurance activity. Consequently, very few internal gate/stage reviews have been completed.

The Service has a role in ensuring the Council invests in the right things – part of this includes review and scrutiny of project business cases. There are known issues around the general quality of business cases (or equivalent) – a working group has been established to address some of those concerns. The Service will need to ensure their analysis and scrutiny role in the development of business cases (or equivalent) is understood and that their input should be sought from the outset.

Performance Management – Substantial (already reported)

**Direction
of Travel**



The previous audit recognised the progress made in developing the project management framework, standard and toolkit. Whilst this has resulted in more transparency, it is not Council wide. The Service delivers valued project support but there is less confidence around its project assurance and scrutiny role which requires further consideration and/or development and possibly a stronger mandate from the Corporate Management Board.

In light of the mixed views from project leads across the Council, we advise the Performance and Programmes Service and/or the Corporate Management Team re-evaluates the third party assurance role in investment decisions, projects and programmes. Key questions to consider are whether the Council requires:

- the analysis and scrutiny to enhance assurance around investment decisions
- continuous confidence that the information provided on project and programmes is accurate and robust
- any more project assurance than it currently receives

To effectively fulfil this third party assurance role, the Performance and Project Service would need a stronger mandate from the Corporate Management Team, greater engagement with all directorates to ensure the role is fully understood and a more flexible approach to avoid duplication. The Service's project support role is resource intensive – any consideration of the assurance role would need to factor in the capacity of the existing team to deliver.

The Council has invested time and resources into training a group of officers to carry out internal gate or stage reviews on priority projects but has no clear way of identifying where to target those assurance resources. These review skills have, so far, been little used – critical stages for project assurance are not defined at the outset and there is little evidence the Corporate Management Board (CMB) actively directs project assurance activity. The Service needs a methodology for co-ordinating all existing project intelligence to assist the CMB in deciding which projects need additional assurances.

InfoHub was designed to increase visibility on projects, improve monitoring & reporting and encourage a consistent approach to project management – there are varying levels of usage across the Council and InfoHub is consequently not fulfilling its original purpose. It is seen by some, with established project systems, sound governance and project expertise, as an unnecessary duplication of resources.

As few project groups fully utilise the InfoHub, this reduces some visibility on project progress and impacts on the Service's assurance activities – this does not mean that projects are not effectively managed but neither does it provide the confidence that exceptions / risks are being identified, reported and managed. We advise the Service reviews whether the InfoHub is adding value to project leads, managers and boards.

The Service has various sources of project intelligence and this, together with regular liaison with project leads, should (if implemented) help plug the gaps in project transparency and assurance. Whilst there is a need for minimum project standards, the need for flexibility and proportionality should also be recognised. Some assurance can be sought by regular liaison with project leads and brief scrutiny of key documentation – good governance, risk management and project performance will inform which projects require a lighter touch.

We note that the Service's routine assurance work is essentially based on an independent review of the information included in the highlight reports provided for priority activity reporting. If InfoHub is not populated, the value of the independent review is limited. In our view this adds little to the assurances already provided by project managers.

A recent health check on risk management in priority projects identified wide variances in the identification, monitoring and management of risk in projects. The risk management functions on InfoHub are either not used or are not updated and the Service does not currently actively seek regular assurances on this key element of project management. This could be addressed through regular liaison with project managers.

At the time of the audit the Service did not have access to all available project business cases / option appraisals (or equivalent). This impacts on the Service's assurance abilities but also illustrates that the analysis and scrutiny role is not yet fully developed. The Service has recognised that there are issues around the quality of business cases and a working group has been set up to address this.

We advise the Service acknowledges that a traditional business case may not be required e.g. where the project is linked to a statutory responsibility or a bid for funding – however an option appraisal (or equivalent) is still necessary to ensure the essential elements of a project are properly considered such as: success criteria, stakeholders, risks, constraints, options, recommendations, resourcing requirements and change management.

We also note that the Service recognises that the Council's ability to measure the benefits from its investment decisions is currently limited – this is one of the specific aims of the Service. We understand the Service plans to review the area of benefit realisation to ensure it can assist the Council maximise the return / benefits from all investments.

Management Response

I accept the findings of the report and welcome the insight and fresh perspective it provides of the Performance & Programmes Service (PPS) and in particular the assurance work we do. I will be looking to implement and take forward all of the recommendations, but the most important is the need to engage with CMB to discuss, clarify and mandate what they want to see in relation to:

- PPS' role in supporting key priority activities and commissioning strategies.
- What PPS assurance is needed in the Commission cycle and what help can be given.
- Current Council Priority Activities and whether the definition of a CPA needs to be tightened to allow support to be focused on those things that are the most crucial.

Management Actions	No	All to be completed by:
High Priority	4	May 2014
Medium Priority	7	May 2014

Horncastle Business Centre – Limited Assurance

Our review highlighted several areas where we believe enhancements will improve the current procedures in place. We identified particular issues in the following areas:

- Traditionally budgets have been rolled forward every year without being fully assessed to ensure amounts are appropriate for operating the Centre. An overspend on the budget is being projected for 2013/14 and income targets are unlikely to be achieved. Improvements in the budget preparation process would assist effective budget management.
- The Facilities Manager has recently taken on the responsibility for managing the budget but has yet to receive any formal budget training to ensure effective budget management.
- Income at the Business Centre is not banked on a timely basis. Amounts collected are significant and delays in banking increase the risk of loss or misappropriation.

Our review confirmed that officers have a good understanding of financial procedures in some areas:

- Income is monitored well and a detailed banking spreadsheet kept as evidence. This reduces the risk of fraud and provides a greater segregation of duties within the income system.
- Debtor invoices are raised on a timely basis with good supporting documentation to ensure income collection is effective.

However, we also identified non-compliance with procedures and good practice. We have summarised the main issues within the Executive Summary to this report and the Action Plan below.

Actions to address the findings carrying a high risk are:

- The Facilities Manager will contact Mouchel Accountancy to arrange Budget training. The budget will be reviewed on a line by line basis as part of this training and with assistance from the Enterprise Centre Officer at Eventus.
- Income will be banked on a timely basis in line with Financial Procedure 10 and the catering income will be kept in the kitchen safe to reduce the risk of safe insurance limits being breached.

Management Actions	No	All to be completed by:
High Priority	Three	31 st March 2014
Medium Priority	Six	31 st March 2014
Low Priority	Four	31 st March 2014

Creditors

Assurance Opinion

Limited Assurance - Directorates
Substantial Assurance - Mouchel

The Council's Creditor payments system is robust and fit for purpose if the controls are consistently applied. However, the control framework is currently affected by compliance issues which has contributed to reduced payment performance and could impact upon effective budget management and value for money.

The use of retrospective orders has been an area of concern identified in previous audits. Analysis of orders raised during the current year has established that the proportion of retrospective orders has improved across all directorates from 69% at the last audit, to 62% although in terms of total spend the percentage is higher (73%). This shows some improvement, although the number of retrospective orders remains high. Compliance with Financial Procedures around the ordering of goods and services continues to be an issue reducing confidence around value for money and sound budget management.

The introduction of e-purchasing has helped to reduce the number of retrospective orders, although there is still significant evidence of staff by-passing the prescribed procurement process. More work is required to address this through awareness, monitoring, reporting and sanctions for continued non-compliance.

We found the payment run process, operated by Mouchel, to be well established and operating effectively. Payments were accurate, authorised and routinely reconciled.

Masterdata controls have improved since the last audit although we have concerns over the volume of new vendors and the impact this has on payment performance and administration time. There is also a need to improve the electronic controls for authorising amendments to vendor details. This is not appropriately restricted although there are some compensatory controls for changes to bank details.

Direction of Travel



Improving

The implementation of e-purchasing and planned mandatory training and awareness sessions developed by the Purchasing Governance Group will assist in improving the compliance with Financial Procedures

Since the previous review of Creditors, e-purchasing has been fully implemented. Procurement Lincolnshire expected the use of retrospective orders to fall as a result

but our review shows that the improvement has been limited within Council directorates.

The key compliance issue for the Council continues to be around the failure to use purchase orders when making a commitment – the number of verbal orders remains high which reduces control and affects the Council's ability to seek redress in the event of dispute with the supplier. In order to improve compliance with Financial Procedure 5 work is required to:

- Educate and promote awareness that this remains a significant issue
- Promote reasons why retrospective orders should not be raised (reiterating the correct usage noted within Financial Procedure 5)
- Identify users or areas where non-compliance routinely occurs
- Escalate and apply sanctions if non-compliance continues
- Promote use of other, more suitable payment options including framework orders for ongoing commitments, purchasing cards and imprest accounts.

We noted that payment performance had dipped across most directorates (including a 15% reduction in one directorate) at the start of the 2013/14 financial year. The main contributing factors were the introduction of the e- purchasing system, some initial resourcing issues within Business Support (Purchasing and Facilities team) and the continued use of retrospective orders. Payment monitoring reports show that there has been some improvement in the current year and performance is moving towards the expected target (paid within 30 days of receipt of invoice) as documented in CIPFA benchmarking statistics.

A Purchasing Governance Group now oversees the Creditors process to identify the main issues affecting procurement and payments. This is a positive step and the group is developing an action plan to address the culture, processes, system and reporting. A briefing paper outlining key actions is being prepared for the Director of Resources and Corporate Management Board. In our opinion, any improvement will require action at board level to influence compliance within directorates – future exception reporting and action should also help to ensure continued adherence to the mandatory Financial Procedures.

Our audit work within schools during 2013/14 has shown a higher level of compliance with procedures for ordering, invoice processing and control of imprest accounts (see appendices 2 and 3). The main compliance issues were associated with clarity over delegated limits and adherence to Contract Regulations covering market testing and the quotation process.

Our findings during this audit, together with the results of our quarterly key control testing, shows that the creditor payments processes operated by Mouchel are generally working well. Masterdata controls have improved since our last audit although we noted that additional work was required to manage the supplier file – this however is due to the procurement habits of the directorates rather than any failure within Mouchel. Access rights around the authorisation of vendor changes are not currently restricted although this risk is reduced by certain compensatory controls, especially around the change of bank details.

Findings from the audit are detailed within the attached action plan, including recommendations which, once implemented, should help strengthen controls and improve the level of performance and confidence in the Creditors process. We would take this opportunity to thank the staff for their help and assistance throughout the audit.

Management Response

LCC - Head of Finance - Children's & Specialist Services

I am grateful to the Audit team for agreeing to extend the scope of the annual audit to include wider issues such as retrospective ordering. It is re-assuring that the findings from this report are consistent with those of the governance group. They support and add weight to the actions that the group has been implementing in recent months. Business Support has already addressed a number of issues. The regular communications being made to Council staff via the daily News Lincs bulletins is an important tool in helping raise awareness and changing the culture. It is clear that the Council's new finance system will drive considerable change in practices and although work on implementing that will commence later this year, it is nevertheless important to tackle the current problems through the measures outlined in the action plan. It is disappointing that the percentage of invoices paid on time has dipped during the past year, but this was marginal, it remains above the 90% target and is now improving again. It is re-assuring that Mouchel's performance remains good and is helping to ensure that accurate payments are made by the Council. I am confident that the action plan will deliver the short term improvements that we require and that the new finance system will eliminate a number of the current problems.

Mouchel Financial Services Management team:

We feel that the creditors 2013/14 audit report accurately reflects the current position of the service and highlights the main areas for improvement. It is clear that the overall end to end service does have some development needs particularly around responsibilities of both requestors and approvers within LCC directorates, but with the internal changes that have begun to be implemented towards the end of last year it should help to promote further improvements to the current systems. The development actions identified within the report should also enable LCC to progress towards cultural changes which are likely to be initiated with the Agresso implementation later this year. As an additional note we'd also like to thank the LCC audit team for the professional and quality audit which has been appreciated by all of our team.

Business Support:

Business Support acknowledges the requirement for compliance is critical within its service delivery. The introduction of EBP alongside other reasons, as stated in the report, has detracted from this. We have already recognised the need to improve communications, compliance and processes towards the end of 2013. Subsequently a more focused management lead supporting this business area is now driving change and working to achieve full assurance through an agreed action plan. The

report identifies improvements are being made and we will continue to support these in a proactive manner.

Procurement Lincolnshire:

Procurement Lincolnshire endorses and welcomes the findings of the Internal Audit Report Creditors 2013/14; it adds weight both to our procurement strategies and focusses the attentions of the directorates on greater accuracy including compliance. It is recognised that there a large amount of vendors set up by Mouchel during the current financial year, although 65% of these relate to non-purchasing vendors. These are regulated by the directorates' financial representatives where there is less scope to reduce numbers.

Management Actions	No	All to be completed by:
High Priority	2	31 March 2014
Medium Priority	4	Ongoing

Appendix 3 – Internal Audit Plan & Schedule 2013/14

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Public Health						
Critical Service Areas						
Critical service allocation	Audit of critical services to be determined after the assurance map has been produced	25			N/A	Assurance Map used to inform 2014/15 audit plan.
Due Diligence						
Due Dilligence allocation	To review the level of compliance with the Council's key financial procedures across service areas within the Directorate	20	Feb 2014	February 2014		Draft Report
Key Projects						
Key Project allocation	To audit a key project during the year.	10			N/A	Cancelled
Key Risks						
Strategic and Emerging risks	To audit risks within the strategic risk register any significant emerging risks arising in the year.	30			N/A	Strategic risks & risk appetite identified, training delivered. Support given to identify top directorate risks.
Other relevant Areas						
Combined Assurance	Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report.	20	Oct 2013	Oct 2013	March 2014	Complete – see Public Health status report.

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Non-Audit						
Advice & Liaison		10				Ongoing
Total for Public Health		110				
Adult Services						
Critical Service Areas						
Customer Finance & Direct Payments Team	Review of the newly formed team for carrying out financial assessments of clients and making direct payments to clients.	100	June 2013	July 2013		Additional fieldwork in progress
Brokerage	Review of end to end process of the Brokerage team for the purchase and monitoring of packages of care.		Sept 2013	March 2014		In progress - delayed due to staff vacancy
Organisational learning and follow up	Review progress made to implement recommendations from the 2012 Internal Management Review / audit reviews.		Jan 2014		N/A	Postponed - in 2014/15 audit plan
Quality Assurance	Review the effectiveness of the service-quality assurance regime – developed to ensure that ASC operates to best practice standards / policy and procedures.		Jan 2014	Dec 2013	March 2014	Third party assurance – substantial.
Performance Management	Review of data quality, trend analysis and reporting arrangements, and the actions being taken to address issues.		Oct 2013	Dec 2013		Draft report.
Reablement Service	Review to gain assurance that the performance of the service continues to improve and that outcomes for service users are achieved.		Nov 2013		N/A	Audit cancelled – Reablement Service is ending.

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Key Projects						
Transformation Programme	Review of the programme/project management arrangements for this key ASC programme, considering the design and application of the governance structure.	45	Sept 2013	Jan 2014		In progress
Proactive Support	To provide proactive advice and support on governance, managing key risks and effective internal control.		April 2013	April 2013		On-going
ICT						
Case Management System	To provide proactive advice and support to this project, ensuring that key risks and controls are being considered.	15	April 2013	April 2013		On-going
Key Risks						
Strategic and Emerging risks	To audit risks within the strategic risk register any significant emerging risks arising in the year.	35				Ongoing
Other relevant Areas						
Combined Assurance	Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report.	10	July 2013	July 2013	July 2013 March 2014	Assurance Map updated in July 2013 and March 2014.
Non-Audit						
Advice & Liaison		10				
Total for Adult Services		215				

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given	
Children's Services							
Critical Service Areas							
Birth to Five							
Supported Childcare Allocations	To provide assurance that in allocating supported childcare, families are properly assessed and meet the eligibility criteria.	75	July 2013	September 2013	January 2014	Complete – Substantial assurance	
New Client Request Birth to Five Service Delivery	To review the quality assurance activities / reporting of the Birth to Five 'managed service' as it relates to the Early Years provision delivered by CfBT.		N/A	February 2014		In progress	
Commissioning							
Child Poverty Strategy	To ensure the authority's Child Poverty Strategy is supported by a robust action plan which will ensure national targets for eliminating child poverty are achieved.		June 2013	June 2013		Scope of work extended. Draft report – split assurance	
Performance Assurance Services							
Lincolnshire Safeguarding Children's Board replaced by Additional Needs	To provide assurance on the arrangements in place for the transition from school to post-16 settings for learners with learning difficulties and/or disabilities	Jan 2014	February 2014		Draft Report.		
Property & Technology Management Services							
Legal Changes to Schools	To provide assurance that statutory procedures are complied with when changes are made to schools' status – such as change in provision, expansion,	Dec 2013		N/A	Cancelled - reported to Committee November 2013		

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	closure etc.					
Police Notification of Domestic Violence	To provide assurance on arrangements to assess and record police referrals.		Dec 2013	Dec 2013		In-progress
Key Projects						
Families Working Together	To review the FWT project to provide assurance that effective mechanisms are in place to: <ul style="list-style-type: none"> Identify 'troubled' families Assess family needs Assess, evidence & record achievement of specified results Claim available funding 	10	Sept 2013	Sept 2013		Draft report
ICT						
Integrated Children's System (ICS) Replaced by Case Management System	To provide proactive advice and support to this project, ensuring that key risks and controls are being considered.	15	Dec 2013		N/A	On-going
Access Databases	Review of system maintenance, user and administrative access, input and output controls, user guidance.	15	June 2013		N/A	Risk re-assessed by client – addressed via case management system work (above)
Key Risks						
Strategic and Emerging risks	To audit risks within the strategic risk register any significant emerging risks arising in the year.	15				On-going

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Other relevant Areas						
Combined Assurance	Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report.	285	Oct 2013	Oct 2013	Jan 2014	Assurance map & status report complete
Schools	Periodic audits of maintained schools.		April 2013	April 2013	Mar 2014	Schedule of schools audits complete
Non-Audit						
Advice & Liaison		10				
Total for Children's Services		425				
Communities						
Critical Service Areas						
Environment, Planning & Customer Services		70				
Carbon Reduction Commitment	Review of the arrangements in place to comply with the Environment Agency's requirements under the CRC, including sign off of the LCC Evidence Pack.		July 2013	Jul 2013	August 2014	Highlight Report
Flood Management	Review of the development and delivery of the Flood Risk Management Strategy.			Jan 2013	March 2014	Complete – Substantial assurance
Customer Service Centre	To review the arrangements for responding to customer queries, delivering advice and information on council services and forwarding service requests.		Nov 2013	Dec 2013		In progress
			Dec 2013	Oct 3013	Dec 2013	Completed – Limited assurance

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Highways & Transport						
Civil parking enforcement	Review of the arrangements for the management and monitoring of the contract for the provision of parking enforcement services.		Oct 2013	Sept 2013		Draft Report.
Adult Services Transport	Review of the impact of personal budgets to give assurance that they have been adequately managed and arrangements put in place.		Jan 2014	March 2014		On-going
Key Projects						
Spalding Western Relief Road	To provide assurance that appropriate arrangements are in place for the governance, management and monitoring of the design stage to ensure planning permission is achieved.	20	Jan 2014		N/A	Cancelled - reported to Committee November 2013
Castle Revealed	To provide assurance that appropriate arrangements have been put in place to manage the project works and finances and they are being properly applied.		May 2013	Aug 2013		Draft Report.
Key Risks						
Strategic and Emerging risks	To audit risks within the strategic risk register any significant emerging risks arising in the year.	15				
Other relevant Areas						
Combined Assurance	Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report.	10	Oct 2103	Oct 2013	Jan 2014	Assurance map updated and status report complete

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given	
Non-Audit							
Advice & Liaison		10					
Total for Communities		125					
Resource & Community Safety							
Critical Service Areas							
Fire & Rescue							
Fleet Provision	To review the provision and maintenance of the fleet, including the safeguards in place to prevent reoccurrence of the AssetCo risk.	70	Jan 2014	Feb 2014		Draft Report	
Safer Communities							
YOS – under 18s single remand order	To review the Authority’s response to the Legal Aid and Punishment of Offenders Act 2012 – scope to cover: process, finance and links to Children’s Services – Looked After Children		June 2013	June 2013	August 2013	Completed – Substantial Assurance	
Trading Standards	Assessment of resourcing, task prioritisation and impact on timescales.		May 2013	May 2013	Nov 2013	Completed - Limited Assurance	
Procurement Lincolnshire							
Category Management	Review the effectiveness of category management model and development of supply market intelligence to delivery client needs and sustainable outcomes.	August 2013	Sept 2013		Draft Report.		

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Business Support						
Direct Payments	Review of process, compliance and support arrangements in light of change of responsibilities – system is significant to the support in ASC and has had past limited assurance from Audit.		May 2013	July 2013	Feb 2014	Final Report – Limited Assurance
Registrars / Coroners						
Coroners	Management request - review of Coroner income and expenditure following changes in jurisdiction, legislation and standardisation of processes.		N/A	Nov 2013		Draft Report
Due Diligence						
Resources						
Creditors	To ensure that the financial control environment in these systems are robust and operating effectively.	260	Aug 2013	Oct 2013	January 2014	Split assurance - Substantial (Mouchel), Limited (Directorates)
Debtors	The reviews will assess whether income and expenditure budgets are regularly monitored, appropriately controlled and reported.		Sept 2013	Nov 2013		Additional fieldwork required. Draft Report.
Procurement Card	Follow up		Nov 2013	Jan 2014		Draft Report
Pensions Administration			Dec 2013	Feb 2014		In progress
Budget Management			Jan 2014		N/A	C/F 2014/15
Pensions Fund			Feb 2014	Feb 2014		In progress
Income			Sept 2013	Sept 2013	Dec 2013	Full assurance (Mouchel), Limited (Directorates)
Key financial systems – transaction testing			Throughout the year test key controls and transactions feeding into the Council's	April 2013	May 2013	

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	accounts in liaison with External Audit		July 2013	Aug 2013	Oct 2013	Q1 – Substantial
			Nov 2013	Nov 2013 Mar 2014	Jan 2014	Q2 – Substantial Q3/4 in progress
Financial and Contract Regulations – establishment visits	To review the level of compliance with the Council's key financial procedures across selected service areas: <ul style="list-style-type: none"> ■ Eventus Business Centre ■ Horncastle Business Centre ■ Boston Registration Office ■ The Beacon Children's Centre ■ Lincolnshire Archives ■ The Collection 		Dec 2013	Dec 2013 Dec 2013 Dec 2013 Jan 2014 Feb 2014 Feb 2014	Feb 2014 March 2014	Substantial Limited Full Substantial Draft Report Draft Report
Tax Compliance Client Request	Follow up of LF&R tax compliance relating to the use of emergency vehicles by LF&R senior officers, following the settlement reached with HMRC in August 2013.		N/A	Feb 2014	March 2014	Draft Report.
Risk Management	To provide assurance on the risk management strategy, structure and operations within the organisation.		March 2014	March 2014		In progress
Contract Management	Council-wide probity / compliance work covering service delivery, quality and contract payments "business as usual"		Nov 2014	Nov 2014		In progress – 2 x directorates complete, others in-progress

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Client request: MIMS – Insurance Management System	To assess the effectiveness and reliability of the Insurance Management System, focusing on system controls and the integrity of data.		N/A	January 2014		Draft Report
ICT Applications						
SAP		15				Cancelled - ICT days reduced and reported to Nov Audit Committee
Key Projects						
FDSS	Involvement in property project / contract / open book accounting / PQQ process (quality assurance)	10	Dec 2013	Dec 2013		PQQ input complete
Emerging Risks						
Emerging risk contingency	To audit any strategic risks and significant emerging risks arising in the year.	20				
Other relevant Areas						
Combined Assurance	Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report.	10	Nov 2013	Nov 2013	Jan 2014	Assurance map updated and status report complete
Non-Audit						
Advice & Liaison		10				Ongoing
Total for Resources & Community Safety		395				

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Performance & Governance						
Critical Service Areas						
People Management	Review the effectiveness of the People Strategy launched in 2012 and the strands underpinning delivery of the Council's people management arrangements	20	Sept 2013	Nov 2013		In progress
Due Diligence Activities						
Corporate Governance	To review the effectiveness of the Council's governance arrangements, including compliance with new standards regime	20	April 2013			On-going support
Gifts, Hospitality and Register of Interests	To assess the level of compliance with the Council policy for managing gifts and hospitality and controlling potential conflicts of interest.		Dec 2013			Deferred - 2014/15 audit plan
ICT						
	Work is underway to finalise ICT assurance map and status report – this will inform the choice of audits in this section of the plan. <ul style="list-style-type: none"> ■ ICT Assurance Map ■ ICT Strategy 	85				Days reduced to 40, reported to November Audit Committee. <ul style="list-style-type: none"> ■ In progress ■ In progress
Key Projects						
Broadband in Lincolnshire	To provide assurance on delivery and compliance with the grant conditions.	10	Feb 2014	Mar 2014		In progress

Area	Indicative Scope	Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Strategic / Emerging Risks						
Strategic risk	To seek assurance on the key controls linked to strategic risks which sit within the directorate	15				
Emerging risk contingency	To audit any significant emerging risks arising in the year.					
Other relevant Areas						
Combined Assurance	Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report.	10	Nov 2013	Nov 2013	March 2013	Assurance map updated and status report complete
Non-Audit						
Advice & Liaison		10				On-going
Total for Performance & Governance		170				
Grand Total		1440				

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Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Resources & Community Safety

Report to:	Audit Committee
Date:	31 March 2014
Subject:	Draft Internal Audit Plan 2014/15

Summary:

This report presents to the Committee the draft internal audit plan for 2014/15.

Recommendation(s):

That the Committee agrees the audit plan for 2014/15.

Background

The Internal Audit Section works to an annual plan of work which is agreed by the Audit Committee and Senior Management.

The plan has been developed using the Council's Combined Assurance Model which is a record of all assurances against our critical activities and key risks.

Using the Combined Assurance Model helps streamline and avoid duplication of effort where assurances can be drawn from other sources eg management – corporate functions - third parties. It provides coverage of all assurance – not just those from Internal Audit and will enable the Head of Audit to produce the annual internal audit opinion for 2015.

Internal Audit continues to have the right to conduct its own assurance activity freely and independently in order to meet its role and remit – even if there appears to be a good level management or alternative assurance in place. However, the Map has enabled the reasons why we have included areas in our plan to be clearly understood by Management.

Our work tends to focus on where current assurances have been critically assessed as having a low or medium level of confidence on service delivery arrangements – management of risks – effective control environment or where more independent assurance is required - based on significance and risk of the activity. It also takes into account the relative risks of the activity which may result in some low risk areas not being audited.

The plan includes:

- Critical systems - those areas identified by senior management as having the most impact on the successful delivery of Council priorities or whose failure could result in significant damage to reputation, financial loss, impact on people. For example review of :
 - o Joint Commissioning Board
 - o CfBT Contract
 - o Safeguarding – organisational learning (linked to both Children and Adults serious case reviews)
 - o Joint Local Plan
 - o Joint Waste Strategy
 - o Information Governance
- Due Diligence, those systems that support the running of the Council and ensure compliance with key policies. For example review of :
 - o Key financial Systems
 - o ICT infrastructure and service delivery
 - o Contracts
- Key projects - for example assurance over :
 - o Commissioning for Lincolnshire
- ICT systems - for example review of :
 - o New case management system
 - o New financial system and associated business processes
- Emerging and strategic risk areas
 - o Managing demand
 - o Financial resilience / fundamental budget review

Attached is the draft internal audit plan for 2014/15 – **Appendix A**.

Our Internal Audit Strategy sets out how we determine our work plan – this is attached in **Appendix B**.

We have scheduled meetings in March 2014 with each Executive Director to consult and agree the areas included in the plan. Any suggested changes during this consultation will be reported to the Committee.

CIPFA's Audit Committees practical Guidance for Local Authorities and Police - 2013 Edition includes the following core functions around Internal Audit relevant to the plan:

- The Committee should seek to make the best use of the internal audit resource within the Council's Assurance Framework – confirming that the plan takes into account the requirement for the annual Head of Audit opinion – which can be used to inform the Annual Governance Statement eg
 - o How will the plan contribute to the annual opinion and Annual Governance Statement?
 - o Is Internal Audit work focussing on matters most?

- Approve (but not direct) the risk based plan, taking into account the other sources of assurance available.
- How will the Committee obtain assurance from other sources?
- Consider the sufficiency of resources to deliver the plan – skills, expertise and experience.

Conclusion

The Committee is asked to agree the draft plan, identifying any amendment that is considers appropriate.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Draft Internal Audit Plan 2014/15
Appendix B	Internal Audit Strategy

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, who can be contacted on 01522-553692 or lucy.pledge@lincolnshire.gov.uk.

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**Lincolnshire County Council
Draft Internal Audit Plan –
2014/15**

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Appendix 3 – Draft Internal Audit Plan 2014/15	

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Introduction

1. This report sets out the proposed work of Internal Audit for 2014/15. The plan has been developed using information from the Council's Assurance Map – which identified assurances present and their source against our critical activities and risks.
2. Internal Audit provides independent assurance designed to add value and improve how the Council operates. We help the Council achieve its priorities and objectives by bringing a systematic, disciplined approach to evaluate and improve the management of risk, control and governance processes.
3. Our work is carried out in accordance with the UK Public Sector Internal Audit Standards. These require that the scope of Internal Audit covers the whole range of the Council activities - seeking to provide an annual internal audit opinion on the governance, risk and internal control environment of the Council, which has been established to:
 - Achieve strategic objectives
 - Ensure effective and efficient operational systems and programmes
 - Safeguard assets and interests of all kinds (including risks that relate to work it undertakes through partnerships)
 - Ensure the reliability and integrity of financial and operational information
 - Ensure economic, efficient and effective use of council resources
 - Ensure compliance with established policies, procedures, laws, regulations and contracts

Internal Audit Strategy – How we choose what to look at

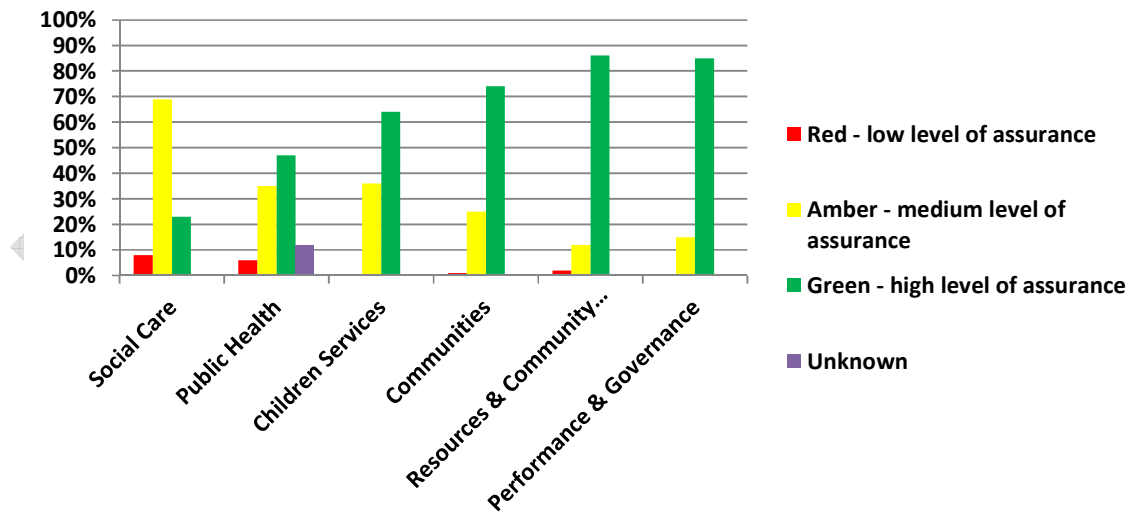
4. Our Internal Audit strategy has been developed to demonstrate how assurance can be given on:
 - The critical systems of the Council - Those key service activities whose failure could result in significant damage to the Council's reputation, material financial loss, significant impact on members of the public, significant impact on the successful delivery of Council priorities or failure to comply with service legal requirements.
 - Due diligence activities – Key processes that support the running of the business and ensure compliance with corporate policies and legal requirements. How often Internal Audit review these activities depends on previous assurance opinions, when we last examined the activity and if there has been any significant changes to the system or senior management. We also consider the requirements of External Audit.
 - Strategic Risks – Any risk recorded within the Strategic Risk Register.
 - Emerging risks - Risks that are created by a new activity or business strategy and whose failure could result in significant damage to the Council's reputation, material financial loss, significant impact on members of the public or failure to comply with service legal requirements.

- Key transformation programmes and projects. Those supporting delivery of a corporate objective / priority.
 - ICT Assurance. Focused on the critical IT applications and activities that support delivery of the Councils' key functions.
5. We have identified the level of assurances in place by using the 'Three lines of Assurance' Model:-



6. The combined assurance map shows us where we can co-ordinate our assurance work across the whole Council, not just those from Internal Audit. Figure 1 below shows the current assurance levels for each Executive Director.

Figure 1 – Assurance Levels



7. To help us triangulate the information contained in the assurance map we also undertake a risk assessment against each activity. This helps us prioritise our work and involves a series of quantitative or qualitative judgements concerning the particular system or area. A copy of our risk assessment methodology is attached in **Appendix 1**.
8. Each year we develop our risk based audit plan – there are however a number of key processes that are fundamental to the running of the Council which we review on a cyclical basis. These systems are shown in **Appendix 2**.

9. Analysing the assurance map and our risk assessment enables the annual Internal Audit plan to be developed – seeking to leverage assurance from other sources where can. This approach will enable the Head of Audit & Risk Management to produce their annual opinion on the Council’s governance, risk and control framework for 2015.
10. In developing the plan we have identified number of critical activities - which we do not have the resources to review. The Audit Committee may specifically request management or rely on third parties to provide assurance on these areas. These areas include:

Executive Director – Debbie Barnes

- Quality Assurance Framework
- Locality Teams – Prevention work & children centres
- Leaving Care Service

Director of Adult Services – Glen Garrod

- Brokerage Service
- Learning Disabilities – transition & directly provided services
- Emergency Duty Team

Executive Director – Pete Moore

- Insurance
- Trading Standards
- Youth Offending Service

Executive Director – Richard Wills

- Historic Lincoln Programme

Other

- Media Services

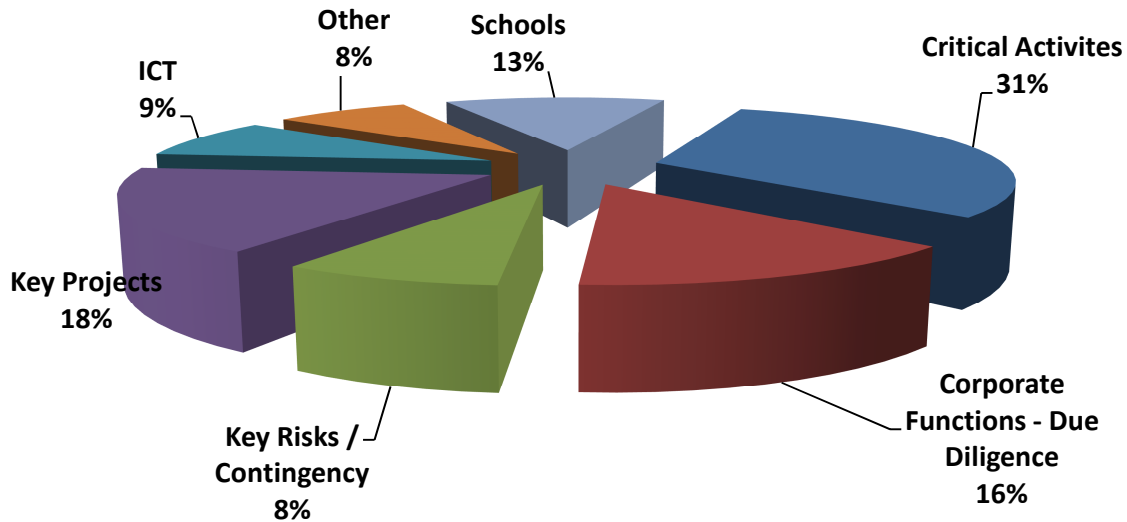
11. We co-ordinate our work on key financial systems with the Council’s External Auditors, KPMG. We are working towards a joint working protocol which sets out where the External Auditor seeks to place reliance on our work. This ensures that the Council gets the most out of its combined audit resource – keeping audit fees low.

Draft Internal Audit Plan 2014/15

12. The Council's Internal Audit plan is 1500 days. The type of areas included in the plan for 2014/15 is shown in figure 1 with the detailed projects in **Appendix 3**. A schedule of audits will be developed with management once the plan has been

approved. This will enable us to prioritise audits – increasing our ability to successfully deliver the plan.

Figure 1 – Analysis of Internal Audit Resource (showing % split)



Our Performance

13. Our effectiveness and performance is monitored by the Council's Section 151 Officer and the Audit Committee. Our performance measures are set out below in Figure 2 for information.

Figure 2 – Our performance measures

Performance Indicator	Target
Percentage of plan completed.	100% (revised plan)
Percentage of key financial systems completed.	100%
Percentage of recommendations agreed.*	100%
Percentage of recommendations implemented.*	100%
Timescales	<ul style="list-style-type: none"> ■ Draft report issued within 10 working days of completing audit. ■ Final report issued within 5 working days of closure meeting / receipt of management responses. ■ Period taken to complete audit – 80% completed within 2 months from fieldwork commencing to the issue of the draft report.
Client Feedback on Audit (average)	Good to excellent

* Achievement of the performance measures on recommendations agreed and implemented are not within our control. These are reported so the Audit Committee can see what actions management have taken. The details of any recommendations not agreed will be included in the executive summary and report to Committee.

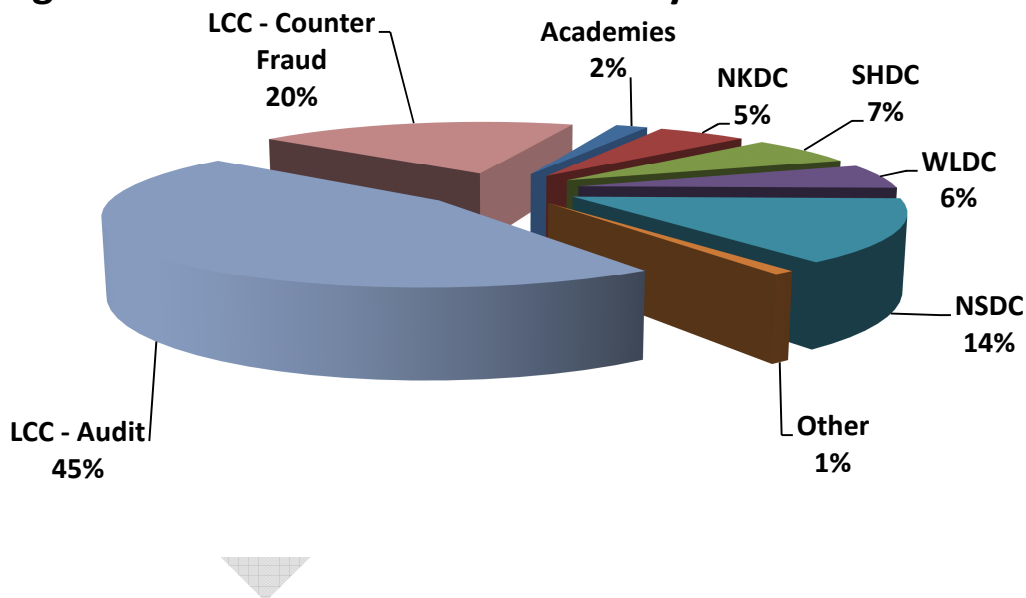
Audit Lincolnshire Partnership - Resources

14. The County Council works in partnership with the City of Lincoln for the provision of internal audit services to their own authorities and authorities with whom they have contractual or other agreements.
15. By working together the partnership aims to be:
‘the best audit assurance provider for Lincolnshire public sector agencies’.
16. The partners deliver 6 of the 8 Lincolnshire local authority internal audit functions - plus Newark and Sherwood District Council. We have developed excellent relationships, demonstrating the relevant skills and expertise to deliver a comprehensive audit service to our clients. By working together we improve the overall quality of the service provided through:
 - Sharing of knowledge and experience
 - Adoption of leading audit techniques and methods
 - Pooling resources across the organisations to make savings, improve efficiency and offer greater value for money to our clients through streamlining our audit plans to audit / research specific areas of common interest.
17. The County Council has five significant external clients:
 - North Kesteven District Council
 - South Holland District Council
 - West Lindsey District Council
 - Newark and Sherwood District Council
 - Lincolnshire Academies

The net income generated from this arrangement is £100,080. Our budget also includes income of £10,200 for fraud recoveries – we usually exceed this target.
18. The delivery model for the Internal Audit Service is mixed – a combination of in-house staff and external resources. This enables the service to be responsive to changing demand and buy in specialist resources as required eg ICT Audit.
19. There are sufficient resources to support the Section 151 Officer. This helps ensure the Council meets the requirements of the Accounts and Audit Regulations for maintaining an adequate and effective internal audit function and governance, risk and internal control environment.

20. The plan includes some days for *contingency* and *emerging risks* to help the audit service respond to any issues highlighted by management during consultation and the year.
21. The net budget for the Internal Audit Service, including Counter Fraud for 2014/15 is £639,300. Figure 4 below shows how our resources are distributed across our clients.
22. The service also generates income of £90,000 through providing an Academies Insurance product. Following a recent announcement by the Education Funding Agency (EFA) to introduce a new Risk Pooling Scheme for Academies insurances, wef 1st September 2014, it is anticipated that the future demand for our insurance intermediary service will reduce over the next few years. We will shortly be doing some work to map out and predict the potential impact of the new EFA arrangement on our future income beyond 2014/15.
23. The above initiatives minimise the overall cost of the Audit and Risk Service to the Council with any underspends and fraud recoveries being made available to other Council priorities / services.

Figure 4 - Allocation of Resources by Client



Appendix A - Audit Lincolnshire – Planning Risk Assessment Methodology

Value / Volume

This assessment is based on either the cost to the council, the volume of transactions that the activity is handling or a combination of the two

0 – Not material

1 – Minor importance (up to £100k¹ budget and approx. weekly transactions)

2 – Important (up to £1m² budget and up to daily transactions)

3 – Material (over £1m budget and multiple transactions daily)

Significance

This assessment reflects how important the activity is to the authority and its residents

0 – not significant

1 – Minor significance

2 – Significant

3 – Very significant

Audit rating

0 – recent review no significant findings (full / substantial)

1 – Recent review with findings (limited)

2 – Not recently reviewed (3 years)

3 – Recent review – number of significant findings (No assurance)

Sensitivity / Profile

This assessment is about the impact if things went wrong, how much interest would there be and how much would this impact on reputation

0 – low (internal system)

1 – Medium profile

2 – High profile

Changes to people / systems

0 – no changes

1 – Minor changes

2 – Significant changes

3 – New system or team

Other assurance

Other assurances we have identified during the mapping process and how much reliance we can place on these.

0 – high level of assurance – e.g. Snr mgmt. oversight / management reporting / activities / external review / scrutiny

1 – Moderate level of assurance – management assurance

2 – Low level of assurance – new area – assurance unknown – emerging risk

Risk score		Risk score		Risk score	
1	Low	7	Med	12	High
2		8		13	
3		9		14	
4		10		15	
5		11			
6					

¹ £500k for County

² £5m for County

Appendix B –Due Diligence Plan

System	Opinion	Last audited	System Changes	Year 1 2014/15	Year 2 2015/16	Year 3 2016/17
Financial Due Diligence						
Income	Split – Substantial/ Limited	2013/14	Yes – new system	✓		✓
Bank Reconciliation*	Substantial	2012/13	Yes – new system	✓	✓	
Budgetary Control/Management	Substantial	2012/13	Yes – new system	✓		
General Ledger*	Ongoing	Annual	Yes – new system	✓	✓	✓
Budget prep and financial strategy	Full	2009/10	Yes – new system	✓		
Creditors*	Split – Substantial/ Limited	2013/14	Yes – new system	✓		✓
Debtors*	Split – Substantial/ Limited	2013/14	Yes – new system	✓		✓
Payroll*	Substantial	2011/12	Yes – new system	✓		
Treasury Management	Full	2012/13	No		✓	
Tax Compliance	In progress	2013/14				✓
Property, Plant and Equipment*	In progress	2013/14	Yes – new system	✓		
Procurement Card	Limited	2013/14	No			✓
VAT	Full	2006/07	No	✓		
Pensions Fund*	Ongoing	2013/14	No			✓
Pensions Administration *	Limited	2012/13	Yes - provider	✓	✓	
Capital Programme	Full	2012/13			✓	
Financial and Contract Regs - compliance				✓	✓	✓
Establishments (schools)						
Establishments (non-schools)	-	Annual				
*Key Control Testing Areas for Financial Control Opinion	-	Annual		✓	✓	✓
Other Due Diligence						
Contract Management	In progress	2013/14	Yes – public health	✓		
Risk Management	In progress	2013/14	Yes – new toolkit			✓
Insurance	Substantial	2008/09		✓		
Business Continuity / Emergency Planning	Limited	2010/11	Yes – change of mgt	✓		
Health & Safety	Partial	2006/07	Yes - FDSS		✓	
Counter Fraud					✓	
Internal Audit	Effective	Annual	Yes – New Stds		✓	
Gifts & Hospitality	In progress	2013/14	No			✓

Appendix B –Due Diligence Plan

System	Opinion	Last audited	System Changes	Year 1 2014/15	Year 2 2015/16	Year 3 2016/17
Register of Interests	In Progress	2013/14	No			✓
Big Society Members Grant	Limited	2012/13	No		✓	
Corporate Complaints	Substantial	2009/10	No	✓		
Partnership Management	Limited	2009/10	No	✓		
Programme Office	Limited	2013/14	No			✓
Performance Management	Substantial	2013/14	No			✓
Corporate Governance	Adequate	2013/14	Yes – new structure	✓	✓	✓
Information Governance	Substantial	2011/12	No	✓		
Records Management			No	✓		
Freedom of Information / transparency agenda	Partial	2007/08	No	✓		
HR Strategy	Full	2010/11	No		✓	
Workforce Planning			No	✓		
Capability and Disciplinary			No	✓		
Individual Performance Management			No	✓		
HR Management Information	Substantial	2008/09	No		✓	
Training & Development			No		✓	
Absence Management			No		✓	
Compromise Agreements	Substantial	2008/09	No	✓		
Equality & Diversity			No			
Impact Assessments			No	✓		

Appendix C – Draft Internal Audit Plan

Area	Indicative Scope	Planned Days
Critical Service Areas:		
- Those areas identified by senior management as having the most impact on the successful delivery of Council priorities or whose failure could result in significant damage to reputation, financial loss, impact on people (risks)		
Executive Director – Pete Moore		
Corporate property		
Property Management	Review the effectiveness and delivery of the Property Strategy and utilisation of its property assets.	
Capital Contracts	Review of award and management of contracts	
Fire and Rescue		
Trading Company	Assurance over the governance, risk and control environment arrangements set up for the Company.	
Sub Total		50
Executive Director – Richard Wills		
Environment & Planning		
Carbon Reduction Commitment	Review of the arrangements in place to comply with the Environment Agency's requirements under the CRC, including sign off of the LCC Evidence Pack.	
Joint Policy working / Joint Local Plan	Review of joint policy working arrangements to ensure that LCC is clear of its role and responsibilities and is an active partner in managing the risks (link to JPU and Wind farm policies). Provide assurance on the revised delivery arrangements for the central Lincolnshire joint local plan and provide support and advice at key stages through gateway review.	
Joint waste management strategy	Review to provide assurance on arrangements and progress for the district waste strategy. To include assessment of financial benefits and district engagement.	
Highways & Transport		
Outsourcing – suppliers resilience	To provide assurance that commissioned service contracts include arrangements for managing exceptional and emergency events. Fleet mgmt., Civil parking, Highways alliance etc.	

Appendix C – Draft Internal Audit Plan

Area	Indicative Scope	Planned Days
Or Social Care Transport	To provide assurance that effective arrangements are in place for the operational management of transport services – including Safeguarding arrangements.	
Economic Development		
Adult Learning	Review of the financial arrangement in to confirm adequate financial control and sustainability	
Sub Total		70
Director of Children Services – Debbie Barnes		
Commissioning		
Joint Commissioning Board	Review of Joint Commissioning Governance and decision making processes. (Co-ordinate audit with Director of Adult Services & Director of Public Health)	
Home to School / College Transport	To provide assurance that effective arrangements are in place for the financial and operational management of Home to School / College transport services – including VfM and Safeguarding arrangements.	
Regulated Services		
Children's Adolescent Mental Health Services	To provide assurance around the commissioning of Children's Adolescent Mental Health Service. LCC are lead commissioner for funds allocated by NHS England.	
School Administration Services		
Non-attendance at school	To provide independent assurance that the authority has robust policies and procedures in place to enable them to meet their legal duty to identify children missing education and get them back into education.	
Performance Assurance		
CfBT contract	Audit of the financial arrangements covering the four funding streams – open book accounting approach	

Appendix C – Draft Internal Audit Plan

Area	Indicative Scope	Planned Days
Educational Performance – Moderation	To review the moderation arrangements of pupil attainment across all Key Stages, including Early Years and pupils with special educational needs.	
Safeguarding – Organisational Learning	Assurance over organisational learning following the outcome of serious case reviews. Co-ordinating the audit engagement through the Lincolnshire Children Safeguarding Board.	
Human Resources		
People Management	Review the effectiveness and compliance of the People Strategy launched in 2012 and the strands underpinning delivery of the Council's people management arrangements. Areas not previously reviewed in 2013/14: <ul style="list-style-type: none"> • Resource & Talent Management • Capability and Disciplinary • Managing Employee Performance & Development 	150
Schools	Periodic audits of maintained schools.	190
Sub Total		340
Director of Adult Services – Glen Garrod		
Safeguarding	To provide assurance around the Governance and decision making arrangements of the new mandatory Safeguarding Board. The audit will also review and assess progress and implementation of recommendations arising from the Lincolnshire Adult Social Care Peer Challenge and Domestic Homicide Reviews.	
Joint Commissioning Board	Review of Joint Commissioning Governance and decision making processes. (Co-ordinate audit with Director of Children Services & Director of Public Health)	
Information Governance	A review to assess the controls in place for preventing Data Security Breaches.	
Workforce Development	A review of training planning and delivery arrangements.	

Appendix C – Draft Internal Audit Plan

Area	Indicative Scope	Planned Days
Reablement Service	Review to gain assurance around the new arrangements.	
Contract Management	Assurance around the contract governance, monitoring and reporting procedures.	
Sub Total		100
Director of Public Health – Tony Hill		
Joint Commissioning Board	Review of Joint Commissioning Governance and decision making processes. (Co-ordinate audit with Director of Adult Services & Director of Children Services)	
Sexual Health Services	Review of the Governance and decision making arrangements for commissioning mandated Sexual Health Services.	
Health Protection	A review of the Assurance Framework for protecting the Health of the Local Population, including screening, infection control and immunisation.	
Lincolnshire Community Assistance Scheme	To provide assurance around the application, payment, monitoring and reporting procedures and controls for this new scheme.	
Substance Misuse	Review of the Governance and decision making arrangements for commissioning services.	
Wellbeing Service	Review of the Governance and decision making arrangements for the implementation of the Wellbeing Service.	
Contract Management	To provide assurance around the transfer of Public Health/ NHS contracts to the Authority. Assurance around the contract governance, monitoring and reporting procedures.	
Sub Total		100

Appendix C – Draft Internal Audit Plan

Area	Indicative Scope	Planned Days
Corporate Functions - Due Diligence		
- Those systems that support the running of the Council and ensure compliance with key policies		
Executive Director – Pete Moore		
Finance		
Key financial systems – transaction testing	Throughout the year test key controls and transactions feeding into the Council's accounts to ensure financial control environment remains effective throughout the final year	150
Mouchel Contract	Assurance over handover arrangements and delivery to the end of the contract.	
Pensions Fund / Administration	Provide assurances over the arrangements to transfer responsibilities to new provider (9 month process from June 2014)	
Budget Management	On cyclical plan for 2014/15 – although high confidence in this area – analytical review plus deeper dive into service area budgets	
Procurement Lincolnshire		
Contract Management	Review the effectiveness of contract management model enterprise wide.	15
EU procurement changes	Review of the procurement regulations to ensure that the necessary changes have been implemented.	
Other		
Corporate Governance	To review the effectiveness of the Council's governance arrangements, including compliance with new standards regime	20
Member Support	Review the arrangements for member support in view of the risks identified from the changing political make up of the council	
Information governance / record mgt	To review organisation wide information governance arrangements to provide assurance that data related risks are sufficiently managed whilst ensuring the right data is available at the right time.	15
Emergency Planning and Business Continuity	Review the Council's arrangements and resilience to respond and recover to a major event / incident.	15
Sub Total		215

Appendix C – Draft Internal Audit Plan

Area	Indicative Scope	Planned Days
ICT		
ICT Infrastructure and service delivery	Work is underway to finalise ICT assurance map and status report – this will inform the choice of audits in this section of the plan. Scheduling of individual ICT audits will be agreed when the assurance map is finalised.	
IT Application	Social Care Case Management System	
Sub Total		130
Key Projects		
Executive Director – Pete Moore		
New Finance System	Support and advise the Implementation Group on the key workstreams re. transfer to the Finance System	
Broadband in Lincolnshire	To provide assurance on delivery and compliance with the grant conditions.	
Corporate landlord	To provide a consultative and supportive role for the 'corporate landlord' project as it progresses along its implementation plan during 2014/15	165
Executive Director – Richard Wills		
Library needs assessment	Review to confirm that proposals for the future of the Library Service will deliver reported savings.	15
Director of Children Services – Debbie Barnes		
New HR System	Support and advise the Implementation Group on key HR workstreams	
Families Working Together	To review and audit claims for Troubled Families Grant. Days allocated on the basis of a quarterly claim.	35
Support & Aspiration (project) / Special Educational Needs (critical activity)	To provide independent assurance on the delivery of the reforms to SEN support set out in the Children and Families Bill by 1 st September 2014. A SEN local offer and new approaches to SEN assessment and provision are being co-produced with parents and young people.	
OR		
Raising the Participation Age (project) / Tracking the Status of 16 – 18 year	From September 2013, all 17 year olds had a duty to participate in education, employment or training. This extends to 18	

Appendix C – Draft Internal Audit Plan

Area	Indicative Scope	Planned Days
olds in education, employment or training (critical activity)	<p>year olds from September 2014.</p> <p>To review the arrangements in place that ensure young people are aware of their duty to participate and that there will be sufficient provision available. This could include how the LA are identifying young people that are not in education or training, including data sharing arrangements with Educational Institutions.</p>	20
Director of Adult Services – Glen Garrod		
Transformation Programme	<p>Review, advice and guidance around the transformation programmes within Social Care, including the Case Management System and Lincolnshire Sustainability Review - considering the design and application of the governance structure.</p> <p>To provide proactive advice and support on governance, managing key risks and effective internal control.</p>	30
Sub Total		265
Emerging risk & Contingency		
Emerging risk – delivery of transformation	Assurance arrangements around commissioning (in line with the commissioning strategies & the fundamental budget reviews).	
Emerging risk contingency	<p>To audit any significant emerging risks arising in the year –</p> <ul style="list-style-type: none"> Responding to legislation eg Care Bill / Dilnot 	
Sub Total		115
Other relevant Areas		
Combined Assurance	<p>Co-ordinating and updating assurances on the Council's assurance map with service managers.</p> <p>Co-ordinating the annual status report.</p>	50
Sub Total		50
Non-Audit		
Advice & Liaison		44
Annual Report		1
Audit Committee		20
Sub Total		65

Appendix C – Draft Internal Audit Plan

Area	Indicative Scope	Planned Days
Grand Total 2014/15		1500 Days

Draft

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Internal Audit & Risk Assurance Strategy

Internal Audit provides an independent assurance and consulting activity designed to add value and improve how the Council operates. We help the Council achieve its priorities and objectives by bringing a systematic, disciplined approach to evaluate and improve the management of risk, control and governance processes. A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised through the UK public sector.

We play a key part in the Council's overall assurance arrangements which are designed to ensure that its governance, risk and control frameworks are working effectively.

This strategy is a statement of how Audit Lincolnshire delivers assurance to our clients, creating a framework within which more detailed plans can be developed. Our strategy aims to provide a complete picture as possible of the Council's assurance on critical systems and the key risks it faces – supporting the delivery of the Councils' business plan objectives and priorities.

At the heart of the strategy is our 'Assurance Map'. This helps focus our work plans on risks that matter – the make or break risks that affect the successful delivery of services and strategic objectives. It also recognises the importance of critical business systems that support successful delivery and 'protect the business'.

Our aim is to align our work with other assurance functions, particularly performance and risk management and look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council. The Map can be used to:

- give the opportunity to determine if adequate and reliable assurance is planned and being delivered on the areas of the business that matter most. It also provides the ability to challenge potentially excessive or inadequate assurance.
- help establish the Internal Annual Audit Plan by identifying where more independent assurance is required based on significance and risk of the activity. Internal Audit will continue to have the right to conduct its own assurance activity freely and independently in order to meet its role and remit. However, if we need to provide assurance through our work plans then the reasons need to be clearly understood by the Management Board and Audit Committee.
- be a key source of information to help develop the Councils Annual Governance Statement
- support the work of the Audit Committee
- enable the Head of Audit to produce the annual audit opinion
- streamline and avoid duplication of effort where assurance can be drawn from a third party or other sources eg performance, risk and management assurances.
- help encourage management to take the lead and ownership over the assurance provided on their areas of accountability.

Our vision

Our main role is to provide assurance that the Council maintains an effective internal control environment that enables it to manage its significant business risks and achieve its objectives / priorities. We help the Council achieve its objectives, ensure that effective & efficient operations are maintained, safeguards its resources and provides assurance that the Council has good governance arrangements in place.

Our aim is to:

“To deliver excellent and innovative services that help support delivery of the Council’s objectives and priorities”

“Work together to be the best risk and audit assurance provider for Lincolnshire public sector agencies”

The key drivers of this strategy are:

- To help managers identify, understand and manage the risks facing achieving their, and the Council’s, objectives and priorities as set out in the Corporate and Business plans. Create an environment of well measured risk taking and a strong control environment,
- To help promote effective risk management,
- Provide *independent* and *objective* assurance on the critical systems and strategic key risk areas whilst leveraging other assurance functions,
- To meet our customers needs now and for the longer term, and
- Maintain a resilient and sustainable service.

This helps focus our work to where it is most needed, whilst complying with the UK Public Sector Internal Audit Standards.

How we chose what to look at

Our Assurance Map can be linked back to:

- business plan objectives & priorities;
- service plans;
- critical systems;
- the strategic risk register;
- change management programme,
- emerging risks, and
- the assurance framework.

It has been developed through our understanding of the business, reference to the risk management arrangements in the Council and by gathering information from Senior Management. It maps:

- The critical systems of the Council - Those key service activities whose failure could result in significant damage to the Council's reputation, material financial loss, significant impact on members of the public, significant impact on the successful delivery of Council priorities or failure to comply with service legal requirements.
- Those key service activities whose failure could result in significant damage to the Council's reputation, material financial loss, significant impact on members of the public or failure to comply with service legal requirements.
- Due diligence activities – Key processes that support the running of the business and ensure compliance with corporate policies and legal requirements. How often we review these activities depends on previous assurance opinions, when we last examined the activity and if there has been any significant changes to the system or senior management.
- Strategic Risks – Any risk recorded within the Strategic Risk Register or a risk considered by Senior Management that should be considered for inclusion.
- Emerging risks - Risks that are created by a new activity or business strategy, a change programme or changes to an existing activity.
- Key transformation programmes and projects. Those supporting delivery of a corporate objective / priority.
- ICT Assurance. An ICT Audit plan focussed on the critical IT applications and activities that support delivery of the Councils' key functions. This is based on a risk assessment.

Having developed the Assurance Map we then assess what assurance (comfort) we can obtain ie

'A critical review or assessment that gives us a reasonable level of confidence on the activity's service delivery arrangements, management of risks, operation of controls and / or performance'

Assurance can be obtained by:

- Audit Lincolnshire through our work plans. We provide **independent** assurance on the activity's service delivery arrangements, management of risks, operation of controls and / or performance
- Corporate Functions and Third Party Assurance eg Inspections and / or other assurance functions of the Council (Risk Management, Performance, Programme Management, Health & Safety, Legal, Procurement, External Audit, Inspection results). These functions help support measured risk taking and provide independent information on performance, successful delivery, organisational learning and any emerging risks facing the Council.
- Management Assurance – Provided by the Senior Manager of the activity by responding to some diagnostic questions on service delivery, risks and performance. They are accountable for successful delivery. They set 'the tone from the top' and develop and implement the policies, procedures, processes and controls – ensuring compliance. They are our '1st line of assurance' to prevent things from going wrong, reporting problems and taking remedial action.

- The status and independence of the Audit Committee allow it to challenge how things are done and confirm that the right processes are in place. It is a vital “watchdog” body promoting good governance and accountability and plays a key role in the Councils assurance arrangements.

Our strategy for determining the level of assurance and allocating our resources is also influenced by the Council’s *risk appetite*¹. The Council’s risk appetite is reviewed from time to time to help assess the levels of assurance needed. It is currently assessed as **risk aware and open** *ie willing to consider all potential delivery options and choose the one that is most likely to result in successful delivery while also providing a good level of reward (value for money etc)*. This means that our risk and assurance systems need to be working well so that we create an environment of ‘No Surprises – well measured risk taking – willing to take risk with a degree of uncertainty -recognising things will go wrong – learn from mistakes’. The level of *risk appetite* may also vary given the nature of the risk.

In deciding what we look at we assess how much reliance we can place on the risk management arrangements of the Council and other sources of assurance.

To help us triangulate the information contained in the assurance map we also undertake a risk assessment against each activity. This helps us prioritise our work and involves a series of quantitative or qualitative judgements concerning the particular system or area. A copy of our risk assessment methodology is attached in **Appendix A**.

Some areas are fundamental to the running of the Council which we review on a cyclical basis – usually once every 3 years (our due diligence work).

We take all of the above into account when we plan our work to ensure that the Council get the most out of the Internal Audit Service within the resources available. In light of this areas of low risk may not be subject to an audit.

The assurance maps and risk assessment is revisited each year as part of the annual planning process.

Our Service

Our service is made up of three teams:

- Risk Management
- Audit
- Counter Fraud and Investigations

They work closely to provide independent assurance that an effective internal control environment is in place that enables the Council to manage its significant business risks

We have formed the ‘Audit Lincolnshire’ partnership which involves Lincolnshire County Council and the City of Lincoln working together for the provision of internal audit services to their own authorities and authorities with whom they have contractual or other agreements. For more information on the partnership please follow this link:

¹ The amount of risk that we are prepared to accept, tolerate or be exposed to at any point in time

Our delivery model is predominately in-house staff however where appropriate we engage specialist auditors to support the delivery of our work plans eg Computer Audit

Risk Management

This team develops and maintains the Council's Risk Management Strategy and structures.

They work with senior managers and our key partners to help produce and monitor our risks at a strategic level. They support management to have the confidence to take well measured risks – creating an environment for innovation and seizing opportunities. They obtain assurance that our key controls mechanisms are operating or are being developed effectively on the Strategic Risk Register.

In supporting effective risk management they develop and maintain the following policies:

- Health and Safety Strategy
- Insurance Strategy

Audit

This team supports the Section 151 Officer and Monitoring Officer. It ensures the Council meets the requirements of the Accounts and Audit Regulations for maintaining an adequate and effective internal audit function.

Our scope spans the whole range of Council activities, financial or otherwise, and includes:

- Working with managers to provide assurance that key service risks are being effectively managed. Gaining assurance that key control mechanisms are operating or are being developed effectively.
- Gaining assurance that our key financial systems are working correctly
- Gaining assurance that our critical systems are working correctly
- Value for Money reviews
- Giving advice on risk and controls for major change programmes and developments

The audit plan includes key financial systems regarded by External Audit as material to their opinion on a Council's Statement of Accounts. We have a protocol with them that aims to make the best use of the Councils combined audit resource.

Counter Fraud and Investigations

The team develops and maintains the Councils Counter Fraud and Whistle blowing policies. Working with other local authorities we have joined forces to tackle fraud in Lincolnshire. This includes:

- Supporting managers by undertaking proactive counter fraud work in areas where the service is most exposed to the risk of fraud or error
- Undertaking investigations into alleged irregularities and frauds

Our annual work plans

The focus of our work is primarily determined by the evaluation of the Assurance Map and tends to be on the critical systems (including IT), strategic risk areas, key finance systems and transformational change programmes. This helps our service be more proactive and directs our work to areas where it is most needed.

The development of plans includes consultation with service and senior management. They are approved in accordance with each client's requirements², and include flexibility to take into account of changing requirements.

Some *contingency* days is also included to help us respond to any issues highlighted during consultation and emerging risks during the year.

Our annual plan is approved by the Executive Director – Resources and Community Safety and the Audit Committee.

Our Assurance Approach

How we provide assurance can vary and will be based on what evidence we need to have a reasonable level of confidence on the activity's service delivery arrangements, management of risks, operation of controls and / or performance. Our options are:

- We assess what reliance we can place on Third Parties work
- We assess what reliance we can place on Management Assurances
- We use the most appropriate audit approach for our client – taking into account:
 - The nature of the activity being reviewed
 - The significant risks relevant to the activity
 - The needs of the client
 - The political and management environment – recognising the changing face of public sector service delivery models

The two main audit approaches we use are as follows:

An outcome / risk based approach audit assignment

This approach helps us move away from looking solely at the impact of risk / failure and provides more emphasis on delivery of outcomes. We assess this in the context of its supporting governance framework (which includes risk and internal control).

Instead of solely focussing on the risk our approach considers:

² Generally the Section 151 officer and the Audit Committee or equivalent

- what needs to happen to achieve your objectives or outcome (it recognises that innovation and opportunities to improve our services sometimes requires risk taking and changes in delivery / strategy)
- what will stop you from getting there (the risks - managers need to know the boundaries to work in and what you want them to do if they want to step out of these)
- what needs to be done (actions / controls that take a proportionate response to a risk)

We use similar techniques as a traditional risk based approach but with a different focus – there is a clear understanding that the *risk appetite* may vary for each service area / subject.

A system based audit assignment

We review a system’s end to end processes, evaluate and test its risks and controls, recommending control improvements. This tends to be used on financial and due diligence systems.

Using this approach provides wider assurance on the whole system with testing being undertaken on key risks and control areas.

A copy of our Audit Process is attached in **Appendix B**.

Regulatory background

The requirement for local authorities to have an internal audit function is determined by section 151 of the Local Government Act 1972, which requires that authorities ‘make arrangements for the proper administration of their financial affairs’.

The Accounts and Audit Regulations 2011, more specifically require that the Council:

- Have “a sound system of internal control which include arrangements for the management of risk”;
- Undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The Head of Internal Audit is required to provide an annual opinion on the Council's governance, risk and internal control environment;
- Review the effectiveness of its system of internal audit once a year. The Council's Audit Committee undertakes this responsibility;
- Prepare and publish an Annual Governance Statement.

Internal Audit seeks to meet the standards laid down by professional bodies and in particular the UK Public Sector Internal Audit Standards and the associated local government application note published by CIPFA. These standards set the basic principles for carrying out internal audit in the public sector and provide quality criteria against which performance can be evaluated. Policies and practice guidance have been put in place to ensure all staff understand and conform to these standards.

The provision of Internal Audit is the responsibility of the Council; this responsibility has been formally delegated to the Executive Director – Resources & Community Safety (the Council's Section 151 Officer).

Appendix A - Audit Lincolnshire – Planning Risk Assessment Methodology

Value / Volume

This assessment is based on either the cost to the council, the volume of transactions that the activity is handling or a combination of the two

0 – Not material

1 – Minor importance (up to £100k³ budget and approx. weekly transactions)

2 – Important (up to £1m⁴ budget and up to daily transactions)

3 – Material (over £1m budget and multiple transactions daily)

Significance

This assessment reflects how important the activity is to the authority and its residents

0 – not significant

1 – Minor significance

2 – Significant

3 – Very significant

Audit rating

0 – recent review no significant findings (full / substantial)

1 – Recent review with findings (limited)

2 – Not recently reviewed (3 years)

3 – Recent review – number of significant findings (No assurance)

Sensitivity / Profile

This assessment is about the impact if things went wrong, how much interest would there be and how much would this impact on reputation

0 – low (internal system)

1 – Medium profile

2 – High profile

Changes to people / systems

0 – no changes

1 – Minor changes

2 – Significant changes

3 – New system or team

Other assurance

Other assurances we have identified during the mapping process and how much reliance we can place on these.

0 – high level of assurance – e.g. Snr mgmt. oversight / management reporting / activities / external review / scrutiny

1 – Moderate level of assurance – management assurance

2 – Low level of assurance – new area – assurance unknown – emerging risk

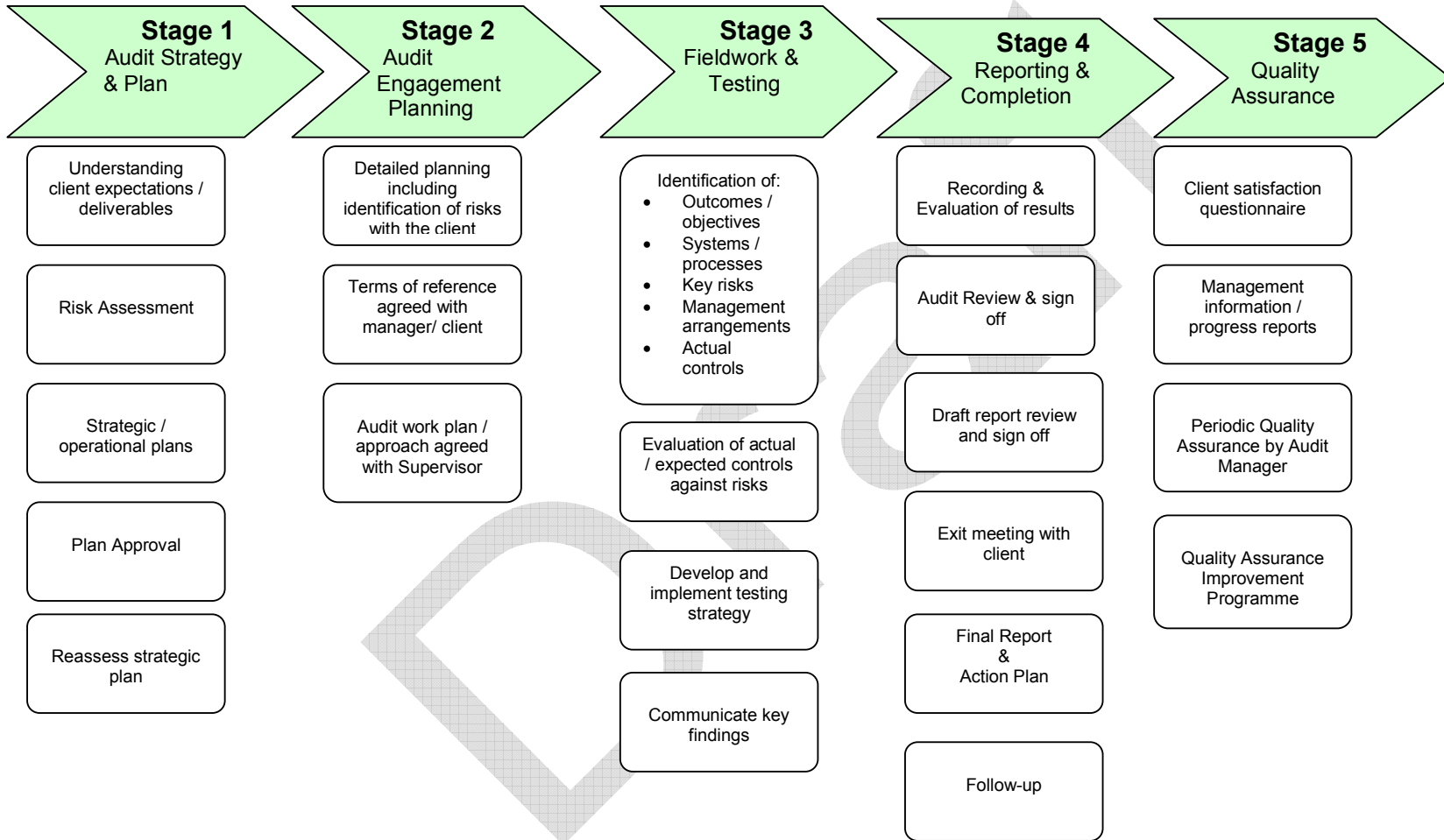
Risk score		Risk score		Risk score	
1	Low	7	Med	12	High
2		8		13	
3		9		14	
4		10		15	
5		11			
6					

³ £500k for County

⁴ £5m for County

Appendix B - Audit Process

Our approach to the delivery of internal audit is underpinned by the framework illustrated below:



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Open Report on behalf of Pete Moore, Executive Director Resources & Community Safety

Report to:	Audit Committee
Date:	31 March 2014
Subject:	Counter Fraud and Investigations Work Plan 2014/15

Summary:

The Council's counter fraud arrangements demonstrate its continued commitment to strong governance and best use of resources. Our response to Central Government's expectations for tackling fraud and corruption is reflected in the draft 2014/15 Counter Fraud Plan. It is important we maintain our counter fraud response and resilience as the changes to Council service delivery continue to evolve.

Recommendation(s):

To review and approve the Counter Fraud Work Plan for 2014/15.

Background

- 1 In response to central government's expectations for tackling fraud and corruption, we aim to continue to focus on our prevention, detection and investigation work.
- 2 Our whistleblowing and counter fraud awareness activity will continue throughout 2014/15 and we plan for more engagement with managers, members and staff.
- 3 We will continue to use our data analytics expertise to enhance our analysis and fraud & error testing across key financial systems, as well as carrying out discrete pieces of work in areas carrying a higher fraud risk.
- 4 Our pro-active work will also cover the preparatory work for the next National Fraud Initiative and we will review the Council's exposure to any areas of emerging fraud risk that may be highlighted nationally.
- 5 Action plans resulting from our proactive and investigation work will focus on recovery action (where loss through fraud & error is identified) and recommendations to improve systems, process or policy to prevent reoccurrence.

- 6 The conflict between our planned proactive work and the investigation demand will remain – we do our best to balance this within our Work Plan and manage it throughout the year. This year we have allocated approximately 54% of our counter fraud resource to investigation activity.

Conclusion

The Council's Counter Fraud Work Plan for 2014/15 provides a robust response to Central Government's expectations for tackling fraud and corruption. This demonstrates the Council's continued commitment to ensuring good governance during a period of significant change to service delivery.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Draft Counter Fraud Work Plan 2014/15

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Stephanie Kent, who can be contacted on 01522 553682 or stephanie.kent@lincolnshire.gov.uk.

Draft Internal Audit Plan 2014/15 – Counter Fraud

Area	Indicative Scope	Planned Days
Counter Fraud		
<i>Culture</i>		
<ul style="list-style-type: none"> Engagement & training Website maintenance Awareness campaign 	<ul style="list-style-type: none"> Briefing sessions – training for members, management and staff Updates, risks, results and information Develop e learning platform and update Audit Lincolnshire microsite Possible newsletter (raise awareness) 	40
Sub Total		40
<i>Deterrence</i>		
Promotion of Counter Fraud Activity	<ul style="list-style-type: none"> Counter Fraud Team Investigation outcomes and learning points Fraud prevention measures 	10
Sub Total		10
<i>Prevention</i>		
<ul style="list-style-type: none"> Organisational learning Continued use of data analytics Advice 	<ul style="list-style-type: none"> Reports and action plans Use of data analytics for pro active counter fraud exercises 	40
Sub Total		40
<i>Detection</i>		
<ul style="list-style-type: none"> Update fraud risk profile Pro-active counter fraud exercises National Fraud Initiative 2014/15 	<ul style="list-style-type: none"> Risk assessment work (c/f from 2013/14) Pro-active work based on local and national issues Preparation of data for National Fraud Initiative exercise 	140
Sub Total		140
<i>Investigations</i>		
Whistleblowing and Fraud investigations		350
Sub Total		350
<i>Sanctions and Redress</i>		
Pursue civil, disciplinary	Action taken and identified during	5

APPENDIX A

and criminal sanctions where required	investigation process	
Sub Total		5
Contingency		65
Grand Total		650

Please note a breakdown of 'Detection' work will be provided on completion of the updated Fraud Risk Assessment

Draft