

County Offices
Newland
Lincoln
LN1 1YL

12 April 2013

Audit Committee

A meeting of the Audit Committee will be held on **Monday, 22 April 2013 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



Tony McArdle
Chief Executive

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

Conservatives

Councillors B Young (Chairman), A N Stokes (Vice-Chairman), C Farrar, Mrs P A Mathers and Mrs S Rawlins

Independents

Councillors W J Aron

Liberal Democrats

None

Labour

Councillors N I Jackson

Voting Added Member

Mr P D Finch

**AUDIT COMMITTEE AGENDA
MONDAY, 22 APRIL 2013**

Item	Title	Pages
1	Apologies for Absence/Replacement Members	
2	Declaration of Members Interests	
3	Minutes of the meeting of the Audit Committee held on 28 January 2013	1 - 6
4	Corporate Audit Progress Report to 31 March 2013 <i>(To receive a report which provides the Committee with an update on progress made against the Audit Plan 2012/13)</i>	7 - 30
5	Risk Management Progress Report to 31 March 2013 <i>(To receive a report which provides the Committee with an update on how well the Council's biggest risks are being managed as well as reporting on the progress made in assisting the Council to adapt and change the way it considers risk)</i>	31 - 44
6	Counter Fraud Progress Report to 31 March 2013 <i>(To receive a report which provides the Committee with an update on the Council's fraud investigation activities and information on progress made against the Counter Fraud Work Plan 2012/13)</i>	45 - 54
7	Draft Internal Audit Plan 2013/14 <i>(To receive a report which presents to the Committee the draft Internal Audit Plan for 2013/14)</i>	55 - 80
8	Counter Fraud and Investigations Work Plan 2013/14 <i>(To receive a report which provides the Committee with an opportunity to consider the Council's Counter Fraud and Investigations Work Plan for 2013/14)</i>	81 - 90
9	International Audit Standard - Response to Management Processes Questions <i>(To receive a report which provides the Committee with an assessment around whether the Council's financial statements may be mis-stated due to fraud or error)</i>	91 - 98
10	External Audit Plan <i>(To receive a report which sets out the external audit work and fees that are proposed to undertake the audit of the financial statements and value for money conclusion for 2012/13)</i>	99 - 126
11	Statement of Accounts 2012/13 <i>(To receive a report which summarises the changes to the Code of Practice on Local Authority Accounting which will be incorporated into the 2012/13 Statement of Accounts and the review of Accounting Policies)</i>	127 - 156
12	Work Plan	157 - 162

(To receive a report which provides the Committee with information on progress on agreed actions and its work plan up to November 2013)

Democratic Services Officer Contact Details

Name: **Rachel Wilson**

Direct Dial **01522 552107**

E Mail Address rachel.wilson@lincolnshire.gov.uk

Please note: for more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting

- 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

PRESENT: COUNCILLOR B YOUNG (CHAIRMAN)

Councillors W J Aron, C Farrar, N I Jackson, Mrs P A Mathers and A N Stokes.

Officers in attendance: Tony Crawley (Audit Commission), Judith Hetherington-Smith (Chief Information Officer), Stephanie Kent (Audit Manager), David O'Connor (Executive Director Performance and Governance), Lucy Pledge (Head of Audit and Risk Management), Pete Moore (Executive Director Resources and Community Safety), Meredith Teasdale (Assistant Director Children's Services), Richard Wills (Executive Director for Communities), Mike Woods (Audit Commission) and Rachel Wilson (Democratic Services Officer).

41. APOLOGIES FOR ABSENCE/REPLACEMENT MEMBERS

Apologies for absence were received from Councillor Mrs S Rawlins.

An apology for absence was also received from Mr P D Finch (Independent Added Person).

42. DECLARATIONS OF MEMBERS' INTERESTS

No declarations of interests were received at this point in the meeting.

43. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE MEETING HELD ON 12 NOVEMBER 2012

RESOLVED

That the minutes of the meeting of the Audit Committee held on 12 November 2012 be confirmed and signed by the Chairman as a correct record.

44. ICT AUDITS 2012

Consideration was given to a report which set out the five IT audits which were undertaken during 2012, from which a number of significant issues were identified. These issues had been addressed in partnership with Mouchel, and action plans were in put place.

During early 2012, two scheduled internal audits of ICT were undertaken – IT Service Management and SAP Security and Licencing – which both resulted in an outcome of limited assurance and included a number of concerns about the activities undertaken on behalf of the County Council by Mouchel. Three additional internal audits were then commissioned by the Chief Information Officer of ICT activities which Mouchel were involved in performing on behalf of the Council (Software Licence Management, IT Asset Management and Electronic Data Management). There had not been any previous audits into these areas and the result in all cases was limited assurance.

**AUDIT COMMITTEE
28 JANUARY 2013**

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:

- The audits carried out this time did not cover disaster recovery. However, a disaster recovery audit was about to be undertaken;
- All electronic data was backed up, and there was no evidence that any of the back-ups had failed. However, there were no systematic mechanisms for testing the back-ups. This was one of the items that Mouchel was now looking into;
- A second location to set up a data centre was currently being looked into;
- Systems were well structured and resilient, but there was only the one data centre, which was a weakness;
- Provision had been made in the coming years' budget to move forward with a second data centre;
- An independent audit on disaster recovery would be undertaken in order to provide additional assurance;
- All actions from the audits which had been carried out were on time;
- The NGP (Next Generation Platform) project was a particular set of activities, which would address many of the issues identified in the five audits which were carried out. Other activities would be put in place to address the remaining issues;

RESOLVED

That the progress being made to address the issues highlighted in the five audits described in the report be noted.

45. CORPORATE AUDIT PROGRESS REPORT TO 2013

The Committee received a report which provided an update on progress made against the Audit Plan 2012/13. It was noted that this was the regular quarterly update, and overall good progress had been made on the delivery of the Internal Audit Plan for 2012/13. The Committee was advised that performance up to December 2012 was significantly skewed downwards (56%) due to many of the reports being at draft stage (fieldwork complete). They were all on track to be delivered by the year end.

The work which had been carried out on key areas so far was indicating either full or substantial assurance, and there was a positive assurance opinion for the key areas of the Council's business.

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:

- There was a dedicated counter fraud and investigation team, and so there was confidence that there were sufficient resources to carry out any necessary investigations;

- It was suggested that the Committee read the report 'Protecting the Public Purse 2012' by the Audit Commission;
- The Guidance Note issued by CIPFA in December 2012 would be circulated to the Committee, and the Work Plan updated accordingly;
- One area that would need to be monitored closely would be the move towards more joint commissioning. More work on this would need to be undertaken over the next few months, as the authority started to do more in conjunction with the CCG's;
- The primary commissioning body would need to ensure that there were appropriate audit arrangements in place;
- The Commissioning and Procurement Teams would ensure that there were the right conditions for rights of access for counter fraud purposes;
- The CCG's would be under the Audit Commission regime, and Tony Crawley was the appointed auditor to the PCT, so there should be continuity in terms of the CCG's and the County Council;

RESOLVED

That the outcomes of the Corporate Audit work be noted.

46. LCC CERTIFICATION OF GRANTS AND RETURNS 2011-12

Consideration was given to a report which provided the Committee with a Summary of the work completed by the Audit Commission's Audit Practice on the certification of the council's 2011/12 grant claims and returns.

It was reported that the Audit Practice issued an unqualified certificate for the return. It was also noted that the Council had adequate arrangements in place for preparing its grants and returns. Overall it was a positive position.

The Committee was also informed that the overall fee for the certification of grants and returns was lower than the original estimate, with a total fee for the year of £4,630. This was much lower than the estimate of £16,000 which was included in the 2011/12 audit plan.

RESOLVED

That the report be noted.

47. COUNTER FRAUD PROGRESS REPORTS TO 31 DECEMBER 2012

The Committee received a report which provided an update on the authority's fraud investigation activities and information on progress made against our Counter Fraud Work Plan 2012/13.

It was reported that overall good progress had been made on the delivery of the Work Plan for 2012/13, however, four tasks had been rescheduled to Quarter 4. It was highlighted that there had been particular good progress in relation to data analytics, fraud recoveries and recent investigation results.

The Committee was advised that officers were in the process of finalising designs for new counter fraud and whistleblowing posters and leaflets, and it was hoped that these would be launched in February 2013.

**AUDIT COMMITTEE
28 JANUARY 2013**

There were currently five live investigations which were on going with the Police, and the Service was still receiving fraud referrals. One referral had been from management and preliminary investigations were taking place.

Three of the eight police investigations had been closed, as the investigating officer and/or Crown Prosecution Service (CPS) concluded that there was insufficient evidence for a conviction. However, the Council had taken all necessary appropriate action in relation to these cases.

RESOLVED

That the outcomes of the authority's counter fraud work be noted.

48. UPDATE ON ANNUAL GOVERNANCE STATEMENT 2012

Consideration was given to a report which provided the Committee with information on progress on agreed actions contained within the Council's Annual Governance Statement 2012, which was approved by this Committee on 24 September 2012. It was noted that the purpose of this update was to provide assurance that the items which were highlighted in the Governance Statement were being managed.

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

- Officers were satisfied that all actions were on track, but it was noted that some would take longer than one year to implement. These items would be picked up in the Governance Statement 2013;
- ICT resilience would be included in the 2013 Governance Statement, but it was thought that this was very low risk. It was noted that this had also been picked up by the Value for Money Scrutiny Committee;
- A combined assurance map for ICT would be welcomed;
- In terms of ICT risk, the main concern was those people who worked in the field and needed remote access to information, a failure in ICT could leave vulnerable people at risk. Members were assured that this was linked into the business continuity work.

RESOLVED

That the progress made be noted.

49. COMBINED ASSURANCE STATUS REPORTS

Consideration was given to a report which provided the Committee with an insight on the assurances across all the Council's critical services, key risks and projects. The status reports were presented to the Audit Committee by the executive Directors' of Children's Services, Communities, Resources & Community Safety and Performance & Governance (Adult Social Care was discussed at the Committee in November 2012).

The reports aimed to provide an insight on the assurances which were in place for areas of the business that mattered the most. Internal Audit co-ordinated the assurance information which was available from management, corporate functions/third parties and Internal Audit, with the overall assurance opinion determined by senior management.

The Committee was taken through each Combined Assurance Status Report by the relevant Executive Director, and highlighted key messages, critical systems and strategic risks. 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 include the following:

Resources and Community safety:-

- Overall, a high level of assurance was reported across the services and the critical systems of control were working well, although there were some areas where the authority was trying to provide some improvement, but this was mainly in areas which had undergone some degree of change, such as Safer Communities;
- The Budget Strategy would be going to Executive and Full Council and included a partial draw down of reserves, but there was confidence that the reserves would be sufficient for the next two years;
- An allowance had been made in the budget of £3million in relation to demographic changes in terms of adult social care;
- Central government had been made aware of the additional costs of delivering services in rural areas;

Communities:-

- Communities was a diverse portfolio, and had a high level of positive assurance around its critical systems and activities;
- There were good financial management processes in place, and a high level of confidence that things were working well;
- Corporate function and third party assurance (e.g. peer reviews and accredited quality management systems), as well as internal Audit, were used to avoid complacency;
- Strategic risks of flooding and infrastructure were identified as well as the actions being taken to minimise these risks. There was satisfaction that these risks were being managed effectively;
- The authority was working collaboratively with partners to reduce the risks of flooding;

Children's Services:-

- School Administration Service - There was evidence of excellent practice in some schools in getting children to attend school (it was suggested that this be added to the Work Plan);
- In terms of schools where most of the children had English as a second language, there had been changes to the funding formula. The support that was offered was key to these schools, and schools would also offer support to each other;
- It was important for schools to be aware that it was likely that there could be cultural differences as well as language differences;
- The 'Every Day Matters' programme was for every school and every child;

**AUDIT COMMITTEE
28 JANUARY 2013**

Performance and Governance:-

- Performance & Governance provided support to Members and Officers to ensure that the Council met its objectives;
- A high level of positive assurance was reported for its critical activities and systems;
- It was believed that governance arrangements were strong and robust;
- Recruitment was carried out in a very controlled way, all requests for external advertisement of posts needed to be reviewed and approved by the Resourcing Board. The staff level had remained stable over the past year;
- Areas where there were problems in recruiting were in senior management, and in order to bring in private sector skills, there was a need to ensure that remuneration remained competitive. It was important to ensure the right mix of skills;

The Committee was advised that they had received four combined assurance status reports, and it was thought that they provided a positive view of the Council's critical systems. No significant gaps had been identified. Many of the amber ratings were in services where there had been transformational change.

RESOLVED

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

50. WORK PLAN

Consideration was given to a report from the Executive Director Resources and Community Safety, which provided the Committee with information on progress on agreed actions and its work plan up to November 2013.

It was requested that the date of the meeting scheduled to be held on 30 September 2013, be brought forward to 23 September 2013.

It was noted that the following items would be added to the Work Plan:

- Review of Strategic Contracts (November 2013)
- Flooding – check with Scrutiny first
- School Administration Service (September 2013)
- Officer Code of Conduct (November 2013)

RESOLVED

1. That the progress of agreed Actions in Appendix A be noted.
2. That the work plan set out in Appendix B be noted.
3. That the agenda items for the Committee on 22 April 2013 be agreed

The meeting closed at 12.15 p.m.

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

Report to:	Audit Committee
Date:	22 April 2013
Subject:	Corporate Audit Progress Report to 31 March 2013

Summary:

This report provides an update on progress made against the Audit Plan 2012/13.

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 2012/13. 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
- Detail of progress made against the audit plan

Conclusion

Good progress has been made on the delivery of the Internal Audit plan for 2012/13. We have achieved 93% of the County Council Audit Plan and 91% of the School audits. We anticipate that the reports for all on-going Council audits will be finalised by the end of April 2013. A small number of audits have been carried forward into the 2013/14 audit plan – more detail can be found within appendix A.

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	Internal 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: April 2013

Contents

	Page
Introduction	1
Key Messages	1
Internal Audit work completed from April to August 2012	1-2
Audits in Progress	3
Other Significant Work	4
Performance Information	5
Other Matters of Interest	5-7
• Local Government Annual Review – “Improving Council Governance – A Slow Burner	
• Public Sector Internal Audit Standards - update	
 Appendices	
Appendix 1 – Assurance Definitions	
Appendix 2 – Internal Audit Plan & Schedule 2012/13	
Appendix 3 – Academies leaflet	

Contact Details:
Lucy Pledge CMIIA
Head of Audit & Risk Management



County Offices, Newland, Lincoln, LN1 1YG
☎:01522 553692 💻 lucy.pledge@lincolnshire.gov.uk

Introduction

1. The purpose of this report is to:
 - Advise on progress being made with the Audit Plan 2012/13
 - Provide details of the audit work during the period
 - Raise any other matters that may be relevant to the Audit Committee role

Key Messages

2. Good progress has been made on the delivery of the Internal Audit plan for 2012/13. Performance of 93%. Further information on our performance targets can be found in paragraph 11.

3. Audit and Due Diligence – update:

We have completed 49 school audits over the year and finalised 5 County Council audits since our last progress report – all 5 council audits have resulted in a substantial assurance. 12 County Council audits are in progress and a further 15 are awaiting the final report to be concluded.

We have revised the plan to account for those audits which have started but are not expected to be at final report stage by April 2013. See Appendix 3.

4. Counter Fraud and investigations – see separate progress report.

Internal Audit work completed from December 31st 2012 to 31st March 2013

5. 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">■ Carbon Reduction Commitment■ Strategic Communications■ 91 Eastgate – establishment audit■ Haven Cottage – establishment audit■ Lincoln Central Library – establishment audit	■	■

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

6. There are no “limited assurance” audits to report in this quarter.
7. Progress with the implementation of agreed management action on recommendations for audits resulting in ‘No’ or ‘Limited’ assurance will be collated for the 2012/13 Annual Report. This information will therefore be reported to the next Committee meeting.
8. In the audits given Full and Substantial Assurance, we confirmed that the Council has sound processes in place:

Carbon Reduction Commitment (CRC)

The Sustainability team, Mouchel Property and the CRC working group have made significant progress since the audit of the first CRC submission 12 months ago when we could not give positive assurance due to the absence of an evidence pack and other significant issues. In particular

- An evidence pack to support the CRC data is now complete.
- Written procedures are now substantially complete.
- There are improvements in data collection

Strategic Communications

The Strategic Communications Team has management and staffing structures and the necessary processes in place for the purpose of delivering the service. The service has not previously had a successful planning & monitoring process, during 2012 such a process was been introduced, but it is too early to say how well this is working. We identified a small number of actions for management to address that should further enhance the service.

91 Eastgate – residential care home for children

We found that the home generally manages its finances well although we found scope to improve controls around the procurement process and imprest account, specifically: segregation of duties, use of retrospective orders (will reduce with e-purchasing) and imprest reconciliation (minor discrepancies).

Haven Cottage – short break residential unit for children with disabilities

The financial management arrangements were generally good, although due to the small number of administrative staff, the Unit struggled to satisfactorily segregate duties within the procurement process. The e-purchasing system introduced in December 2012 is expected to address the number of retrospective orders and management were also advised to record their supervisory checks on the use of the Unit’s purchasing card.

Lincoln Central Library

Overall Lincoln Central Library manages its finances well although future budgetary control may be affected by the introduction of multiple authorisers on the e-purchasing system – this was to be immediately addressed. We also advised the manager expands his routine income monitoring to analyse patterns and trends which may indicate potential fraud, error or other anomalies. Staff had also missed the opportunity to reclaim small amounts of VAT on some low value imprest and purchasing card transactions.

Audits in Progress

9. The following audits are currently in progress:

Fieldwork in progress:

- ICT Disaster Recovery (Delayed due to difficulties in getting key information)
- Registrars
- Business Centres
- Adult Services Case Management, Referrals and Contact Management (Audit extended and additional testing being undertaken)
- Property strategy (Delayed due to officer off sick)
- Teal park project (Delayed due to manager unavailability)
- Contract management – compliance (all directorates)
- Performance Management
- Programme Management – Council's priority activities
- Key control testing – general ledger & non-current assets, including year-end transactions
- Capital Programme
- Bank Reconciliation

Fieldwork complete, draft report being produced:

Final Report being concluded:

:

- Youth Offending Case Management
- Lincoln Registrars – establishment audit
- Battle of Britain Memorial – establishment audit
- Child Protection Plans
- Adult Services Project Risk Management
- Coroners Service
- Fire & Rescue Fuel Management
- Fire & Rescue Partnership Management
- Pensions Administration

- Early Intervention
- Grantham Relief Road project
- Energy from Waste project
- Property Rationalisation project
- Children’s Services Out of County Provision
- Gainsborough Old Hall – establishment audit

Other Significant Work

10. Other work undertaken during the period includes:

School Audits

By the end of the financial year we have completed forty nine school audits and nineteen, shorter, assurance visits. 5 school audits have been re-scheduled to 2013/14 at the request of the client. We assessed 78% with either Full or Substantial assurance and fourteen schools with Limited Assurance. One school has also been assessed with No Assurance – we have already returned to this school to audit their year-end returns (the school holds its own accounts rather than using SAP) and noted that they are implementing our recommendations. We will follow up outstanding recommendations for all schools visited early in the new year.

The areas of improvement for schools with Limited or No assurance are similar to those previously reported to the committee. We will provide a more detailed report on our school activity to the committee at a future meeting.

From 1 April 2013, we are offering schools the opportunity to purchase assurance visits from Audit Lincolnshire as direct funding from Children’s Services is no longer available. There has been some initial interest from schools – the aim of this service is to provide assurance between the scheduled audit visits which happen once every 5 – 6 years – depending on the size and risk associated with the school.

Academies

In response to the increasing number of academies in Lincolnshire and previous comments made by the Committee over potential gaps in good governance and financial control we have commenced offering an assurance service to academies. The attached leaflet in Appendix 3 shows the service we offer.

Performance Information

11. Our current performance against targets is shown below:

Performance Indicator	Target	Actual 31/03/13
Percentage of School audits completed	100%	91% ¹
Percentage of LCC plan completed	100% (revised plan)	93%
Percentage of recommendations agreed.	100%	100%
Percentage of recommendations implemented.	100% or escalated	Annual Report
Timescales	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 – by exception	100% 100%
Client Feedback on Audit (average)	Good to excellent	Good to excellent

12. At the end of March we have completed 93% of the annual audit plan – this performance includes all on-going audits where we expect final reports to be issued by the April 2013. These statistics exclude those audits which have been carried forward to the 2013/14 audit plan (see Appendix 2 for more detail).

Other Matters of Interest

Local Government Annual Review – “Improving Council Governance – A Slow Burner

13. Grant Thornton have recently published their 2013 Local Government Annual Review – “Improving Council Governance – A Slow Burner”. The report recognises that Local Government is enduring a period of sustained pressure from:

- the largest reduction in public spending since the 1920s
- demographic changes and recessionary pressures, increasing the demand for the more costly services
- a reduction in demand for paid-for services
- the government’s policy agenda, e.g. localism and open public services

¹ Five planned schools audits have been deferred to 2013/14 audit plan at the request of the client

It focuses on the need for effective, embedded governance frameworks if councils are to meet these challenges and continue to support all their stakeholders.

14. Their survey found contradictions between the public view on council communications and that held by the council leader respondents, in particular the length and complexity of council accounts and transparency of annual governance statements.
15. The survey concludes “Good council governance is much more than publishing statement of compliance: it is about ensuring an entire organisation is aligned to achieving its strategic goals, effectively and ethically.” They urge councils to reflect on their public face of governance, seek the views of their officers and stakeholders and consider best practice from both local government and other sectors with a view to boosting transparency and accountability.
16. The report acknowledges that embedding good governance is never easy, nor quickly achieved: risks change, people move on and ‘unknown unknowns’ will always arise. A key focus for councils is the need to ensure governance frameworks are fit for purpose and limited resources are focused on areas of greatest risk.
17. The survey found:
 - inefficiencies in gathering assurances resulting in diminished engagement
 - despite members’ pivotal role in setting the tone, council leaders did not identify them in their ‘top four’ posts for driving governance
 - a third of respondents admit they did not have robust arrangements for developing members
 - 21% were not clear about council roles and responsibilities when working in partnerships
18. The report offers suggestions to help councils truly embed effective governance processes – it says at a time of intense budgetary pressures and increasingly complex governance challenges, the best councils will prioritise, directing finite governance resource to the areas of most significant risk.
19. In the report Lincolnshire County Council were recognised as a council that had begun to do things differently. We are seen as a council providing SMART (specific, measurable, achievable, realistic and timed) action planning for identified governance issues.
20. The report offers interesting and useful information on what makes effective governance frameworks and processes – the full report can be found at www.grant-thornton.co.uk

Public Sector Internal Audit Standards - Update

21. As reported previously new internal audit standards apply from the 1st April 2013. CIPFA are due to issue some application guidance in April and work is underway

to assess if there are any actions we need to take to ensure compliance. This self assessment will inform the Council's annual review of its system of Internal Audit – due to be undertaken and reported to the Committee in June 2013.

22. The Council's External Auditor (KPMG) is also currently reviewing our service / practice. Any feedback from them will be shared with the Committee.

Appendix 1 - Assurance Definitions

<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>

Appendix 2 – Internal Audit Plan & Schedule 2012/13

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Performance & Governance						
Strategic Communications	10	Review of the arrangements in place for communication internally and externally, for managing the media, and engaging with our partners.	Oct 2012	Oct 2012	March 2013	Substantial assurance
ICT Systems - Software Licensing - Electronic Data management - IT Asset management - DR	100	Individual audits of a selection of ICT management arrangements, the ICT infrastructure and applications	Jul 2012 Jul 2012 Jul 2012 Jan 2013	Jul 2012 Jul 2012 Jul 2012	Jan 2013 Jan 2013 Jan 2103	Limited assurance Limited assurance Limited assurance In progress
Key Projects - Grantham Relief Road - Energy from Waste Plant - Property Rationalisation	30	Working with Programme Office to provide assurance that our key programmes and projects are being managed effectively to deliver successful results.	Sept 2012 Sept 2012 Sept 2012	Sept 2012 Sept 2012 Sept 2012		} Draft report stage, } all substantial } assurance
Sub Total	140					
Performance & Governance - Due Diligence						
Corporate Governance	10	Review the framework in light of changing environment – to ensure fit for purpose	Dec '12			Assurance via Governance Group / desk top review

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Programme Management	10	Assess effectiveness of process following the Head of Service review of arrangements	Feb '13	Mar '13		In progress – carried forward to 2013/14 audit plan
Performance Management	15	Gain assurance on the effectiveness of the performance management arrangements to measure successful delivery of Council priorities.	Jan '13	Mar '13		In progress – carried forward to 2013/14 audit plan
Big Society Members Grant	5	Assurance on the application and operation of the grant process including compliance and outcomes.	June 2012	July 2012	Sept '12	Limited Assurance
People Strategy	5	Understand & assess how the strategy supports the business to achieve an agile, skilled and motivated workforce	Dec '12	N/A		Substantial – reliance on 3 rd party assurance
Sub Total	45					
Adult Services – Revised Plan December 2012						
Process Improvement Project support	10	Provision of advice and support to the PIP	Jan 2013	Jan 2013	N/A	Complete, support provided
Project risk management	5	Review of the adequacy of risk management arrangements in projects	Jan 2013	Feb 2013	Draft – March 2013	Final report being concluded

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Contract management	15	Review of a number of contracts to ensure proper letting, monitoring and review	Jan '13	N/A		Deferred to 2013/14 audit plan – June
Case management	15	Review of the case management to ensure correct process followed and approvals	Jan '13	Jan '13		Commenced and on-going, the work to date identified that more testing is required
Referrals & contact management	5	Review of referrals to ensure proper assessment	Jan '13	Jan '13		
Night Support service	10	Review of the revised delivery model	Jan '13			Cancelled – both areas still going through restructure
Emergency Duty Team	10	Review to ensure emergencies promptly and correctly dealt with	Jan '13			
Advice	0					
Sub Total	70					
Children's Services						
Early Intervention	15	Review of arrangements to identify and engage with families and support them in avoiding formal intervention.	Oct 2012	Oct 2012	Draft – March 2013	Final report being concluded – substantial assurance
Children Centres	20	Review of children centres focussing on compliance with policies, performance monitoring and financial controls.	Sept 2012	Sept 2012	December 2012	Substantial Assurance
Child Protection Plans	15	To provide assurance that	Oct 2013	Jan 2013	Draft –	Final report being

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		plans are developed and maintained in accordance with policy, and to safeguard the best interests of the child.			March 2013	concluded
Adoption	10	Review of the arrangements for approving adopters, specifically with respect to rule changes in this area.	Jan 2013	Jan 2103		Cancelled due to service going through review
Out of County Provision	10	To provide assurance over the arrangements to review placements of children with additional needs.	Dec 2012	Dec 2012	Draft – March 2013	Final report being concluded – substantial assurance
Police Notification of Domestic Violence	10	To provide assurance on arrangements to assess and record police referrals.	Dec 2012	Jan 2013		Cancelled by client due to service changes in progress
Quality Assurance Performance System	10	To review the checks the quality assurance team complete over compliance with policy, and standards for maintaining records. We are seeking to place assurance on the work of this team as part of the Council's combined assurance arrangements.	Jun 2012	Jun 2012	December 2012	Substantial Assurance
Schools	400	Mix of full school audits and assurance visits. Reviews	On-going through			

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		give schools assurance around their financial management arrangements and the controls within their finance processes.	the year			
Advice	10					
Sub Total	500					
Communities						
Business Centres	10		Dec 2012	Dec 2012		Fieldwork in progress
Local Enterprise Partnership	20	Review of the arrangements in place to work with, and support, the LEP and through the LEP support businesses to develop and grow.	Jun 2012	Jul 2012	Sept 2012	Full Assurance
Capital and Regeneration Projects	20	Review of the overall management of capital projects and the application of robust project management arrangements for a selection of individual highways and regeneration projects. Project selection will be based on significance and risk.	Jan 2013	Feb 2013		Fieldwork in progress, delayed by manager unavailability – carried forward to 2013/14 audit plan
Carbon Reduction	10	Review the arrangements in	Phase II –	Nov 2012	Jan 2013	Substantial

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Commitment		place to comply with the Environment Agency's requirements under the CRC, including sign off of the LCC Evidence Pack.	Nov 2012			assurance
Advice	10					
Sub Total	70					
Resources & Community Safety						
Fire & Rescue Service	20	1. Review of the provision of protective services, focussing on community programmes, partnership arrangements and stakeholder engagement. 2. Review of emergency response arrangements, including finance, admin and HR arrangements.	Dec 2012	Dec 2102	Draft – March 2013	Final report being concluded
Legal Lincolnshire	10	Review to ensure that service standards are met, and there is effective stakeholder engagement with all clients, whilst delivering value for money.	May 2012	Jun 2012	Aug 2012	Full Assurance
Procurement Lincolnshire - Category Management	10	Review of the effectiveness of the category management model, and the development of supply market intelligence,	May 2012	May 2012	N/A	Substantial Assurance- relying on 3 rd party assurances

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Property Strategy / Estate Management	20	to deliver clients needs and sustainable outcomes. Review of estate management arrangements to ensure current and future needs are met, assets are maintained, and value for money is achieved.	Jan 2013	Feb 2013		Fieldwork in progress, delayed by manager sickness – carried forward to 2013/14 audit plan
Coroner's Office	5	Health check to ensure the duties of the coroner are delivered and legislative requirements are met	Nov 2012	Nov 2012	Draft– March 2013	Final report being concluded
Registrars	5	Health check to ensure effective delivery of the service for births, deaths, marriages and other celebratory services, together with Civil Partnership and Citizenship work.	Jan 2013	Feb 2013		Fieldwork in progress
Safer Communities	20	Review to ensure effective partnership work, with priorities established and plans put in place, to reduce crime and improve the quality of life.	Apr 2012	Apr 2012	July 2012	Limited Assurance
Youth Offending - Safeguarding	15	Review of the arrangements, and partnership work, to	N/A			Full Assurance – relying on 3 rd party

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Youth Offending - Case Management	15	safeguard and promote the welfare of children known to the youth justice system. Review of assessment process, partnership work, intervention process, and support provided to young offenders.	Oct 2012	Nov 2012	Draft - March 2013	assurance Final report being concluded
Advice	10					
Sub Total	130					
Resources & Community Safety – Due Diligence						
Development & implementation of continuous audit - revise key financial systems testing	40	Review & update testing schedules / development of IDEA scripts (data interrogation & analysis) - link coverage with fraud risks	Aug 2012	Sept '12		Some slippage – final phase c/f April 2013

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Financial Systems – revised plan						
<ul style="list-style-type: none"> ■ Creditors ■ Treasury Management ■ Income ■ Bank Reconciliation ■ Payroll ■ Pensions Administration ■ Debtors 	<p>5</p> <p>10</p> <p>10</p> <p>10</p> <p>2</p> <p>20</p> <p>2</p>	<p>Ensure that the financial control environment in the systems is robust and working effectively.</p> <p>Review to assess if income and expenditure budgets are regularly monitored, appropriately controlled and reported.</p>	<p>Mar '13</p> <p>Aug '12</p> <p>Dec '12</p> <p>Feb '13</p> <p>Jan '13</p> <p>Nov '12</p> <p>Jan '13</p>	<p>N/A</p> <p>Aug '12</p> <p>Dec '12</p> <p>Mar '13</p> <p>N/A</p> <p>Dec '12</p> <p>N/A</p>	<p>N/A</p> <p>Sept '12</p>	<p>Reallocated</p> <p>Full Assurance c/f to 2013/14</p> <p>Draft report stage</p> <p>Reallocated</p> <p>Limited Assurance</p> <p>Reallocated</p>
<p>Quarterly testing – key financial systems</p> <p>Q3 testing now covering: cash, non current assets, general ledger, pension fund /pensions admin</p>	<p>35</p> <p>36</p>	<p>To test key controls and transactions feeding into the Council's accounts in liaison with external audit.</p>	<p>Jul '12</p> <p>Oct '12</p> <p>Jan '13</p>	<p>Jul '12</p> <p>Oct '12</p> <p>Feb '13</p>	<p>N/A</p> <p>N/A</p>	<p>Substantial</p> <p>Substantial</p> <p>Ongoing to incorporate year end transactions</p>
<p>Financial and contract regulations:</p> <ul style="list-style-type: none"> ■ LCC establishment visits (non-school) x 8 	<p>30</p>	<p>To review the level of compliance with the Council's key financial procedures across 8 service areas</p>	<p>Aug '12</p>	<p>Aug '12</p>	<p>Ongoing</p>	<p>5 x final reports</p> <p>4 x draft reports</p> <p>All full or substantial assurance</p>

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Capital Programme	20	Review compliance with financial regulations & assess the delivery arrangements for the approved programme, covering: project appraisal, funding, monitoring reporting & outcomes.	Feb '13	Feb'13		Fieldwork complete
Tax Compliance	10	Ensuring the Council complies with relevant regulations regarding PAYE and Construction Industry tax	Aug '12	Aug '12	January '12	Substantial Assurance
Contract Management	10	Proactive approach – working with management to assess the development of the Commercial Unit (plans, structures & processes) – advisory role	Oct '12	N/A		Reallocated
Review of contracts across directorates:	35	Probity work – covering tendering, service delivery & contract payments – “business as usual”	Oct' 12	Dec '12		Fieldwork ongoing
Advice	5	Advice provided to service areas when requested				Completed
Sub Total	280					
Total Audit Plan for 2012/13	1235					

Appendix 3 – Academies leaflet



The leaflet features the Audit Lincolnshire logo at the top left, which consists of a stylized 'A' with a green leaf-like shape. To the right of the logo, the text 'INDEPENDENT AUDIT SERVICES' is displayed in a bold, sans-serif font. Below this, a photograph shows a hand holding a silver pen over a calculator and a document with numbers. The calculator has buttons for 'ON/C', 'CE', 'MRC', 'M-', '9', '8', '7', '5', '6', '3', '+', '-', 'x', and '='. The document has some numbers like '45', '9.4', '00', '51.2', '581', '43', '70', '16', '85', '45', '1', '4'.

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Reference: LCC253 Published 2013

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

Report to:	Audit Committee
Date:	22 April 2013
Subject:	Risk Management Progress Report to 31 March 2013

Summary:

One of the key roles of the Audit Committee is to ensure that the Council has effective risk management arrangements in place.

This report assists the Committee in fulfilling that role, by providing an update on how well the councils biggest risks are being managed aswell as reporting on the progress made in assisting the council to adapt and change the way it considers and 'thinks' about risk.

Recommendation(s):

That the Committee notes the current status of the strategic risks facing the council and make recommendations on any further scrutiny required.

Background

Members will recall previously agreeing to receive twice yearly updates on the Strategic Risk Register. The Risk Management Progress Report, which can be found in Appendix A, serves this purpose as well as providing an update on the activities being undertaken to support the Council in developing a culture of being '*Creative & Aware of Risk*'.

Conclusion

Overall, the council's strategic risks continue to be managed pro-actively. There is a good level of awareness of the current and emerging issues, with positive action being taken where appropriate.

Senior management and the Corporate Management Board continue to take an active interest in the monitoring of the councils strategic risks and seek opportunities for involvement where appropriate.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Risk Management 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 Sarah Tennant, who can be contacted on 01522-552206 or sarah.tennant@lincolnshire.gov.uk.

Risk Management Progress Report

Contents

	Page
Introduction	1
Key Messages	1
Update on the Strategic Risk Register	2-4
Assisting the Council to develop a culture of being “creative & aware of risk”	4
Next Steps	5
Appendices	
Appendix 1 – Strategic Risk Register	6-10

Contact Details:
Sarah Tennant, RRP, CMIO SH
Strategic Risk Manager



County Offices, Newland, Lincoln, LN1 1YG
☎:01522 552206 📧 sarah.tennant@lincolnshire.gov.uk

Introduction

1. The purpose of this report is to provide an update on:
 - the key strategic risks facing the Council
 - the activities being undertaken to support the Council in developing a culture of being '*Creative & Aware of Risk*'.

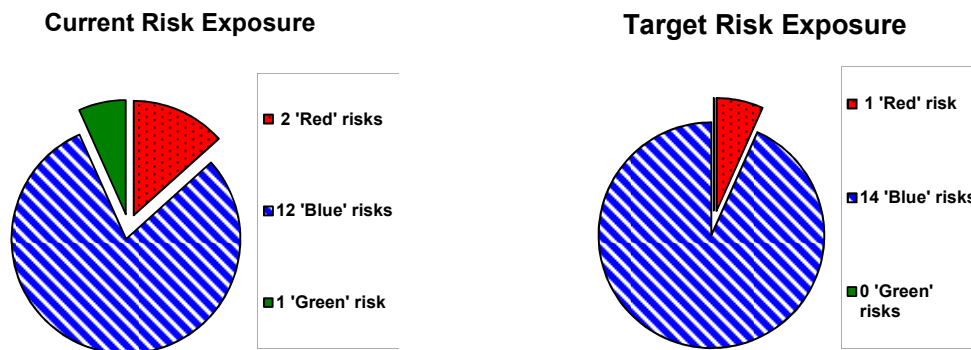
Key Messages

2. Overall, progress during the past six months on managing the Council's strategic risks has been good. Risk owners continue to be fully engaged and have demonstrated a good level of awareness regarding their risks.
3. There have been no sudden or unexpected changes to the overall and individual risk statuses.
4. We found that the approach of reporting on relevant strategic risks as a part of the Combined Assurance Model acted as a useful 'check and balance' in validating management assurances received.
5. Within the report to Committee in November 2012 it was highlighted that we should expect to see improvements in the overall level of risk within the area of Adult Social Care (ASC) during this last review period of the year. Whilst some positive progress has been made, the risk owner is of the opinion that he has not yet got the level of 'comfort' required for Risk 3: Safeguarding Adults and Risk 4: Adequacy of Market Supply to meet eligibility needs of Adults, making these two areas of the register to maintain a continued oversight of during the coming months/year.
6. All other strategic risks are being managed as planned, with no increases in individual risk scores.
7. We have conducted a short but focused review of the Corporate Risk & Safety Governance Structure to assess its effectiveness and suitability to support the developing needs of the organisation. We are currently in the process of implementing the key actions arising from this review.
8. The new Risk Management Toolkit is in the final stages of development and will be ready for launch in May 2013.

Update on the Strategic Risk Register

9. The total number of strategic risks remains static at 15, this being the same as when last reported to the Committee in November 2012. A copy of the full Strategic Risk Register can be found in Appendix 1.

10. As at **31st March 2013** the Council's overall strategic risk exposure looked as follows,



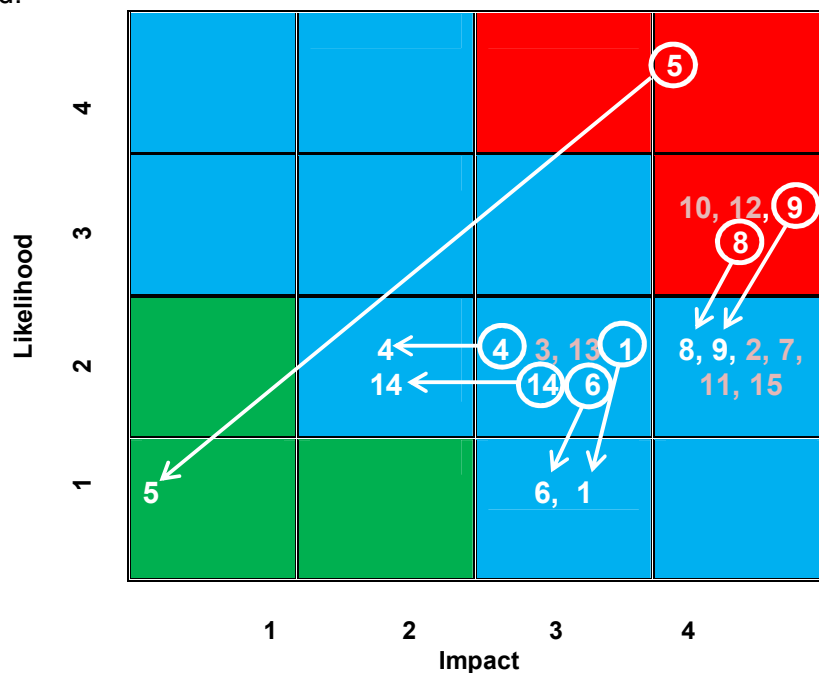
Key to 'Risk' colour coding:

Red: require comprehensive controls, frequent monitoring & reporting and comprehensive contingency plans.

Blue: require cost effective controls, regular monitoring & reporting and outline contingency plans.

Green: cheap and easy controls, periodic monitoring & reporting and contingency plans not essential.

11. The matrix below shows the movement of strategic risks during the last quarter of 2012-13, from which it can be seen that eight risks remained static and seven risks moved.



12. Key areas/risks to note are as follows:

Risk 3: Safeguarding Adults

The current score has remained static. New actions have been included to reflect additional investment to be made in staff development and support as well as improved performance reporting to the Adults Safeguarding Board. The proportion of 'developing' actions remains high meaning that the level of management assurance is unaltered at 'Limited'.

Risk 4: Adequacy of market supply to meet eligible needs for adults

The target score for this risk is now being exceeded; however the 'developing' nature of the actions assigned means that the current level of management assurance remains as 'Limited'. Market analysis has been done and a list of 'to-do's' identified in order to develop certain elements of the market and some of which have been reflected within the new actions assigned to this risk.

Risk 5: ASC not able to live within budget

This risk has been reduced from 4x4 to 1x1 to reflect that the service achieved a balanced budget for 2012-13. The 'current' score will need re-assessing now that we are in the new financial year.

Risk 6: Delivery of Strategic Contracts

The target risk score of 1x3 has been achieved with the level of management assurance increasing from 'Limited' to 'Substantial'. Good progress has been made on a number of fronts including with the Future Deliver of Support Services programme, Adults Social Care Contract register and Phase 1 of "Becoming a Commissioning Council".

Risk 14: Integration of Public Health

The target risk score of 2x2 has been achieved. Some actions set were delivered earlier than plan and interim arrangements have been put in place for outstanding issues where dependencies exist on central government. All Directorate Management level risks transferred from the PCT to the Council on 1st April 2013 have been assessed using the authorities 4x4 matrix. This risk has now entered a 3-6 months run-off period during which it will continue to be monitored to ensure sufficient confidence post integration is maintained.

13. Horizon scanning / areas to watch:

Risk 2: Safeguarding Children

Although this risk continues to be managed well and within target, planned changes to the Ofsted Inspection Framework due to be implemented in June 2013 could impact on the 'perception' of how well this risk is being managed. The new framework will introduce a much tougher test as the bar is raised, e.g. the new 'adequate' is the old 'outstanding'. Members will note that a new action has been assigned to this risk to acknowledge the preparations underway in planning for this new inspection regime.

Risk 7: Funding and maintain financial resilience

Whilst there have been no changes to this risk, it should be noted it continues to be managed as well as it can be given the uncertainties of future funding. New actions have been assigned to this risk to reflect the updating of the medium term financial plan for the next 2 years (as a part of the budget process) and which will run in parallel with the governments next Comprehensive Spending Review.

Assisting the Council to develop a culture of being “creative & aware of risk”

14. In January 2013 we conducted a short sharp review of the Risk & Safety Governance structure to assess its effectiveness and suitability to support the developing needs of the organisation. As a result, we have already refined the Corporate Groups’ meeting agenda to focus on what matters most and are in the process of implementing the following:
 - Revising the Terms of Reference for both the Corporate and Directorate Risk & Safety Groups to show clearly the expectations of both groups, define the actions required to meet those expectations and the outcomes by which their effectiveness will be measured.
 - Develop a ‘dash-board’ for use by the Directorate Groups to monitor and report on the management of key health and safety risks.

15. Whilst we had originally planned to have the new Risk Management Toolkit finalised and ready for launch in early April ‘13, during its latter stages of development it became evident that we needed to broaden the initial scope to include guidance on three specific risk areas:
 - Projects
 - Commissioning
 - Safeguarding

16. We are currently working with key officers from these three areas to develop suitable content for the toolkit. We are now aiming to launch the Toolkit in May ‘13.

17. We are developing a package of action based learning activities for officers and elected members that will include utilising both classroom and e-learning approaches. We have also been invited to take part in the Members Induction Programme for new and/or returning councillors following the forthcoming elections.

Next Steps

18. Our priorities for the year ahead (2013/14) are as follows:

- Continue to track and monitor progress of how the council's strategic risks are being managed
- Maintenance of the Strategic Risk Register Assurance Map
- Continue to provide 6 monthly progress reports to the Audit Committee (or by exception where necessary)
- Finish developing and launch a range of action based learning activities for staff and elected members to engage with and assist the council in developing a culture of being "*creative & aware of risk*".
- Support the Directorate Risk & Safety Groups in identifying their top 'tactical' risks and assist them with the tracking of these through the development of Directorate Risk Logs.

Appendix 1 – Strategic Risk Register

STRATEGIC RISK REGISTER		Lincolnshire COUNTY COUNCIL						
Version: 1.4								
Reviewed: March 2013 – Links to Council Priority Activities denoted by 'CP' indicator								
Owner : Tony McArdle - Chief Executive								
Priority Heading 1 Promoting Community Wellbeing & Resilience								
No of risk	Risk Owner	Risk description	Risk Appetite (How much risk are we prepared to take & the total impact of risk we are prepared to accept)	Current Risk Score	Target Risk Score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static, Declining)	Actions
1	Richard Willis	Delivery of our responsibilities as a local lead flood authority	<p>Hungry</p> <p>Open & aware/ cautious</p> <p>(projects & major change - Need to be innovative and take higher risks for greater reward - higher levels of devolved authority)</p> <p>(partnerships - cautious - Recognised that we work differently with different partners)</p>			Substantial	Improving ↑	<ul style="list-style-type: none"> Operational Action Plan supporting the Flood RM Strategy (3 yr schedule reviewed annually) Implement Flood Risk Management schemes, i.e. Homcastle / Louth and develop common works programme. LCC as a lead in influencing other people & agencies to direct resources to Lincs (CP) (occurs through links with LGA / DEFRA) Flood Risk Management Strategy 2025 Collaboration with flood risk & drainage framework partnership Flood Risk Emergency Plan (with links to Emergency Planning) Complete investigations into summer 2012 floods as part of duty to investigate role under the Act and publish results. Executive Councillor actively involved at local and national level
2	Debbie Barnes	Safeguarding children	<p>Cautious</p> <p>(Regulatory standing & legal compliance - recognised may need to change the ways things are done but will be tightly controlled)</p>			Substantial	Static →	<ul style="list-style-type: none"> Ofsted (unannounced - 3 yrly - last done 2010) - Preparations underway for new Ofsted Multiagency Inspection Framework, inc action plan monitored by new Ofsted Readiness Group Audit & Performance information to DMT for scrutiny Safeguarding Assurance days Independent Chairs - review care plans & quality - act as eyes & ears for DMT Peer Challenge (East Midlands Group) Team Manager Audits Management & investigation of complaints at local level Childrens Safeguarding Board Performance Framework for Quality Assurance mechanisms Practitioner Supervision & Appraisal Vetting and barring of staff in 'regulated activity' posts with Qtrly HR Perf monitoring to DMT Independent analysis of systems & processes being undertaken by Impower (one off exercise)
3	Glen Garrod	Safeguarding adults	<p>Cautious</p> <p>(Regulatory standing & legal compliance - recognised may need to change the ways things are done but will be tightly controlled)</p>			Limited	Improving ↑	<ul style="list-style-type: none"> Development of 'Markers of Good Practice' Develop & Implement Multiagency Safeguarding Policy & local Procedures Adults Strategic Safeguarding Board Virtual integration between policy, practice & strategy Develop & implement suitable assurance framework for commissioned services (that considers safeguarding) Develop & implement suitable assurance framework for Personal Budgets (that considers safeguarding) Develop & implement programme of Provider Quality Assessments Review of Internal Quality Assurance mechanisms - Quality Development Team Established Safer Practices Group CCC Information Sharing Meetings Delivery of Safeguarding training to providers as part of 'Supporting Proprietors - Leadership & Management' Programme Appropriate checks / vetting of staff in 'regulated activity posts' Investment in staff development agreed with Adult Safeguarding Board (ASB) of £250,000 for 2 years (each year) Management support to Adult Safeguarding team in train Improved performance monitoring to Adult Safeguarding Board (ASB) under development for regular monitoring

Lincolnshire County Council – Risk Management Report

4	Glen Garrod	Adequacy of market supply to meet eligible needs for adults	Cautious (Regulatory standing & legal compliance - recognised may need to change the ways things are done but will be tightly controlled)			Limited	Improving 	<ul style="list-style-type: none"> Continued improved relationships with providers Develop additional frameworks to broaden the market, i.e. day services Develop further diversification of the market, i.e. multiple providers being able to offer multiple services Targetted market stimulation - geographic or service based on micro-level according to need and based on good intelligence. Develop right mix of skills to become a commissioner of services Capital strategy in place for next 3 years with funding level and team created Investment in electric domiciliary care monitoring to be in place early summer 2013 - will deliver improved information and quality Additional resources in Procurement Lincs to improve contract management - prolonged transfer Homecare rates being described and new investment assured Further development of My Choice - My Care website - Phase 2 Funding for residential care secure Contract register in place Additional investment in community based services with NHS developed
5	Glen Garrod	ASC not able to live within budget	Cautious (Regulatory standing & legal compliance - recognised may need to change the ways things are done but will be tightly controlled)		 End of Year Beyond 2013/14	Substantial	Improving 	<ul style="list-style-type: none"> Delivery of '14 Forward' (formerly the ASC Transformation prog) (CP) Delivery of ASC Performance Improvement Projects (CP) Development of Financial Risk Log - better understanding of overspend & key areas of concern Budget arrangements for 2013/14 and beyond - to inc robust information for Members to make informed decisions Greater commitment/ownership by managers to manage their budgets Make the Resource Allocation System work harder Use of Department of Health money agreed with NHS Lincs Zero based budget exercise in LD completed and list of 'must do's' being actioned Reductions in Public Health investment into LD reversed Refreshed structure of Adult Social Care in place spring 2013 (Adult Social Care organisational alignment)

Priority Heading 2 Commissioning for outcomes based on our Communities' needs

No of risk	Risk Owner	Risk description	Risk Appetite		Current Risk Score	Target Risk Score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static, Declining)	Actions
6	Pete Moore	Delivery of Strategic contracts	Open & aware (Finance & money - No Surprises - prepared to invest for reward and minimise the possibility of financial loss by well measured risk taking)	Open & aware/ cautious (Partnerships - Recognised that we work differently with different contractors / partners)			Substantial	Improving 	<ul style="list-style-type: none"> Corporate contracts register Review of best practice in procurement & contracting - ensuring good practice is consistent across the council (DO/C) Become a Commissioning Council (1. Commissioning 2. Procurement 3. Good Contract Management) (CP) Assurance arrangements in place to ensure compliance - performance monitoring of strategic contracts Ensure strategic partners have robust business continuity plans for the services they deliver to the CC Future Delivery of Support Services (CP)

Lincolnshire County Council – Risk Management Report

Priority Heading 3 Making the best of all our Resources

No of risk	Risk Owner	Risk description	Risk Appetite	Current Risk Score	Target Risk Score	Assurance Status Full, Substantial, Limited, No	Assurance - Direction of Travel (Improving, Static, Declining)	Actions
7	Pete Moore	Funding and maintaining financial resilience	<p>Open & aware</p> <p>(Finance & money - No Surprises - prepared to invest for reward and minimise the possibility of financial loss by well measured risk taking - allocating resources in order to capitalise on potential opportunities)</p>			Substantial	Static →	<ul style="list-style-type: none"> • Sound process on trying to protect where funding is going supported by Medium Term Financial Strategy • Efficiency Agenda • Good financial management with monitoring arrangements in place • Building flexibility to deal with in-year changes • Accountability framework • More capability and capacity required to ensure momentum maintained on Core Offer & Efficiency agenda. • Council Priority Activities agreed & delivery of major projects managed / monitored. • Close working with DC's on funding arrangements • Planning longer term for next CSR. • Further fundamental review of service priorities during 2013/14 • Medium term financial plan for next 2 years updated as part of budget process • Use of reserves to balance the budget in 2013/14 and 2014/15
8	Tony McArdle	Delivery of the Councils priorities that have been determined by full council	<p>Hungry</p> <p>(Reputation & Public confidence - Comfortable with taking decisions that are likely to bring scrutiny of the Council but where potential benefits outweigh the risks. Recognise that highly devolved decisions making will mean that not all risks known - take action when uncertain of results or with uncertain info - willing to accept significant loss for potential higher rewards)</p>			Substantial	Improving ↑	<ul style="list-style-type: none"> • Organisational strategy • Revised vision & purpose (agreed Feb '12) • Business plan developed to implement strategy (agreed Feb '12) • Performance Management in place to track actions against plan • Business plan delivery monitored by Executive, Management board and Scrutiny • Monthly reporting on Councils Priority Activities to CMB and Qtrly to VFM Committee and Executive • CMB to concentrate on key transformation programmes • Annual review of Directors Objectives - to be circulated to all staff
9	David O Connor	Maintenance of effective governance arrangements	<p>Hungry</p> <p>(Reputation & Public confidence - Comfortable with taking decisions that are likely to bring scrutiny of the Council but where potential benefits outweigh the risks. Recognise that highly devolved decisions making will mean that not all risks known - take action when uncertain of results or with uncertain info - willing to accept significant loss for potential higher rewards)</p>			Substantial	Improving ↑	<ul style="list-style-type: none"> • Governance Framework needs modifying to adapt to changing organisational environment - less prescriptive in style, with balancing of risk & accountability - needs a formal plan. • Implement new member standards arrangements, Common Code of Conduct and Register of Interests - • Local Code of Conduct based on LGA been adopted • Review of Governance Arrangements in light of CIPFA • Implementation of new Combined Assurance Model
10	David O Connor	Requirement to have an agile, skilled and motivated workforce	<p>Averse</p> <p>(People - Recognise that our staff are a valuable resource that requires investment by us to help sustain their health & wellbeing - low risk options taken to minimise exposure)</p>			Substantial	Static →	<ul style="list-style-type: none"> • Major review of HR policies & processes (more about promoting people to 'trust') • New People Strategy (CP) • Resourcing for delivery of Priority Projects - paper to CMB 4th July

Lincolnshire County Council – Risk Management Report

Priority Heading 4 Investing in infrastructure and provision of services

No of risk	Risk Owner	Risk description	Risk Appetite	Current Risk Score	Target Risk Score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static, Declining)	Actions
11	Richard Wills	Infrastructure is required to support delivery of our services & economic growth in Lincolnshire	<p>Hungry</p> <p>(Projects & Major change - Need to be innovative and take higher risks for greater reward - high levels of devolved authority - management by trust rather than tight control - 'break the mould' and challenge current working practices)</p>			<p>Limited</p> <p>Substantial</p> <p>Substantial</p>	<p>→</p> <p>→</p> <p>→</p>	<ul style="list-style-type: none"> • Delivery of key Highways projects (x4) - 1. Spalding Relief Road, 2. Grantham Sthn By-pass, 3. Lincoln Eastern By-pass, 4. Lincoln East/West Link (CP) • Delivery of Broadband Delivery project (CP) • Delivery of Energy from Waste project (CP)

Priority Heading 5 Influencing, Co-ordinating and supporting other organisations

No of risk	Risk Owner	Risk description	Risk Appetite	Current Risk Score	Target Risk Score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static, Declining)	Actions
12	Tony McArdle	Work with other organisations to deliver our contribution to Lincolnshire's VISION	<p>Open & aware</p> <p>(Partnerships - Recognise that we work differently with different partners)</p>			<p>Limited - view given on the basis of 'developments' needed</p>	<p>→</p>	<ul style="list-style-type: none"> • Strategy around Big Society (CP) • Delivery of some Shared Services • Delivery of key initiatives, e.g. Families working together (CP) / Total Environment / Youth & Community Development (CP) • Jnt Health & Wellbeing Strategy - to be signed off • Initiatives to improve joint working with DC's e.g. Broadband match funding from districts / Working with WLDC (CP) • Regular engagement with CX & Leader • Lincolnshire Leaders Meeting - need planning to agree what to get involved in. • Seek clarity around Health Reform, i.e. CCG's • Constructive working with the Police & Crime Commissioner (aligned priorities to Community Safety priorities) • Working with Lincoln Prison - Better partnership working

Priority Heading 6 Good Governance

No of risk	Risk Owner	Risk description	Risk Appetite	Current Risk Score	Target Risk Score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static, Declining)	Actions
13	Tony McArdle	Protect and manage the reputation of the Council	<p>Hungry</p> <p>(Reputation & public confidence - Comfortable with taking decisions that are likely to bring scrutiny of the Council but where potential benefits outweigh the risks)</p> <p>Open & aware</p> <p>(Regulatory standing & legal compliance - Even if challenge will be problematic- it's an acceptable risk where we are likely to win and the gain will outweigh the adverse consequences)</p>			<p>Limited</p>	<p>→</p>	<ul style="list-style-type: none"> • Communication team seeks to work with local media. • Recognising the importance and use of social media • Consistent approach to managing FOIs <p>Note: carries a significant dependency upon the effective management of the other strategic risks to prevent any major reputational 'fall-out', i.e. safeguarding.</p>

Lincolnshire County Council – Risk Management Report

Other Risks

No of risk	Risk Owner	Risk description	Risk Appetite	Current Risk Score	Target Risk Score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, static, Declining)	Actions
14	Tony Hill	Integration of Public Health responsibilities, staff and budget	<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>			Substantial	Improving ↑	<ul style="list-style-type: none"> • Delivery of Public Health Transition Plan (CP) - up to March 2013 • Develop an integrated Directorate Risk Register (Risks to be trfd from PCT, plus existing PH dept risks) • Governance & Transition Steering group • Staff engagement Group • HR Working group - action plans in place • Finance & Contracting working group action plans in place • Project Gaunt chart regularly monitored • Management of Project risk & Issues log • Project monitoring & reporting arrangements in accordance with CC Project Management Standard • Processes, IT and Info Sources Working Group - with action plan • 30 day staff consultation underway in respect of staff moving to County Council
15	David O'Connor	Judicial challenge on the way we implement transformational change and decisions affecting service delivery	<p>Hungry</p> <p>(Reputation & Public Confidence - Comfortable with taking decisions that are likely to bring scrutiny of the Council but where potential benefits outweigh the risks)</p> <p>Open & aware</p> <p>(Regulatory standing & legal compliance - Even if challenge will be problematic - it's an acceptable risk where we are likely to win and the gain will outweigh the adverse consequences)</p>			Substantial	Static →	<ul style="list-style-type: none"> • Application of appropriate Consultation processes • In-depth legal involvement with all 'high' risk decisions • Impact Assessment Process • Implement recommendations from review of Council Complaints - 2 stage process commencing Mar '13 (CP)



Report Reference: **6.0**
Regulatory and Other Committee

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

Report to:	Audit Committee
Date:	22 April 2013
Subject:	Counter Fraud Progress Report to 31 March 2013

Summary:

This report provides an update on our fraud investigation activities and information on progress made against our counter Fraud Work Plan 2012/13.

Recommendation(s):

To notes the outcomes of our counter fraud work and identify any actions it requires.

Background

This report provides an update on the progress made against the Counter Fraud Work Plan 2012/13, including our investigation activities. Details can be found in Appendix A, including:

- Key messages
- Proactive counter fraud work
- Investigation update
- Progress against plan
- Counter Fraud work Plan 2012/13

Conclusion

Overall delivery of the work plan for 2012/13 has been good although investigation demand has limited the completion of some proactive work which has now been carried forward into the 2013/14 Work Plan.

The committee should particularly note the total value of fraud recoveries for 2012/13.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Counter Fraud 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.



Counter Fraud Progress Report



Date: April 2013

Contents

	Page
Introduction	1
Key Messages	1
Proactive Counter Fraud work completed from December 2012 to March 2013	1-2
Investigations update	2-3
Progress against plan	3-4
Other Matters of Interest	
Appendices - Counter Fraud Work Plan / status update	5-7

Contact Details:
Lucy Pledge CMIIA
Head of Audit & Risk Management



County Offices, Newland, Lincoln, LN1 1YG
☎:01522 553692 📧 lucy.pledge@lincolnshire.gov.uk

Introduction

1. The purpose of this report is to:

- Provide an update on our fraud investigation activities
- Report on progress against our Counter Fraud Work Plan 2012/13

Key Messages

2. Counter Fraud Pro-active Work

The results of our data analytics work piloted on creditor payments will be reported following the last stage of the project, planned for April 2013.

This data analytics work has enhanced our capability to handle large volumes of data to identify potential fraud but also provides linkages to and assurances on compliance matters which is part of our due diligence responsibilities.

The team have begun their work on reviewing the data matches on the latest National Fraud Initiative – we will report results as they are known throughout the year.

3. Investigations

We currently have 5 live investigations, with three new cases since from January 2013. There are 3 ongoing cases with the Police.

Pro-active work

4. The final phase of the data analytics project is to be completed in April 2013 – we are still following up the results / validation work on the creditor payments data – the outcomes from this work will be reported following the final phase of the project. This analytical approach will be applied to other Council systems during 2013/14, e.g. expenses.

5. New counter fraud and whistleblowing posters and leaflets were not ready to launch before the end of this financial year – these actions will now be carried forward into our 2013/14 fraud awareness campaign.

6. Work has started on the 2012/13 National Fraud Initiative (NFI) data matches. We have just over 19,000 matches with creditors and concessionary travel the two biggest areas for us to review and/or investigate:

- Creditors – 8019 matches
- Concessionary Travel – 8401 matches
- Blue Badges – 1430 matches

- Payroll – 1055 matches
- Private Residential Care – 302 matches
- Insurance Claimants – 21 matches

Investigations and recoveries take some time – we shall therefore be reporting our results throughout the year.

7. The NFI process is resource intensive but mandatory, occurring every two years. We recovered £60k of overpayments in the 2010/11 exercise and £113k in 2008/09 exercise.

Investigations

8. We currently have 5 live internal investigations:

- Bias in the award of contracts / abuse of position
- Misuse of resources / abuse of time / timesheet fraud
- Recruitment fraud
- False representation
- Misuse of council property

9. Investigations have concluded in two cases since January – one resulted in management action and we recovered £675 in a case which involved an invoicing scam – the company have been referred to the Police and NFA's Action Fraud organisation. Our team have issued a fraud warning to reduce the risk of re-occurrence.

10. The on-going Police investigations are in the following areas:

- contractor fraud x 2
- mandate fraud / payments

11. Results since January 2013:

- We have so far recovered £47.8k from the Proceeds of Crime process, our insurers and pension confiscation (£21.4k). Our insurers have also recently confirmed approval of our claim relating to the fraud within a Lincolnshire school in 2010 to the sum of £111.7k including part recovery of our investigation costs – the payment is imminent.

Progress Against Plan

12. See Counter Fraud Work Plan for information on progress against plan – there are four areas where work will continue into 2013/14: review of money laundering policy, final phase of data analytics project, poster & fraud awareness campaign and update of the Council's fraud risk profile. We have allocated resources in the

213/14 Work Plan to complete this work. Our fraud investigations continue to be our most resource intensive activity.

Other Matters of Interest

No updates since January 2013.

Counter Fraud Work Plan 2012/13

Area	Days	Indicative Scope	Start Date	End Date	Status
Counter Fraud Arrangements					
CF Data analytics – development		To better target proactive resource	October 2012	March 2013	Final phase c/f to April 2013
Midland Counties Fraud Group		Attend quarterly meetings to share intelligence, best practice and develop training opportunities	April 2012	March 2013	Complete
Lincolnshire Authorities Fraud Forum		Lead, organise & attend meetings, share local intelligence, best practice & work on joint initiatives	April 2012	March 2013	Not progressed
CF Champion Liaison		Focus on awareness, progress against plan & emerging themes & fraud risks within Lincolnshire			Complete
Sub Total	40				
Anti Fraud Culture					
Raising awareness – engagement and liaison		Members, managers, staff, key partners	July 2012	Sept 2012	Awareness sessions completed with ASC staff more planned for 2013/14
Website maintenance – updates		Warnings of emerging fraud risks, case summaries on proven cases, prevention information	April 2012	March 2013	Complete
Fraud bulletins		Communications via daily news	April	March	Complete, where

Area	Days	Indicative Scope	Start Date	End Date	Status
		bulletins, Audit Lincolnshire website etc	2012	2013	appropriate
Poster campaign		Joint county / district initiative	April 2012		Designs being finalised – launch to c/f to 2013/14 plan
Annual Reports 11/12 – Counter Fraud and Whistleblowing		Submission to Audit Committee	April 2012	June 2012	Complete
Sub Total	60				
Deterring Fraud					
Publicising successful prosecutions, outcomes and key developments		Echo, County News, News Lincs, Audit Lincolnshire website	April 2012	March 2013	Complete
Sub Total	5				
Preventing Fraud					
Review & re-launch Counter Fraud & Money Laundering Policies		Link with work on further developing anti-fraud culture	April 2012	June 2012	Fraud Policy completed Money Laundering Policy (low priority) – rescheduled to 2013/14
Recommendations tracker		Agree and follow up management action plans arising out of investigations and proactive fraud exercises	April 2012	March 2013	
Internal Audit and Risk Management liaison		Intelligence sharing – attendance at team meetings			
Sub Total	20				
Detecting Fraud					
Revisit fraud risk assessment		Assess within all directorates via liaison arrangements	April 2012	June 2012	Deferred - updated risk profile c/f to 2013/14

Area	Days	Indicative Scope	Start Date	End Date	Status
Continuous fraud testing (fraud & error)		Linked with due diligence quarterly testing	July 2012	March 2013	Complete
Proactive fraud exercises		Based on national and local emerging risk areas	July 2012	March 2013	Direct Payments – fieldwork completed
National Fraud Initiative 2012/13		Preparation for data upload and initial work on LCC matches 2013	Sept 2012	March 2013	Data upload successful – review of data matches on-going
Sub Total	160				
Investigating Fraud					
Memorandum of Understanding with Police		Arrangements with Economic Crime Unit contact soon to end – need for formal agreement.	April 2012	June 2012	Not pursued
Fraud Investigation		In line with investigation manual and recommended best practice	April 2012	March 2013	
Sub Total	300				
Sanctions & Redress					
Pursue civil, disciplinary and/or criminal sanctions		Picked up during investigation process	April 2012	March 2013	
Identify and recover all losses		Identified during investigation process and recovery action sought through POCA, Insurance and legal means.	April 2012	March 2013	£159.5k total recovery
Contingency	65	To enable flexibility in the plan to address emerging risks and/or investigative demand	April 2012	March 2013	Transferred to meet investigative demand
Total Work Plan for 2012/13	650				

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

Report to:	Audit Committee
Date:	22 April 2013
Subject:	Draft Internal Audit Plan 2013/14

Summary:

This report presents to the Committee the draft internal audit plan for 2013/14.

Recommendation(s):

That the Committee agrees the audit plan for 2013/14.

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. It has shown where more independent assurance is required - based on significance and risk of the activity.

Using the Combined Assurance Model helps streamline and avoid duplication of effort where assurances can be drawn from other sources eg management – corporate functions or 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 2014.

Internal Audit also 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. 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
- Due Diligence, those systems that support the running of the Council and ensure compliance with key policies
- Emerging and strategic risk areas
- Key projects
- ICT systems

Attached is the draft internal audit plan for 2013/14 – Appendix A.

A copy of the CIPFA Audit Committee Update – Reviewing the Audit Plan is attached for information – Appendix B.

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 2013/14
Appendix B	CiPFA Gudance on Internal Audit Plan

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.

Draft Internal Audit Plan 2013/14

Introduction	1
Internal Audit Strategy – How we choose what to look at	1 - 2
Draft Internal Plan 2013/14	2 - 3
Our Performance	3
Audit Lincolnshire Partnership	4 - 5
Appendices	
Appendix A – Draft Internal Audit Plan 2013/14	6 - 13

Contact Details:
Lucy Pledge CMIIA
Head of Audit & Risk Management



County Offices, Newland, Lincoln, LN1 1YG
☎:01522 553692 📧 lucy.pledge@lincolnshire.gov.uk

Introduction

1. This report sets out the proposed work of Internal Audit for 2013/14. 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.
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.

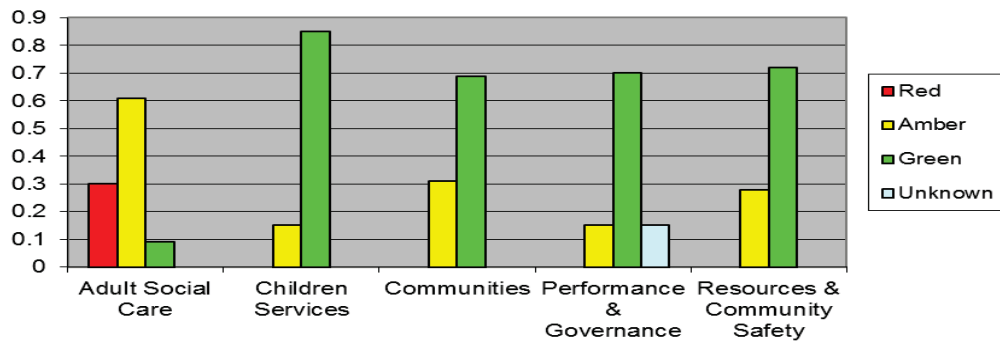
Internal Audit Strategy – How we choose what to look at

3. 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.
4. We have identified the level of assurances in place by using the 'Three lines of Assurance' Model



- 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 shows us where we can co-ordinate our assurance work across the whole Council and where we can leverage assurance from these other sources to enable the Head of Internal Audit to provide their Annual Audit Opinion on the Council’s governance, risk and control framework for 2014. Figure 1 below shows the current assurance levels for each Executive Director.

Figure 1 – Assurance Levels

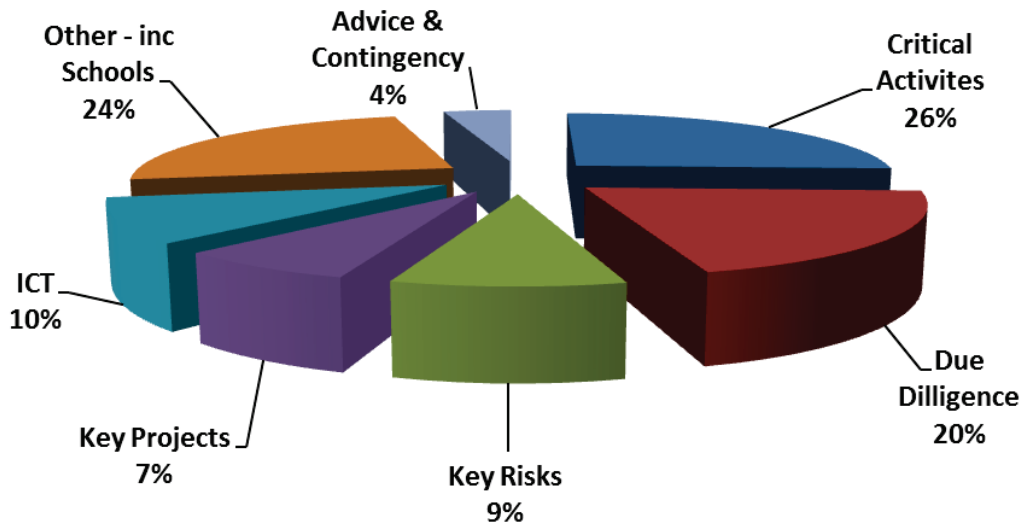


- Internal Audit continues to have the right to conduct its own assurance activity freely and independently in order to meet its role and remit – even if there appears to be a good level management or alternative assurance in place. However, the Map has enabled the reasons why we have included areas in our plan to be clearly understood by Management.
- Our consultation with Senior Management also helped identify areas where they wish to have more independent assurance provided.
- We co-ordinate our work on key financial systems with the Council’s External Auditors, KPMG. We have 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 2013/14

- The type of areas included in the plan for 2013/14 is shown in figure 2 with the detailed projects in Appendix A. A schedule of audits will be developed with management once the plan has been approved.

Figure 2 – Analysis of Internal Audit Resource



Our Performance

10. Our effectiveness and performance is monitored through the Audit Committee. Our performance measures are set out below in Figure 3 for information.

Figure 3 – 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 – by exception
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 Governance and 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.

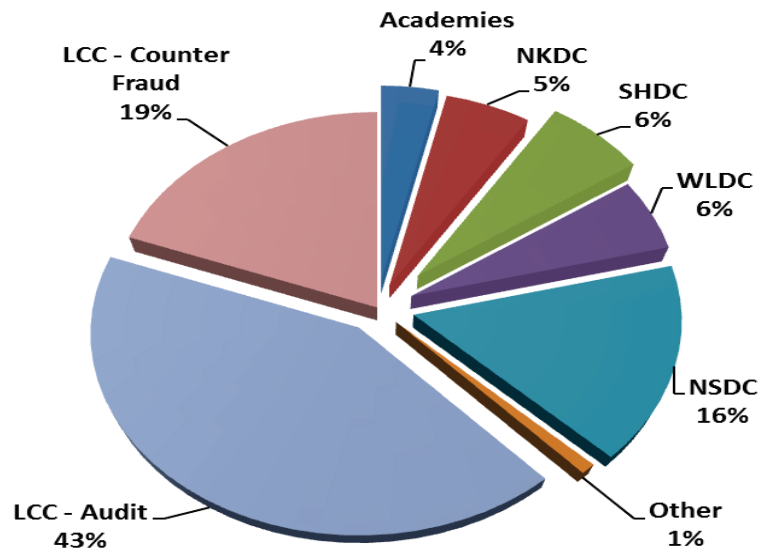
Audit Lincolnshire Partnership

9. The County Council works in partnership with the City of Lincoln and East Lindsey District Council for the provision of internal audit services to their own authorities and authorities with whom they have contractual, or other agreements.
10. By working together the partnership aims to be:

‘the best audit assurance provider for Lincolnshire public sector agencies’.
11. The partners deliver 7 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.
12. 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 £104,837. Our budget also includes income of £20,000 through fraud recoveries. Figure 4 below shows how the resources are distributed across our clients.
13. The net budget for the Internal Audit Service, including Counter Fraud for 2013/14 is £643,522.
14. The service is also generates income of £117,000 through providing an Academies Insurance product.
15. 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. To illustrate this for the year 2012 / 13 there is likely to be an underspend of £40,000 and fraud recoveries of £159,500.

Figure 4 – Distribution of Resources across our clients



Draft

Appendix A – Draft Internal Audit Plan 2013/14

Area	Indicative Scope	Planned Days
Public Health		
Critical Service Areas		
Critical service allocation	Audit of critical services to be determined after the assurance map has been produced	
Sub Total		35
Due Diligence		
Due Diligence allocation	To audit a key project during the year.	
Sub Total		10
Key Projects		
Key Project allocation	To audit a key project during the year.	
Sub Total		10
Key Risks		
Strategic and Emerging risks	To audit risks within the strategic risk register any significant emerging risks arising in the year.	
Sub Total		30
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.	
Sub Total		15
Non-Audit		
Advice & Liaison		
Sub Total		10
Total for Public Health		110
Adult Services		
Critical Service Areas		
Customer Finance and Direct Payment Team	Review of the newly formed team for carrying out financial assessments of clients and making direct payments to clients.	
Brokerage	Review of end to end process of the Brokerage team for the purchase and monitoring of packages of care.	
Organisational learning and follow up	Review progress made to implement recommendations from the 2012 Internal	

Area	Indicative Scope	Planned Days
	Management Review / audit reviews.	
Quality Assurance	Review the effectiveness of the service-quality assurance regime – developed to ensure that ASC operates to best practice standards / policy and procedures.	
Performance & Productivity Management	Review of data quality, trend analysis and reporting arrangements, and the actions being taken to address issues.	
Reablement Service	Review to gain assurance that the performance of the service continues to improve and that outcomes for service users are achieved.	
Sub Total		100
Key Projects		
Key Project allocation	To provide assurance on the successful delivery / progress of a key project during the year.	
Transformation Programme	Review of the programme/project management arrangements for this key ASC programme, considering the design and application of the governance structure.	
Proactive Support	To provide proactive advice and support on governance, managing key risks and effective internal control.	
Sub Total		45
ICT		
Case Management System	To provide proactive advice and support to this project, ensuring that key risks and controls are being considered.	
Sub Total		15
Key Risks		
Strategic and Emerging risks	To audit risks within the strategic risk register any significant emerging risks arising in the year.	
Sub Total		35
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.	
Sub Total		10
Non-Audit		

Area	Indicative Scope	Planned Days
Advice & Liaison		
Sub Total		10
Total for Adult Services		215
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.	
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.	
Performance Assurance Services		
Lincolnshire Safeguarding Children's Board	To review the arrangements Performance Assurance are developing to strengthen the assurance received from the LSCB.	
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, closure etc.	
Police Notification of Domestic Violence	To provide assurance on arrangements to assess and record police referrals.	
Sub Total		75
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 	
Sub Total		10
ICT		
Integrated Children's System ICS	Review of system management, user and administrative access, input and output controls, user training and guidance.	
Access Databases	Review of system maintenance, user and administrative access, input and output	

Area	Indicative Scope	Planned Days
	controls, user guidance.	
Sub Total		30
Key Risks		
Strategic and Emerging risks	To audit risks within the strategic risk register any significant emerging risks arising in the year.	
Sub Total		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.	
Schools	Periodic audits of maintained schools.	
Sub Total		285
Non-Audit		
Advice & Liaison		
Sub Total		10
Total for Children's Services		425
Communities		
Critical Service Areas		
Environment, Planning & Customer Services		
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.	
Flood Management	Review of the development and delivery of the Flood Risk Management Strategy.	
Customer Service Centre	To review the arrangements for responding to customer queries, delivering advice and information on council services and forwarding service requests.	
Highways & Transport		
Civil parking enforcement	Review of the arrangements for the management and monitoring of the contract for the provision of parking enforcement services.	
Adult Services Transport	Review of the impact of personal budgets to give assurance that they have been adequately managed and arrangements put in place.	
Sub Total		70

Area	Indicative Scope	Planned Days
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.	
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.	
Sub Total		20
Key Risks		
Strategic and Emerging risks	To audit risks within the strategic risk register any significant emerging risks arising in the year.	
Sub Total		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.	
Sub Total		10
Non-Audit		
Advice & Liaison		
Sub Total		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.	
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	
Trading Standards	Assessment of resourcing, task prioritisation and impact on timescales.	
Procurement Lincolnshire		

Area	Indicative Scope	Planned Days
Category Management	Review the effectiveness of category management model and development of supply market intelligence to delivery client needs and sustainable outcomes.	
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.	
Sub Total		70
Due Diligence		
Resources		
Finance Systems	Ensure the financial control environment is robust and operating effectively. Areas selected from risk assessment, last audit review, known changes, External Audit liaison and assurance map – will also include coverage of new areas around Public Health	
Key financial systems – transaction testing	Throughout the year test key controls and transactions feeding into the Council's accounts in liaison with External Audit	
Financial and Contract Regulations – establishment visits	To review the level of compliance with the Council's key financial procedures across selected service areas	
Risk Management	To provide assurance on the risk management strategy, structure and operations within the organisation.	
Sub Total		260
ICT Applications		
SAP		
Sub Total		15
Key Projects		
FDSS		
Sub Total		10
Emerging Risks		
Emerging risk contingency	To audit any strategic risks and significant emerging risks arising in the year.	
Sub Total		20
Other relevant Areas		

Area	Indicative Scope	Planned Days
Combined Assurance	Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report.	
Sub Total		10
Non-Audit		
Advice & Liaison		
Sub Total		10
Total for Resources & Community Safety		395
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	Q1
Sub Total		20
Due Diligence Activities		
Corporate Governance	To review the effectiveness of the Council's governance arrangements, including compliance with new standards regime	Q1
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.	
Sub Total		20
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. Scheduling of individual ICT audits will be agreed when the assurance map is finalised.	
Sub Total		85
Key Projects		

Area	Indicative Scope	Planned Days
Broadband in Lincolnshire	To provide assurance on delivery and compliance with the grant conditions.	Q4
Sub Total		10
Strategic / Emerging Risks		
Strategic risk	To seek assurance on the key controls linked to strategic risks which sit within the directorate, e.g. Becoming a Commissioning Council	
Emerging risk contingency	To audit any significant emerging risks arising in the year.	
Sub Total		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.	Q3
Sub Total		10
Non-Audit		
Advice & Liaison		
Sub Total		10
Total for Performance & Governance		170
Grand Total		1440

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Better Governance Forum briefing paper

Audit Committee Update

helping audit committees to be effective

**Issue 1 – Reviewing the Audit Plan
January 2010**

Introduction

Dear Audit Committee Member,

This is a new briefing paper for audit committee members in public sector bodies.

It has been produced by the CIPFA Better Governance Forum and is free to our subscribing organisations. Its aim is to provide members of audit committees with direct access to relevant and topical information that will support them in their role. This first issue includes an article to help you review your internal audit plan and pointers to other information and guidance relevant to your role.

The CIPFA Better Governance Forum is part of the Chartered Institute of Public Finance and Accountancy which is the leading body for setting standards of governance and recommended practice for audit committees in local government and other parts of the public sector. The Forum is a subscription network covering all aspects of governance providing guidance, briefings and workshops.

I hope you will find this first issue helpful. It is our intention to produce this briefing three times a year. It will be emailed to the key contact in your organisation who will be able to email it to you or print it if you prefer. If you want to make sure you receive your copy directly please provide us with your details using the link on page 3.

We welcome feedback on this issue and suggestions for future topics. Please let us know if we have got this right.

Best wishes

Diana Melville
Governance Advisor
CIPFA Better Governance Forum
Diana.Melville@cipfa.org.uk

Future editions of this briefing:

The next edition is planned for May and will focus on the audit committee's role in reviewing the Annual Governance Statement or Statement on Internal Control.

In the autumn we are planning a briefing on risk management and how the audit committee can help make the management of risk more effective in the organisation.

Workshops and training for audit committee members in 2010

Advanced Audit Committees

20 January 2010 – London
10 March 2010 – Edinburgh
17 November 2010 – York

http://www.cipfanetworks.net/governance/events/default_view.asp?id=1026

Effective Audit Committees

17 June 2010 – Glasgow
14 July 2010 – London

<http://www.cipfanetworks.net/training/>

Reviewing the Annual Governance Statement and Statement of Accounts

26 May 2010 – London
8 June 2010 – Birmingham

Further details will be available from www.cipfanetworks.net/governance nearer the time.

In-house training

In house training, tailored to your needs is available. For further details contact Adam Goodman Bolton on 0208 6678543 or Adam.Goodman-Bolton@cipfa.org.uk
<http://www.cipfanetworks.net/training/>

Receive our briefings directly:

This briefing will be sent to all key contacts of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be forwarded to all audit committee members.

If you are an audit committee member who has been forwarded a copy of this report and would like to receive it directly in future, please email Diana Melville Diana.melville@cipfa.org.uk

Reviewing the Audit Plan

At least once a year, but possibly more frequently, both your internal and external audit teams will ask you to review their audit plans and approve them. If you aren't familiar with audit plans, you may well be asking yourself how to do this and how you can add value. In this article, I will discuss:

- Why draw up an audit plan?
- Who is involved?
- How is the audit plan produced?
- What does the audit plan cover?
- When is the audit plan written?
- Your role in relation to the audit plan

I will finish with a "dashboard" of key questions for you to ask to satisfy yourself that the plan has been drawn up appropriately and will deliver the assurance that you need as an audit committee member. While I concentrate on your role in relation to internal audit, many of these points also relate to external audit.

Why draw up an audit plan?

An audit plan is needed to ensure that your auditors address all the main areas of risk within your organisation and can provide assurance to support your Annual Governance Statement or Statement on Internal Control. At the end of each year the head of internal audit provides an opinion on the effectiveness of the control environment so it is vital that the plan is sufficient to support that opinion. It is also needed to ensure auditors use their limited resources (budget, time, people and expertise) to best effect. Almost inevitably audit needs outstrip audit resources and the plan will help your audit team set its priorities, in discussion with you.

Who is involved?

The audit plan is normally drawn up by the head of internal audit, in consultation with directors and members of the audit team. As the internal audit plans and external audit plans should be aligned, each should consult the other as part of this process.

How is the audit plan produced?

The audit plan is 'risk-based' to address the financial and non-financial risks faced by your organisation and your key priorities. Your organisation's risk register and the effectiveness of risk management will be reviewed to help develop the plan. The plan may also include work to be undertaken on behalf of your external auditor. The identified audits will be balanced against the resources available and the plan drawn up accordingly.

What does the audit plan cover?

The audit plan should show how your internal audit strategy is going to be achieved in accordance with the section's terms of reference. Plans include a combination of planned work and allowances for reactive work. They are always flexible so that they can reflect the changing risks and priorities within your organisation. Plans will also include allowances for "non-chargeable" time.

Planned audit work consists of a series of reviews of different aspects of your organisation's operations. The plan will include some high risk areas, for example areas of significant financial risk or high profile projects or programmes. Or they could be areas where there are concerns about poor performance, fraud or emerging risks. Some higher risk audits may feature annually in audit plans. Other areas, particularly financial systems, may be audited regularly even if they are well controlled because of their significance to the financial statements. The frequency will usually be agreed with the external auditor. Other parts of the plan will reflect the risks and priorities of the organisation and the judgement of the head of internal audit.

Reactive audit work may include investigations, giving advice, supporting working groups and other such matters. Non-chargeable time includes annual leave, training, administration, team meetings etc. A working year is approximately 260 days. A typical auditor (not a trainee or a manager) will carry out about 200 audit days/year.

When is the audit plan written?

Detailed audit plans normally cover the organisation's financial year, although this is not mandatory. The audit plan is, therefore, generally written a few months before the start of the audit year for approval by the audit committee at the meeting before the start of that year. As the plan has to be flexible, you should be kept informed of minor changes and receive a revised plan for approval if there are any significant changes during the year.

There may also be a strategic plan that outlines the main direction for the audit team over a longer period than a year (perhaps three years). This is particularly useful to understand the wider coverage of risks and controls.

The audit committee's role

The audit committee should be both challenging of the plan and supportive in its delivery. You need to be sure that the organisation's risks and priorities are considered, that the plan is aligned with the audit strategy and terms of reference, that internal and external audit have liaised in drawing up their plans and that your auditors have exercised their independence and have not been unduly influenced by others in deciding what they will or (even more importantly) will not examine. You could review the audit strategy and terms of reference at the same time to ensure that they are still relevant and appropriate.

You also need to consider how the plan relates to other sources of assurance to support the Annual Governance Statement or Statement on Internal Control, for example assurance from the risk management process or management assurances. Taken as a whole, will you get the assurance you need?

Once the plan has been approved, your role is then to monitor activity and outcomes against that plan. Is it being delivered? Is the audit work delivering the expected outcome? You may also need to support your auditors, if they are struggling to get auditee engagement or experience a shortfall in resources. Above all, you are there to get action as a result of audit work.

Key questions to ask:

1. Who did the head of internal audit liaise with in drawing up this plan? Did this include external audit?
2. How does this audit plan link to our risk register and our strategic plans?
3. What audits have you left off this plan and why? When do you plan to carry out this work?
4. How does the audit plan fit with other assurance work? Are there any gaps or is there duplication?

Elizabeth Humphrey

Senior Associate, CIPFA Better Governance Forum

Recent developments you may need to know about:

Scrutiny of Treasury Management

CIPFA *Treasury Management Code of Practice 2009* has recommended that a nominated committee (for example an audit committee) should be responsible for effective scrutiny of treasury management strategy and policies.

What do Audit Committee members want from their Head of Internal Audit?

Audit committee members are one of the most important stakeholder groups of the internal audit profession. Over the next few months CIPFA will be developing a statement on the role of the head of internal audit. This is being overseen by a steering group. The draft statement will be launched at CIPFA's audit conference in May and formal consultation sought. Before then CIPFA is already seeking views and opinion on the role and is keen to hear from audit committee members. If you would like to read more about the proposed statement or would like to send in you views. Follow this link <http://www.cipfa.org.uk/panels/audit/index.cfm> .

Protecting the Public Purse

This report from the Audit Commission highlights the risks of fraud to local government and identifies good practice in fighting fraud. It includes a short checklist for those responsible for governance so it is an ideal resource for audit committee members. The report focuses on local government but many of the issues apply equally to other public sectors organisations. The report is available from the Audit Commission website <http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/20090915protectingthepublicpurse.aspx>

The Audit Committee Cycle

Each year the audit committee will be responsible for a number of core actions. Here are some snippets on how you might prepare for some of these.

Reviewing the Annual Governance Statement (AGS) or Statement on Internal Control (SIC):

What assurance on partnerships are you expecting to receive to support the AGS or SIC? Look back at what has been on your agenda on partnerships so far this year and consider what you know about governance risks to your organisation's partnerships.

Reviewing the final accounts:

The 2009/10 accounts will still need to be prepared under UK GAAP and the local authority SORP. However, local authorities should be well on their way to prepare for the introduction of International Finance Reporting Standards (IFRS) in 2010/11, including transitional arrangements. You may have had a briefing already from your finance team about the implications of IFRS, but if not it may be worth asking about the planned changes and its implications for producing the accounts in 2011. With 2010/2011 being the first financial year of IFRS, ask you finance team about the impacts on your organisation.

Central Government and the NHS are ahead of local government in terms of the introduction of IFRS. For these sectors the 2009/10 accounts will be produced under IFRS. So as in local government it may be worth asking your finance team about the implications and impacts for producing the 2010 accounts.

External Audit reports (Local Authorities):

You will have seen your own organisation's results but did you know the Audit Commission published all the Comprehensive Area Assessment results on the 'oneplace' website <http://www.direct.gov.uk/oneplace>

Use of resources scores for all local government bodies can be found using this link <http://www.audit-commission.gov.uk/localgov/audit/uor/use-of-resouces-200809/pages/auditingtheaccounts.aspx>



Diana Melville
Governance Advisor
Better Governance Forum
No 1 Croydon
12-16 Addiscombe Rd
Croydon
CR0 0XT
Tel: 01722 349398
Diana.Melville@cipfa.org.uk
www.cipfanetworks.net/governance



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

Report to:	Audit Committee
Date:	22 April 2013
Subject:	Counter Fraud and Investigations Work Plan 2013/14

Summary:

The Council's counter fraud arrangements demonstrate its continued commitment to strong governance and best use of resources. Our response to the National Fraud Authority's expectations to tackling fraud and corruption is reflected in the 2013/14 Counter Fraud Work Plan. It is important we maintain our counter fraud response and resilience as the changes to Council service delivery evolve.

Recommendation(s):

To review and approve the Counter Fraud Work Plan for 2013/14.

Background

- 1 In response to recommendations from both the National Fraud Authority and Audit Commission we are continuing to make better use of our IT systems using our enhanced data analytics capability. Throughout the year this will complement and inform both our counter fraud pro-active work and the due diligence audit of the Council's key financial systems.
- 2 An area carried forward from the 2012/13 Work Plan is some counter fraud and whistleblowing awareness activity, specifically related to a poster and leaflet campaign. This will now form part of a comprehensive programme of fraud awareness activity throughout 2013/14. This will include more engagement with managers, members and staff.
- 3 Following our data analytics development work we propose to increase our data analysis and fraud testing, in areas such as:
 - payroll
 - expenses, including credit cards and member allowances
 - payments (creditors) and procurement (including procurement card)

- 4 We have dedicated 25% of the work plan to fraud and error detection - in addition to the continuous testing noted above, our pro-active work will cover the 2012/13 National Fraud Initiative and areas of emerging fraud risk highlighted nationally and locally.
- 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. 46% of our counter fraud resources is allocated to investigation activity.

Conclusion

The Council's Counter Fraud Work Plan for 2013/14 provides a robust response to Central Government's expectations on 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 Work 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 Stephanie Kent, who can be contacted on 01522 553682 or stephanie.kent@lincolnshire.gov.uk.



**Lincolnshire County Council
Draft Counter Fraud Work Plan
2013/14**

Date: 8 April 2013

Contents

Introduction

Counter Fraud Proactive Work – How we choose what to look at

Draft Counter Fraud Work Plan 2013/14

Our Performance

Appendices

Appendix A – Counter Fraud Work Plan 2013/14

Contact Details:
Lucy Pledge CMIIA
Head of Audit & Risk Management



County Offices, Newland, Lincoln, LN1 1YG
☎:01522 553692 📧 lucy.pledge@lincolnshire.gov.uk

Introduction

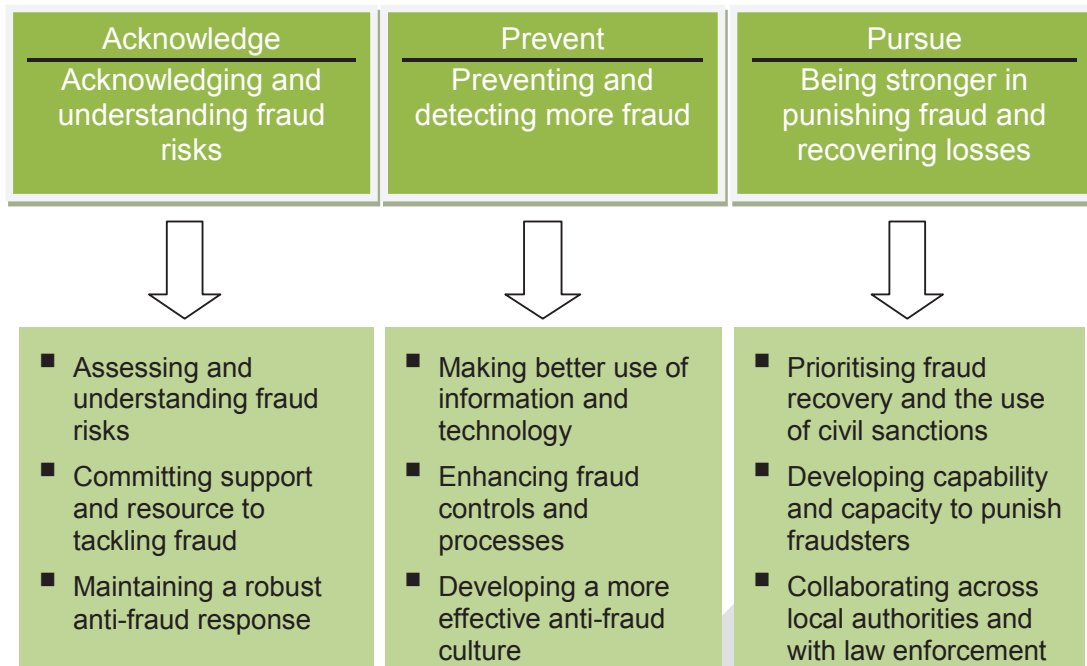
1. This report sets out the proposed work of the Council's Counter Fraud and Investigations Team 2013/14. The plan has been developed using information from:
 - the Council's Assurance Map
 - known national and local fraud risk areas
 - recommendations from the National Fraud Authority's "Fighting Fraud Locally 2012"
 - recommendations from Protecting the Public Purse 2012
2. The Counter Fraud and Investigation team provides an independent investigation service into suspected fraud, whistleblowing disclosures, stage 3 complaints and complex disciplinary matters. The team also carries out proactive work designed to identify fraud and error, raise awareness and improve fraud the Council's prevention and detection measures in high risk areas.

How we choose what to look at

3. Our 2013/14 work plan is informed by the following:
 - Due diligence activities – compliance and emerging risk issues identified and noted in this area of the Council's assurance map providing indicators to target future probity work
 - National fraud risks highlighted by the National Fraud Authority and the Audit Commission's annual "Protecting the Public Purse" publication 2012
 - Regional and local fraud risk areas identified through the Midland Counties Fraud Sub Group, together with local fraud intelligence and past risk assessments
 - Prevention and detection best practice recommended in the National Fraud Authority's "Fighting Fraud Locally" guidance and the Audit Commission's "Protecting the Public Purse".
4. The National Fraud Authority's (NFA) model is something we have been working to for a number of years as our Work Plan has been developed around the six strands:

Culture – Prevention – Detection – Investigation – Sanctions – Redress

The NFA's strategy requires local government to protect itself from fraud and corruption and provides an approach designed to encourage more collaboration to tackle the fraud threat – their focus is on three areas:

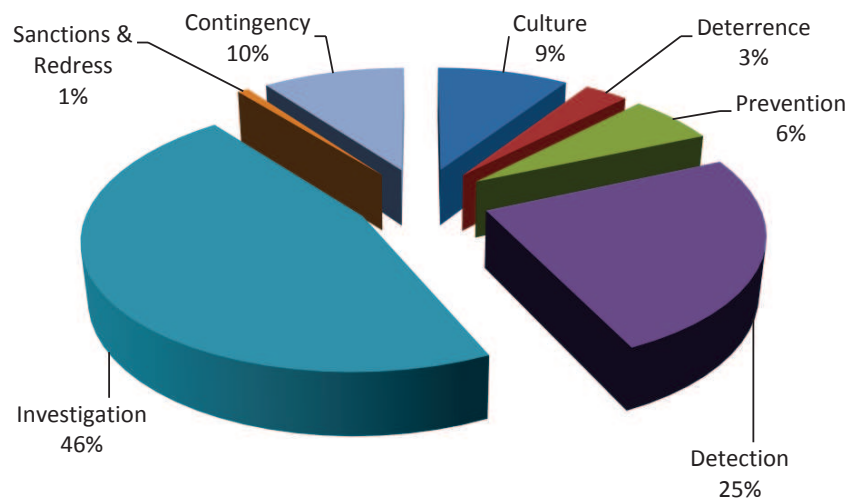


Draft Counter Fraud Work Plan 2013/14

5. The Council has a good understanding of its fraud risks and has maintained a robust response to tackling fraud since it created its dedicated Counter Fraud and Investigation team. The Council's fraud risk profile will be updated in the first quarter of 2013/14 with the results of the fraud risk assessment for each directorate.
6. The 2013/14 Work Plan will build on the data analytics development work completed in 2012/13 and apply the capability in more key areas of authority business e.g. payroll, expenses and procurement. This will improve the focus our proactive resource and complement the team's due diligence audit work throughout the year.
7. The Council already has strong anti-fraud policies – the level of investigation work is just one indicator of awareness levels within the Council. Referrals to the team have, over the years, originated from management, staff and whistle-blowers which provides some assurance around the effectiveness of reporting mechanisms. Whilst the activities of the team are reported routinely throughout the year the Council has not in recent years run a campaign dedicated to raising fraud awareness. The best fraud fighters are the staff and clients of the Council - we will allocate resources to re-launch and rejuvenate our fraud awareness activities throughout the year.
8. The Council has effective measures to recover identified losses due to fraud and error and will continue to focus on these areas. During 2013/14 the team will explore the scope to improve collaboration with other local authorities and law enforcement to improve, where possible, our ability to prosecute fraudsters.

9. Figure 1 shows the type of counter fraud activity planned for 2013/14 with the detailed work listed in Appendix A. Investigative work will proceed as required but a schedule of proactive work will be developed once the plan has been approved.

Figure 1 – Analysis of Counter Fraud Activities



Our Performance

10. Our effectiveness and performance is monitored through the Section 151 Officer and the Audit Committee.
11. 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.
12. Over the year we will also access any national benchmarking data on counter fraud activity and use this, where possible, to assess the effectiveness of the Council's existing arrangements.

Appendix A – Draft Counter Fraud Work Plan 2013/14

Area	Indicative Scope	Planned Days
Culture		
Engagement and training	Briefings sessions / training for members, management, staff, key partners	
Website maintenance	Updates / warnings of emerging fraud risks, case summaries, results and prevention information	
Awareness Campaign	Posters, leaflets, e-learning tool to rejuvenate staff awareness	
Sub Total		60
Deterrence		
Publicity on counter fraud activities	<p>Linked to awareness campaign – programme of internal/external communications covering:</p> <ul style="list-style-type: none"> ▪ Counter fraud team ▪ Proactive work, including NFI ▪ Investigation outcomes / prosecutions ▪ Fraud prevention measures ▪ Counter fraud responsibilities 	
Sub Total		20
Prevention		
Organisational learning	Supplementary reports and actions plans and action plans arising out of investigation work	
Data analytics	<p>Further development / use of data analytics:</p> <ul style="list-style-type: none"> ▪ Creditors / Procurement ▪ Payroll ▪ Expenses, including credit cards and members allowances 	
Advice	Enhancing fraud controls and process – new and existing systems	
Sub Total		40
Detection		
Update Fraud Risk Profile	Incorporating emerging risk issues and results from local risk assessment	
Proactive fraud exercises	Based on national and local emerging risks	

Area	Indicative Scope	Planned Days
National Fraud Initiative 2012/13	Review and investigation of Council matches / responding to data requests from other public sector bodies	
Sub Total		160
Investigation		
Fraud Investigation	In line with investigation manual and recommended best practice	
Sub Total		300
Sanctions and Redress		
Pursue civil, disciplinary and/or criminal sanctions	Action taken during investigation process	
Identify and recover losses	Identified during investigation – recovery action through Proceeds of Crime Act, Insurance and legal means	
Sub Total		5
Contingency		
Advice & Liaison		
Sub Total		65
Grand Total		650

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

Report to:	Audit Committee
Date:	22 April 2013
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 2012/13 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 Council's 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.

- 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.

Response to fraud and error questionnaire

No.	Questions for management	Managements response
1	<p>Are you aware of any instances of actual, suspected or alleged fraud, within the authority as a whole during the period 1 April 2012 – 31 March 2013?</p>	<p>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 2012/13.</p>
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 – although will be updating our fraud risk profile in 2013/14</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 <ul style="list-style-type: none"> ■ Whistleblowing arrangements ■ Robust CF Policy and zero tolerance stance to fraud ■ Proactive work programme – delivered by CF team (deter/detect) – <i>data analytics developments 2012/13 and beyond</i>

No.	Questions for management	Managements response
		<ul style="list-style-type: none"> ■ Due diligence activities on key financial systems throughout the year (deter/detect) ■ Accredited counter fraud investigators (strengthened team) ■ 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 ■ Code of Conduct – reporting expectations ■ Dedicated counter fraud team ■ <i>Awareness campaign planned for 2013/14 with new posters, awareness sessions, e-learning and communications strategy</i> <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,</p>

No.	Questions for management	Managements response
		removing delegated authority, 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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Report Reference: **10.0**
Regulatory and Other Committee

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

Report to:	Audit Committee
Date:	22 April 2013
Subject:	External Audit Plan and LCC Pension Fund 2012/13

Summary:

These audit plans set out the external audit work and fees that are proposed to undertake the audit of the financial statements and value for money conclusion for 2012/13.

Recommendation(s):

The committee considers the audit commission plans and comments as required.

Background

KPMG are our appointed external Auditors and attached in Appendices is their External Audit Plan describing how they will deliver financial statement audit work for the Council and their approach to value for money. It reflects

- Headlines
- Their audit approach
- Key financial statements audit risks
- VFM audit approach

Conclusion

External Audit are required to issue an audit report giving an opinion on whether the accounts are a true and fair view of the financial position of the Council as at 31st March 2013

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire County Council Audit Plan and LCC Pension Fund 2012/13

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 Mike Wood, who can be contacted on 01629 538837 or m-wood@audit-commission.gov.uk



cutting through complexity™

External Audit Plan 2012/13

Lincolnshire County Council

March 2013



The contacts at KPMG in connection with this document are:

Tony Crawley
Director

Tel: +44 0116 256 6067
tony.crawley@kpmg.co.uk

Mike Wood
Manager

Tel: +44 0115 945 4482
mike.wood@kpmg.co.uk

Nicola Clarke
Assistant Manager

Tel: +44 0115 935 3547
nicola.clarke@kpmg.co.uk

	Page
Report sections	
■ Introduction	2
■ Headlines	3
■ Our audit approach	4
■ Key financial statements audit risks	10
■ VFM audit approach	12
■ Audit team, deliverables, timeline and fees	16
Appendices	
1. Balance of internal controls and substantive testing	20
2. Independence and objectivity requirements	21
3. KPMG Audit Quality Framework	22

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.auditcommission.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, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, telephone (mimicom) 020 7630 0421.

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

Scope of this report

We are pleased to be appointed as your external auditors for 2012/13. This document supplements our *Audit Fee Letter 2012/13* presented to you in August 2012. It describes how we will deliver our financial statements audit work for Lincolnshire County Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2012/13.

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*, the *Local Government Act 1999* 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.

We will issue an Accounts audit protocol that will give the timetable for our audit, and a list of documents that we will require in order to complete our audit. We will follow this up with a meeting with the corporate finance team to discuss our requirements and any other queries.

Pension Fund

This plan also includes the work on the Authority's Pension Fund which is subject to a separate audit fee. There are no significant planning risks relating to the Pension Fund that we need to draw to your attention.

A separate report on the outcome of the Pension Fund audit will be presented to those charged with governance (the Audit Committee) in September 2013.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, focusing on the key risks identified this year for the financial statements 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.
- Section 5 explains our approach to VFM work.
- 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.

We have identified a number of key risks that we will focus on during the audit of the 2012/13 financial statements.

These are described in more detail on pages 10 and 11.

The remainder of this document provides information on our:

- approach to the audit of the financial statements;
- approach to VFM work; and
- audit team, proposed deliverables, timescales and fees for our work.

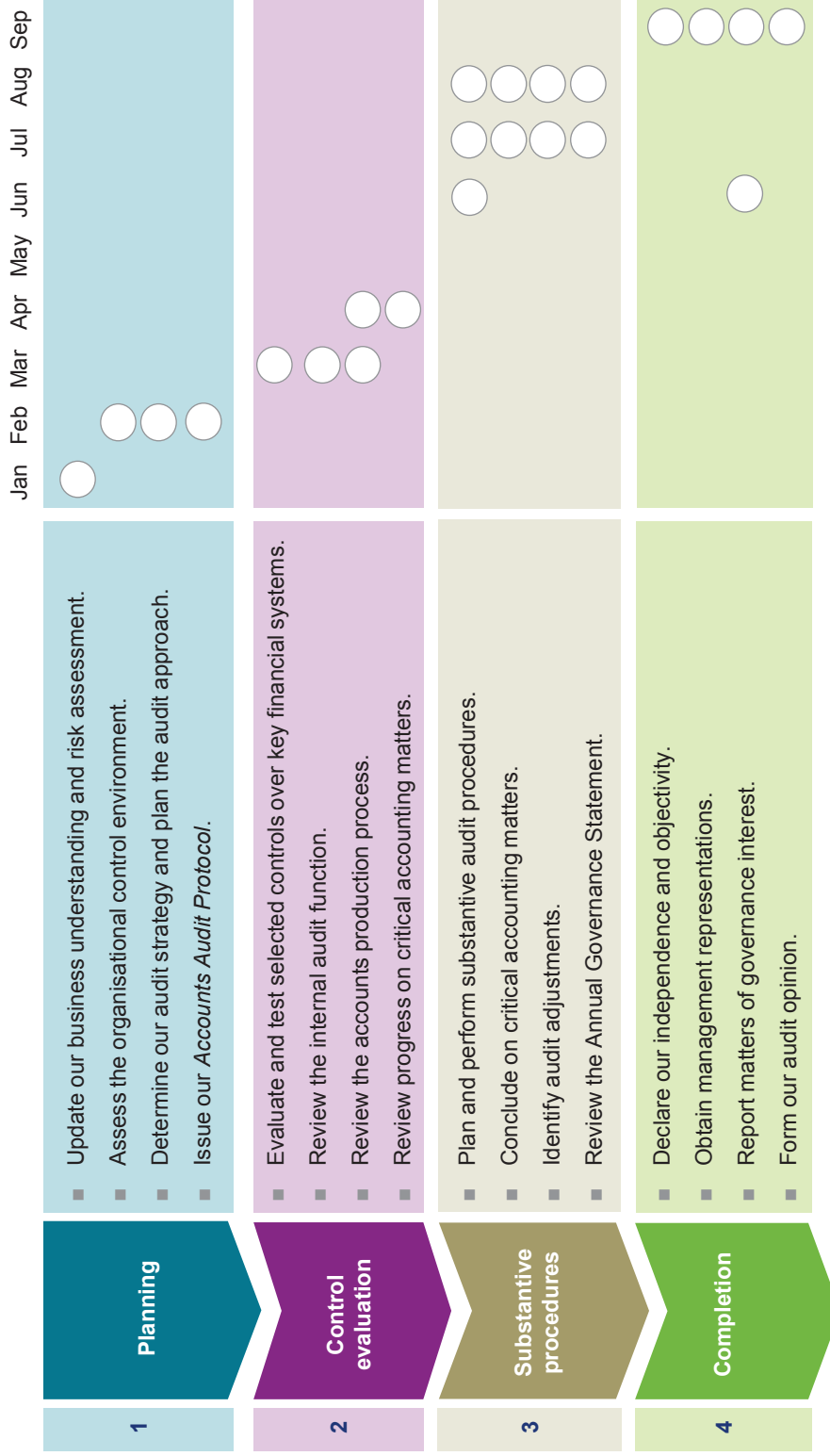
Area	Risk	Audit work
<p>Savings plans</p>	<p>The Authority currently estimates that it will need to deliver £23 million in savings during 2013/14 to address further reductions to local authority funding and continued cost pressures.</p> <p>The Authority will need to continue to manage its savings plans well to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2012/13 financial statements as appropriate.</p> <p>Adult Social Care continues to pose a major challenge with a forecast overspend in 2012/13 of £6.5 million which is a mix of current budget pressures and continuing under achievement against the saving programme.</p>	<p>In conjunction with our VFM work we will critically assess the controls the Authority has in place to ensure a sound financial standing and review how the Authority is planning and managing its savings plans.</p> <p>Particular focus will be on Adult Social Care where a programme of change is still underway and radical solutions may be required.</p> <p>We will also review the Authority's assessment of potential liabilities and any provisions / disclosures in its 2012/13 financial statements.</p>
<p>Capital Accounting</p>	<p>In 2011/12 the previous auditor reported significant improvements in this area since 2010/11 but noted that the asset register had not been fully reconciled to the disclosure note in the accounts. The previous auditor also identified some assets which did not appear to have been valued within the last five years. Management are confident that these problems will not recur and the internal audit team are reviewing the controls in place for 2012/13.</p>	<p>Our work on property, plant and equipment will test the controls in place to ensure that the year end asset reconciliation and valuation programme has operated effectively.</p>

Section three Our audit approach

We undertake our work on your financial statements in four key stages during 2013:

- **Planning**
(January to February).
- **Control Evaluation**
(March to April).
- **Substantive Procedures**
(June to August). Most Pension Fund work will be done in June.
- **Completion** (September).

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



Section three

Our audit approach - planning

During January and February 2013 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, including the Authority's IT systems, that would impact on our audit.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Authority to support the financial statements.

Our planning work takes place in January and February 2013. 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. The risks identified to date 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 senior corporate 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.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. Whilst we undertake some general IT and controls work, we also focus on testing the specific applications and reports that are pivotal to the production of the financial statements.

Audit strategy and approach

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.

Accounts audit protocol

At the end of our planning work we will issue our Accounts Audit Protocol. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

Your previous auditors met with the corporate finance team to discuss mutual learning points from the 2011/12 audit. These will be incorporated into our work plan for 2012/13. We will revisit progress against areas identified for development as the audit progresses.

During March to April 2013 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2012/13. We work with your Internal Audit team to avoid duplication.

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

We will present our *Interim Report* to the Audit Committee in June.

Our interim visit on site will be completed during March to April. During this time we will complete work in the following areas:

- 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.

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 feedback to the Head of Internal Audit at the end of our interim visit.

Accounts production process

The auditor did not raise any recommendations in the *Report to Those Charged with Governance (ISA 260 Report) 2011/12* relating to the accounts production process. The auditor identified two areas where there was opportunity to make further improvements. The most significant of these were to:

- Ensure that the asset register is fully reconciled to the disclosure note in the accounts and that the valuation programme operates effectively; and
- Further improve the mapping of transactions in the net cost of services to source systems.

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.

Following our interim visit we will issue our *Interim Report* which will set out the findings of our planning and interim work. This will be discussed at the Audit Committee meeting in June 2013.

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.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work that 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. We have drafted a joint working protocol and have met with the Head of Internal Audit to discuss the principles and timetables for the managed audit process for 2012/13 onwards.

Our audit approach – substantive procedures

During July to August 2013 we will be on site for our substantive work.

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 to the Audit Committee in September 2013.*

Our final accounts visit on site has been provisionally scheduled for the period July to August. During this time, we will complete the following work:

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

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. 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 to Audit Committee in September 2013.

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 the key risk areas as 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 senior corporate finance team in August 2013, prior to reporting to the Audit Committee in September 2013.

Audit adjustments

During our on site work, we will meet with the senior corporate finance team on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

In addition to the financial statements, we also audit 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.

Electoral 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 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 17.

Use of off-shore audit resources

During our audit work we may make use of our KPMG Global Services (KGS Audit) team in India to undertake certain basic audit tasks and functions. Use of this 'off-shore' team is one of many initiatives we employ to deliver a cost-effective audit service for our clients. Although based in India, the KGS Audit team works closely with our local audit teams to undertake certain audit procedures remotely. We have provided our UK teams with guidance on the types of audit procedures and other tasks that it is suitable and permissible to use KGS Audit for - we do not use KGS Audit for any audit procedures that involve access to personal, confidential or sensitive information. Audit tasks are then allocated by our UK-based engagement teams to dedicated teams in India, allowing local staff to control what work KGS Audit undertakes and what information is accessed. They operate to our same quality standards and all work undertaken by KGS Audit is reviewed by the UK team.

The KGS Audit team operates in a paperless environment and we apply robust processes to control how data is accessed and used:

- all work is conducted electronically;
- all data files are maintained on servers in the UK with restricted access and only viewed on screen in India. These servers are governed by established KPMG IT controls;
- policy and technology restrictions are in place to protect data, for example locked down USB ports, no external emailing, no printing;
- KGS Audit staff are based in an office with restricted access and security; and
- the team members adhere to global KPMG ethics and independence standards, along with requirements governing the non-disclosure of client information.

Our independence and objectivity responsibilities under the Code are summarised in Appendix 2. We confirm our audit team's independence and objectivity is not impaired.

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, 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.

Confirmation statement

We confirm that 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.

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

We will provide an update on how the Authority is managing these risks in our *Interim Audit Report*.

Key audit risks	Impact on audit
	<p>Risk</p> <p>As at November 2012, the Authority is forecasting that it will deliver its 2012/13 budget in overall terms. This includes a savings programme totalling over £50 million. Although Adult Social Care is expected to overspend against its current budget and savings plan the overall position is expected to be an under spend (excluding schools) of £3 million.</p> <p>The Authority currently estimates that another £23 million in savings will need to be achieved during 2013/14 and a total of £90 million by 2014/15 to address the further reductions to local authority funding. A fundamental review will be carried out to reflect the impact of the Autumn 2013 statement.</p> <p>If there are any related liabilities at year end, these will need to be accounted for or disclosed in the 2012/13 financial statements as appropriate</p> <p>Our audit work</p> <p>In conjunction with our VFM work we will critically assess the controls the Authority has in place to ensure a sound financial standing, specifically that its medium term financial plan has taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. We will also review how the Authority is planning and managing its savings plans.</p> <p>Progress on the re-tender of support services and the new Public Health responsibilities will also form part of the this process.</p> <p>Particular focus will be on Adult Social Care where a programme of change is still underway and radical solutions may be required. A new Director is expected to be appointed in 2013 and more funding will be allocated to the base budget for 2013/14.</p> <p>As part of our final accounts audit we will review the Authority's assessment of any potential liabilities arising from its savings plans against the Code. If applicable, we will review the Authority's provisions, including the methodology, assumptions and calculations.</p>

Key financial statements audit risks (continued)

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

We will provide an update on how the Authority is managing these risks in our *Interim Audit Report*.

Key audit risks	Impact on audit
 <p>Audit areas affected</p> <ul style="list-style-type: none"> Plant Property and Equipment 	<p>Risk</p> <p>In 2011/12 the previous auditor reported significant improvements in this area since 2010/11 but noted that the asset register had not been fully reconciled to the disclosure note in the accounts. The auditor also identified assets (valued at £5.5 million) which did not appear to have been valued within the last five years and other assets (valued at £4.7 million) which had been wrongly classified. The incorrect treatment of capital salaries was also noted. Management are confident that these problems will not recur and the internal audit team are reviewing the key controls in place for 2012/13.</p> <p>Our audit work</p> <p>Our work on property, plant and equipment will test the controls in place to ensure that the year end asset reconciliation and valuation programme has operated effectively. We will also review the allocation of capital salaries. The accounting treatment of the former Asset Co. vehicles (fire services) which impacts in 2012/13 will also be reviewed.</p>

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.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

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 the Audit Commission, other inspectorates and review agencies.

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.

VFM audit stage

Linkages with financial statements and other audit work

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 have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.

Audit approach

Assessment of residual audit risk

It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.

Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.

To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.

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.

Identification of specific VFM audit work

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:

- considering the results of work by the Authority, the Audit Commission, other inspectorates and 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 report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with*

governance.

VFM audit stage

Delivery of local risk based work

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:

- local savings review guides based on selected previous Audit Commission national studies; and
- update briefings for previous Audit Commission studies.

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.

Audit approach

Concluding on VFM arrangements

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.

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.

Reporting

We will report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with governance*. These reports will summarise our progress in delivering the VFM audit, the results of the risk assessment and any specific matters arising, and the basis for our overall conclusion.

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.

If considered appropriate, we may produce a separate report on the VFM audit, either overall or for any specific reviews that we may undertake.

Your audit team has been drawn from our specialist public sector assurance department. The team were all part of the Lincolnshire County Council audit last year. Contact details are shown on page 1.

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



Tony Crawley
Director

“My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit Committee and Directors.”



Mike Wood
Manager

“I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will work closely with Tony to ensure we add value. I will liaise with the Corporate Finance Team and the Head of Internal Audit.”



Nicola Clarke
Assistant Manager

“I will be responsible for the on-site delivery of our work. I will liaise with the finance team and internal audit. I will also supervise the work of our audit assistants.”

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 with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> Outline audit approach. Identify areas of audit focus and planned procedures. 	April 2013
Control evaluation		
Interim Report	<ul style="list-style-type: none"> Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. 	June 2013
Substantive procedures		
Reports to Those Charged with Governance (ISA 260 Report).	<ul style="list-style-type: none"> Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Separate reports for LCC and the Pension Fund audit. Performance improvement recommendations identified during our audit. Commentary on the Authority's value for money arrangements. 	September 2013
Completion		
Auditor's report	<ul style="list-style-type: none"> Providing an opinion on your accounts (including the Pension Fund and the Annual Governance Statement). A separate report will be provided on the Pension Fund Annual Report. Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2013
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 2013

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

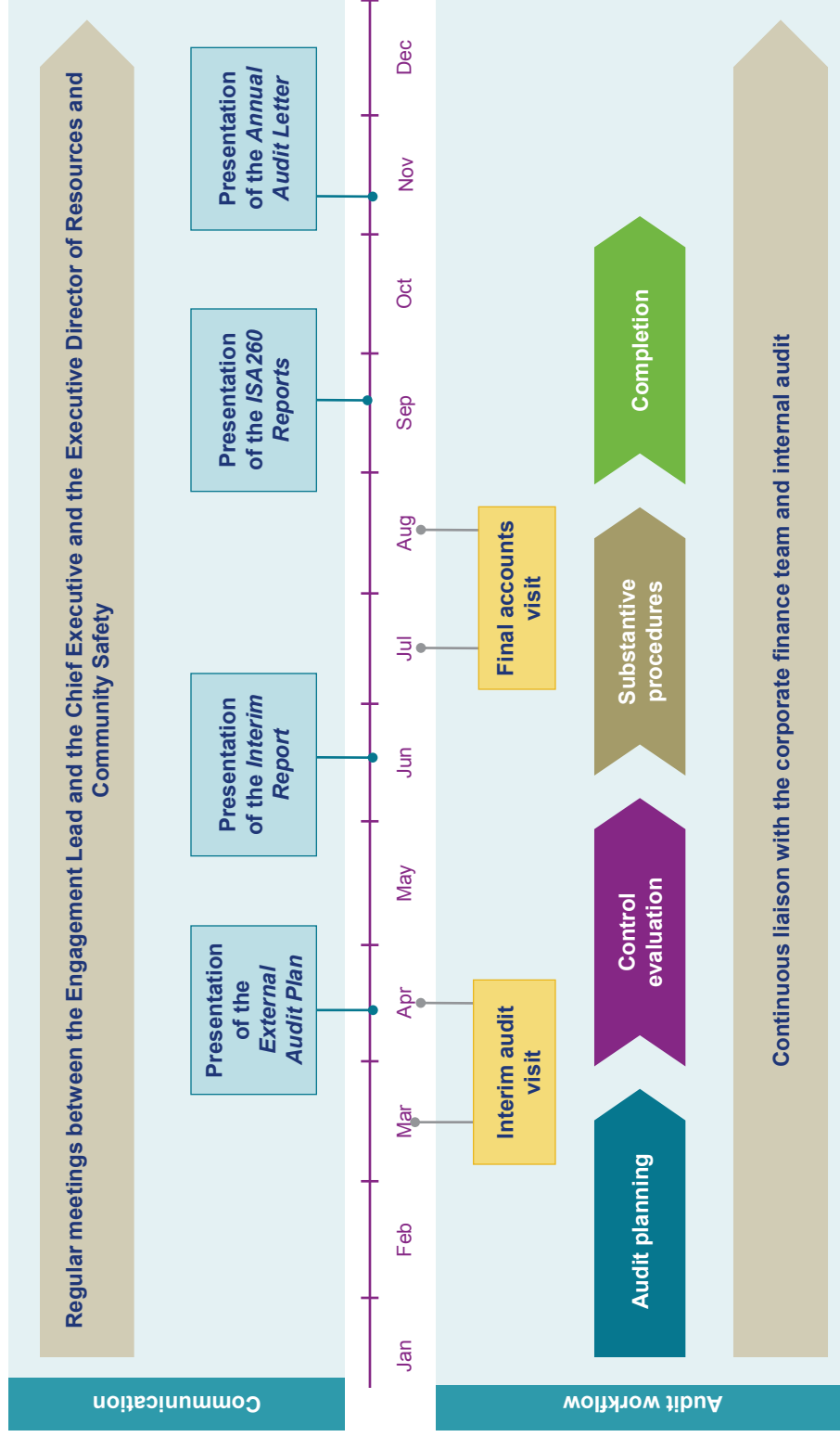
Key formal interactions with the Audit Committee are:

- April – External Audit Plan;
- June – Interim Report and start Pension Fund work;
- September – ISA 260 Reports;
- November – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during March to April.
- Final accounts audit during July and August.



Key: ● Audit Committee meetings.

The main fee for the 2012/13 audit of the Authority is £143,100. The fee has not changed from that set out in our *Audit Fee Letter 2012/13* issued in August 2012.

The Pension Fund fee is £24,350.

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 2012/13* presented to you last year first set out our fees for the 2012/13 audit:

Element of the audit	2012/13 (planned)	2011/12 (actual)
LCC audit fee	£143,100	£238,500
Pension Fund audit fee	£24,350	£39,919

The LCC audit fee includes our work on the VFM conclusion and our audit of the Council's financial statements. The fee for 2012/13 is £143,100. This is a reduction of 40 percent compared to the 2011/12 fee.

The Pension Fund fee is reduced significantly but also reflects an element related to the fund valuation at 31 March 2012

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 2011/12;
- 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 2012/13* within your 2012/13 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 and 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 all systems that provide material figures for the financial statements 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.
- 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.

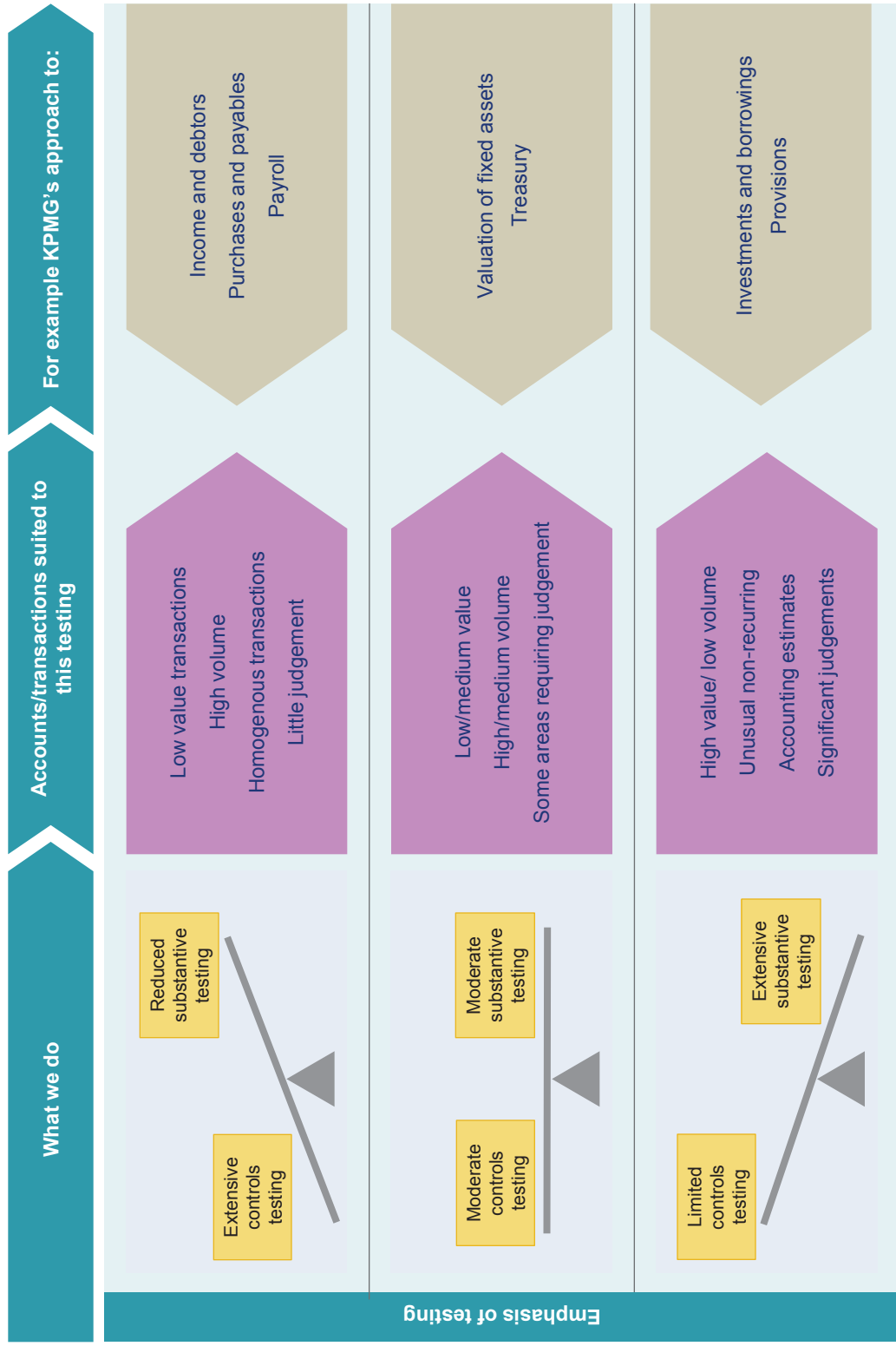
Changes to the audit plan

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

- new significant audit risks emerge and 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 Executive Director of Resources and Community Safety.

Appendix 1: Balance of internal controls and substantive testing

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing.



Appendix 2: Independence and objectivity requirements

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:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.

- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- 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 each audit at least once every five years (subject to agreed transitional arrangements).
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Appendix 3: 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 database, 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*.

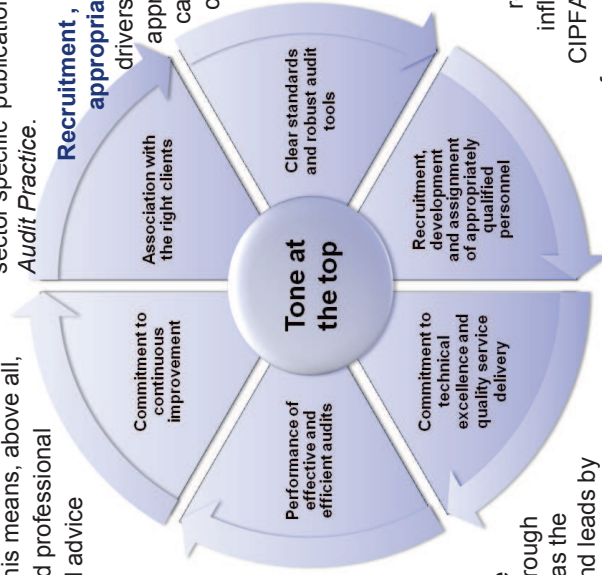
Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill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



Appendix 3: KPMG Audit Quality Framework (continued)

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 date 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 behaviors in the performance of effective and efficient audits. The key behaviors 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 results of the Audit Commission's annual quality review process is made publicly available each year (http://www.audit-commission.gov.uk/audit-regime/Pages/qualityreviewprocess_copy.aspx). The latest report dated October 2012 showed that we performed highly against all the Commission's criteria.



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Report Reference: **11.0**
Regulatory and Other Committee

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

Report to:	Audit Committee
Date:	22 April 2013
Subject:	Statement of Accounts 2012/13

Summary:

This report summarises:

- Changes to the Code of Practice on Local Authority Accounting which will be incorporated into the 2012/13 Statement of Accounts; and
- The review of 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 2012/13; and
2. Approve the Statement of Accounting Policies (Appendix A) for use in drawing up the Council's accounts for the financial year ending 31 March 2013.

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 2012/13 (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 2012/13

1.2 The format of the accounts and accounting requirements are largely the same as in 2011/12, however, the Code of Practice for 2012/13 has introduced a number of minor changes. These include:

- The Explanatory Foreword. The Code includes an encouragement for local authorities to prepare the Explanatory Foreword taking into consideration the requirements of the Government's Financial Reporting Manual. This will bring local authorities in line with the reporting undertaken by other government bodies including the NHS.
- Financial Instruments Disclosures. The Code includes amendments in relation to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets). This change was reported in last year's Statement of Accounts in Note 2 *Accounting Standards that have been issued but have not yet been adopted*. The County Council does not undertake any such activities, and as such, no changes will be made to the Council's accounting policies and no further disclosures will be required in the Council's accounts.

Statement of Accounting Policies

1.3 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.

1.4 Only minor changes made to the accounting policies for 2012/13, these include:

- Updated wording for the Community Infrastructure Levy's policy;
- Updated allocations for Central Establishment Charges for the cost of support services;
- Updated rates to be used by the actuary for calculating pension liabilities; and
- Minor amendments to capital accounting policies to clarify accounting entries used in preparing the accounts.

Conclusion

2.1 Changes to the format of the accounts and accounting requirements will be incorporated into the Statement of Accounts for 2012/13 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 2012/13

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 2012/13	Executive Director Resources and Community Safety
Service Reporting Code of Practice for Local Authorities	Executive Director Resources and Community Safety

This report was written by Claire Pemberton, who can be contacted on 01522 553663 or claire.pemberton@lincolnshire.gov.uk.

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Note 1. Statement of Accounting Policies

1. General Principles and Concepts

The Statement of Accounts summarises the County Council's transactions for the financial year 2012-13 and the position at the year-end 31 March 2013. 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 2012-13 and Service Reporting Code of Practice 2012-13, 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 County 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/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 CI&ES (gain or loss on the disposal of non-current assets).

b) Measurement after Recognition – Valuation Approach

The County 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.
- 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 CI&ES.

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; 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 (CAA).

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; and
- Other market value and existing use value assets (including economic regeneration units): land and buildings.

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 (CI&ES), on the Other Operating Expenditure line. Receipts from disposals are credited to the same line in the CI&ES, 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 CI&ES.

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 CAA 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 CAA.

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 County 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/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 CI&ES.

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 CI&ES. The useful lives for intangible assets are between 2 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, that 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 CI&ES. 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 CI&ES. 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 County Council principally for their contribution to knowledge or culture. Heritage assets held by the County 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 County 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 County 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 CI&ES, 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 CI&ES, then transferred to the CAA 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 CAA 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 CAA 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 CI&ES;
- finance cost – an interest charge of 7.20% on the outstanding Balance Sheet liability, debited to Financing and Investment Income and Expenditure in the CI&ES;
- 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 CI&ES;
- 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 County 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 CI&ES (disclosed within Financing and Investment Income and Expenditure in the CI&ES) 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 CI&ES) 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 CI&ES to the CAA 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 CI&ES. A gain is also recognised on the same line in the CI&ES 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 CI&ES).

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 CAA 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 CI&ES 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 CI&ES.

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 CI&ES, 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 CI&ES 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 CI&ES, 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 statue) and therefore it does not have an effect on council tax. To reflect this, the income is credited to the CAA 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 CI&ES 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 CI&ES. 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 on Reserves Statement. When the expenditure is incurred, the grant shall be transferred from the Capital Grants Unapplied Account to the CAA 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 CI&ES 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 CI&ES after Net Cost of Services.

Community Infrastructure Levy (CIL)

Community Infrastructure Levy is a levy, as directed by the Planning Act 2008, charged on new developments over 100 m sq. The Council had no CIL in place in 2012-13.

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 £1k for individual revenue items and £5k 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 £1k for individual revenue items and £5k 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;
- 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 CI&ES 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:

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:

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:

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 CI&ES 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 County 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 County 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 County Council's financial performance.

28. Costs of Support Services

The costs of overheads and support services are charged to services in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012-13 (SeRCOP). The costs are recharged to services on the following basis:

<u>Costs</u>	<u>Basis of apportionment</u>
Accommodation	staff numbers
Accountancy services	estimated time
Business support	budget amount
Central support team	estimated time
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
Personnel services	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 CI&ES, 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 CI&ES, on the surplus or deficit on discontinued operations line. These items will not form part of the net cost of services in the CI&ES in the year they occur.

30. Value Added Tax (VAT)

The Council's CI&ES 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 Income

The collection of council tax is in substance an agency arrangement with the seven Lincolnshire District Council's (billing authorities) collecting council tax on behalf of the County Council.

The council tax income is included in the CI&ES on an accruals basis and includes the precept for the year plus Lincolnshire County Council's share of Collection Fund surpluses and deficits from the billing authorities.

The difference between the income reported in the CI&ES 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 Lincolnshire County 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 County 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 County 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 County 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 CI&ES. 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) 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 when the obligation to pay these benefits arises. 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.

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 CI&ES.
- **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 LGPS is accounted for as a defined benefits scheme:

- The liabilities of the Lincolnshire Pension Fund attributable to the County 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 the net pensions liability is analysed into seven components:
 - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CI&ES 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 of Deficit on the Provision of Services in the CI&ES as part of Non Distributed Costs;
 - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the CI&ES;
 - expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the CI&ES;
 - gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the CI&ES as part of Non Distributed Costs;
 - 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; 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.

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 CI&ES.

37. Accounting for Schools Assets

In Lincolnshire, local authority education is provided in: Foundation, Voluntary Aided, Voluntary Controlled and Community Schools.

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 County Council, or the future economic benefits are identified to sit with the County 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 County Council on behalf of a school; these remain within the Council's balance sheet as the Council retains the liability.

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 £1million 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 CI&ES 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 CI&ES 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 CI&ES in the year of repurchase/settlement and spread over future years under statutory regulation.

Where premiums and discounts have been charged to the CI&ES, 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 CI&ES 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 CI&ES 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 CI&ES 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 CI&ES (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 CI&ES 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 CI&ES 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 CI&ES 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 CI&ES.

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 CI&ES 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 CI&ES 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 CI&ES, 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 CI&ES. 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 CI&ES, along with any accumulated gains or losses previously recognised in the Available-For-Sale Reserve.

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

Report to:	Audit Committee
Date:	22 April 2013
Subject:	Work Plan

Summary:

This Report provides the Committee with information on progress on agreed actions and its work plan up to November 2013.

Recommendation(s):

- Review the progress of agreed actions in Appendix A, and
- Review the work plan set out in Appendix B and identify any changes.
- Agree agenda items for the 24th June 2013 Committee
- Agree Training and Development Plan for the Committee for 2013/14.

Background

- 1.1 An agreed action plan has been pulled together to help the Committee keep track of actions agreed during meetings or workshops (see Appendix A).
- 1.2 A work plan has based on the core activities of the Committee as set out in its terms of reference and best practice (see Appendix B).
- 1.3 Each year the Committee undertakes training/updates to help members discharge their role.
 - Financial statements
 - Counter Fraud
 - Risk Management
 - Good Governance

Conclusion

- 2.1 The work plan helps the Committee monitor its work programme and keep track of areas it requires further work and / or assurance.

Consultation

a) Policy Proofing Actions Required

Not applicable

Appendices

These are listed below and attached at the back of the report	
Appendix A	Agreed Actions
Appendix B	Work Plan to November 2013

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
N/A	

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

Audit Committee – Action Plan

Agreed Action	Person Responsible	Target Date	Outcome / Progress
Briefing papers occasionally for Programme Centre : ~ Risk Management ~ Key projects and support areas	-	-	Keep on work plan as reminder
Additional data re ASC be brought to future meeting	Glen Garrod	July 2013	
Protocol developed that clarifies expectations and makes the best use of the combined Audit resource	Lucy Pledge	July 2013	
ICT Assurance and follow up	Judith Hetherington Smith	July 2013	

Completed Actions			
Training on Combined Assurance	Lucy Pledge	28/01/13	Completed January 2013
Assurance from Section 151 Officer on lessons learnt from 2011/12 closure of accounts	David Forbes	March 2013	Completed January 2013

Audit Committee – Work Plan

Appendix B

22 nd April 2013	24 th June 2013	22 nd July 2013	23 rd September 2013	11 th November 2013	
1. Internal Audit Progress Report	1. Internal Audit Annual Report	1. Internal Audit Progress Report	1. Progress of Counter Fraud Plan	1. Internal Audit Progress Report	
2. External Audit Progress Report	2. Schools Financial Control Environment	2. External Audit Progress Report	2. Whistleblowing Annual Report	2. Analysis of outstanding high recommendations	
3. Risk Management Update	3. Counter Fraud Annual Report	3. Scrutiny of Financial Statement	3. Programme on Risk Management		
4. Counter Fraud Update	4. Review of system of Internal Audit <ul style="list-style-type: none"> • Review of Audit Charter • New IA standards 	4. Adult Social Care Update	4. Financial Statement Approval		
5. Internal Audit Plan 2013/14	5. Financial Procedures	5. Internal/External Audit Protocol	5. Statement of Accounts LCC		
6. Counter Fraud Annual Plan 2013/14	6. Audit Committee Annual Report	6. Draft statement of accounts	6. External Audit Annual Governance Report LCC Statement of Accounts		
7. International Audit Standards – Response to management processes questions	7. Review of Governance Framework & development of Annual Governance Statement 2013	7. ICT Assurance and follow up	7. LCC Pension Fund Accounts 2012/13		

Audit Committee – Work Plan**Appendix B**

22nd April 2013	24th June 2013	22nd July 2013	23rd September 2013	11th November 2013	
8. External Audit Plan	8. Business Continuity Assurance Report				
9. Statement of Accounts 2012/13					

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