



County Offices  
Newland  
Lincoln  
LN1 1YL

11 March 2016

**Audit Committee**

A meeting of the Audit Committee will be held on **Monday, 21 March 2016 at 10.00am in Committee Room One, County Offices, Newland, Lincoln, LN1 1YL** for the transaction of the business set out on the attached Agenda.

Yours sincerely

A handwritten signature in black ink, appearing to be 'T McArdle', written over a horizontal line.

Tony McArdle  
Chief Executive

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

Councillors Mrs S Rawlins (Chairman), Mrs E J Sneath (Vice-Chairman), N I Jackson, Miss F E E Ransome, S M Tweedale, W S Webb and P Wood

**Voting Added Member**

Mr P D Finch, Independent Added Person



**AUDIT COMMITTEE AGENDA  
MONDAY, 21 MARCH 2016**

<b>Item</b>	<b>Title</b>	<b>Pages</b>
<b>1</b>	<b>Apologies for Absence/Replacement Members</b>	
<b>2</b>	<b>Declaration of Members' Interests</b>	
<b>3</b>	<b>Minutes of the Meeting held on 25 January 2016</b>	5 - 12
<b>4</b>	<b>External Audit Plan - 2015/16</b> <i>(To receive a report which describes how External Audit will deliver their Financial Statement 2015/16 work for the Council)</i>	13 - 30
<b>5</b>	<b>External Audit Progress Report</b> <i>(To receive a report which provides the Committee with an update on the 2015/16 Audit deliverables)</i>	31 - 40
<b>6</b>	<b>Statement of Accounts 2015/16</b> <i>(To receive a report which invites the Committee to consider changes resulting from the Accounts and Audit Regulations 2015 and the Code of Practice on Local Authority Accounting and to review the Council's Accounting Policies)</i>	41 - 76
<b>7</b>	<b>International Audit Standard - Response to Management Processes Questions</b> <i>(To receive a report which provides the Committee with an assessment around whether the County Council and Pension Fund financial statements may be mis-stated due to fraud or error)</i>	77 - 86
<b>8</b>	<b>Counter Fraud and Investigations Work Plan 2016/17</b> <i>(To receive a report which invites the Committee to review and approve the Counter Fraud Work Plan for 2016/17)</i>	87 - 118
<b>9</b>	<b>Draft Internal Audit Plan 2016/17</b> <i>(To receive a report which presents to the Committee the draft internal audit plan for 2016/17)</i>	119 - 152
<b>10</b>	<b>Internal Audit Progress Report</b> <i>(To receive a report which provides an update on audit work undertaken in the period 1st January 2016 to 29th February 2016)</i>	153 - 184
<b>11</b>	<b>Work Plan</b> <i>(To receive a report which invites the Committee to consider its work plan for the coming months)</i>	185 - 194

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

- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details set out above.

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[www.lincolnshire.gov.uk/committeerecords](http://www.lincolnshire.gov.uk/committeerecords)





## AUDIT COMMITTEE 25 JANUARY 2016

### **PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)**

Councillors Mrs E J Sneath (Vice-Chairman), N I Jackson, Miss F E E Ransome, S M Tweedale, W S Webb and P Wood.

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

Officers in attendance:-

Rachel Abbott (Deputy Audit Manager), Debbie Barnes (Executive Director of Children's Services), Steve Blagg (Democratic Services Officer), David Forbes (County Finance Officer), Glen Garrod (Director of Adult Care), Judith Hetherington Smith (Chief Information and Commissioning Officer), Tony McGinty (Consultant Public Health Children's), Pete Moore (Executive Director of Finance and Public Protection), Lucy Pledge (Audit and Risk Manager), Donna Sharp (County Service Manager (Registration, Celebratory & Coroners Services)) and Richard Wills (Executive Director for Environment and Economy).

### 42 WELCOME TO JOHN CORNETT, EXTERNAL AUDITOR, KPMG

The Chairman welcomed John Cornett, External Auditor, KMPG, to the Committee, in place of Tony Crawley, who had retired.

The Chairman requested that the Committee's best wishes should be sent to Tony Crawley.

### 43 APOLOGIES FOR ABSENCE

None were received.

### 44 DECLARATION OF MEMBERS' INTERESTS

No declarations of interests were made at this stage of the meeting.

### 45 MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON 23 NOVEMBER 2015

#### RESOLVED

That the minutes of the previous meeting of the Audit Committee held on 23 November 2015, be agreed as a correct record and signed by the Chairman, subject to "Mr D Finch" being added to the list of attendees.

**46      COMBINED ASSURANCE STATUS REPORTS**

The Committee received a report in connection with the assurances across the Council's critical services, key risks and projects.

(a) Richard Wills, Executive Director for Environment and Economy, presented his report and highlighted the following issues:-

1. Overall assurance had improved in the short term but there was a need to consider future resilience.
2. There was a concentration on economic growth.
3. Democratic and Legal Services were crucial for the Council's overall governance arrangements and scrutiny was the subject of a detailed review.
4. Progress was on-going in connection with the preparation of a new Waste Strategy for the medium/long term.
5. Planning was failing to meet deadlines in connection with responses to District Planning Authorities.
6. Highways had staff vacancies of 20%/25% with staff having to act up in some areas to prevent redundancies in the future.
7. The need to manage the possible decline of transport services.
8. All major capital projects carried big strategic risks.

Officers' responses to comments made by the Committee included the following:-

1. Improvements had been made in vehicle technology to prevent pollution.
2. To manage risk it was important to have the appropriate staffing.
3. To create economic growth sometimes it was necessary to take risks.
4. With local government devolution any Combined Authority established might need to ask individual local authorities to take a lead in the delivery of some services.
5. With reduced staffing it might be necessary to concentrate on the large capital projects.

(b) Pete Moore, Executive Director of Finance and Public Protection, presented his report and highlighted the following issues:-

1. He was unable to sign off the risk assurance for the Serco contract.
2. It was essential that work was completed this financial year to ensure the smooth closure of accurate and up to date accounts.
3. Highlighted the financial challenges faced by the Council in the next four years following the Spending Review and Local Government Settlement.

Officers' responses to comments made by the Committee included the following:-

1. Planning and monitoring procedures were in place to monitor and protect the Council's Business Plan.
2. Monitoring and management were in place for the Serco contract and were explained in detail in Judith Hetherington-Smith's assurance report to this meeting. There were still outstanding issues in connection with payroll, overpayments, pensions and the Inland Revenue.

3. Serco was aware of the Council's need to finalise its accounts by the end of the financial year.
4. Much work was being done between the Council and Serco but it was not possible to give an end date when the payroll and purchase ledgers issues would be finalised.
5. Serco was aware of the need to provide the necessary financial information to allow the Council to finalise its budget.
6. The Executive had considered all options in connection with the Serco contract and Serco had assured the Council that they were still committed to the contract.
7. The implementation of Agresso by Serco would be examined in due course.
8. Serco was preparing an action plan which would be seen by the Council.
9. In addition to the implementation of Agresso there were still some information, communication and technology systems behind schedule in their implementation and these would be covered in the Annual Governance Statement.
10. Costs incurred by the Council as a result of Serco's performance were reviewed on a monthly basis.
11. The sharing of information to the Committee about Serco's action plans would be examined.

(c) Debbie Barnes, Executive Director of Children's Services presented her report and highlighted the following issues:-

1. Children's Services was highly regulated and scrutinised through the third party inspectorate, Ofsted.
2. The paper confirmed areas of risks and these included budget pressures, reduced resilience, delays in the implementation of MOSAIC and increasing demand for safeguarding services.
3. The need to implement a more inclusive strategy to reduce the high number of children excluded from schools in Lincolnshire.
4. Over 80% of children were in good schools in Lincolnshire but "closing the gap" was an issue especially with children eligible for free school meals.
5. There was a need for the Council to "grow its own staff" because of staff shortages in certain areas, especially social care.

Officers' responses to comments made by the Committee included the following:-

1. It was hoped to implement the MOSAIC package in July 2016 and more delay would increase risk. Mosaic would need to facilitate a greater use of mobile technology which was important.
2. Health Visiting and Information sharing with neighbouring local authorities for children was explained as commissioning had changed from registered to resident.

The Committee agreed to monitor potential risks caused by any delay in the implementation of the MOSAIC package.

(d) Tony McGinty, Consultant in Public Health, presented his report and highlighted the following issues:-

1. The commissioning of services was frequent and included the re-commissioning of services previously provided by the NHS.

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2. Many challenges existed in Lincolnshire including above national levels of obesity and alcoholism.

Officers' responses to comments made by the Committee included the following:-

1. Improved management of the misuse of substances would lead to a reduction in criminality and a reduction in the use of acute health services.
2. There was evidence that nurse training courses provided by the University of Lincoln was helping to raise their number of Nurses and their retention in Lincolnshire.

The Committee agreed the Council should continue to monitor the effects of substance misuse on the budget.

(e) Glen Garrod, Director of Adult Care, presented his report and highlighted the following issues:-

1. Following the 2015/16 review the level of assurance had improved.
2. Good progress was being made in the implementation of the Better Care Fund.
3. The support given by the Commercial Unit meant it was possible to re-procure 80% of the social care support commissioned externally.
4. Residential and Home Care services were relatively stable.
5. Future risks included the loss of momentum on key change programmes such as MOSAIC and Integration with health.
6. Integration with the NHS was important to secure more government resources.
7. Implementation of Mosaic and Agresso was important to the service.
8. Income from service charges was working well.

Officers' responses to comments made by the Committee included the following:-

1. The implementation of the Dilnot recommendations would have generated significant additional assessment activity but its implementation had been delayed until 2020.
2. Pressures in the future included negotiations with the Clinical Commissioning Group in connection with the Better Care Fund. He was optimistic for the outcome of these negotiations.
3. The importance of corporate support for information, communications and technology procurement and contract management.
4. The implementation of the Mosaic package in Adult Care independently of the implementation of Agresso was being examined.
5. The effects of increased funding for Adult Care from the 2% increase in the Council Tax was insufficient to meet the significant funding gap and would not cover the increase in the Living Wage.
6. The effects of demographic pressures from an increase in the elderly population.
7. Appropriate back-up systems were in places in the event of problems with Mosaic.

RESOLVED

That the report and the comments made by the Committee be noted.

47      UPDATE ON LIBRARIES ACTION PLAN

The Committee received a verbal update in connection with the Libraries Action Plan.

Officers stated that the main issues learnt from the Judicial Review was the need to ensure that alternative options were evaluated and that statutory consultation and community engagement was undertaken and in this respect a toolkit had been produced to aid staff.

Officers stated that all future management projects had been examined to assess what resources were needed and that the necessary monitoring procedures were in place.

Officers responded to comments made by the Committee including that the Council was in the process of undertaking consultation on the proposed Council Tax and that this Committee had a role to ensure that consultation procedures were in place to minimise risk to the local authority.

**RESOLVED**

That the report and comments made by the Committee be noted.

48      AUDIT OF CORONERS SERVICE - UPDATE ON PROGRESS

(Note: Councillor W S Webb requested that a note should be made in the minutes that a Coroner and a Coroner's Officer were known to him)

The Committee received a progress report on the implementation of the actions arising from the Corporate Audit of the Coroner's service undertaken in Spring 2014.

Officers' responses to comments made by the Committee included the following:-

1. In the event of an exceptionally long Inquest it would be necessary to approach the government for additional funding.
2. Consultations had taken place with the Coroners about potential risks and procedures were in place to cover long Inquests.
3. Challenges remained including assessing/validating the length of time a Coroner could be involved in an Inquest.

**RESOLVED**

- (a) That the report and comments made by the Committee be noted.
- (b) That actions against recommendations arising from the audit of the Coroners' service be shown in future reports.

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**49      WHISTLEBLOWING ANNUAL REPORT 2014/15**

The Committee received a report on an overview of the Committee's whistleblowing arrangements for the year 2014/15.

Officers in response to comments made by the Committee stated that Academies had their own arrangements for whistleblowing, the recommendations arising from whistleblowing were monitored, actions agreed and implemented as appropriate.

**RESOLVED**

- (a) That whistleblowing activity for the year 2014/15 be noted.
- (b) That the on-going work to raise awareness and to provide assurance on the effectiveness of the Council's arrangements, be noted.

**50      UPDATE ON THE AGRESSO PROJECT**

It was noted that this matter had been previously been considered in minute No. 46.

**51      INTERNAL AUDIT PROGRESS REPORT**

(Note: Councillor Miss F E E Ransome left the meeting)

The Committee received a report on audit work undertaken in the period 1 July 2015 to 31 December 2015.

Officers drew attention to those areas of "Limited Assurance", which included Business Rate Pooling and Big Society Grants.

Officers in response to comments made by the Committee, stated that the necessary procedures were in place to ensure that 16-18 year olds were in education, employment or training. However, there was a small group of 18 year olds which needed further examination.

Officers stated that following the restructuring and problems with recruiting staff for Internal Audit the effectiveness of the Audit Committee would be considered at the next meeting.

**RESOLVED**

That the report and comments made by the Committee be noted.

**52      EXTERNAL AUDIT PROGRESS REPORT**

The Committee received a report from KPMG, the County Council's External Auditors, which gave an update on the 2015/16 audit deliverables.

The External Auditors drew attention to issues with Agresso which they would examine in February 2016 and the new criteria specified by the National Audit Office detailed in "Value for Money" in the report.

The Committee noted the volatility of the Stock Market and the huge changes effecting pensions which were being examined.

RESOLVED

That the progress report be noted.

53      WORK PLAN

The Committee received a report in connection with its Work Plan.

The Committee discussed the role of the Audit Committee in ensuring that proper risk management was in place to manage the Serco contract. Officers stated that the Value for Money Scrutiny Committee would examine the Key Performance Indicators of the Serco contract. Officers agreed that it was not the role of this Committee to involve itself in operational delivery matters but to ensure that the procedures were in place to cover governance and risk and in this respect an action plan was required to ensure that the Serco contract was being delivered.

RESOLVED

- (a) That the review of the Audit Committee's Work Plan 2015/16 to ensure that it contained assurance areas necessary to approve the Annual Governance Statement 2016, be noted.
- (b) That the actions identified in the Plan, be noted.
- (c) That officers consider the comments made by the Committee in connection with the role of the Audit Committee in identifying and ensuring that risks were managed in the Serco contract.

The meeting closed at 1.25 pm.

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# Agenda Item 4



## Regulatory and Other Committee

### Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	<b>Audit Committee</b>
Date:	<b>21 March 2016</b>
Subject:	<b>External Audit Plan - 2015/16</b>

#### Summary:

This report describes how External Audit will deliver their Financial Statement 2015/16 work for the Council.

#### Recommendation(s):

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

### Background

The attached report (**Appendix A**) sets out how the Council's External Auditor will deliver their financial statement audit for both the Council and the Pension Fund. It also sets out their approach to Value for Money work for 2015/16.

CIPFA's Audit Committees practical Guidance for Local Authorities and Police - 2013 Edition includes core functions around External Audit relevant to the plan where the Committee may wish to obtain assurance, namely:

- Reviewing if the planned resources and team composition have the required seniority, expertise and experience to undertake the engagement.
- Reviewing details of any non-audit work being undertaken and how this may impact on the financial statement work.
- Assurances on any key risks identified. Further assurance needed around impact / risks associated with early close down
- Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed

### Conclusion

External Audit are required to issue an audit report giving an opinion on the accounts (including the Annual Governance Statement) and the Council's use of

resources (the value for money conclusion) as at 31<sup>st</sup> March 2016. The plan describes how this will be done.

## **Consultation**

### **a) Policy Proofing Actions Required**

N/A

## **Appendices**

These are listed below and attached at the back of the report	
Appendix A	External Audit Plan 2015/16

## **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 John Cornett, who can be contacted on 07468749927 or [john.cornett@kpmg.co.uk](mailto:john.cornett@kpmg.co.uk).



# External Audit Plan 2015/2016

Lincolnshire County  
Council

March 2016

## Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority need to comply with.

### Materiality

Materiality for planning purposes has set at **£12 million** for the Authority and **£16 million** for the Pension Fund.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£0.6 million** for the Authority and **£0.8 million** for the Pension Fund.

### Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- The changes to the Authority's corporate financial systems in the year, which affects the accounts of the Authority and Pension Fund; and
- The change in the Pension Fund's pensions administration support services provider.

### Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- The changes to the CIPFA Code of Accounting Practice, which include new requirements for the valuation of surplus assets and narrative reporting; and
- The disclosure and accounting arrangements for Lincolnshire's Better Care Fund, which the Authority hosts.

**See pages 3 to 5 for more details.**

## Value for Money Arrangements work



The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Your concerns regarding the operation of the Serco support services contract; and
- Difficulties in monitoring your 2015/16 budget and shaping your medium term financial strategy.

**See pages 6 to 9 for more details.**

## Logistics



Our team is:

- John Cornett - Director
- Mike Norman - Manager
- John Pressley – Assistant Manager

More details are on **page 12**.

Our work will be completed in four phases from December to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 11**.

The scale fee for the audit is £107,325 (£143,100 2014/2015) for the Authority and £24,350 (£24,350 2014/15) for the Pension Fund see **page 10**.

## Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/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 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.

## Acknowledgements

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

## Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



## Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 6 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16 [and the findings of our VFM risk assessment].



## Financial Statements Audit Planning

Our planning work takes place during December and January. This involves the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

## Risk assessment

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

**Management override of controls** – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

- **Fraudulent revenue recognition** – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach

## Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

### Authority and Pension Fund Accounts - Change to financial systems

#### Risk

In April 2015 the Authority changed, under the new support services contract with Serco, its corporate financial system with SAP being replaced by Agresso. The Authority has reported significant issues with the operation of the Agresso system throughout the year, including major difficulties in:

- accurately processing the monthly payrolls;
- making timely and accurate payments through the accounts payable procedures; and
- accounting for transactions, and monitoring and reporting its financial performance due to problems with the operation of the general ledger.

The Authority has been working with Serco throughout the year to establish effective controls to ensure there is a fully operational system platform and resolve historical processing errors. This work is still in progress.

The weaknesses in the system controls and financial reporting arrangements in the year represent a significant audit risk.

#### Approach

We have monitored throughout the year the Authority's progress in addressing the issues with Agresso. We will review the arrangements and controls put in place in greater detail at the interim audit visit. We will also discuss with managers their plans for addressing the continuing difficulties with the operation of the general ledger and correcting the accounting errors in the year. We will then update our detailed testing strategy, and work with officers to agree the timing of the programme of testing and the information required. The known difficulties with Agresso means that our approach this year will be largely substantive rather than controls based testing. The issues with Agresso, and the required audit response, will impact on the timing of our audit work and volume of audit testing required to obtain the assurances we require. We will keep the Audit Committee informed on progress and the impact on the audit fee.

### Pension Fund Accounts - Change to pensions administration services provider

#### Risk

In April 2015 the Lincolnshire Pension Fund's support services provider for pension administration changed from Mouchel to West Yorkshire Pensions. There have been changes to the systems and procedures in place to support the arrangements for processing and accounting for pensioners' contributions and payments of pension. These amounts are material to the Pension Fund accounts.

#### Approach

We will review at our interim visit the processes and controls in place for the operation of the new pensions administration arrangements and agree with officers the information required for our detailed testing strategy. The additional audit work required as a result of the change to the arrangements is likely to impact on the audit fee. We will update Audit Committee as the audit progresses.

### Other areas of audit focus

Other areas of audit focus are those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding. We will review and discuss with officers the changes to the accounts required by this year's CIPFA Code of Accounting Practice, which include:

- changes to the valuation of surplus assets
- the replacement of the Explanatory Foreword with the Narrative Statement

We will also review and discuss with officers the disclosure and accounting arrangements for the Better Care Fund, which the Authority hosts on behalf of the Lincolnshire health and local government bodies. We will update the Audit Committee during the year if any new issues emerge.

## Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority, materiality for planning purposes has been set at £12m which equates to little over 1% of prior year's gross expenditure.

For the Pension Fund, materiality for planning purposes has been set at £16m, which equates to 1% of forecast assets.

We design our procedures to detect errors in specific accounts at a lower level of precision. For planning purposes this lower threshold has been set at £8m for the Authority and £10m for the Pension Fund

## Reporting to the Audit Committee

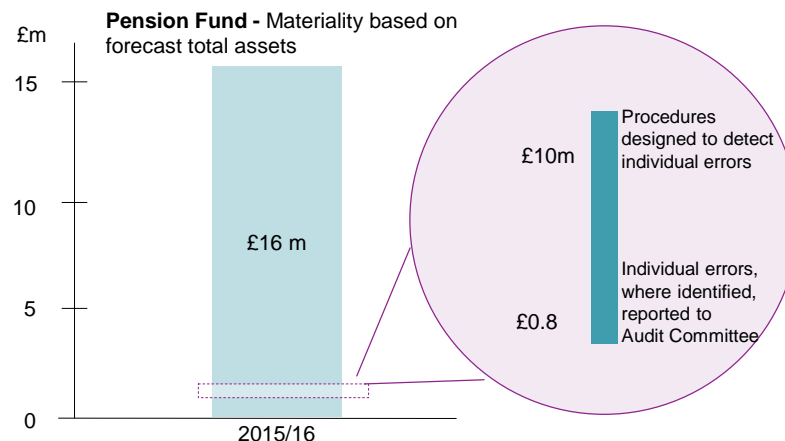
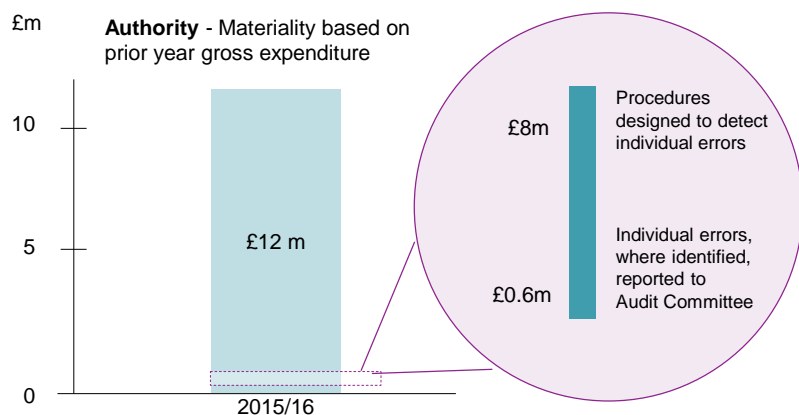
Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.6m.

In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.8m.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



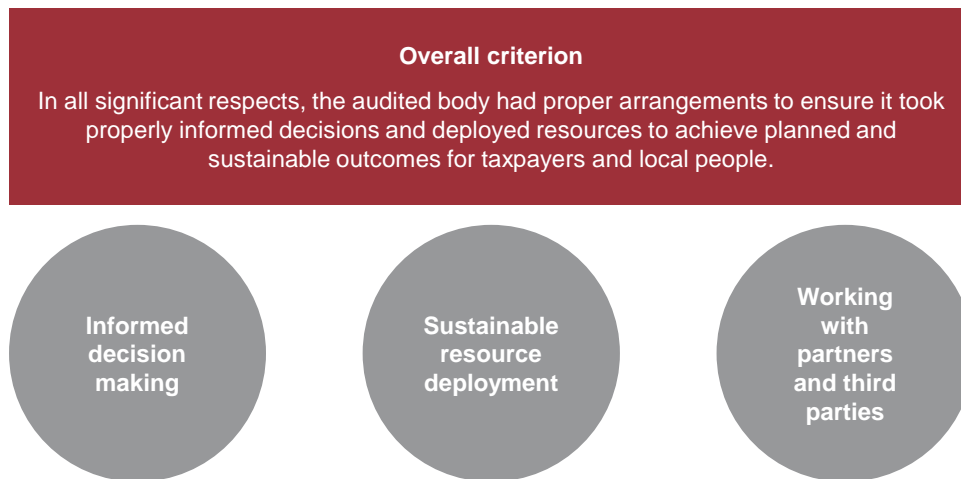


## Background to approach to VFM work

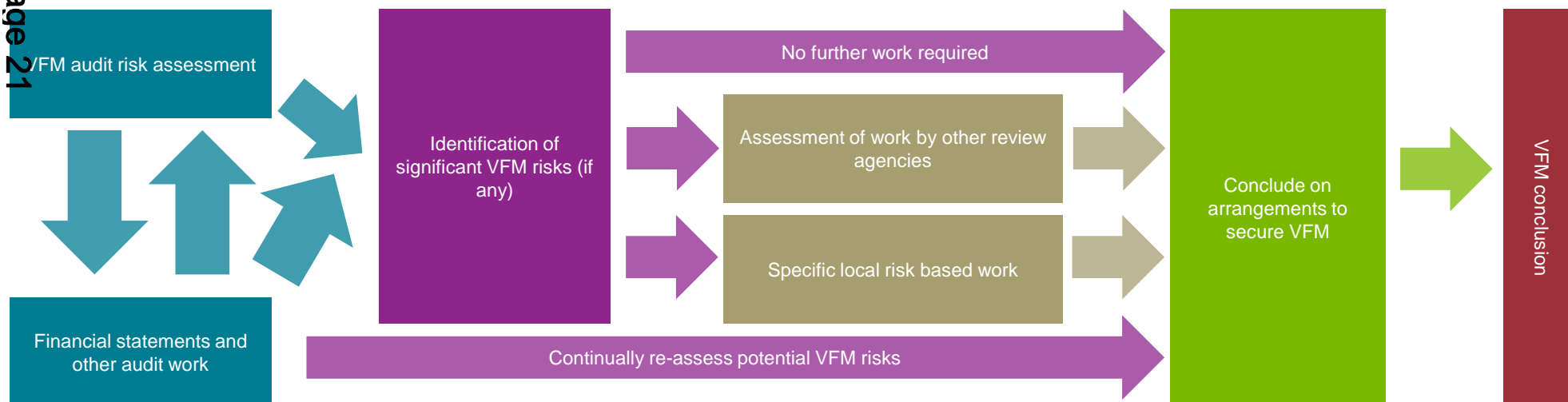
The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The diagram to the right shows the details of this criteria.



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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"> <li>■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;</li> <li>■ Information from the Public Sector Auditor Appointments Limited VFM profile tool;</li> <li>■ Evidence gained from previous audit work, including the response to that work; and</li> <li>■ The work of other inspectorates and review agencies.</li> </ul>
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>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.</p>
Identification of significant risks	<p>The Code identifies a matter as significant 'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'</p> <p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> <li>■ Considering the results of work by the Authority, inspectorates and other review agencies; and</li> <li>■ 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.</li> </ul>

VFM audit stage	Audit approach
Assessment of work by other review agencies  and  Delivery of local risk based work	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> <li>■ Meeting with senior managers across the Authority;</li> <li>■ Review of minutes and internal reports;</li> <li>■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.</li> </ul>
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
Reporting	<p>On the following page, we report the results of our initial risk assessment.</p> <p>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>



## Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

### Operation of Serco Support Services Contract

#### Risk

The contract with Serco has not operated effectively during the year. The contract programme board arrangements have continued beyond the planned end of June 2015 and there is a Recovery Board in place. Progress is reported as being made in relation to the continuing areas of concern but the pace of improvement has been slow. The direct cost to the Authority of the continuing issues is being mitigated by it withholding contractual payments and seeking recovery of additional costs it has incurred. The issues continue though to be a significant pressure on management and staff.

#### Approach

We will monitor your progress in addressing the continuing issues with the operation of the contract with Serco. We will update our risk assessment during the year and report our conclusions in the ISA260 report to the Audit Committee in September 2016.

### Managing your budget and shaping your medium term financial strategy

#### Risk

The difficulties in operating the Agresso system have meant that the Authority has not been able to fully monitor and report on spend against budgets throughout the year using its core corporate financial systems. Some significant areas of expenditure, such as payroll, were not fully loaded into the general ledger for much of the year. The Authority has where necessary used 'off-line' processes to get assurance that spending is not out of control (for example cash flow monitoring against forecasts, local stand-alone monitoring spreadsheet records, and activity monitoring using the separate care systems for Adults and 'looked after children'). The Authority also continues to face significant medium term financial and operational risks and is working to prepare a balanced and sustainable budget for 2017 onwards.

#### Approach

We will:

- Assess your arrangements for ensuring effective budget management and control and review your progress in implementing the expected Agresso system controls.
- Discuss with management the Authority's progress in managing its medium term financial position.

We will report our conclusions in the ISA260 report to the Audit Committee in September 2016.

### Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

### Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

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

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

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

### Our audit team

Our audit team will be led by John Cornett, who is your new Director on the audit. Mike Norman will continue as your Manager on the audit and John Pressley will provide Assistant Manager support. Appendix 2 provides more details on specific roles and contact details of the team.

### 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 communication outputs are included in Appendix 1.

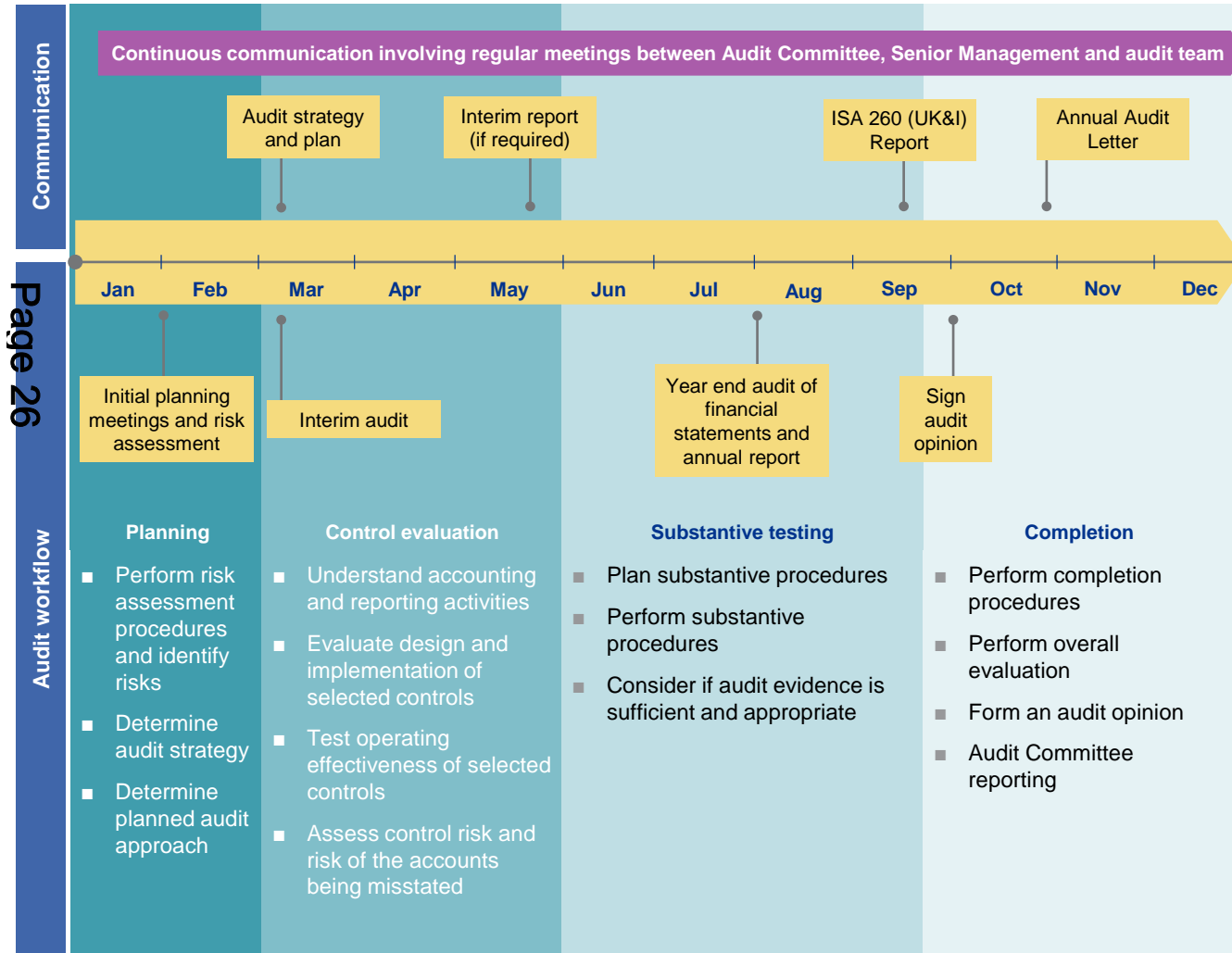
### Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

### Audit fee

*Our Audit Fee Letter 2015/16* presented to you in April 2015 first set out our fees for the 2015/16 audit of the Authority and Pension Fund. This letter also set out our assumptions on which that fee was based. We have highlighted in this plan a number of audit risks and other factors which are likely to require us to carry out additional work in support of our audit opinions and value for money conclusion.

The scale audit fee for 2015/16 is £107,325 for the Authority. This is a reduction in audit fee, compared to 2014/2015, of £35,775 (25%). The scale audit fee for 2015/16 is £24,350 for the Pension Fund. (2014/15 £24,350). We will keep you informed if the any increase to the scale fee is likely to be required. Any increase would in any case be subject to the approval of the PSAA.



We have highlighted risks in this plan regarding the weaknesses in the operation of the Agresso system and the potential impact of these issues on the Authority's closedown and accounts production arrangements.

The main visit to complete the audit of the draft financial statements has been provisionally scheduled to start in late July 2016. This is later than we would normally start the work to allow the authority, should it need it, additional time to finalise its financial statements and supporting working papers.

We have planned the audit with an expectation that the Authority will be able to provide the evidence necessary to support its financial statements and respond to any audit queries in time to enable us to report to the Audit Committee and give an audit opinion before 30 September 2016.

We will keep the Audit Committee informed on the progress on the audit and advise if the audit opinion is likely to be issued after 30 September 2016.

Your audit team has been drawn from our specialist public sector assurance department and includes continuity from last year's audit.



Name	John Cornett
Position	Director
	<p>'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.</p> <p>I will be the main point of contact for the Audit Committee, Chief Executive and Strategic Directors.'</p>

John Cornett

Director

07468749927

john.cornett@kpmg.co.uk



Name	Mike Norman
Position	Manager
	<p>I will continue to be responsible for the management, review and delivery of the audit of the Authority and Pension Fund.</p> <p>I will liaise with the County Finance Officer and the Audit and Risk Manager."</p>

Mike Norman

Manager

07500125105

Michael.norman@kpmg.co.uk



Name	John Pressley
Position	Assistant Manager
	<p>"I acted as 'in-charge' for the Pension Fund audit last year. I will be responsible for the on-site delivery of our work on the Authority's financial statements and the Pension Fund this year. I will liaise with the Finance Team. I will also supervise the work of our audit assistants."</p>

John Pressley

Assistant Manager

07919697377

John.Pressley@kpmg.co.uk

### Independence and objectivity

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.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

### Confirmation statement

We confirm that as of March 2016 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.





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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact [...], the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk) by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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## Regulatory and Other Committee

### Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	<b>Audit Committee</b>
Date:	<b>21 March 2016</b>
Subject:	<b>External Audit Progress Report</b>

#### Summary:

Report from KPMG, the County Council's External Auditors, giving an update on the 2015/16 Audit deliverables.

#### Recommendation(s):

The Committee considers the progress report and identify any further information/actions that might be required.

#### Background

Appendix A is KPMG's report providing an update. This includes

- Audit Plan 2015/16
- Audit Fee update
- Other work
- Technical update

#### Conclusion

The report provides assurance over the progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.

#### Consultation

##### a) Policy Proofing Actions Required

n/a

## Appendices

These are listed below and attached at the back of the report	
Appendix A	External Audit 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 Mike Norman, who can be contacted on 0115 935 3554 or [michael.norman@kpmg.co.uk](mailto:michael.norman@kpmg.co.uk) .



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# External audit progress report

**Lincolnshire County Council**

March 2016

This report provides the Audit Committee with an overview on progress in delivering our responsibilities as your external auditors.

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# Progress report

This document provides the Audit Committee with a high level overview on our external audit planning.

At the end of each stage of the audit we issue certain deliverables, including

reports and opinions. A summary of progress against these deliverables is provided in Appendix 1 of this report.

### Audit Plan 2015/16

We have updated our risk assessments and will present the draft 2015/16 audit plan for the external audit of the Authority and the Lincolnshire Pension Fund to the March 2016 Audit Committee. We have continued to liaise with management on the significant financial and operational issues at the Council.

#### Financial statements audits – Lincolnshire County Council and Lincolnshire Pension Fund

The interim audit work is still in progress and is expected to be complete by the end of March 2016.

The planned audit work has included:

- Review of the Agresso processes for the general ledger, bank reconciliation, payroll and accounts payable;
- Testing of journal controls and general ledger opening balances;
- Review of the pension specific processes for investments and payment of pensions;
- Review of the fixed asset register;
- Review of the new pension administration arrangements;
- liaison with Internal Audit regarding their work programme and findings;
- Determining our approach for data and analytics testing;
- Discussing the accounting requirements for 2015/16, including relevant changes to the CIPFA guidance; and
- Discussing with management the general proposals for the closure of accounts process and our working paper requirements.

Managers are continuing to work to resolve the significant issues with the operation of the Agresso system. These included:

- Incomplete control account reconciliations, including material unresolved differences relating to payroll;
- Backlogs in processing journals and other transactions; and
- Unavailability of key system reports (specifically the trial balance report) and the need to test the operation of some system facilities (specifically the Capital module).

We will continue to keep the Audit Committee informed on the progress on our audit.



## External audit progress report – March 2016 (continued)

Audit Plan 2015/16 (continued)	<b>Value for Money Conclusion</b>  We have carried out our initial risk assessment against the new criterion specified by the National Audit Office for 2015/16 onwards. We have identified the following as risk areas where we need to carry out further work during the remainder of the audit: <ul style="list-style-type: none"><li>• Operation of the Serco support services contract - we will continue to monitor your progress in addressing the continuing issues with the operation of the contract with Serco.</li><li>• Managing you budget and shaping your medium term financial strategy – we will monitor your progress in establishing arrangements for ensuring effective budget management control through the new Agresso system and discuss with management the Council’s progress in managing its medium term financial position.</li></ul> We will update our risk assessment during the year and report our conclusions in the ISA260 report to the Audit Committee in September 2016.		
Audit fee update	The indicative audit fee notified to the Council in April 2015, was £107,325 ( £143,100 in 2014/15) for the Council’s audit and £24,350 (£24,350 in 2014/15) for the Pension Fund. We have set out in our Audit Plan a number of audit risks and other factors which are likely to require us to carry out additional work in support of our audit opinions and value for money conclusion. We will update the Audit Committee as the audit progresses on any likely changes to the fee, and confirm the final fee later for the year in our Annual Audit Letter. Any increase would in any case be subject to the approval of the PSAA.		
Other work	In January 2016 we provided management with an external auditor’s assurance report on your arrangements for managing and controlling education training provider subcontractors in 2015/16. This report is required under the funding agreement with the Skills Funding Agency. We charged £5,500 for this work.		
Actions	We ask the Audit Committee to: <ul style="list-style-type: none"><li>▪ <b>NOTE</b> this progress report.</li></ul>		
Contacts	The key contacts in relation to our audit of the Council and the Pension Fund are:		
	John Cornett, Director John.cornett@kpmg.co.uk	Mike Norman, Manager Michael.norman@kpmg.co.uk	John Pressley, Assistant Manager John.pressley@kpmg.co.uk



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# Appendix 1

## Appendix 1 – 2015/16 Audit deliverables – Authority and Pension Fund

Deliverable	Purpose	Timing	Status
<b>Planning</b>			
Fee letter	Communicate indicative fee for the audit year	April 2015	Issued April 2015
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	January 2016 (for March 2016 Audit Committee)	To March 16 Audit Cttee
<b>Interim</b>			
Interim progress report	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.	April 2016	TBC
<b>Substantive procedures</b>			
Report to those charged with governance (ISA+260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2016	TBC
<b>Completion</b>			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2016	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2016	TBC



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## Regulatory and Other Committee

### Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	<b>Audit Committee</b>
Date:	<b>21 March 2016</b>
Subject:	<b>Statement of Accounts 2015/16</b>

#### **Summary:**

This report summaries:

- Changes resulting from the Accounts and Audit Regulations 2015;
- Changes to the Code of Practice on Local Authority Accounting which will be incorporated into the 2015/16 Statement of Accounts;
- The review of the Council's Accounting Policies; and
- Summary of the key risks faced by the Council in producing the Statement of Accounts 2015/16.

#### **Recommendation(s):**

The Executive Director of Finance and Public Protection asks Members of the Audit Committee to:

1. Note the changes to the Explanatory Foreword and in the process for Exercising Public Rights required by the Accounts and Audit Regulations 2015;
2. Note the changes required to the Statement of Accounts from the Code of Practice 2015/16;
3. Approve the Statement of Accounting Policies (Appendix A) to use in preparing the Council's accounts for the financial year ending 31 March 2016; and
4. Note the key risks, actions and contingency arrangements identified for the production of the 2015/16 Statement of Accounts.

## **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 2015/16 (the Code) and the Service Reporting Code of Practice (SeRCOP). These both ensure the accounts are prepared using "proper accounting practice".

## **Accounts and Audit Regulations 2015**

1.2 The Accounts and Audit Regulations 2015 replace the previous regulations issued in 2011. The 2015 Regulations simplify the process which allows the public to inspect the accounts and raise questions with the External Auditors (Exercising Public Rights), and replaces the Explanatory Foreword in the Statement of Accounts with a new style Narrative Report.

### Exercising Public Rights

1.3 Instead of separate periods for inspecting the accounts and raising queries with the Auditors, there is now a single period of 30 days for inspection and queries which, for the 2015/16 accounts, must include the first 10 working days of July. Both the Statement of Accounts and Annual Governance Statement must be published on the Authority's website, but there is no longer any requirement to give notice of the inspection period by advertisement.

### Narrative Report

1.4 The 2015 Regulations specifically require authorities to publish a Narrative Report. The Code of Practice indicates that the report should include financial and non-financial performance information. The Narrative Report will follow CIPFA's guidance and will replace the Explanatory Foreword which already includes comment on financial performance.

## **Changes to the Code of Practice on Local Authority Accounting for 2015/16**

1.5 The Code of Practice has fully adopted IFRS13 (Fair Value Measurement) for the first time in 2015/16 although the code has made exceptions for Property, Plant and Equipment and Intangible Assets, where valuation techniques have been adapted for the public sector.

1.6 Fair Value relates to the measurement of assets and liabilities and introduces additional disclosure requirements relating to the valuation technique used to measure the asset or liability. Additional information will therefore be provided in the Statement of Accounts for Financial Instruments, Pension Fund accounts, Investment Properties and Surplus Assets.

1.7 Where Fair Value is required to be used then assets and liabilities are valued at their highest and best use, in a market where an orderly transaction would take place. This approach results in a change in the valuation technique used for

valuing Surplus Assets, where these assets were previously valued in line with the asset class they were held under before being reclassified.

## Statement of Accounting Policies

1.8 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.

1.9 A small number of minor changes have been made to the accounting policies for 2015/16 which are marked in ***bold italics*** in **Appendix A**, these include:

- Updates to reflect the use of the Accounts and Audit Regulations 2015;
- Changes to reflect the adoption of IFRS13, principally to reflect the change in valuation technique used for Surplus Assets; and
- Additional valuation information is also provided for Investment Properties and Financial Instruments.

## Key Risks Faced

1.10 While the Authority continues to work on resolving the issues raised by the implementation of its new financial system (Agresso), there are a number of identifiable risks that may give rise to material misstatements in the accounts. These risks are shown in **Appendix B** alongside the actions that are being taken to mitigate the risks and, where possible, planned contingency arrangements.

1.11 The risks are also being discussed with the external auditors (KPMG) to confirm the adequacy of the arrangements and potential implications for the audit of the accounts.

## Conclusion

2.1 The Statement of Accounts and Annual Governance Statement will be published on the Authority's website, immediately followed by a period of 30 days during which the public may inspect the accounts and raise queries. This inspection period will no longer be advertised in the local press.

2.1 Changes to the format and content of the accounts and accounting requirements will be incorporated into the Statement of Accounts for 2015/16 as required by the Code of Practice and the Accounts and Audit Regulations 2015.

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 2015/16
Appendix B	Closure of Accounts 2015/16 - Risk Analysis

## 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 2015/16	Executive Director of Finance and Public Protection
Service Reporting Code of Practice for Local Authorities	Executive Director of Finance and Public Protection

This report was written by Claire Machej, who can be contacted on 01522 553663 or [claire.machej@lincolnshire.gov.uk](mailto:claire.machej@lincolnshire.gov.uk).



## **Statement of Accounting Policies**

### **1. General Principles and Concepts**

The Statement of Accounts summarises the Council's transactions for the financial year **2015-16** and the position at the year-end **31 March 2016**. The Statement of Accounts has been prepared in accordance with the Accounts and Audit Regulations **2015**.

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 **2015-16** and Service Reporting Code of Practice **2015-16**, supported by International Financial Reporting Standards and statutory guidance.

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

### **2. Changes in Accounting Policies**

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

### **3. Prior period adjustments – estimates and errors**

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

The following disclosures will be made:

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

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

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

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

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

#### Classification

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

##### Operational Assets:

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

##### Non-Operational Assets:

- Surplus Assets; and
- Assets Under Construction.

#### a) Initial Recognition

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

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

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

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

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

De-recognition associated with asset enhancements. When capital expenditure occurs on an existing asset the element of the asset being replaced must be derecognised. Where the original value of the asset being replaced is not known the value of the replacement will be used as a

proxy, and indexed back to an original cost; with reference to the asset's remaining life. De-recognition costs will be charged to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement (gain or loss on the disposal of non-current assets).

#### b) Measurement after Recognition – Valuation Approach

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

The code requires the following valuation approaches to be adopted:

#### Operational Assets

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

#### Non-Operational Assets

- Surplus assets (i.e. assets which the Council no longer operates/are no longer used for service delivery, but are not Investment Properties or meet the definition held for sale) **have their current value measured at fair value which is estimated at the highest and best use from a market participant's perspective**. Surplus assets are 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 **current** 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 **current** value.

### c) Revaluation Gains and Losses

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

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

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

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

### d) Depreciation

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

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

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

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

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

#### Component Accounting for Property, Plant and Equipment

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

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

#### e) Disposal of Property, Plant and Equipment

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

The gain or loss arising from disposals is shown in the Comprehensive Income and Expenditure Statement, on the Other Operating Expenditure line. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement, netted off against the carrying value of the asset at the time of disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

#### f) Impairment of non-Current Assets

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

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

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

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

#### 5. Intangible Assets

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

a) Recognition and Measurement of assets that qualify as intangible assets, shall be measured and carried at cost, ***in the absence of an active market to determine*** fair value, as these are short life assets.

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

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

c) Amortisation. The carrying value of intangible assets with a finite life is amortised on a straight line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. Amortisation is charged to the relevant service area in the Comprehensive Income and Expenditure Statement. The useful lives for intangible assets are between 3 and 7 years. Useful asset lives are determined by the ICT budget holder and reviewed and updated annually.

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

## 6. Investment Properties

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

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

b) Measurement after Recognition. Investment Properties will be measured at fair value, ***being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset***, Investment Properties are measured at highest and best use. The fair value of Investment Property held under a lease, is the lease interest in the asset. Investment Properties are subject to annual revaluations.

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

d) Depreciation is not charged on Investment Properties.

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

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

## 7. Heritage Assets

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

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

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

#### a) Initial Recognition

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

#### b) Measurement after recognition:

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

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

d) Depreciation is not charged on Heritage Assets.

### 8. Non-Current Assets Held for Sale

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

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

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

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



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

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

## 9. Donated Assets

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

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

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

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

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

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

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

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

## 11. Minimum Revenue Provision

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

## 12. Revenue Expenditure Financed through Capital under Statute

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

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

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

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

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

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

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

- lifecycle replacement costs – recognised as additions to Property, Plant and Equipment on the Balance Sheet.

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

#### 14. Borrowing Costs

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

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

#### 15. Classification of Leases

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

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

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

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

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

##### a) Finance Leases

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

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

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

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

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

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

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

The write off value of disposals is not a charge against council tax as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance via the Movement in Reserves Statement.

#### b) Operating Leases

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

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

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

## 16. Government Grants and Contributions

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

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

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

### Capital Grants and Contributions (non-current assets)

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

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

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

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

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

## Revenue Government Grants and Contributions

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

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

## 17. Debtors

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

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

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

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

## 18. Creditors

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

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

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

## 19. Provision for Bad and Doubtful Debt

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

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

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

## 20. Inventories

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

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

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

## 21. Cash and Cash Equivalents

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

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

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

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

## 22. Provisions

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

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

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

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

Provisions are recognised and measured ***at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.*** When considering the ***valuation*** of long term provisions, the Council has set a £50k de minimis limit. Below this amount ***long term provisions are measured using carrying 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 **£500k**.



## 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 **£500k**.

## 25. Events after the Reporting Date

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

- Events which provide evidence of conditions that existed at the end of the reporting period will be adjusted and included within the figures in the accounts; and
- Events that are indicative of conditions that arose after the reporting will be reported in the narrative notes to the accounts.

Events which take place after the authorised for issue date are not reflected in the Statement of Accounts.

## 26. Recognition of Revenue (Income)

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

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

## 27. Exceptional Items

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

## 28. Costs of Support Services

The costs of overheads and support services are charged to those who benefit from the supply of services in accordance with the costing principles of the CIPFA Service Reporting Code of Practice **2015-16** (SeRCOP). The costs are recharged to services on the following basis:

<b>Costs</b>	<b>Basis of Apportionment</b>
Accommodation	unique property reference numbers
Accountancy services	gross expenditure and sales
Business support	gross expenditure and sales
Communications	gross expenditure and sales
Customer service centre	number and length of calls
IT services	number of employees
Payroll services	number of employees
People Management	number of employees
Programme and Programmes Service	gross expenditure and sales
Property services	unique property reference numbers

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

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

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

## 29. Acquired and Discontinued Operations

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

### 30. Value Added Tax (VAT)

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

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

### 31. Council Tax and Business Rates Income

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

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

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

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

### 32. 'Cap and Trade' Schemes – ***Government changed the scheme which no longer applies to LCC, therefore policy removed.***

#### 32. Reserves

##### a) Useable Reserves

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

##### b) Unusable Reserves

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

- Capital Adjustment Account;

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

### 33. Employee Benefits – Benefits Payable during Employment

#### a) Benefits Payable During Employment – Short Term Benefits

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

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

#### Teacher Leave Accrual

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

#### b) Long Term Benefits

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

### 34. Employee Benefits – Termination Benefits

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

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

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

### 35. Employee Benefits – Post Employment Benefits (Pensions)

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

- Teachers' Pension Scheme: This is a notionally funded scheme administered nationally by Capita Teachers' Pensions on behalf of the Department for Education (DFE). The pension contributions to be paid by the Council are determined by the Government Actuary and reviewed periodically. The scheme is accounted for as if it were a defined contribution scheme. There is no liability for future payments of benefits recognised in the Balance Sheet. All employer's contributions payable to teachers' pensions in the year are treated as expenditure on the education service line in the Comprehensive Income and Expenditure Statement.
- National Health Service Pension Scheme (NHSPS): This is a notional funded scheme administered national by NHS Pensions on behalf of the Department of Health (DoH) The pension contributions to be paid by the Council are determined by the Government Actuary and reviewed periodically. The scheme is accounted for as if it were a defined contribution scheme. There is no liability for future payments of benefits recognised in the Balance Sheet. All employer's contributions payable to the National Health Service Pension Scheme in the year are treated as expenditure in the Public Health service line in the Comprehensive Income and Expenditure Statement.
- Uniformed Fire-fighters Pension Scheme (FPS): From 1 April **2015**, a new pension fund for Fire-fighters was set up. This scheme replaced the 2006 & 1992 Fire-fighters schemes for new Fire-fighters. **The 2015**, 2006 and 1992 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 the three funds, 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 the funds at the end of each year will be repaid back to the Department for Communities and Local Government (DCLG). Contributions in respect of ill health retirements are still the responsibility of the Council.
- Local Government Pension Scheme (LGPS): Other employees are eligible to join the LGPS. The Council pays contributions to a funded pension scheme from which employee pension benefits are paid out.

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

#### The Local Government Pension Scheme (LGPS)

The LGPS is accounted for as a defined benefits scheme:

- The liabilities of the Lincolnshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of **3.2% - to be updated once information is available** (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;
  - unitised securities – current bid price.

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

- Service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
  - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure; actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debit to the Pensions Reserve as Other Comprehensive Income and Expenditure; and
- contributions paid to the Lincolnshire Pension Fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

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

### 36. Accounting for Schools Income, Expenditure, Assets, Liabilities and Reserves

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

#### Income and Expenditure

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

#### Non-Current Assets

Schools non-current assets will be accounted for under IAS 16 Property, Plant and Equipment. The standard defines non-current assets as “a resource controlled by the Council as a result of a past event and from which future economic benefits or service potential are expected to flow”.

If assets are owned by the Council or the governing body of the school, or the future economic benefits are identified to sit with the Council, then the non-current assets will be recorded in the Balance Sheet.

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

### Assets and Liabilities

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

### Reserves

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

### 37. Group Relationships

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

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

### 38. Financial Instruments

#### a) Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. All the Council's borrowings are carried at amortised cost and the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over ten years or the term that was remaining on the loan if less than ten years. The reconciliation of premiums / discounts charged to the Comprehensive Income and Expenditure Statement to the net charge required



against the General Fund is managed by a transfer to or from the Financial Instruments Adjustment Account through the Movement in Reserves Statement.

#### b) Financial Assets

Financial Assets are classified into two types:

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

#### i) Loans and Receivables

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

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

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

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

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

## ii) Available-for-sale Assets

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

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

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

***The comparative measures used in the valuation techniques for fair value are categorised in accordance with the following three levels:***

- ***Level 1 – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.***
- ***Level 2 – comparators other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.***
- ***Level 3 – unobservable comparators for the asset.***

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.***~~

~~***This paragraph has been deleted as it is not material, in line with paragraph 367 of the Code of Practice guidance notes.***~~

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

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

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

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## Closure of Accounts - Risk Analysis

Priority	Risk	Details	RAG	Current Actions/ Mitigation	Due Date	Contingency Arrangements	Other Comments
1	Payroll control account currently out of balance.	Outstanding data files to be processed against control accounts of around £300m		Unit4 consultant appointed to review and help resolve the issues involved.  Process outstanding data files.	Actioned  29/02/16	Preparations in place to correct any outstanding issues.	Risk remains once files are processed there will still be significant balances to resolve.
		Payroll service costs misposted to control account ~£100m		Agree cut-off point with Serco for LCC finance to take over responsibility for tackling issue. Begin collecting data from Schools regarding miscodings.	Actioned  31/03/16	Use summary journals to action the changes required.	Prepare journals for whole year from 1 March 2016.
2	Capital - allocation of capital spend (works orders) to assets and asset classes	£60m+ of capital spend (works orders) still to be allocated to assets		Raised with senior finance staff and further training beginning to finance staff to complete this work.	Actioned	Focus on high value assets in Highways and Schools.	
3	Control Account Reconciliations	Reconciliation processes have not yet been fully implemented		Closely monitor progress made by SERCO.	15/04/16	Ensure AP/AR/Payroll control accounts reconciled as a minimum by the end of the financial year.	
4	Suspense and holding accounts	Balances not regularly reviewed during the year		Prioritise with SERCO finance staff to ensure balances reviewed for year end	15/04/16	Clear high value entries and make informed judgements regarding any balance.	
5	Trial Balance Report and Statement of Accounts Checks	Existing checks need full review due to new system. Trial balance not yet available to help assess position		Trial Balance report to be finalised for loading into SoA worksheet as a trial run	31/03/16	Manually input data to SoA tables. Focus on internal consistency checks for SoA	

Priority	Risk	Details	RAG	Current Actions/ Mitigation	Due Date	Contingency Arrangements	Other Comments
				Review existing internal consistency checks.	31/03/16		
6	Mapping of Service Expenditure Analysis (SEA) from old year	No old year balances held in Agresso to help ensure that there have been no structural changes to the SEA mapping.		New year SEA produced before year end to enable analytical review	31/03/16	Map coding via spreadsheet and produce SEA on Agresso codes	2015/16 comparisons not yet usable. Concern that there may be significant changes that would need investigating during closedown.
				Ascertain KPMG's requirements	Actioned		KPMG do not require a full mapping trail from previous year.
7	Purchase card payments not posted	Around £3.3m unposted to end of February		Contingency plan already implemented	24/03/16	Details to be extracted and sent to card holders for coding	
		No plans to accrue payments after 2/3/16		Discuss whether this is an audit issue with KPMG	Actioned	If necessary, charge accruals to default codes outside management accounts and met temporarily from General Fund	Not a particular concern for KPMG given the value involved
8	Duplicate Payments	Work by internal audit has identified potential duplicate payments. This is likely to be an area of concern for KPMG.		Duplicate payments to 24/11/15 identified and repayment chased with suppliers. Continue to run reports to year end.	31/03/16	Clear high value entries and look to clear the low value items in the new year.	Existing arrangements should satisfy KPMG, however, will need to detail plans of how this will be avoided in future

Priority	Risk	Details	RAG	Current Actions/ Mitigation	Due Date	Contingency Arrangements	Other Comments
9	Delays in processing journals	The journal upload process has only recently gone live in Agresso and recent journal processing has taken up to a few days to action. Real time journals will be needed during closedown. Need to understand the backlog still with Finance to action		Processing should be quicker once backlog of journals have been processed. Size of databases being increased by SERCO.	Ongoing	Bulk journals to be processed overnight allowing smaller journals to be processed in real time during closedown	Still a concern that the level of journals increases at year end and the length of time it may take to clear the backlog
10	Capital Module	Capital module yet to be used in practice, risk of unforeseen issues		Module has been thoroughly tested. Consultant booked to help resolve any issues 9-11 May	11/05/16	No alternatives available	

RAG Key:



Serious concern - no guarantee that current actions will fully resolve.



Some concern - Needs monitoring to ensure actions resolve concern.



Some minor residual concern but actions in place to resolve.



Issue resolved - no concerns.

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**Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection**

Report to:	<b>Audit Committee</b>
Date:	<b>21 March 2016</b>
Subject:	<b>International Audit Standard - Response to Management Processes Questions</b>

**Summary:**

This report provides the Committee with an assessment around whether the County Council and Pension Fund 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 the County Council and Pension Fund financial statements.

**Background**

Each year 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 is listed below, together with the details of our current processes.

Note: A material mis-statement for the Authority's accounts in 2015/16 is around £20m and £17m for the Pension Fund accounts.

**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 accounts are accurate and reflect properly authorised expenditure and income due to the Council.

**Accounting** – the form of the accounts is mainly prescriptive from the CIPFA code of practice and accounting processes are determined by the Executive Director of Finance and Public Protection. There are regular reconciliations covering bank reconciliation, payments, payroll and suspense accounts. Reconciliation activity in 2015/16 has been hampered as a result of issues arising from the Agresso implementation. 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 activity has been significantly restricted in 2015/16 as a consequence of problems arising with the Agresso implementation. Other records have been used where necessary to provide assurance on levels of spending. 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 peer review of the statement of accounts undertaken by specialist finance staff independently of staff who prepare the draft statements.

## **2. An assessment of the risk that the Pension Fund statements may be materially mis-stated due to fraud**

In addition to the arrangements described above, there are a number of specific controls and requirements which apply to the administration of the Lincolnshire Pension Fund. The fund is not subject directly to any laws and regulations that are any different to other bodies in the same sector:

- UK law which applies to pension schemes including Act of Parliament and regulations
- European law
- Case law which is relevant to pension schemes

The Local Government Pension schemes are regulated by a range of specific statutory requirements, the main ones being:

- Local Government Pension Fund (Management and Investment of Funds) Regulations 2009
- Local Government Pension Scheme Regulations 2013

The accounts format and content is covered by the Pensions SoRP and underpinned at a high level by the Accounts and Audit Regulations as well

as the specific Codes published under statute such as the CIPFA Codes covering the accounts.

The Council employs external investment managers to make most investment decisions and a custodian holds the investment certificates which add further assurance to the overall control environment. The Council receives annual auditor assurance reports from these organisations.

The Pensions Committee approves the investment policy of the Fund and monitors its implementation during the year. The Committee meets, as a minimum, on a quarterly basis and special meetings are convened if considered necessary. The Committee membership includes representatives from the County Council, district councils, other employers and trade unions. The Council now has a Pensions Board in place which overviews the governance arrangements for management of the Fund as well as compliance with the requirements of the Pensions Regulator.

### **3. Identifying and responding to risks of fraud in the organisation**

Our proactive counter fraud work and whistleblowing 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. This is enhanced by the Lincolnshire Counter Fraud Partnership – reporting directly to the Chief Finance Officer Group and tasked with carrying out county-wide fraud proactive exercises in areas of high fraud risk. We also take account of best practice and emerging fraud issues published by the CIPFA Counter Fraud Centre and until recently, the Audit Commission.

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

The difficulties with the introduction of the Council's new financial system (Agresso) and the resulting impact on the Council's financial control environment may mean a higher risk of fraud or error. Our response to this is to increase data analytics/increased substantive testing. SERCO have also commissioned PWC to help validate the accuracy of payroll transactions.

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 Authority and Pension Fund 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 Whistleblowing 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 – Finance and Public Protection has responsibility to highlight any proposal, decision or course of action which will involve any unlawful expenditure and the financial impact of any decision.
- The Council has a strong overall control environment which aims to reduce the risk of potential litigation and claims arising. Regular Internal Audit reviews occur to ensure compliance with established controls.
- A robust assurance framework underpins the Council's governance arrangements – it is regularly updated and periodically reviewed to ensure continued effectiveness.
- There are clear policies in place which are routinely updated and communicated throughout the Authority. The Council has strong, well established corporate functions which, along with the ongoing support from its legal advisors, help to minimise the risk of non-compliance with laws and regulations.
- The risk management process assesses the key risks facing the Council and takes measured risks that seek to minimise impact and maximise benefits / innovation.
- Our insurance cover helps us minimise our exposure to potentially large claims.
- Instances of potential claims will be acknowledged, if appropriate, as a contingent liability in the financial statements of the authority.

## Conclusion

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

## Consultation

### a) Policy Proofing Actions Required

N/A

## Appendices

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

## Background Papers

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

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

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## Response to fraud and error questionnaire

No.	Questions for management	Managements response
1	Are you aware of any instances of actual, suspected or alleged fraud, within the authority as a whole during the period 1 April 2015 – 31 March 2016?	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 2015/16.
2	<p>Do you suspect fraud may be occurring, within the authority?</p> <p>➤ Have you identified any specific fraud risks within the authority?</p> <p>➤ Do you have any concerns that there are areas within the authority that are at risk of fraud?</p> <p>➤ Are there particular locations within the authority where fraud is more likely to occur?</p>	<p>Yes – we acknowledge and understand our fraud risks – we have a dedicated counter fraud team to respond to these risks.</p> <p>Yes – see below</p> <p>In line with key fraud risks highlighted nationally &amp; consideration of the Council's own fraud risk profile, we believe areas to focus on are:</p> <ul style="list-style-type: none"> <li>■ Procurement</li> <li>■ Contracts</li> <li>■ Schools</li> <li>■ Direct Payments</li> <li>■ Grants</li> <li>■ Payroll</li> <li>■ AP</li> </ul>
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <p>➤ If not where are the risk areas?</p> <div style="display: flex; align-items: center; margin-left: 40px;"> <div style="display: flex; flex-direction: column; align-items: flex-start;"> <p>Payroll</p> <p>AP</p> </div> <div style="font-size: 3em; margin: 0 10px;">}</div> <div style="display: flex; flex-direction: column; align-items: flex-start;"> <p>Schools and</p> <p>Corporate</p> </div> </div> <p>Limited ability to audit throughout the year due to lack of system stability → system and control issues and high error rates have resulted in low assurance in the two areas.</p>	<p>Our Payroll and AP systems are currently exposed to a higher risk of fraud and error due to the control issues experienced within Agresso over 2015/16.</p> <p>We will continue to review the adequacy of the control framework to ensure compliance where issues such as segregation of duties may become an issue.</p>

No.	Questions for management	Managements response
	<p>➤ What other controls are in place to help prevent, deter or detect fraud?</p>	<ul style="list-style-type: none"> <li>■ Whistleblowing arrangements</li> <li>■ Robust CF Policy and zero tolerance stance to fraud</li> <li>■ Proactive work programme – delivered by CF team (deter/detect) /</li> <li>■ Increased data analytics</li> <li>■ Due diligence activities limited to Q4.</li> <li>■ Accredited counter fraud specialists</li> <li>■ Deterrence - case summaries on website / successful prosecutions in Echo / results and work of CF team periodically published in Echo (from Audit Committee reporting)</li> </ul>
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"> <li>■ Whistleblowing arrangements</li> <li>■ Counter Fraud Policy / leaflets / Fraud Response Plan</li> <li>■ Whistleblowing and Counter Fraud posters</li> <li>■ Regular news bulletins</li> <li>■ Code of Conduct – reporting expectations</li> <li>■ Dedicated counter fraud team</li> <li>■ Fraud awareness sessions</li> <li>■ Assistant Directors and Heads of Service briefings</li> </ul> <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"> <li>■ Bank and authorised signatories</li> <li>■ Treasury management e.g. borrowing</li> </ul> <p>Policies, procedures – managed by established control framework, overall scheme of delegation, segregation of duties and IT Security processes.</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</p>	<p>No.</p> <p>Requirement for officers to declare any interests / personal</p>



No.	Questions for management	Managements response
	related party relationships and transactions?	relationships (Code of Conduct / Personal Relationships at Work Policy). Management responsible for assessing the risk and taking any control actions i.e. transferring responsibilities / decision making, removing delegated authority, 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"> <li>➤ Are there particular balances where fraud is more likely to occur?</li> <li>➤ Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the authority?</li> <li>➤ Could a false accounting entry escape detection? If so, how?</li> <li>➤ Are there any external fraud risk factors which are high risk of fraud?</li> </ul>	<p>No</p> <p>Imprest (materiality low) Payroll entries &amp; Procurement Card entries – lack of management information potentially increases the risk of fraud. All entries should be checked as part of the year end close down process.</p> <p>No</p> <p>No</p> <p>Accounts Payable – due to problems encountered at the beginning of the year – risk reduced due to checking and validation being undertaken as part of close down process..</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"> <li>➤ 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?</li> </ul>	<p>No</p> <p>No</p>

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**Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection**

Report to:	<b>Audit Committee</b>
Date:	<b>21 March 2016</b>
Subject:	<b>Counter Fraud and Investigations Work Plan 2016/17</b>

**Summary:**

The Council's counter fraud arrangements demonstrate its continued commitment to strong governance and best use of resources. Our response to Central Government's expectations for tackling fraud and corruption is reflected in the draft 2016/17 Counter Fraud and Investigations Work Plan. It is important we maintain our counter fraud response and resilience as the changes to Council service delivery continue to evolve.

**Recommendation(s):**

To review and approve the Counter Fraud Work Plan for 2016/17.

**Background**

- 1 In response to central government's expectations for tackling fraud and corruption, we aim to continue to focus on our prevention, detection and investigation work.
- 2 CIPFA issued its Counter Fraud Code of Practice on Managing the Risk of Fraud and Corruption in 2014. This document sets out good practice in this area and to ensure our work reflects the key principles within the code we have now aligned our plan with the same themes:
  - Acknowledging responsibility
  - Identify risks
  - Develop a strategy
  - Provide resources
  - Take action
- 3 During the year we will review the Council's Counter Fraud policy to ensure that we comply with the code of practice. We will also refresh the Whistleblowing and Money Laundering policies and arrangements to ensure they reflect any changes in legislation.

- 4 Our whistleblowing and counter fraud awareness activity will continue throughout 2016/17. We plan for more engagement through briefing sessions with service managers, members and staff to ensure awareness at all levels.
- 5 We will continue to use our data analytics expertise to enhance our analysis and fraud & error testing across key financial systems – employing a continuous testing approach. Data will also be analysed when delivering proactive exercises in areas carrying increased fraud risk. Much of the work on updating the Council's fraud risk assessment has been completed and this will be finalised in 2016/17.
- 6 We will continue our proactive work in priority areas such as procurement fraud and will work accordingly with the relevant teams across the Council. We also plan to engage with schools to promote fraud awareness and to assess fraud risks.
- 7 We will be required to submit datasets across several systems for the 2016/17 National Fraud Initiative data matching exercise.
- 8 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.
- 9 The work of the Lincolnshire Counter Fraud Partnership will continue. Lincolnshire County Council were allocated monies by the DCLG to create the partnership to improve Lincolnshire local authorities response to tackling high risk areas of corporate fraud - with progress and delivery being monitored by the Chief Finance Officer Group. The group has been fully operational since May 2015 and achieved significant savings through several projects. Partner authorities risk profiles are currently being updated and a work plan for 2016/17 is being developed.

## **Conclusion**

10. Maintaining resilience to fraud is essential when public funds are under so much pressure and risks are increased.
11. The Council's Counter Fraud Work Plan for 2016/17 provides a robust response to Central Government's expectations for tackling fraud and corruption. This demonstrates the Council's continued commitment to ensuring good governance during a period of significant change to service delivery.
12. The Audit Committee plays a key role in monitoring the effectiveness of Council policies on confidential reporting code, anti-fraud and anti-corruption policy and the Council's complaints process. In considering the proposed Counter Fraud work plan the Committee should be able to:

- Gain assurance that the Council has effective arrangements in place to fight fraud locally
- Confirm that counter fraud resources are targeted to the Council's key fraud risks.

## Consultation

### a) Policy Proofing Actions Required

n/a

## Appendices

These are listed below and attached at the back of the report	
Appendix A	Draft Counter Fraud Work Plan 2016/17
Appendix B	CIPFA Fraud and Corruption Tracker (Survey Report 2015)

## 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 Matt Drury, who can be contacted on 01522 553690 or [Matt.Drury@lincolnshire.gov.uk](mailto:Matt.Drury@lincolnshire.gov.uk) .

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## Lincolnshire County Council Counter Fraud Plan 2016/17



## What we do best ....

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

## ..... And what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

Already working extensively with the not-for-profit and third sector



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Background	1
Draft Counter Fraud Plan 2016/17	2 - 6



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## Introduction

1. This report summarises the proposed work of the Counter Fraud and Investigation Team for 2016/17. The aim is to give a high level overview of areas we are likely to cover during the year - giving you an opportunity to comment on the proposals.
2. The plan has been developed to enable us to respond to changes during the year. Whilst every effort will be made to deliver the plan, we recognise that we need to be flexible and prepared to revise activity – responding to changing circumstances or emerging risks. The plan is therefore a statement of intent.
3. The Council's counter fraud arrangements demonstrate its continued commitment to strong governance and best use of resources. Our response to Central Government's expectations for tackling fraud and corruption is reflected in the plan. It is important that we maintain our counter fraud response and resilience as the changes to the Council's service delivery continue to evolve.
4. To ensure that the plan reflects key areas we have aligned the 2016/17 Counter Fraud plan to the CIPFA Counter Fraud Code of Practice on Managing the Risk of Fraud and Corruption. The Code contains 5 key principles and we have reflected these within our plan:
  - Acknowledge responsibility
  - Identify risks
  - Develop Strategy
  - Provide resources
  - Take action

## Background

5. The Council's counter fraud arrangements already adhere to the principles and specific areas expected and identified with the CIPFA Code of Practice. However, during 2016/17 we intend to review and refresh our policies (Counter Fraud, Money Laundering and Whistleblowing) to ensure they are maintained up to date and in accordance with current expectations and legislation.
6. Our whistleblowing and counter fraud awareness activity will continue throughout 2016/17 and we plan to engage at all levels of the Council to ensure that awareness and understanding of corporate fraud is robust and contributes to an anti-fraud culture. We are continuing to update the Council's fraud risk assessment, ranking activities as high, medium or low risk. This allows us to prioritise areas for review and ensure our counter fraud arrangements remains risk based and responsive.
7. We will continue to use our data analytic expertise to enhance our analysis and fraud and error testing across the key financial systems – this will use a continuous testing approach that will allow us to identify trends and patterns within transactions.
8. The National Fraud Initiative 2016/17 will commence and we will be required to submit datasets across a range of systems for this data matching exercise. We will also be required to adhere to the Fair Processing principles to ensure stakeholders are aware of the need to submit personal data.
9. Action plans will continue to be produced from our work on investigations and proactive counter fraud exercises to aid organisational learning and prevent issues reoccurring.
10. The Lincolnshire Counter Fraud Partnership will continue to co-ordinate the response of Lincolnshire local authorities in tackling high risk areas of corporate fraud and aim to continue maximizing recoveries for all partners where possible as well as building fraud awareness and sharing best practice.

## Draft Counter Fraud Plan 2016/17

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Days
<b>CIPFA Code of Practice – Key Principle A : Acknowledge Responsibility</b>			
<p>A1 - Acknowledge the threat of fraud and corruption</p> <p>A2 - Acknowledge the importance of a culture that is resilient to the threats of fraud and corruption</p> <p>A3 - Governing Body acknowledges its responsibility for the management of its fraud and corruption risks</p> <p>A4 - Governing Body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption</p>	<ul style="list-style-type: none"> <li>Engagement and training</li> <li>Fraud awareness</li> <li>Website development and maintenance</li> <li>Development of e-learning package (in conjunction with Lincolnshire Counter Fraud Partnership)</li> </ul>	<p>Briefing sessions – training for members, management and staff (general and specific fraud areas)</p> <p>Engagement with Corporate Management Board</p> <p>Engagement with relevant groups e.g. Risk &amp; Safety Group</p> <p>Updates, risks, results and information (various publications and channels)</p> <p>Develop e-learning platform and link to Assurance Lincolnshire website</p> <p>Development of a fraud newsletter to raise awareness</p>	
			<b>Days 40</b>
<b>CIPFA Code of Practice – Key Principle B : Identify Risks</b>			
<p>B1 - Fraud risks are routinely considered as part of risk management arrangements</p> <p>B2 - The organisation identifies the risks of</p>	<ul style="list-style-type: none"> <li>Update fraud risk profile</li> <li>Analysis and publication of fraud losses</li> </ul>	<p>Completion of the council's Fraud Risk assessment</p> <p>Annual and progress reports of counter fraud activity to Audit Committee</p>	

<p>fraud and corruption</p> <p>B3 - The organisation publishes estimates of fraud loss to aid evaluation of fraud risk exposures</p> <p>B4 – The organisation evaluates the harm to its aims and objectives</p>		<p>Develop fraud loss profile</p> <p>Fraud awareness sessions and activity in areas identified at high risk to fraud</p>	
			<p><b>Days</b> <b>25</b></p>
<b>CIPFA Code of Practice – Key Principle C : Develop a Strategy</b>			
<p>C1 - Governing Body formally adopts a counter fraud and corruption strategy to address identified risks</p> <p>C2 - Strategy includes the organisation's use of joint working or partnership approaches</p> <p>C3 - The strategy includes both proactive and responsive approaches:</p> <p>Proactive action:</p> <ul style="list-style-type: none"> <li>• Develop counter fraud culture</li> <li>• Prevent fraud through implementation of robust internal controls</li> <li>• Use of techniques such as data matching</li> <li>• Deterring fraud attempts by publicising the organisation's anti-fraud and corruption stance and the actions it takes against fraudsters</li> </ul>	<ul style="list-style-type: none"> <li>• Counter Fraud Strategy</li> <li>• Review and refresh policy documents</li> </ul>	<p>Continue to develop Counter Fraud Strategy</p> <p>Review and updates of Policies including:</p> <ul style="list-style-type: none"> <li>• Counter Fraud Policy</li> <li>• Fraud Response Plan</li> <li>• Whistleblowing Policy</li> <li>• Money Laundering Policy</li> </ul>	

Responsive action:			
<ul style="list-style-type: none"> <li>• Detecting fraud through data and intelligence analysis</li> <li>• Implementing effective whistleblowing arrangements</li> <li>• Investigating fraud referrals</li> <li>• Applying sanctions</li> <li>• Seeking redress</li> </ul>			
			<b>Days 25</b>
<b>CIPFA Code of Practice – Key Principle D : Provide Resources</b>			
<p>D1 - Annual assessment whether level of resource invested to countering fraud and corruption is proportionate to the level of risk</p> <p>D2 - The organisation utilises an appropriate mix of experienced and skilled staff</p> <p>D3 - The organisation grants counter fraud staff unhindered access to its employees</p> <p>D4 - The organisation has protocols in place to facilitate joint working and data and intelligence sharing</p>	<ul style="list-style-type: none"> <li>• Lincolnshire Counter Fraud Partnership</li> <li>• Midlands Fraud Group</li> </ul>	<p>Provision of support to Lincolnshire Counter Fraud Partnership where required</p> <p>Lincolnshire Counter Fraud Partnership – develop:</p> <ul style="list-style-type: none"> <li>• resource plans and schedules</li> <li>• training and development plans</li> </ul> <p>Development of protocols with:</p> <ul style="list-style-type: none"> <li>• partners within Lincolnshire Counter Fraud Partnership</li> <li>• other public bodies and law enforcement agencies where possible (e.g. DWP, Police)</li> </ul> <p>Co-ordination and hosting of Midland Fraud Group meetings and initiatives</p>	
			<b>Days 30</b>

**CIPFA Code of Practice – Key Principle E : Take Action**

<p>E1 - The organisation has put in place a policy framework which supports the implementation of the Counter Fraud Strategy</p> <p>E2 - Plans and operations are aligned to the strategy</p> <p>E3 - Making effective use of initiatives to detect and prevent fraud, such as data matching or intelligence sharing</p> <p>E4 - Providing for independent assurance over fraud risk management, strategy and activities</p> <p>E5 - Report to the Governing Body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy. Conclusions are featured within the Annual Governance report</p> <p>*Please also refer to Specific Step – C3</p>	<ul style="list-style-type: none"> <li>• National Fraud Initiative 2016/17</li> <li>• Proactive counter fraud exercises</li> <li>• Data analysis</li> <li>• Investigations – whistleblowing referrals</li> <li>• Investigations – fraud</li> <li>• Applications of sanctions</li> <li>• Seeking redress</li> <li>• Advice</li> <li>• Promotion of counter fraud activity</li> <li>• Organisational learning</li> <li>• Reports to Audit Committee</li> </ul>	<p>Submission of data for National Fraud Initiative 2016/17 data matching exercise (and application of Fair Processing requirements)</p> <p>Analysis of data matches identified through National Fraud Initiative 2016/17</p> <p>Proactive counter fraud exercises:</p> <ul style="list-style-type: none"> <li>• Procurement fraud (specific areas)</li> <li>• Schools</li> </ul> <p>Data analysis:</p> <ul style="list-style-type: none"> <li>• in counter fraud proactive exercises</li> <li>• to support key control and continuous testing</li> </ul> <p>Investigations arising from whistleblowing reports and frauds identified</p> <p>Applications of sanctions – civil, disciplinary and criminal</p> <p>Seeking redress where successful prosecutions are achieved</p> <p>Promotion and publicity work through various media channels including production of a new fraud awareness leaflet for distribution</p> <p>Provision of advice on fraud risks and mitigating controls</p> <p>Promotion of fraud prevention measures</p>	
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		Production of reports and action plans to aid organisational learning – investigation outcomes and learning points  Production of progress and annual counter fraud and whistleblowing reports to the Audit Committee	
<b>Days (including 255 for Investigations)</b>			<b>370</b>
<b>TOTAL DAYS ALLOCATED</b>			<b>490</b>
<b>CONTINGENCY</b>			<b>50</b>
<b>TOTAL PLANNED DAYS – COUNTER FRAUD</b>			<b>540</b>

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# fraud and corruption tracker

Survey Report 2015



**CIPFA COUNTER  
FRAUD CENTRE**

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## Foreword

Various reports and publications have been written over the years aiming to help local councils and other organisations in the fight against fraud. These reports promoted awareness of similar frauds happening in other organisations and assisted local authorities in comparing themselves and their responsiveness to other organisations facing the same fraud threats and risks.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has been commended by the National Audit Office (NAO), National Crime Agency (NCA) and Local Government Association (LGA) for producing this report, incorporating all public sector regions to provide a truly national, up-to-date overview of all fraud, bribery and corruption activity throughout the public sector in the UK.

This fantastic achievement of the first voluntary survey run by the CIPFA Counter Fraud Centre in 2015 will appeal not only to local authorities and councils, but also to other areas of the public sector, including health and the emergency services.



National Audit Office



National Crime Agency



## The CIPFA Counter Fraud Centre

The CIPFA Counter Fraud Centre (CCFC), launched in July 2014, was created to fill the considerable gap in the UK counter fraud arena following the closure of the National Fraud Authority (NFA) and the Audit Commission, and the subsequent transfer of benefit investigations to the Single Fraud Investigation Service (SFIS), run by the Department for Work and Pensions (DWP).

The CCFC leads and co-ordinates the fight against fraud and corruption across public services in providing a one-stop-shop for thought leadership, counter fraud tools, resources and training.



**CIPFA COUNTER  
FRAUD CENTRE**

## Introduction

This report, based on the findings from the CIPFA Fraud and Corruption Tracker (CFaCT) survey, identifies and accurately focuses on the trends of well-defined frauds. CIPFA has applied care and diligence to create this picture of fraudulent activity across the UK's public sector, establishing the differences between similar frauds happening in the same categorisation.

Within the housing fraud category, for example there is a difference between 'right to buy' fraud and a tenant illegally subletting their property, additionally there are instances where cases in these areas could cross over. CIPFA has addressed fraud figures as a whole, instead of trying to break figures down into minutiae.

The CFaCT survey also assessed all authorities on the themes in Fighting Fraud Locally (FFL), England's counter fraud and corruption strategy. This aims to help local councils tackle fraud and corruption and ultimately prevent losses, although the strategy is also applicable across the wider sector. The FFL Board also encouraged specific questions to be included in the CFaCT survey to help measure the effectiveness of the initiatives in the strategy. The suggestions in this report, therefore, reflect, endorse and illustrate the long term agreement between the FFL Board and CIPFA.

Fraud is an ongoing problem. It is important to know the extent of the problem and also to praise local authorities whose activity to tackle fraud has resulted in particularly successful results.

This report covers a host of public sector organisations, including local authorities, fire authorities, waste disposal authorities and the police. It focuses on common fraud types for all organisations and also on specific areas for local authorities.

Fraud often knows no limit or boundary and thus it is CIPFA's intention to better equip public sector organisations in the future, through widening the scope of the survey to assist agencies locally and inform the national picture.

As recommended in the *UK Anti-Corruption Plan*, the CCFC has also developed close relationships with the National Crime Agency, the Home Office, and the City of London Police. The survey also contains questions pertinent in informing future work in this area.

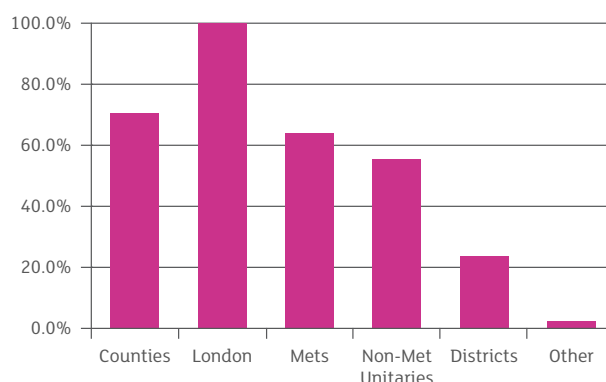
The CFaCT survey had an even spread of results from across all regions, the lowest of which was in the East Midlands, while the tier responses, summarised below, show the highest response rate in London and the lowest in districts. Due to the wide group of respondents CIPFA has not extrapolated the data, in particular in areas where there may be geographical bias. For example, 'no resource to public funds' fraud had a high prevalence in the southern authority results returned, with a 100% return for London local authorities.

The highest results of fraud risks were in the generic areas pertinent to all organisations, in particular procurement fraud, abuse of position and debt fraud. There were also high figures for local authority specific areas in social care, business rates and housing tenancy fraud.

Below are the tier response rates for the CIPFA Fraud and Corruption Tracker survey

Tier	
Counties	70.4%
London authorities	100%
Metropolitan unitaries	63.9%
Unitary (non-met) authorities	55.4%
Districts	23.4%
Other authorities	2.1%

Tier response rate



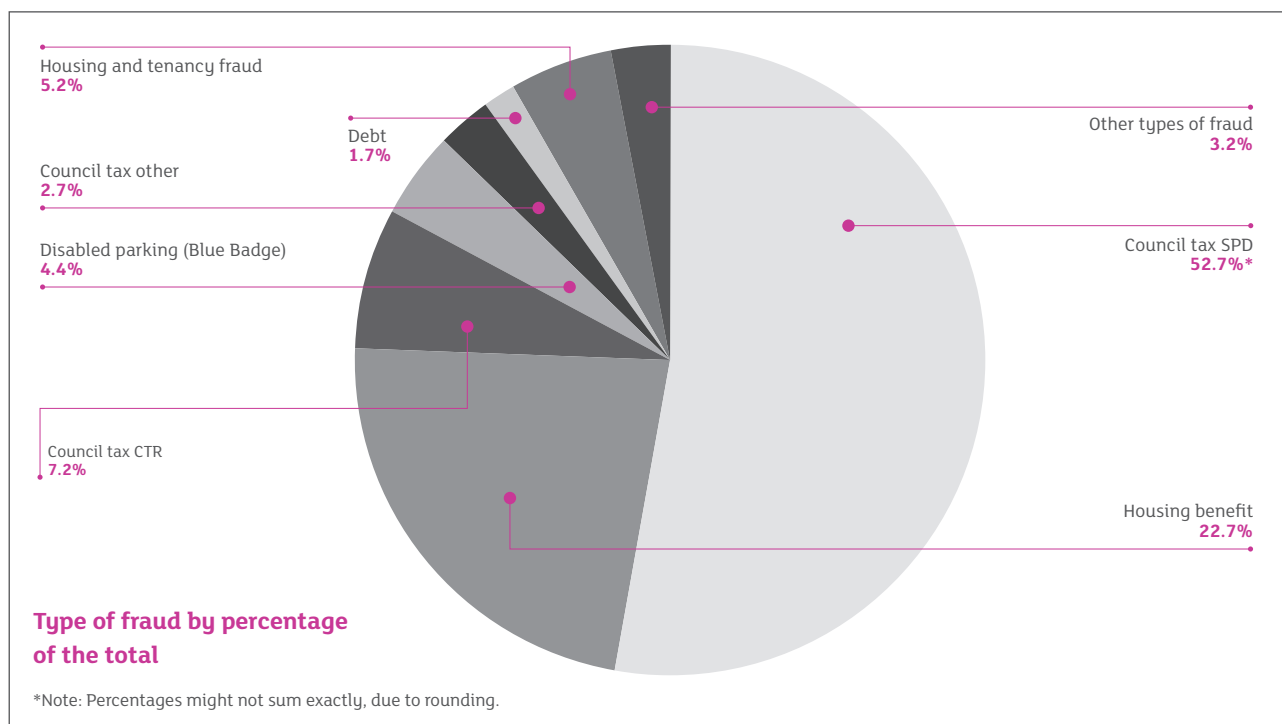
## Reported types of fraud

The following indicate the types of fraud reported along with numbers of cases, values and percentages of the total reported. Where possible we have produced a national estimate.

Types of fraud	Fraud cases	% of the total	Value £m
Council tax SPD	30,184	52.7%	£10.7m
Housing benefit	12,989	22.7%	£56.9m
Council tax CTR	4,142	7.2%	£2.0m
Housing and tenancy fraud	3,002	5.2%	£77.5m
Disabled parking concession (Blue Badge)	2,545	4.4%	£1.0m
Council tax other	1,556	2.7%	£1.4m
Debt	997	1.7%	£0.5m
Other types of fraud (see table below)	1,829	3.2%	£21.0m
<b>Total</b>	<b>57,244</b>	<b>100%*</b>	<b>£171m</b>

\*Note: Percentages might not sum exactly, due to rounding.

Other types of fraud	Fraud cases	% of the total	Value £m
Social care	287	0.5%	£2.0m
Abuse of position	155	0.27%	£2.0m
Payroll	137	0.24%	£0.3m
Insurance	133	0.23%	£2.6m
Welfare assistance	104	0.18%	£1.6m
Business rates	102	0.18%	£0.8m
Procurement	60	0.10%	£2.2m
Recruitment	58	0.10%	£0.2m
Expenses	56	0.10%	£0.1m
Economic and voluntary sector	28	0.05%	£1.1m
Manipulation of data	24	0.04%	N/A
Pensions	20	0.03%	£0.2m
Investment	11	0.02%	£0.0m
Other fraud	654	1.14%	£7.8m



## Main types of fraud

### Council tax

This includes council tax single person discount (SPD) fraud, council tax reduction (CTR) support and other types of council tax fraud. These represent the highest number of cases of fraud reported by councils, who detected 30,184 of SPD cases totalling £10.7m, 4,142 of CTR cases totalling £2.0m and 1,556 of other types of fraud totalling £1.4m.

### Housing benefit

This includes all actions that have been done deliberately and dishonestly to obtain money and financial support, for example depreciation of capital, hidden income, or non-notification of a relevant change in circumstance which may result in a change of payment. The actual number of cases detected was 12,989 cases totalling £56.9m.

### Housing and tenancy fraud

This includes subletting, abandonment, housing application fraud, succession and right to buy fraud. In this category the highest number of cases reported was in subletting, followed by a mixture of housing fraud types. 'Right to buy' was the lowest in this category but was listed as an emerging risk by many councils. There were 3,002 cases (estimated nationally at 3,670 cases) with a value of over £77.5m.

### Disabled parking (Blue Badge)

This covers all types of parking fraud under the Blue Badge scheme. The number of cases reported here was 2,545 with a value of £1.0m.

### Debt

This includes fraudulently avoiding a payment of a debit to an organisation, excluding council tax discount. There were 997 cases detected (34 of which involved employees) with a total value of £0.5m.

## Other types of fraud\*

\*where possible we have provided national estimates.

### Social care and welfare assistance

Social care and welfare assistance was one of the highest types of 'other frauds' reported. Social care amounted to 287 detected cases nationally. Welfare assistance totaled 104 cases.

Social care and direct payments are also included in the top three emerging risks listed by authorities.

## Procurement, insurance, abuse of position, economic and voluntary sector and manipulation of data

The national estimate of cases in these areas was 1,050. However, it has been noted that a number of these fraud areas crossed over and thus fraudulent activities may have been classified in different categories by different organisations.

For example, procurement frauds have also been classified as 'abuse of position' where a member of staff had been involved in fraudulent activity made possible by their position.

**Procurement fraud:** This includes any fraud associated with the false procurement of goods and services for an organisation by an internal or external person(s) or company in the 'purchase to pay' or post contract procedure. Procurement fraud often involves significant sums of money and is a frequently occurring fraud risk across all public sector organisations.

**Insurance claims:** This includes any insurance claim that is proved to be false, made against your organisation or your organisation's insurers. The estimated number of detected cases here was 237. The estimated national value was £4,732 per case; eight cases involved employees but none involved councillors.

**Economic and voluntary sector:** This includes frauds such as the false payment of grants or financial support to any person and any type of agency or organisation. The estimated amount of detected cases was 47, none of which involved employees; however, there was two cases reported involving a councillor. The estimated national value per case was £1,858.

**Abuse of position:** This includes individuals using their position to assist in a fraud, for example in helping an individual get a job in a certain position or in an individual using their position to give access permission to a family member or friend.

The actual amount of detected cases was 151. The estimated national value was £385,000.

### **Manipulation of data (financial or non-financial):**

This includes individuals using their position to change and manipulate data fraudulently or in assisting or providing access to a family member or friend.

The actual amount of detected cases was 24 (23 of which involved employees). The estimated national figure was 108 for manipulation.

## Pensions and investments funds

**Pensions fraud:** This includes all fraud relating to pension payments, including but not limited to failure to declare changes of circumstances, false documentation, or continued payment acceptance after the death of a pensioner.

The actual number of cases detected was 20. The estimated national value was £342,000; no cases involved employees or councillors.

**Investments fraud:** This includes all fraud associated with investments. The number of cases detected was 11. The estimated figure nationally was £214,000; no cases involved employees or councillors.

## Payroll, expenses and recruitment

**Payroll:** This includes inputting 'ghost employees' and manipulating payroll data. The number of cases detected was 137. The estimated national value was £653,000.

**Expenses fraud:** This includes all types of expenses fraud. The number of cases detected was 56. The estimated national value amounts to £140,000. Of the estimated 143 cases, 14 involved employees and three cases involved councillors.

**Recruitment fraud:** This includes false CVs, job histories, qualifications, references or referees. The number of cases detected was 58. The estimated national value amounted to £255,000. Of the estimated cases 79 involved employees and none involved councillors.

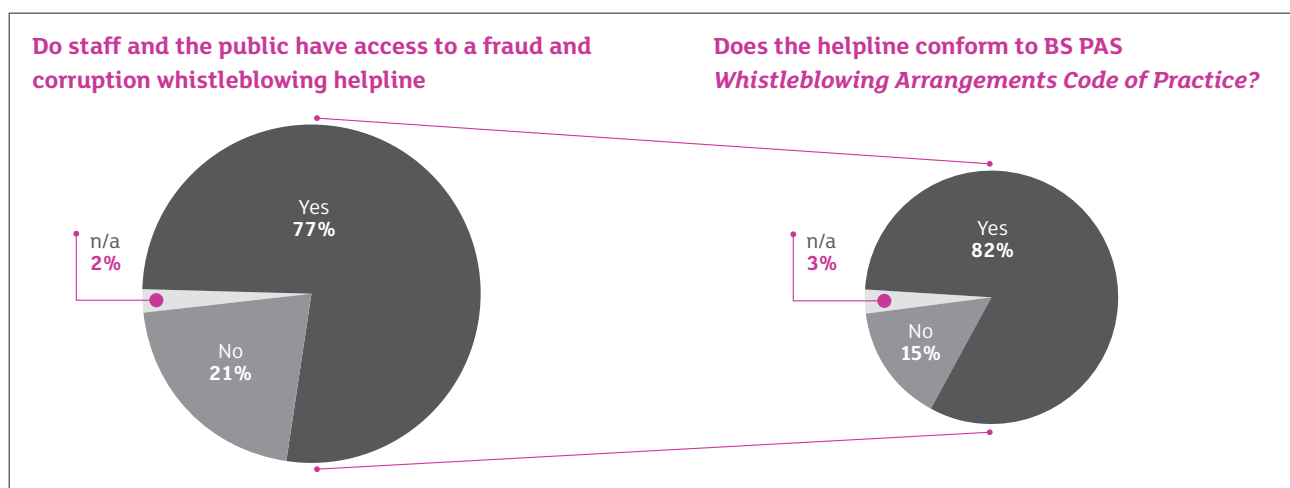
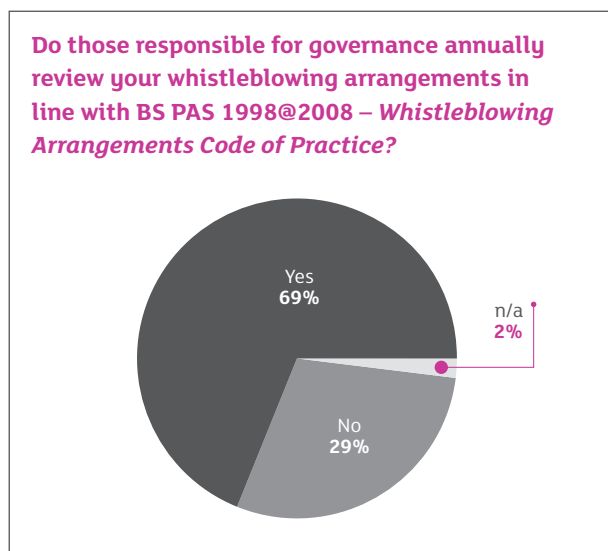
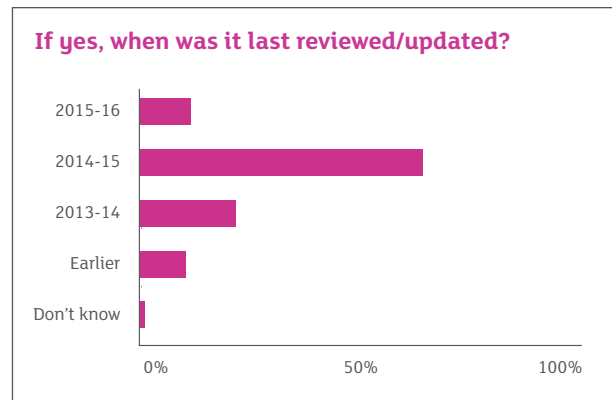
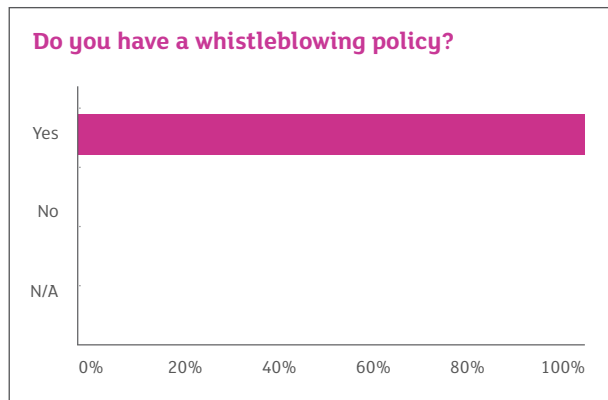
## Business rates and no recourse to public funds

**Business rates:** Business rates appeared as an emerging risk and also a financial risk, with detections totalling £0.8m in 2014-15.

**No recourse to public funds:** While councils reported this as an emerging risk, the figures were low outside of London and therefore no national extrapolation took place. Some councils in London reported finding up to 400 cases where individuals were claiming public funds but were not entitled to the money.

## Whistleblowing

An integral part of creating an anti-fraud culture is ensuring that an organisation has robust reporting procedures in place for concerns to be raised. Our survey asked authorities about whether they had a policy, and if so whether the policy conformed to the British Standard.

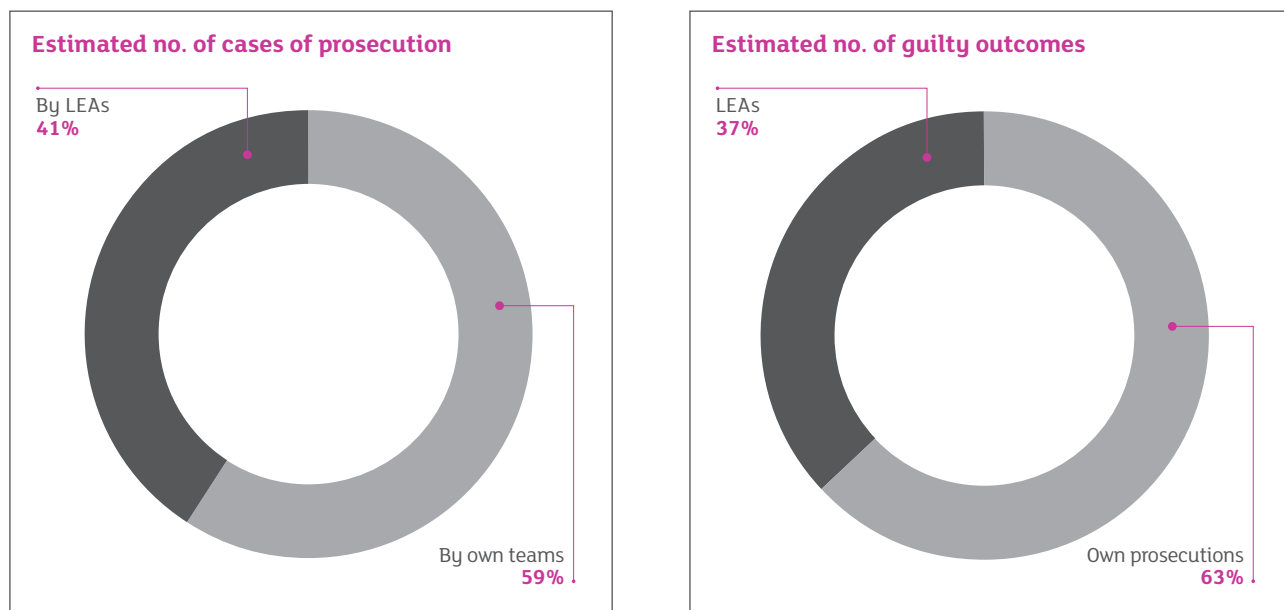




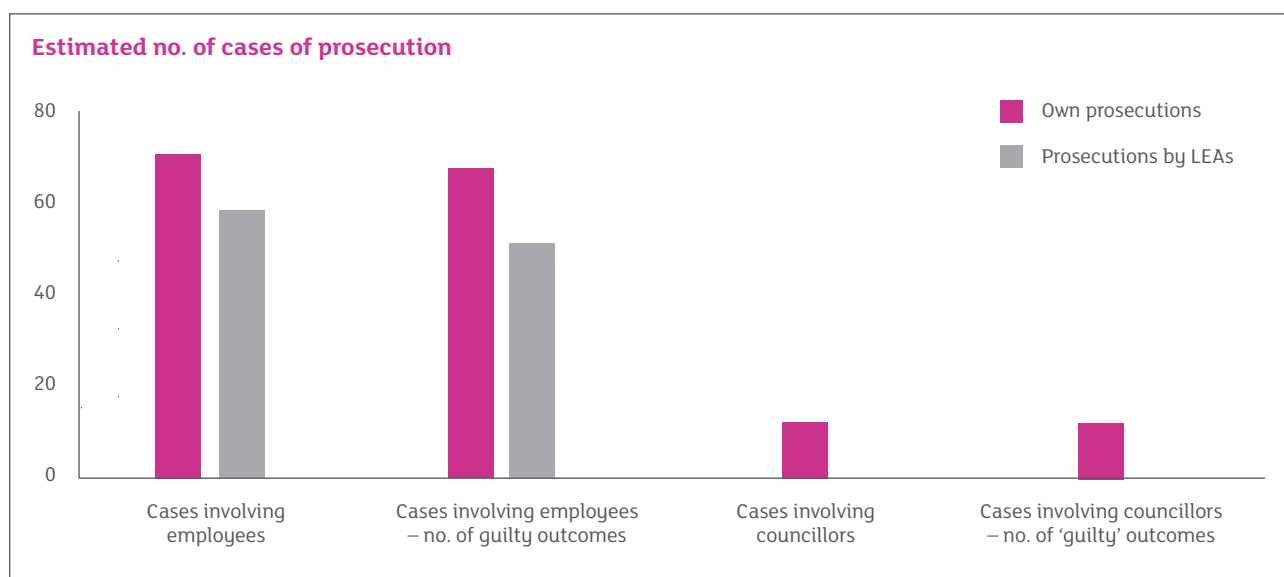
## Prosecutions

Many organisations have the ability to undertake sanctions against those who commit fraud. This can be done in a variety of ways including via the police, the Crown Prosecution Service or in-house lawyers.

The figures below show how many prosecutions were carried out by local enforcement agencies (LEAs) or teams, and also how many guilty outcomes there were split by the prosecuting body.

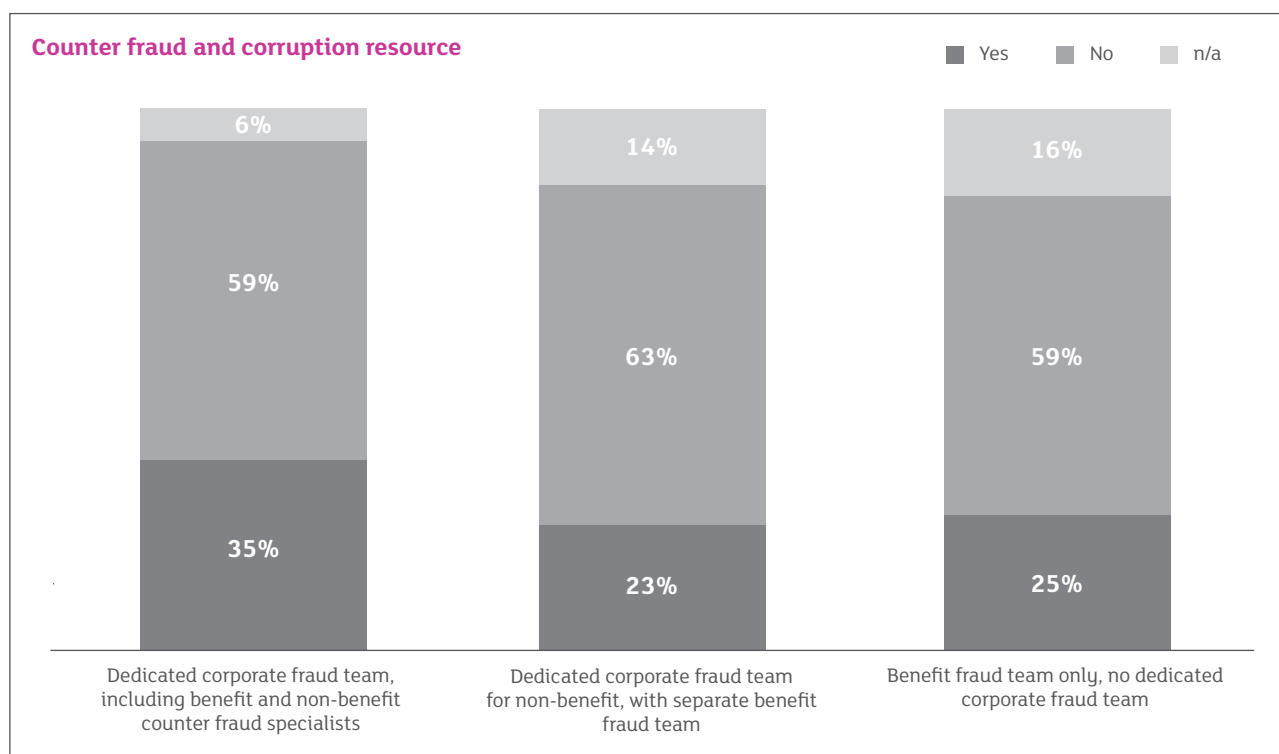


The following graphs apply only to local authorities and show how many prosecutions have been carried out involving staff and local elected members and how many of these resulted in a 'guilty' outcome.

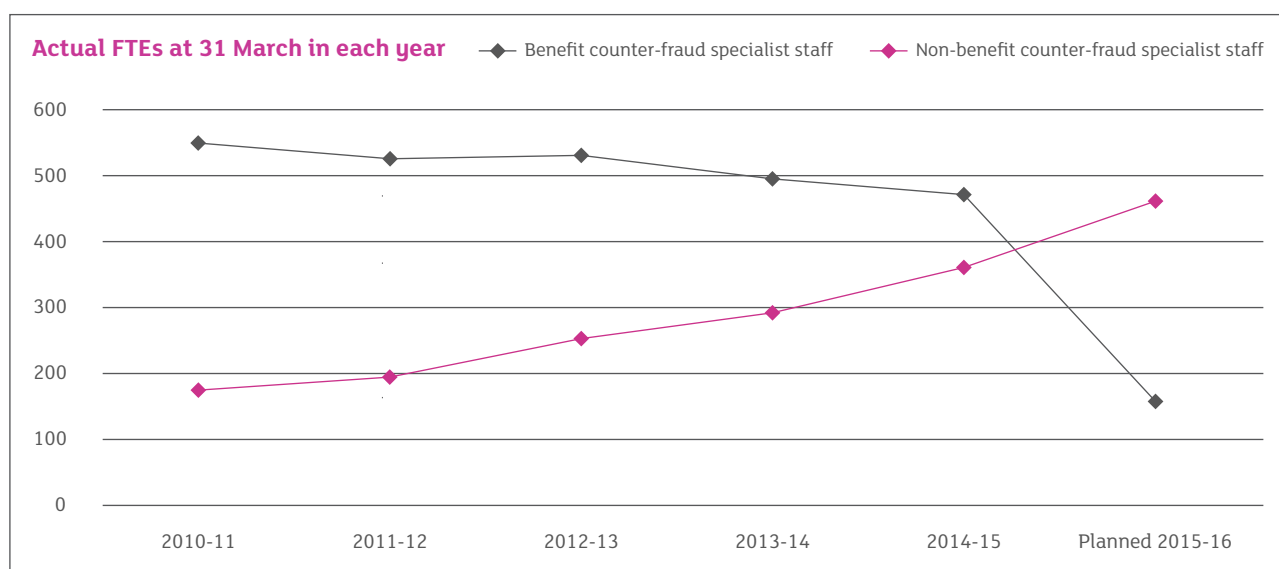


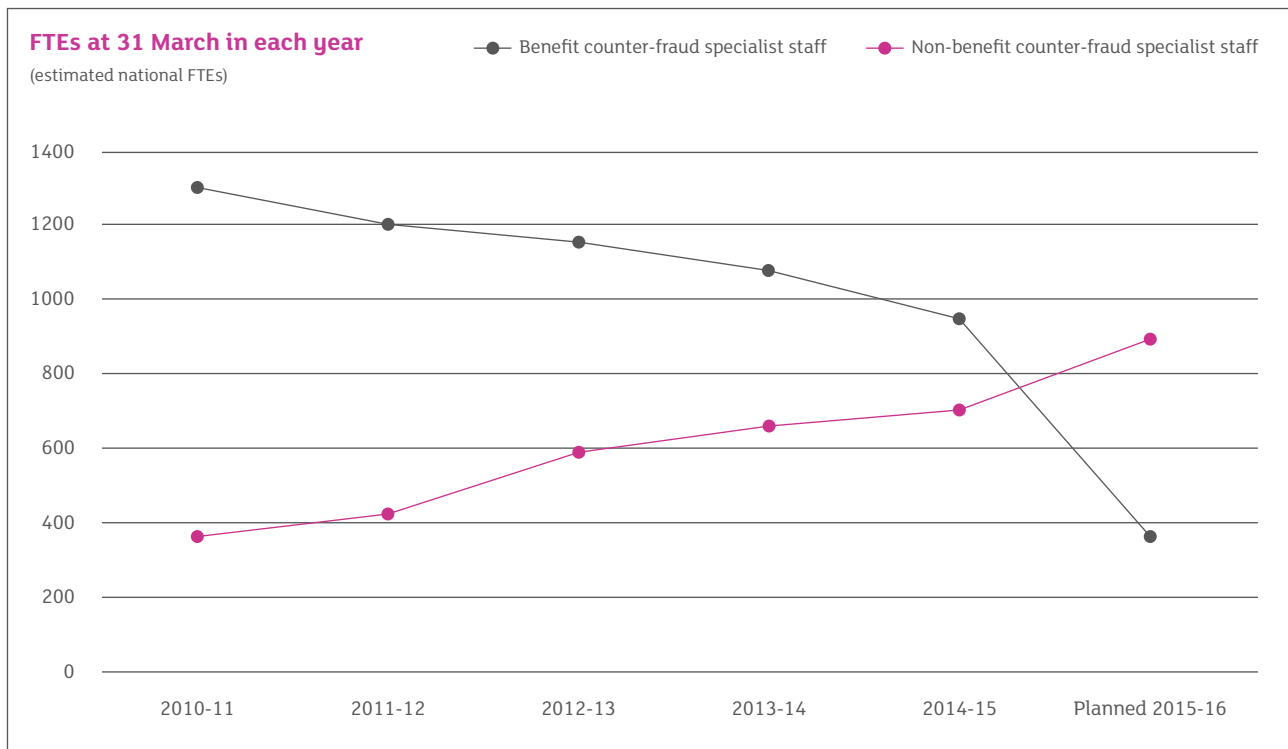
## Counter fraud and corruption resources

Our survey asked a number of questions about those involved in the process of counter fraud. For local authorities the introduction of the Single Fraud Investigation Service (SFIS) is expected to have an effect on staff numbers and for other organisations it is reported that there is a reduction in resources.

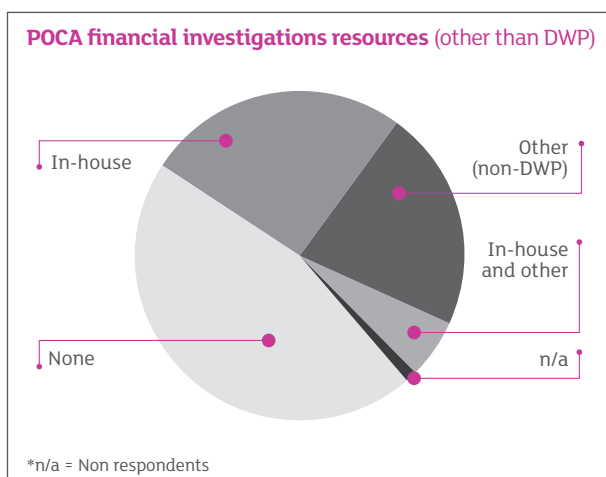


These two graphs show an actual figure and an estimated national figure across all organisations.





Under the Proceeds of Crime Act (PoCA) 2002, organisations are able to recoup the financial gains gotten as a result of the crime. The tables below show the resources that are invested in this activity and the money received as a result of this activity.



Money awarded by court through POCA, excluding housing benefit/council tax benefit (over the last three financial years)

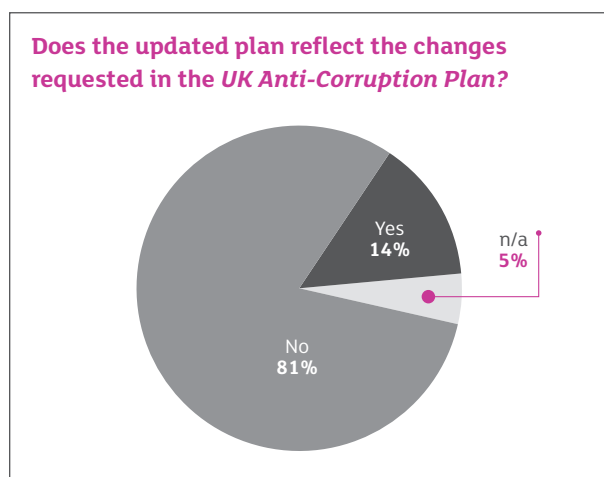
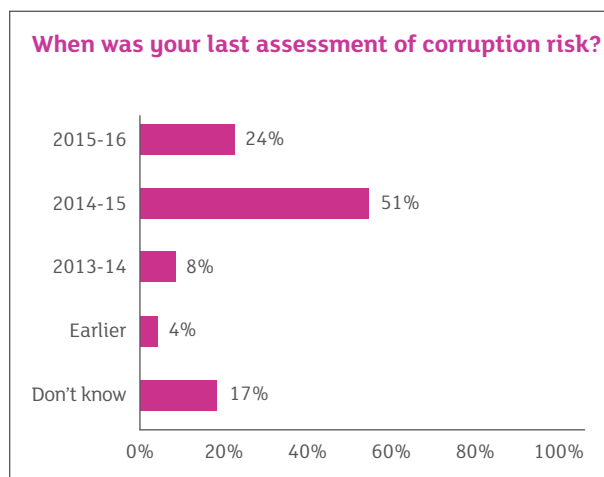
Respondents: <b>£29.5m</b>	Estimated national figure: <b>£49.8m</b>
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Money actually received through POCA, excluding housing benefit/council tax benefit (over the last three years)

Respondents: <b>£17.6m</b>	Estimated national figure: <b>£33.9m</b>
----------------------------	--

## Counter fraud and anti-corruption plan

We asked about the type of plan that organisations have in place, whether it covered all types of fraud risk and how often it was re-assessed. In particular we asked about cyber risk (which was listed by respondents as emerging) and also the government's new anti-corruption plan.



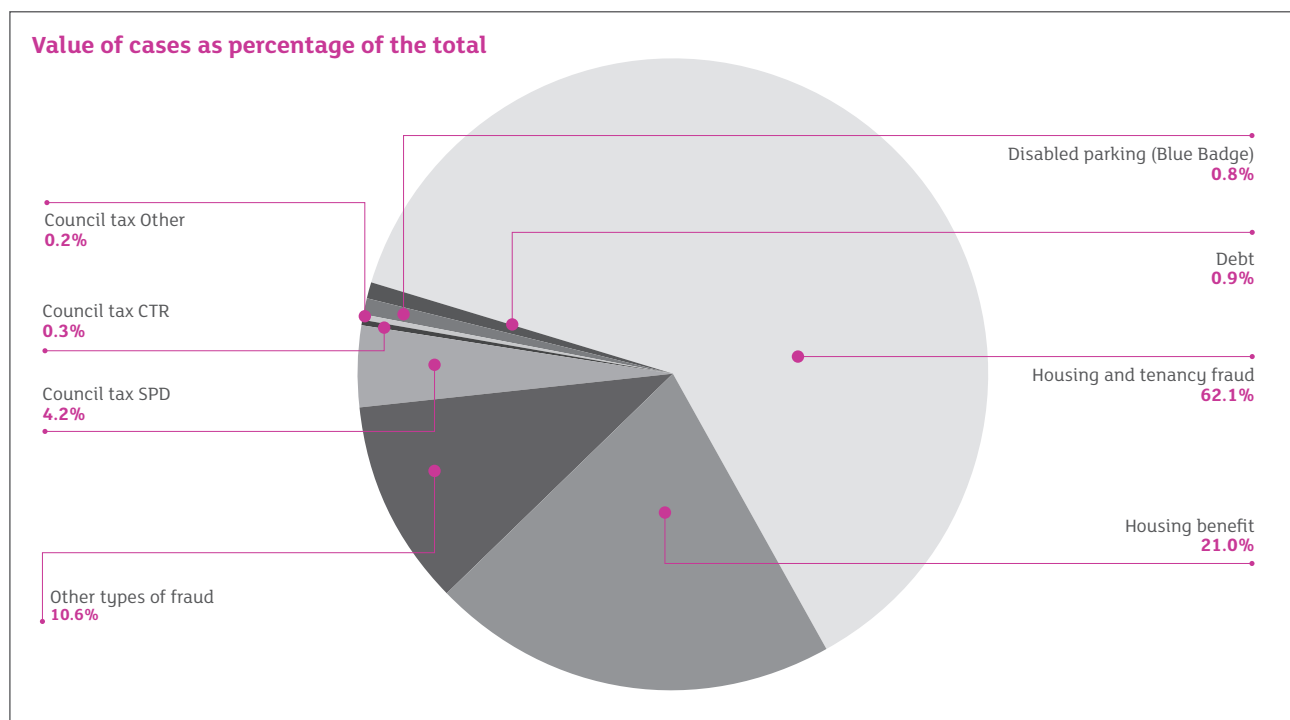
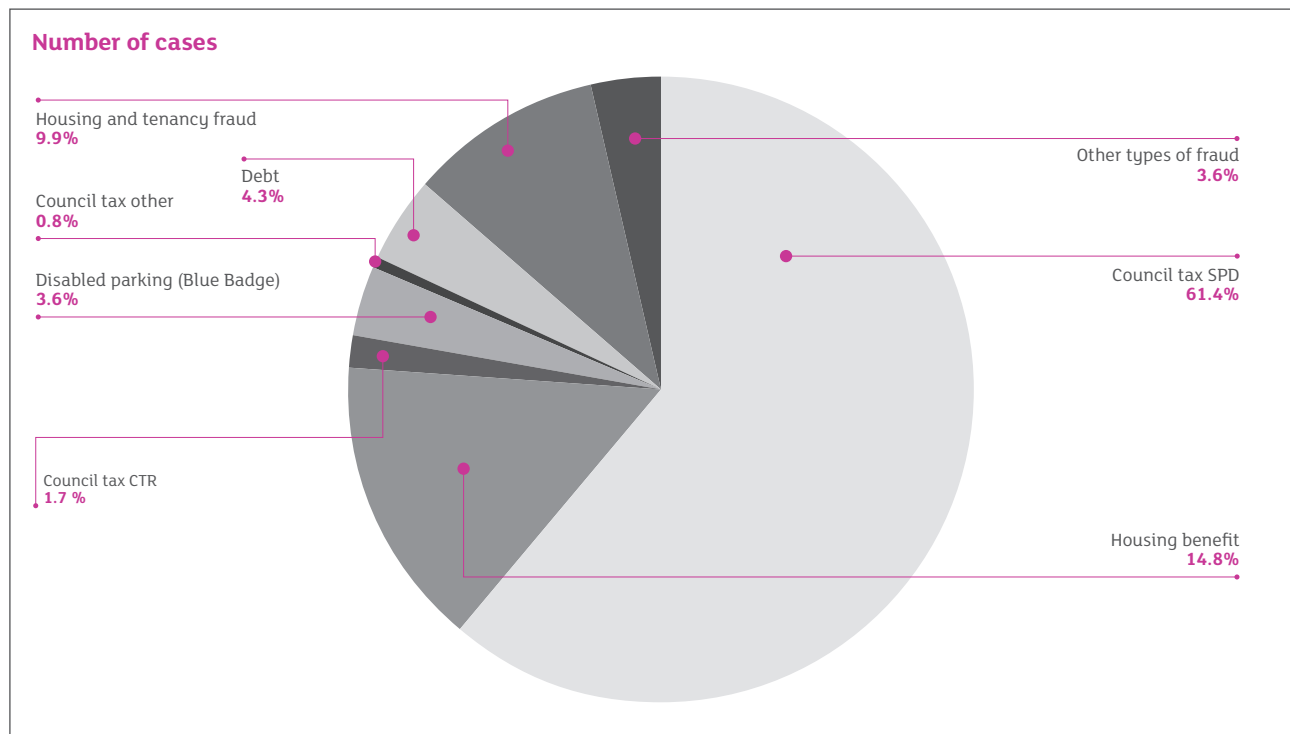
## Enhancing counter fraud development

We asked organisations to briefly name the three most significant issues that need to be addressed to effectively tackle the risk of fraud and corruption.

1. Capacity (sufficient counter fraud resource)
2. Effective fraud risk management
3. Better data sharing

## Fraud cases in London local authorities

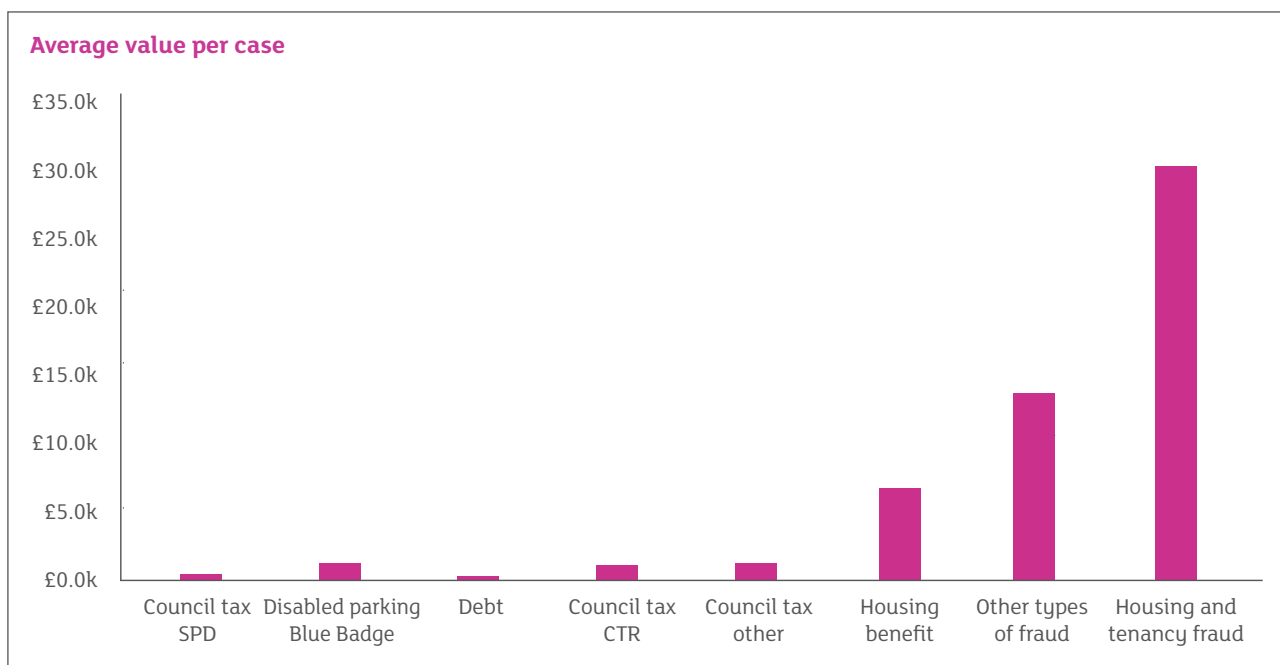
There was a 100% return rate from London local authorities and a selection of the results is included here. Further detailed figures are available, in particular on individual performance against the questions in FFL or on anti-corruption. To obtain this information please contact the CIPFA Counter Fraud Centre on [counterfraudcentre@cipfa.org](mailto:counterfraudcentre@cipfa.org)



It should be stressed that council tax was the highest figure in this group, and that many of these cases may not have been proven fraud but cases where overpayments were recovered without a prosecution or a sanction.

Types of Fraud	Fraud cases	% of total	Value £m	% of Total	Average £'k *
Council tax SPD	13,495	61.4%	£4.6m	4.2%	£0.34k
Housing benefit	3,245	14.8%	£22.8m	21.1%	£7.02k
Council tax CTR	363	1.7%	£0.3m	0.3%	£0.87k
Disabled parking concession (Blue Badge)	794	3.6%	£0.8m	0.8%	£1.03k
Council tax other	178	0.8%	£0.2m	0.2%	£1.00k
Debt	951	4.3%	£0.1m	0.1%	£0.16k
Housing and tenancy fraud	2,179	9.9%	£67.3m	62.6%	£30.91k
Other types of fraud	790	3.6%	£11.5m	10.7%	£14.59k
<b>Types of Fraud</b>	<b>21,995</b>	<b>100%</b>	<b>£108m</b>	<b>100%</b>	<b>£4.89k</b>

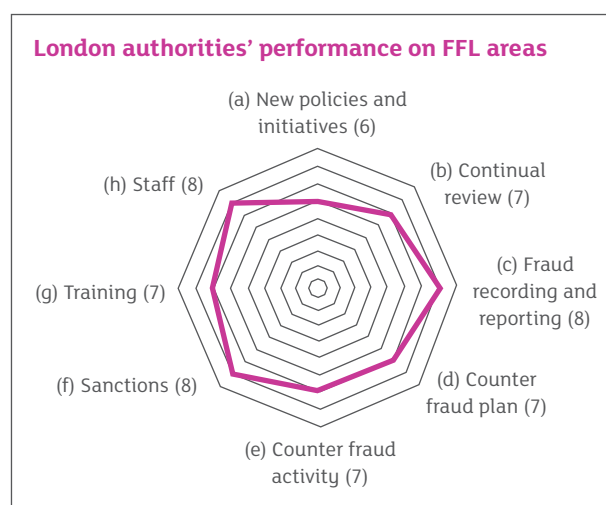
\* Using these figures for London it has been possible to calculate an average value per case.



## Fighting Fraud Locally

Fighting Fraud Locally (FFL) is the local government counter fraud strategy. Since 2012 CIPFA has been commissioned by the FFL Board to ask questions based on the strategy to give the Board assurance about how local authorities perform in certain areas.

In our survey we applied these questions to all respondents. The information is also supplied to the FFL Board for local authorities only. The diagrams below show how well organisations have applied the areas covered in FFL.



## Emerging threats

We also asked for lists of emerging threats. If individual organisations or groups wish to have these by region we can supply them. There were over 110 different types of issues named, the most common recurring themes were as follows:

- Procurement frauds, ranging from the concept of a project through to contract management.
- Organisational change which leads to fraud risks.
- Personal budgets and direct payments.
- Housing tenancy fraud.
- Cyber and e-enabled fraud.

We would like to thank those that took part in this survey and look forward to working with you on the CIPFA Fraud and Corruption Tracker 2016. If organisations or regions wish us to undertake a survey for a particular region, please contact us at [counterfraudcentre@cipfa.org](mailto:counterfraudcentre@cipfa.org). Individual reports are available at an introductory offer of £200 for the remainder of 2015 and £250 thereafter.

For more information on the CIPFA Counter Fraud Centre, our training, products and services, please visit our website: [www.cipfa.org/services/counter-fraud-centre](http://www.cipfa.org/services/counter-fraud-centre)



# CIPFA COUNTER FRAUD CENTRE

## Subscribe

To subscribe to the CIPFA Counter Fraud Centre, which gives you access to the tools, alerts and resources needed to combat fraud in the public services, please complete the application form on our website.

### Latest offerings

## Training

Dates for our Accredited Counter Fraud Specialist and Accredited Counter Fraud Technician are now available for 2016. Both qualifications are accredited by the University of Portsmouth's Counter Fraud Professional Accreditation Board and are ideal for those wanting to strengthen their team skills, gain a professional qualification or build a new career in fraud.

## Whistleblowing e-learning

An accessible, interactive e-learning course for staff on whistleblowing and why it is important.

[www.cipfa.org/services/counter-fraud-centre/e-learning/whistleblowing-elearning](http://www.cipfa.org/services/counter-fraud-centre/e-learning/whistleblowing-elearning)

## Anti-bribery and corruption e-learning

An accessible, engaging e-learning package designed to help organisations strengthen their bribery and corruption defences.

[www.cipfa.org/services/counter-fraud-centre/e-learning/bribery-and-corruption-elearning](http://www.cipfa.org/services/counter-fraud-centre/e-learning/bribery-and-corruption-elearning)





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<b>Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection</b>
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Report to:	<b>Audit Committee</b>
Date:	<b>21 March 2016</b>
Subject:	<b>Draft Internal Audit Plan 2016/17</b>

**Summary:**

This report presents to the Committee the draft internal audit plan for 2016/17.

**Recommendation(s):**

That the Committee agrees the audit plan for 2016/17.

**Background**

1. The Internal Audit Section works to an annual plan of work which is agreed by the Audit Committee and Senior Management.
2. 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.
3. Using the Combined Assurance Model helps streamline and avoid duplication of effort where assurances can be drawn from other sources eg management – corporate functions - third parties. It provides coverage of all assurance – not just those from Internal Audit and will enable the Head of Audit to produce the annual internal audit opinion for 2016.
4. 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.
5. Our work tends to focus on where current assurances have been critically assessed as having a low or medium level of confidence on service delivery arrangements – management of risks – effective control environment or where more independent assurance is required - based on significance and risk of the activity. It also takes into account the relative risks of the activity which may result in some low risk areas not being audited.

6. Attached is the draft internal audit plan for 2016/17 – **Appendix A**.
7. We have conducted meetings in February and March 2016 with each Executive Director to consult and agree the areas included in the plan.
8. CIPFA's Audit Committees practical Guidance for Local Authorities and Police - 2013 Edition includes the following core functions around Internal Audit relevant to the plan:
  - That the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion.
  - Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year.
  - Ensure that the Internal Audit Resource has sufficient capacity and capability to deliver the plan.
  - Seek an understanding of what assurances Internal Audit will be providing the Committee to help it discharge its terms of reference.
  - Assess how the Committee may seek and obtain assurance from other sources during the year – e.g. management and corporate functions / third parties.

## **Conclusion**

9. 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 2016/17
Appendix B	Internal Audit Charter

## **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](mailto:lucy.pledge@lincolnshire.gov.uk)



## Lincolnshire County Council Internal Audit Plan 2016/17



## What we do best ....

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

## ..... And what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

Already working extensively with the not-for-profit and third sector

<b>Introduction</b>	<b>1</b>
<b>Our Internal Audit Strategy</b>	<b>1</b>
<b>Draft Internal Plan 2016/17</b>	<b>3</b>
<b>Our Performance &amp; Quality Assurance Framework</b>	<b>4</b>
<b>Assurance Lincolnshire Partnership</b>	<b>5</b>

## **Appendices:**

- Appendix A - Assurance Lincolnshire – Planning Risk Assessment
- Appendix B - Draft Internal Audit Plan 2016/17
- Appendix C – Auditable Areas not included in 2016/17 Plan
- Appendix D - Quality Assurance Framework



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## Introduction

1. This report summarises the proposed work of Internal Audit for 2016/17. The aim is to give a high level overview of areas we are likely to cover during the year- giving you an opportunity to comment on the proposals.
2. The audit plan has been developed to enable us to respond to changes during the year. Whilst every effort will be made to deliver the plan, we recognise that we need to be flexible and prepared to revise audit activity – responding to changing circumstances or emerging risks. The plan is therefore a statement of intent – our liaison meetings with senior management will enable us to firm up audit activity during the year.

Internal Audit is a statutory service required under the Account and Audit Regulations 2011 (amended 2015). We provide 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.

4. Our work is carried out in conformance with the UK Public Sector Internal Audit Standards. These require that the scope of Internal Audit covers the whole range of the Council activities – seeking to provide an annual internal audit opinion on the governance, risk and internal control environment of the Council which has been established to:
  - Achieve strategic objectives
  - Ensure effective and efficient operational systems and programmes
  - Safeguard assets and interests of all kinds (including risks that relate to work it undertakes through partnerships)
  - Ensure the reliability and integrity of financial and operational information
  - Ensure economic, efficient and effective use of council resources
  - Ensure compliance with established policies, procedures, laws, regulations and contracts.

## Our Internal Audit Strategy

5. Our Internal Audit strategy has been developed to take into account management's assessment of risk including those set out in strategic and operational risk registers and the assurances present on the Council's critical systems and key projects (the Council's assurance map).
6. We also use our own risk assessment against each activity assessing their significance, sensitivity and materiality – ranking the activity as high, medium or low risk. This allows us to prioritise possible areas to be included in the plan on the basis of risk. A copy of our risk assessment methodology is attached in Appendix A.
7. Our aim is to align our work with other assurance functions – seeking to look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council.
8. By adopting this approach it is possible to give the Council comfort that there is a comprehensive risk and assurance framework with no potential gaps. Internal Audit are then able to use our risk assessment and the assurance map to target resources to minimise duplication of effort through sharing and coordinating activities with management and other management oversight functions.
9. We have identified the level of assurances in place by using the "Three lines of assurance" model – See Figure 1 below.
10. Figure 2 below shows the overall assurance levels on the Council's critical service areas / activities.
11. We intend to 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 2017.



Figure1 - The Three Lines of Assurance Model

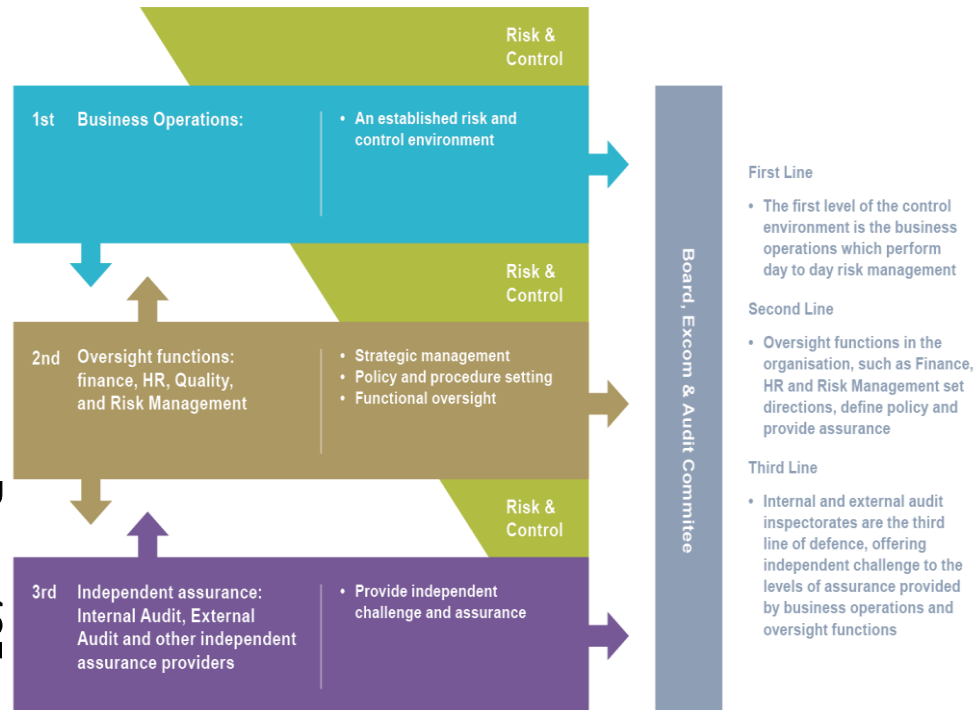
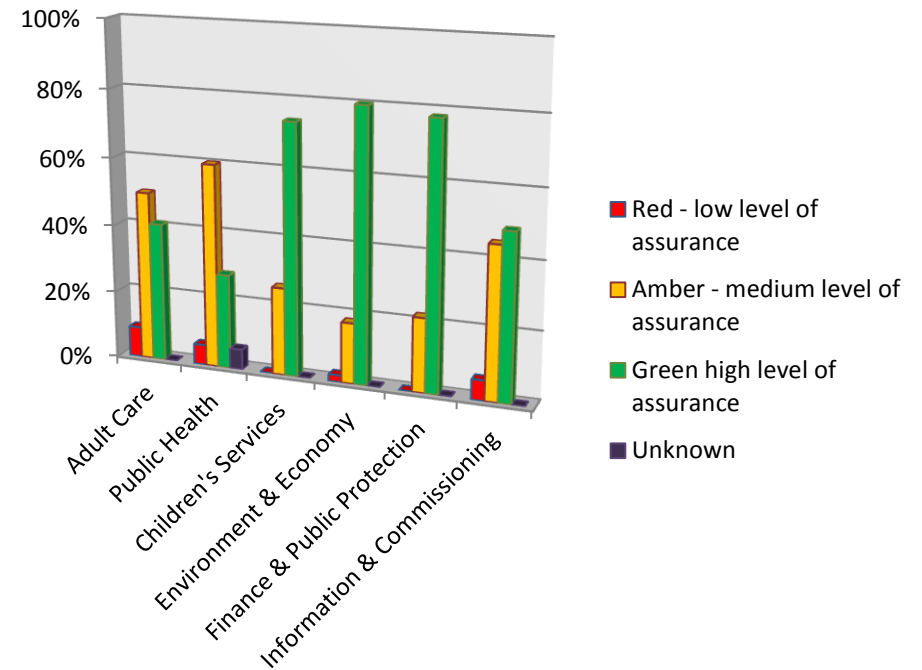


Figure 2 – Overall Assurance Levels 2016

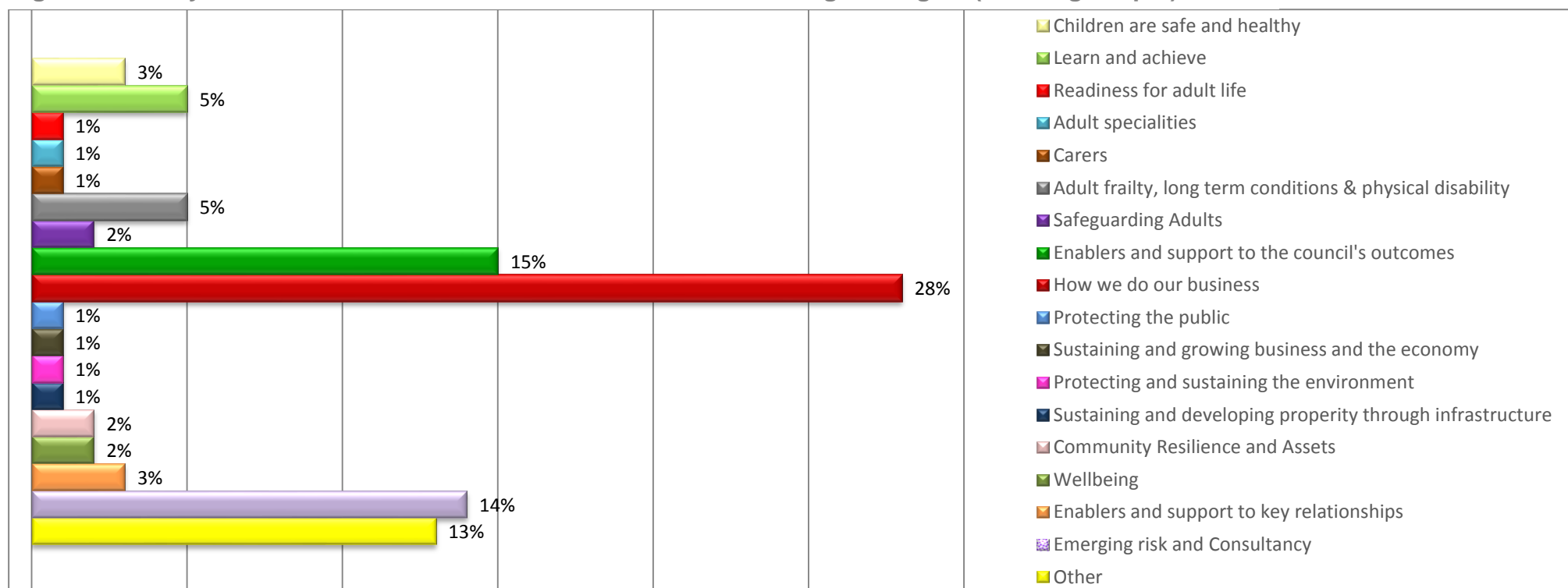


12. We co-ordinate our work on key financial systems with the Councils External Auditors, KPMG. We work to a joint working protocol which sets out where the External Auditor seeks to place reliance on our work. This ensures that the Council gets the most out of its combined audit resource – keeping audit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

13. We propose to allocate our audit resources across each Commissioning Strategy as shown in figure 3 with the proposed audits detailed in Appendix C. The audit plan identifies some specific areas that will be delivered but also provides some unallocated time for audit and consultancy assignment agreed with management during the year. This will enable the audit team to respond to any new emerging risks that arise during the year where management requires independent assurance.

14. The Council's Internal Audit Plan is **1330 Days** – an increase of **9%** compared to last year.

**Figure 3 – Analysis of Internal Audit Resource across Commissioning Strategies (showing % split)**



15. The Combined Assurance Status reports provides management and members with insight over the current levels of assurance over the Council's critical activities, key projects and risks however the Audit Committee may wish to specifically request assurance information directly from management for those items not in the Internal Audit Plan. Analysing the assurance map identified a number of specific critical and low risk activities – which we do not have the resources to review – these are shown in Appendix C.

16. Assurance Lincolnshire operates in conformance with standards of best practice applicable to Internal Audit – in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. Our audit team offers a wide depth of knowledge and experience gained across different organisations. We promote excellence and quality through our audit process, application of our Quality Assurance Framework (Appendix D) and our training and development programme.

17. Our Quality Assurance Framework includes all aspects of the Internal Audit Activity – including governance, professional practice and communication.

18. Our Internal Audit Charter sets out the nature, role, responsibilities and

authority of the Internal Audit service within the Council – this was approved by the Audit Committee. Internal Audit remains sufficiently independent of the activities that it audits to enable auditors to perform their duties in such a way that allows them to make impartial and effective professional judgements and recommendations.

19. We use a number of ways to monitor our performance, respond to feedback and seek opportunities to improve. Evidence of the quality of our audits is gained through feedback from auditees and the results of supervision and quality assurance undertaken as part of our audit process.

20. Our performance measures are set out below in Figure 4 for information:

**Figure 4: Our performance measures**

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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"> <li>Draft report issued within 10 working days of completing audit</li> <li>Final report issued within 5 working days of closure meeting/receipt of management responses</li> <li>Period taken to complete audit – 80% completed within 2 months from fieldwork commencing to the issue of the draft report.</li> </ul>
Client feedback on Audit (average)	Good to excellent



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

21. The County Council works in partnership with the City of Lincoln for the provision of internal audit services to their own authorities and authorities with whom they have contractual or other agreements.

22. By working together the partnership aims to be:

*'the best audit assurance provider for Lincolnshire public sector agencies'*

23. The partners deliver 5 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 organizations 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.

24. The County Council has four significant external clients:

- North Kesteven District Council
- West Lindsey District Council
- Newark and Sherwood District Council
- Lincolnshire Academies

24. The net income generated from this arrangement is £65,218; our external clients contribute 11% to LCC Audit and counter fraud operating costs. Our budget also includes income of £40,000 for fraud recoveries and investigation income – we usually exceed this target. Figure 5 below shows how our resources are distributed across our clients.

25. The delivery model for the Internal Audit Service is mixed – a combination of in-house staff and external resources. This enables the service to be responsive to changing demand and buy in specialist resources as required e.g. ICT Audit.

26. There are sufficient resources to support the Section 151 Officer. This helps ensure the Council meets the requirements of the Accounts and Audit Regulations for maintaining and adequate and effective internal audit function and governance, risk and internal control environment.

27. The net budget for the Internal Audit Service, including Counter Fraud for 2016/17 is £577,430 - a reduction of £26,931 (5%).

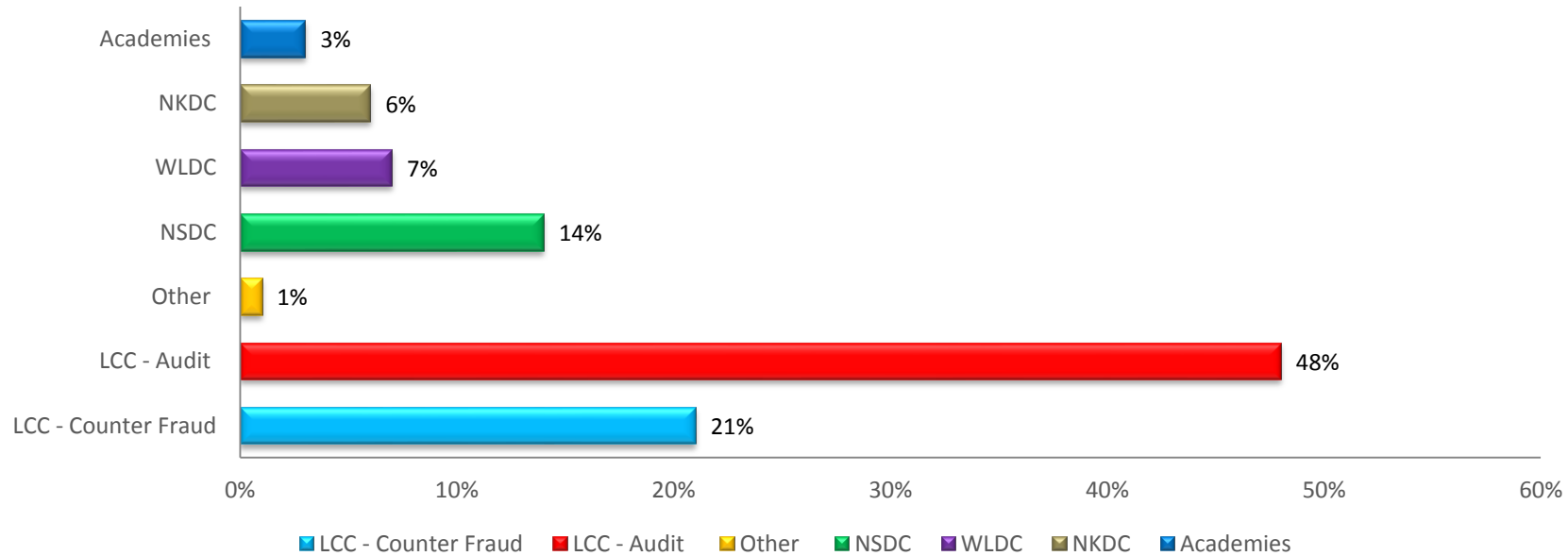
28. The service was reviewed during 2015 with the aim of maximizing the use of audit resources - balancing the provision of an effective internal audit service with what the Council can afford.

29. The review will inevitably have some impact on the delivery of the plan during the year due to organisational change.

30. The service also generates income of £56,500 through providing an Academies Insurance product and risk management services.

31. The above initiatives minimize the overall cost of the Audit and Risk Service to the Council with any underspends and fraud recoveries being made available to other Council priorities/services.

Figure 5: Resource allocation across our client base



### Value / Volume

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

- 0 – Not material
- 1 – Minor importance (up to £500k budget and approx. weekly transactions)
- 2 – Important (up to £5m budget and up to daily transactions)
- 3 – Material (over £5m budget and multiple transactions daily)

### Audit rating

- 0 – recent review no significant findings (full / substantial)
- 1 – Recent review with findings (limited)
- 2 – Not recently reviewed (3 years)
- 3 – Recent review – number of significant findings (No assurance)

5

### Sensitivity / Profile (Risk)

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

- 0 – low (internal system)
- 1 – Medium profile
- 2 – High profile

### Significance

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

- 0 – not significant
- 1 – Minor significance
- 2 – Significant
- 3 – Very significant

### Changes to people / systems

- 0 – no changes
- 1 – Minor changes
- 2 – Significant changes
- 3 – New system or team

### Other assurance

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

- 0 – high level of assurance – e.g. Snr mgmt. oversight / management reporting / activities / external review / scrutiny
- 1 – Moderate level of assurance – management assurance
- 2 – Low level of assurance – new area – assurance unknown – emerging risk

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

## Appendix B – Draft Internal Audit Plan 2016/17

Link to Risk register	Management request	IA Risk Score	Combined assurance rating	Audit Area	Assurance Being Sought	Days	
Commissioning Strategy 1: Children are Safe and Healthy							
	✓	5	G	Families Working Together	Audit sign off as per the requirements of the grant.	40	
1		10	G	Child Sexual Exploitation (CSE) joint working	Confirm a strategy and local action plan setting out the roles and responsibilities of all partner organisations is in place. Adequate data and intelligence gathering arrangements exist between key providers to ensure a joined-up response in dealing with children at risk of sexual exploitation.		
1		10	G	Missing Children	Confirm that LCC complies with its statutory requirements in relation to missing children to include consideration of risks in relation to Child Sexual Exploitation and Radicalism. Assurance will be sought over 3 strands: <ul style="list-style-type: none"><li>Children missing from home or care</li><li>Children missing education</li><li>Children not receiving 25 hours education per week</li></ul> Our audit will leverage assurance from other sources of recent review, where possible.		
				Total			
Commissioning Strategy 2: Learn and Achieve							
		9	A	Social Care and SEND transport	Over transitional arrangements from the current providers to the new arrangements that will commence January 2017		
		12	A	School Admissions	Confirmation that the risks regarding implementation of new admissions software have been managed to minimise disruption to schools.		

		9	R	Inclusion	Verify that the 'Inclusive Lincolnshire' strategy is embedded across Lincolnshire education settings and how the Behaviour Outreach Support Service (BOSS) success is measured and reported.	60
		11	A	Local Authority Arrangement for Supporting School Improvement	Sufficiency of transition arrangements for moving from a contracted service to a sector led approach.	
		10	R	SEND reform	Update on embedding of the new SEND framework in key areas of the service.	
			Total			
Commissioning Strategy 3: Readiness for Adult Life						
	✓	8	A	Careers Advice	That the alternative delivery model for careers advice to young people achieves required outcomes.	10
			Total			
Commissioning Strategy 5: Adult Specialities						
	✓	14		Transfer of the attendance allowance	Support and advice in development of arrangements for the transfer of responsibilities of attendance allowance from Department of Work & Pensions to LCC – maximising governance, risk management and control arrangements.	10
			Total			
Commissioning Strategy 6: Carers						
		12	A	CSC Carers Team	Confirm Carers mobilisation plan complete and progress made against delivery of this plan.	15
			Total			
Commissioning Strategy 7: Adult Frailty, Long Term Conditions and Physical Disability						
9		11	A	Workforce Development	That the workforce development plan is embedded and delivery arrangements and monitoring are effective to develop and maintain a skilled workforce.	
		12	A	Assessment of needs / Annual care assessments	That there are effective processes and procedures are in place to ensure that timely reviews/reassessments of current and new service user's needs are being undertaken.	
4		11	G	Provider payments – validation and data quality	Confirm there are effective systems and processes in place for validation and authorisation of payments to various providers of care and support for Adults.	
		9	G	Client Contributions Policy	Confirm that the new contributions policy has been fully implemented and is applied consistently to all applicable service users.	
5	✓	11	G	Better Care Fund	Confirm adequacy of governance, financial management and performance monitoring arrangements to ensure the BCF meets its objectives in the medium term.	



5		13	A	Integration with Health	Progress and delivery of the plan to integrate Health and Social Care.	
					<b>Total</b>	<b>70</b>
<b>Commissioning Strategy 8: Safeguarding Adults</b>						
2		9	G	Adult Safeguarding – Follow up of Peer review action plan	That actions resulting from the June 2016 peer review of adult safeguarding are progressing as agreed and ensuring desired outcomes.	
2		9	G	Domestic Homicide Reviews	Follow up of Domestic Homicide Reviews involving LCC to confirm that agreed actions have been taken or are progressing and that lessons learnt are embedded.	
					<b>Total</b>	<b>25</b>
<b>Commissioning Strategy 9: Enablers and support to the Council's outcomes</b>						
11		16	R	SERCO – Agresso Post Implementation Review	Review of the implementation of Agresso throughout the key stages of the project, go live and post implementation issues and resolution in order to identify lessons learnt.	
11		16	R	ICT - Key Application Audit – Agresso	Overall Administration of this key application, to include Access, Security and Processing controls.	
		15	R	ICT - Key Application Audit – Case Management System (MOSIAC)	Overall Administration of this key application, to include Access, Security and Processing controls.	
				ICT Audit	<p>Scheduling of individual ICT audits to be agreed in year. Possible areas for focus include:</p> <ul style="list-style-type: none"> <li>• ICT provider governance arrangements</li> <li>• ICT strategy</li> <li>• Data Sharing</li> <li>• Change Control</li> </ul> <p>We will discuss and agree the final ICT plan with the Chief Information and Commissioning Officer</p>	
		6	G	Business Support	Confirm effective and efficient support is given at the right time, place and people to meet the needs of the business	
8			A	Service Transformation	Confirm that service reviews, restructures and reductions have been performed in line with the commissioning cycles and aligned to budget plans.	
		10	G	Contracts	Management of capital and revenue contracts	
					<b>Total</b>	<b>200</b>

Commissioning Strategy 10: How we do our business						
				Corporate Complaints	Review of the complaints process to provide assurance that it is fit for purpose and meeting targets in resolving customer complaints at the earliest contact.	385
		7	G	Corporate Policies and Procedures	Assurance over effectiveness of Corporate Policies and Procedures in providing the 2 <sup>nd</sup> line of the 3 lines of assurance model.	
		5	G	Scrutiny functions	Assurance over effectiveness of Scrutiny functions in providing the 2 <sup>nd</sup> line of the 3 lines of assurance model.	
				Performance Management	Assurance over effectiveness of performance management in providing the 2 <sup>nd</sup> line of the 3 lines of assurance model.	
	✓	8	G	Pension Fund	British Wealth Funds - this will change how money is invested and will result in changes for Pensions Committee	
		10	A	Budget Management	Should be more self-service (although other Agresso issues have impacted)	
7 & 11		8	A	Bank reconciliation	Key systems that support the running of the Council's 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.	
7 & 11		13	R	General Ledger		
7 & 11		13	R	Payroll		
7 & 11		9	A	Income		
7 & 11		14	R	Creditors		
7 & 11		10	A	Debtors		
7 & 11		8	A	Treasury Management		
7		11	R	VAT		
7 & 11			A	Key Control Testing	Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment.	
7 & 11			A	Schools	Periodic audits of maintained schools.	
				Total		
Commissioning Strategy 11: Protecting the Public						
		9	A	Trading Standards	Capacity issues are managed using a risk based methodology and the future model based on income generation is realistic and deliverable.	10
				Total		

Commissioning Strategy 12: Sustaining and growing business and the economy						
		9	G	European Regional Development Fund	Accounts are adequate to support expenditure in line with grant conditions.	10
				Total		
Commissioning Strategy 13: Protecting and sustaining the environment						
	✓	12	A	Joint Waste Management Strategy	Review to provide assurance on waste management strategy applied. To include management of overspends – prediction and prevention.	10
				Total		
Commissioning Strategy 14: Sustaining and developing prosperity through infrastructure						
		8	G	Highways Maintenance Contract	Support and advice on project to implement the recommendations of the 'Cranfield University work'.	25
	✓	10	A	Planning software procurement	Support and advice in procurement and development of a new planning management system to ensure adequate governance, risk management and controls.	
				Total		
Commissioning Strategy15: Community Resilience and Assets						
		9	A	Heritage sites	Effective governance and financial and stock management in key sites	25
		7	A	Lincolnshire Archives	Support and Advice on the planning process for relocation of the archives to a new site	
				Total		
Commissioning Strategy 16: Wellbeing						
10	✓	8	A	Local Commissioning Framework	The effectiveness of the new Local Commissioning Framework. The Framework will be tested using the Libraries procurement as a sample.	20
		6	A	ICES	The new contract is being effectively managed and is delivering efficiencies as set out.	
				Total		
Commissioning Strategy 17: Enablers and support to key relationships						
		5	G	Partnership Management	High level review of the process in place for managing and monitoring partnerships.	35
		14	A	Devolution	Confirming effectiveness of governance arrangements of the devolved committee.	
				Total		
Other relevant Areas						
				Combined Assurance	Updating assurances on the Council's assurance map with senior managers and helping to co-ordinating the annual status report.	

	Follow up of Recommendations	Audit Reports issued during 2015/16 where an audit opinion of 'major improvement' or 'inadequate' will be followed to establish progress in implementing agreed management actions.	
	Consultancy & Emerging risk	To enable Internal Audit to respond to changes during the year we will meet regularly with Senior Management to agree which areas to focus our audit assurance work.	
	Advice & Liaison		
	Annual Report		
	Annual Governance Statement	Support development of the AGS and review of the local code of governance in light of the revised CiPFA SOLACE guidance	
	Audit Committee		
	Total		
Total Planned Days			1330

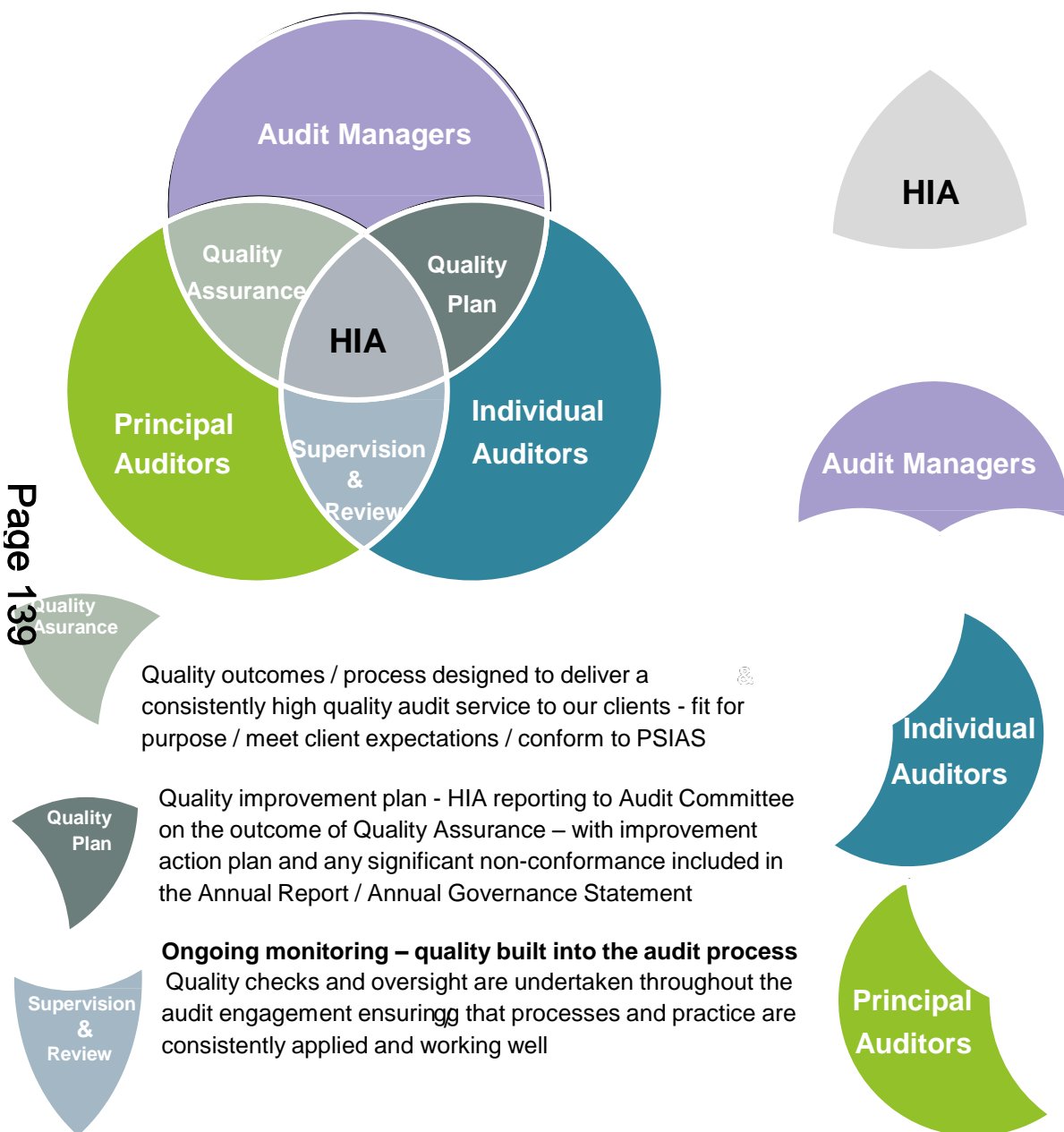
## Appendix C – Auditable Areas not included in 2016/17 Plan

Link to Risk register	Commissioning Strategy	IA Risk Score	Combined assurance rating	Audit Area	Assurance Sought
	2	9	A	Home to School / College Transport	Budget pressures are being managed
	1	7	A	Children's Adolescent Mental Health Services	Level of provision is adequately meeting Lincolnshire needs
	1	11	A	Public Health Nursing Commissioning	The commissioning process as it progresses through the stages
	2	10	R	Closing the Attainment Gap	Trend of improvement in closing the gap in secondary schools
	4	10	A	Children's Centres	Smooth transition into new roles and responsibilities, post restructure
	1	8	A	Parent Partnership	Improvement in processes and efficiencies in service
	1	9	A	Education of Looked After Children	Better outcomes for Looked After Children in education in relation to attainment, inclusion and post 16 progression.
	3	11	A	Sixth form settings	Adequate support and guidance is provided to sixth forms to ensure a sustainable, effective and efficient provision in the county.
✓	9	7	A	Strategic workforce planning	The service develops an appropriate workforce plan
	7	13	A	Carers	The Carers mobilisation plan is complete and progress is being made against the delivery of the plan.
	9	9	A	Property Management	The Corporate Landlord project is progressing and delivering the desired outcomes.
	10	10	A	Pension Administration	SERCO admin duties are timely, effective and work well with the West Yorkshire Pension Fund.

	10	13	R	Accountancy Closedown	Information from Agresso is up to date and accurate so accountancy can closedown the financial year
	10	6	A	Insurance	Progress continues to be made with the insurance improvement plan
	11	8	A	Business Continuity	The actions for improvement agreed in 15/16 Internal Audit are implemented
	11	7	A	Community Safety Partnership	Management of commissioning services and contract management during times of funding uncertainty
	12	7	A	Economic Regeneration sites and incubation centres	Resolution of Agresso issues have reduced the risk around financial information for these sites.
	13	10	A	Development management	Staff shortages are managed to ensure statutory targets for planning applications are met.
	16	6	A	Disabled Facilities Grants	Adequate reports are received from district councils to be confident that the districts spend funds in line with grant conditions.
	16	8	R	Coroners	That planned changes to the service progress well and stakeholders are consulted and their feedback considered to the degree warranted by the changes.

## Appendix D - Quality Assurance Framework

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### Annual self- assessment

- Head of Internal Audit - develop & maintain Quality Assurance Improvement Programme (QAIP) & improvement action plan
- Focus on evaluating conformance with Internal Audit Charter, definition of Internal Audit, Code of Ethics & the Standards
- Arrange an External Assessment – co-ordinated with Audit Committee (planned for 2015)

### Periodic quality assurance assessments

- Obtain periodic assurance that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Provide HIA with quarterly highlight reports on outcome of reviews
- Conduct all audit engagements in accordance with audit practice standards / PSIAS
- Behave at all times in accordance with the Code of Ethics / Code of Conduct
- Promote the standards and their use throughout the Internal Audit activity
- Commitment to delivering quality services
- Obtain on-going assurance that that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Undertake engagement supervision and review. The extent of supervision needed will depend on the proficiency and experience of the internal auditors and the complexity of the engagement.

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# Audit Lincolnshire

## Internal Audit Charter



# INTERNAL AUDIT CHARTER

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## Control

<b>Owner/ Policy Lead Officer:</b>	Audit & Risk Manager
<b>Location:</b>	Orchard House, Lincoln
<b>Consultation:</b>	Executive Director Finance & Public Protection/Audit Committee
<b>Date:</b>	October 2013
<b>Review Arrangements:</b>	Annual (as required by owner/policy lead officer/Director/Audit Committee)

The purpose of this charter is to set the nature, role, responsibilities and authority of the Internal Audit service within Lincolnshire County Council (the Council).

## Purpose of Internal Audit

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

As our primary objective is to provide independent and objective assurance on critical activities and key risks – we play a key part in the Council's overall assurance arrangements which are designed to ensure that its governance, risk and control frameworks are working.

Our aim is to align our work with other assurance functions – seeking to look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council. The assurance arrangements for the Council include:



Internal Audit objectively examines, evaluates and reports on the adequacy of the governance, risk and control environment as a contribution to the proper, economic, efficient and effective use of resources. Specifically we provide assurance to:

- Support the Executive Director Finance and Public Protection to help him to discharge his responsibilities.
- Statutory Officer of the Council (S151 of the Local Government Act 1972 relating to the proper administration of the Council's financial affairs).
- Support the Monitoring Officer to help maintain an effective governance framework for the Council.
- Provide appropriate inputs and opinions to support the development of the Annual Governance Statement.
- Contribute to and support the Council's Business Plan objectives and performance framework.
- Support management to understand its exposure to risks and advise on risk management principles/methods and appropriate controls / contingencies to manage risks.
- Operate the Whistleblowing arrangements.
- Provide resources to implement the Council's counter fraud policy and for the investigation of fraud and irregularities.

## Scope of Internal Audit

Internal Audit has unrestricted right of access to all Council activities which includes all records, information, resources and assets deemed necessary to fulfil our responsibilities.

Internal Audit may enter Council property and have unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Authority or where contractual arrangements exist are set out in conditions of funding and contract.

The Audit and Risk Manager has direct access to all levels of management, all employees and to all elected members and particularly to those charged with governance ie the Chairman of the Audit Committee, the Chief Executive, the Executive Director – Performance and Governance (Monitoring Officer), the Executive Director – Finance and Public Protection (Section 151 Officer).

Independence is achieved through the organisational status of Internal Audit and the objectivity of Internal Auditors. Internal Audit provides objective assessment and advice and seeks to be free from operational systems involvement or influence. All Council and contractor staff members in Internal Audit are required to make an annual declaration of interest so that any potential conflicts of interest are appropriately managed.

The Council has an integrated assurance function with the Audit and Risk Management operationally responsible for risk management, health and safety and insurance functions. External Assurance is sought on these functions overseen by the Executive Director – Finance and Public Protection.





## Authority of Internal Audit

The requirement for local authorities to have an internal audit function is determined by section 151 of the Local Government Act 1972, which requires that authorities 'make arrangements for the proper administration of their financial affairs'.

The Accounts and Audit Regulations 2011, more specifically require that the Council (as a relevant body) must:

- undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices for internal control.
- conduct a review, at least once in a year of the effectiveness of its internal audit and or a committee to consider the findings of that review. The Council's Audit Committee undertakes this responsibility.

Internal Audit seeks to meet the standards laid down by professional bodies and in particular the Public Sector Internal Audit Standards. These standards set the basic principles for carrying out internal audit in the public sector and provide quality criteria against which performance can be evaluated. Policies and practice guidance have been put in place to ensure all staff understand and comply with these standards.

## Responsibilities of Management

The effective operations of the Council's governance, risk and control processes are the direct responsibility of Senior Management. For the purposes of the UK Public Sector Internal Audit Standards the Senior Management are the Corporate Directors and Heads of Service.

Management are responsible for managing the risks facing their service and to maintain an adequate and effective system of internal control to increase the likelihood that established objectives and goals will be achieved. They also plan, organise and direct the performance of sufficient actions to provide a reasonable level of assurance that objectives and goals will be achieved. They are the key assurance provider in the Council's assurance framework.

Management are also responsible for ensuring staff are aware of and comply with the policies, processes and procedures required to operate these control systems.

The Deputy Chief Executive ensures the Council has an adequately resourced and effective Counter Fraud and Internal Audit service.



Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the service, its reputation and independence. A key relationship is with Management and staff. Management at all levels need complete confidence in the integrity, independence and capability of Internal Audit. Co-operative relationships with management can enhance Internal Audit's ability to achieve its objectives.



### **Management can assist the process of Internal Audit by:**

- Commenting on and inputting to, the audit plan and activities. Agree the Terms of Reference for each audit assignment to ensure attention is focused on areas of greatest risk or concern to enable the most effective audit coverage and minimise duplication.
- Audit work, especially its timing, should be planned in conjunction with management to minimise abortive work and time unless, for example this jeopardises the 'challenge' aspect of internal audit work or where an unannounced visit is deemed necessary.
- Giving information and explanations that are sought in the course of audit work
- Providing access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.
- Early notification of plans for change, including new operational systems and processes.
- Considering and responding promptly to recommendations in audit reports.
- Ensuring that agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.
- Notifying Internal Audit immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the Council's property or resources.
- Pending investigation and reporting, Management should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.

## Internal Audit Service and Context

The Audit and Risk Manager is required to manage the provision of a complete audit service to the Council. This includes:

Service Area	Specific Responsibilities
<b>Audit</b>	<p>The Head of Audit is required to provide an annual opinion on the effectiveness of the Council's governance, risk and control framework to the Council and Section 151 Officer. To help achieve this Internal Audit will:</p> <ul style="list-style-type: none"><li>■ Prepare an audit and risk strategy showing how the internal audit service will be delivered – focussing on the critical activities and key risks facing the Council and leveraging assurance for other assurance providers where we can.</li><li>■ Prepare a risk based plan designed to implement the audit strategy in consultation with senior management and taking into account the adequacy and outcomes of the Authority's combined assurance framework. This plan is approved by the Section 151 Officer and the Audit Committee. The audit plan will be regarded as flexible rather than as an absolute expression of audit policy/coverage. This will enable the audit plan to be able to reflect changing risks and priorities.</li><li>■ Internal Auditors agree the terms of reference for an audit assignment in consultation with management. This helps to confirm the objectives of the activity and agree the scope and focus of the audit assurance being given.</li><li>■ Ensure that appropriate links are developed and maintained with the Council's risk management function – evaluating and contributing to the improvement of risk management in the Council.</li><li>■ Providing resources required to deliver the audit strategy and annual plan. A workforce strategy exists, which reflects the required roles, qualifications, competencies, skills experience and personal attributes necessary to deliver the service. This strategy includes the flexibility to engage external consultants to support the delivery of the annual audit plan thereby accessing expertise for specialist audit areas and addressing any capacity issues that may arise.</li></ul>



Service Area	Specific Responsibilities
<b>Counter Fraud</b>	<p>The Council will actively seek to deter and prevent fraud, corruption and theft to ensure that all possible risks in these areas are minimised. Where fraud, corruption or theft is suspected or detected it will be thoroughly investigated and any proven fraud dealt with in a consistent and proportionate manner.</p> <p>Internal audit does not have responsibility for the prevention or detection of fraud and corruption. Internal Auditors should, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that a fraud or corruption may have been occurring. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Managing the risk of fraud and corruption is the responsibility of management.</p>
<b>Good Governance</b>	<p>Internal Audit activity is designed to improve the governance, risk and control processes of the Council. The outcome of our work is reported in regular progress reports and an annual report to Senior Management and the Audit Committee – these help inform the Council's Annual Governance statement.</p>
<b>External Audit</b>	<p>The Internal Audit section work in conjunction with the Council's External Auditors under a "Managed Audit" arrangement. The External Auditor seeks to place reliance on the work of Internal Audit where this is relevant to their work, particularly when appraising the controls operated by management over financial systems. This arrangement makes the best use of the combined audit resources and helps reduce any unnecessary overlap of audit effort.</p>
<b>Best Practice Advice</b>	<p>Internal Audit will also respond to requests for support, advice and guidance on implementing and/or improving best practice control procedures for current and new systems.</p>
<b>New Developments</b>	<p>Internal Audit may also provide consultancy services, such as providing advice on new systems and emerging risks – any significant consultancy not already included in the annual Internal Audit plan that may affect the level of assurance work undertaken will be reported to the Audit Committee.</p>



Service Area	Specific Responsibilities
	Where Internal Audit provide support, advice and guidance on risks and controls to staff involved in the design and implementation of new systems and processes. To maintain independence, any staff involved in significant consulting activity will not be involved in the audit of that rea for at least 12 months.
<b>Consultancy work</b>	<p>The scope of this type of work is agreed with management and should assist management in meeting the objectives of the organisation without undermining the key principles of independence and objectivity. Work may include:</p> <ul style="list-style-type: none"> <li>• facilitation</li> <li>• training</li> <li>• advice</li> </ul>





## Responsibilities of the Audit Committee

The Audit Committee is a key component of the Council's governance framework. Their role is to provide those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. For the purposes of the UK Public Sector Internal Audit Standards the Audit Committee performs the role of the 'Board'.

The Audit Committee is also responsible for the following aspects of the Internal Audit function:

- formally approving (but not directing) the overall strategy to ensure that it meets the Councils overall strategic direction;
- approving the annual internal audit plan (paying particular attention to whether there is sufficient and appropriate coverage);
- monitoring progress against plan;
- supporting the effectiveness of the internal audit process through regular oversight of performance and delivery;
- undertaking an annual assessment as to whether adequate skills and resources are available to provide an effective audit function meeting the requirements set out in Accounts and Audit Regulations 2011 and the UK Public Sector Internal Audit Standards;
- Oversee Internal Audits independence, objectivity and professionalism;
- Ensure that effective relationships exist between external audit and internal audit and that the value of the audit process is actively promoted;

The Head of Internal Audit also has the opportunity to meet in private with the chairman of the Audit Committee if the need arises.

## Audit Reporting Framework

All audit activity is intended to assist management to fulfil their objectives of delivering services and contributing to the overall objectives of the Council. Outputs from Audit work can range from informal advice to formal written reports.

The reporting structure is designed to ensure that final versions are agreed with and by managers and are both accurate and practicable. After agreement any report or guidance will be issued to senior management of the area reviewed. Copies of audit reports are also made available to the Councils External Auditors. The circulation of audit reports will be agreed at the outset of an audit assignment and will have due regard to confidentiality and legal requirements. Any information gained in the course of audit work remains confidential without limiting or preventing Internal Audit from meeting its reporting responsibilities to the wider organisation.

In addition to meetings about individual pieces of work, liaison meetings with the Council's client liaison to discuss at a summary level, any issues or themes arising from work performed and to agree planned work.



The UK Public Sector Internal Audit Standards requires the Head of Audit to report at the top of the organisation and this is done in the following ways:



- The audit and risk strategy and internal audit charter is presented to Corporate Management Team. Both are approved by the Audit Committee.
- The annual Internal Audit Plan is compiled by the Head of Audit taking account the Council's governance, risk and control frameworks (including the effectiveness of its combined assurance arrangements). This is after input from senior management. The Internal Audit Plan is then presented to the Corporate Management Team and the Audit Committee.
- Performance and delivery against the Internal Audit plan and any significant risks and control issues arising from Internal Audit work are reported to the Audit Committee on a regular basis.
- Results of the annual review on the effectiveness of Internal Audit (including outcomes of its Quality Assurance and Improvement programme) will be reported to the Audit Committee.
- Any non-conformance with the UK Public Sector Internal Audit Standards will be included in the Head of Audit annual report. If this is significant then this will be included in the Council's Annual Governance Statement.
- The Internal Audit budget is reported to the Executive and Full Council for approval annually as part of the overall Council's budget. The Head of Audit will draw to the attention of the Section 151 and the Audit Committee any resourcing issues that potentially impact on the effectiveness of the Internal Audit function.
- Member involvement in the audit process is critical. This commences with key issues being shared with the Audit Committee. Another key element is the free and unfettered access the Head of Audit has to the Chairman of the Audit Committee.

## **Quality of Service and Due Professional Care**

The Internal Audit section operates in accordance with standards of best practice applicable to Internal Audit (in particular the UK Public Sector Internal Audit Standards and the Seven Principles of Public Life (Nolan Principles)).

Internal Audit has a Quality Assurance and Improvement Programme that covers all areas of internal audit activity. This consists of:

- Internal review of work standards through a system of management review involving senior audit staff and the Head of Audit and Risk Management. This incorporates review of all audit documentation and reports prior to release to the relevant Senior Manager.
- Opinions are regularly canvassed from management responsible for establishments and/or activities under review.
- Regular liaison meetings are also undertaken with Senior Management to discuss work performed and planned.
- A suite of performance indicators and targets have been developed to monitor the quality of the service provided and are reported to the Audit Committee.
- Annual assessment of the service and its conformance with the UK Public Sector Internal Audit Standards and CIPFA's advisory note on the *Standards* – with this assessment being undertaken through an external assessment at least every five years by a suitably qualified, independent assessor.
- External review by the Audit Committee who undertakes an annual assessment as to whether adequate skills and resources are available to provide an effective audit function.
- The Head of Audit is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.



## Advice and Support

<p>Key Contacts:</p> <p>Lucy Pledge (Audit &amp; Risk Manager)  <a href="mailto:Lucy.pledge@lincolnshire.gov.uk">Lucy.pledge@lincolnshire.gov.uk</a></p>	<p><b>Approval of Charter</b></p> <p>This charter is reviewed annually and approved by the Corporate Management Team and the Audit Committee.</p>
<p>General contact:  Email <a href="mailto:CorporateAudit@lincolnshire.gov.uk">CorporateAudit@lincolnshire.gov.uk</a>  Telephone: 01522 553683  <a href="http://microsites.lincolnshire.gov.uk/AuditLincolnshire">http://microsites.lincolnshire.gov.uk/AuditLincolnshire</a></p>	<p><b>Related Documents</b></p> <p>The other related documents that should be read in conjunction with this charter are:</p> <ul style="list-style-type: none"> <li>▪ Risk Management Strategy</li> <li>▪ Counter Fraud policy</li> <li>▪ Whistleblowing policy</li> <li>▪ Audit Protocol with External Audit</li> </ul>

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**Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection**

Report to:	<b>Audit Committee</b>
Date:	<b>21 March 2016</b>
Subject:	<b>Internal Audit Progress Report</b>

**Summary:**

This report provides an update on audit work undertaken in the period 1st January 2016 to 29th February 2016.

**Recommendation(s):**

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

**Background**

This report provides details of the internal audit work during the period 1<sup>st</sup> January 2016 to 29<sup>th</sup> February 2016, advises of progress with the 2015/16 Audit Plan, and raises any other matters that may be relevant to the Audit Committee role.

**Conclusion**

During the period we have completed 4 County audits, 2 to final report and 1 to draft report stage as well as finalising 1 school audit.

There are currently 9 further audits in progress. All contracted Academy visits for 2015/16 are progressing in accordance with their agreements.

The Committee should note the outcomes of the audits and identify any action required, seeking assurance that they:

- understand the level of assurances being given as a result of audit work and the impact on the Council's governance, risk and control environment
- ensure management action has or is being taken to improve controls / manage risks identified

## **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](mailto:lucy.pledge@lincolnshire.gov.uk) .



*Public Sector Auditing.... Private Sector Thinking*

# Internal Audit Progress Report



**Date: March 2016**

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## Introduction

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1. The purpose of this report is to:

- Provide details of the audit work during the period 1<sup>st</sup> January 2016 to 29<sup>th</sup> February 2016
- Advise of progress with the 2015/16 Audit Plan
- Raise any other matters that may be relevant to the Audit Committee role

## Key Messages

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2. During the period we have completed 4 County audits, 2 to final report and 1 to draft report stage as well as finalising 1 school audit.
3. There are currently 9 further audits in progress. All contracted Academy visits for 2015/16 are progressing in accordance with their agreements.
4. The detailed Audit Plan is shown in Appendix 3 with current progress as follows:

- 62% completed or at draft report stage
- 30% In progress
- 3% agreed and scheduled during quarter 4
- 5% potential audit areas to be agreed and scheduled<sup>1</sup>

## Internal Audit work completed in the period 1<sup>st</sup> January 2016 to 29<sup>th</sup> February 2016.

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

High Assurance	Substantial Assurance	Limited Assurance	Low Assurance
		■ Business Continuity Management	■ Payroll

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

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<sup>1</sup> Our quarterly liaison meetings agree and schedule audits during the year based on the risk based plan and new emerging risk areas.

6. Since our last progress report we are reporting 2 audits with an opinion of 'Limited' or Low Assurance' – management summaries for these audits can be found at Appendix 2:

## **Audits in Progress**

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7. We have three audit's at draft report stage:

### **Concerto Property Asset Management System**

We have included this audit in ICT plan as Concerto software is a new application. The scope of this review includes assessing whether adequate controls are in place to protect the system and data from unauthorised access, modification and system unavailability.

### **Mental Capacity Act**

The Mental Capacity Act 2005, provides a statutory framework for people who lack capacity to make decisions for themselves. It is supported by a Code of Practice (the Code), which provides guidance and information about how the Act works in practice.

Whilst the Act does not impose a legal duty on anyone to 'comply' with the Code certain categories of people including social workers, care managers, etc are legally required to 'have regard to' relevant guidance in the Code of Practice. That means they must be aware of the Code of Practice when acting or making decisions on behalf of someone who lacks capacity to make a decision for themselves, and they should be able to explain how they have had regard to the Code when acting or making decisions.

Our review will seek to provide assurance that the adult care workforce have regard to the Code when acting or making decisions. Our work reviewed the following areas:

- Training of the adult care workforce relating to the Mental Capacity Act 2005 and the Code of Practice
- Application of the code guidance in practice
- Monitoring the application of the code by senior management within adult services.
- Management of Deprivation of Liberty Safeguard (DoLS) risks. (High level review only)

### **Freedom of Information**

Our audit has sought to provide assurance that the authority is compliant with the Freedom of Information Act 2000. The review included assessment of training, policy, guidance, and publication schemes. We also evaluated processing and performance in relation to statutory timescales.

8. The following audits are currently in progress:

#### **Pensions**

Since the implementation of Agresso in April 2015, a number of issues relating to pension deductions and third party payovers have been brought to the attention of LCC senior management. These have included:

- Delayed payment of contributions to third parties
- No / incomplete information provided to third parties to support payovers
- Incomplete / incorrect information reported to Pension Funds on starters / leavers / changes

The LCC Pension Fund Manager has also highlighted areas of concern specifically relating to the LGPS. Our review includes:

- identifying and evaluating the current procedures and controls in place to provide monthly contribution reports and to update pension funds on starters, leavers and changes
- review of payroll to third party payover reconciliations and supporting reports
- analytical review and substantive testing to assess the accuracy and completeness of Prudential AVC, LGPS, Teachers and NHS pension deductions and monthly contributions paid over
- accuracy and completeness of pension postings to the general ledger

#### **Adult Safeguarding Referrals**

Our audit seeks to provide assurance over safeguarding referrals through examination of the following:

- Confirmation that the Council is Care Act compliant via the referral process
- Robustness of the Risk Assessment process
- Clarity over the different roles and responsibilities and how these interlink
- Effectiveness of the procedures and guidance available to staff

#### **Better Care Fund – Financial Management**

Lincolnshire's Better Care Fund (BCF) is one of the largest in the Country, setting a 2015/16 budget of £197m. This pooled budget is supported by a delivery plan, which specifies where expenditure will be targeted to maximise the chance of performance indicators being met. Lincolnshire County Council (LCC), as host authority for the fund, are responsible for accounting and audit as well as completion and submission of quarterly and annual returns.

The focus of our audit aims to provide assurance over the effectiveness of LCC, in discharging its role as host. Specifically that it has the right resources and

skills and receives appropriate support and information from partners to fulfil this role well.

### **Integrated Community Equipment Service**

The Integrated Community Equipment Service (ICES) provides short and long term loans of equipment, through a Joint Commissioning approach between LCC and the Clinical Commissioning Groups.

A competitive tendering has been undertaken and the new five year ICES contract awarded during summer 2015, commencing April 2016.

Our audit will give independent assurance that effective and robust Contract Management Arrangements are in place.

### **HR – Absence Management**

Adult Care and Children's Services were previously identified as areas where there were high levels of sickness and reviews have been undertaken by the Absence Management Project Team. Reviews of these 'hot spots' were undertaken in 2012/13 and 2013/14 and considerable improvements have occurred in both areas.

Our audit seeks to provide assurance on application of the Sickness Management Policy across areas of the council not previously subjected to focused review.

### **European Union Procurement Changes**

The Public Contracts Regulations 2015 implement the 2014 EU Public Sector Procurement Directive and some reforms recommended by Lord Young of Graffham. The Regulations came into force in February 2015 with the new rules applying, with a small number of exceptions, to procurements starting on or after the 26 February 2015.

Our review will seek to provide assurance in the following areas:

- Appropriate public procurement training has been offered to or accessed by LCC officers engaged in procurement.
- Rules and guidance has been/will be developed to assist officers and professional advisers in ensuring procurement decisions are compliant with the Public Contracts Regulations 2015.
- Procurement is compliant with the Public Contracts Regulations 2015 and EU Treaty obligations across all of the Authority's Directorates including activity carried out on the advice of VinciMouchel the Council's professional property adviser.

### **Financial Control Systems Work**

Our annual work to provide assurance over the financial control environment is well underway. Due to on-going issues with Agresso resources are targeted at areas of greatest risk. We are covering Payroll, Accounts Payable and General

Ledger. We are working closely with External Audit on these assignments and also Price Waterhouse Cooper on Payroll as they have been commissioned by Serco to complete a payroll audit.

## Other Work

### 9. Families working together

On behalf of Children's Services we provide assurance that the performance figures provided to the DCLG relating to the quarterly Troubled Families grant claim are:

- Accurate
- Bona fide
- Related to eligible families (based on criteria from the financial framework payments-by-results scheme for local authorities)
- Supported by adequate evidence

The 2015/16 grant claim audits are now complete

## Performance Information

10. Our performance against targets for 2015/16 is shown in the analysis below:

Performance Indicator	Annual Target	Profiled Target	Actual
Percentage of plan completed (based on revised plan)	100%	91%	72%
Percentage of recommendations agreed	100%	100%	100%
Percentage of recommendations implemented	100% or escalated	100% or escalated	N/A
Timescales: <sup>2</sup>			
Draft Report issued within 10 days of completion	100%	100%	86%
Final Report issued within 5 days of management response	100%	100%	83% <sup>3</sup>
Draft Report issued within 2 months of fieldwork commencing	80%	80%	43% <sup>4</sup>
Client Feedback on Audit (average)	Good to excellent	Good to excellent	Good to excellent

<sup>2</sup> Based on targets for 7 2015/16 reports completed

<sup>3</sup> Big Society Fund final report handed from one leaving staff member to another which created a delay

<sup>4</sup> Big Society Fund opinion created some rewriting of reports and further work on review. Complexities and availability of key staff during the payroll audit resulted in 2 month span being exceeded. CfBT review suffered delays in the review process due to investigation priorities.

11. Progress with the implementation of agreed management action can be found at Appendix 4.

## Appendix 1 - Assurance Definitions<sup>5</sup>

<b>High</b>	<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. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>
<b>Substantial</b>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) 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 have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
<b>Limited</b>	<p>Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>
<b>Low</b>	<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>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p>

<sup>5</sup> These definitions are used as a means of measuring or judging the results and impact of matters identified in the audit. The assurance opinion is based on information and evidence which came to our attention during the audit. Our work cannot provide absolute assurance that material errors, loss or fraud do not exist.

## Appendix 2 – Reporting on Limited or Low Assurance

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# Business Continuity Management – issued December 2015

## Introduction and Scope

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Business Continuity Management (BCM) is a planning process which aims to ensure that key services to the community can continue to be delivered, to an acceptable level, in the event of an incident or disruption and return to normal working once the incident has been resolved.

In 2004, the Civil Contingencies Act was introduced to ensure that the UK had a plan in place for civil protection. A BCM system is a vital component of this plan.

The Act identified organisations, which provide vital frontline public services such as local authorities, as Category 1 Responders and placed a legal responsibility upon them to establish BCM within their organisations. These responsibilities are reflected in the Business Continuity Policy.

The Council has integrated the business continuity with emergency planning in order to achieve overall improved resilience and awareness within the Business Continuity and Emergency Planning teams.

A joint Business Continuity/Emergency Planning Corporate Plan has been drafted and is to be submitted for approval. The aim of this unified approach is to further improve overall resilience to serious incident or disruption.

Following the arson attack at South Oxfordshire District Council's office work has taken place to improve the Council's response should an event result in the loss of the Council's headquarters.

In forming our assurance opinion we have;

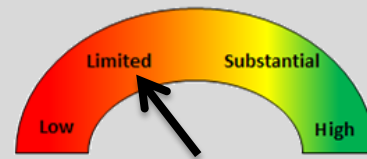
- assessed whether sufficient capacity and resilience exists to respond to, and recover from, wider area prolonged emergencies and business disruption impacting on the continuity of critical functions and normal service delivery.
- performed testing on a sample basis to confirm;
  - Up to date Business Continuity plans are in place for all the Council's critical functions (including where relevant within the supply chain), which are fit for purpose
  - Business continuity plans are regularly exercised, maintained and reviewed
- Reviewed arrangements in place to assess whether business continuity is externally promoted to small business and the voluntary sector.



# Executive Summary

## Assurance Opinion

### Limited



Business continuity management at the Council is not sufficiently centralised to allow the Business Continuity Team to assume direct responsibility for all of the key aspects of the process.

We are not confident that business continuity management arrangements in place across the Council are sufficiently robust and resilient to ensure that critical services could be maintained and normal service resumed within reasonable timescales. Our assessment is based on weakness identified in the exercising of plans, monitoring of the plans of key suppliers and the integration of IT business continuity within the overall business continuity management arrangements for critical services.

Business continuity arrangements cannot be considered reliable unless they are regularly and rigorously exercised to ensure that all information in plans is verified, all critical plans are rehearsed and all relevant personnel are exercised. In our opinion existing processes do not consistently ensure that plans are reliable.

Our sample testing indicates that whilst up to date business continuity plans are held for service areas with critical (category 5) functions, the exercising of these plans are not taking place with the appropriate frequency determined by either the Business Continuity Policy or through an assessment of the organisation's needs.

As the authority's commissioning model includes commissioning of services from external providers the importance of resilience within the supply chain is ever more significant. In our view, resilience has not been sufficiently assessed and evidenced.

We examined arrangements in place within Children's and Adult services and found in both areas that the business continuity plans of key suppliers are being monitored and assessed by commissioning officers (Children's) or contract management officers (Adults). Whilst these officers have been issued with comprehensive guidance by the Business Continuity Team they are not business continuity specialists and rely upon support provided by the Business Continuity Team which is limited by available resources.

We also found that exercising of plans undertaken by key suppliers are not subjected to robust assessment through either monitoring or reviewing the outcomes of those exercises, and consequently officers may not be aware of any serious issues identified.

The loss of key IT systems is a major consideration in all business continuity plans for all critical services. The Council cannot at present rely upon IT business

continuity arrangements being sufficiently resilient in the event of a serious incident affecting IT.

We found that following the change of IT partner to Serco the IT elements of critical service business continuity plans have not been re-evaluated through referral to, or assessment by, IT professionals possessing the requisite technical knowledge and experience. It is therefore possible that the plans may contain incorrect assumptions and inconsistencies may exist between the ability of a site to cater for a disruption to service, recovery times required by services for key systems and the ability of Serco to restore IT capability within that timescale.

Serco are also contractually responsible for maintaining and exercising the IT Business Continuity plan. The plan has not yet been exercised and at the time that we conducted our audit work no exercise has been scheduled.

These matters are considered more fully below.

#### Direction of Travel



Improving

There has been clear progress in laying the foundations for effective Business Continuity Management.

Business continuity is promoted to small business and the voluntary sector.

Our work has however highlighted a number of areas where further improvement is required.

We identified a number of points of good practice during the review including:

- ✓ An up to date Business Continuity Policy is in place which clearly sets out responsibilities for relevant roles within the authority and provides the framework within which Business Continuity Management takes place.
- ✓ Business continuity plans for critical (category 5) functions are up to date, comprehensive in their content.
- ✓ The Business Continuity Team is viewed as supportive and helpful in service areas visited.
- ✓ Business continuity is effectively promoted to external small business and the voluntary sector.

Our work has however highlighted a number of areas where weaknesses exist and further work is required.

Members of the CMB as individuals are supportive of BCM and understand the importance of robust BCM within their services. As a group however they are not

visibly associated with Business Continuity Management. We found that the policy has not been publicly endorsed by CMB, and critical activities such as the strategy and methodology for exercising plans has not received its approval. The Head of Joint Emergency Management Service has expressed the view that this is not necessary and accordingly we make no recommendation.

The exercising of plans is not taking place with the appropriate frequency determined by either the Business Continuity Policy or an assessment of organisational needs. This is particularly apparent in the case of the Corporate Business Continuity Plan which was last formally exercised in 2010, and the Public Health business continuity plan which has not been tested at the time that our audit fieldwork was conducted. Both of these plans were subsequently tested in tandem with or as a by-product of operation Black Swan.

Weaknesses in arrangements in place within Children's and Adult's services for monitoring and reviewing the business continuity arrangements of key suppliers were noted.

Arrangements in place could be strengthened through the consistent application of existing guidance provided by the Business Continuity Team, ensuring;

- plans are jointly exercised with input from both council officers and staff of key partners/suppliers, and
- the outcomes of exercises undertaken by key partners/suppliers are monitored or reviewed.

This approach may also strengthen arrangements in place in other Directorates which we have not tested in this audit.

We also found that the standard Council terms and conditions used in Children's Services contracts do not contain a right to audit clause which may result in limitation of the scope of enquiry into a suppliers plans.

With effect from 1<sup>st</sup> April 2015 Serco became the Councils new IT partner. IT elements of critical service business continuity plans have not been reassessed in the light of this change.

Serco have been instructed to prioritise the implementation of Agresso which has meant that their contractual obligations not only to liaise with service areas regarding the requirements of service level plans but also to exercise the IT Business Continuity Plan have not been satisfied. We understand that IMT will require Serco to undertake these contractual requirements following the completion of the Agresso implementation.

We also established The Council's IT services currently operate from a single onsite data centre. This arrangement increases vulnerability to a loss of critical IT systems.

IT is engaging with Corporate Property to ensure additional resiliency can be provided via failover sites which are appropriately connected for an invocation of plans.

Over the next 6 to 12 months resilience to loss of IT is expected to significantly improve with the introduction of two off-site data centres connecting services over a wide area network. If one data centre is lost for whatever reason activity will fail over to the other making arrangements far more resilient than at present. Work also continues to reduce any single points of failure within systems and networks that support critical services

Although touched upon the scope of our Audit did not include IT disaster recovery and we do not make any recommendation in this regard.

We would like to thank the Business Continuity Manager for his help in undertaking our work.

## Management Response

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The focus of this audit has been to consider the Authority's overall business continuity arrangements of which IT forms a significant part. Findings relating to IT have been shared with Chief Information and Commissioning Officer who is considering our findings and recommendations.

As subject matter lead for the council I am of the view this audit has allocated disproportionate overall weighting to 'weaknesses in exercise frequency' and 'monitoring of key supplier plans'; and has given insufficient consideration to either the rate and pace of change within Lincolnshire County Council, or the strengthening of corporate resilience, policy, planning & exercising achieved since the emergency planning & business continuity services amalgamated (including the agreed prioritisation of care providers resilience and preparedness, and the promotion of BC to 'small & medium enterprises').

Actions 1 & 2 should be 'Medium' priority (timely management action is warranted within 6 to 12 months)

Management Actions	No	All to be completed by:
High Priority	4	31 July 2016

## **Payroll – issued December / January 2015**

### **Introduction**

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During 2014/15, Internal Audit took an advisory and consultancy role within the Agresso project team, providing insight and support on risk, control, governance and business intelligence.

Issues and risks around the implementation of the payroll module figured regularly in reports to project management and the Project Board. The project did not have 'business expertise' in this area until mid-way through the year, compressing the time available to develop the payroll solution. As a consequence, the Agresso payroll module was implemented in April 2015 with known issues – some functionality had not been built, elements of functionality such as sickness had not been fully tested and there had been no clear parallel runs completed to confirm the system calculated all payments and deductions correctly. In addition, there had been little testing to determine the accuracy of postings to the ledger and no testing around postings to supplier and control accounts. The Agresso Board, in conjunction with the Project Manager and team, determined the risk of not going live was greater than implementing on schedule.

Following discussion with the Organisation Development & Learning Manager, and given the lack of assurance at go-live and the issues that were evident with April and May payments, we have undertaken a high level review of payroll processes. This is an extension to our work on the Agresso project and is in addition to the planned 'due diligence' transaction testing work that is scheduled for later in the year. This approach provides independent insight and assessment over the current system, processes and controls, and highlights to management the outstanding issues and risks. Our report includes an action plan which will help to inform and support monitoring by the Agresso Recovery Board.

The period over which we have completed our review has extended further than originally planned, impacted by the significant issues the Council has encountered with Agresso and payroll payments. Our report includes the points previously highlighted in interim updates. A number of the findings of our work have also been identified by Serco and reported to the Project Board. We recognise that work is already in progress to address a number of the issues highlighted.

### **Scope and Approach**

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Our review focussed on identifying and evaluating the controls within the 'end to end' payroll process, including:

- Maintenance of organisational structure
- HR Administration (starters, leavers, contractual changes)
- Payroll input (tax, NI, pension schemes, voluntary deductions)
- Expenses & additional hours

- Absence maintenance (sickness, maternity)
- Payroll processing, exception reporting and checking
- Payroll approval & BACS payment
- Payroll posting and payment of third party deductions

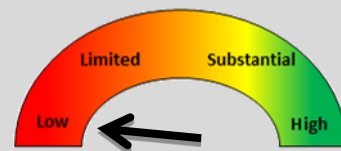
Our review has principally been completed by identifying processes and controls through discussion with HR Administration, Payroll and project team staff. We also observed payroll processing in August 2015 and reviewed some supporting reporting information. To date we have completed limited transaction testing – further data analytics to help identify possible errors, overpayments and duplicate payments is planned for January to March 2016. This will help to quantify the level of error which we are unable to do at present.

## Executive Summary

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### Assurance Opinion

#### Low Assurance



Our work has confirmed that key controls required within a payroll system and processes to prevent and detect errors have been or are missing, or have not been applied consistently. Whilst many of the issues with payroll payments and postings are a result of an unstable system which wasn't fully built or tested at go-live, the absence of controls and defined processes has contributed to the level and nature of known errors. The risks related to poorly controlled payroll processes - overpayments, accounting errors, fines and reputational damage, have materialised. Ongoing issues mean that the risk of fraud and error remains high.

The absence / inadequacy of exception reporting and checking control has had the greatest impact on accurate payroll delivery. The arrangements in place until August 2015 were not adequate and did not provide a robust mechanism to detect potential errors. Whilst we have seen that steps have been taken to introduce appropriate exception reports and more structured review, we have not received responses to be able to confirm that the level and approach to checking is consistent across the teams. The demand of query resolution also creates pressures that will impact on the timeliness and effectiveness of checking. Our work in quarter 4 will include review over the checking mechanisms introduced.

We remain concerned around the level and expertise of the resources within Payroll to cope with the demands of query and error resolution. Our initial review of payments made from April to July 2015 has identified many complex errors to be investigated and corrected to ensure payment, payroll and ledger entries are accurate. It is essential that transactions in this period are analysed in detail to minimise the risk of fraud and error and that staff with the appropriate expertise undertake the system amendments required. Going forward, there is also a need for the Council to have assurance that Serco has the appropriate resource to deliver 'business as usual' in line with contract specifications and agreed

performance levels.

Other significant issues that need to be addressed include:

- Testing and implementing a mechanism to make the retrospective system amendments which are needed to correct payroll and posting entries for leavers and where payments have been recalled.
- Adequately restricting access to payroll functionality, including parameters that determine how payments and deductions are processed. In addition, separation of duties is not enforced within the system.
- Ensuring payments and information sent to third parties are complete, accurate and up to date.

Although significant issues remain, it is important to acknowledge the work that Serco staff in Payroll, HR Administration and the Agresso project team have undertaken since go-live to address and correct system problems and to introduce and develop controls.

#### Direction of Travel



Improving

Whilst there are still gaps in control and system design issues to be addressed, the direction of travel is positive.

## Key Messages

### Exception Reporting and Checking

Generating and checking exception reports is the most significant control to detect errors in proposed payroll payments allowing them to be corrected before payment reaches the employee. At the implementation of Agresso payroll the only report available was the 'Errors and Warnings' report and in April and May this included thousands of entries that could not be cleared due to a combination of limited time and incomplete understanding of the errors.

Over the period June to September the level of checking has gradually increased and we have been able to confirm that the 'Errors and Warnings' reports are now checked in full and additional exception reports are being used to compare current and previous months net pay. At September these reports were still being manually created as the system generated 'variance report' was still being tested. To date we have not reviewed the resolution of exceptions on these reports. This will be a source of transactions for further work.

Whilst Serco has made significant improvements around the checking process we still have concerns around the consistency of checking across the teams and that

sufficient time is allowed for completing checks on all exception reports before payrolls are finalised. Management need to ensure checking is as robust as possible to reduce the number of errors that reach payment, which will in turn give the teams more time to process the payrolls as they won't be dealing with the same level of queries as is currently the case.

We understand a report is being developed to allow budget holders and schools to check payroll prior to payment. Serco need to ensure that there are sufficient resources within payroll to respond to and address the queries they receive in addition to the resources to check payrolls internally. External checking should not be a substitute for checking completed by the payroll team.

### **Training / Payroll Expertise**

Due to the arrangements for transferring and recruiting staff to the Serco Payroll Team, Agresso payroll training had to be completed after go-live. Whilst additional staff have been employed by Serco it has proved difficult to recruit staff with knowledge of the complexities of local government payroll. To support staff development and provide assurance over the quality of service, it is important Serco review skills and knowledge gaps, introduce a training programme and recruit appropriately qualified and experienced staff.

The initial work we have completed to review payroll payments from April to July 2015 has identified complex errors around particular themes (negative net pay, pay advance recovery, maternity and sickness payments, unbalanced / incomplete payslips, pension deductions). We remain concerned that the Payroll team does not have the resource and expertise to resolve these issues – we have identified occasions where corrections have not been completed accurately. We understand Serco is recruiting Payroll Assistants and a Payroll Pensions Team Leader with emphasis on payroll knowledge and prior experience. Until these posts are filled, there remains some uncertainty over the ability of the Payroll Team to satisfactorily resolve the backlog of errors and provide assurance over future Payroll accuracy.

There is also a need to complete skills transfer to the payroll team to allow them to fully support the Agresso payroll solution. Serco should provide assurances on the continuing support from Unit 4 consultants and the plan to transfer skills to key payroll staff.

### **Overpayments**

Our initial review of Agresso has confirmed that overpayments are now being recovered from employees on a gross basis where individuals remain on the payroll. However, where employees have left the Council or schools, the recovery should be made on a net basis by raising a debtor invoice and amending the payroll system to show correct payments and deductions. At present the functionality to undertake the system changes required has not been tested and as a result we understand these overpayments are not yet being recovered. This functionality is also required to correct payroll postings to the ledger.

It is essential that this functionality is fully tested and made available as soon as possible – corrections to deductions such as tax and NI must be made by the end of the financial year. The longer this is delayed the greater the risk that



overpayments will not be recovered and that the errors will remain in payroll and in the Council's accounts.

### **System Access**

At present there is no enforced separation of duties within the Agresso payroll module as all payroll staff have the same standard payroll access. In addition, we understand that a number of staff who have access to payroll also have HR Admin access (allowing access to amend the establishment structure and create Positions) and vice versa. Separation of duties ensures that no one individual can complete a process from end to end and is designed to reduce the risk of fraud. This is a key control issue requiring immediate attention to reduce the risk.

Three individual roles (super user, processor and inputter) have been identified but these are still in test. Management need to complete testing and introduce the roles to the 'live' environment as soon as possible. In allocating the roles, care needs to be taken to ensure that no individual (including the HR/Payroll Consultant) has all 3 roles. Access restrictions and separation of duties are designed to minimise the risk of fraud and the error that can be caused by incorrect/inappropriate changes to system parameters.

Our review has also found inadequate control around the access to HR Admin and Payroll roles. We identified:

- employees that have left the organisation are still live users with full access
- multiple roles that give access to areas of the system where inappropriate changes can result in errors (e.g. Payment & Deduction codes)
- users who have full HR Admin access when only a limited element of this role is needed to undertake their work

An urgent review of Role access and allocation to users is needed to ensure that access to amend or view HR and payroll information is appropriate.

### **Third Party Payments & Reporting**

Real Time Information (RTI) submissions providing up to date information on staff PAYE and National Insurance deductions have not been made in line with the deadlines set by HMRC. At the time of writing this report, submissions for the main corporate and schools payrolls were incomplete. We understand that work to address this issue is progressing and there is an expectation that submission will be completed shortly. Management need to ensure they have assurance that future submissions are completed in line with deadlines and that these submissions are accurate and complete.

The staff transfer from Mouchel and subsequent Serco recruitment did not include a Payroll Control Officer with business knowledge of payovers for statutory and voluntary deductions and the reporting to third parties that support these. In conjunction with the system issues that prevented posting of payroll data to the ledger, this resulted in late payment to some third parties and issues with providing supporting reports.

Whilst we understand that payments to third parties are up to date to the end of September, there are some reports for pension providers, such as Teachers'

Pensions that are still in development. These need to be completed quickly in order to fulfil our statutory obligations.

As a result of delays in reporting, the Council has been fined a small amount by HMRC and has also been reported to the Pensions Regulator. It is essential that Serco clearly define responsibility for payovers and third party payroll and pensions reporting. We understand that Serco are now recruiting to a Senior Control Officer post.

### **Position Administration**

The link of Position (job) to a Role within Agresso is a key control within the system as this defines the access a user has, what information they can see and the smooth operation of workflows where payments and changes are approved.

Our discussions have determined that the schools' payroll team are creating a new Position each time they make an appointment rather than transferring a Position from one individual to their replacement. This has occurred because an establishment structure has not been set up for schools. As a consequence, the Agresso access for a Bursar and Headteacher is being lost when new employees join schools in these posts, creating the risk of error, additional work for the Systems Administration team and delaying access. Ideally work should be completed to create school establishments with defined Position numbers that are shared with schools and used consistently as staffing changes are made.

We understand similar issues have been occurring as the Council's restructure starts to be implemented. It is essential that there is discipline in transferring Positions so that the roles and access are transferred with them and there is no adverse impact on the smooth operation and completion of workflows.

We are grateful to Serco staff and members of the project team who have made time under difficult circumstances to provide information for this audit.

## **Management Response**

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Since this report has been written much work has been undertaken to address the key issues identified including the development of a number of initiatives and key themes which are being pursued to ensure that any risk to the accounts is minimised.

A new Governance structure has been agreed and is being implemented. A HR & Payroll Portfolio Board has been established and this Board will direct and prioritise individual projects within the HR and Payroll portfolio. Specific areas of focus will include: prioritisation and sequencing of projects; management of inter-dependencies; resolution of issues and risks escalated from Project Boards; delivery of business change; benefits tracking and realisation. The work of the Recovery Board and new Governance process are all geared to encourage joint planning and ensuring that we identify the priorities and topics that are key for the business.

The service is concentrating on getting the issues sorted and in doing so being realistic about the resources, time and effort it will take to complete these tasks. The Real Time Information (RTI) has now been submitted to HMRC for all months up to and including November for schools. This has demonstrated that the changes made to the reporting process and system has been successful and robust. We are now in the process of submitting the RTI for the corporate payroll from May onwards and we are confident that they will all be successfully submitted by 18<sup>th</sup> January, 2016.

The Payroll Service has been enhanced by the recruitment of additional staff with payroll expertise and the realignment of duties to ensure they reflect service user needs. A new query/ case management system (Lagan) was implemented at the beginning of October and this is being used to monitor, track actions and inform us of areas that need further development. The backlog of queries for the period April to September has now been dealt with. The Agresso Board now receives daily reports on the progress being made to stabilise the system and this concentrated focus has helped to ensure our resources are targeted effectively.

These interventions are beginning to delivery results and demonstrate positive progress towards our aim of providing excellent services. Our focus is clearly on supporting the business in a way which will enable us to work together to minimise any risk for the end of year processes or the accounts.

Serco 24/12/2015

Management Actions	No	All to be completed by:
High Priority	17	
Medium Priority	10	

## Appendix 3 – Internal Audit Revised Plan 2015/16

Area	Indicative Scope	Planned start date	Actual start date	Final Report date	Status / Assurance opinion
<b>Executive Director – Pete Moore</b>					
Emergency Planning and Business Continuity	Review the Council's arrangements and resilience to respond and recover to a major event / incident.	Jun 2015	Jul 2015	Sept 2015	Limited assurance
Property – VINCI-Mouchel Contract	Consultancy assignment to support the business in developing the governance, management and monitoring arrangements for the new VINCI-Mouchel property contract	Apr 2015	Apr 2015	N/A	Assignment complete
Business rates Pool	Review of methodology used to calculate the additional income generated from pooling to confirm this aligns to national guidance and the MOU and verify calculations are based on correct data.	May 2015	May 2015	Oct 2015	Audit Complete – Limited assurance
Agresso Finance system	Consultancy assignment to support the business in ensuring efficacy of the new finance system.	Apr 2015	Apr 2015	Sept 2015	Report to committee September 2015 Assignment complete
Payroll system	Consultancy assignment to support the business in ensuring efficacy of the new payroll system.	Apr 2015	Apr 2015	Jan 2016	Audit complete – Low Assurance
<b>Executive Director – Richard Wills</b>					

Joint waste management strategy	Review to provide assurance on arrangements and progress for the district waste strategy. To include assessment of financial benefits and district engagement.	Nov 2015			Strategy delayed by countywide proposal – audit to be rolled forward to 16/17 plan.
Adult Learning	Review of the financial arrangement in to confirm adequate financial control and sustainability	Oct 2015	Oct 2015	Jan 2016	Audit complete – Substantial assurance
Highways Grants Work	Audit of 3 Highways grants to provide verification on use of grants to the provider	Oct 2015	Oct 2015	N/A	Audit Complete – opinion n/a
<b>Director of Children Services – Debbie Barnes</b>					
Families Working Together	To provide audit support as per the requirements of the grant on a quarterly basis	Jun 2015	Jun 2015	N/A	Audit Complete – opinion n/a
Raising the Participation Age (project) / Tracking the Status of 16 – 18 year olds in education, employment or training (critical activity)	<p>From September 2013, all 17 year olds had a duty to participate in education, employment or training. This extends to 18 year olds from September 2014.</p> <p>To review the arrangements in place that ensure young people are aware of their duty to participate and that there will be sufficient provision available. This could include how the LA are identifying young people that are not in education or training, including data sharing arrangements with Educational Institutions.</p>	Jun 2015	Jul 2015	Sept 2015	Audit complete – Substantial assurance

People Management	Review the effectiveness, quality and compliance of the People Strategy launched in 2012 and the strands underpinning delivery of the Council's people management arrangements.  Area of focus will be application of the sickness / absence policy.	<del>Oct 2015</del> Jan 2016	Jan 2016		Audit in progress
CfBT School Improvement Plans	Follow up audit to confirm whether the CfBT SIS Assurance Review monitoring protocol is embedded within all education settings, particularly secondary and special schools.	Jul 2015	Jul 2015	Sep 2015	Audit complete – Substantial assurance
Schools	Periodic audits of maintained schools.	Jun 2015	Jul 2015	N/A	9 schools complete
<b>Director of Adult Services – Glen Garrod</b>					
Mental Capacity Act	Review, advice and guidance around the transformation programmes within Social Care, including the Case Management System and Lincolnshire Health and Adult Care - considering the design and application of the governance structure. To provide proactive advice and support on governance, managing key risks and effective internal control.	Oct 2015	Oct 2015		Draft report stage
Safeguarding Adults Follow up	Provide assurance on the alignment of the safeguarding referral process with 'The Care Act' and its consistent application across the Council and its providers.	Jan 2016	Feb 2016		Audit in progress

Better Care Fund – Budget Management and Reporting	A review of LCC's management and reporting arrangements for the Better Care Fund budget	Feb 2016	Mar 2016		Audit scoped
<b>Director of Public Health – Tony Hill</b>					
ICES	<p>The Integrated Community Equipment Service (ICES) provides short and long term loans of equipment, through a Joint Commissioning approach between LCC and the CCG's.</p> <p>A competitive tendering has been undertaken and the new five year ICES contract will be awarded in August 2015, commencing April 2016. Our work will provide assurance on the commissioning and management of this service.</p>	Jan 2016	Jan 2016		Audit in progress
Big Society Member Grants	Review to provide assurance that big society member grants are appropriately utilised and accounted for to maximise the benefit to communities.	Sept 2015	Sept 2015	Nov 2015	Audit complete – Limited Assurance
<b>Chief Information and Commissioning Officer – Judith Hetherington-Smith</b>					
EU procurement changes	Review of the procurement regulations to ensure that the necessary changes have been implemented.	Jan 2016			Audit brief agreed - not progressed due to auditee availability
Impact Assessments	To provide assurance that the corporate policy on impact assessments is embedded and applied consistently.	Feb 2016			Audit not started
FOI and Transparency Agenda	Review of Freedom of Information and Transparency reporting to provide assurance on compliance with legislation.	Oct 2015	Dec 2015		Draft Report

<b>Due Diligence</b> - Those systems that support the running of the Council and ensure compliance with key policies					
Key Control Testing	Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment.	Jan 2016	Feb 2016		In Progress – will roll forward into 2016/17 given the volume of work and testing required to evidence opinion
Pensions	Assignment to provide assurance over the accuracy of pension deductions and pay overs.	Dec 2015	Dec 2015		Audit in progress
Budget Management – Agresso reporting	To provide assurance on the adequacy of budget management reporting process post Agresso implementation.	Feb 2016			Not started
<b>ICT audit</b>					
ICT	<p>ICT plays a vital role in supporting the Council's business and customer interface. Possible areas identified on the assurance map include:</p> <ul style="list-style-type: none"> <li>■ ICT strategy</li> <li>■ Disaster recovery &amp; resilience</li> <li>■ Key Application Audit – Agresso and Case Management System (MOSIAC)</li> </ul>	Feb 2016			<p>PREVENT audit in progress</p> <p>Experiencing difficulties in scheduling audits – working with IMT to improve this process and firm up audit access for 2016/17.</p> <p>Leverage assurance through combined assurance status report – some area of low assurance</p>



Concerto	The audit will examine the strength of controls surrounding the Concerto application and will be carried out by means of discussions with system administrators and relevant users. The testing will make use of non-invasive audit tools in order to assess whether adequate controls are in place to protect the system and data from unauthorised access, modification and system unavailability.	Aug 2015	Aug 2015	Oct 2015	Draft report
<b>Emerging Issues and Key Risks</b>					
<p>To enable Internal Audit to respond to changes during the year we will meet regularly with Senior Management to agree which areas to focus our audit assurance work.</p> <p>The following areas have been identified through our risk assessment and on the assurance map as possible areas to focus audit activity:</p>					

**Executive Director – Pete Moore**

- Youth Offending
- Trading Standards
- VAT
- Budget Preparation and Financial strategy

**Executive Director – Richard Wills**

- Flood Management
- Lincolnshire Supported Bus Service
- Capital Projects
- Highways Maintenance – Revenue Contract

**Director of Children Services – Debbie Barnes**

- Exclusions
- Special Educational Needs and Disabilities Reform
- Closing the Gap
- Social care and SEND transport

**Director of Adult Services – Glen Garrod**

- Mental Health Services
- Carers

**Director of Public Health – Tony Hill**

- Customer Service Centre
- Health Improvement, prevention and self-management
- Integrated & Equipment Service

**Chief Information and Commissioning Officer – Judith Hetherington-Smith**

- Procurement Cards

Other relevant Areas					
Combined Assurance	Updating assurances on the Council's assurance map with senior managers and helping to co-ordinating the annual status report.	Oct 2015	Oct 2015	Jan 2016	Work complete
Follow up of Recommendations	Audit Reports issued during 2014/15 where an audit opinion of 'major improvement' or 'inadequate' will be followed to establish progress in implementing agreed management actions.	Oct 2015	Oct 2015	Nov 2015	Follow up work complete
Advice & Liaison					
Annual Report					
Annual Governance Statement					
Audit Committee					
<b>Total Planned Days 848</b>					

## Appendix 3 – Overdue Actions at 31<sup>st</sup> January 2016

Audit Area	Date	Assurance	Recs	Implemented	Overdue		Not Due
					H	M	
Coroners	June 2014	Limited/ Substantial	52	45	5	2	0
Debtors	April 2014	Limited	11	6	4	1	0
Income	Jan 2014	Limited	8	7	0	1	0
MIMS System	June 2014	No	6	3	2	1	0
Information Governance	Mar 2015	Major Improvement	15	11	3	1	0

## Regulatory and Other Committee

### Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	<b>Audit Committee</b>
Date:	<b>21 March 2016</b>
Subject:	<b>Work Plan</b>

#### Summary:

This report provides the Committee with information relevant to the core assurance activities currently scheduled for the 2015/6 work plan.

#### Recommendation(s):

1. Review and amend the Audit Committee's work plan ensuring it contains the assurances necessary to approve the Annual Governance Statement 2016.
2. Review the outstanding actions designed to improve the effectiveness of the Committee.

#### Background

- 1 The work plan has been pulled together based on the core assurance activities of the Committee as set out in its terms of reference and best practice (see Appendix A – work plan to March 2016).
- 2 The following items from the January programme have now been deferred to the June Committee:
  - Risk Management Progress Report
  - Review of draft Annual Report on the work of the Audit Committee
  - Draft Annual Governance Statement 2016
- 3 Appendix B shows the Committee's action plan – which helps keep track of actions agreed during meetings. Last year a number of areas for consideration were identified:-
  - Reviewing and encouraging transparency in partnership decision making
  - Understanding and seeking assurance over the governance and risks associated with our key partners

- Facilitating risk management training and awareness for members and staff. To clarify the understanding of the level of risk which the Council is prepared to accept across its key activities/business units
- Overview of the Constitution
- Compliance with the Transparency Code.

Does the Committee still want to seek assurance around these areas?

## **Conclusion**

The work plan helps the Committee ensure that the Committee effectively delivers its terms of reference and keep track of areas where it requires further work and/or assurance.

## **Consultation**

### **a) Policy Proofing Actions Required**

n/a

## **Appendices**

These are listed below and attached at the back of the report	
Appendix A	Work Plan to March 2016
Appendix B	Audit Committee Action Plan 2015/16

## **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](mailto:lucy.pledge@lincolnshire.gov.uk) .

Audit Committee Work Plan – 2015/16		
21 <sup>st</sup> March 2016	Assurances Required / Being Sought	Relevancy – Terms of Reference
<b>Core Business</b>		
Draft Internal Audit Plan 2016/17	<p>That the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion.</p> <p>Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year.</p> <p>Ensure that the Internal Audit Resource has sufficiently capacity and capability to deliver the plan.</p> <p>Seek an understanding of what assurances Internal Audit will be providing the Committee to help it discharge its terms of reference.</p>	To consider reports dealing with the management and performance of internal audit
Internal Audit Progress Report	<p>Understand the level of assurances being given as a result of audit work and their impact on the Council's governance, risk and control environment.</p> <p>Ensure management action is taken to improve controls / manage risks identified</p> <p>encouraging ownership of the internal control framework by appropriate managers</p> <p>Encouraging ownership of the internal control framework by appropriate managers</p> <p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets</p>	<p>To consider reports dealing with the management and performance of internal audit</p> <p>To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale</p>
Draft Counter Fraud Plan 2016/17	Gain assurance that the Council has effective arrangements in place to fight fraud locally.	To monitor Council policies on confidential reporting code, anti-fraud and anti-corruption policy

Audit Committee Work Plan – 2015/16		
	Ensure that counter fraud resources are targeted to the Council's key fraud risks.	and the Council's complaints process.
International Audit Standards on the risks associated with the impact of potential fraud and error on the Financial Statements	Seek assurance that the statements made against the standard accurately reflect the Council's counter fraud arrangements.	To monitor Council policies on confidential reporting code, anti-fraud and anti-corruption policy and the Council's complaints process.
External Audit Plan	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>Note: Further assurance needed around impact / risks associated with early close down.</p>	To comment on the scope and depth of external audit work and to ensure it gives value for money
Review of Accounting Policies – <b>deferred from January 2016</b>	Seek assurance that the Council has appropriate accounting policies in place to ensure that items are treated correctly in the accounts.	To review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council
External Audit Progress Report and Plan	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>Note: Further assurance needed around impact / risks associated with early close down.</p>	To comment on the scope and depth of external audit work and to ensure it gives value for money
<b>Other Assurance</b>		



Audit Committee Work Plan – 2016/17		
20 <sup>th</sup> June 2016	Assurances Required / Being Sought	Relevancy – Terms of Reference
Lincolnshire Counter Fraud Partnership – awareness session.	Propose session starts at 10 with meeting commencing at 10.30	
<b>Core Business</b>		
Risk Management Progress Report	<p>Gain assurance that the Council is effectively managing its key risks – has good risk management systems / processes in place that enable decision makers to understand the level of risk being taken and the Council is prepared to accept.</p> <p>That there has been on big surprises for the Council where it suffered significant financial loss or reputational damage.</p>	To monitor the effective development and operation of risk management and corporate governance in the Council
Draft Annual Governance Statement 2016	<p>Confirm that the Annual Governance Statement reflects the Committee's understanding of how the Council is run and that any significant governance issues / risks have been identified / published.</p> <p>Constructively challenge the information and evidence being presented.</p> <p>Ensuring value for money assurance arrangements are reported on and assessing how this features in the Annual Governance Statement.</p> <p>Improving how the Council discharges its responsibilities for public reporting e.g. better targeting at the audience and plain English</p>	<p>To oversee the production of the Council's Annual Governance Statement and to recommend its adoption</p> <p>To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice</p>
Review of draft Annual Report on the work of the Audit Committee	Provide assurance that the Committee has adequately discharged its terms of reference and has positively contributed to how well the Council is run.	

Audit Committee Work Plan – 2016/17		
Internal Audit Progress Report	<p>Understand the level of assurances being given as a result of audit work and their impact on the Council's governance, risk and control environment.</p> <p>Ensure management action is taken to improve controls / manage risks identified.</p> <p>Encouraging ownership of the internal control framework by appropriate managers</p> <p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets</p>	<p>To consider reports dealing with the management and performance of internal audit</p> <p>To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale</p>
Review of compliance with Regulation of Investigatory Powers Act – <b>deferred from January 2016</b>		
Annual Report reviewing the effectiveness of the Council's complaints and compliments process, including how well the Council has dealt with complaints as demonstrated by the Local Government Ombudsman's Report. <b>Deferred from January 2016</b>	That the Council's process and procedures for dealing with complaints and compliments is effective.	
Other Assurance		

Audit Committee Work Plan – 2016/17		
18 <sup>th</sup> July 2016	Assurances Required/Being Sought	Relevancy – Terms of Reference
<b>Core Business</b>		
Annual review of the effectiveness of the Council's Internal Audit Function		
Review of Head of Internal Audit's Annual Report and Opinion 2016		
Scrutiny of the Council's Financial Statements 2015/16 (with specialist support/advisor)		
19 <sup>th</sup> September 2016	Assurances Required/Being Sought	Relevancy – Terms of Reference
Internal Audit Progress Report		
External Audit Governance Report on the Audit of the Council's Financial Statements and their assessment of the Council's arrangements to secure Value for Money in its use of resources		
Approval of the Council's Statement of Accounts for 2015/16		
Approval of the Council's Annual Governance Statement 2016		
21 <sup>st</sup> November 2016	Assurances Required/Being Sought	Relevancy – Terms of Reference

<b>Core Business</b>		
Outcome of the Internal Audit External Assessment		
<b>Other Assurance</b>		
<b>January 2017</b>	<b>Assurances Required/Being Sought</b>	<b>Relevancy – Terms of Reference</b>
<b>Core Business</b>		
Internal Audit Progress Report		
External Audit Progress Report and Plan		
<b>Other Assurance</b>		
Combined Assurance Status Reports		
<b>March 2017</b>	<b>Assurances Required/Being Sought</b>	<b>Relevancy – Terms of Reference</b>
<b>Core Business</b>		
Internal Audit Progress Report		
External Audit Progress Report and Plan		
Draft Internal Audit Plan 2017/18		
Draft Counter Fraud Plan 2017/18		
International Audit Standards on the risks associated with the impact of potential fraud and error on the Financial Statements		
External Audit Plan		

Audit Committee Action Plan – 2015/16			
Action	Terms of Reference Outcome	Key Delivery Activities	Who by and When
1. Clarify who should attend the Audit Committee and expectations on the information being presented.	<p>Ensure that relevant and focussed reports are presented. Provide more certainty that assurance is relevant and reliable</p> <p>Promote constructive challenge during meetings</p> <p>Strengthen accountability arrangements and the effectiveness of the Audit Committee</p>	Develop reporting protocol	<p>Audit and Risk Manager</p> <p>30<sup>th</sup> June 2016</p>
2. Undertake a skills and knowledge survey to review and establish any training and development needs as a whole Committee.	Enhance the effectiveness of the Audit Committee	In progress	No longer required
<p>3. A number of areas for consideration regarding the work plan were identified last year, namely:-</p> <ul style="list-style-type: none"> <li>Reviewing and encouraging transparency in partnership decision making.</li> <li>Understand and seek assurance over the governance and risks associated with our key partners.</li> <li>Facilitate risk management training and</li> </ul>			

<p>awareness for members and staff. To clarify the understanding of the level of risk the Council is prepared to accept across its key activities / business units.</p> <ul style="list-style-type: none"><li>• Overview of the constitution</li><li>• Compliance with the Transparency Code</li></ul> <p>Are these areas around which the Committee still wants to seek assurance?</p>			
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