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17 March 2017

Audit Committee

A meeting of the Audit Committee will be held on **Monday, 27 March 2017 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

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, 27 MARCH 2017

11 CONSIDERATION OF EXEMPT INFORMATION
In accordance with Section 100(A)(4) of the Local Government Act 1972, the following agenda item has not been circulated to the press and public on the grounds that it is considered to contain exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended. The press and public may be excluded from the meeting during consideration of this item of business.

REPORTS FOR INFORMATION
(These reports are for information only and do not require discussion at this time. Any issues the Committee feel require discussion can be highlighted under the work plan item and scheduled for a future meeting)

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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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Lincolnshire COUNTY COUNCIL
Working for a better future

AUDIT COMMITTEE
30 JANUARY 2017

PRESENT:

Councillors Mrs E J Sneath (Vice-Chairman, in the Chair), 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 (Audit Team Leader), Debbie Barnes (Executive Director, Children's Services), Debbie Bowring (Principal Risk Officer), John Cornett (External Auditor, KPMG), David Forbes (County Finance Officer), Glen Garrod (Executive Director of Adult Care and Community Wellbeing), Tony McArdle (Chief Executive), Pete Moore (Executive Director, Finance and Public Protection), Mike Norman (External Auditor, KPMG), Lucy Pledge (Audit and Risk Manager), Sophie Reeve (Chief Commercial Officer), Richard Wills (Executive Director, Environment and Economy) and Rachel Wilson (Democratic Services Officer).

44 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Mrs S Rawlins.

45 DECLARATION OF MEMBERS' INTEREST

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

46 MINUTES OF THE MEETING HELD ON 21 NOVEMBER 2016

RESOLVED

That the minutes of the meeting held on 21 November 2016 be signed by the Chairman as a correct record.

47 COMBINED ASSURANCE STATUS REPORTS

Consideration was given to a report which provided the Audit Committee with an insight on the assurances across all the Council's critical services, key risks and projects.

The Chief Executive and the Executive Directors were in attendance to present their Combined Assurance report and answer any questions from members of the Committee.

Update from the Chief Executive

The Chief Executive gave the Committee an overview of risks for the Council and advised that the biggest concern was the financial pressures on local government, which were considerable, and most considerable in county council areas. Lincolnshire was one of the 3 most disadvantaged authorities in terms of its financial settlement, as the authority receives so much less per head of population than other areas. However, it was a credit to the authority that it managed to do what it did. The authority continued to deliver strongly across all service areas and with many above average services.

The financial pressures would remain but the authority knew what the outlook would be for the next four years as it had accepted the government's four year deal. Further service reductions would be required, as the financial situation would remain very difficult for the remainder of the decade. The Council would continue to experience cost pressures such as demographic pressures and the back log in terms of road maintenance would continue to grow.

There were also concerns about the Council's lack of resilience, as the authority had little built in resilience, and was operating near its optimum level. When there were unexpected pressures, there was not always the ready capacity to deal with them.

It was also a worry that there were some difficult decisions which would have to be made. It was a concern that the Council was being driven to look short term, as it needed to solve the immediate problems, rather than to focus on schemes/projects which would be of benefit in 10-20 years.

However, members were advised that there were solutions to the issues outlined. The Council would prioritise the services it provided, and may need to make difficult decisions about scaling back some services, and would increasingly seek to work with partners in delivering services, as well as in sharing services.

Savings would also be made through the well-focused nature of the contracts that the council let. There were currently hundreds of contracts in place with a package of measures, which would transfer the risk from the Council. In the majority of cases this worked very well.

In terms of IT, the authority was behind the game. Most of the operational problems had been resolved, but now there would be a need to speed up technology applications so the authority could use more efficient and modern systems.

A lot of what the Council did depended on how it worked with others, but other public sector organisations were struggling as well, most notably health partners. It was acknowledged there were difficulties with relationships in health services, as the structures did not allow for the delivery of the best services for local people. It was believed that the structures which operated in local government and the health services were no longer fit for purpose.

Members were provided with the opportunity to ask questions in relation to the update provided and some of the points raised included the following:

- Members appreciated the open and honest update
- The disadvantages arising from the funding issues were the basis for many of the authority's problems
- It was commented that it was a gloomy picture, and the current situation was not sustainable long term, but it was queried what was meant by long term. Members were advised that the Council had submitted a four year funding agreement to government, so officers knew what funding the authority would receive. It was noted that the reality was that there were a number of authorities at a point where insolvency was something they were actually discussing. However, Lincolnshire was not one of them. The fact that Lincolnshire was disadvantaged in terms of funding, but not heading towards insolvency was a good thing. It was also commented that the planned retention of business rates could go some way towards rebalancing the formula for local government funding. It was possible that there would be a review of local government funding, and it was commented that this was unlikely to be to Lincolnshire's disadvantage.
- With a substantially reduced number of staff, those remaining would be given training and support to do their jobs well. It was preferred that the Council did a few things well than try and continue to do everything, but to a poorer standard.
- It was queried whether there were any areas that the Audit Committee should be looking at in more detail, it was commented that it was thought that the Committee was already doing a good job identifying what should be on its agenda. It did an excellent job of staying focused, and the members asked the right questions.

Executive Director Adult Care and Community Wellbeing

The media had regularly been reporting on the adult social care pressures, and it was acknowledged that this was probably one of the single largest pressures for the authority, as well as the NHS. However, for five years adult social care had not overspent and had balanced its budget.

It was acknowledged that there was fragility in the social care market, but Lincolnshire had an adult social care model which was almost exclusively commissioned services. The authority carried out 62,000 visits per week to vulnerable adults, and it was noted that adult social care was a demand led service which required continual growth in consequence of local demographics. Travel time was a big challenge in Lincolnshire, not just for the care workers, but also social workers, occupational therapists, practice nurses, physiotherapists etc.

Adult Social Care was also the single largest income generating service in the authority at over £36m and it was able to generate 99% of charges having a highly efficient system for recovering debt.

Joint working with health colleagues was essential. The Better Care Fund (BCF) was an important source of income for the Council and was negotiated with the four clinical commissioning groups (CCG). There was also an increasing need to negotiate with district councils regarding the disables facilities grant. There was a need for better housing to meet the needs of Lincolnshire residents, but this responsibility sat with the districts.

In terms of ICT, the Mosaic platform had been introduced, but it had not yet delivered the promises that needed to be seen from it. There was a need to evolve the ICT platform so that people could self-serve better, as it would not be possible to employ the number of staff needed to meet demand. The average age of an older person needing adult care services was rising and now stood at 84 years, and people of working age were having increasingly complex needs, needing both health services and care services, which was why integration was a critical component to better meet the needs of this most vulnerable population.

Another pressure was working age adults who required care, as it was not yet understood what would happen when those people reached 60-70 years old. Due to medical advances, people with complex needs were living longer and were transferring from children's services to adult care and Adult Care would support them as best as it could. One assessment could cost the authority between £13m-£15m over 40 - 50 years.

There were 120 over 75's in the county who were looking after an adult with profound disabilities so supporting carers was also important. Colleagues in Public Health would be critical to the future in helping prevent needs arising.

Members were advised that looking ahead, there were 2-3 critical areas which included the need for improved information and technology, which was something that staff would welcome. There was a need for a level of analysis which would help the authority better predict demand, as if NHS colleagues start to suffer, this would have an effect on this Council. Developments with the STP in the next 6 – 12 months would be very interesting, as it would represent a significant shift in how health services work. Working with housing colleagues was also of importance as housing was a key component to meeting needs.

The Committee was provided with the opportunity to ask questions to the officers present in relation to the update provided and some of the points raised included the following;

- The supply chain in social care was one of the key risks, so it was queried what actions were being taken to mitigate this. Members were advised that the council only commissioned on a three year cycle, and had moved away from spot purchasing services. This gave guaranteed income streams for the providers so they were able to recruit staff to meet need. For the last five years, reasonable unit prices which were sustainable had been secured. Petrol prices had also been relatively low over recent years, but were now creeping up which would have a direct effect on the council's ability to procure in excess of 62,000 hours of home visits each week. There would also be pressures from the impact of the national living wage which would continue to cost the council substantial sums of money until the end of the decade.

- In relation to the quality of housing, there was a need for more training, as a lot of local authorities used to train young people in construction.
- It was queried what the career structure for a young person in the care sector was, and members were informed that the issue of training within the care sector was very important. In February, Lincolnshire would hold the first celebration of care roles, which was a way of giving recognition to the roles. There was also the issue of over professionalization of some roles, meaning that applicants needed to have a degree to apply, and some people suited to the roles were not academic. However, this year Lincolnshire had succeeded in securing associate nurse roles, which did not need a degree, there was also a vocational course. It was noted that Lincolnshire was the only authority to secure 10 associate nurse roles. This was as part of a national pilot scheme to get nurses into care homes.
- In terms of the quality of care homes, it was only the CQC who could de-register a registered provider, and in the past would close only those homes which were inadequate or where the levels of abuse were profound, however, now those providers which were requiring improvement but not improved within 6 months were at risk of closure. In Lincolnshire, the Council took the approach to support those providers that were struggling to improve, as these homes supported some of the most vulnerable people outside of the hospital acute ward. The council would suspend placements in order to prevent a situation getting worse, as if these homes closed the residents could be placed in homes many miles from family.
- It was commented that the biggest risk was that many of the challenges were outside the organisation and so outside the council's control. It was acknowledged that this was an accurate analysis, but the future lay in the quality of relationships and the way that council worked together with both internal and external partners.
- The Executive Director reported that he spent a lot of time with NHS colleagues to ensure that a good relationship was maintained.
- There were a number of things the districts could do to help with housing which included asking developers to build in lifestyle features to new properties such as wider doorways etc., work with the county council regarding growth of disabilities facilities grant, and creating a county-wide register of disability adapted properties.

<u>Executive Director for Children's Services</u>

Children's Services received a significant amount of third party assurance through rigorous inspection regime by Ofsted. Throughout these inspections, Lincolnshire had been found to have a stable and highly competent management team.

In relation to schools, the Council had recently changed the school improvement model, as there were now more academies, less funding and a concern about insufficient progress in improving outcomes, it had been decided to move to a sector led model, and this was beginning to have a positive impact on standards and the number of school exclusions.

Youth Offending had transferred into Children's Services. It was early days but so far was very positive, and there was a strong partnership way of working.

In terms of concerns, this was mainly a demand led service, there were increasing numbers of children coming into the service requiring statutory services and they also had increasingly complex needs. There was continued investment in preventative services which helped to mitigate even further demand on specialist resources. There was an increased demand in terms of older children with challenging behaviour with a pattern of parents who were unable to cope with high risk behaviours, as well increased demand in terms of SEN and children with disability, with the latter being partly due to more advances in hospital care meaning children with severe needs now had higher survival and life expectancy rates.

In terms of recruitment of staff, agency rates were low, as was the vacancy rate. However, it was very difficult to recruit in some areas, especially on the east coast.

There were continued austerity measures, which was having an impact on families and the council's own services. It was positive that mosaic had been implemented but there was not the infrastructure of effective IMT to enable for good quality social work to thrive and maximise opportunities which should be available within a good IMT system. There was still a lot of investment and capacity needed with the Agresso system before it was at the required standard, and some of the processes did not allow for the easy recruitment of staff.

In terms of next steps, there were some significant transformational opportunities and some core projects coming up over the next few months. Lincolnshire Children's Services had been judged by Ofsted as good, and as a result had been identified as a Partner in Practice. The DfE wanted to work with the authority on how it could innovate and improve children's services. There was also a requirement to support other authorities, and so Lincolnshire was currently supporting Rotherham Children's Services.

Public health nursing would be delivered through the Council and there were plans to transform the service through greater integration.

There was a need for demand management around SEN, and to work with schools to help them to be more inclusive to reduce the number of children going out of county for education.

There would continue to be challenges in relation to housing for the most vulnerable young people, as well as care leavers who needed alternative support and accommodation.

Members were provided with the opportunity to ask questions in relation to the update provided and some of the points raised during discussion included the following:

- Concerns were raised regarding supported accommodation and the responsibility for children who were placed in Lincolnshire from out of county, as there were a lot of residences with vulnerable young adults. Members were advised that a local authority who placed the child/made the child looked after would remain responsible for a young person within its care, wherever the young person was placed. However, if they were resident in Lincolnshire, their education would be the responsibility of the County Council (Higher needs SEN costs could be reclaimed). It was reported that at any given time there were circa 400 young people in Lincolnshire from other local authorities. There was a particular risk in Lincolnshire due to the relatively cheap housing, which made it attractive for other authorities looking to place young people in the south of the county.

- In relation to academies and the increasing numbers of schools who had converted to an academy, concerns were expressed in relation to SEN. It was also commented that there had been some good integration in terms of children where English was not their first language. It was reported that the authority had influence rather than control over the academies, and had constructive and positive relationships with many academies and academy trusts.
- It was queried what risks there were with the insourcing of public health nursing. Members were advised that there were both long term and short terms risks, in the long term it was mainly around the recruitment of staff. However, it had been agreed to appoint a Lead Nurse who would have responsibility for the professional development of staff, officers were also working with public health to set up clinical governance arrangements.

<u>Executive Director Finance and Public Protection</u>

In terms of financial resilience, a debate was going on at a national level around business rates retention, but this would not be implemented until April 2020. However, a more important piece of work was the needs based review, which would be a formula based on future need and one that the Council and the County Council Network were lobbying hard on.

The Council's main revenue support grant had reduced from around £200m in 2010 to an expected £20m in 2020. The Council was only setting a one year budget for 2017/18, partly to reflect that there would be a new council elected in May 2017, and this would allow the new council to make decisions around priorities for future years. The use of reserves would still be required for the coming year. Savings of around £30m would be required beyond 2017/18.

Work was ongoing to ensure that a more resilient framework was in place going forward. Overall assurance was moving forward in a positive way, and there was a positive direction of travel, but there was still some work to do around Agresso and associated processes.

Work in the property area was a good news story, as performance in the Partnership with Vinci Mouchel had been good, and it had a very important part to play in helping the council to move forward in an efficient and flexible way.

Key issues were still around residual Agresso issues and the introduction of a new insurance administration system. Because of the former and the delayed introduction of Mosaic some of the planned savings in Business Support had been delayed, and all of the savings for 2017/18 had not yet been identified.

The Coroners Service was going through some change, and was moving towards a single coroner's jurisdiction. Business support would also need to be reconfigured as part of that process.

The business continuity capacity in Emergency Planning was being extended by training more officers in this area. Work would also be undertaken with service managers over the next 12 months to refresh business continuity plans and test a sample of them.

Members were provided with the opportunity to ask questions in relation to the update provided and some of the points raised during discussion included the following:

- Thanks and congratulations were extended for the way the Council had performed in relation to potential wider IT issues. It was acknowledged that there was still a need for some improved IT systems and some individual staffing changes had been made which had removed some weaknesses.
- There was increased need for emergency planning across the whole authority with other agencies. For example, trading standards had dealt with 3 avian flu outbreaks recently. Staff had been taken offline so they could deal with the emergency and so their ability to do their day jobs had reduced. This was inevitable as built in capacity had been reduced as a result of Government grant and budget cuts.
- All areas had faced budget reductions, and all discretionary Council funding for PCSO's had been removed. There were still some key discussions which needed to be held over the next few months in relation to partnership funding. One of the Council's biggest critical partners was the Police and Crime Commissioner in determining those partnership priorities.
- In relation to the Coroners Service, it was noted that there were some cost factors that could affect the service which could not be controlled, for example high profile inquests, and it was queried whether there was any way that national government would be able to assist with these costs, particularly when expert witnesses were required. Members were advised that the Council had lobbied government on this issue. Also, the authority was trying to introduce new business support systems.
- In relation to the future need for different levels of risk management, it was noted that it was good to have different levels of appetite and thresholds for different types of risk, and this reflected the fact that budget cuts had meant management capacity had had to be focused on more critical risks. It was noted that a lot of work had taken place during the year to minimise the risks of closedown in payroll.

<u>Executive Director Environment and Economy</u>

The main issues for environment and economy were around skills and partnerships. As there was less money, some of the services were reducing considerably, and so there was a focus on doing fewer things well. In terms of skills, recruitment and retention was not too much of an issue at the moment, but it could be harder in the near future.

As the council had less money, there would be a need to do things differently, and completely re-think the way that things were done. It had taken a year to remodel, but the new service would start in February and the council would be treating the highway network as a transport system.

Partnerships were increasingly common, and the authority no longer did things on its own, for example, working with district council colleagues in areas such as waste and health. There would be a lot of work on heritage over the next couple of years. There were also issues around waste, and the authority was struggling in its partnership with districts as each authority was autonomous in its own area.

Members were provided with the opportunity to ask questions to the officers present in relation to the update provided and some of the points raised included the following:

- Concerns were raised that if the Council starting losing heritage assets, there would be fewer people coming into towns. Members were advised that the heritage service would be moving to a more business/commercial model. The risk would be that it would simply be balancing the books and there were wider economic and social advantages which were important. There were already around 800 volunteers in heritage areas. It was acknowledged that sometimes the authority got it wrong when looking at smaller budgets, as small budgets did not really make a difference in whether the authority balanced its books.
- There would be a need to look at how the Castle could be used to help and develop heritage across the whole of the county.
- In terms of development, most of the planning work was done by districts and highways and it was queried whether the feedback from the county council as a statutory consultee could be improved. It was noted that the vast majority of advice given to districts was accepted. The directorate had re-organised and centralised some services to maximise its ability to advise on planning matter, however, as a result some of the nuances of the locality may be missed.
- There was a need for progress in relation to a food hub in Spalding which would be used for food distribution to recommence as if it became operational it would increase employment and reduce traffic on the county's roads. Members were advised that this was a private sector development outside the control of the Council, however, the authority could help in terms of giving advice and obtaining planning consent.
- It was suggested whether the charges for the court in the Castle could be increased. It was noted that the authority had spent a lot of money designing a new building for the court service, but they had decided to stay where they were. It was acknowledged that this was a risk which sometimes had to be taken. The authority would not be able to move forward if it did not take some risks. There may be a need to be more rigorous in the future in deciding what risks to take, and there will be increasing due diligence work undertaken.

- It was queried what connection the Council had with North Hampshire, and members were advised that it was an income stream that was recovered in relation to the matrix booking system.
- In relation to building better roads for the County, it was commented that the DfT did not seem to recognise the fact that some of Lincolnshire's roads were busier than some of the strategic road network, and it was queried whether it would take responsibility for them or give the Council the additional funding which was needed to maintain them to the required standard. It was noted that Lincolnshire was part of the Midlands network so there should be some recognition of regional and local transport pressures. There was a need to be in the right place to be able to influence.
- It was noted that red and amber assurances had increased since the previous year. However, it was reported that there were some things in 2015/16 which were not under this area.
- It was suggested that there was a need to learn to live with higher risks, and how much risk the council was willing to take.
- It was queried whether risks around partnerships should be on the strategic risk register, and it was noted that discussions had commenced with audit regarding which partnerships the authority should be engaged in.

<u>Chief Commercial Officer</u>

There were two teams within the Commercial Team which delivered contract management, procurement and commercial activity as well as a Project and Performance Team which carried out project management for high risk projects. On average, around 50 procurements were delivered or supported at any one time by the team.

It was reported that the Public Health procurement and contract management functions were integrated into the Commercial Team from 31 October 2016. Review work was currently underway to understand the different service requirements, learn from what was working well and to identify any areas for improvement.

It was commented that more time than originally planned had been spent monitoring the Serco contract, and the team had worked alongside the service leads and the Council would continue to put pressure on Serco in relation to delivery, particularly in relation to the IMT transformation plan.

There was a need to find ways of further managing procurement risk down.

Internal audit showed good knowledge of the procurement regulations across the authority.

Another risk was capacity within the adult care market which the team would continue to support to reach the required standard. It was noted that the relationship with the market had improved and the authority was now having constructive dialogue.

Wellbeing re-procurement and preventative services would be vital and it was very important that people were supported to live independently for as long as possible.

There had been assurance activity across the work of the commercial team from internal audit, through the KPMG review of Serco and the Adult Social Care peer review. It was noted that the service had no red risks, the amber ratings were around the ongoing issues with Serco.

Members were provided with the opportunity to ask questions in relation to the update provided and some of the points raised during discussion included the following:

- Additional activities were carried out with all contract management activity to ensure that different aspects of the contract fitted together sensibly. The team would try to mould the procurement to give the best chance of a successful delivery.
- Service credits were applied to contracts which were not performing as well as they should where the contract provided for that. Part of contract management activity was to raise the standards.
- It was highlighted that there were no numbers on the strategic risk register in relation to projects, and members were advised that this was due to a need to provide an overview of what the programme of projects would look like, and there was still more work to do on this before a score could be given.

(Note: Councillor S Tweedale left the meeting at 12.00 noon)

- It was commented that it was thought that the assurance which had been given had been very open and honest.
- It was commented that supporting evidence was also needed as well as taking what was reported by managers on trust.
- A concern was expressed that if there was a change in the economy and growth took place, key individuals may decide that it was time to move from the public sector to the private sector. It was queried whether the authority would be able to compete with this.

RESOLVED

That the Audit Committee receives the combined assurance reports as presented by the Executive Directors in relation to the adequacy of the Council's governance, risk and control environment.

48 <u>IT ASSURANCE</u>

Consideration was given to a report which provided the Committee with an insight into the assurance status for Information Management Technology. There were well established assurance maps which helped to focus work plans on the risks which would affect the successful delivery of the services and strategic objectives.

In relation to Information Management, these services were either rated green or trending to green. Those that weren't were where the Council was relying on an outsourced provider for services.

Maturity assessments had been undertaken, and IT services had been reviewed from a customer perspective and from an internal point of view. These assessments demonstrated that the IT Service Provider was not fulfilling the contractual commitments in many areas.

There was a requirement for IT to deliver a different way of working, and it was currently unable to get those initiatives delivered in a timely manner. The solutions which were being presented fell short of what was needed to bring the services to adequate levels, regardless of the levels committed to within the contract.

In terms of service delivery, there were a number of initiatives which should prevent outages, which impact day to day service delivery. The IT Service Provider was operating a reactive rather than pro-active service, which was against the standard industry methodologies which were contracted for.

One of the strategic risks was the risk of cyber attacks. This was also an ongoing national risk. There were thousands of attempted malware attacks every day, and there was a need to ensure that the authority had the right skills available to identify and manage this risk, and had systems in place to minimise the risk. It had been difficult for the Council to gain proposals for key technology solutions to mitigate the risks, as identified before and after two malware outages.

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

- There was a need for the Audit Committee to have sight of the high level action plan which was in place to bring this risk under control.
- It was noted that the authority was struggling to get a level of commitment from Serco to address the issues.
- There was a need for the Executive to work to ensure that key members of IMT team staff were retained. It was noted that workloads were excessive and there was a lack of capacity within the team due to the need to manage the IT Service Provider to ensure service levels did not worsen.
- It was reported that there had been assurance from Serco that they would appoint an IT director.
- One member commented that they sat on the Recovery Group, which did see the programmes and timescales for addressing the issues. However, it was noted that the information presented to the Recovery Group had not been qualified by the IMT service.
- It was reported that the authority had achieved recognised international standard ISO 27001:13 in November 2016 for cyber security, but the Council was unable to gain assurance that activities committed to were being undertaken. This heightened the risk to Cyber Security.
- The Committee would be kept informed of progress, but there may be a need for a confidential session so the issues could be explored fully.

- It was noted that the inability to deliver transformational change, and the inability for Serco to provide accurate data was a risk, but it was not a strategic risk.
- It was queried whether the public sector was able to manage these risks as stringently as the private sector would. Members were advised that Lincolnshire had stronger IMT than other authorities in the country.
- It was requested that the action plan was brought to the next meeting of the Audit Committee.
- It was queried whether if continued poor delivery was an operational risk, was it a threat to other parts of the Council, and it was suggested that therefore this would be a major risk. Members were advised that this was included in the Annual Governance Statement as a significant governance issue, and officers were currently working on updating the strategic risk register.
- The contract did allow for the recovery of additional spend where Serco was in breach of contract and the additional Council spend was as a result of that breach.
- The situation with IT had been raised by all directors as an issue.

RESOLVED

The Committee requested that the action plan to manage the areas of low assurance, indicated in the Combined Assurance report be brought back to the next meeting of the Audit Committee.

49 INTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report which provided an update on internal audit work undertaken in the period 12 September 2016 to 12 February 2017. It was reported that 15 final reports had been issued, as well as 3 reported to schools. 7 audits were at draft stage, and there were many others in progress.

It was reported that there were 5 reports with high or substantial assurance, and five with limited or low assurance.

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

- It was commented that it seemed disappointing that only 65% of recommendations had been implemented. Members were advised that in the majority of cases, there would be a closure meeting which would finalise timescales for the implementation of actions. It was noted that the majority of outstanding recommendations related to two pieces of work on payroll and pensions, and the initial timescales may have been ambitious. However, officers were keeping a close eye on how they were progressing.
- It was queried what incentives were available to encourage service areas to ensure actions were implemented. Members were advised that this was more about the time scales to fully implement changes, and many of the actions were partially completed.

- It was noted that some actions were dependent on the implementation of other initiatives.
- Pressure would be kept on the service areas with outstanding actions through the tracking process.

RESOLVED

That the Committee note the outcomes of the Internal Audit work.

50 EXTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report from KPMG, the County Council's External Auditors, which gave an update on the 2016/17 Audit deliverables.

Members were guided through the External Audit Progress Report and Technical Update and provided with the opportunity to ask questions to the officers present in relation to the information contained within the report and some of the points raised during discussion included the following;

- Planning work for the 2016/17 audit had commenced and it was queried whether it was expected that there would be extra work required for this year's audit. It was confirmed that this was likely, however, it was expected to be less than was required last year.
- It was noted that the external auditors attended a meeting of the Pensions Board as they were asked to do so, and if they were asked to attend Pensions Committee they would attend.
- Reference was made to organised crime and it was noted that KPMG would be meeting with the Police, and work was also ongoing with Trading Standards.

RESOLVED

That the Committee receive the progress report.

51 RISK MANAGEMENT PROGRESS REPORT - JANUARY 2017

Consideration was given to a report which would assist the Committee in its role to gain assurance that the Council was effectively managing its key risks and had good risk management systems and processes in place that enabled decision makers to understand the level of risk being taken that the Council was prepared to accept. The report also provided an update on how well the Council's biggest risks were being manged as well as reporting on the progress made in assisting the Council to adapt and change the way it 'thinks' about risk. It was reported that overall, the Council's strategic risks continued to be managed well.

In relation to projects, members were advised that they had not been given a level of assurance as a piece of work was being undertaken with the relevant programme/project leads to establish how risk management was applied and to ensure that the risks had been identified.

RESOLVED

That the Committee note the current status of the strategic risks facing the Council.

52 WORK PLAN

Consideration was given to a report which provided the Committee with information on the core assurance activities currently scheduled for the 2016/17 work plan.

It was noted that further items to be added to the work plan included the Strategic Risk Register and an IMT action plan. It was requested that the action plan be brought to the next meeting of the Committee in March.

Members were advised that the training on risk management had been delayed until the new Committee was in place after the election. It was noted that there would be a traditional induction session as part of the Councillor Induction Programme, but there would also be some additional risk management training.

RESOLVED

That the above changes to the work plan be noted.

53 DATA PROTECTION AUDIT BY THE INFORMATION COMMISSIONER'S OFFICE

Received for information.

54 KPMG ANNUAL AUDIT LETTER

Received for information.

The meeting closed at 12.55 pm

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Lincolnshire COUNTY COUNCIL *Working for a better future*

Regulatory and Other Committee

Open Report on behalf of Executive Director - Pete Moore

Report to:	**Audit Committee**
Date:	**27 March 2017**
Subject:	**Internal Audit Progress Report**

Summary:

This report provides an update on internal audit work undertaken in the period of 12th January 2017 to 12th March 2017.

Recommendation(s):

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

Background

This report provides details of the audit work during the period 12th January 2017 to 12th March 2017 and advises on progress with the 2016/17 Audit Plan.

Conclusion

During the period we have completed 15 County audits, 6 to final report (including 2 consultancy assignments) and 8 to draft report stage as well as finalising 1 school audit. There are 6 further audits in progress.

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

For All Your Assurance Needs

Internal Audit Progress Report

Date: March 2017

Contents

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Assurance LINCOLNSHIRE

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Introduction

1. The purpose of this report is to:

   - Provide details of the audit work during the period 12th January to 12th March 2017
   - Advise on progress with the 2016/17 Audit Plan
   - Raise any other matters that may be relevant to the Audit Committee role

Key Messages

2. During the period we have completed 15 County audits, 6 to final report (including 2 consultancy assignments) and 8 to draft report stage as well as finalising 1 school audit.

3. There are currently 6 further audits in progress.

4. The detailed revised 2016/17 Audit Plan is shown in Appendix 2 with current progress as follows:

   73% completed or at draft report stage
   27% in progress

Internal Audit work completed in the period 12th January to 12th March 2017

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

High Assurance	Substantial Assurance	Limited Assurance	Consultancy Assignments
▪ Bank Reconciliation	▪ European Regional Development Fund ▪ Trading standards		▪ Mosaic Case Management System ▪ Greater Lincolnshire Local Enterprise Partnership – Assurance Framework

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.

6. Since our last progress report we have issued 3 final reports providing High or Substantial Assurance:

Bank Reconciliation

Our review confirmed that the bank reconciliation processes are working well. There have been difficulties with the transition to Agresso which have now mainly been resolved. Officers are aware that there is a large difference between the general ledger and cash book of £288,590.88. This has remained unchanged since February 2016 and Unit 4 consultants are currently looking into how this can be corrected.

European Regional Development Fund

The European Regional Development Fund (ERDF) is a grant programme run by the EU which aims to promote regional development, stimulate economic growth, encourage technological innovation and help create sustainable jobs. The Council successfully secured £15M of ERDF funding and roughly the same of other EU funding during the 2007-13 grant programme. Three revenue projects and two capital projects have since attracted clawback of grant monies totalling approximately £380K due to non-compliance with grant conditions. The Council were also liaising with the Department for Communities and Local Government regarding possible clawback of between £200-£700K relating to the Teal Park development project. This continues; however our audit sought to provide assurance that lessons have been learnt from these clawbacks so that current projects are not subject to the same treatment in the future.

Our review found that lessons learnt from clawback of ERDF grant monies have been identified by management and that these are being considered during the course of current projects and when bidding for external funding. The issues encountered have also resulted in some changes to procedures and regulations.

Trading Standards

Our audit reviewed arrangements to deliver trading standards functions with reduced resources. We found the Trading Standards Service is delivered via two work streams (Business Compliance, and Intelligence Led). We can confirm that a methodical approach is adopted when prioritising the services' workload, which results in:

- defined work plans for inspection and sampling activities; .
- the allocation of adequate resources to service income generating activity.

The service has adopted the National Trading Standards Board Integrated Operating Model. On-going reactive work is monitored via the Tactical Assessment Group, additional reactive work (as Problem Profiles) is considered by the Group and resources committed where the Group has established that either spare capacity exists; or decides to hold other on-going reactive work in abeyance. Again, the process is methodical in approach.

Our work has made some recommendations for improvements including defining and documenting the framework for risk assessments and consideration of how time manage to be able to quantify or identifying where spare capacity may exists, or whether resources are being utilised in the most effective and efficient manner.

Audits in Progress

7. We have 8 audit's at draft report stage:

- HR recruitment processes in Schools
- Integrated Community Equipment Scheme
- Missing Children
- Adult Care Assessments – Initial and annual
- Adult Safeguarding Referrals – Consultancy report
- Accounts Payable
- Pro-contract. Replacement Contract Management system
- Heritage sites

These will be reported to the committee in detail once finalised.

8. Audits are currently in progress include:

- Child Sexual Exploitation – Joint working
- Contracts
- VAT
- Annual Key Control testing
- Payroll
- Inclusion

The audits of the Highways Maintenance restructure, Partnerships, Adult Safeguarding Peer Review follow up, Agresso and the ICT work have been delayed by Management and have been rolled into the 2017/18 plan as they will now be undeliverable during 2016/17.

More details on audits in progress can be found at Appendix 2, which details the entire 2016/17 audit plan.

Other Key Work

9. Other key work undertaken during the period includes:

Mosaic Case Management System (Consultancy Assignment)

We reviewed the Case Management Partnership Programme (CMPP) to give independent assurance on the Mosaic Case Management System's readiness for Go Live late in 2016. Although Mosaic was procured in 2014, this audit only began in September 2016 and our findings and opinions are based on this point in time, we did not consider a historical perspective.
Our work included exploring how the project team is approaching Go Live, including training users and support staff, migrating data and integrating Mosaic within LCC's social care processes, to give us confidence that the project will be delivered on time.

We would summarise our main findings as:

- The project is well managed and has a good structure with experienced professionals (both LCC staff and contractors) working on it.
- There is a good working relationship with Serco. This has been fostered by an informal collaborative relationship between the CMPP project manager and the Serco counterpart.
- Mosaic has almost 2,500 users. Training so many people across a county as large as Lincolnshire and in a short space of time has been challenging but has largely been achieved.
- Data is regularly migrated from existing adult and children systems to Mosaic. Migration testing includes referral to the business for confirmation of completeness and accuracy.
- System security and resilience testing results need to be confirmed.
- Business Readiness documentation needs completing.
- Parallel running of Mosaic alongside existing systems for 18 months seems over long.

Greater Lincolnshire Local Enterprise Partnership – Assurance Framework (Consultancy Assignment)

Local Enterprise Partnerships (LEP's) are voluntary partnerships between local authorities and businesses. They were set up in 2011 to help determine local economic priorities and lead economic growth and job creation within the local area. Central Government issued guidance on what they expect to be included in the LEP's local assurance framework in October 2016. LEP's are required to review, refresh and sign off their frameworks using this updated document. Our audit carried out this review in preparation for sign off by the Section 151 Officer.

We reviewed the work in progress GLLEP Local Assurance Framework, and found that the majority of requirements raised by the new guidance were appropriately actioned. We found 73% key points were covered sufficiently. For the other 27% of key points we have made recommendations to strengthen or expand arrangements to fully meet the guidance.

Infrastructure Asset Revaluation

We have completed an audit of arrangements in place to implement the Highways Network Asset Code into the Financial Reporting Requirements of Local Authorities. This was originally due to be applied to the 2016/17 accounts although during the course of the audit this was delayed by government to the 2017/18 accounts.

At its meeting on March 8th, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. As our report makes recommendations to meet the code these are now irrelevant so the final report will not be issued.

Performance Information

10. Our performance against targets for 2016/17 is shown in the analysis below:

Performance Indicator	Annual Target	Profiled Target	Actual
Percentage of plan completed (based on revised plan)	100%	90%	86%
Percentage of recommendations agreed	100%	100%	100%
Percentage of recommendations implemented	100% or escalated	100% or escalated	100%[1]
Timescales:			
Draft Report issued within 10 days of completion	100%	100%	59%
Final Report issued within 5 days of management response	100%	100%	77%
Draft Report issued within 2 months of fieldwork commencing	80%	80%	44%[2]
Client Feedback on Audit (average)	Good to excellent	Good to excellent	Good to excellent

[1] Implemented or reported to audit committee for tracking
[2] Delays in agreeing findings and potential impacts with management for several audits is creating delays which impact on this target and the issue of the draft report

Appendix 1 - Assurance Definitions[3]

High	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. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.
Substantial	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. 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.
Limited	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. 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.
Low	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. 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.

[3] 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 – Internal Audit Plan 2016/17

Audit Area	Assurance Being Sought	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Given
Commissioning Strategy 1: Children are Safe and Healthy					
Families Working Together	Audit sign off as per the requirements of the grant.	**Aug 16**	**Aug 16**		1st Grant sign off complete
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.	**Jun 16**	**Jan 17**		Draft report stage
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: • Children missing education • Children not receiving 25 hours education per week Our audit will leverage assurance from other sources of recent review, where possible.	**Nov 16**	**Nov 16**		Draft report stage

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Commissioning Strategy 2: Learn and Achieve					
Social Care and SEND transport	Over transitional arrangements from the current providers to the new arrangements that will commence January 2017	**Aug 16**	**Aug 16**	**Nov 16**	Complete – High Assurance
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.	**Feb 17**	**Mar 17**		In progress
Local Authority Arrangement for Supporting School Improvement	Sufficiency of transition arrangements for moving from a contracted service to a sector led approach.	**Feb 17**	**Mar 17**		In progress
Commissioning Strategy 6: Carers					
CSC Carers Team	Confirm Carers mobilisation plan complete and progress made against delivery of this plan.	**Aug 16**	**Aug 16**	**N/A**	Complete - Scope changed to support through consultancy
Commissioning Strategy 7: Adult Frailty, Long Term Conditions and Physical Disability					
Workforce Development	That the workforce development plan is embedded and delivery arrangements and monitoring are effective to develop and maintain a skilled workforce.	**Sep 16**	**Jul 16**	**Sep 16**	Complete – Limited Assurance
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.	**Sep 16**	**Aug 16**		Final report stage
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.	**Jan 17**	**Feb 17**		In progress
Better Care Fund	Confirm adequacy of governance, financial management and performance monitoring arrangements to ensure the BCF meets its objectives in the medium term.	**Jun 16**	**Jun 16**	**Jan 17**	Complete – Substantial Assurance

Commissioning Strategy 8: Safeguarding Adults					
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.	**Feb 17**	**Feb 17**		Rolled forward
Commissioning Strategy 9: Enablers and support to the Council's outcomes					
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	**Jun 16**	**Jun 16**	**Nov 16**	Complete
ICT - Key Application Audit – Agresso	Overall Administration of this key application, to include Access, Security and Processing controls.				Rolled forward
ICT - Key Application Audit –Case Management System (MOSIAC)	Overall Administration of this key application, to include Access, Security and Processing controls.	**Sep 16**	**Sep 16**		Complete
ICT Audit	Scheduling of individual ICT audits to be agreed in year. Possible areas for focus include: • ICT provider governance arrangements • ICT strategy • Data Sharing • Change Control We will discuss and agree the final ICT plan with the Chief Commissioning				Rolled forward
Contracts	Management of capital and revenue contracts	**Dec 16**	**Dec 16**		In progress
Commissioning Strategy 10: How we do our business					
Corporate Policies and Procedures	Assurance over effectiveness of Corporate Policies and Procedures in providing the 2nd line of the 3 lines of	**Jun 16**	**Jul 16**	**Jan 17**	Complete – High Assurance

	assurance model.				
Scrutiny functions	Assurance over effectiveness of Scrutiny functions in providing the 2nd line of the 3 lines of assurance model.	**Sep 16**	**Sep 16**		Complete – High Assurance
Pension Fund	British Wealth Funds - this will change how money is invested and will result in changes for Pensions Committee	**Mar 17**			Rolled forward
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.	**Sep 16**	**Oct 16**		In progress
Payroll		**Feb 17**	**Feb 17**		In progress
Income		**May 16**	**May 16**		Complete – Substantial Assurance
Creditors		**Feb 17**	**Dec 16**		Draft report stage
Debtors		**Jun 16**	**Jun 16**	**Nov 16**	Complete – Limited Assurance
Treasury Management		**Nov 16**	**Nov 16**	**Jan 17**	Complete – High Assurance
VAT	Agresso has impacted and system not working smoothly as previous. Possible change in risk rating from HMRC	**Aug 16**	**Dec 16**		In progress
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 17**	**Jan 17**		In progress
Key Controls – Starters, Leavers and Changes (Schools)	Delivery of HR key control testing at a sample of schools to enable the Head of Internal Audit to form an opinion on the Council's financial control environment.	**Jul 16**	**Jul 16**		Draft report stage
Infrastructure Asset Revaluation	Assurance on preparedness for the Implementation of the Highways Network Asset Code into the Financial Reporting Requirements of Local Authorities	**Dec 16**	**Dec 16**	**Mar 17**	Complete
Schools	Periodic audits of maintained schools.	**Throughout year**			Complete – 6 delivered

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Commissioning Strategy 11: Protecting the Public					
Trading Standards	Capacity issues are managed using a risk based methodology and the future model based on income generation is realistic and deliverable.	**Sep 16**	**Aug 16**	**Jan 16**	Complete – Substantial Assurance
Commissioning Strategy 12: Sustaining and growing business and the economy					
European Regional Development Fund	Accounts are adequate to support expenditure in line with grant conditions.	**Jul 16**	**Oct 16**		Complete – Substantial Assurance
Commissioning Strategy 13: Protecting and sustaining the environment					
Joint Waste Management Strategy	Review to provide assurance on waste management strategy applied. To include management of overspends – prediction and prevention.	**Jun 16**	**May 16**	**Nov 16**	Complete – Limited Assurance
Local Enterprise Partnership Grant sign off	Verification and audit sign off to confirm appropriate use and spending of the LEP capital grant 2015/16	**Jul 16**	**Jul 16**	**Jul 16**	Complete
Local Enterprise Partnership – National Assurance Framework	That the Great Lincolnshire Local Enterprise Partnership conforms to the National Assurance Framework for LEP which was revised October 2016	**Jan 16**	**Jan 16**	**Jan 16**	Complete
Commissioning Strategy 14: Sustaining and developing prosperity through infrastructure					
Highways Maintenance Contract	**Consultancy -** Support and advice on project to implement the recommendations of the 'Cranfield University work'.	**Aug 16**	**Nov 16**	**N/A**	Fieldwork delayed by director to 17/18 plan
Planning software procurement	**Consultancy -** Support and advice in procurement and development of a new planning management system to ensure adequate governance, risk management and controls.	**Apr 16**	**Apr 16**	**N/A**	Complete
Transport Connects – 'Teckal' Trading Company	**Consultancy –** Support and advice on the Governance, Risk Management and Control arrangements for the setup of this 'Teckal Company' to provide passenger transport.	**May 16**	**May 16**	**Jul 16**	Complete
Commissioning Strategy15: Community Resilience and Assets					
Heritage sites	Effective governance and financial and stock management in key sites	**Mar 17**	**Dec 16**		Draft report stage

Commissioning Strategy 16: Wellbeing					
Local Commissioning Framework	The effectiveness of the new Local Commissioning Framework. The Framework will be tested using the Libraries procurement as a sample.	**Sep 16**	**Jan 17**		In progress
ICES	The new contract is being effectively managed and is delivering efficiencies as set out.	**Dec 16**	**Nov 16**	**Feb 17**	Complete – Limited Assurance
Commissioning Strategy 17: Enablers and support to key relationships					
Partnership Management	High level review of the process in place for managing and monitoring partnerships.	**Aug 16**			Rolled forward
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.	**Nov 16**	**Oct 16**	**Jan 17**	Complete
Follow up work – Joint Commissioning Board	2nd Follow up on progress made with the action plan from this key 2014/15 audit	**Sep 16**	**Sep 16**		Draft report stage – waiting on PWC
Follow up of Recommendations	Audit Reports issued during 2015/16 where an audit opinion of 'Limited' or 'Low' will be followed to establish progress in implementing agreed management actions.	**Nov 16**			
Advice & Liaison		**Various throughout the year**			In progress
Annual Report		**Jun 16**	**Jun 16**	**Jun 16**	Complete
Local code of Governance	To develop a toolkit which will then be used to assess the council's code of governance against the revised CiPFA SOLACE guidance on good governance	**Aug 16**	**Aug 16**	**Oct 16**	Phase 1 complete
Annual Governance Statement	Support development of the AGS and review of the local code of gov in light of the revised CiPFA SOLACE guidance	**Jun 16**	**Jun 16**	**Jul 16**	Complete
Audit Committee		**Various throughout the year**			In progress

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Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Executive Director - Pete Moore

Report to:	**Audit Committee**
Date:	**27 March 2017**
Subject:	**Draft Internal Audit Plan 2017/18**

Summary:

This report presents to the Committee the draft internal audit plan for 2017/18

Recommendation(s):

That the Committee agrees the audit plan for 2017/18

Background

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

2. The plan has been developed using a combination of:

    - the Council's Combined Assurance Model - which is a record of all assurances against our critical activities and key risks.
    - an assessment of risk - based on the significance and sensitivity of key activities
    - consultation with Senior Management
    - consultation with the Chair of the Audit Committee (focussing on issues raised by the Committee)

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 2018.

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 2017/18 – **Appendix A**.

7. We have conducted meetings in February and March 2017 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 amendments which it 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 2017/18

Background Papers

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

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

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Assurance LINCOLNSHIRE

For All Your Assurance Needs

Lincolnshire County Council

Working for a better future

Lincolnshire County Council

Internal Audit Plan 2017/18

Date: March 2017

What we do best…

Innovative assurance services

Specialists at internal audit

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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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Introduction

Introduction

1. This report summarises the proposed work of Internal Audit for 2017/18. 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.

3. 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).

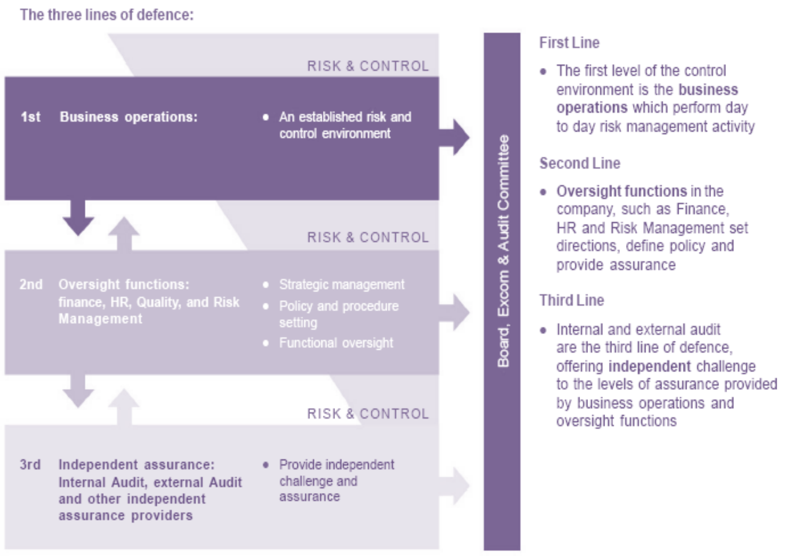
6. We also use our own risk assessment against each activity assessing their significance, sensitivity and materiality – ranking the activity as high, medium or low risk. This allows us to prioritise possible areas to be included in the plan on the basis of risk. A copy of our risk assessment methodology 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** right.

Figure 1 – Three Lines of Assurance Model

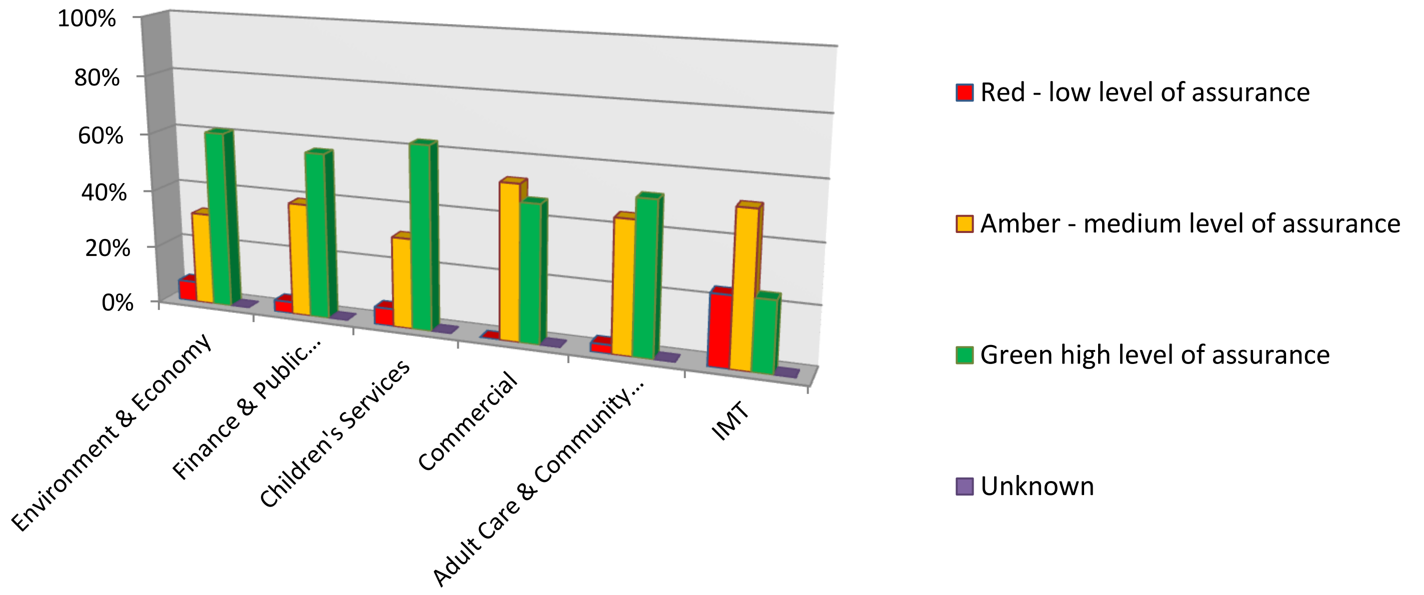


10. **Figure 2** below shows the overall assurance levels on the Council's critical service areas / activities.

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 2018.

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.

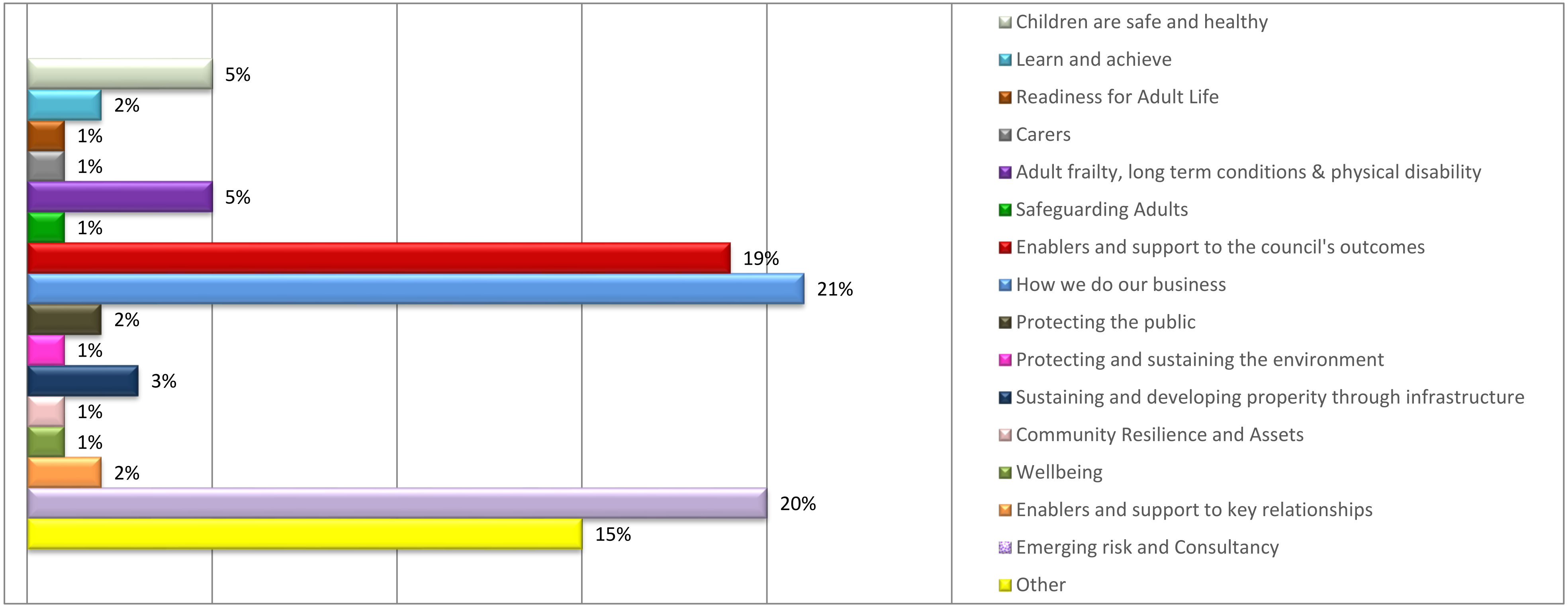
Figure 2 – Overall Assurance Levels 2016/17



13. We propose to allocate our audit resources across each Commissioning Strategy[1] as shown in **figure 3** with the proposed audits are detailed in Appendix B. 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 **1255** Days – a decrease of **6%** compared to last year.

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



[1] Some audits will inevitably cover more than one Commissioning Strategy given the nature of the service being delivered and the assurance required.

15. The Combined Assurance Status reports provide 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.

Staffing

16. The core team who will deliver the internal audit plan are:

Name	Grade
Lucy Pledge	Head of Internal Audit
Rachel Abbott	Audit Team Leader
Julie Castledine	Principal Auditor
Alastair Simson	Principal Auditor
Jill Thomas	Principal Auditor
Nicole Gray	Senior Auditor
Clare Pollard	Senior Auditor
Zlati Kalchev	Senior Auditor
Jon Pocock	Audit Officer

Full contact details for the team can be found at Appendix D

17. The team will be supported by specialists from Assurance Lincolnshire and our wider audit frameworks as and when appropriate.

18. An indicative staff mix delivering our Internal Audit service to you is shown below:

Grade	**2017/18 plan (Average Days)**	**Grade Mix %**
Head of Internal Audit	70	6%
Audit Team Leader	120	10%
Principal Auditor	450	36%
Senior Auditor	455	36%
Audit Officer	160	12%

Counter fraud Plan

19. The Council has strong counter fraud arrangements in place – supported by a Counter Fraud Team. The work of this team is contained in a separate work plan and will be presented to CMB and the Audit Committee during April and the June Committee.

Our Performance and Quality Assurance Framework

20. 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 E) and our training and development programme.

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

22. 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.

23. 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.

24. Our performance measures are set out to the right in **Figure 4** for information:

Figure 4 – Key Performance Indicators

Performance Indicator	Target
Percentage of plan completed	100% (revised plan)
Percentage of recommendations agreed[2]	100%
Percentage of recommendations implemented	100%
Timescales	• Draft report issued within 10 working days of completing audit • Final report issued within 5 working days of closure meeting/receipt of management responses • Period taken to complete audit – 80% completed within 3 months from fieldwork commencing to the issue of the draft report.
Client feedback on Audit (average)	Good to excellent

[2] 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.

25. 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.

26. By working together the partnership aims to be:

'The public sector assurance provider of choice for the region'

27. The partners deliver 6 of the 8 Lincolnshire Local Authority internal audit functions – plus Newark and Sherwood District Council. We have developed excellent relationships, demonstrating the relevant skills and expertise to deliver a comprehensive audit service to our clients. By working together we improve the overall quality of the service provided through:

- Sharing of knowledge and experience
- Adoption of leading audit techniques and methods
- Pooling resources across the organisations to make savings, improve efficiency and offer greater value for money to our clients through streamlining our audit plans to audit/research specific areas of common interest.

28. Our Business Plan, which sets out our mission to increase our income generation from external clients across audit and our wider team's assurance, functions. This is to achieve the Councils income generation targets and ensure delivery of the service within budget.

29. Achievements during the year include our successful bid to be added onto the Crescent Purchasing Consortium Framework - this framework allows us to provide audit services to the Academy and Education sector. Our intention is to focus on provision in the East Midland's region.

30. The County Council currently has four significant external clients:

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

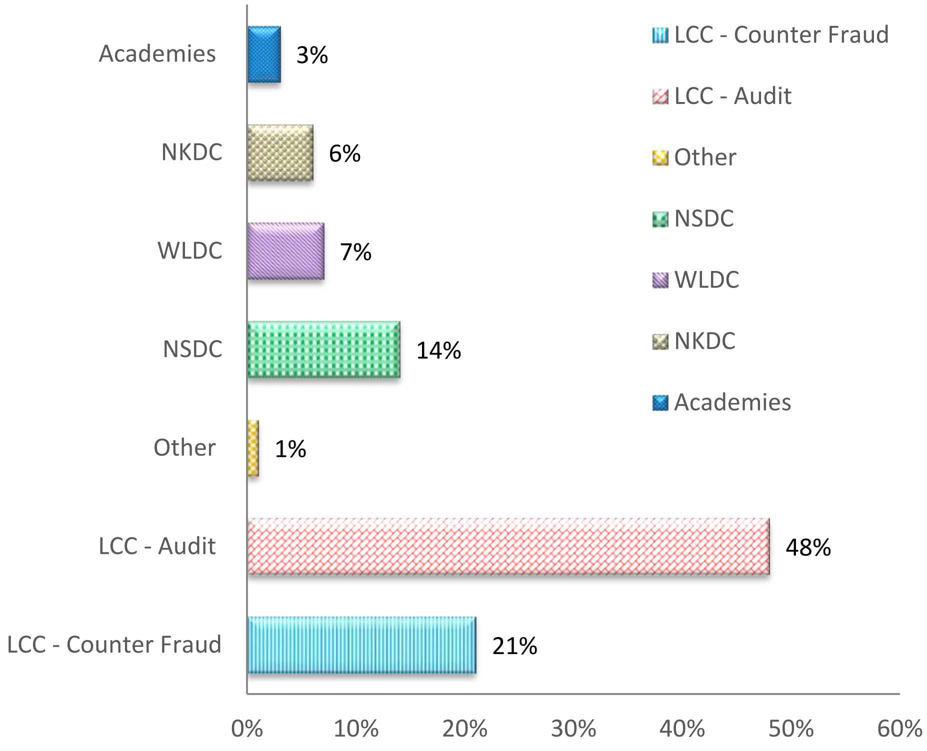
31. The net income generated from this arrangement is £65,846; our external clients contribute 16% to LCC Audit and counter fraud operating costs. **Figure 5** on the next page shows how our resources are distributed across our clients.

32. 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. We also have a 'pool' of experienced relief auditors to help us meet any peeks in demand.

Annual Internal Audit Opinion

33. We are satisfied that the level and mix of resources - together with the areas covered in the plan - will enable the Head of Internal Audit to provide their annual internal audit opinion.

Figure 5 – Resource Allocation across our Client Base



34. The net budget for the Internal Audit Service, including Counter Fraud for 2017/18 is £403,458 - a reduction of £8902 (2%).

35. 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.

Appendix A: Planning Risk Assessment Methodology

Value / Volume

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

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

Significance

This assessment reflects how important the activity is to the authority and its residents
0 – not significant
1 – Minor significance
2 – Significant
3 – Very significant

Audit rating

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

Changes to people / systems

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

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

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		7		12	
2		8		13	
3		9		14	
4	Low	10	Med	15	High
5		11		**16**	
6					

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Appendix C: Areas not included in 2016/17 Plan

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Link to Risk register	Management request	IA Risk Score	Combined assurance rating	Audit Area	Assurance Being Sought
Commissioning Strategy 1: Children are Safe and Healthy					
-	✓	5	G	Families Working Together	Audit sign off as per the requirements of the grant.
1		12	G	Youth Offending Service Delivery	That stated improvements following the external review of Youth Offending Service published December 2015 have been made and sustained. Focus to include: • Assessment of their QA framework • Performance of assessment after a significant incident occur
1		13		Historical Abuse cases (Consultancy)	Support and advice on the processes required to manage allegations of historic abuse in Children's Services, including: • Managing initial complaint • Referral and assessment strategy • Survivor support strategy • Documentation retention

Appendix C: Areas not included in 2016/17 Plan

Link to Risk register	Management request	IA Risk Score	Combined assurance rating	Audit Area	Assurance Being Sought
1		8	A	Transfer of 0-19 Public Health Nurses	That the governance, risk and monitoring arrangements for this key project are sufficient to ensure delivery of key outcomes for all 8 work streams.
Commissioning Strategy 2: Learn and Achieve					
-		10	A	School Admissions	Confirmation that the risks regarding implementation of new admissions software have been managed to minimise disruption to schools. To provide assurance of over effectiveness of the application system in areas such as: • System security • Performance • Design and operation of input / processing / output controls • Operating procedures • Back-up and recovery • Change control
1		10	R	Special Educational Needs & Disabilities reform	Update on embedding of the new SEND framework in key areas of the service. Main focus is Data in Mosaic and reporting as this is a current area of concern.

Appendix C: Areas not included in 2016/17 Plan

Link to Risk register	Management request	IA Risk Score	Combined assurance rating	Audit Area	Assurance Being Sought
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.
Commissioning Strategy 6: Carers					
8		12	A	Quality of Carers workforce learning and development.	That processes in place ensure that the Carers support workforce are adequately trained and their quality of work is of the required standard.
Commissioning Strategy 7: Adult Frailty, Long Term Conditions and Physical Disability					
6		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		13	A	Integration with Health (Consultancy)	Progress and delivery of the plan to integrate Health and Social Care.
6		7	A	Better care Fund – DFG grants	Confirm that adequate governance, monitoring and financial review controls are in place to ensure that Districts make effective use of the funding, in line with DOH guidance.
2		7	G	Quality Assurance Framework	That the Quality Assurance Framework for assessing provision both internally and commissioned is robust and aligned to statutory requirements – to include safeguarding.

Appendix C: Areas not included in 2016/17 Plan

Link to Risk register	Management request	IA Risk Score	Combined assurance rating	Audit Area	Assurance Being Sought
2		7	A	Information Systems Team	The impact of the monitoring and the adequacy of the information produced by Mosaic on Adult Care services provided. To provide assurance of over effectiveness of the application system in areas such as: • System security • Performance • Design and operation of input / processing / output controls • Operating procedures • Back-up and recovery • Change control
Commissioning Strategy 8: Safeguarding Adults					
2		11	A	Deprivation of Liberty team	Succession planning is sufficient to enable adequate numbers of capable and competent DOLs specialists to be available.
Commissioning Strategy 9: Enablers and support to the Council's outcomes					
9		12	A	ICT Intelligent Client	Evaluates the IMT Team acting as an intelligent client – including:: • Delivery of ICT • ICT investment decisions • Project approvals

Appendix C: Areas not included in 2016/17 Plan

Link to Risk register	Management request	IA Risk Score	Combined assurance rating	Audit Area	Assurance Being Sought
9		12	A	ICT Intelligent Client (cont.)	• Other critical ICT decision making process
11		12	R	Cyber Security	Assurance over the Council's arrangements for mitigating the latest cyber security threats. Internal Audit shall identify the latest cyber security threats and determine whether the arrangements to protect against them and recover from them are appropriate and adequate.
7	✓	12	A	Information Governance	Requested by the Chairman of the Audit Committee and Information Governance Team following an Information Commissioner Audit. To provide assurance over the effectiveness of Information Governance policy and procedures. Follow up of Information Commissioners report and recommendations.
7		12	A	ICO Cyclical Audits	Undertake periodic audits as recommended by the Information Commissioner.
9		10	R	ICT Asset Management	C/F from 2016/17. Review of SERCO's arrangements for the procurement, recording and disposal of ICT assets and their maintenance.

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Appendix C: Areas not included in 2016/17 Plan

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Link to Risk register	Management request	IA Risk Score	Combined assurance rating	Audit Area	Assurance Being Sought
11		**10**	**A**	Security Management	The review will examine the operation of the Security Working Group in ensuring the implementation and operation of an effective security infrastructure (including access controls).
9		**10**	**R**	Service Improvement	C/F from 2016/17. Review of the SERCO's arrangements for the management of service improvement projects, and the resources, plans and processes in place to effect service improvement through new or improved deployment of ICT resources.
11		**10**	**A**	ICT Infrastructure Security	This audit will comprise an initial review of the key elements of the ICT infrastructure to identify the areas to be subject to a deep dive. The key areas are: • Governance • Network • Operations • Removable media • Application Servers • Backups • Laptops, tablets and smartphones • Security organisation
3		**12**		Emergency Planning Centre ICT infrastructure	A review of the effectiveness of the ICT arrangement and ICT infrastructure within the County Emergency Centre

Appendix C: Areas not included in 2016/17 Plan

Link to Risk register	Management request	IA Risk Score	Combined assurance rating	Audit Area	Assurance Being Sought
7		5		Good Governance Review – Phase 3	Those governance arrangements are working effectively to manage Ethics, Partnerships and Transparency – This final part of the review is to be conducted from a Member perspective.
9		12	A	Contract Management – Public Health	Confirmation of consistent and robust contract procurement and / or management of public health contracts, to include the following contracts: • Wellbeing • Housing Related Support • Sexual Health
8	✓	11	A	Recruitment processes	That: • recruitment processes are accessible and ensure that possible candidates are harnessed to apply and don't give up • recruitment follows safer recruitment processes • there is compliance with policy
10		16		Agresso – Milestone 6	Consultancy assignment to support and advise on Governance, Risk and Control during the project to upgrade to Agresso Milestone 6.

Appendix C: Areas not included in 2016/17 Plan

Link to Risk register	Management request	IA Risk Score	Combined assurance rating	Audit Area	Assurance Being Sought
3		5	G	Emergency Planning	That prevention and response arrangements are effective to minimise disruption in the event of an emergency, to include: • Capacity and Capability • Collaboration and mutual aid • Planning and testing of plans
10		9		Establishments (Consultancy)	Project to identify Establishments within the LCC Portfolio and how audit processes may be developed to provide assurance over these in the future.
Commissioning Strategy 10: How we do our business					
-		8		Performance Management	Assurance over effectiveness of performance management in providing the 2nd line of the 3 lines of assurance model.
6 &10		10	A	Budget Management	That budget management / monitoring arrangements are effective and actioned in line with Council policy and procedures.
6		8	G	Medium Term Financial Planning	That financial plans are developed to plan future budgets to align to the 4 year deal agreed with Government

Appendix C: Areas not included in 2016/17 Plan

Link to Risk register	Management request	IA Risk Score	Combined assurance rating	Audit Area	Assurance Being Sought
5 & 6		10	A	Capital Programme	The governance, decision making and contract management of Capital projects is effective.
11		11		Interfaces to Agresso	Assurance over the manual interventions required to load files from other council systems into Agresso (Interfaces). To include the financial module of Mosaic. That files, which are loaded into Agresso, are secure and that details posted are complete, accurate and timely.
6 & 10		11	R	Payroll	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.
6 & 10		10	G	Creditors	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.

Appendix C: Areas not included in 2016/17 Plan

Link to Risk register	Management request	IA Risk Score	Combined assurance rating	Audit Area	Assurance Being Sought
10		10	G	Pension Administration	That revised processes since the implementation of Agresso adequately control pension administration.
6 & 10	✓	11	R	Fire Pay and Pensions	That Serco has addressed and rectified the significant issues with Fire & Rescue pay and pension contributions that have occurred since April 2015.
6 & 10		10	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.
6	✓	12		Strategic approach to charging to schools	That all Services offered through the LA commercially to schools are delivered via EduLincs and: • That cost recovery follows all accountancy rules • That Services are costed appropriately • Mechanisms to recover costs ensure that the service receives the income That reporting arrangements enable decision making for the future.
6 & 10			A	Schools	Periodic audits of maintained schools.

Appendix C: Areas not included in 2016/17 Plan

Link to Risk register	Management request	IA Risk Score	Combined assurance rating	Audit Area	Assurance Being Sought
Commissioning Strategy 11: Protecting the Public					
2		8	G	Domestic Homicide Reviews	That processes for Domestic Homicide Reviews meet legislative requirements and reflect best practice. Follow up of published reviews to confirm that agreed actions relating to LCC have been taken or are progressing and that lessons learnt are embedded.
7		12	A	Blue Light Collaboration	That effective Programme Management is in place to deliver new working arrangements that meet the Council's needs, and will be delivered on time and within budget.
Commissioning Strategy 13: Protecting and sustaining the environment					
-		11	R	Waste Strategy Follow Up	Follow up on the findings of the LWP 16/17 audit to examine progress made. (Due to political interest in this audit, suggest Light touch and do in Q4 with a highlight report.)
Commissioning Strategy 14: Sustaining and developing prosperity through infrastructure					
6		12	A	New Highways Operating Model (Consultancy)	Support and advice on the effectiveness of the restructure of the Highways team in delivering the service.
-		9	A	Transport IT and Telematics	That the process of updating their IT systems and the real-time tracking of vehicles ensures they are fit for purpose. To provide assurance of over effectiveness of the application system in

Appendix C: Areas not included in 2016/17 Plan

Link to Risk register	Management request	IA Risk Score	Combined assurance rating	Audit Area	Assurance Being Sought
				Transport IT and Telematics (cont0	areas such as: • System security • Performance • Design and operation of input / processing / output controls • Operating procedures • Back-up and recovery • Change control
5		12	R	Total Transport Project	That these projects are effectively managed to contribute to the Total Transport Project. Sample of the ongoing projects may include Non-Emergency Passenger Transport, Market Development, and the Procurement Process.
Commissioning Strategy15: Community Resilience and Assets					
6		8	R	Heritage (Consultancy)	Support and advice on arrangements to create a self-sufficient Heritage Service to start transition by 2018/19. To include Strategic approach and business planning.
Commissioning Strategy 16: Wellbeing					
9		6	A	Telecare Contract	The adequacy of the tender processes followed in awarding the Telecare Contract

Appendix C: Areas not included in 2016/17 Plan

Link to Risk register	Management request	IA Risk Score	Combined assurance rating	Audit Area	Assurance Being Sought
Commissioning Strategy 17: Enablers and support to key relationships					
7		12		Partnerships (Consultancy)	Support and advice to the Council on developing a protocol for effective partnership management.
7		8	G	One Public Estate	That Governance, Risk and Collaboration within this key project are adequate to deliver the expected outcomes

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 2016/17 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	Stakeholder liaison, support and advice
Annual Report	Production of the Head of Internal Audit's Annual Report
Annual Governance Statement	Support development of the AGS
Audit Committee	Production of reports and presentations at audit committee

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Appendix C: Areas not included in 2016/17 Plan

Link to Risk register	Commissioning Strategy	IA Risk Score	Combined assurance rating	Audit Area	Assurance Sought
-	2	11	R	Inclusion for all : Review of special educational needs offer	That the inclusion strategy ensures that children in need of an alternative curriculum can have their needs met closer to home.
-	4	7	G	30 hours Childcare	That adequate provision is available in the childcare market to meet the increased statutory provision from September 2017
-	6	12	A	Quality of Carers data	That the Carers data produced by Mosaic is of an adequate and comparable standard as that produced per the Blue Box system (Carers First system)
-	7	11	A	LT Care placements	Confirm the adequacy of the processes in place to ensure that there are adequate placements available and what procedures there are in place for LT placements when a home closes.
-	7			Direct payments	Confirm there are effective fraud and financial controls in place for validation and authorisation of Direct payments.
-	7			Payment card for Direct payments	Confirm that there are effective fraud and financial controls in place for validation and authorisation of usage of payment cards.by users.

Appendix C: Areas not included in 2016/17 Plan

-	9	10	A	ICT Strategy	The current efforts focussing on the delivery of key technology enablers, which were contained within the Serco contract, have curtailed capacity to undertake a formal ICT Strategy review. However, the change of responsibility for the ICT strategy is currently being transferred from the outgoing Chief Information and Commissioning Officer role to a new role which will undertake this activity, once appointed, and additional resource has been sought to provide capacity.
-	9	10	R	Problem Management	That problem management are fully resolving issues on a timely basis
-	9	10	R	Service Asset and configuration Management	That improvement has been made to processes so that even infrequently used assets can be traced.
-	9	10	R	Capacity Management	Adequacy of disk space and reporting.
-	9	6	A	Business Support	Confirm effective and efficient support is given at the right time, place and to the right people to meet the needs of the business. NOTE – the delivery of planned savings is a RED emerging risk
-	9	10	A	Supporting Channel Shift	Clarification on the cause and impact of the delays experienced in this key project and that solution, actions and timescales are planned to address these and complete the project.
-	9			Absence Management	Follow up audit during Q4 to confirm that the actions of the previous audit have been implemented and absence management policy is now being consistently applied.

Appendix C: Areas not included in 2016/17 Plan

-	9	9	A	Workforce performance and rewards	There is a consistent and fair approach planned for linking employee increments to performance by 2018/19.
-	10	5	G	Health & Safety Team	That revised team arrangements to delivery this service are efficient and effective.
-	10	10	A	Tax Compliance	That the Council can demonstrate compliance with relevant tax legislation
-	11	10	A	F&R Future Control Project	That Governance, Risk and plans within this key project are adequate to deliver the expected outcomes
-	14	12	G	Transport Connect Limited (Teckal Company)	Strategic review of how the company is performing and operating (look at doing 12 months into its creation)
-	15	13	A	Libraries ICT	At present plans for Libraries ICT are unable to be developed due to uncertainty whether the management for these systems will be transferred to GLL.
-	15	8	A	Lincolnshire Archives	Support and Advice on the planning process for relocation of the archives to a new site
-	16	7	A	Health Improvement, prevention and self-management.	Review the services that have been decommissioned and assess the impact of the decommissioning of services on the Health and Wellbeing strategy
-	16	8	A	Health Protection	That Health protection data (e.g. screening and immunisation) is sufficient and timely to ensure that the assurance framework is met.

Appendix D: Team Contact Information

Name	Grade	Telephone	Email
Lucy Pledge	Head of Internal Audit	01522 553692 07557498932	Lucy.pledge@lincolnshire.gov.uk
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Jon Pocock	Audit Officer	01522 553810	Jonathan.pocock@lincolnshire.gov.uk

Appendix E: Quality Assurance Framework

Quality outcomes / process designed to deliver a consistently high quality audit service to our clients - fit for purpose / meet client expectations / conform to PSIAS

Quality improvement plan - HIA reporting to Audit Committee on the outcome of Quality Assurance – with improvement action plan and any significant non-conformance included in the Annual Report / Annual Governance Statement

Ongoing monitoring – quality built into the audit process
Quality checks and oversight are undertaken throughout the audit engagement ensuring that processes and practice are consistently applied and working well.

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
- Ensure points of best practice highlighted during 216 external assessment are implemented

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

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director

Report to:	**Audit Committee**
Date:	**27 March 2017**
Subject:	**External Audit Progress Report**

Summary:

Report from KPMG, the County Council's External Auditors, giving an update on the 2016/17 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 2016/17
- 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

External Audit: Progress Report and Technical Update

Lincolnshire County Council

Audit Committee – March 2017

Contents

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Manager

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

The report also highlights some of the recent communications and other publications on the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (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 John Cornett, 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 (on 0207 694 8981, or by email to 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, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

External audit progress report - March 2017

This document provides the Audit Committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At Appendix 1 we have provided a technical update on relevant reports and publications by National Audit Office, CIPFA and other bodies.

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	Commentary
2016/17 Audit	We have completed our planning work for 2016/17 and the Audit Plan for the County Council and Pension Fund audits is on the March 2017 Audit Committee's agenda. There are no changes to the scope of our audit and the key members of the audit team are unchanged. The areas of focus and risk for the accounts opinion and VFM risks are similar to those in 2015/16 and include: • The Agresso system and the year-end closedown arrangements • The SERCO support services contract • The Authority's medium term financial outlook. Specific additional risks for 2016/17 include the arrangements for managing the pension fund triennial valuation, and the disclosure and reporting changes introduced by this year's CIPFA Code on Local Authority Accounting. The Pension Fund interim audit was carried out at the beginning of March 2017 and there are no matters of concern at this stage that we need to report to the Committee. The County Council interim audit is scheduled for the last week in March and we will update the Audit Committee at its next meeting on any matters arising. The final accounts visits for the County Council and Pension Fund audits have been scheduled for July 2017. We delivered a year-end accounts workshop to our East Midlands Local Government clients at Leicester on 15 March 2017, which was attended by the Council's finance team. We are to meet with members of the finance team in March 2017 at a finance training session to brief them on the external audit approach, working paper requirements and other specific issues for this year's audit.
Other audit related work	The Skills Funding Agency (SFA) has now issued the guidance for the scope and timing of their required review of sub-contracting arrangements. There are no significant changes to the approach in 2016 and the deadline for the work is the end of May 2017. We are firming up the engagement arrangements with managers and expect to start the work towards the end of April 2017.
Technical Update	At Appendix 1 we have provided a technical update on relevant reports and publications by National Audit Office, CIPFA and other bodies.

Appendix 1 - Technical update - NAO publications

Area	Comments
NAO Report – Health and Social Care Integration	In this 8 February 2017 publication the NAO warns that progress with integration of health and social care has, to date, been slower and less successful than envisaged and has not delivered all of the expected benefits for patients, the NHS or local authorities. As a result, the government's plan for integrated health and social care services across England by 2020 is at significant risk. In the face of increased demand for care and constrained finances, while the Better Care Fund (BCF), the principal integration initiative, has improved joint working, it has not yet achieved its potential. The BCF has not achieved the expected value for money, in terms of savings, outcomes for patients or reduced hospital activity, from the £5.3 billion spent through the Fund in 2015-16. Nationally, the BCF did not achieve its principal financial and service targets over 2015-16, its first year. Planned reductions in rates of emergency admissions were not achieved, nor did the Fund achieve the planned savings of £511 million. Compared with 2014-15, emergency admissions increased by 87,000 against a planned reduction of 106,000, costing £311 million more than planned. Furthermore, days lost to delayed transfers of care increased by 185,000, against a planned reduction of 293,000, costing £146 million more than planned. The BCF has, however, been successful in incentivising local areas to work together; more than 90% of local areas agreed or strongly agreed that delivery of their plan had improved joint working. Local areas also achieved improvements at the national level in reducing permanent admissions of people aged 65 and over to residential and nursing care homes, and in increasing the proportion of older people still at home 91 days after discharge from hospital into reablement or rehabilitation services. The NAO reports that there is general agreement across the health and social care sectors that place-based planning is the right way to manage scarce resources at a system-wide level. However, local government was not involved in the design and development of the NHS-led sustainability and transformation planning programme. Local authorities' engagement in the planning and decision making phase has been variable, although four sustainability and transformation planning areas are led by local authority officials. The DoH and the DCLG have identified barriers to integration, such as misaligned financial incentives, workforce challenges and reticence over information sharing, but are not systematically addressing them. Research commissioned by the government in 2016 concluded that local areas are not on track to achieve the target of integrated health and social care by 2020. The report also found that NHS England's ambition to save £900m through introducing seven new care models may be optimistic. The new care models are as yet unproven and their impact is still being evaluated. According to the NAO, while the Departments and their partners have set up an array of initiatives examining different ways to transform care and create a financially sustainable care system, their governance and oversight of the initiatives is poor. The Integration Partnership Board only receives updates on progress of the BCF with no reporting from other integration programmes. In addition, the NAO found no compelling evidence to show that integration in England leads to sustainable financial savings or reduced acute hospital activity. While there are some good examples of integration at a local level, evaluations have been inhibited by a lack of comparable cost data across different care settings, and difficulty tracking patients through different care settings. The NAO reiterates its emphasis from its 2014 report on the Better Care Fund that there is a need for robust evidence on how best to improve care and save money through integration and for a co-ordinated approach. The report can be found at the following link: https://www.nao.org.uk/wp-content/uploads/2017/02/Health-and-social-care-integration.pdf

Appendix 1 - Technical update - NAO publications

Area	Comments
NAO Report – Local Support for People with Learning Disabilities	On 3 March 2017, the NAO published a report on *Local Support for People with a Learning Disability*. The report examines how NHS in England and local authorities seek to improve the lives of the 129,000 people aged 18 to 64 who use local authority learning disability support services. The report highlights the good progress made by the Department of Health and NHS England in setting up a programme to close hospital beds for people with a learning disability, but concludes that the programme is not yet on track to achieve value for money. The programme partners have yet to resolve a number of complex challenges if they are to achieve the ambition of a substantial shift away from reliance on inpatient care. Between £135 million and £195 million annually will need to be made available to pay for health and social care support in the community for people with learning disabilities discharged from mental health hospitals. Unless more funding is made available for local services, this will be an unfunded pressure on the budgets of local authorities and clinical commissioning groups (CCGs). NHS England has recognised that it will take time for funding to move from hospitals to community support. To help in the short-term, it has provided £30 million revenue funding over three years, to be match-funded by partnerships, and £100 million of capital funding. The report can be found at the following link: https://www.nao.org.uk/report/local-support-for-people-with-a-learning-disability/

Appendix 1 - Technical update - NAO publications

Area	Comments
NAO Report – Capital Funding for Schools	In this February 2017 report NAO point out that The Department for Education, working with local authorities and schools, has created a large number of new school places and is making progress in improving schools in the worst condition, but significant challenges remain. Between 2010 and 2015, the Department and local authorities created 599,000 new school places at a cost of £7.5 billion, mostly in good or outstanding schools, enabling them to meet the growing demand for places. The Department has also improved how it estimates the need for school places, collecting more localised forecasts of pupil numbers, and allocates money more closely according to need. Pupil numbers are continuing to grow and the demand for places is shifting to secondary schools where places are more complex and costly to provide as they require specialised facilities, such as science laboratories. NAO's report found indicators of pressure on school places in some local areas, with large amounts of spare capacity elsewhere. Nationally, in 2016, 10 per cent of primary places and 16 per cent of secondary places were unfilled. Some spare capacity is needed to allow parents to exercise choice. This spare capacity does not, however, mean that all areas have enough places, with particular pressure in London and the South East. According to the NAO, the expected deterioration in the condition of the school estate is a significant risk to long-term value for money. Responsibility for maintaining the condition of school buildings is devolved to schools, multi-academy trusts and local authorities. The Department's property data survey estimates it would cost £6.7 billion to return all school buildings to satisfactory or better condition, and a further £7.1 billion to bring parts of school buildings from satisfactory to good condition. The most common major defects are problems with electrics and external walls. While the Department cannot yet assess reliably how the condition of the school estate is changing over time, it estimates that the cost of dealing with major defects in the estate will double between 2015-16 and 2020-21, even with current levels of funding, as many buildings near the end of their useful lives. Much of the school estate is over 40 years old, with 60% built before 1976. Free schools were introduced to introduce innovation, offer parents more choice and help improve the quality of education through competition between schools. They are also playing an increasingly important role in addressing demographic need for new school places. In some areas, however, free schools are creating spare capacity which may have implications for schools' financial sustainability. The Department plans to open 500 new free schools between May 2015 and September 2020 but the biggest risk to delivering these schools is the availability of suitable sites. A lack of suitable land means that the Department sometimes enters into complex commercial agreements and pays large sums to secure sites in the right places. The NAO found that while the average cost of the 175 sites bought by the Department is £4.9 million, 24 sites have cost more than £10 million, including four that have cost more than £30 million. To help secure free school sites quickly and at the best price the Department is setting up a property company. The report can be found at the following link: https://www.nao.org.uk/report/capital-funding-for-schools/

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Appendix 1 - Technical update - NAO publications

Area	Comments
NAO Report – Local Support for People with Learning Disabilities	This February 2017 report looks at the chain of events which led to the government paying £711m in compensation to 34,000 pensioners who retired from the Police and Firefighters' Pension Schemes between 2001 and 2006 without receiving their full pension entitlement. Due to the extent of the legal process in the case, some police and firefighters were retired for over 15 years before they received their full pension entitlement from government. It found that the government failed to understand its obligations for the oversight of key factors that translated annual pension payments to lump sums, resulting in payments totalling £711m covering 34,000 pensioners. The initial query about the appropriateness of the 2001 to 2006 commutation factors was raised by the Office of the Deputy Prime Minister now known as DCLG, in 2002. During the period this issue arose, there was a lack of independent oversight of the schemes by parties outside government or representation from scheme members. This was addressed in April 2015 through the introduction of pension boards with independent oversight and representation from pension scheme members. GAD has reviewed its funding mechanisms and internal controls to ensure its statutory duties, such as the review of commutation factors, are clearly understood and discharged. GAD's revised controls, together with the updated approach to governance of government pension schemes, are designed to provide a more rigorous approach to ensuring that scheme regulations are considered sufficiently in future cases of this nature. The report can be found at the following link: https://www.nao.org.uk/report/investigation-into-police-and-firefighters-pension-scheme-commutation-factors/

Appendix 1 - Technical update - CIPFA publications

Area	Comments
Statement by CIPFA/LASAAC on the Implementation of the Highways Network Asset Code into the Financial Reporting Requirements of Local Authorities	At its meeting on March 8th, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board's press release states: "The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities. The Board recognises the work undertaken by accounts preparers, auditors and highways engineers in preparing for the planned changes and would encourage continued improvement of the management of the highways network asset through better inventory and cost information".

Appendix 1 - Technical update - CIPFA/IFG publications

Area	Comments
CIPFA/institute for Government Performance Tracker Report	*Performance Tracker*, published 28 February 2017 by the Institute for Government (IfG) and CIPFA (the Chartered Institute of Public Finance and Accountancy), finds that until recently the government managed to maintain the quality of public services while controlling spending. The report states though that *"government's own data clearly shows its original approach had run out of steam by 2015".* The report uses government data to examine five key public services: hospitals, adult social care, police, prisons and schools. It says the government now risks bouncing from spending crisis to crisis, against the backdrop of contentious Brexit negotiations. The report states that: *Adult social care and hospitals are being pushed to breaking point and, in the case of prisons, beyond it. The pressures are easy to identify:* *People routinely wait longer for critical hospital services such as A&E and cancer treatments.* *Delays in transferring people from hospitals into social care have risen by 40% since 2014.* *Violence in prisons has risen sharply since 2014, with assaults on staff rising by 61% in two years.* The report makes several recommendations, including that assumptions behind spending decisions should be subject to independent scrutiny. *"Governments of all shades have long promised to transform public services but these ambitions have never truly been realised".* To counter this, the report suggests government should consider creating an "Office for Budget Responsibility (OBR) for public spending", to help embed efficiency within public sector decision making and prevent wishful thinking. The report and a recording of its launch can be seen at the following links: http://www.cipfa.org/~/media/files/publications/reports/performance-tracker-final-web.pdf?la=en https://livestream.com/accounts/5208398/events/6986204

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Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director (Finance & Public Protection)

Report to:	**Audit Committee**
Date:	**27 March 2017**
Subject:	**External Audit Plan - 2016/17**

Summary:

This report decribes how External Audit will deliver their Finanical Statement 2016/17 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 2016/17.

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 31st March 2017. 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 2016/17

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

External Audit Plan 2016/2017

Lincolnshire County Council and Lincolnshire Pension Fund

March 2017

Headlines

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting in 2016/17, 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 **£19 million** for the Pension Fund.

We are obliged to report to 'those charged with governance' uncorrected omissions or misstatements other than those which are 'clearly trivial'. The 'trivial' threshold has been set at **£0.6 million** for the Authority and **£0.9 million** for the Pension Fund.

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Significant risks

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

- Significant changes in the pension liability due to LGPS Triennial Valuation;
- The effective operation of Agresso; and
- Carrying out the year end processes and schools' consolidation effectively and on time.

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 disclosure and reporting changes required by the 2016 CIPFA Code on Local Authority Accounting for the Authority and Pension Fund statements; and
- The Pension Fund administration provider's performance and changes to the fund manager arrangements.

See pages 3 to 6 for more details.

Value for Money Arrangements work

We have identified significant risks for our continuing audit work:

- Financial management and monitoring arrangements, and the Corporate Support Services Provider's performance, which are relevant to the 'informed decision making' and 'working with partners' sub-criteria of the VFM conclusion.
- Financial Standing and medium term financial planning, which is relevant to the 'sustainable resource deployment' sub-criteria of the VFM conclusion.

We will update our assessment throughout the year and report in our ISA260.

See pages 8 to 11 for more details

Logistics

Our team is:

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

More details are on **page 14.**

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 13.**

The scale fees set by Public Sector Audit Appointments for the audits are £107,325 (£107,325 2015/2016) for the Authority and £24,350 (£24,350 2015/16) for the Pension Fund see **page 12.**

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 presented to you in April 2016, 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.

Financial Statements Audit Planning → Control Evaluation → Substantive Procedures → Completion

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 7 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2016/17 [and the findings of our VFM risk assessment].

Risk Assessment → Identification of significant VFM risks → VFM audit work → Conclude → Reporting

Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during December 2016 to January 2017. 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.

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— 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

Financial statements audit planning (cont.)

Significant Audit Risks - the Authority and Pension Fund

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

Risk: <u>Significant changes in the pension liability due to LGPS Triennial Valuation</u>

During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.

The pension numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.

The Pension Fund only includes limited disclosures around pensions liabilities but we anticipate that this will be identified as a risk area by some of the admitted bodies, whose pension liabilities represent a significant element of their balance sheet. This includes the Authority itself.

Our approach: As part of our audit of the Pension Fund, we will undertake work on a test basis to agree the data provided to the actuary back to the systems and reports from which it was derived and to understand the controls in place to ensure the accuracy of this data. This work will be focused on the data relating to the Authority itself as largest member of the Pension Fund.

If we receive specific requests from the auditors of other admitted bodies, we are required to support their audits under the protocols put in place by the PSAA for this purpose. If the work they request is over and above that already planned, there will be additional costs arising from this. The Pension Fund can consider recharging these costs to the relevant admitted bodies

Significant Audit Risks - the Authority and Pension Fund

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

Risk: <u>Agresso</u>

The Authority experienced significant difficulties during 2015/16 with the operation of the newly introduced Agresso system and the performance of its support services provider. This included major problems 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.

In our 2015/16 ISA260 report we assessed the Authority's control environment and concluded that whilst the Authority had exerted considerable efforts to address the difficulties arising from the implementation of its new financial and payroll systems not all the weaknesses in the system controls and financial reporting arrangements had been fully addressed. The Authority has continued to review and strengthen its arrangements during 2016/17 but in the meantime we regard the weaknesses in the system controls and financial reporting arrangements a significant audit risk for this year's Authority and Pension Fund financial statements.

Our approach: We will liaise with Internal Audit and the finance team to assess the progress the Authority has made in strengthening the Agresso system controls. We will confirm our audit testing strategy to determine the appropriate balance of controls and substantive testing. We will substantively test the main payroll, payments and cash reconciliations.

Financial statements audit planning (cont.)

Significant Audit Risks – the Authority

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

Risk : <u>Year end processes and schools consolidation</u>

The difficulties encountered with Agresso in 2015/16 impacted on the completeness and timing of some of the important year-end accounts closure processes:

- the year-end schools consolidation was delayed and the draft accounts were published before it was completed. Changes were required to the published final statements to reflect the outcome of the process.
- alongside that, there were a larger than normal number of non-material uncleared or unprocessed items. The year-end bank reconciliations included a number of non-material reconciling items which need to be cleared during 2016/17.

It is important that the 2016/17 closure programme and timetable addresses these difficulties and the prior year unprocessed items are cleared.

Our approach : We will liaise with the finance team regarding the closedown plans and arrangements for addressing the difficulties encountered in 2015/16. We will confirm the key dates and information requirements. We will review the steps taken to clear the 2015/16 non-material uncleared and unreconcilied balances and confirm with the finance team the effective and timely operation of reconciliation controls in the current year.

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.

Risk : <u>2016 CIPFA Code on Local Authority Accounting – Authority disclosure and reporting changes</u>

The new Code includes a number of important changes on the previous year's reporting requirements. The changes include new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement, and the introduction of a new Expenditure and Funding Analysis as a result of CIPFA's 'Telling the Story' review of the presentation of local authority financial statements.

Our approach : We will liaise with the Authority's finance team regarding the new requirements and agree the new disclosures, including the restatement of the prior year comparators.

Risk : <u>2016 CIPFA Code on Local Authority Accounting – Pension Fund disclosures</u>

CIPFA's *Example Accounts and Disclosure Checklist* includes a small number changes to the expected fair value disclosures required under the Code. Other changes include an analysis of investment management expenses in line with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses* (2016), new investment classifications and an additional disclosure note covering remuneration of key management personnel.

Our approach : We will discuss the new requirements with the Pension Fund team and agree the new disclosures, including any restatement of the prior year comparators.

Risk : <u>Pension Fund administrator arrangements</u>

The changes to the arrangements introduced in 2015/16 have become more established during 2016/17 although the provider is not yet consistently meeting all the required performance standards.

Our approach : We will discuss the Provider's performance with the Pension Fund team and confirm the information required for the audit.

Financial statements audit planning (cont.)

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.

Risk : <u>Changes to the Pension Fund Manager arrangements</u>

During 2016/17 there have been several changes to the fund managers in operation. These changes have included an external fund manager taking over responsibility for managing the internally managed portfolio (c.£350m).

Our approach : We will review the steps taken to effectively manage these changes and confirm the arrangements for obtaining appropriate year-end valuations and relevant Service Auditor Reports on the fund managers' controls.

Materiality

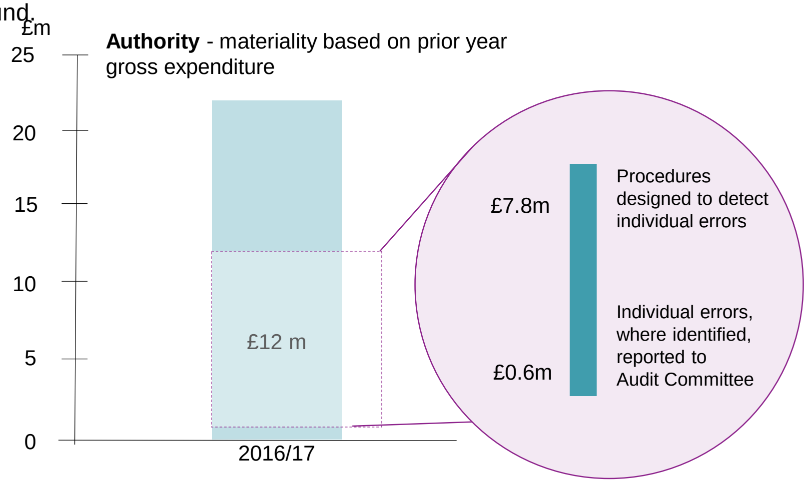
We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment 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 (£12m 2015/16) which equates to a little over 1% of estimated gross expenditure.

For the Pension Fund, materiality for planning purposes has been set at £19m (£16m 2015/16) which equates to 1% of forecast gross assets. The increase reflects the expected growth in the market value of investments and the embedding of the controls introduced in the previous year.

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 £7.8m for the Authority and £12.3m for the Pension Fund.



Reporting to the Audit Committee

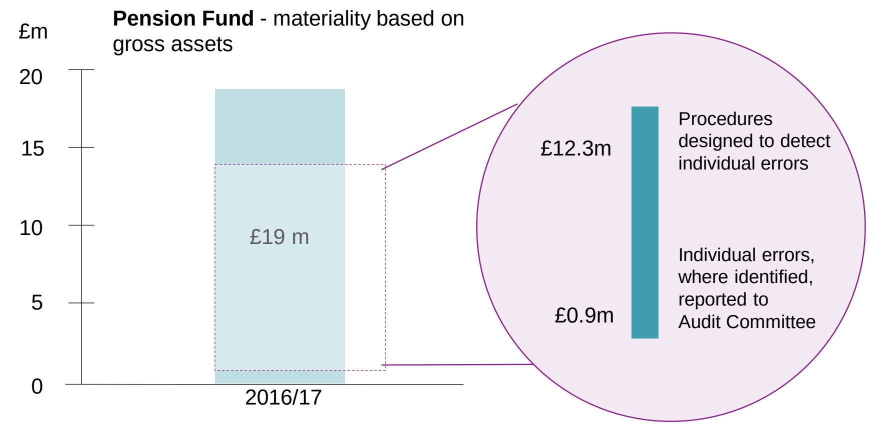
Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

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 £0.6 million.

In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial it is less than £0.9 million.

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.



Value for money arrangements work

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 2015/2016 and the process is shown in the diagram below. The diagram overleaf shows the details of the criteria for our VFM work.

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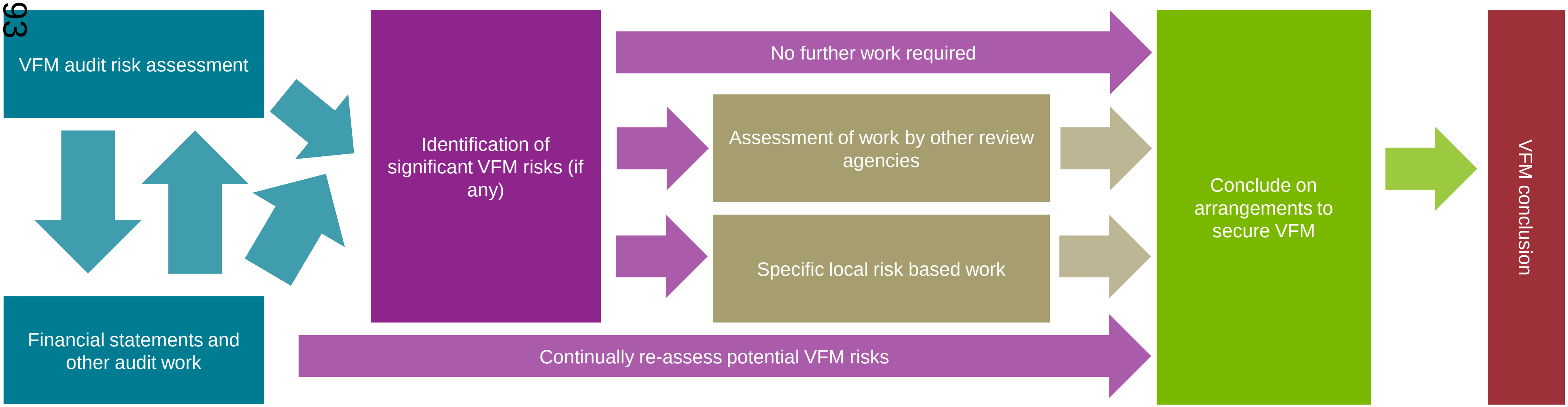

Value for money arrangements work (cont.)

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
VFM audit risk assessment	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 *Code of Audit Practice.* In doing so we consider: ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Identification of significant risks	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.'* 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: ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

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Value for money arrangements work (cont.)

VFM audit stage	Audit approach
Assessment of work by other review agencies and **Delivery of local risk based work**	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. 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: ▪ Meeting with senior managers across the Authority; ▪ Review of minutes and internal reports; ▪ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	We have completed our initial VFM risk assessment and identified the following significant VFM risks. • Financial management and monitoring arrangements, and the Corporate Support Services Provider's performance – The problems with Agresso and the operation of the Corporate Support Services contract in 2015/16 meant that the Authority did not have effective financial management and monitoring arrangements, and recovery measures have continued to operate well into 2016/17. We qualified 2015/16 VFM conclusion, on the basis that the difficulties encountered in the year represented significant weaknesses in the Authority's arrangements for informed decision making and working with third parties. These issues have continued to represent risks in relation to the relevant sub-criteria of the VFM conclusion and we will assess the actions taken by the Authority to address these weaknesses in its arrangements. • Financial standing and medium term financial planning - The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. The Authority has continued to only publish a one year budget, with 2017/18 being the latest. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan. This is relevant to the sustainable resource deployment sub-criteria of the VFM conclusion. We will update our assessment throughout the year should any new issues present themselves and report against these in our ISA260. 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. 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.

Other matters

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 2016/17 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 and is unchanged from 2015/16. 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 2016/2017 presented to you in April 2016 first set out the scale fee set by PSAA for the 2016/2017 audit. This letter also set out our assumptions. The scale audit fee for 2016/17 for the Authority is £107,325 (£107,325 in 2015/2016) and for the Pension Fund is £24,350 (£24,350 2015/16). In addition to the scale fees we needed to charge further fees of £14,052 and £2,097 for the 2015/16 audits of the Authority and Pension Fund respectively. These were to meet the additional costs of addressing the significant audit and VFM risks identified in the audit plan and the issues which emerged during the audits. We have identified significant risks and areas of audit focus in this plan which will require us to carry out additional work in support of our audit opinion and VFM conclusion. We will update the Authority as the audits progress on the fees needed to accommodate the additional audit work required.

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

Appendix 1: Key elements of our financial statements audit approach

Communication

Continuous communication involving regular meetings between Audit Committee, Senior Management and audit team

- Audit strategy and plan
- Interim report (if required)
- ISA 260 (UK&I) Report
- Annual Audit Letter

Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec

- Initial planning meetings and risk assessment
- Interim audit
- Year end audit of financial statements and annual report
- Sign audit opinion

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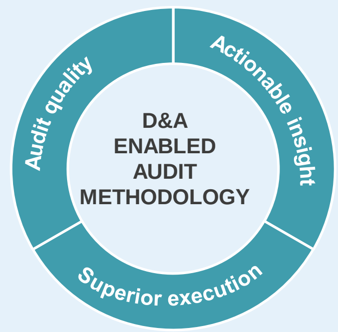
Audit workflow

Planning	Control evaluation	Substantive testing	Completion
■ Perform risk assessment procedures and identify risks ■ Determine audit strategy ■ Determine planned audit approach	■ Understand accounting and reporting activities ■ Evaluate design and implementation of selected controls ■ Test operating effectiveness of selected controls ■ Assess control risk and risk of the accounts being misstated	■ Plan substantive procedures ■ Perform substantive procedures ■ Consider if audit evidence is sufficient and appropriate	■ Perform completion procedures ■ Perform overall evaluation ■ Form an audit opinion ■ Audit Committee reporting



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

— Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.

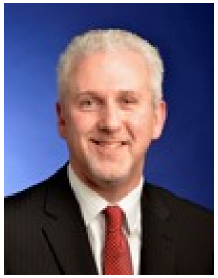
— Focus manual procedures on key areas of risk and on transactional exceptions.

— Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the Authority and Pension Fund audits last year.



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

John Cornett

Director

0116 256 6064

john.cornett@kpmg.co.uk

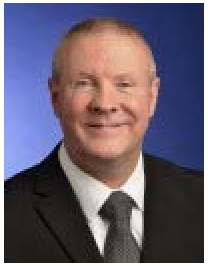
Name	Mike Norman
Position	Manager
	'I will continue to be responsible for the management, review and delivery of the audit of the Authority and Pension Fund. I will liaise with the County Finance Officer and the Audit and Risk Manager.1

Mike Norman

Manager

0115 935 3544

michael.norman@kpmg.co.uk



Name	John Pressley
Position	Assistant Manager
	'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.'

John Pressley

Assistant Manager

07919697377

John.Pressley@kpmg.co.uk

Appendix 3: Independence and objectivity requirements

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 Standards require 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 at the date of this plan 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.

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).

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 John Cornett 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 .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 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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Agenda Item 8

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

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

Report to:	**Audit Committee**
Date:	**27 March 2017**
Subject:	**International Audit Standard - Response to Management Processes Questions**

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 2016/17 is around £12m and £19m 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 the 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 2016/17 continues to be challenging owing to the remaining outstanding 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 significantly improved since 2015/16 with reports available, support available, and the general ease of use of the system. The ability to input projections, however, is still challenging. 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 2016
- 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.

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.

Employees will receive statements to confirm 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.

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

Employees are made aware of these via:

- The induction process
- The Code of Conduct for Employees
- The Councils value statement
- The Constitution, particularly Financial Regulations
- Internal communications through our intranet GEORGE
- Training courses

5. 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

6. 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.

7. 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

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	Do you suspect fraud may be occurring, within the authority?	Yes – we acknowledge and understand our fraud risks – we have a dedicated counter fraud team to respond to these risks.
	➢ Have you identified any specific fraud risks within the authority?	Yes – see below
	➢ Do you have any concerns that there are areas within the authority that are at risk of fraud?	In line with key fraud risks highlighted nationally & consideration of the Council's own fraud risk profile, we believe areas to focus on are:
	➢ Are there particular locations within the authority where fraud is more likely to occur?	▪ Procurement ▪ Contracts ▪ Schools ▪ Direct Payments ▪ Grants ▪ Payroll ▪ AP
3	Are you satisfied that internal controls, including segregation of duties, exist and work effectively? ➢ If not where are the risk areas? Payroll, AP } Schools and Corporate 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.	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. 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.
	➢ What other controls are in place to help prevent, deter or detect fraud?	▪ Whistleblowing arrangements ▪ Robust CF Policy and zero tolerance stance to fraud ▪ Proactive work programme – delivered by CF team (deter/detect) / raise

No.	Questions for management	Managements response
		awareness - Increased data analytics - Due diligence activities limited to Q4. - Accredited counter fraud specialists - Deterrence - case summaries on website / successful prosecutions in Echo / results and work of CF team periodically published in Echo (from Audit Committee reporting) - Fraud Health Check – review Council's fraud response and map to best practice
4	How do you encourage staff to report their concerns about fraud? ➢ What concerns about fraud are staff expected to report?	- Whistleblowing arrangements - Counter Fraud Policy / leaflets / Fraud Response Plan - Whistleblowing and Counter Fraud posters - Regular news bulletins - Code of Conduct – reporting expectations - Dedicated counter fraud team - Fraud awareness sessions - Assistant Directors and Heads of Service briefings - E-learning module under development to raise fraud awareness and direct to reporting routes. All suspicions re. fraud, corruption or theft.
5	From a fraud and corruption perspective, what are considered to be high risk posts within your area of responsibility? ➢ How are the risks relating to these posts identified, assessed and managed?	- Bank and authorised signatories - Treasury management e.g. borrowing Policies, procedures – managed by established control framework, overall scheme of delegation, segregation of duties and IT Security processes.
6	Are you aware of any related party relationships or transactions that could give rise to instances of fraud? ➢ How do you mitigate the risks associated with fraud related to related party relationships and transactions?	No. Requirement for officers to declare any interests / personal relationships (Code of Conduct / Personal Relationships at Work Policy). Management responsible for assessing the risk and taking any control actions i.e. transferring responsibilities / decision making, removing delegated authority, restricting access to information, meetings etc
7	Are you aware of any entries made in the	Yes

No.	Questions for management	Managements response
	accounting records of the authority that you believe or suspect are false or intentionally misleading? ➢ Are there particular balances where fraud is more likely to occur? ➢ Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the authority? ➢ Could a false accounting entry escape detection? If so, how? ➢ Are there any external fraud risk factors which are high risk of fraud?	Investigation ongoing (not material value) Imprest (materiality low) Payroll entries & 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. No No 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..
8	Are you aware of any organisational, or management pressure to meet financial or operating targets? ➢ 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?	No No

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Regulatory and Other Committee

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

Report to:	**Audit Committee**
Date:	**27 March 2017**
Subject:	**Statement of Accounts 2016/17**

Summary:

This report summarises:

- Changes to the Code of Practice on Local Authority Accounting which will be incorporated into the 2016/17 Statement of Accounts;

- The review of the Council's Accounting Policies; and

- Changes resulting from the Accounts and Audit Regulations 2015 and the impact of this on the Council's Statement of Accounts for 2017/18.

Recommendation(s):

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

1. Note the changes required to our Statement of Accounts from the Code of Practice 2016/17;

2. Approve the Statement of Accounting Policies (Appendix A) to use in preparing the Council's accounts for the financial year ending 31 March 2017; and

3. Note the changes to the preparation and audit period for the 2017/18 Statement of Accounts as set out in the Accounts and Audit Regulations 2015.

Background

1.1 The Council is required to prepare its Statement of Accounts in accordance with the Code of Practice in Local Authority Accounting in United Kingdom 2016/17 (the Code). This ensures the accounts are prepared using "proper accounting practice".

Changes to the Code of Practice on Local Authority Accounting for 2016/17

1.2 The Code of Practice for 2016/17 has introduced a number of revisions and clarifications to the accounts and accounting requirements for the 2016/17 Statement of Accounts. The most significant of these relates to the presentation of the financial statements, namely: the Comprehensive Income and Expenditure Statement and the introduction of a new Expenditure and Funding Analysis.

<u>Comprehensive Income and Expenditure Statement</u>

1.3 The Comprehensive Income and Expenditure (CI&ES) will now be presented using the Council's organisational structure under which the authority operates and manages its services (Commissioning Strategies). This will remove the formal link to Service Expenditure Reporting Code of Practice and means overhead apportionment will now be based on how we operate as an authority. Total cost will continue with each Commissioning Strategy including appropriate charges for use of non-current assets and employee benefits.

<u>Expenditure and Funding Analysis</u>

1.4 In order to further aid in making the document more understandable to all users of the accounts, a new Expenditure and Funding Analysis (EFA) note is introduced. This will be within the Narrative Report and will provide a link between the Council's financial performance reporting (outturn) and the CI&ES.

1.5 The EFA will be presented so that each reporting service line (Commissioning Strategy) within the organisation structure provides a comparison of the net resources used and the net charge to council tax. This will provide an opportunity to explain the difference between the accounting adjustments in order to comply with reporting requirements and the amount charged to taxation.

1.6 This will help to promote accountability and stewardship by providing a direct link with the Council's decision making process, its budget and its financial reporting.

Statement of Accounting Policies

1.7 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.

1.8 A small number of minor changes have been made to the accounting policies for 2016/17 which are marked in ***bold italics*** in **Appendix A,** these include:

- Update on the use of capital receipts to reflect the authority's Flexible Use of Capital Receipts Strategy;

- Changes to reflect the change in the minimum revenue provision policy, which is consistent with the Council's Financial Strategy and will apply from 2016/17 onwards; and

- Changes to reflect the updated CI&ES, new EFA note and Council's organisational structure within the Statement of Accounts.

Accounts and Audit Regulations 2015

1.9 Under the current regulations, the Council has been required to have draft Statement of Accounts produced by 30 June and audited, approved and published by 30 September following the end of the financial year. Effective from the 2017/18 financial year, the Accounts and Audit (England) Regulations 2015 specify the requirement to accelerate this process so that draft annual Statement of Accounts is produced by 31 May and audited, approved and published by 31 July following the end of the financial year.

1.10 The revised timetable will present challenges to both the Council and External Auditors. The Council will have one month less in which to close the financial year and produce the annual Statement of Accounts, and External Auditors will be required to complete local government audits and issue opinions two months earlier than the current requirements.

1.11 In preparation for this change, the council plan to prepare its Statement of Accounts for 2016/17 by 2 June. Further work will be undertaken during 2017/18 to review the processes currently in place to ensure the annual Statement of Accounts can easily be produced within the new statutory deadlines.

1.12 Committee timetables will also be required to reflect these changes.

Conclusion

2.1 Changes to the format and content of the accounts and accounting requirements will be incorporated into the Statement of Accounts for 2016/17 as required by the Code of Practice.

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

2.3 Changes set out in the Accounts and Audit Regulations 2015 will require the Council to prepare its annual Statement of Accounts from 2017/18 by 31 May and have them audited, approved and published by 31 July.

Consultation

a) Have Risks and Impact Analysis been carried out??

No

b) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Statement of Accounting Policies 2016/17

Background Papers

Document title	Where the document can be viewed
CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2016/17	Executive Director of Finance and Public Protection
Service Reporting Code of Practice for Local Authorities 2016/17	Executive Director of Finance and Public Protection

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APPENDIX A

Statement of Accounting Policies

1. General Principles and Concepts

The Statement of Accounts summarises the Council's transactions for the financial year ***2016-17*** and the position at the year-end ***31 March 2017***. 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 ***2016-17*** and Service Reporting Code of Practice ***2016-17,*** 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 for 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.

Under a Direction issued pursuant to sections 16 and 20 of the Local Government Act 2003 these receipts will be fully used to fund expenditure that is designed to generate ongoing revenue savings or transform services to reduce costs and is properly incurred for the financial years commencing on 1 April 2016, 2017 and 2018.

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 though 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 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.~~

For pre 2008 debt this is based on a standard asset life of 50 years equating to a 2% flat charge. For 2009/10 debt onwards, asset life of differing categories of assets is estimated and a charge based on an annuity method is used for Infrastructure Assets, where the benefit of these assets are expected to increase in later years. A charge based on Equal Instalments of Principal is used for all other categories of assets. The Council does not charge MRP until assets become operational.

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 statue) 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 service segments in accordance with the authority's arrangements for accountability and financial performance.

~~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:~~

~~**Costs**~~	~~**Basis of Apportionment**~~
~~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. 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~~ ***Schools'*** 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~~ ***Wellbeing*** 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~~ ***Other Budgets*** 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).

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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Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Executive Director - Pete Moore

Report to:	**Audit Committee**
Date:	**27 March 2017**
Subject:	**Work Plan**

Summary:

This report provides the Committee with information on the core assurance activites currently scheduled for the 2016/17 work plan.

Recommendation(s):

1. Review and amend the Audit Committee's work plan ensuring it contains the assurance areas necessary to approve the Annual Governance Statement 2017.

2. Consider the actions identified in the Action Plan.

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 2017).

Conclusion

The work plan helps 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 2017
Appendix B	Action Plan

Background Papers

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

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

Appendix A

Audit Committee Work Plan – 2016/17		
27 March 2017	**Assurances Required/Being Sought**	**Relevancy – Terms of Reference**
Core Business		
IMT update	Actions being taken to improve control regime and assurance levels	Role and governance
Internal Audit Progress Report	Gain an understanding of the level of assurances being provided by the Head of Internal Audit over the Council's governance, risk and internal control arrangements and why.	To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include: a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work. b) Regular reports on the results of the Quality Assurance and Improvement Programme. c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement. To consider summaries of specific internal audit reports as requested.
Draft Internal Audit Plan 2017/18	That the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the	To consider reports dealing with the management and performance of internal audit

Audit Committee Work Plan – 2016/17		
	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 sufficiently 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.	
External Audit Progress Report and Plan	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. Note: Further assurance needed around impact / risks associated with early close down.	To comment on the scope and depth of external audit work and to ensure it gives value for money
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.
Statement of Accounts 2016/17 Review of Accounting Policies, changes to the Code of Practice and Accounts and Audit Regulations.	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 hat need to be brought to the attention of the Council

Audit Committee Work Plan – 2016/17		
Future meetings		
26 June 2017	**Assurances Required/Being Sought**	**Relevancy – Terms of Reference**
Approval of Counter Fraud Annual Report 2016/17 reviewing the delivery of the Counter Fraud Work Plan.	On the overall effectiveness of the Authority's arrangements to counter fraud and corruption.	To comment on the scope and depth of external audit work and to ensure it gives value for money
Draft Annual Governance Statement 2017	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. Constructively challenge the information and evidence being presented. Ensuring value for money assurance arrangements are reported on and assessing how this features in the Annual Governance Statement. Improving how the Council discharges its responsibilities for public reporting e.g. better targeting at the audience and plain English	To oversee the production of the Council's Annual Governance Statement and to recommend its adoption To consider the Council's arrangments for corporate governance and agreeing necessary actions to ensure compliance with best practice
External Audit Progress Report	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	To comment on the scope and depth of external audit work and to ensure it gives value for money
Internal Audit Progress Report	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. Ensure management action is taken to improve controls / manage risks identified. Encouraging ownership of the internal control framework by appropriate managers	To consider reports dealing with the management and performance of internal audit To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale

Audit Committee Work Plan – 2016/17		
	Confirm appropriate progress being made on the delivery of the audit plan and performance targets	
Risk Management Progress Report including update of Strategic Risk Register	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. That there has been on big surprises for the Council where it suffered significant financial loss or reputational damage.	To monitor the effective development and operation of risk management and corporate governance in the Council
Draft Counter Fraud Plan 2017/18 **Deferred from March**	Gain assurance that the Council has effective arrangements in plane to fight fraud locally. Ensure that counter fraud resources are targeted to the Council's key fraud risks.	To monitor Council policies on confidential reporting code, anti-fraud and anti-corruption policy and the Council's compalints process.
24 July 2017	**25 September 2017**	**20 November 2017**
Draft Statement of Accounts 2016/17	To monitor the effective development and operation of risk management and corporate governance in the Council.	Director of Adult Care – update on governance risk and control implications re the integration of Health and Social Care. Including Sustainable Transformation Plan
Annual review of the effectiveness of the Council's Internal Audit Function	External Audit's ISA 260 Report to those charged with Governance on Lincolnshire County Council's Statement of Accounts and Lincolnshire Pension Fund Accounts for 2016/17	Counter Fraud Progress Report
Review of Head of Internal Audit's Annual Report and Opinion 2016	Final Statement of Accounts 2016/17	Whistleblowing Annual Report
Review of draft Annual Report on the work of the Audit Committee	Approval of the Annual Governance Statement 2017	
KPMG – Serco report update	Internal Audit Progress Report	

Appendix B

Audit Committee Action Plan 2016/17			
Action	**Terms of Reference Outcome**	**Key Delivery Activities**	**When**
1. Clarify who should attend the Audit Committee and expectations on the information being presented.	Ensure that relevant and focussed reports are presented. Provide more certainty that assurance is relevant and reliable Promote constructive challenge during meetings Strengthen accountability arrangements and the effectiveness of the Audit Committee	Develop reporting protocol	30th September 2016 Revised to July 2017 – not started
2. Develop Action plan following self-assessment workshop considering the following:	Improve effectiveness of the committee	Work with Councillor Development Group to develop a person spec with key attributes for people on an Audit Committee	31st January 2017 COMPLETE
		Recruit an additional 'independent' member	30th June 2017 IN PROGRESS
		Review the meeting cycle and agenda content with Democratic Services and the Chairman	1st March 2017 COMPLETE
		Deliver risk management training and awareness for members and staff	Move to after May 2017
		Ensure that there is a private meeting with External Auditor at least once a year.	Agree with KPMG – November or January COMPLETE
		End of meeting debrief / lunch	Noted

Audit Committee Action Plan 2016/17			
		Briefing / update on key risks between meetings	Noted
		Arrange informal meeting with CMB	Completed – formal meeting agreed Chairman – January 2017 COMPLETE

Potential Agenda Items	Update
Governance and Control of Trading Companies	Chairman sought assurances & included in 2017/18 Internal Audit Plan
Records Management – social care case files	Included in Internal Audit 2017/18 Plan
County Farms	Make enquiries of significance & risk associated with County Farms.
Joint Commissioning Board - Partnerships	Identify governance arrangements/follow up 2016 report
Reviewing and encouraging transparency in partnership decision making	Governance review identifies need for policy and update of Financial Regulation 8, External Funding Including Partnerships, Audit & Risk Manager to do as of September 2017
Understand and seek assurance over the governance and risks associated with our key partners -via Combined Assurance Status Reports	Completed & reported to Committee in January 2017
Compliance with the Transparency Code	Completed as noted governance review – report in IA progress report March 2017

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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The Chartered Institute of Public Finance & Accountancy

CIPFA Better Governance Forum

Audit Committee Update

Helping audit committees to be effective

Issue 21

The audit committee and internal audit quality

Briefing on topical issues

Audit committee training

December 2016

Introduction

Dear audit committee member,

In the latest issue of Audit Committee Update we address the quality assessments that are a mandatory requirement of the Public Sector Internal Audit Standards. Our article is from one of CIPFA's own assessors, Elizabeth Humphrey, and she outlines the key facts to know about internal audit quality assessments. In particular she highlights what part the audit committee should play in supporting the assessments.

The external quality assessment or EQA is one aspect of the quality assurance and improvement programme that internal auditors need to have in place, and supporting the quality of internal audit is one of the most important roles that the audit committee has. Unless the committee can feel confident about the work of its internal auditors, the assurance the committee can provide to the organisation is undermined.

The remainder of this issue focuses on keeping you up to date, with our regular briefing covering recent legislation, reports and guidance.

Overall I hope you will find this issue interesting, informative and helpful in your work on the committee.

Best wishes

Diana Melville

CIPFA Better Governance Forum

Sharing this Document

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Receive our Briefings Directly

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If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website and download any of our guides and briefings directly. To register now, please visit www.cipfa.org/Register.

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18	Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors, Regular Briefing on Current Issues	Issue 18
Issues from 2016		
19	Good Governance in Local Government – 2016 Framework, Appointing Local Auditors, Regular Briefing on Current Issues	Issue 19
20	CIPFA Survey on Audit Committees 2016, Regular Briefing on Current Issues	Issue 20

Workshops and Training for Audit Committee Members in 2017 from CIPFA

Development day for local government audit committees
This workshop is suitable for audit committee members or those working with the audit committee in local government. It will cover an update on new developments and legislation relevant to the audit committee role. In addition, it will feature the new governance framework, working effectively with internal audit and other key topics.

- 17 January 2017, London
- 18 January 2017, Manchester

Developments in police audit committees
These events are suitable for members of the joint audit committees supporting police and crime commissioners (PCCs) and chief constables. These events are run in conjunction with CIPFA's Police Network.

- 20 September 2017, London
- 21 September 2017, York

Other CIPFA events information and dates are available on the website.

In house training and facilitation

In house audit committee training and guidance tailored to your needs is available. Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee
- working with internal and external auditors
- public sector internal audit standards
- corporate governance
- strategic risk management
- value for money

- fraud risks and counter fraud arrangements
- reviewing the financial statements
- assurance arrangements
- improving impact and effectiveness.

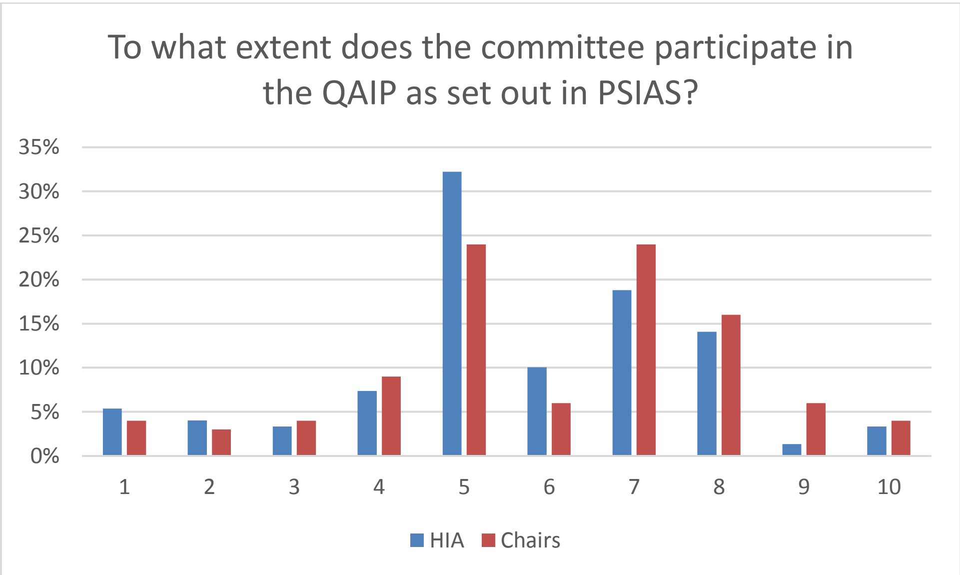
For further details contact blane.sweeney@cipfa.org or email diana.melville@cipfa.org or visit the CIPFA website where we have a brochure to download outlining the support we have available for audit committees.

The Audit Committee and Internal Audit: Supporting your Auditors to do their Best

How can you help? How would you know how they are doing?

The answer lies in the Public Sector Internal Audit Standards (PSIAS), the Quality, Assurance and Improvement Programme (QAIP) and the annual internal and external quality assessments (IQA and EQA), but how does the audit committee get involved in this alphabet jungle and what more could you do?

The PSIAS came into effect from 1 April 2013 and set out expectations of auditors, audit committees and senior management. By now, you should have received the results of up to three internal quality assessments (IQAs) against them (normally in the annual audit report). You may also have commissioned an external quality assessment (EQA) and had a chat with an external assessor. In the recent CIPFA survey on audit committees in local authorities and police there was a mixed response to the question about the audit committee's involvement in the quality programme. The chart below show the responses from heads of internal audit (HIA) and chairs of audit committees for local authorities. For further details of the survey download our briefings from the CIPFA website.



A score of 10 indicates a high level of participation.

Quality Assurance and Improvement Programme (QAIP)

Every audit section is expected to have a QAIP. This is the ongoing process through which they check that their performance meets their own criteria for delivery and also professional standards, including the PSIAS. A typical QAIP will consist of:

1. routine signing off of audits at different stages, for example after the terms of reference have been written, at the end of the fieldwork and before the draft and final reports are issued

2. a detailed review of the audit file at the end of the fieldwork stage, to check for mistakes, gaps in information and that all the key issues have been covered and are included in the report
3. post-audit questionnaires to auditees asking about the progress of the audit and the auditor's performance; these can be of limited value if the response rate to these questionnaires is poor
4. sample reviewing of completed audit files by staff who were not involved in the original audit (only large audit teams will have the resources to undertake this sort of review)
5. a set of performance indicators against which performance is measured over time
6. a programme for internal and external quality assessments (IQA and EQA), indicating who is to be involved.

Internal quality assessment (IQA)

The PSIAS require audit functions to review their performance against the standards periodically. While the standards don't specify a frequency, most audit teams carry out a review every year and report it in their annual report, together with their report of their activities in the year and their opinion on the system of internal control. The reporting should cover:

1. the scope of the review
2. who undertook the review, whether they were part of the audit team and their knowledge and experience of the standards
3. the outcome and conclusions of the review
4. actions to be undertaken as a consequence of the review.

IQAs should be carried out both within the audit team and by others within the organisation who have sufficient knowledge and understanding of internal audit to be able to reach a valid opinion. This is one area where the audit committee can play a useful role by being part of the review of the service, annually or from time to time. Carry out your own audit of the auditors by seeking evidence from others, looking at documentation and reviewing some audit work. You'll learn a lot and your auditors will greatly value your input. You could look for the following:

1. Evidence of thorough, risk-based planning. Are the risks to be audited documented? Do auditees think the auditors tackled the significant risks in their audit work? Does the audit work and report reflect the risks identified during the planning stage?
2. Evidence of effective reporting. Can you follow a trail from the audit plan to the audit report? Is the report clear and concise, but not too concise? Does it set out the objectives and scope of the audit, the risks to be examined and the outcome

of that examination? Do the recommendations seem sensible given the findings and are the responses to them acceptable?

3. Evidence that audit has sufficient resources and is maintaining its objectivity and independence, acting with integrity, confidentiality and competence. When did you last discuss these matters with your auditors? What do external audit, the director of finance, the chief executive have to say? What do you think?

External quality assessment (EQA)

Once in every five year cycle (ie before 1 April 2018), each audit team is required to commission an external review of their service against the PSIAS (an EQA). The external reviewer must be suitably qualified to carry out this work (typically they will be or have been a head of audit) and must be independent of the organisation. The level of independence is a matter of judgement but an arrangement whereby two heads of audit agree to review each other's service is not appropriate.

Although the sponsor of the review is likely to be an officer, the audit committee should be involved in the commissioning of the EQA, while it is being undertaken and at the end of the review as follows:

Commissioning:

1. Consider what is being commissioned: a peer review, a review against the IQA or a fully independent EQA.

2. Take a view on who might undertake this work, their independence of the organisation and qualifications to carry it out.

During the review:

1. At the very least, the chair of the audit committee should be one of the EQA interviewees. The reviewer will seek your perspective on audit's independence and objectivity, the planning and reporting of audit work and the way in which the auditors keep the audit committee informed, and the working relationships between the auditor and audit committee.

2. Some reviewers may want to speak to more audit committee members as their relationship with the audit team may differ from that between the chair and the auditors.

3. Some reviewers may wish to attend an audit committee to observe the interaction at first hand.

4. If any major findings come out of the review, you should expect to be informed of them as soon as possible.

After the review:

The reviewer will produce a report, identifying compliance and non-compliance with the standards and making recommendations and suggestions for improvement. This report should be included on the next audit committee agenda and you should follow up on activities against the action plan.

What do you do if your internal audit is provided by a contractor?

There has been some confusion about whether an IQA or EQA is required if you are using contracted internal audit and they have their own IQA and EQA arrangements. This will depend on the nature of the external provision and your officers will need to seek detailed advice.[1] In essence, any assessment, internal or external, looks both at the quality of the audit work and the way in which the audit function works with the organisation. While the quality of work may be covered by a review of the contractor's arrangements, especially if they do not vary their approach from client to client, the interaction with each client organisation probably isn't. Deciding on an appropriate scope for any review to avoid duplication and not be too onerous for the contractor is key.

Conclusion

Any quality assessment, internal or external, is intended to add value and improve the service provided by your internal auditors. An external reviewer is likely to be a great source of advice and suggestions. Make the most of the opportunities that come with such a review and use it to develop your audit team to deliver their best.

Elizabeth Humphrey CPFA

CIPFA Governance and Audit Associate

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[1] A guidance note has been issued by the Internal Audit Standards Advisory Board (IASAB) on this topic: QAIP and Multi-client Service Providers (2014)

Recent Developments You May Need to Know About

Legislation, regulations and consultations

Appointment of local auditors
In our previous issues of Audit Committee Update we have provided updates on the requirement to appoint local auditors under the Local Audit and Accountability Act 2014. Public Sector Audit Appointments (PSAA) is the organisation appointed by the communities and local government secretary to conduct a sector led appointment process that eligible bodies can opt into.

PSAA issued their invitation to local bodies on 27 October 2016 with a closing date of 9 March 2017. They have put in a lengthy response period for the acceptance of the invitation, recognising that under the regulations councils must have the approval of full council to opt in. The appointment period will last for five years. Further details about the invitation and PSAA's plans are on their website.

The alternative to the PSAA appointment is to undertake an independent or shared appointment, using an auditor panel to provide oversight. Authorities should also have regard for the EU procurement thresholds.

For further details on the regulations and process for the appointment of local auditors please see earlier issues and the guidance on auditor panels available from CIPFA.

Forthcoming changes to the Public Sector Internal Audit Standards (PSIAS)

The responsible internal audit standard setters for the public sector will be issuing a consultation on amendments to the PSIAS. The PSIAS incorporate the international standards established by the Global Institute of Internal Audit and the Institute has recently published new amendments to the standards to be effective from 1 January 2017 for their members.

While it is the intention to maintain the alignment of the PSIAS to the international standards, there will be no amendment until after the completion of the consultation. The consultation will propose some amendments, deletions and additions to the public sector requirements or interpretations that the PSIAS contain. It is intended that the updated PSIAS will take effect from 1 April 2017.

Further details will be made available on the consultations part of the CIPFA website by 19 December. Audit committees are encouraged to consider the changes and to respond to the consultation.

Draft regulations The Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2016

The draft regulations on audit committees cover political balance and definition of independence for the independent member(s) on the committee. They also cover the method of appointment.

Reports, recommendations and guidance

Delivering Good Governance in Local Government

The guidance notes to support the new Framework are now available for English, Welsh and Scottish local authorities and for police. The framework applies from April 2016 and will need to be reflected in the annual governance statement for 2016/17.

- English local authorities
- Police
- Welsh local authorities
- Scottish local authorities

Briefings on the CIPFA surveys of audit committees

Six thematic briefings on the results of the survey are now available to download from the CIPFA website. The surveys were issued earlier this year and sought the views of chairs of audit committees, heads of internal audit in local authorities and CFOs for the PCC. The briefings cover effectiveness, the relationship with internal audit, training and support plus specific findings for local authorities and police. The briefings also contain recommendations, and local authority and police audit committees are encouraged to review the findings and recommendations and consider their application for their own committee. Audit committee survey briefings.

Reports in the public interest

PSAA publishes on its website reports in the public interest issued by local auditors. Over the last two months eight reports have been published, all on parish councils. In each case the council failed to meet its statutory duty to prepare an annual return about its finances and governance.

National Fraud Initiative

The report from the latest data matching investigations in England is now available. The initiative overseen by the Cabinet Office covers all local authority bodies plus other key sources of data and other public bodies. This year's report identified £200m of fraud. Another notable finding was a drop in the level of social housing fraud being identified. The reports for Scotland, Wales and Northern Ireland were published earlier in the year. See the last issue for further details.

Local government ethics in England: how is local ownership working?

The Localism Act 2011 placed the emphasis for the maintenance of standards on local ownership. This research report makes a preliminary assessment of local ownership in practice since the Act was passed among the 14 councils and three police forces that comprise England's North East region. Public Money and Management

Government interventions in local government

The Communities and Local Government Select Committee published a report in August identifying lessons to be learned from the government interventions in Rotherham and Tower Hamlets. The report emphasised the need for authorities to ensure they have proper checks and balances and scrutiny arrangements in place to drive a culture of transparency and continuous improvement. Communities and Local Government published their response to the recommendations in October.

As part of the annual review of governance arrangements to support the governance statement, authorities should be considering the adequacy of its scrutiny arrangements. Having effective scrutiny underpins the Principles in Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)

Financial resilience and sustainability

These challenges are significant for many public bodies. Reports from the state audit institutions provide insights into the experiences of specific sectors.

- Wales Audit Office report on the Financial Resilience of Local Authorities in Wales 2015–16
- National Audit Office report on Financial Sustainability of Local Authorities: Capital Expenditure and Resourcing
- National Audit Office report Financial Sustainability of the NHS
- Audit Scotland's annual review of the financial health and performance of the NHS in Scotland NHS in Scotland 2016
- Audit Scotland's Audit of Higher Education in Scottish Universities

In addition the National Audit Office is planning to produce a report on the financial sustainability of schools.

Value Creation in the Public Sector

The International Integrated Reporting Council and CIPFA, with the support of the World Bank, have published an introductory guide for public sector leaders on integrated thinking and reporting. The Guide outlines the fundamental concepts at the heart of Integrated Reporting (<IR>) and provides case studies of entities and organisations implementing <IR> to help them achieve the outcomes they are aiming for.

Upholding the Seven Principles of Public Life in Regulation

The latest report from the Committee on Standards in Public Life reviews how regulatory bodies in the United Kingdom uphold the Seven Principles of Public Life. Striking the Balance Upholding the Seven Principles of Public Life in Regulation

Published by:

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The Chartered Institute of Public Finance & Accountancy

CIPFA Better Governance Forum

Audit Committee Update

– helping audit committees to be effective

Issue 22

- Developing an Effective Annual Governance Statement
- Regular Briefing on Current Developments
- Audit committee training

March 2017

Introduction

Dear Audit Committee Member,

Welcome to Issue 22 of our briefings for audit committee members in public sector bodies.

It has been produced by the CIPFA Better Governance Forum and is free to our subscribing organisations. Its aim is to provide members of audit committees with direct access to relevant and topical information that will support them in their role.

This issue takes a fresh look at the annual governance statement in the light of the changes to the governance framework for local government bodies. Producing a statement each year can become a stale process rather than something more valuable, and audit committees can play a very helpful role in supporting their organisation to publish a more meaningful statement.

As always, there are links to new developments and resources of interest for audit committee members.

I hope you will find this issue helpful. Do let me know of any suggestions for future topics or feedback on the briefing.

Best wishes

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

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10	Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements See Issues 21 and 22 for updated content.	Issue 10
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CIPFA Survey on Audit Committees 2016, Regular Briefing on Current Issues	Issue 20
The Audit Committee and Internal Audit Quality, Briefing on Topical Issues	Issue 21

Workshops and Training for Audit Committee Members in 2017

CIPFA Internal Audit Conference

CIPFA's annual conference for internal auditors will cover professional developments and sharing of good practice.

- 11 May 2017, Oxford Spires Hotel, Oxford

Developments in police audit committees

These events are suitable for members of those joint audit committees supporting police and crime commissioners (PCCs) and chief constables. These events are run in conjunction with CIPFA's Police Network.

- 20 September 2017, London
- 21 September 2017, York

Development day for local government audit committees

This workshop is suitable for audit committee members or those working with the audit committee in local government. It will cover an update on new developments and legislation relevant to the audit committee role.

- December 2017 and January 2018, further details to be confirmed

Other CIPFA events information and dates are available on the website.

In-house training and facilitation

In-house audit committee training and guidance tailored to your needs is available. Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee
- working with internal and external auditors
- public sector internal audit standards
- corporate governance
- strategic risk management
- value for money
- fraud risks and counter fraud arrangements
- reviewing the financial statements
- assurance arrangements
- improving impact and effectiveness.

For further details contact or email diana.melville@cipfa.org or visit the CIPFA website where we have a brochure to download outlining the support we have available for audit committees.

Developing an Effective Annual Governance Statement

CIPFA and Solace introduced a new governance framework, *Developing Good Governance in Local Government: Framework*, in April 2016, with seven new governance principles. By adopting the new Framework local authorities should be ensuring that their governance arrangements in practice are in accordance with the principles. The annual governance statement (AGS) is a mandatory requirement for local government bodies set out in statutory regulations[1]. In essence, it is an accountability statement from each local government body to stakeholders on how well it has delivered on governance over the course of the previous year. The benchmarks that are used to make that statement are the principles in the Framework.

What does the guidance say?

The guidance for the AGS is included along with the Framework and it builds on the previous requirements[2]. In addition to the organisation acknowledging its responsibility for ensuring governance is effective, the AGS should:

- focus on outcomes and value for money
- evaluate against the local code and principles
- be in an open and readable style
- include an opinion on whether arrangements are fit for purpose
- include identification of significant governance issues and an action plan to address them
- be signed by the chief executive and leading member in a council. The PCC and chief constable should sign theirs.

There are also two new areas introduced for 2016/17. Some authorities already include a section that accounts for actions taken in the year to address the significant governance issues identified in the previous year's AGS. CIPFA felt that this was good practice and so has included it as a requirement for the AGS going forward. In addition, CIPFA has not established any 'set text' for authorities to use in acknowledging their responsibility for the governance framework. Many authorities have tended to use the original text from the 2007 guidance, but CIPFA has not included this in the latest guidance in order to encourage more flexibility.

Who is the audience?

The AGS is prepared to account to your stakeholders and they are wide and varied. They include:

- local citizens
- local businesses
- partners
- Department for Communities and Local Government (DCLG)
- external auditors, inspectorates and regulators.

In addition, it should also be a statement that is of value internally – to other members of the governing body and to staff.

What makes a meaningful statement?

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[1] In England the Accounts and Audit Regulations 2015, in Scotland The Local Authority Accounts (Scotland) Regulations 2014, in Wales The Accounts and Audit (Wales) Regulations 2014, in Northern Ireland The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015

[2] Delivering Good Governance in Local Government: Framework (Addendum) CIPFA 2012

The most important way to make the statement meaningful is to ensure that it is an open and honest reflection of your governance and your current challenges. It has been known for the AGS to contain 'window dressing statements' to gloss over areas of poor performance or to fudge the effectiveness of interventions. Where that is the case, the AGS adds little value and doesn't build confidence in the leadership of the organisation. One of the key aspects of the AGS is the identification of areas for improvement and the associated action plan. Where these are done, well the AGS becomes a meaningful tool for improving governance.

The AGS should also provide a clear evaluation against the principles of good governance and an opinion of whether the arrangements are fit for purpose or not. If the opinion is vague or not included then again the AGS does not send a clear message about accountability.

What can be done to make the statement more effective?

Effectiveness of an AGS will be improved if it more successfully communicates the key messages. There are a number of approaches that some authorities have taken to make their AGS more effective:

- keeping it short and focused – where an organisation has an up-to-date local code that sets out their arrangements, then the AGS can make reference to that rather than repeat the detail
- using diagrams to explain key elements
- using colour or pictures to engage the reader.

Regardless of how well the AGS is written, it will not be effective if it is not regarded as important by those charged with governance and the leadership team.

What shouldn't we do?

There are a number of pitfalls in preparing an AGS. These are some of the common ones:

- not ensuring that a range of perspectives support the AGS
- making it too long and wordy
- including too much description rather than evaluation
- omitting the opinion on whether the arrangements are fit for purpose or not
- not being explicit about the actions that will be taken to address the governance issues identified.

How can the audit committee help?

The audit committee can play a very valuable role in the development of the AGS and in the finished look of the statement. The committee should understand the process that has been undertaken to review governance and so should be able to see how the conclusions in the AGS have been arrived at. There should be no real surprises for the committee.

The committee can provide a valuable reality check for the draft document as well. Is it well written and clearly presented? Is the action plan adequate and realistic?

The committee can send an important message about the value and importance of the AGS, which will support those providing assurance to support its conclusions. Once the AGS has been approved, the committee can review progress in implementing the actions, so helping to ensure that the AGS is meaningful and is an effective tool for improvement in governance.

Other points to note

For the 2017/18 AGS in England the deadline for approval and publication of the statement will be brought forward to 31 July instead of 30 September as at present. This is a requirement of the Accounts and Audit Regulations 2015. Many authorities are planning to approve their AGS and accounts earlier for the 2016/17 year as a preparation for this. As a result, committees may find that the AGS is appearing on their agendas earlier than in previous years.

The Better Governance Forum held workshops in February and March 2017 on the AGS and developing local codes. Copies of the presentations are available to download from the CIPFA website.

Diana Melville

Recent Developments You May Need to Know About

Legislation, Regulations and Consultations

Public Sector Internal Audit Standards

The responsible internal audit standard setters for the public sector (which includes CIPFA in respect of local authorities) have been consulting on whether the PSIAS should be updated to reflect the changes made to the International Professional Practices Framework on which PSIAS is based. The consultation period ended in January and a decision is expected before the end of March.

Any changes to the PSIAS are expected to be implemented from April 2017 for 2017/18. The changes will need to be adopted by all public sector internal audit teams, supported by their audit committees.

Audit committees should ask for an update on the standards, particularly any that impact on the reporting relationship between internal audit and the audit committee. Audit committees should also be aware that conformance with the standards will be assessed through the external quality assessment, known as an EQA, if one has not yet taken place. An EQA has to be completed for all local authority bodies before April 2018, as they must take place at least once every five years.

Emergency services collaboration

The Policing and Crime Act 2017 includes a duty for all relevant emergency services (defined as police forces, fire and rescue services and the emergency aspects of the ambulance service) in England to consider collaboration with each other in their local area. This could take a range of forms including collaboration across the different services. The audit committees of emergency services bodies should therefore be aware of this duty and local plans. Where collaborative arrangements are proposed, then consideration will need to be given to the governance, risk, control and audit implications.

The Act also provides for a police and crime commissioner to be the fire and rescue authority for the local area. Where this is the case it is likely to have consequences for police audit committees and fire authority audit committees. The details of how the audit committee arrangements might work are being considered as part of ongoing work on the finance and governance implications of the proposals.

Audit committees in combined authorities

Combined authorities are required to have audit committees under the Cities and Local Government Devolution Act 2016, including a requirement to appoint at least one independent member. DCLG has now issued the Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017, concerning the definition of independence of such audit committee members. While the regulations only apply to audit committee members appointed to combined authorities, other authorities considering the appointment of an independent member may want to take them into account.

Reports, Recommendations and Guidance

Financial reporting

There are changes to the 2016/17 financial statements which are designed to make them easier to understand. One principal change is that the income and expenditure account no longer has to follow a standard format, known as the Service Accounting Code of Practice

(SeRCOP). This means that authorities are free to set out their statements in a way that suits them, for example they can follow the structure of the budget monitoring reports that are used throughout the year to inform members on financial performance. CIPFA has produced a helpful guide, Understanding Local Authority Financial Statements, which explains the key statements and features. It also includes a checklist designed to help the authority improve the presentation.

Local audit appointments

English authorities have until 9 March to inform the nominated sector body, Public Sector Audit Appointments (PSAA), if they wish to join the collective procurement and appointment arrangement. The decision must be made by full council, fire authority or police and crime commissioner as appropriate.

PSAA have published an updated timetable and procurement strategy plus frequently asked questions. All appointments, whether made independently or through PSAA, must be completed by 31 December 2017.

Auditors' work 2015/16: local government and health bodies

PSAA has published annual reports reviewing the results of auditors' work in local government and in health bodies in 2015/16. They cover the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers. Half of NHS bodies and 6% of local government bodies received a qualified conclusion on their value for money arrangements.

National Audit Office good practice resource

The National Audit Office (NAO) has published a good practice guide to commissioning, procurement and contract management drawing on their findings from recent value for money studies. Commercial and Contract Management: Insights and Emerging Best Practice highlights control and performance issues across the commercial lifecycle, providing a useful resource when evaluating local plans and contracts.

Financial sustainability of schools

The NAO has published a report, Financial Sustainability of Schools, that highlights the need for mainstream schools to make £3bn in efficiency savings by 2019/20 and highlights the risk that schools will make savings that impact on educational outcomes. The NAO calls for better oversight from the Education Funding Agency of financial management in schools.

The governance challenges posed by indirectly provided, publicly funded services in Wales

The Wales Audit Office (WAO) has published a discussion paper exploring the governance issues created by the delivery of public services by a range of organisations that are at arms-length from the public body providing funding. It highlights some of the areas of governance risk and discusses how effective governance can be put in place.

Local authority funding of third sector services

A report from WAO examines the effectiveness of local authorities' arrangements for funding third sector services. It finds that local authorities are neither making the best use of the third sector nor doing enough to ensure they are securing value for money. Authorities could do more to establish a strategic approach and evaluate the impact of their work.

Charging for services and generating income by local authorities

The WAO has published a report examining income generation and the extent to which authorities have adopted a strategic approach. It has concluded that despite raising more money from charging, authorities are not pursuing all options to generate income because of weaknesses in their policies and in how they use data and information to support decision making. The report also includes a helpful checklist to support a review of an authority's approach to income generation.

Look out for

CIPFA is currently updating its publication Audit Committees Practical Guidance for Local Authorities and Police (CIPFA 2013). The new edition will reflect the regulatory changes to governance, internal audit and the financial statements. It will also take into account the new external audit arrangements under which local authorities will be working, and the recommendations of the Financial Reporting Council over audit independence and ethical standards.

If you have any comments or suggestions for the improvement of the current edition please email diana.melville@cipfa.org

It is anticipated that the new publication will be available in the autumn.

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