



County Offices
Newland
Lincoln
LN1 1YL

15 March 2019

Audit Committee

A meeting of the Audit Committee will be held on **Monday, 25 March 2019** in **Committee Room One, County Offices, Newland, Lincoln LN1 1YL** at **10.00 am** for the transaction of business set out on the attached Agenda.

Yours sincerely

A handwritten signature in cursive script that reads 'Debbie Barnes'.

Debbie Barnes OBE
Head of Paid Service

Membership of the Audit Committee
(7 Members of the Council and 2 Voting Added Members)

Councillors Mrs S Rawlins (Chairman), A J Spencer (Vice-Chairman), P E Coupland, A P Maughan, R B Parker, P A Skinner and A N Stokes

Voting Added Members

Mr I Haldenby, Independent Added Member
Mr A Middleton, Independent Added Member

**AUDIT COMMITTEE AGENDA
MONDAY, 25 MARCH 2019**

Item	Title	Pages	Estimated Time
1	Apologies for Absence		
2	Declaration of Members' Interests		
3	Minutes of the meeting held on 28 January 2019	7 - 18	
4	External Audit Strategies - Lincolnshire County Council and Pension Fund - 2018/19 <i>(To receive a report from Mazars LLP, the County Council's and Pension Fund External Auditors, giving an update on the 2018/19 Audit Strategy and deliverables)</i>	19 - 58	10.05 am
5	Draft Internal Audit Plan 2019/20 <i>(To receive a report by Lucy Pledge (Audit and Risk Manager), which presents the Committee with a draft internal audit plan for 2019/20)</i>	59 - 80	10.15 am
6	Review of Governance Framework and development of the Annual Governance Statement 2018/19 <i>(To receive a report by Lucy Pledge (Audit and Risk Manager), which provides the Committee with the opportunity to review the contents of the draft statement - ensuring that it accurately reflects the Committee's understanding of the Council's governance and assurance arrangements)</i>	81 - 106	10.30 am
7	Counter Fraud Annual Plan - 2019/20 <i>(To receive a report by Matt Drury (Principal Investigator), which provides the Committee with information on the proposed Counter Fraud activities for 2019/20 and draft Counter Fraud Work Plan)</i>	107 - 124	10.40 am
8	International Audit Standard - Response to Management Processes Questions <i>(To consider a report by Dianne Downs (Team Leader – Audit), which provides the Committee with an assessment around whether the County Council and Pension Fund financial statements may be mis-stated due to fraud or error)</i>	125 - 134	10.50 am
9	Statement of Accounts 2018/19 - Accounting Policies <i>(To receive a report by Sue Maycock (Head of Finance – Corporate), which presents changes to the Code of Practice on Local Authority Accounting, which will be incorporated into the 2018/19 Statement of Accounts for Lincolnshire County Council and the Lincolnshire Pension Fund)</i>	135 - 184	11.00 am

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| 10 | Changes to the Council's Contract Regulations
<i>(To receive a report by Sophie Reeve (Chief Commercial Officer), which proposes changes to the Contract Regulations in the Council's Constitution, firstly to increase the threshold above which the Council must seek competitive quotes and secondly to amend the thresholds governing who can take decisions to approve exceptions to the Contract Regulations)</i> | 185 - 190 | 11.15 am |
| 11 | Internal Audit Progress Report
<i>(To receive a report by Rachel Abbott (Team Leader – Audit), which provides the Committee with details of the audit work during the period 11th January 2019 to 12th March 2019; advises on progress with the 2018/19 plan; and highlights other matters that may be relevant to the Committee's role)</i> | 191 - 220 | 11.25 am |
| 12 | Member Standards Arrangements
<i>To receive a report by David Coleman (Monitoring Officer), which proposes to establish a work group of members to consider the 'Committee on Standards in Public Life report on Local Government Ethical Standards' and to consider whether changes to the Code and Local Arrangements should be made as a result of the report)</i> | 221 - 250 | 11.40 am |
| 13 | Governance Review - Culture and Values Report
<i>(To receive a report by Lucy Pledge (Audit and Risk Manager), which provides the Committee with assurance around the effectiveness of the Council's governance arrangements – a key element of its terms of reference)</i> | 251 - 280 | 11.55 am |
| 14 | Work Plan
<i>(To receive a report by Lucy Pledge (Audit and Risk Manager), which provides the Committee with information on the core assurance activities currently scheduled for the 2019 work plan)</i> | 281 - 290 | 12.10 pm |

CONSIDERATION OF EXEMPT INFORMATION

In accordance with Section 100 (A)(4) of the Local Government Act 1972, agenda item 15 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 Schedule 12A of the Local Government Act 1972, as amended. The press and public may be excluded from the meeting for the consideration of this item of business.

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| 15 | IMT Assurance
<i>(To receive an exempt report by John Wickens (Chief Digital Officer) and David Ingham (Information Assurance Manager) on IMT Assurance)</i> | 291 - 312 | 12.15 pm |
|-----------|--|-----------|----------|

Democratic Services Officer Contact Details

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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.

All papers for council meetings are available on:
www.lincolnshire.gov.uk/committeerecords

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AUDIT COMMITTEE 28 JANUARY 2019

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

Councillors A J Spencer (Vice-Chairman), R B Parker and P A Skinner.

Officers in attendance:-

Debbie Barnes OBE (Head of Paid Service), Rachel Abbott (Audit Team Leader), Debbie Bowring (Principal Risk Officer), David Forbes (County Finance Officer), Glen Garrod (Executive Director of Adult Care and Community Wellbeing), Andy Gutherson (Interim Executive Director of Place), Cheryl Hall (Democratic Services Officer), Pete Moore (Executive Director, Finance and Public Protection), Mike Norman (External Auditor, Mazars), Lucy Pledge (Audit and Risk Manager), Dave Simpson (Technical and Development Finance Manager), Janice Spencer OBE (Interim Director of Children's Services) and Jill Thomas (Principal Auditor).

51 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors P E Coupland, A P Maughan and A N Stokes.

52 DECLARATION OF MEMBERS' INTEREST

There were no declarations of interest.

53 MINUTES OF THE MEETING HELD ON 19 NOVEMBER 2018

RESOLVED

That the minutes of the meeting held on 19 November 2018 be approved as a correct record and signed by the Chairman.

54 COMBINED ASSURANCE REPORTS

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

The Head of Paid Service and the Executive Directors were in attendance to present their Combined Assurance report and answer any questions from members of the Committee. Prior to the meeting, the Committee had requested that the senior officers provide information on the three key risks that concerned them the most.

Head of Paid Service

The Head of Paid Service advised the Committee that the following risks were of most concern:

- (1) Future Funding – it was advised that although the County Council was in a good position in the short-term, future funding in the medium to long-term remained uncertain. However, it was highly likely that savings would be required in future. It was confirmed that all changes to the County Council's Budget would be taken through the Council's decision making processes.
- (2) Information, Management and Technology – although significant improvements had been made in recent months with a refresh of individual IT being rolled out, there were improvements to be made to Business World On and on-going updates to cyber security. It was advised that an IMT Board was in the process of being established, which would oversee all IMT projects, and would include both councillors and officers.
- (3) Integration with Health – it was highlighted that further integration with the NHS was a priority for the County Council, particularly for services supporting older people which would bring significant benefits.

Members were provided with an opportunity to ask questions, where the following points were noted: -

- It was acknowledged that the future funding of the authority was out of the control of the County Council; the integration with health was reliant on suitable partnership arrangements; however the required improvements with regard to IMT were within Council's control;
- There was a need to achieve a confident and steady state with core IMT so that IT outages would be a minimum. The rolling out of Windows 365 and new IT equipment would make significant improvements to the IT provision in the Council. Once the IT rollout had been completed, work would be undertaken with departments to ascertain whether there were ways of utilising the digital platform to achieve optimisation of services;
- Improvements in IT would be continuously reviewed, as there were always IT developments which might improve services;
- It was confirmed that cyber security was on the Council's Risk Register and would remain there at this present time. There was a need to improve IT resilience and staff awareness of the risks associated with IT. In addition to the already mentioned improvements to IT, the Council would move to a cloud based system and that greater awareness and training would be rolled out to all employees for completion. There was a clear need to ensure that any cloud based system would store the Council's data safely and securely. It would remain the responsibility of the County Council that its data remained safe and secure and that relevant contingencies were in place. Assurances would be sought during the commercial process to ensure that third party processes were secure;
- It was confirmed that representatives of the Council liaised and visited other local authorities to see what improvements they were making to their IT

provision. However there was a need to focus on the perspective of future IT provision, and not the past. It was advised that an assessment had been carried out by a consultant and their findings could be shared with the Committee.

Executive Director of Adult Care and Community Wellbeing

The Executive Director of Adult Care and Community Wellbeing advised of the following three risks:

- (1) Homecare – The majority of adult care users who were supported received their care at home, which suited with the aspirations of the service user. This amounted to 7,000-8,000 people, receiving 64,000 visits per week which were delivered by twelve prime service providers. Meeting the needs of the service user remained the priority. It was highlighted that travel costs attributed up to 1/3 of the unit price, owing to the rurality of the County. Approximately 45% of all people using home care were self-funders.

It was highlighted that in Lincolnshire, the County Council had developed strong relationships with social care providers and had a relatively stable market, compared to other areas of the country.

- (2) Inability to thrive (Information, Management and Technology) – there was a need to work collectively with the NHS to meet the needs of people. It was highlighted that the Green Paper: Future Funding of Adult Social Care had been delayed, which would outline how adult social care services would be funded going forward and any directives for collaborative working. The NHS Long-Term Plan had recently been published but the needs of adult social care services were essential for the NHS to function effectively.

A digital road map had been produced, which looked at the needs of the service. There was a clear need for a system that could be accessed by a range of partner agencies including the fire brigade, the NHS and adult social care services to ensure effective collaborative working. It was highlighted that Lincolnshire Partnership NHS Foundation Trust also used Mosaic to record data, which was a good example of collaborative working.

- (3) Future Funding – the future of the Better Care Fund remained unknown, which was scheduled to cease from the financial year 2020/21. Without the Better Care Fund, the funding of adult social care services across the country would significantly suffer and most local authorities would be unable to cover the gap in funding. It was hoped that the Green Paper, once published, would address some of these concerns.

It was reiterated that within Lincolnshire there was a good basis on where integrated services could be developed, which would better meet the needs of individuals and better help manage risks, for example with future funding.

**AUDIT COMMITTEE
28 JANUARY 2019**

Members were provided with an opportunity to ask questions, where the following points were noted:

- It was advised that medical advances had meant that people were living longer. It was also important that quality of life was ensured, whilst achieving relative independence. Evidence had shown that preventative services worked well with older people. It was highlighted that the County Council currently served approximately the same number of older people as it did 3-4 years ago; and that there was an increase in the number of family carers compared to previous years;
- To ensure quality of service the directorate had an internal quality assurance service, which undertook case file audits; reviewed care packages; and that there was a commercial unit that reviewed the quality of the care visits undertaken by care service providers. The Lincolnshire Care Association, which represented the care home providers, was a strategic partner to the County Council and the Council liaised with the Association in developing training packages for care workers;
- The retention of care workers remained an issue within Lincolnshire, as this role was significantly less well paid compared to health workers. It was an aspiration to merge the two roles to assist with building better career structures and pay spines, which would in-turn help address the issues of retention. However, there was a need for national changes to be introduced for this aspiration to be realised.

Executive Director of Finance and Public Protection

The Executive Director of Finance and Public Protection highlighted the following key issues within his area of responsibility:

- Funding – There were a number of national decisions to be made regarding the future funding of local authorities. Although a timetable had not yet been issued, a Spending Review, to be effective from 2020 onwards, would be carried out in 2019 by Government. The Green Paper: Future Funding of Adult Social Care had been delayed until at least March 2019 and it was anticipated that the green paper would address concerns around funding adult social care services in the absence of the Better Care Fund. It was also highlighted that by autumn of 2019, the outcomes of the Fair Funding and Business Rate Reviews would be known and it was hoped that this would be positive for the County Council.

The Council was currently in a good budgetary position, which was because of the previously emphasised importance of maintaining volatility reserves. However, as mentioned above, there would be a funding gap to fill from 2020 onwards and therefore the Council would be required to make savings via a fundamental budget review. Protocols would be put in place to ensure that the Council would not enter into any 2-3 year contracts that it might not wish to maintain once the outcome of the spending review was known.

Improvements made to the Council's Agresso system had ensured an improvement in the Council's financial management.

There was a need to undertake improvements to the control of the capital programme, in particular post-implementation reviews to ensure that what was set out to be achieved, had been achieved and if not what were the lessons that had been learnt.

- An Inspection of Fire and Rescue Services had recently been carried out and had resulted in a good report. Three key lines of inquiry formed part of the review on Effectiveness, Efficiency and People. The Service had received a *Good* rating for Effectiveness and Efficiency, with People receiving *Requires Improvement*. The report had been considered by the Public Protection and Communities Scrutiny Committee.
- Key partnerships continued to work well.
- Brexit had been red flagged but this was owing to the number of unknowns. The Lincolnshire Resilience Forum had been requested to undertake a Brexit analysis for Lincolnshire and it had been deemed a relatively low risk.

It was highlighted that staff recruitment and retention across health and social care remained a key risk so work was being undertaken with European Union employees, who wished to remain within the UK, to receive settled status as soon as possible.

The Committee was provided with an opportunity to ask questions, where the following points were noted:

- It was queried why there was a significant percentage of amber relating to substance misuse services on page 51 of the agenda pack. In response, it was highlighted that a contract had recently been retendered for substance misuse services and although the contractor was performing well, it would remain amber until the new contract had settled. It was also highlighted that most of the Public Health contracts had been recently retendered so the same principle applied to those contracts;
- It was hoped that a single programme of work would be developed. It was highlighted that new contracts were taken through an informal commissioning board, which consisted of a mix of officers and executive councillors. It was suggested that if a single programme of work was developed that this should be shared with scrutiny committees to inform work programmes.

Interim Executive Director of Place

The Interim Executive Director of Place highlighted the following three key issues:

- (1) State and condition of the Council's highway – the quality and the approach the maintenance of the highway was influenced by the level of funding that was received.
- (2) Management of individual contracts - For example with the Lincoln Eastern Bypass and the Council's ability to respond to the collapse of a contractor,

which had seen a positive response and had not resulted in a delay in the delivery of the project.

It was also highlighted that there were currently issues with the IT provision in libraries, however there were plans in place to address this issue.

It was noted that work was being undertaken with the Council's Property Team in developing options for the Archives project.

- (3) Other big issues: *Climate Change Agenda*; *Waste* it was anticipated that there would be changes in the way waste was dealt with and therefore it was important to maintain collective working arrangements with partners; *Flooding* – it was essential that the Council continued to maintain working relationships with partner organisations; *Brexit* - there would be a short to medium impact on economies until uncertainty was addressed.

Members were provided with an opportunity to ask questions, where the following points were noted:

- The directorate was future proofing policies and contracts;
- In response to a question relating to the delay in undertaking the review of scrutiny, it was suggested that the Head of Democratic Services and Statutory Scrutiny Officer be requested to bring forward the review, despite the Statutory Guidance from the Secretary of State on Overview and Scrutiny, not yet being available.
- It was confirmed that cash flow was examined as part of any due diligence.

Interim Director of Children's Services

The Interim Director of Children's Services highlighted the following three key issues:

- (1) Narrowing the Gap – It was highlighted that this was a complicated area, as only three of the 55 secondary schools were 'maintained' and the remaining 52 secondary schools were the responsibility of the Secretary of State, as academies. Therefore the County Council's influence over the academies was not as significant as the influence over the three maintained schools. However, it was highlighted that they were Lincolnshire children attending schools in Lincolnshire and it was therefore the responsibility of the County Council to ensure the best outcome for those children. The Council was aware of the data and what the challenges were and at present, the gap had not yet narrowed so it was important to find alternative solutions to address this issue.

It was highlighted that the Interim Director for Education regularly met with schools to discuss ways in which the gap could be narrowed. It was important that collaborative working was further improved to assist in narrowing the gap.

- (2) Integrating health visitors and nurses into the local authority – although initially there were challenges with this integration, it was now beginning to show how effective it had been. However, there were improvements required to the 2.5 years mandated checks.

A recent Inspection of SEND Services had found that the County Council was good at identifying vulnerable children and young people.

The Council had recognised the need for a mixed skills base to deliver assessments and therefore family health practitioners were now assisting with the completion of these assessments.

Health workers were now able to utilise Children Centres in undertaking assessments and reviews. The performance of assessments was now improving.

- (3) Fostering Service – The County Council had a very strong in-house fostering service with 476 children looked after by foster carers. However, the Council had an aging and retiring care service. There was a challenge for the Council in ensuring that people chose to foster for the County Council, rather than fostering for private foster care services which typically paid more to the foster carers. One of the options available to the County Council was to offer a retention payment for long serving foster carers.

The Committee was provided with an opportunity to ask questions, where the following points were noted:

- In response to a question relating to closing the attainment gap, the Committee was advised that the gap was considerable in Lincolnshire at every stage and Lincolnshire was worse than the national average by approximately 2%. It was difficult for the County Council to ascertain why this was the case as there appeared to be different patterns for different year groups so there was not a clear or consistent reason for the gap. The Committee was assured that this was not as a result of academisation, as the gap was of a similar size prior to the introduction of academies. The Committee was also assured that schools were working collaboratively with the County Council with an aim of reducing the gap.

RESOLVED

That the updates given and points raised be noted.

55 EXTERNAL AUDIT PROGRESS REPORT - JANUARY 2019

Consideration was given to a report by Mike Norman (Mazars), which set out the delivery of the Council's and Pension Fund External Audit for 2018/19. Appended to the report was the External Audit Progress Report for 2018/19.

**AUDIT COMMITTEE
28 JANUARY 2019**

It was advised that the interim audit would commence on 28 January 2019 and the final audit conclude in July 2019.

On 10 January 2019 the Pensions Committee and the Pensions Board had received briefings from Mazars on the Pension Fund audit issue for 2018/19 and had been provided with an opportunity to ask questions on Mazars' audit approach.

It was highlighted that Mazars had arranged *Financial Reporting Workshops* to be held in February 2019, which would provide its clients with an update on the latest developments as well as a forum for its clients to discuss emerging issues. The East Midlands event was being held in Nottingham on 12 February 2019 and officers from the Council's finance team had been invited to attend.

It was also highlighted that the draft External Audit Annual Plan 2019/20 would be presented to the Committee at its meeting on 25 March 2019 for consideration.

RESOLVED

That the External Audit Progress Report – January 2019 be noted.

56 INTERNAL AUDIT PROGRESS REPORT

Jill Thomas (Principal Auditor) presented a report which provided details of the audit work during the period 6 November 2018 to 10 January 2019; advice on the progress with the 2018/19 plan; and information on any other matters relevant to the Audit Committee's role.

The Committee was advised that good progress had been made in the delivery of the Internal Audit Plan. During the period, 17 audits had been completed and a further four were at 'draft report' stage. Appendix A to the report provided detailed information on the work completed.

Reference was made to the audit of Capital Receipts, which had received limited assurance. It was advised that in 2016 the Council, together with all other local authorities, had received more flexibility on the use of capital receipts, which allowed capital receipts to be used to fund expenditure on certain projects that were designed to generate on-going revenue savings or transform services to reduce costs. It was highlighted that a fundamental principle of the guidance was that if capital receipts were used on transformational projects then the Council would need to show that this had generated on-going revenue savings or transformed services to reduce costs as a result.

The audit had found that improvements were required on the reporting of the on-going savings or reductions in costs and officers were confident that those improvements would be delivered by including this information in future budget outturn reports.

It was queried how HMRC's *Making Tax Digital* had impacted on the County Council and it was advised that the HMRC's planned digitalisation for local government had

been delayed for a year. Preparations were being made by officers in readiness for the introduction.

RESOLVED

That the Internal Audit Progress Report be noted.

57 RISK MANAGEMENT PROGRESS REPORT - JANUARY 2019

Consideration was given to a report by Debbie Bowring (Principal Risk Officer), which invited the Committee to note the current status of the strategic risks facing the Council and make recommendations on any further scrutiny required.

The Committee was advised that as part of the on-going review and oversight of the Strategic Risk Register, a review of the individual strategic risks with risk owners had been undertaken and assurances had been obtained that the strategic risks were being managed effectively. The Risk Management Progress Report was detailed at Appendix A to the report, which provided updates on key messages received since the last update in September 2018.

It was highlighted that Appendix 1 to the progress report had included a summary of each Directorate's *Top 5* risks, which had shown that almost all areas had identified having a tactical risk around *people*; and *budget and lack of resources*. There were no tactical risks requiring escalation to the Strategic Risk Register or Corporate Management Board at this time. *IT Infrastructure* had recently been added to the Strategic Risk Register.

In response to a question, it was advised that Risk 5 – *Ability to deliver our major designated projects* had been assessed through the assurance framework; however this had not yet been recorded. This would be reported to the Committee as part of the next update.

The Committee was assured that the Council's strategic risks continued to be managed pro-actively. This could be demonstrated with the inclusion of a new risk. There was a good level of awareness of the current and emerging risks, with positive action being taken where appropriate.

RESOLVED

That the current status of the strategic risks facing the Council be noted.

58 NORTHAMPTONSHIRE COUNTY COUNCIL BEST VALUE INSPECTION -
LESSONS LEARNED

Consideration was given to a report by Lucy Pledge (Audit and Risk Manager), which provided the Committee with a summary from the 'Lessons Learned Exercise' which had been completed, following the publication of the Northamptonshire County Council and Best Value inspection report.

10
AUDIT COMMITTEE
28 JANUARY 2019

It was reiterated that Lincolnshire County Council had set a balanced budget and had a proven track record for the delivery of savings and careful consideration was given to the level of reserves to support the Council's budget.

Officers did not underestimate the complexity of the budget challenges ahead but were satisfied that the appropriate structures, scrutiny and financial management processes were in place to protect the Council from similar issues at Northamptonshire County Council.

However, it was acknowledged that the Council could not afford to be complacent and the report highlighted opportunities for improvement, which covered the following:

- Capital programme reporting;
- Reporting the benefits realised from flexible use of capital receipts;
- Updating financial procedures;
- Better reporting and transparency on delivery of savings targets;
- Better clarity in committee reports;
- Capital strategy;
- Forward financial planning and budget setting for April 2020 onwards;
- Enhanced councillor training;
- More robust scrutiny over reserves by the Overview and Scrutiny Management Board (OSMB); and
- Robust scrutiny over financial risks and risk register by OSMB.

The Committee was assured that an evidenced based comparison of the Council's governance and financial management arrangements against the issues highlighted in the Northamptonshire County Council's Best Value Inspection report had given officers assurance that the risk of similar issues occurring at Lincolnshire County Council was low. However, areas for improvements, as detailed above, had been identified that would further strengthen reporting, scrutiny and transparency.

The proposal to enhance member finance / budget training so that it became mandatory, was discussed, and it was suggested that this should be considered at a future meeting of Group Leaders.

It was suggested that the Overview and Scrutiny Management Board be requested to consider the report and provide the Executive with assurance on financial resilience.

RESOLVED

- (1) That the highlighted areas of improvement, as detailed above and in the report, be supported.
- (2) That the Overview and Scrutiny Management Board be requested to provide the Executive with assurance on financial resilience.

59 WORK PLAN

Consideration was given to a report which provided the Committee with information on the core assurance activities currently scheduled for the 2018/19 work plan.

The Committee was reminded that each year a review of the Committee's effectiveness was undertaken. It was proposed that a workshop would be held during the afternoon of 17 June 2019, following the morning's meeting of the Committee, to undertake this review.

It was suggested that the following items be added to the work plan for the meeting on 25 March 2019:

- Accounting Policies; and
- IMT Governance – Combined Assurance Report.

RESOLVED

- (1) That the work plan be approved, subject to the inclusion of Accounting Policies; and IMT Governance – Combined Assurance Report for the meeting on 25 March 2019.
- (2) That a workshop be held during the afternoon of 17 June 2019, following the morning's meeting of the Committee, to undertake the annual review of the Committee's effectiveness.

The meeting closed at 12.50 pm.

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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:	25 March 2019
Subject:	External Audit Strategies - Lincolnshire County Council and Pension Fund - 2018/19

Summary:

Report from Mazars LLP, the County Council's and Pension Fund External Auditors, giving an update on the 2018/19 Audit Strategy and deliverables.

Recommendation(s):

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

Background

Our External Auditors, Mazars' report provides an outline of key deliverable to successfully complete an audit of the Council's and Pension Fund accounts. update. This includes information:-

- Engagement and responsibilities summary
- Audit engagement team information
- Audit scope, approach and timeline
- Risks and key judgement areas
- Value for money summary
- Fees for audit and other services
- Independence commitments
- Materiality and misstatements

In considering the report the Audit Committee may wish to explore:

- Assurances over the external auditor's policies and processes for maintaining independence and monitoring compliance
- If the proposed areas of focus are in response to the authority's requirements?

- The effectiveness of the external audit process:
 - Do the external auditors understand the authority?
 - What are the actions taken to safeguard independence and objectivity?
 - How has the external auditor responded to areas of audit risk?

- Potential threats to external independence, including:
 - Self-interest threat
 - Self-review threat
 - Management threat
 - Advocacy threat
 - Familiarity or intimidation threat

- Has a consistent approach been adopted with regards to the inspection reports?

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 Strategy - LCC - 2018/19
Appendix B	External Audit Strategy - Pension Fund 2018/19

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 07909984151 or michael.norman@marzars.co.uk .

Draft Audit Strategy

Memorandum

Lincolnshire County Council

Year ending 31 March 2019





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1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Audit risks and key judgement areas
5. Value for Money
6. Fees for audit and other services
7. Our commitment to independence
8. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

Appendix C – Mazars' client service commitment

This document is to be regarded as confidential to Lincolnshire County Council. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Audit Committee Members
Lincolnshire County Council
County Offices
Newland
Lincoln
LN1 1YL

March 2018

Dear Members

Audit Strategy Memorandum – Year ending 31 March 2019

We are pleased to present our Audit Strategy Memorandum for Lincolnshire County Council for the year ending 31 March 2019

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Lincolnshire County Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07875 974 291.

Yours faithfully

Mark Surridge
Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Lincolnshire County Council (the Council) for the year to 31 March 2019. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>.

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Reporting to the NAO

We are required to issue an assurance statement to the National Audit Office confirming the income, expenditure, asset and liabilities of the Council.

Value for Money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Audit Committee as those charged with governance.



2. YOUR AUDIT ENGAGEMENT TEAM



Mark Surridge
Director and Engagement Lead

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Tel: 07875 974 291



Mike Norman
Senior Manager

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In addition as outlined in our engagement pack an engagement quality control reviewer has been appointed for this engagement.

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

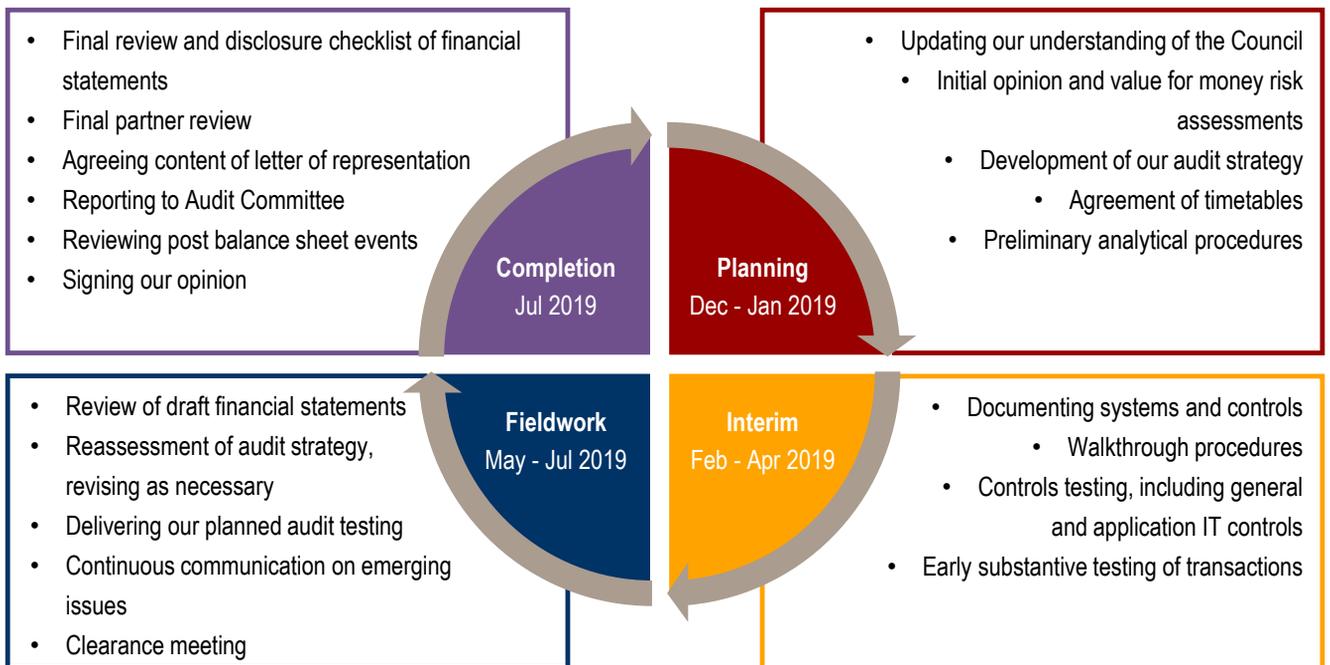
Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

We have considered the Fund's Internal Audit arrangements as part of our initial risk assessment and have confirmed that the expected framework is in place. We will liaise with them throughout our audit regarding their audit findings and the implications for our audit responsibilities. At this stage we do not plan to place direct reliance on their detailed audit work. If we do rely on their work we will perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	Hymans Robertson <i>Actuary for Lincolnshire Pension Fund</i>	PWC <i>Consulting actuary appointed by the NAO</i>
Property, plant and equipment (PPE) valuation	Keir Property Services <i>The Council's external valuer for PPE and Investment Properties</i>	Gerald Eve <i>Valuations expert appointed by the NAO</i>
Investment Properties' valuation	Savills LLP <i>The Council's external valuer for Investment Properties</i>	
Financial instrument disclosures	Link Asset Services <i>Treasury management advisors</i>	Not applicable

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Council and our planned audit approach.

Items of account	Service organisation	Audit approach
Pension cost (cost of services) Net interest on defined benefit liability Re-measurements of the net defined benefit liability (OCI) Net pension liability	Lincolnshire Pension Fund <i>The IAS 19 pension entries that form part of the Council's financial statements are material and are derived from actuarial valuations. The process of obtaining these is co-ordinated by and uses information held and processed by the service organisation.</i>	We will review the controls operating at the Council over these transactions to gain an understanding of the services provided by the service organisation. We will seek to obtain assurance from the Fund's auditor through their performance of procedures on our behalf relating to the relevant controls at the Fund and the reliability of the information provided to the actuary. We will also obtain assurance from the Fund's auditor regarding the asset values used by the actuary.
Pay and non-pay expenditure Other income	Serco <i>The Council's provider of financial and other support services, including the processing of payroll, accounts payable and accounts receivable.</i>	We will review the controls operating at the Council over these transactions and carry out substantive testing (including substantive analytical procedures and sample testing of transactions occurring in the year).



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Group Accounts Approach

The Council's group structure for 2018/19 includes:

- Transport Connect, a wholly owned subsidiary;
- Eastern Shires Trading Organisation, the Council is one of the 6 shareholder councils; and
- Lincolnshire Futures, a specialist property company which has been incorporated in the year but not yet traded.

The Council has not in previous years prepared group accounts on the grounds that these companies were not material and are not therefore expected to fall within the scope of our audit for 2018/19. We will review the Council's assessment of these arrangements for this year's financial statements as part of our detailed audit work.



4. AUDIT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.

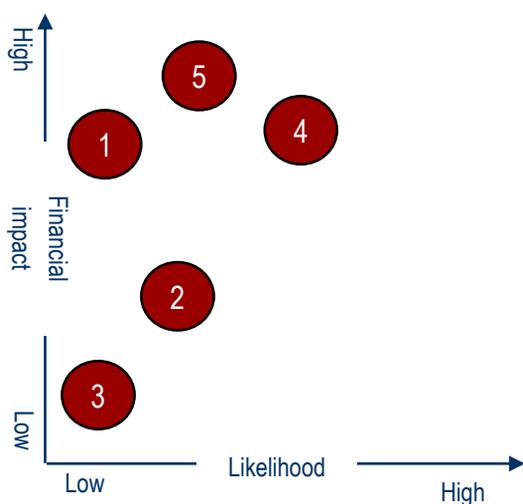
Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the tables below, highlight those risks which we deem to be significant or enhanced. We have summarised our audit response to these risks over the next pages.

At the time of writing this memorandum we are yet to complete our detailed risk assessment work over the Council’s key financial systems and general IT controls. We aim to complete this work before the start of our detailed audit of the financial statements and will update the Audit Committee if we subsequently identify any additional risks.



Risk	
1	Management override of control
2	Expenditure recognition
3	Revenue recognition
4	Property, plant and equipment valuation
5	Defined benefit liability valuation

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>In relation to the management override of controls we will:</p> <ul style="list-style-type: none"> • Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding; • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Review the calculation of management's material accruals, estimates and provisions for evidence of management bias; • Evaluate the business rationale for any significant unusual transactions; • Understand the oversight given by those charged with governance of management process over fraud; • Sample test accruals and provisions based on established testing thresholds; and • Review material aspects of capital expenditure on property plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.
2	<p>Expenditure recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council (FRC), which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition</p> <p>Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular the completeness and valuation of payables, specifically those that are material and manually accrued.</p>	<p>We will evaluate the design and implementation of controls to mitigate the risk of material manual accruals being recognised in the wrong period. In addition, we will test such accruals to ensure that they are supported by sufficient and appropriate evidence and have been accounted for correctly.</p> <p>Our audit approach will also incorporate a range of other substantive procedures, including:</p> <ul style="list-style-type: none"> • testing of payments around the year-end to provide assurance that there are no material unrecorded items of income and expenditure in the 2018/19 accounts; and • testing journals.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
3	<p>Revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. Having considered the factors for revenue recognition, we believe the risk is focused on the year-end balance sheet and in particular the existence and accuracy of receivables, specifically those that are material, subject to manual intervention and / or significant estimation.</p>	<p>We will evaluate the design and implementation of controls to mitigate the risk of material manual receivables being recognised in the wrong period. In addition, we will test such receivables to ensure that they are supported by sufficient and appropriate evidence and have been accounted for correctly.</p> <p>Our audit approach will also incorporate a range of other substantive procedures, including:</p> <ul style="list-style-type: none"> • testing of receipts around the year-end to provide assurance that there are no material unrecorded items of income and expenditure in the 2018/19 accounts; and • testing journals.
4	<p>Valuation of property, plant and equipment, investment properties and assets held for sale</p> <p>The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.</p>	<p>In relation to the valuation of property, plant & equipment, investment properties and assets held for sale we will:</p> <ul style="list-style-type: none"> • Critically assess the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • Consider whether the overall revaluation methodologies used by the Council's valuer's are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • Assess whether valuation movements are in line with market expectations by using our own valuation expert to provide information on regional valuation trends; • Critically assess the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; • Critically assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2018/19 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer's; and • Test a sample of items of capital expenditure in 2018/19 to confirm that the additions are appropriately valued in the financial statements.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
5	<p>Valuation of net defined benefit liability</p> <p>The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p>	<p>In relation to the valuation of the Council's defined benefit pension liability we will:</p> <ul style="list-style-type: none"> • Critically assess the competency, objectivity and independence of the Lincolnshire Pension Fund's Actuary, Hymans Robertson; • Liaise with the auditors of the Lincolnshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; • Test payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council; • Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PwC, the consulting actuary engaged by the National Audit Office and confirming that the Actuary's approach takes into account equalisation requirements relating to Guaranteed Minimum Pensions; and • Agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Enhanced risks and key areas of management judgement

Enhanced risks and key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement	Planned response
1	<p>Minimum revenue provision (MRP)</p> <p>Local authorities are normally required each year to set aside some of their revenues as provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The amount to be set aside each year is not prescribed although an overarching principle of prudence is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised in determining the level of its prudent provision.</p>	<p>We plan to address this judgement by:</p> <ul style="list-style-type: none"> • Reviewing the Council's MRP policy to ensure that it has been developed with regard to the statutory guidance; • Assessing whether the provision has been calculated and recorded in accordance with the Council's policy; • Assessing whether the amount provided for the period is appropriate, taking into account the Council's Capital Financing Requirement; and • Confirming that any charge has been accounted for in accordance with the Code.
2	<p>Accounting for the schools Private Finance Initiative and other school assets and liabilities</p> <p>The Council's 2017/18 financial statements set out its accounting policies in relation to these, and their inclusion on the balance sheet. These assets and liabilities are material and the accounting treatment is based on management judgement and interpretation of the relevant accounting standards.</p>	<p>We plan to address this by:</p> <ul style="list-style-type: none"> • reviewing the assessments carried out by management relating to the accounting treatment of these assets and liabilities and challenging the reasonableness of judgments management has made; and • Substantively testing these areas as part of our planned testing programmes.

5. VALUE FOR MONEY

Our approach to Value for Money

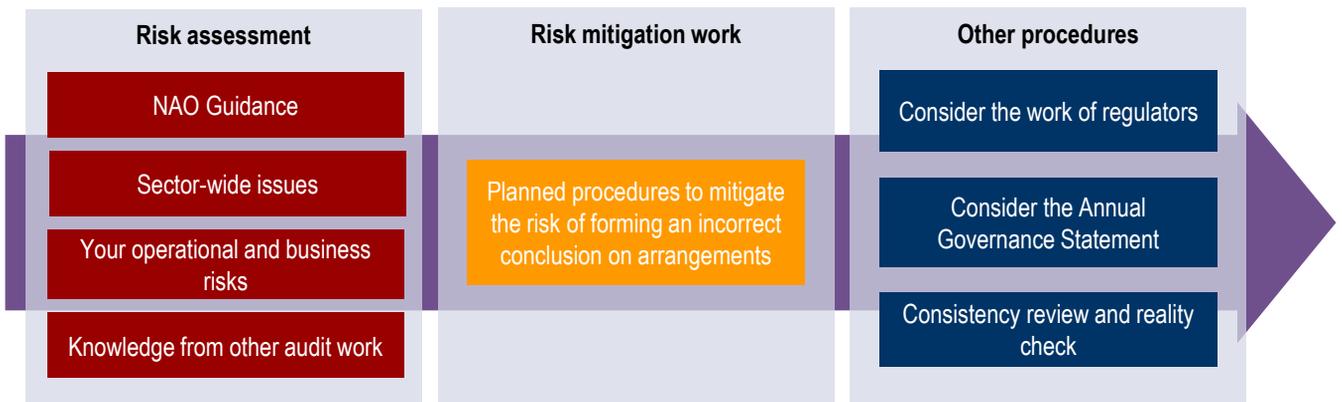
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For the 2018/19 financial year, we have not identified any significant risks to our VFM conclusion. We have though identified one specific matter which we need to keep to under close review:

- Financial sustainability – In 2018 the Council published a two year balanced budget, having previously only published a one year plan. The original budgets included use of reserves (£5.9m in 2018/19 and £34.2m in 2019/20), including the Financial Volatility reserve set aside for this purpose. The current plan takes the Council to the end of the period covered by the 4 year grant settlement agreed with central government. The 2020/21 onwards financial position is uncertain, which is a common issue for all bodies in the local government sector and the forecast service demands and funding assumptions indicate a likely shortfall in those years. The Council is revisiting its budget and developing proposals to bridge the gap. We need to monitor the progress made and revisit position in relation to this significant risk before forming our VFM conclusion.

We will continually assess whether any matters come to our attention through the course of our audit that lead us to conclude that a risk to our VFM conclusion does exist and where any such risk is identified, these will be reported to the Audit Committee in July 2019 as part of our Audit Completion Report.



6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 25 April 2018.

Service	2017/18 fee	2018/19 fee
Code audit work	£107,325	£82,640

Fees for non-PSAA work

We have been separately engaged by the Council to carry out the following piece of additional work outside of the fees outlined above in relation to our appointment by PSAA.

Service	2018/19 fee
Reporting Accountant's Independent Assurance Report - Local Transport Plan Major Projects S31 AUD Return (Lincolnshire County Council Lincoln Eastern Bypass) for the year ended 31 March 2018	6,500

Before agreeing to this we confirmed there were no actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Surridge in the first instance.

Prior to the provision of any non-audit services Mark Surridge will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

As we have not been engaged to carry out any non-audit work to date, no threats to our independence have been identified. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold
Overall materiality	£22,098,000
Performance materiality	£13,259,000
Trivial threshold for errors to be reported to the Audit Committee	£663,000

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of the 2017/18 total gross expenditure. We have calculated a headline figure for materiality but have also identified separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that total gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We have set our materiality threshold at 2% of the benchmark based on the 2017/18 audited financial statements.

Based on the 2017/18 audited financial statements we anticipate the overall materiality for the year ending 31 March 2019 to be £22,098,000.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the Council's financial statements. We have therefore set our performance materiality at 60% of our overall materiality being £13,259,000.

As with overall materiality, we will remain aware of the need to change this performance materiality level through the audit to ensure it remains to be set at an appropriate level.

Specific items of lower materiality

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

Item of account	Specific materiality
Officers' remuneration	£5,000 *
Members' allowances and expenses	£248,000
External audit costs	£21,000

* Reflecting movement from one salary band to another

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £663,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Surridge.

Reporting to the Audit Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).



APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2018/19

IFRS 9 Financial Instruments - the standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the Council's financial instruments, particularly its financial assets.

Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the Council will continue to measure the majority of its financial assets at amortised cost. However, we are aware that consideration will need to be given to the Council's holdings in property funds which may need to be reclassified from their current available for sale category.

For Councils that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund. We are aware that, following the Ministry of Housing, Communities and Local Government consultations, a statutory override, will be put in place to mitigate the impact of these fair value movements on the Council's general fund balance.

IFRS 15 Revenue from Contracts with Customers - the 2018/19 Code also applies the requirements of IFRS 15, but it is unlikely that this will have significant implications for most local authorities.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2018/19.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 16 – Leases	2020/21	<p>We anticipate that the new leasing standard will be adopted by the Code for the 2020/21 financial year.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17.</p> <p>Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed.</p> <p>The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the Council are party to.</p>

APPENDIX C – MAZARS' CLIENT SERVICE COMMITMENT

We are here because of our clients; serving them in the best way we can is part of our DNA. We operate a Code of Conduct which drives our client service commitment in all areas, as set out below.



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Audit Strategy Memorandum

Lincolnshire Pension Fund

Year ending 31 March 2019





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2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks and key judgement areas
5. Fees for audit and other services
6. Our commitment to independence
7. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

Appendix C – Mazars' client service commitment

This document is to be regarded as confidential to Lincolnshire Pension Fund. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Lincolnshire County Council Audit Committee
Lincolnshire County Council
County Offices
Newland
Lincoln
LN1 1YL

25 March 2019

Dear Members,

Audit Strategy Memorandum – Year ending 31 March 2019

We are pleased to present our Audit Strategy Memorandum for Lincolnshire Pension Fund (the Fund) for the year ending 31 March 2019.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 6 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing the Fund which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0738 724 2052

Yours faithfully

Lucy Nutley

For and on behalf of Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Lincolnshire Pension Fund (the Fund) for the year to 31 March 2019. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Fund for the year.

Consistency report

We are required to form and express an opinion on the consistency of the financial statements within the Fund's annual report and the Fund's financial statements included in the Statement of Accounts of the Lincolnshire.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Lincolnshire and consider any objection made to the accounts. This would include an objection made to the accounts of the Fund included in the administering authority's financial statements. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management, or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Fund is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Audit Committee as those charged with governance.



2. YOUR AUDIT ENGAGEMENT TEAM



- **Lucy Nutley, Director and Engagement Lead**
- lucy.Nutley@mazars.co.uk
- 0738 724 2052



- **Mike Norman, Engagement Manager**
- michael.norman@mazars.co.uk
- 0790 998 4151

In addition, an engagement quality control reviewer has been appointed for this engagement. This is in line with our audit quality requirements.

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

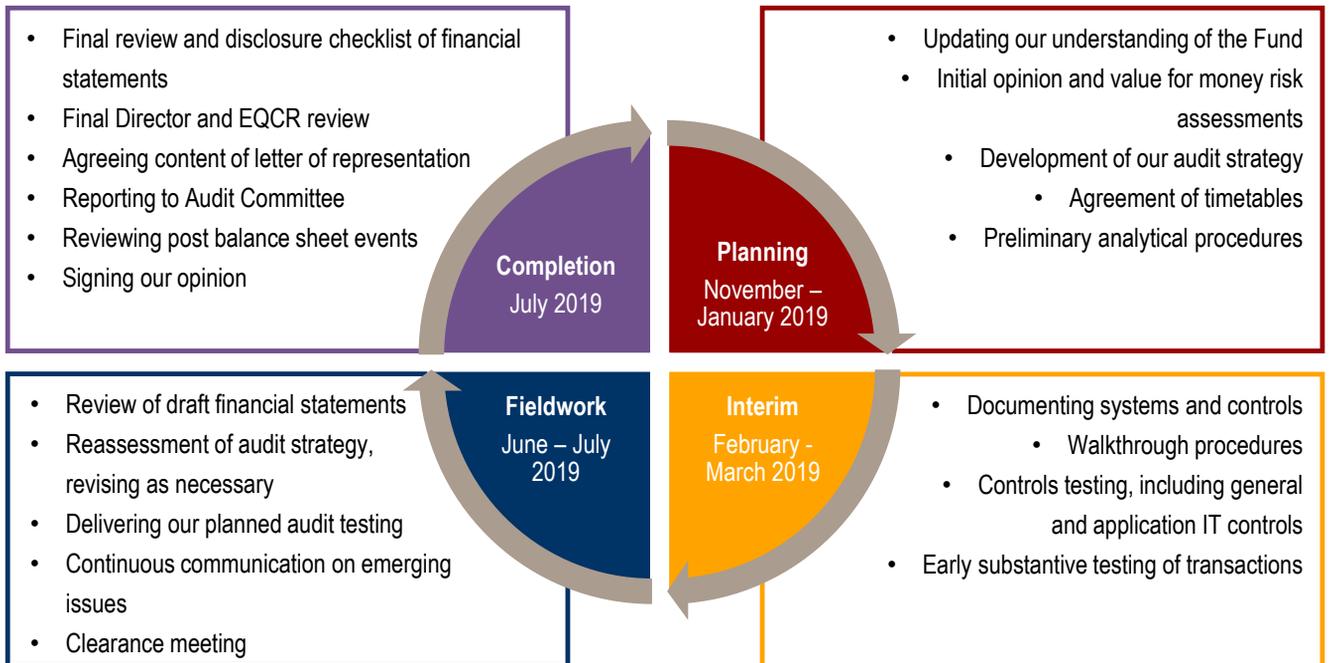
Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 7.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Liaison with internal audit

We have considered the Fund's Internal Audit arrangements as part of our initial risk assessment and have confirmed that the expected framework is in place. We will liaise with them throughout our audit regarding their audit findings and the implications for our audit responsibilities. At this stage we do not plan to place direct reliance on their detailed audit work. If we do rely on their work we will perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Fund's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Disclosure notes on funding arrangements and actuarial present value of promised retirement benefits.	Hymans Robertson	NAO Consulting actuary PWC
Valuation of unquoted investments not traded on active markets.	Fund managers	None considered necessary

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Fund that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Fund and our planned audit approach.

Items of account	Service organisation	Audit approach
The calculation and payment of pension benefits, assessment of funding levels based on existing pensioner data.	West Yorkshire Pensions, as the provider of pensions administration services to the Fund	We will review the controls operating at the Council over these transactions and carry out substantive testing of transactions occurring in the year.
Investment valuations and income and all related disclosures.	Fund Managers and Custodian – JP Morgan	We will review the latest Service Auditor Reports for these organisations and take into account any significant controls issues identified. We will carry out substantive testing of transactions occurring in the year and the valuations applied to investments at the year end.
Accounts payable and accounts receivable.	Serco, as the Council's provider of financial and support services.	We will review the controls operating at the Council over these transactions and carry out substantive testing of transactions occurring in the year.

Pension Fund Annual Report

The Pension Fund's audited financial statements are incorporated within the Fund's Annual Report. We will review the report for compliance with the relevant requirements and confirm the financial statements included with the Annual Report are consistent with the statements on which we have given an audit opinion.



4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.

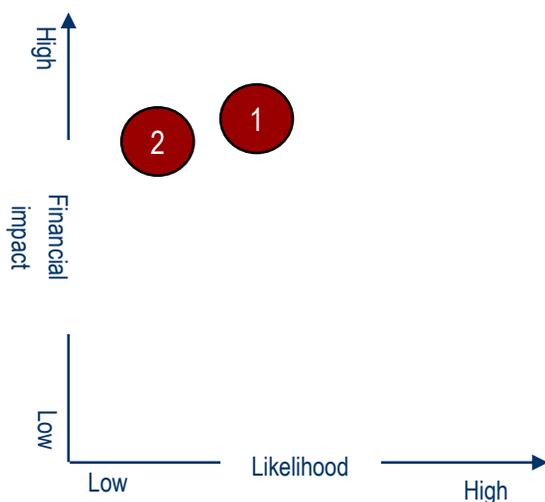
Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at the audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

In assessing the significant risks and key judgement areas we have reviewed key documents and spoken to key members of management. At this point, we have not performed a detailed review of systems. Should further significant risks arise from this work, we will update the Committee accordingly.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



Risk	
1	Management override of control
2	Valuation of unquoted investments

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We will address the risk through performing audit procedures, covering a range of areas including (but not limited to):</p> <ul style="list-style-type: none"> • accounting estimates included in the financial statements for evidence of management bias; • any significant transactions outside the normal course of business; and • journals and other adjustments recorded in the general ledger in preparing the financial statements.
2	<p>Valuation of unquoted Investments</p> <p>At 31 December 2018 the Pension Fund held investments which were not quoted on an active market with a fair value of £275m, accounting for 12.5 per cent of the Fund's net investment assets. This included Private Equity (£26m) and Property/Infrastructure Fund (£246m) investments. Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.</p> <p>As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.</p>	<p>We plan to address this risk by completing the following additional procedures:</p> <ul style="list-style-type: none"> • agree holdings from fund manager reports to the custodian's report; • agree the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation; and • agree the investment manager valuation to audited accounts or other independent supporting documentation, where available.

5. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Fund's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our April 2018 fee letter.

Service	2017/18 fee	2018/19 fee
Code audit work	£24,350	£18,750

The Lincolnshire Pension Fund's 2017/18 audit was performed by KPMG LLP.

Fees for non-PSAA work

We confirm that we have not been separately engaged by the Fund to carry out additional work for the Lincolnshire Pension Fund. Further information about our responsibilities in relation to independence is provided in section 7.

6. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Lucy Nutley in the first instance.

Prior to the provision of any non-audit services, Lucy will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.



7. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold (£m)
Overall materiality	£23.6m
Performance Materiality	£15.3m
Trivial threshold for errors to be reported to the Audit Committee	£0.7m

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of net assets. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that net assets remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We expect to set a materiality threshold at 1% of Net Assets.

Based on Net Assets at 31 December 2018 reported to the Pensions Committee we anticipate the overall materiality for the year ending 31 March 2019 to be in the region of £23.6m.



7. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on our understanding and experience of your arrangements in this first year, meaning that we have applied 65% of overall materiality as performance materiality.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £0.7m based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Lucy Nutley.

Reporting to the Audit Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2018/19

IFRS 9 Financial Instruments - the standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the [financial instruments, particularly financial assets.

Although the accounting changes may be complex and may require the reclassification of some instruments, it is unlikely that this will have a significant implications for most local government pension funds as most material financial instruments are already carried at fair value through profit and loss, and this is expected to continue under the new standard.

IFRS 15 Revenue from Contracts with Customers - the 2018/19 Code also applies the requirements of IFRS 15, but it is unlikely that this will have significant implications for most local government pension funds.

There are no other significant changes to the Code of Practice on Local Authority Accounting for 2018/19.

APPENDIX C – MAZARS' CLIENT SERVICE COMMITMENT

We are here because of our clients; serving them in the best way we can is part of our DNA. We operate a Code of Conduct which drives our client service commitment in all areas, as set out below.



Regulatory and Other Committee

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

Report to:	Audit Committee
Date:	25 March 2019
Subject:	Draft Internal Audit Plan 2019/20

Summary:

This report presents to the Committee the draft internal audit plan for 2019/20.

Recommendation(s):

That the Committee agrees the audit plan for 2019/20 subject to any suggested changes the Committee wishes to make.

Background

How we choose what we audit

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
 - issues raised by the Audit 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. The Combined Assurance Model 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 2019/20.
4. Internal Audit continues to have the right to conduct its own assurance activity freely and independently 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. We have conducted meetings in January and February 2019 with each Executive Director to consult and agree the areas included in the plan.

Having the right resources to deliver the plan

7. Having skilled and effective people are at the heart of our workforce strategy. Our approach includes:
 - Recruiting the right people and continuing professional training and development for staff.
 - Supporting 2 University graduates as part of their degree through professional placements to showcase working in the public sector and finance and audit professions.
 - Establishing 3 apprenticeships – this does involve support from more experienced staff of the team and therefore we have increased capacity to help deliver this initiative.
 - Easter and summer work placements for University students
8. The budget for the Internal Audit function for 2019/20 is £488,926 – delivering 1740 days to the Council (this includes increased capacity to deliver our workforce strategy).
9. We also deliver Internal Audit services to other Local Authorities – North Kesteven, West Lindsey and Newark and Sherwood District Councils. Separate plans and resources are allocated to deliver this work – generating income for the Council. An account of work delivered and impact on Lincolnshire is provided as part of the Head of Internal Audit Annual Report.
10. We are part of a collaborative partnership (known as Assurance Lincolnshire) working with the City of Lincoln, East Lindsey District and Nottinghamshire County Councils. This partnership shares good practice, pool / share resources where we can – providing a professional and quality service.
11. Attached is the draft internal audit plan for 2019/20– **Appendix A**.

Audit Committee Considerations

12. CIPFA's Audit Committees practical Guidance for Local Authorities and Police - 2018 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. Seeking assurance around its independence, objectivity, performance and professionalism.
 - Seek an understanding of what assurances Internal Audit will be providing the Committee to help it discharge its terms of reference. Promoting effective use of Internal Audit within the Council's Assurance framework.
 - Considering the use made of other sources of assurance.

Conclusion

13. 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 2019/20

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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Internal Audit

2019/20 Plan



Lincolnshire County Council February 2019

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C – Working protocols

D – Our quality assurance framework

The contacts at Assurance Lincolnshire are:

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Team Leader - Audit

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The Planning Process

Introduction

This report sets out the Internal Audit Plan as at 1st April 2019. The plan details the activities to be audited and the indicative scope for each audit. The audits are listed in priority order. The draft plan gives you an opportunity to comment on the plan and the priorities that we have established.

Our dynamic approach to planning replaces the traditional fixed style of audit plan. Whereas the fixed plan details the audits to be undertaken in a financial year, with the number of audits in the plan being determined by the internal audit resource available, the dynamic plan details all the audits required to be undertaken at a given point in time in order of priority. The plan is then amended on an on-going basis to reflect changing assurance needs.

We are then able to use our audit planning tool to target our resources— working within agreed resources. This approach has the benefit of enabling greater flexibility and responsiveness – ensuring each piece of work is the right one, delivered at the right time. It also delivers greater productivity and efficiencies – reducing abortive planning and engagement time. The plan becomes more dynamic and responsive – essential for an effective Internal Audit service.

In Appendices A to E we provide for you information details of:

- Auditable Activities
- How the draft plan achieves the requirements of the Governance & Audit Committee and Head of Internal Audit
- Our Working Protocols and Performance
- Our Quality Assurance Framework
- Your Internal Audit Team

Developing the plan

The internal audit plan has been developed from the Council's Assurance Map – which was

updated in November 2018 with input from the Management Board. **Figure 1** below also shows other key sources of information that has help inform the plan.

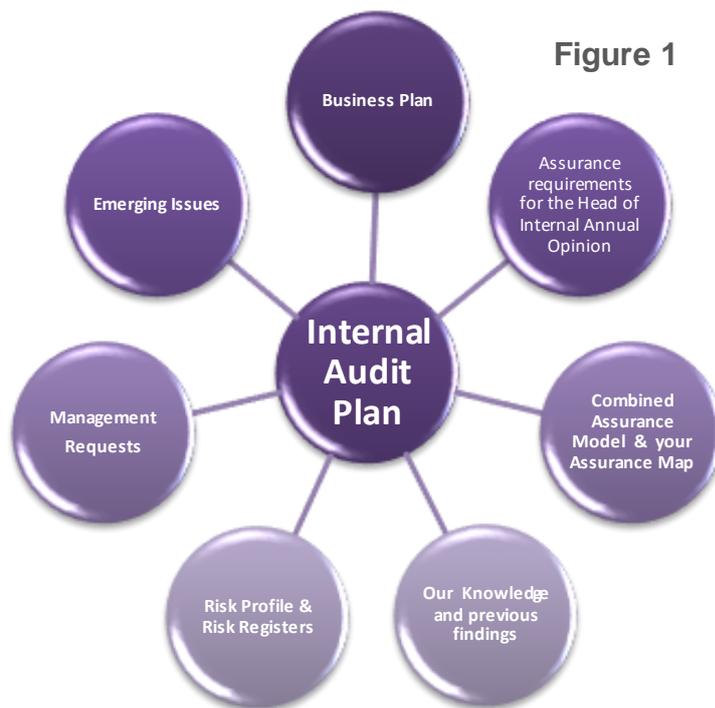


Figure 1

We have prioritised our audit work taking account of the impact an activity will have on the Council if it fails. The criteria for determining priority are:

- **Significance** - how important is the activity to the Council in achieving its objectives, key plans and in managing its key risks. We look at both financial loss and strategic impact.
- **Sensitivity** - how much interest would there be if things went wrong and what would be the reputational and political impact.
- **Level of Assurance** – we assess the current level of assurance evaluating reliability and contribution to the Head of Internal Audit annual opinion on governance, risk and control.
- **Time**– when it will happen (this will determine when is the best time to do the Audit).

Updating the Plan

Through the year we will liaise with the Council and collect business intelligence that identifies emerging audits which will be included in the plan according to priority. The 2018 Assurance Map, undertaken in November 2018, plays a key part in the annual review of the plan.

The primary source of business intelligence is obtained from the regular liaison meetings between our team and the nominated liaison contacts in each directorate. Other sources of intelligence will include:

- Committee reports
- Investment and project proposals
- Project update reports
- Performance reports
- Key stakeholders

Delivery and Focus

Delivering the Plan

The aim is to deliver the audits included in the plan in the order that they are listed, i.e. in accordance with their assessed priority. This will be modified in accordance with requests from management and practical considerations around the timing of audits. It may also be modified by the availability of specialised staff, in particular ICT audits, however we do not consider this will have a significant, if any, impact.

Having skilled and effective people are at the heart of our workforce strategy. Our approach includes recruiting the right people and continuing professional training and development for existing staff. It also involves supporting 2 University graduates as part of their degree through professional placements to showcase working in the public sector and finance and audit professions. Our workforce strategy also includes 3 apprenticeships – this does involve a structured and support from more experienced staff of the team and therefore we have increased capacity to help deliver this initiative.

The Council's Internal Audit Plan is **1740 Days**

Audit Focus for 2019/20

In the following table we provide information on key audit areas and the rationale for their inclusion in the audit strategy and plan.

Area	Reason for inclusion
Financial Governance	<p>Providing assurance that key financial controls are in place and operating effectively during the year across all areas of the Council. This work provides the Section 151 Officer with a key element of his assurance that the Council has effective arrangements for the proper administration of its financial affairs.</p> <p>The areas of coverage and key controls to be tested will be agreed the Section 151 officer.</p>
Governance & Risk	<p>Providing assurance that key governance controls are in place and operating effectively. These cross cutting audits focus on the Council's second line of assurance - corporate rather than service level systems. Areas proposed to be included are:</p> <ul style="list-style-type: none"> ▪ Business Continuity ▪ Risk Management ▪ Scrutiny ▪ Effective Decision Making ▪ Corporate / Business Planning
Critical Activities	<p>The combined assurance work undertaken in 2018/19 identified some critical activities where a potential audit would provide independent assurance over the effectiveness of risk management, control and governance processes. Working</p>

Area	Reason for inclusion
	with management we will prioritise when audit work will be undertaken - potential areas for 2019/20 are listed in appendix 1.
Project Assurance	<p>There have been a number of critical projects identified by the Council. We will seek to provide assurance around their successful delivery (on-time – within budget – deliverables achieved and benefits realised). These may include:</p> <ul style="list-style-type: none"> ▪ Highways 2020 ▪ Materials Recycling Facilities ▪ Business World Rebuild ▪ Integrated Health & Social Care ▪ Pension Pooling Asset Fund
IMT	<p>Technology and associated threats and opportunities continue to evolve at a pace. The effectiveness of IMT has a great impact on how well the Council works. We will seek to provide assurance that key controls comply with industry best practice and are operating effectively. Audits planned come from our IMT Assurance and current risks.</p> <p>The areas in order of priority can be found at appendix A.</p> <p>The new Commercial Director, who, arrives in April, will lead on IMT. We plan to liaise with him to define the scope of all audits that we schedule for 2019/20.</p>
Follow Up	Where an audit receives a Limited or Low Assurance level we will carry out a follow up audit

Area	Reason for inclusion
	to provide assurance that the identified control improvements have been effectively implemented and the risks mitigated.
	Working with management we also track the implementation of agreed management actions for all audit reports issued.
Combined Assurance¹	Working with management we co-ordinate the levels of assurance across the Council's critical activities, key risks, projects and partnerships – producing a Combined Assurance Status report in January 2020.
Consultancy Assurance	At the request of management we undertake specific reviews where they may have some concern or are looking for some advice on a specific matter or around governance, risk and controls for a developing system. Such reviews are not normally given an audit opinion. Management have asked us to review Highways 2020 re-procurement and the rebuilding of the Business World system.

Annual Internal Audit Opinion

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.

¹ Processes to be reviewed for efficiencies and make improvements as necessary during 2019/20.

Appendix A – Dynamic Internal Audit Plan

Our current planned audits, in order of priority are listed below. Audits to be undertaken in priority order subject to agreement with the client over scheduling and where applicable availability of specialist staff e.g. ICT audits.

Audit Area	Assurance Being Sought	Combined Assurance Rating	Audit Rating	Consultancy Assignment	Link to SRR	Link to Business Plan	Management Request
Financial Strategy (MTFP) & budget preparation	To provide assurance around the adequacy of LCC's financial planning processes, including the development of the MTFP and annual budget, to ensure that a balanced budget is maintained and that savings necessary are identified and agreed.	G	75.00%		✓	✓	
Highways 2020 project	Support and advice on the project and procurement exercise for contracts that will form the new Highways Alliance from 1 st April 2020	A	75.00%	✓	✓	✓	
Property Company	To review & provide assurance around the set-up of the Property Company, including the business case, governance arrangements and fit with the Council's priorities. To include ongoing advice.	A	75.00%	✓	✓		✓
Contract Management Audits	Assurance over the contract management processes. Potential scopes include: <ul style="list-style-type: none"> • the Vinci contract • Transparency of accounts and payment for large contracts • Compliance with CPPR across the council 	G	69.44%		✓	✓	
Pension Fund	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	G	69.44%				
Pension Fund Asset Pooling	Provide assurance around the arrangements in place for transferring assets to the Border to Coast Pension pool.	G	69.44%				
Business Continuity	Business Continuity arrangements ensure the council is prepared for business interruption and can maintain and restore services promptly based on criticality.	A	69.44%		✓		
Social Care Green Paper - Service Delivery	Review the Green paper to assess the impacts on service delivery and review LCC's approach to addressing a sample of strands	A	66.67%		✓		✓

Audit Area	Assurance Being Sought	Combined Assurance Rating	Audit Rating	Consultancy Assignment	Link to SRR	Link to Business Plan	Management Request
Effective Decision Making	Assurance that the framework for making key decisions is clear, inclusive and transparent.		66.67%			✓	
Payroll	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	A	63.89%				
Schools funding	Assurance over data validation and funding allocations to maintained schools.	G	63.89%				
Future funding - ACW Green Paper	To provide assurance over LCC's plans to manage the financial implications of the Adult Care Green Paper – to include successor to the Better Care Fund and Carers funding.	A	63.89%		✓		✓
Capital Programme	Provide assurance around the effectiveness of the governance arrangements for the Capital Programme with a focus on robustness of business cases and budgets and delivery against these. (to include fire appliance replacement).	A	61.11%		✓	✓	
Community Safety	Review over key partnership arrangements and information sharing.	G	58.33%			✓	
Rebuild of Business World system	Ongoing project involvement & advice until April 2020.	A	58.33%	✓			✓
Supply of residential placements	To review the extent of risk to LCC regarding the supply of residential capacity of adult provision in the short, medium and long terms and set out how the risk is currently being managed and consider what if anything else could be done. To include consideration of the impact of Brexit.	A	58.33%		✓	✓	
Mosaic system - Childrens	To review reliability of information held on Mosaic, usefulness of reporting, and impact on service provision in CS - to include the work Children's are doing to ensure data quality and an assessment of the Council's capacity to design new reports within the system on a timely basis.	A	58.33%			✓	
Making Tax Digital (MTD)	Assurance that project management and implementation ensures processes are MTD compliant.	A	58.33%				

Audit Area	Assurance Being Sought	Combined Assurance Rating	Audit Rating	Consultancy Assignment	Link to SRR	Link to Business Plan	Management Request
GDPR - Data breaches	Assurance on how data breaches are detected, dealt with and reported internally and externally		58.33%		✓	✓	
Families Working Together	Audit sign off as per the requirements of the grant.	G	58.33%			✓	✓
LFR - Replacement of Breathing Apparatus equipment & Mobile Data terminals	Review management of procurement processes and implementation of new fire service equipment	G	55.56%				
Commercialisation strategy	Review the impact of the commercialisation strategy and Governance on the efficiency and effectiveness of services.	G	52.78%				
Business World System Governance	To provide assurance around the effectiveness of governance arrangements for 'business as usual' changes to the Business World system	A	52.78%				
Creditor Payments	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	G	52.78%				
Income	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	G	52.78%				
Procurement	Management of procurement exercises in Commercial team to ensure they are performed efficiently and effectively	A	52.78%				
LFR - Training System Upgrade	Provide independent assurance around the implementation and effectiveness of the new training records system.	A	52.78%				
Local Enterprise Partnership	Assurance that revised governance arrangements are in place and meet legislative requirements	G	52.78%			✓	✓
Grant Income / Claims	To provide assurance around how the Council manages spending to meet grant timescale and retains evidence to support the use of the grant.	G	50.00%				
Debtors	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	G	50.00%				

Audit Area	Assurance Being Sought	Combined Assurance Rating	Audit Rating	Consultancy Assignment	Link to SRR	Link to Business Plan	Management Request
Futures4me	Provide assurance that this newly developed team is providing the expected outcomes to young people experiencing crisis	A	50.00%			✓	
Lincolnshire Public Transport Network (including Community Transport)	Assurance that risk management, engagement with stakeholders, and governance process are in place following the legislation covering providers of public transport	A	50.00%				
Data Integrity - Thematic review	Assurance over the confidentiality, integrity and availability of data received from partners and providers for processing by the Council.		50.00%				
Corporate Social responsibility	Audit to identify initiatives and actions being taken by the council in relation to social responsibility and provide assurance over these arrangements.	G	50.00%			✓	
Managing children and young people exploitation	Assurance that the newly established team for completing return interviews for missing children is operating effectively.	A	50.00%		✓	✓	
Children in need	Provide assurance that the single assessment process is effective and that all children have been assessed within expected timeframes	A	47.22%			✓	
Coroners	Review the new case management system and how performance is captured and reported.	G	47.22%				
Economic development - future funding schemes	Assurance over adequacy of the Council's input and influence over the development of future funding schemes	A	47.22%		✓	✓	
Settlement Agreements	That policy in relation to settlement agreements are robust consistently applied across the Council	G	47.22%				
Legal Lincolnshire Business Model	Support and advise on options appraisal of a new business model to ensure Legal Lincolnshire continues to meet the needs of its clients	G	47.22%	✓	✓		
Corporate / Business Planning	Assurance over the methodology applied to producing the Council's business plan, identifying key objectives and outcomes and how achievement is measured.		47.22%				
ICES and Telecare	To review the effectiveness of Telecare functions and the impact on the ICES service due to the increase in demand, spend and Telecare element of the contract.	A	44.44%			✓	

Audit Area	Assurance Being Sought	Combined Assurance Rating	Audit Rating	Consultancy Assignment	Link to SRR	Link to Business Plan	Management Request
Risk Management	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	G	44.44%				
Fuel Cards	Follow up audit to confirm previous audit recommendations have been implemented.		44.44%				
Impact Assessments	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.		44.44%				
Development of Zipporah & on-line payment	Assurance over the implementation of the upgraded on line payments system	A	44.44%				
Property Health and Safety - Thematic review	Assurance over arrangements to ensure corporate properties meet required regulations such as gas, electricity and control of substances hazardous to health.	G	44.44%			✓	
LFR - Future Control Project	Assurance around upgrade to control system.	A	44.44%				
Pension Administration	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	G	44.44%				
Workforce Performance & Reward	There is a consistent and fair approach planned for linking employee increments to performance.	A	44.44%				
Scrutiny	Assurance that scrutiny officer arrangements are effective in ensuring appropriate challenge by members through scrutiny.	A	44.44%				
Carers	To review the impact of the Adult Care Green Paper on carers and provision and provide assurance on the Council's plans to meet these requirements.	A	44.44%			✓	
Commercial property management	Assurance that LCC meets expected standards as a landlord with regards to governance, payment collection, support and inspections.	G	44.44%				
Insurance & implementation of WPF Insurance system	Review implementation and use & effectiveness of the new claims system.	G	41.67%				
LSAB peer review actions	To ensure that the recommendations made in the review are being addressed.	G	41.67%		✓	✓	

Audit Area	Assurance Being Sought	Combined Assurance Rating	Audit Rating	Consultancy Assignment	Link to SRR	Link to Business Plan	Management Request
Integrated Health and Social Care	Assurance that there are alternative reporting and governance oversight following the disbanding of the Children's Joint Commissioning Board	A	41.67%				
Children's Service Quality assurance	Confirmation that the Quality Assurance process is fit for purpose following the review and that there is appropriate capacity to deliver	A	41.67%				
Housing related support	To review the impact of the Adult Care Green Paper on carers and provision and provide assurance on the Council's plans to meet these requirements.	A	41.67%			✓	
0-19 Service	assurance over the performance of the team and assessment of the methodology that LCC is following to improve this	A	38.89%				
Business World Re-engagement	Assurance that communications have been developed to allow for the successful re-engagement of Business World by Council staff and Schools	R	38.89%				
Materials Recycling Facilities	Support and advice on the project to procure material recycling facilities for operation from 2020 onwards.	A	38.89%	✓	✓	✓	✓
Corporate Landlord	Approach used to transfer responsibility for all property to the Corporate Property Team - including approach to the review of contracts / leases / budgets transfer etc.	G	36.11%				
Multi-Agency approach to Consumer Fraud	To consider governance / project management arrangements in place that ensure approach is effective and meets objectives / targets	G	36.11%			✓	
Sexual Health	To review the impact on the service of the new primary care contracts (which commence on 1/4/19).	A	33.33%			✓	
Business World System Support	To provide assurance around the call logging and call management / resolution systems & processes.	G	33.33%				
Families Working Together - Outcomes	Assurance over the success of this key project and the outcomes for children and their families	G	33.33%			✓	✓
Substance misuse	To review the impact on the service of the budget cuts and reduced capacity of the service.	A	27.78%			✓	

Priority areas specifically linked to IMT are as follows:

Audit Area	Combined Assurance Rating	Audit Rating
Asset Management: Software	R	63.89%
Information Governance and Records Management	R	63.89%
Server 2003 Project	R	61.11%
Avaya Upgrade Project	R	61.11%
Disaster Recover and Back up	A	58.33%
Supplier management	A	52.78%
Mobile devices and mobile working	A	52.78%
Programme Management	A	52.78%
PSN Compliance	R	52.78%
Confirm (Highways software)	A	52.78%
Physical and Environmental Security	A	50.00%
Monitoring	A	50.00%
Email Systems	A	50.00%
ICT Governance: Capability & Capacity	A	47.22%
Members ICT Solution	A	47.22%
Network Infrastructure & Security	G	44.44%
Network Access Controls - within Estate	A	44.44%
Virus protection / Malware	G	44.44%
ICT Procurement	G	41.67%
Patch Management	G	41.67%
ICT Governance: Performance	G	38.89%
Wireless Security	G	38.89%
ICT Governance: Frameworks, strategy & accreditation	G	36.11%
Data Protection and FOI	G	36.11%
Asset Management: Hardware	G	33.33%
Change Control	G	33.33%
Help Desk	G	33.33%
Network Access Controls - Agile	G	33.33%
Privileged Accounts	G	33.33%
Incident Management	G	33.33%
Payment Card Industry Data Security Standard	G	33.33%
Risk Management	G	30.56%
User Education and Awareness	G	30.56%
Removable media	G	30.56%
Cloud / Hosted Services	G	30.56%
Internal and Email Acceptable Use	G	30.56%
Database Management	G	30.56%

Other Areas of Work	Details
Combined Assurance	Updating assurances on the Council's assurance map with senior managers and helping to inform planning and co-ordinate the annual status report.
Follow up of Recommendations	Audit Reports issued during 2018/19 where an audit opinion of Limited or Low may be followed to establish progress in implementing agreed management actions.
Advice & Liaison	Time for liaison with management to schedule audits and update the plan with emerging risks etc.
Annual Report	Collation of data and production of the Head of Audits annual opinion on the Council's Governance, Risk and Control framework
Annual Governance Statement	Support development of the AGS
Audit Committee	Production of reports to and attendance at Audit Committee
Work Force Development	Time to develop audit skills and competencies for our Apprentice and Professional Practice Year staff in a work environment with deliverable audits.

Appendix B – Head of Internal Audit's Opinion

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.

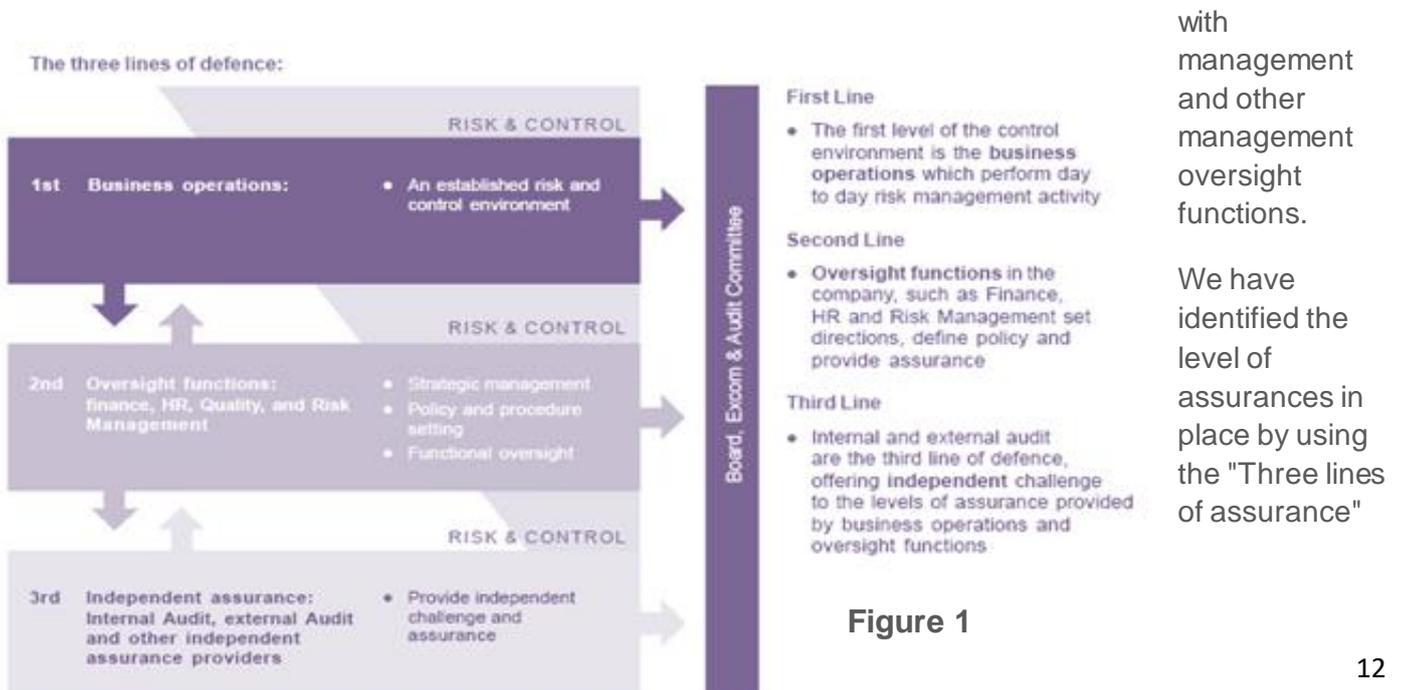
Our Internal Audit Strategy

It is important that the Internal Audit function focusses its work on what matters most to you – providing insight, assurance and added value to the Council. To help us do this we use a dynamic planning approach. This has the benefit of enabling greater flexibility and responsiveness – ensuring each piece of work is the right one, delivered at the right time. It also delivers greater productivity and efficiencies – reducing abortive planning and engagement time. The plan becomes more dynamic and responsive – essential for an effective Internal Audit service.

Our internal audit activity and plan has been driven by the Council's key objectives within the corporate plan, your key risks and critical service areas identified as part of the Combined Assurance Map.

We 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.

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. We are then able to use our audit planning tool to target resources. This will to minimise duplication of effort through sharing and coordinating activities



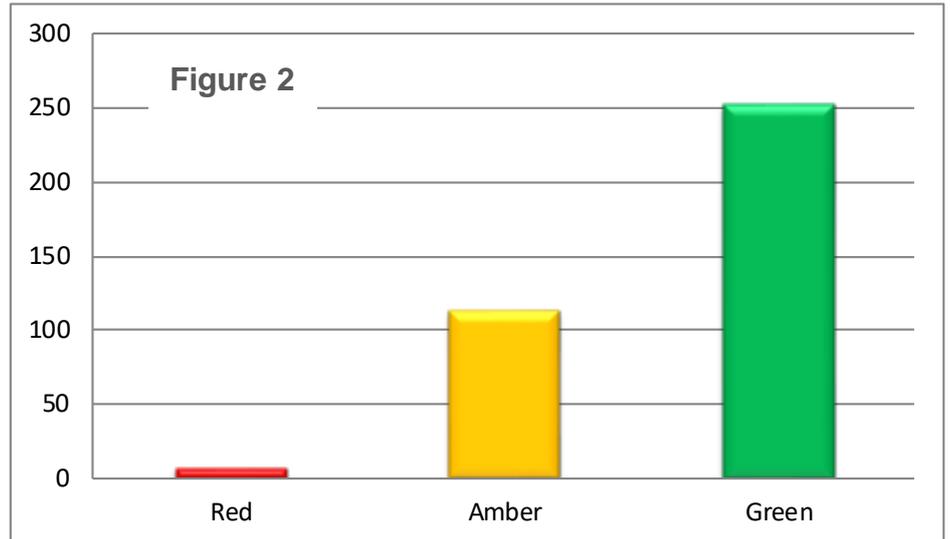
with management and other management oversight functions. We have identified the level of assurances in place by using the "Three lines of assurance"

Figure 1

model – See **Figure 1**.

Figure 2 shows the overall assurance levels on the Council's critical activities as at November 2019.

Red Low level of assurance
Amber Medium level of assurance
Green High level of assurance



Our Internal Audit Strategy also seeks to co-ordinate our work with other assurance providers where we can. In particular we liaise with External Audit to ensure the Council gets the most out of its combined audit resource – keeping audit fees low.

Appendix C – Working Protocols

Our approach to delivering of internal audit work is based on a clear protocol detailed in the Audit Charter. How this works in practice is set out at the bottom.

Our performance is monitored by the Section 151 Officer and the Audit Committee - measured against 3 key areas:

- Delivery of planned work.
- Timeliness (contemporary reporting).
- Quality and Impact of work (communicating results / added value).

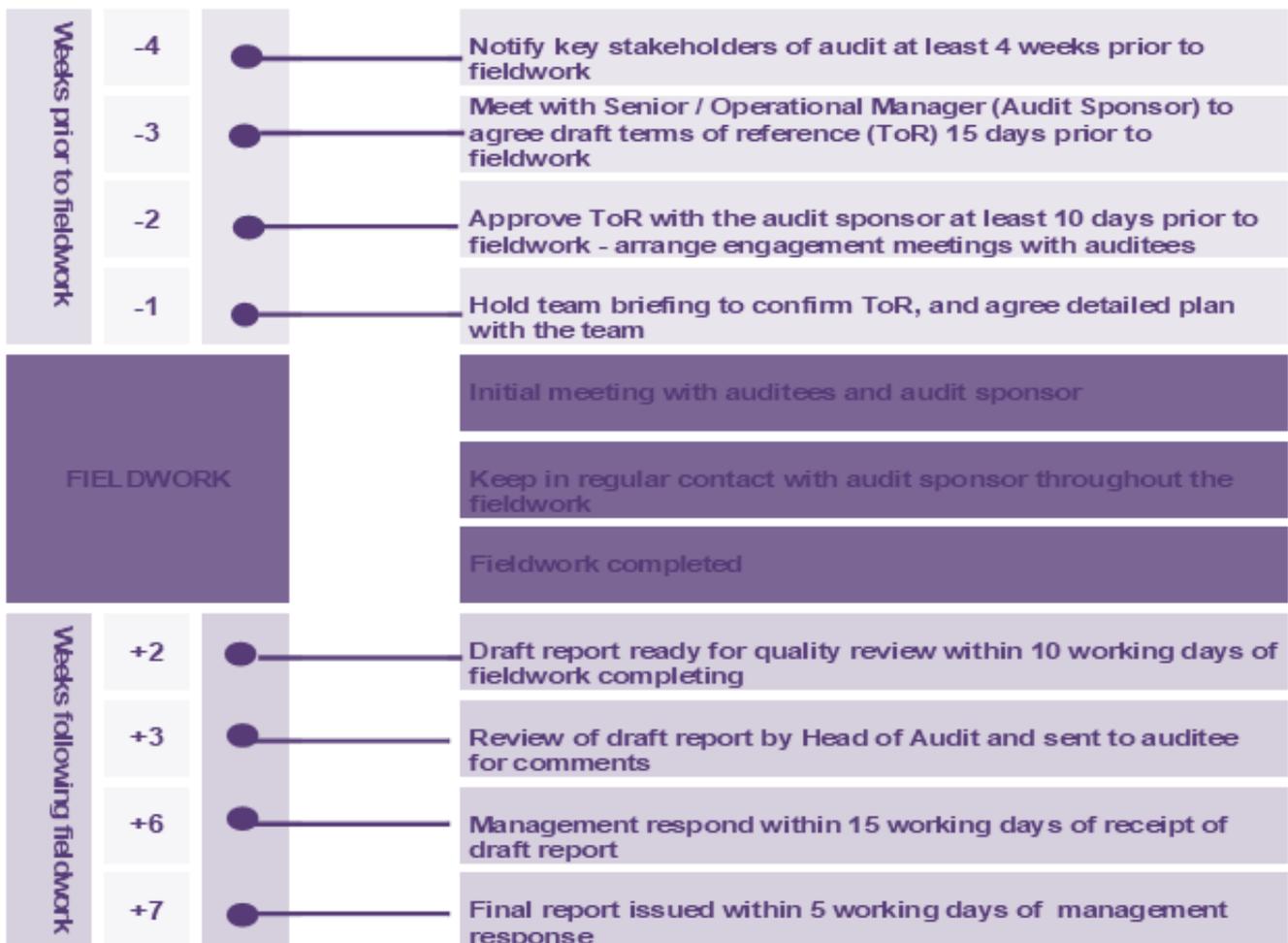
Strong communication is fundamental to quality delivery and maintaining trusting relationships. We keep management informed in accordance with agreed protocols including:

- Agreeing potential audit work for the forthcoming year
- Providing quarterly updates to evaluate

progress and discuss activities and priorities for the next quarter.

- For individual audit engagements we hold planning meetings in person (our preference) by phone or email to discuss and agree the terms of reference and scope of our work..
- We keep you informed of key findings during the audit and upon conclusion we hold a debrief meeting in person to discuss our findings and any outstanding issues.
- We communicate the results of our audit work in a clear and concise way – securing management action where control improvements are needed.

We support Senior Management in attending the Governance & Audit Committee where a Limited or Low Assurance level has been given against the activity.



Appendix D – Our Quality Assurance Framework

Quality is built into the way we operate – we have designed our processes and procedures to conform to best practice applicable to Internal Audit – in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

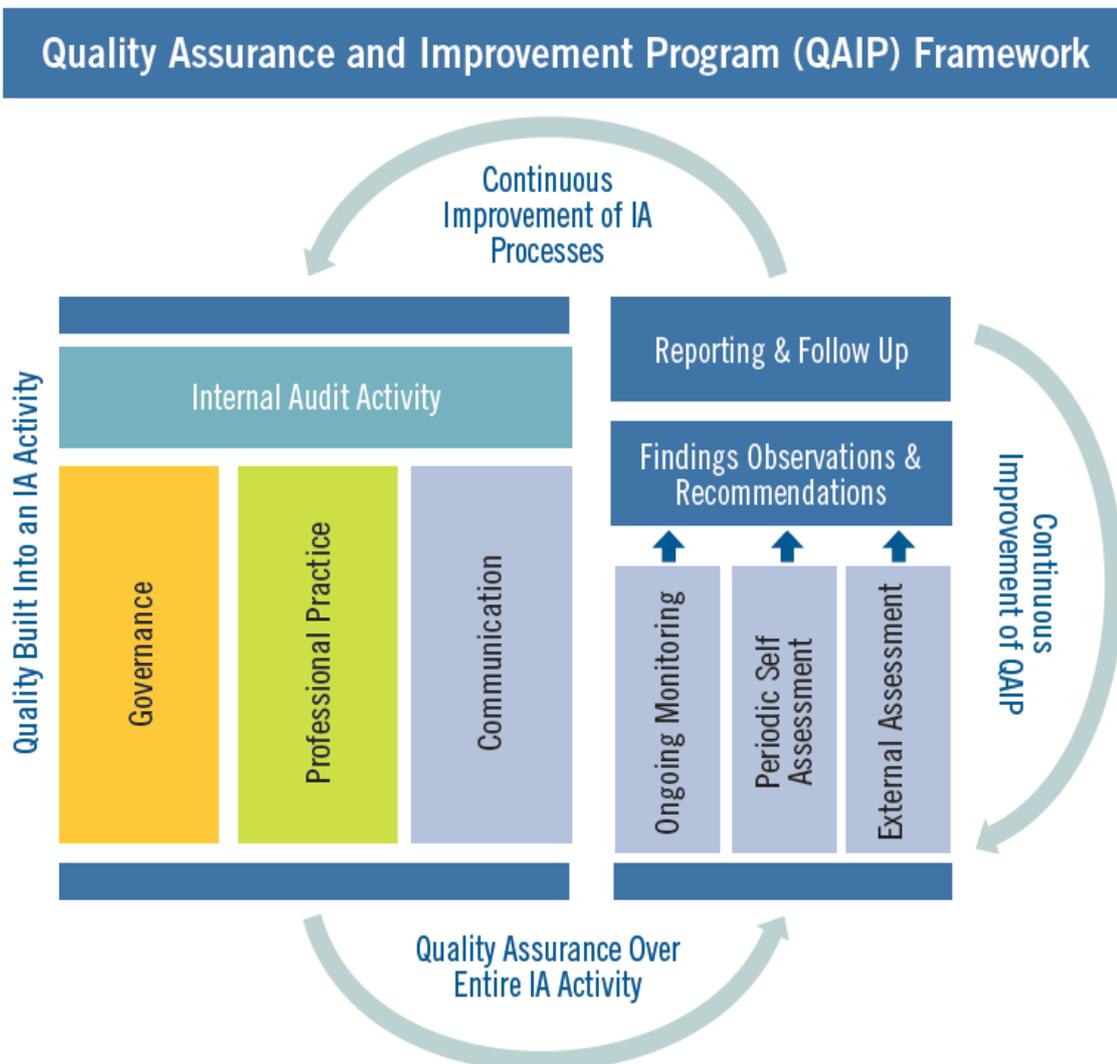
Our audit team offers a wide depth of knowledge and experience gained across different organisations. We promote excellence and quality through our audit process, application of our Quality Assurance Framework and our training and development programme.

Our Quality Assurance Improvement Programme incorporates both the internal (self) and external assessments – this is a mandatory requirement and the Head of Audit reports annually on the results and areas for improvement. Our internal assessments must cover all aspects of internal audit activity – **The**

diagram below shows how we structure our internal assessments to ensure appropriate coverage.

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.

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 Governance & Audit Committee and is due to be reviewed in 2019 following the planned revision of the CIPFA Local Government Application Note.



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

Report to:	Audit Committee
Date:	25 March 2019
Subject:	Review of Governance Framework and development of the Annual Governance Statement 2018/19

Summary:

Each year the Council is required to reflect on how well the Council's governance framework has operated during the year and identify any governance issues that we need to draw to the attention of Lincolnshire's residents.

Good governance underpins everything we do as a Council and how we deliver services often comes under close scrutiny.

A 'good' Annual Governance Statement is an open and honest self-assessment of how well we have run our business across all activities - with a clear statement of the actions being taken or required to address any areas of concern.

The Audit Committee oversees the development of the Annual Governance Statement and recommends its adoption by the Council.

This paper provides the Committee with the opportunity to review the contents of the draft statement - ensuring that it accurately reflects the Committee's understanding of the Council's governance and assurance arrangements. This is a key activity in the Committee's terms of reference.

Recommendation(s):

That the Committee considers the contents of the draft Annual Governance Statement 2019 and:-

1. Agree that it accurately reflects how the Council is run.
2. That the Statement includes the significant governance issues/key risks it would have expected to be published.
3. Identify any changes it wishes to make to the statement.

Background

What do we mean by Governance?

1. Good Governance can mean different things to people – in the public sector it means:

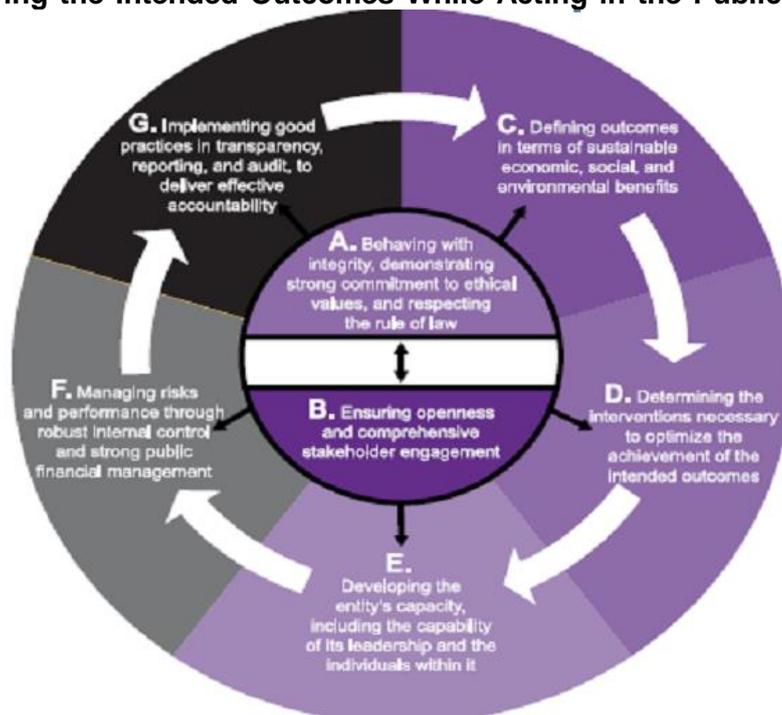
"Achieving the Intended Outcomes While Acting in the Public Interest at all Times"

2. It comprises of systems, processes and culture and values, by which the Council is directed and controlled and through which they account to, engage with, and where appropriate, lead their communities.

What is the Governance Framework?

3. Our Governance Framework brings together an underlying set of legislative requirements, governance principles and management processes. It ensures that the Council's business is conducted in a legal and proper way – ensuring that public money is properly used - economically, efficiently and effectively.
4. In April 2016 CIPFA/SOLACE published an updated 'Delivering Good Governance in Local Government – Framework and Guidance'. This sets out the latest good practice operating in the current public sector environment. It defines six core principles by which a Council can test out their governance arrangements. These are shown in Figure 1.

Figure 1 – Achieving the Intended Outcomes While Acting in the Public Interest at all Times"



The international framework notes that:

Principles A and B permeate implementation of principles C to G. The diagram also illustrates that good governance is dynamic, and that an entity as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.

Annual Review of our Governance Framework

5. The annual review and development of the Annual Governance Statement is undertaken by the Governance Group in consultation with the Executive Directors. The Council's Governance Group comprises:-

- Monitoring Officer
- Section 151 Officer – Executive Director – Finance and Public Protection
- County Finance Officer
- Audit and Risk Manager (Head of Internal Audit)
- Chief Legal Officer
- Democratic Services Manager
- Information Assurance Manager
- Head of Business Support

6. The sources of information used to develop the Governance Statement include:

- The assurance arrangements of the Council, particularly each Directors Combined Assurance Status reports
- Head of Internal Audit annual audit opinion
- Council's Strategic Risk Register and risk management arrangements
- External Audit Annual Audit Letter
- Ombudsman investigations
- Complaints and lessons learnt
- Comments of the Corporate Management Board
- Outcome of Staff Survey
- Whistleblowing annual report
- Budget robustness statements
- Peer or external reviews

Governance Issues

7. As a result of our annual review we have identified the following areas where further work is required to improve systems or monitor how they key risks facing the Council are being managed. These are:

- IT Governance Arrangements
- Fairer funding – Financial Sustainability

8. These areas are highlighted because of the need for the Council to be realistic and open about those functions and activities which require, or are likely to require, support (including but not limited to financial support) over the next

year in order to ensure that they are working effectively and efficiently. This in turn should ensure that any future problems in those areas are averted or at the very least minimised.

9. The Council has a Commercialism Strategy which outlines the Council's approach to commercialism. The Council also has a number of Trading Company's. Existing governance arrangements will be used so that early review and feedback will be received from Corporate Management Board and the Commissioning and Commercial Board prior to the Council's formal decision making being invoked. No significant governance issues have been identified with these entities during the assurance mapping process but the Governance Group will consider if additional assurance is required over the Governance, Risk and Control framework from the Directors / Board.
10. The Corporate Management Board will review the final draft of the Statement prior to approval by the Audit Committee in June 2019.
11. The draft Annual Governance Statement can be found in Appendix A. It is presented to the Committee for your consideration and 'challenge' of the contents e.g.
 - Does it accurately reflect the Committee's understanding of how the Council is run?
 - Reflecting on evidence presented to the Committee during the year and other relevant information. Are the significant governance/key risks those that the Committee expected to see published? Are there any surprises/gaps?

Note: Recognising that the statement is a reflective/backward look at the Council from April 2018 to March 2019 but does need to be contemporary at the time of publication.

12. Our governance framework and annual review covers all activities of the Council including Fire and Rescue and Pensions.

Conclusion

13. The Council has a strong control environment which is demonstrated by the realistic and open assessment of its functions and activities.
14. Officers have identified a number of governance issues to be included in the Annual Governance Statement. The Audit Committee is asked to independently review and approve these for 'realism'.
15. The final Annual Governance Statement will be presented to the Committee in June for approval.

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	Lincolnshire County Council - Annual Governance Statement 2019

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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DRAFT

**Lincolnshire County Council
Annual Governance Statement 2019**

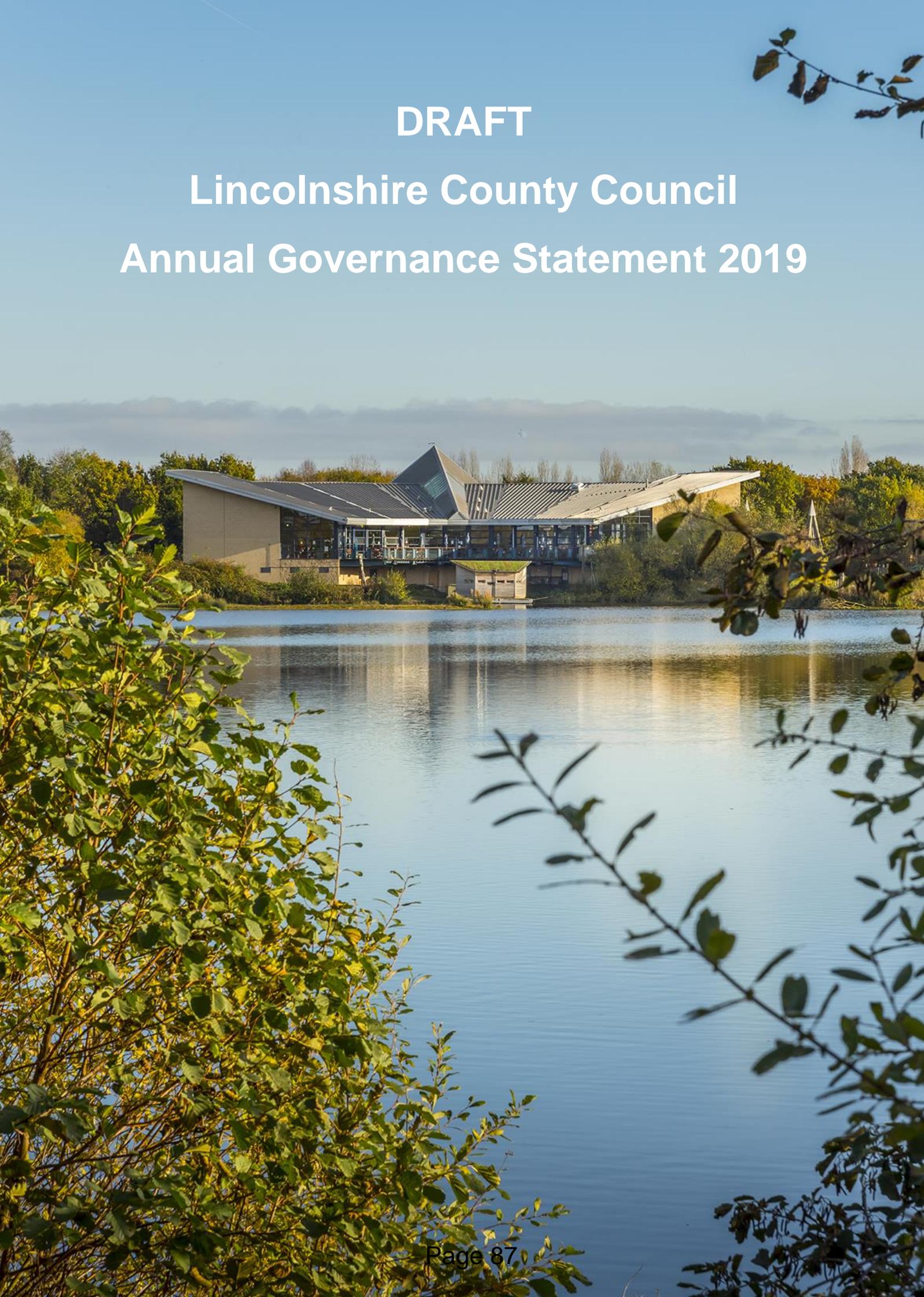


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Executive summary

The Leader of the Council (Cllr Martin Hill OBE) and Interim Chief Executive (Debbie Barnes) both recognise the importance of having good management, effective processes and other appropriate controls in place to have a well-run Council - delivering services to the communities of Lincolnshire.

Insert comments by CEX

Significant governance issues

Overall we can confirm that the Council has the appropriate systems and processes in place to ensure good governance is maintained. These generally work well but we acknowledge that there are a number of areas for improvement or where closer governance oversight is needed. These are:

Key improvement area	Lead officer	To be delivered by
IT Governance	Executive Director - Commercial	31 st March 2020
Fairer Funding – Financial Sustainability	Executive Director - Resources	On-going through to late 2019

Signed on behalf of Lincolnshire County Council

Councillor Martin Hill OBE

Leader of the Council

.....

Debbie Barnes

Interim Chief Executive

.....

Andrew Crookham

Executive Director – Resources

.....

What is corporate governance?

Good governance can mean different things to people – in the public sector it means:

"Achieving the intended outcomes while acting in the public interest at all times"

Corporate governance generally refers to the processes by which an organisation is directed, controlled, led and held to account.

The Council's governance framework aims to ensure that in conducting its business it:

- operates in a lawful, open, inclusive and honest manner
- makes sure public money is safeguarded, properly accounted for and spent wisely
- has effective arrangements in place to manage risk
- meets the needs of Lincolnshire communities - secures continuous improvements in the way it operates.

Our governance framework comprises of the culture, values, systems and processes by which the Council is directed and controlled. It brings together an underlying set of legislative and regulatory requirements, good practice principles and management processes. The full governance framework can be found at the end of this document.

Each year the Council is required to produce an Annual Governance Statement (AGS) which describes how its corporate governance arrangements have been working. To help us do this the Council's Audit Committee undertakes a review of our governance framework and the development of the AGS.

It is crucial to the Council's success that its governance arrangements are applied in a way that demonstrates the spirit and ethos of good governance – this cannot be achieved by rules and procedures alone. The Council is expected to have a culture that places the public and integrity at the heart of its business.

A governance review of culture and values showed that the Council's core values¹ were at the heart of what the Council does – being open, transparent and inclusive.

On the 25th March 2019 the Audit Committee considered and challenged the content and the significant governance issues identified in the Statement – ensuring that the Statement properly reflects how the Council is run – identifying any improvement actions.

The final statement was formally approved by the Audit Committee on the 17th June 2019 - where it was recommended for signing by the Leader of the Council, Interim Chief Executive and the Executive Director – Resources.

¹ Council's values – Professional, Resourceful, Respectful, Reflective

Principles of corporate governance



Principle A: Integrity and values

- Staying true to our strong ethical values and standards of conduct
- Respecting the rule of law
- Creating a culture where statutory officers and other key post holders are able to fulfil their responsibilities
- Ensuring fraud, corruption and abuse of position are dealt with effectively
- Ensuring a safe environment to raise concerns and learning from our mistakes



Principle B: Openness and engagement

- Keeping relevant information open to the public and continuing their involvement
- Consultation feedback from the public is used to support service and budget decisions
- Providing clear rationale for decision making – being explicit about risk, impact and benefits.
- Having effective scrutiny to constructively challenge what we do and the decisions made



Principle C: Working together

- Having a clear vision and strategy to achieve intended outcomes - making the best use of resources and providing value for money
- Being clear about expectations - working effectively together within the resources available
- Developing constructive relationships with stakeholders
- Having strong priority planning and performance management processes in place
- Taking an active and planned approach to consult with the public
- Regularly consult with employees and their representatives



Principle D: Making a difference

- Having a clear vision and strategy setting out our intended outcome for citizens and service users



Principle E: Capability

Clear roles and responsibilities for council leadership
 Maintaining a development programme that allows councillors and officers to gain the skills and knowledge they need to perform well in their roles.
 Evaluating councillor and officers' performance
 Regular oversight of performance, compliments and complaints to enable results (outcomes) to be measured and enable learning



Principle F: Managing risk and performance

- Ensuring that effective risk management and performance systems are in place, and that these are integrated in our business systems / service units
- Having well developed assurance arrangements in place – including any commercial activities
- Having an effective Audit Committee
- Effective counter fraud arrangements in place



Principle G: Transparency and accountability

- Having rigorous and transparent decision making processes in place
- Maintaining an effective scrutiny process
- Publishing up to date and good quality information on our activities and decisions.
- Maintaining an effective internal and external audit function

Looking back at 2017/18

A number of improvement actions were identified as part of the 2017/18 Annual Governance Statement.

The table below shows progress with these actions:

Key improvement area	To be delivered by (original target date)	Progress
IT governance	31 st March 2019	Behind plan*
Fairer Funding -financial sustainability	Ongoing through to late 2019	On track – carried forward
Market supply – adult social care	On-going through to 2020	On track – check with CMB if should be c/f
Collaborative working - governance arrangements	31 st December 2018	Behind plan – in draft

Areas behind plan

IT governance – New IMT Governance Board in place and improvements have been made in recent months around refresh of IT equipment. Progress has been slower than expected and this is a key priority area for 2019. To be updated by CEX and Executive Director – Commercial.

Collaborative working - governance arrangements – the financial procedures are currently being updated (in draft) with completion / sign off planned for the end of June 2019. It includes procedures around commercial activities, external funding as well as partnerships.

How the Council works

The Annual Governance Statement covers the 2018/19 financial year. The information below relates to this period.

The Council is made up of 70 councillors and operates a 'Leader and Executive' model of decision making.

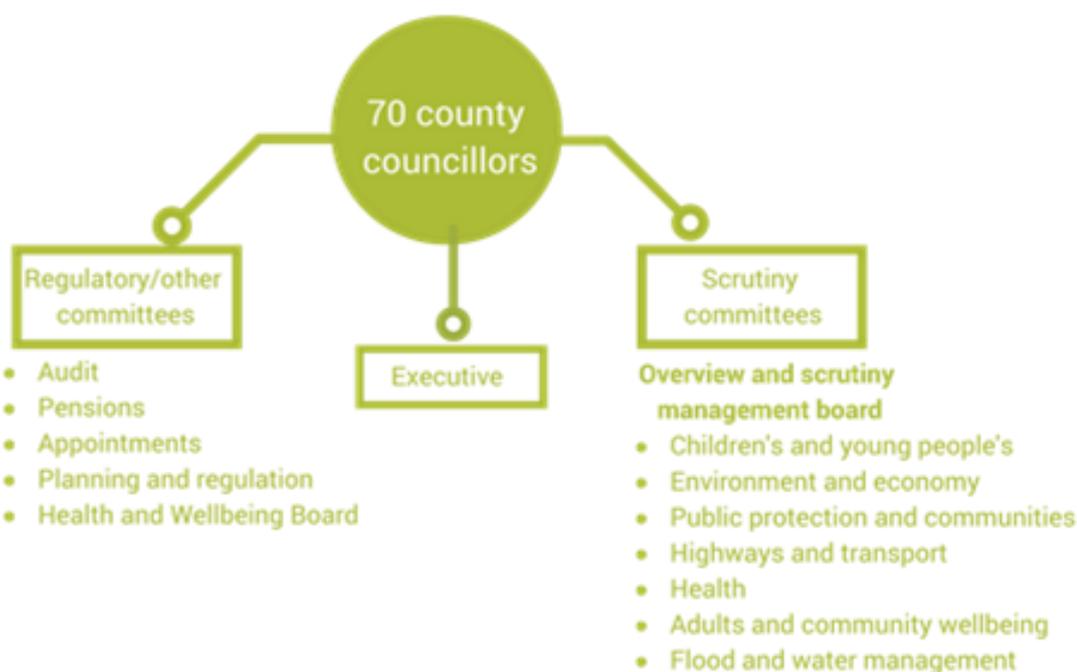
- All 70 councillors meet to agree the budget and policy framework.

The Executive makes the decisions that deliver the budget and policy framework of the council and consists of a minimum of 2 members and a maximum of 10.

- In 2017/18 the Leader and 7 councillors sat on the Executive.

The remaining 62 councillors form scrutiny committees.

- These committees develop policy and scrutinise decisions made by the Executive officers – holding them to account.
- A number of these committees deal with regulatory issues.



Outcomes and value for money

Our plan and performance dashboard

We want to support a society where people contribute to their communities and are willing and able to look after themselves and others; a county where:

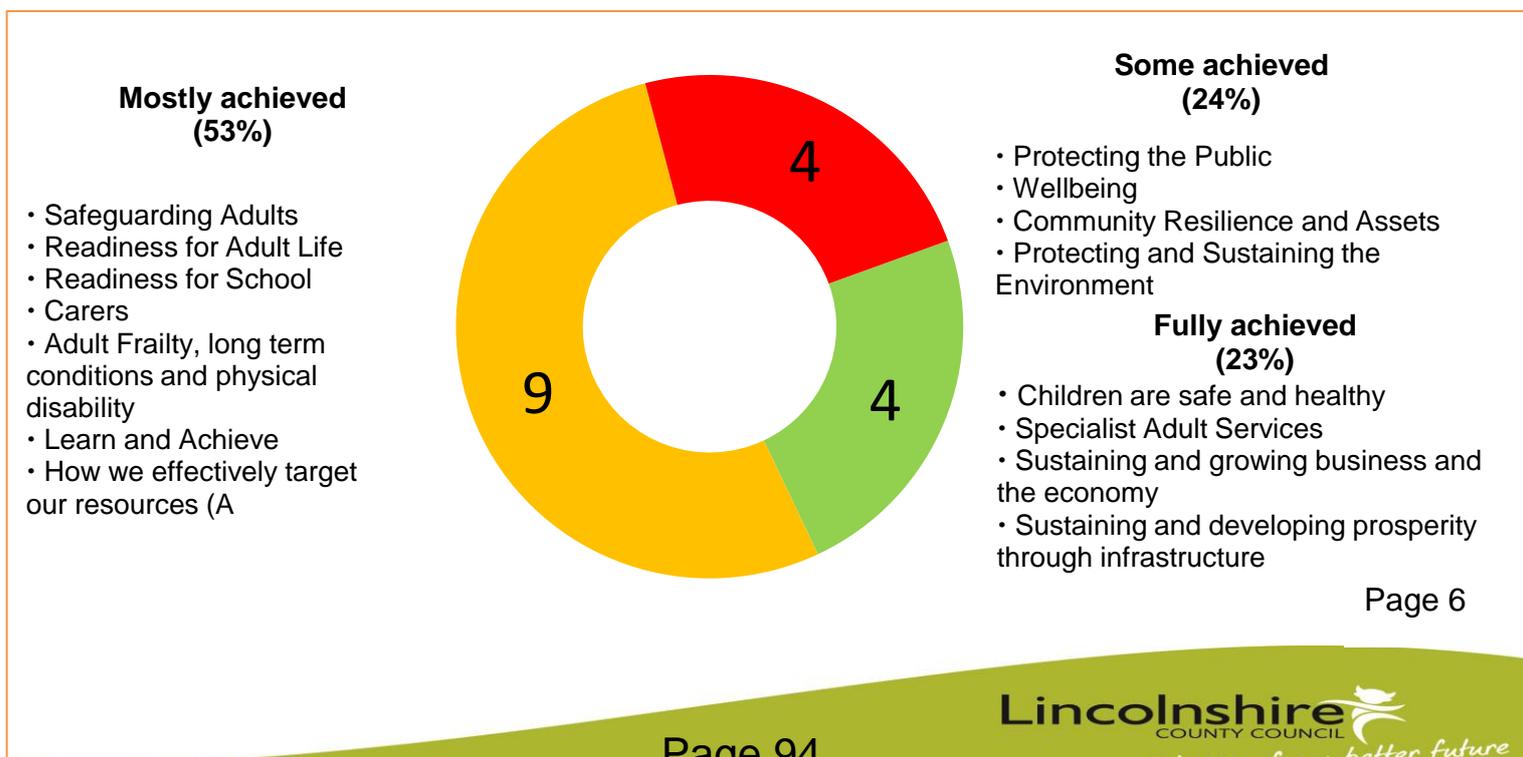


A link to the Performance Dashboard can be found [here](#).

Performance summary

We achieved the majority of the targets we set out in our Council Business Plan 2018/19. – will need updating for Q4 currently Q3 and may change diagram.

The performance of the 17 commissioning strategies is shown below.



Value for money

The external auditors of the council are expected to issue an unqualified Value for Money judgement for 2018/19.

The Council remains generally in a sound financial position relative to other councils over the short term. This is because of considerable savings made in the earlier part of this decade coupled with a recent trend of underspending its annual budget resulting in either limited or no calls on reserves to balance the budget. In addition confidential information made available to senior finance officers relating to the provisional financial resilience index being developed by CIPFA provides evidence to support this statement.

The Council has had a financial strategy for a number of years now which has combined:

- service efficiency savings
- modest service reductions
- prudent use of reserves

Continuing to follow this strategy, **the Council has set a one year budget up to March 2020**, and this would leave the council with at least enough in reserves to cover an underlying deficit at April 2020 for a minimum of at least another two years. The 2019/20 budget is effectively a balanced one when account is taken of around £6m of business rate collection fund surplus which is being placed in a new reserve. The 2019/20 position is a considerable improvement over that expected for 2019/20 a year ago when a provisional budget was set.

As in previous years, **there has been no general increase in public dissatisfaction across the board** with the standard of services delivered. Services which have received external inspections over the last year in Children's Services and Fire & Rescue have received strong ratings.

The 2019/20 budget does not include any major service reductions.

Public feedback has been taken into account in reinstating a number of highways related services previously the subject of budget reductions (eg. verge cutting, gully emptying). In a similar vein core funding to Citizen Advice Bureau's has been reinstated.

The implementation of the Council's first capital strategy from April 2019 will bring added transparency and rigour to the processes for approving, assessing the affordability of, and monitoring of the capital programme.

The Council is constantly monitoring its long term financial position using a funding model which currently goes to March 2022. The model predicts the budget shortfall for future years taking into account known cost pressures and planned

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Lincolnshire County Council
Draft Annual Governance Statement 2019

savings. A major budget savings exercise will be undertaken during 2019 which will look to identify savings options in the revenue budget, including income generation options, to be applied as and when required in post April 2020 budgets. At the same time there will be a comprehensive review of the reserves of the Council to seek to repatriate funding from existing ring-fenced reserves which may not be needed in future. The future capital programme will also be developed in line with the provisions of the new capital strategy.

During the 2019/20 financial year, the Council will also be considering the impacts of:

- the outcome of the Government's spending review
- the partial localisation of business rates from April 2020
- the outcomes of the Fair Funding Review being undertaken by Government
- the Adult Care White Paper
- full publication of CIPFA's financial resilience index

The Council's approach to, and governance of, commercial activities will be developed further during 2019 with the introduction of a Corporate Management Board level post of Director of Commercial Services from April 2019.

Roles and Responsibilities

Head of Internal Audit

The head of internal audit is required to provide an independent opinion on the overall adequacy of and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it.

The annual report has been considered in the development of the Annual Governance Statement and any significant governance issues incorporated as appropriate. The opinion of the Head of Internal Audit is included in this statement.

They are able to operate effectively and perform their core duties - complying with the CIPFA Statement on the role of the Head of Internal Audit.

Monitoring Officer

The executive director – environment and economy is the designated Monitoring Officer with responsibility for ensuring the lawfulness of decisions taken by us as detailed in the [Constitution](#)

The Monitoring Officer is responsible for ensuring the Council complies with its duty to promote and maintain high standards of conduct by members and co-opted members of the authority.

The Monitoring Officer provided an [Annual Report](#) to the Council on how he discharged his duties during the year on the 17th May 2019 – check with MO.

It gave assurances that: Update for 2019

Chief Financial Officer

The Council has designated the executive director – finance and public protection as the Chief Finance Officer under Section 151 of the Local Government Act 1972. He leads and directs the financial strategy of the Council.

They are a member of the Council's management board and have a key responsibility to ensure that the council controls and manages its money well. They are able to operate effectively and perform their core duties - complying with the CIPFA Statement on the role of the Chief Financial Officer.

Council managers

Our managers have the day to day responsibility for services, and are accountable for their successful delivery. They set 'the tone from the top' and develop and implement the policies, procedures, processes and controls – ensuring compliance.

Corporate Management Board

Our corporate management board oversee the review, the Council's governance arrangements and the development of the Annual Governance Statement. There is also a corporate governance group of officers and councillors, whose role is to support the council to ensure that it complies with the standards of good governance.

The Leader of the Council, interim chief executive and executive director for finance and public protection have overseen the review of our governance, and have signed the Annual Governance Statement.

Effective Scrutiny and Review

Overview and Scrutiny Management Board

The [Overview and Scrutiny Management Board](#) exists to review and scrutinise any decision made by the executive, executive councillor or key decision made by an officer.

The key aim of scrutiny in councils is to:

- Provide healthy and constructive challenge
- Give voice to public concerns
- Support improvement in services
- Provide independent review

Each year an [overview and scrutiny annual report](#) is produced showing the activities undertaken.

Audit Committee

The council's audit committee plays a vital role overseeing and promoting good governance, ensuring accountability and reviewing the ways things are done.

It provides an assurance role to the council by examining areas such as audit, risk management, internal control, counter fraud and financial accountability. The committee exists to challenge the way things are being done and make sure the right processes are in place. It works closely with both internal audit and senior management to continually improve the Council's governance, risk and control environment.

[Find out more about the audit committee here.](#)

Full Council

The Annual Governance Statement is brought to the attention of the full Council

External Audit

The Council's financial statements and annual governance statement are an important way we account for our stewardship of public funds.

Mazars, our external auditors, audit our financial statements and provide an opinion on these. They also assess how well we manage our resources and deliver value for money to the people of Lincolnshire.

How we carry out assurance

A combined assurance status report is produced by each executive director.

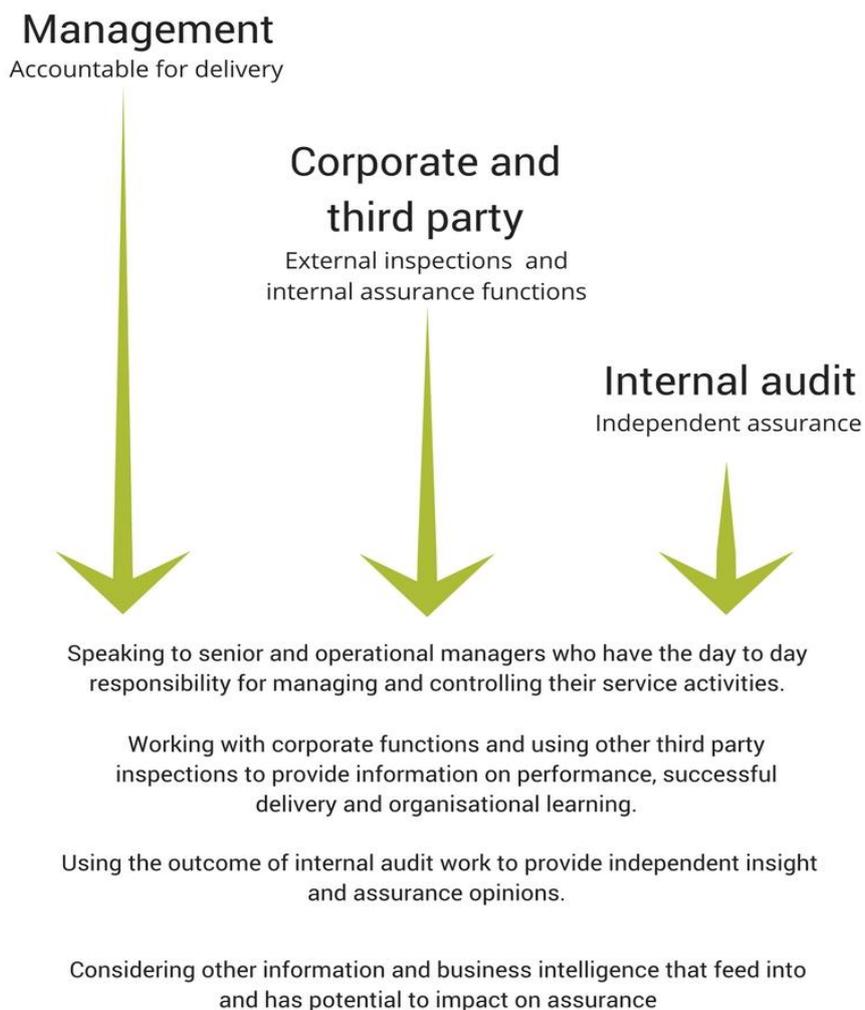
It looks at the level of confidence the council can have in each area for:

- service delivery arrangements
- management of risks
- operation of controls
- performance

These reports were reviewed by the Audit Committee in January 2019.

The council adopts the 'three lines of assurance' methodology, as seen below.

How do we assure ourselves about how the council is run?

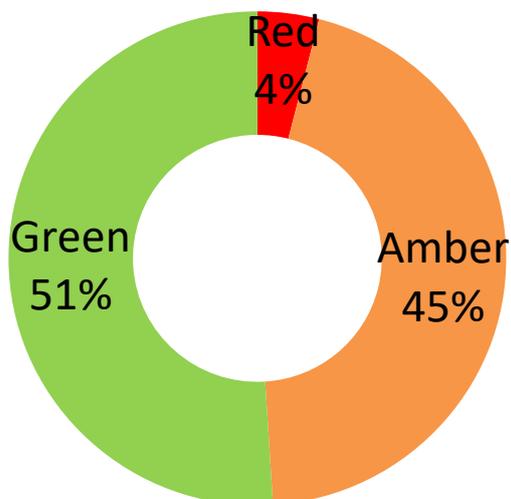


The Council's assurance levels

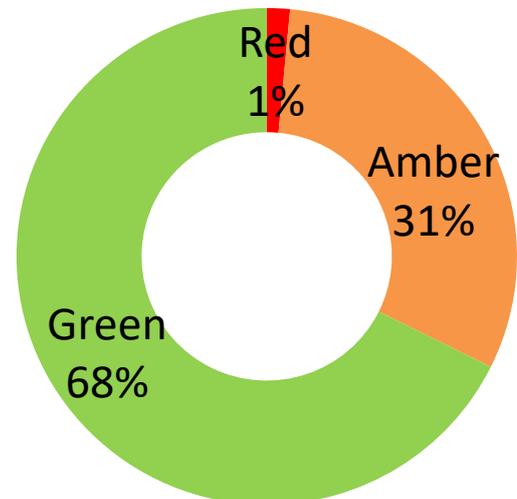
Overall there is a positive assurance picture for the council but one that reflects the complex environment in which we operate.

The Council will need to be comfortable with taking more high risk decisions and accepting that there may be service failures as a consequence of budget and service reductions. (Obtained statement from CMB)

Overall assurance 2017/18



Overall assurance 2018/19



Red

High impact on resources, significant costs likely, high impact on service delivery

Amber

Medium or short term impact on resources, costs covered within existing financial plans, low impact on service delivery

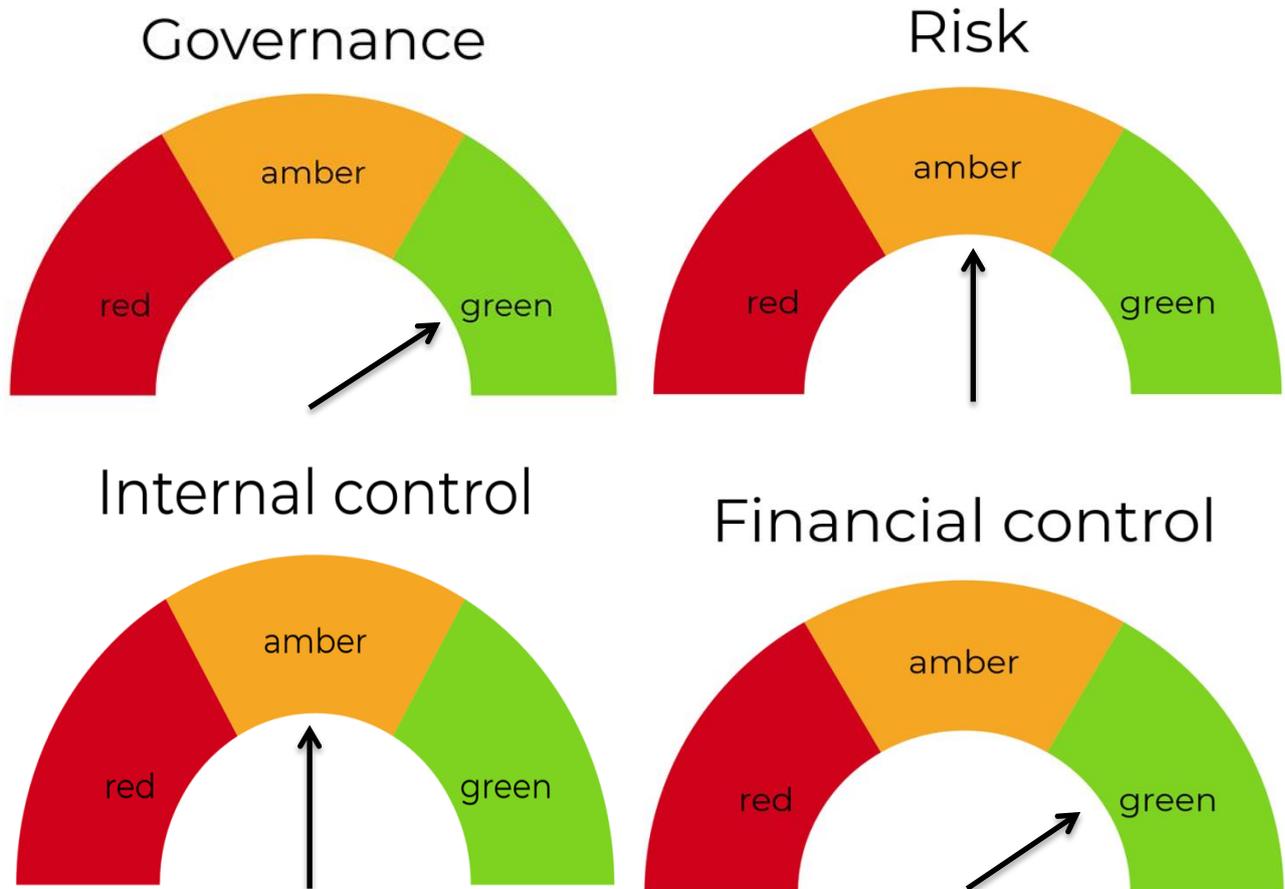
Green

Monitor and be aware, activity to mitigate risk within existing service delivery plans

Head of internal audit opinion

The opinion of the head of internal audit is given for 2018/19 on four areas of Council assurance:

- **governance** (how the council is run)
- **risk** (the risks to the council's operations)
- **internal controls** (the processes in place to ensure compliance)
- **financial controls** (the processes in place to ensure we manage our finances appropriately)



Initial assessment – will update in May 2019.

The Council is **performing well** for governance and financial control – some improvements may be required to frameworks or to manage medium risks across the Council.

The Council is **performing adequately** for risk and internal control - some improvements may be required to manage a significant issue, a specific high risk, or medium risks across the Council.

Appendix 1 – Governance framework

Where do we need assurance?

 Compliance

 Democratic engagement & public accountability

 Management of risk

 Financial management

 Members & Officers roles & responsibilities

 Standards of conduct & behaviour

 Action plan approved & reported on.

 Effectiveness of Internal controls

 Services delivered

Where can / do we get assurance from?

 Constitution

 Audit committee, council executive & scrutiny

 Internal & external audit

 Independent & external sources

 Financial strategy

 Complaints system, counter fraud & whistle blowing

 HR policies & codes of conduct

 Risk management strategy & framework

 Performance management system

Appendix 2 – Strategic risk register

Good risk management is part of the way we work. It is about taking the right risks when making decisions or where we need to encourage innovation in times of major change – balancing risk, quality, cost and affordability.

This put us in a stronger position to deliver our goals and provide excellent services.

Our Strategic Risk Register is regularly reviewed and our risks are being effectively managed.

Risk	Mitigating actions	Risk rating	Level of assurance
Safeguarding children	Good and effective management arrangements in place with controls working effectively	Amber	Substantial
Safeguarding adults	Programme in place to develop and implement suitable assurance frameworks for commissioned services & personal budgets.	Amber	Limited
Good business continuity and resilience	Programme in place to review and test continuity and recovery plans	Amber	Substantial
Market Supply – Adequacy of market supply to meet eligible needs across a number of directorates within the Council	Strong relationships with providers & funding for residential care secured. Improved contract management.	Amber	Limited
Ability to deliver our programme of designated projects	To update	To update	To update
Funding and maintaining financial resilience	2019/2020 budget underway. Good financial management and monitoring.	Amber	Substantial
Ability to recruit and retain staff in high risk areas	Proactive work continuing in this area	Amber	Substantial
Ensuring contracts and markets (other than adult care) are fit for purpose	Commercial team supports the business with ongoing work to strengthen contract management (intelligent client) and learning from procurement/existing contracts	Amber	Limited

Cyber security	Ongoing work to identify and manage the ever changing risk presented by cyber threats. ISO/IEC 27001:13 accreditation attained	Red	Limited
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Key	Risk	Assurance
Red	High impact on resources, significant costs likely, high impact on service delivery	Low level of confidence over the design and operation of controls, performance or management of risk
Amber	Medium or short term impact on resources, cost covered within existing financial plans, low impact on service delivery	Medium level of confidence over the design and operation of controls, performance or management of risk
Green	Monitor and be aware , activity to mitigate the risk within existing service delivery plans / management arrangements	High level of confidence over the design and operation of controls, performance or management of risk

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

Report to:	Audit Committee
Date:	25 March 2019
Subject:	Counter Fraud Annual Plan - 2019/20

Summary:

This report provides the Committee with information on the proposed Counter Fraud activities for 2019/20 and draft Counter Fraud Work Plan.

Recommendation(s):

1. To review and approve the Counter Fraud Work Plan for 2019/20 seeking assurance that planned activity is line with the Council's counter fraud strategy and fraud risk profile.

Background

The Counter Fraud Plan for 2018/19 is designed to deliver a tough response to fraud committed against local authorities in Lincolnshire. The draft work plan (see Appendix A – work plan to 31 March 2020) follows best practice guidance and addresses priorities highlighted in the Councils fraud risk assessments.

Conclusion

The Audit Committee plays a key role in monitoring the effectiveness of Counter Fraud arrangements. In considering the proposed Counter Fraud work plan the Committee should be able to:

- Gain assurance that the Council has effective arrangements in place to fight fraud locally.
- Confirm that counter fraud resources are targeted to the Council's key fraud risks.
- Confirm that plan and approach meets recommended practice and is line with the Counter Fraud Strategy.

Consultation

a) Have Risks and Impact Analysis been carried out?

No

b) Risks and Impact Analysis

Risk N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Counter Fraud Work Plan to 31 March 2020
Appendix B	Counter Fraud Staff Contacts

Background Papers

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

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

Counter Fraud

2019/20 Work Plan



Lincolnshire County Council
March 2019

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A – Draft Counter Fraud Plan

B – Staff Contacts

The contacts at Assurance Lincolnshire are:

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Team Leader - Audit

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The Planning Process

Introduction

This report sets out proposed work of the Counter Fraud and Investigation Team as at 1st April 2019. The aim is to give you a high level overview of the activities we are likely to cover during the year, with indicative scope for each theme. The draft plan gives you an opportunity to comment on the plan and the priorities that we have established.

Our plan has been developed as a statement of intent to enable us to respond to changes during the year. Whilst every effort will be made to deliver the plan, we recognise that we need to be flexible and prepared to revise activity – responding to changing circumstances or emerging risks, working within agreed resources.

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

Background

The Counter Fraud and Investigations Team (CFIT) is well established and has a track record of delivering both pro-active counter fraud work and responding to whistleblowing allegations and reports of suspected fraud.

The Audit Committee provides oversight on the effectiveness of the Council's counter fraud arrangements – including the progress and delivery of this work plan. We provide Progress Reports during the year and an Annual Report on the outcome of our work.

Lincolnshire Counter Fraud Partnership was established in 2015. This partnership is made up of all the local authorities and the Police in Lincolnshire and has during its operation so far:

- secured fraud / error savings
- raised awareness of fraud within the Community
- managed resources more effectively by sharing resources and expertise
- supported individual partner authorities to develop counter fraud practice
- pooled intelligence in the fight against fraud

Following this success Lincolnshire Council's and Lincolnshire Police have agreed to continue fund this initiative for 2019/20. It is anticipated that savings generated from the work will, in the medium to long term, enable the partnership to become self-funding.

The Counter Fraud Plan 2019/20 has been developed to deliver a proportionate response to the risk of fraud for both Lincolnshire County Council and its partners in the Lincolnshire Counter Fraud Partnership.

Developing the plan

In April 2016, the Government launched the Local Government Counter Fraud and Corruption Strategy 2016-2019 - Fighting Fraud and Corruption Locally. The Strategy is supported by the CIPFA's Code of Practice for Managing the Risk of Fraud, providing a blueprint for a tough response to fraud committed against local authorities.

The Council's counter fraud arrangements are designed to adhere to the principals and specific areas expected and identified in the CIPFA Code of practice.

To ensure that the plan reflects key areas, we have aligned the 2019/20 Counter Fraud plan to the CIPFA Code's 5 key principles:

- Acknowledge responsibility
- Identify risks
- Develop Strategy
- Provide resources
- Take action

Figure 1 below also shows other key sources of information that has helped inform the plan.



We have prioritised our audit work, taking account of the impact an activity will have. Our Counter Fraud Plan and indicative scope have therefore been developed to:

- ensure continuing good practice for fraud prevention and detection
- respond to higher risk areas identified in LCC's Fraud Risk Register
- tackle cross cutting themes identified by the Lincolnshire Counter Fraud Partnership
- react to emerging fraud risks

Delivery and Focus

Delivering the Plan

We propose to allocate our Counter Fraud resource as shown in **Figure 2** - with the proposed counter fraud activities outlined at Appendix A.

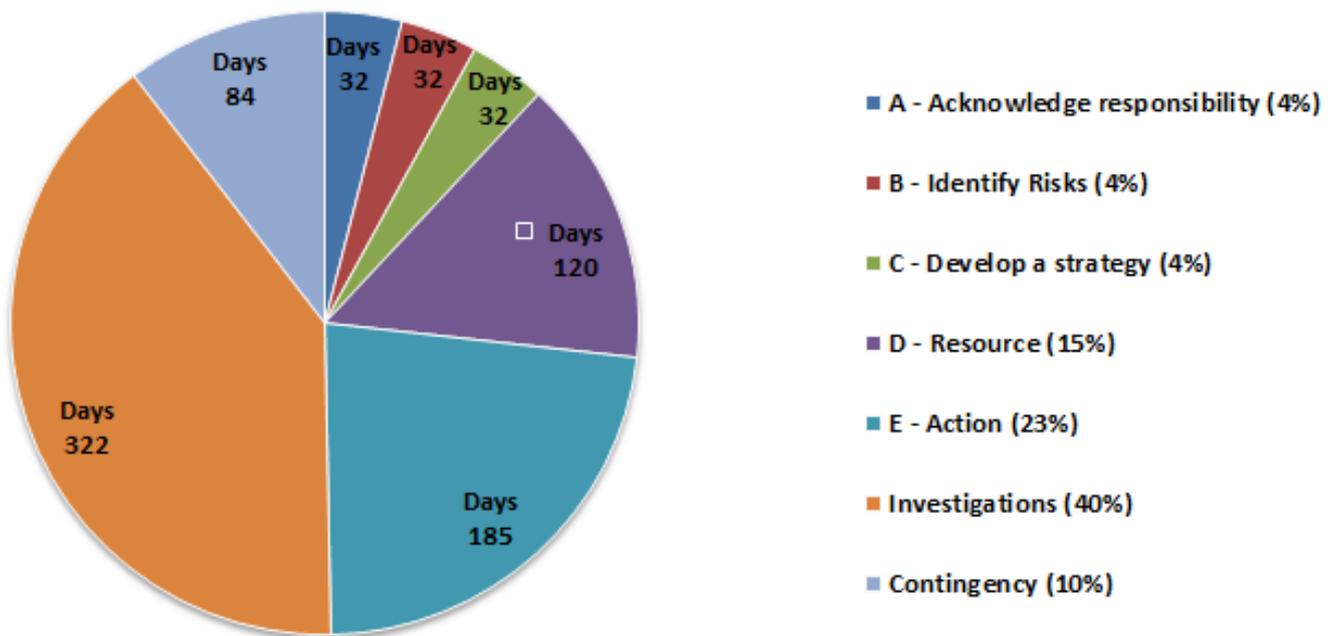
The plan identifies specific areas that will be delivered, but also some unallocated contingency. The contingency allows for greater

flexibility to respond to emerging risks and larger scale investigations.

This will be modified in accordance with investigative demands, emerging risks, requests from management and practical considerations around the timing of counter fraud activity. It may also be modified by the availability of specialised staff, in particular ICT audits, however we do not consider this will have a significant, if any, impact.

The Council's Counter Fraud Plan is **807 Days**.

Allocation of counter fraud resource by activity



Staff Resource

The core team who will deliver the Counter Fraud Plan are:

Name	Grade
Dianne Downs	Audit Team Leader
Donald Adams	Principal Investigator
Matt Drury	Principal Investigator
Gillian Martin	Principal Investigator
Gary Douglas	Principal Investigator
Ashley Simons	Senior Investigator

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

The team will be supported by specialists from Assurance Lincolnshire and our wider audit

frameworks as and when appropriate and by our pool of Relief Conduct Investigators.

APPENDICES

An indicative staff mix delivering our Counter Fraud plan to you is shown below:

Grade	2018/19 plan (Average Days)	Grade Mix %
Head of Corporate Audit & Strategic Risk Management	40	5%
Team Leader - Audit	90	11%
Principal Investigator	482	60%
Senior Investigator	195	24%

APPENDICES

Appendix A – Counter Fraud Plan 2019/20

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling
CIPFA Code of Practice – Key Principle A: Acknowledge Responsibility			
<p>A1 - Acknowledge the threat of fraud and corruption</p> <p>A2 - Acknowledge the importance of a culture that is resilient to the threats of fraud and corruption</p> <p>A3 - Governing Body acknowledges its responsibility for the management of its fraud and corruption risks</p> <p>A4 - Governing Body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption</p>	<ul style="list-style-type: none"> • Audit Committee reporting • Engagement, training and fraud awareness • Engagement with Public Sector Partners in Lincolnshire 	<p>Annual and progress reports of counter fraud activity to Audit Committee:</p> <ul style="list-style-type: none"> • Annual Report on delivery of 2018/19 Counter Fraud Work Plan • Fraud Risk Assessment – 2019 update • Counter Fraud Progress report 2019-20 • Annual Whistle-blowing Report • Annual Counter Fraud Work Plan <p>Briefing sessions – training for members and senior management</p> <p>Continued development of fraud resilience through the Lincolnshire Counter Fraud Partnership (LCFP). Delivery of Annual and 6 month progress reports to Lincolnshire Finance Officers Group</p> <p>Participation in Safer Lincolnshire Partnership's (SLP) Serious and</p>	<p>June 2019</p> <p>September 2019</p> <p>November 2019</p> <p>November 2019</p> <p>March 2019</p> <p>Throughout 2019-20</p> <p>On-going – Throughout 2019-20</p> <p>On-going – Throughout 2019-20</p>

APPENDICES

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling
		Organised Crime – Fraud Group (current focus on vulnerable adults)	
32 Days (4%)			

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling
CIPFA Code of Practice – Key Principle B : Identify Risks			
B1 - Fraud risks are routinely considered as part of risk management arrangements	<ul style="list-style-type: none"> Research and intelligence gathering to highlight emerging risks 	Participation in Midlands Fraud Group, work with FFCL Board (Fighting Fraud & Corruption Locally), CIPFA Counter Fraud Centre, follow up of NAFN alerts and horizon scanning for relevant legislative changes	Throughout 2019/20
B2 - The organisation identifies the risks of fraud and corruption	<ul style="list-style-type: none"> Benchmarking activity 		
B3 - The organisation publishes estimates of fraud loss to aid evaluation of fraud risk exposures	<ul style="list-style-type: none"> Update fraud risk profile Analysis and publication of fraud losses 	Annual review and update of the Council's Fraud Risk register	Quarters 2 & 3
B4 – The organisation evaluates the harm to its aims and objectives		Participation in CIPFA Fraud and Corruption Tracker (CFaCT) Annual Survey	Quarter 1 (June submission)
		Audit Committee reporting	Timetable set in Principal A
		Monitoring and review of investigations, whistleblowing reports, CFaCT annual report and of national picture to identify trends/ feed into Fraud Risk Assessment	Throughout 2019/ 20
		Data analysis & risk assessment: <ul style="list-style-type: none"> Used to prioritise and facilitate counter fraud proactive exercises 	Throughout 2019/ 20

APPENDICES

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling
		<ul style="list-style-type: none"> to support audit key control and continuous testing 	
32 Days (4%)			

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling
CIPFA Code of Practice – Key Principle C : Develop a Strategy			
<p>C1 - Governing Body formally adopts a counter fraud and corruption strategy to address identified risks</p> <p>C2 - Strategy includes the organisation's use of joint working or partnership approaches</p> <p>C3 - The strategy includes both proactive and responsive approaches:</p> <p>Proactive action:</p> <ul style="list-style-type: none"> Develop counter fraud culture Prevent fraud through implementation of robust internal controls Use of techniques such as data matching Deterring fraud attempts by publicising the organisation's anti-fraud and 	<ul style="list-style-type: none"> Counter Fraud Strategy Review and refresh policy documents 	<p>Refresh & Promote Counter Fraud Strategy</p> <p>Review and updates of Policies including:</p> <ul style="list-style-type: none"> Counter Fraud / Bribery & Corruption Policy Fraud Response Plan Fraud Communication Strategy Money Laundering Policy (ML) <p>Activity planning of proactive counter fraud work - response to risk assessment and data analytics</p> <p>Review of Lincolnshire Counter Fraud Partnership's Terms of Reference</p> <p>Forward Planning for 2020-21 Counter Fraud Strategy</p>	<p>Quarter 1</p> <p>Quarter 1- 2</p> <p>Quarter 1- 2</p> <p>Quarter 1</p> <p>Quarter 1</p> <p>Quarter 1-2</p> <p>Quarter 1</p> <p>Quarter 4</p>

APPENDICES

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling
corruption stance and the actions it takes against fraudsters Responsive action: <ul style="list-style-type: none"> • Detecting fraud through data and intelligence analysis • Implementing effective whistleblowing arrangements • Investigating fraud referrals Applying sanctions and seeking redress		and Work Plan	
32 Days (4%)			

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling
CIPFA Code of Practice – Key Principle D : Provide Resources			
D1 - Annual assessment whether level of resource invested to countering fraud and corruption is proportionate to the level of risk	<ul style="list-style-type: none"> • Lincolnshire Counter Fraud Partnership • Midlands Fraud Group 	Development and delivery of annual counter fraud work plan Fraud advice across LCC services areas and to strategic partners	Ongoing Ongoing
D2 - The organisation utilises an appropriate mix of experienced and skilled staff	<ul style="list-style-type: none"> • Collaboration with and support to Internal Auditors at Assurance Lincolnshire 	Management of Lincolnshire Authorities Whistleblowing Facility Ongoing participation with SLP Serious Organised Crime - fraud Group	Ongoing Ongoing
D3 - The organisation grants counter fraud staff unhindered access to its employees	<ul style="list-style-type: none"> • Manage pool 	Engagement with national and regional best practice	Ongoing

APPENDICES

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling
D4 - The organisation has protocols in place to facilitate joint working and data and intelligence sharing	of Conduct Investigators <ul style="list-style-type: none"> Website updates 	groups including co-ordination and Chairing of 2 x Midland Fraud Group Meetings Use of pooled funding contributions from Lincolnshire's District Councils and Lincolnshire Police for provision of support to the Lincolnshire Counter Fraud Partnership, including: <ul style="list-style-type: none"> Delivery of 3 Lincolnshire Counter Fraud Partnership meetings Support for Lincolnshire Districts Councils to reduce fraud losses in Council Tax and Business Rate collection Joint awareness activity Support for eLearning modules Continuing professional Development and training for Counter Fraud & Investigations Team	Q1,3 & 4 Throughout 2019-20 Ongoing Ongoing Ongoing
120 Days (15%)			

APPENDICES

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling
CIPFA Code of Practice – Key Principle E : Take Action			
E1 - The organisation has put in place a policy framework which supports the implementation of the Counter Fraud Strategy	<ul style="list-style-type: none"> National Fraud Initiative 2018/19 	Completion of ongoing data analysis exercise and investigation of payroll outliers	(Q1 ongoing)
E2 - Plans and operations are aligned to the strategy	<ul style="list-style-type: none"> Proactive counter fraud exercises 	Follow up and investigation of data matches identified through National Fraud Initiative 2018/19	Q1 & 2
E3 - Making effective use of initiatives to detect and prevent fraud, such as data matching or intelligence sharing	<ul style="list-style-type: none"> Data analysis 	Delivery of Communications Plan promotion and publicity through various publications and media channels including internal communications of:	Throughout 2019/20
E4 - Providing for independent assurance over fraud risk management, strategy and activities	<ul style="list-style-type: none"> Investigations – whistleblowing referrals 	<ul style="list-style-type: none"> Investigations – fraud fraud prevention measures fraud awareness – updates, risk, red flags, scams etc. 	Q2-3
E5 - Report to the Governing Body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy. Conclusions are featured within the Annual Governance report	<ul style="list-style-type: none"> Applications of sanctions Seeking redress Advice Promotion of counter fraud activity Organisational learning 	<ul style="list-style-type: none"> investigation outcomes policy and expectations 	Q4
* Note also Specific Step – C3	<ul style="list-style-type: none"> Reports to Audit 	Proactive procurement fraud exercises and use of data analytics: <ul style="list-style-type: none"> off contract purchasing purchasing card (P-Card) transactions 	Throughout 2019/20

APPENDICES

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling
	Committee	& scoping for contract monitoring practice audits and preparation for 'Deeper-dive' exercise in 2020/21 Quarterly liaison meetings with Information Governance Teams – proactive cyber security review Risk review and activity planning - fraud in Adult Social care Investigations arising from whistleblowing reports and frauds identified Production of management reports and action plans to aid organisational learning – investigation outcomes and learning points Applications of sanctions – civil, disciplinary and criminal Seeking redress where successful prosecutions are achieved Provision of advice on fraud risks and mitigating controls	Throughout 2019/20 Throughout 2019/20 Throughout 2019/20 Throughout 2019/20 Ongoing Ad-hoc Ongoing & ad-hoc
507 Days (23%) - including 322 days (40%) for investigations			

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling
Contingency	Emerging risks		N/A

APPENDICES

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Scheduling
84 Days (10%)			

Appendix B –STAFF CONTACTS

NAME	GRADE	TELEPHONE	EMAIL
Lucy Pledge	Audit and Risk Manager	01522 553692	Lucy.Pledge@lincolnshire.gov.uk
Dianne Downs	Team Leader-Audit	01522 553682	Dianne.Downs@lincolnshire.gov.uk
Donald Adams	Principal Investigator	01522 553689	Donald.Adams@lincolnshire.gov.uk
Matt Drury	Principal Investigator	01522 548867	Matt.Drury@lincolnshire.gov.uk
Gillian Martin	Principal Investigator	01522 676501	Gillian.Martin@lincolnshire.gov.uk
Ashley Simons	Senior Investigator	01522 552798	Ashley.Simons@lincolnshire.gov.uk

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

Report to:	Audit Committee
Date:	25 March 2019
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 2018/19 is £13m for the Council and £22m for the Pension Fund.

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. Access to make journal entries in the accounts is restricted and year end manual accruals in excess of £100k are subject to separate authorisation.

Orders and Payments – access is restricted through formal schemes of authorisation. Few payments are now made by cheque, but where they are used 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.

Statement of accounts – there are a variety of year end reconciliations and checks. Line managers review officers' work, and the accounts are reviewed by the County Finance Officer.

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 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 have developed a Fraud Risk Register; this is regularly updated and is reported to the Audit Committee.

We also work with other local authorities to share good practice and undertake joint work e.g. raise awareness. This is enhanced by the Lincolnshire Counter Fraud Partnership – reporting directly to the Chief Finance Officer Group and tasked with carrying out county-wide fraud proactive exercises in areas of high fraud risk. We also take account of best practice and emerging fraud issues published by the CIPFA Counter Fraud Centre and in the national strategy: Fighting fraud and Corruption Locally.

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

The difficulties experienced with the introduction of the Council's new financial system (Business World) have been rectified and the financial control environment improved - adequate.

Internal Audit has scheduled follow up testing in key control areas and continues to perform data analytical work.

During 2018 an external firm was engaged to undertake a payments recovery audit dealing with duplicate payments, unrecovered VAT and unrecovered balances on vendor statements. This covered 5 financial years. The results of this work uncovered £555k net (£167k duplicates, £233k VAT and £155k vendor statements).

Access controls and segregation of duties will be reviewed and strengthened as part of Business World rebuild.

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 Council's value statement
- The Constitution, particularly Financial Regulations
- Internal communications through our intranet GEORGE
- Training courses and eLearning

Responses to the 2017 Employee Survey confirmed that staff had been informed of core values and behaviours. The survey also showed that employees were aware of the whistleblowing policy and process.

A Governance Review – culture and values has been undertaken in 2018/19. This showed a strong culture around integrity and values and that the ethical framework for the Council is working effectively.

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
- Fraud Risk Register Reports
- 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- March 2018

No.	Questions for management	Managements response
1	<p>Are you aware of any instances of actual, suspected or alleged fraud, within the authority as a whole during the period 1 April 2017 – 31 March 2019?</p>	<p>Yes – these are received and investigated by our dedicated counter fraud & investigation team. Head of Audit provides fraud updates (esp. material cases) to S151 officer, EA liaison and Audit Committee.</p>
2	<p>Do you suspect fraud may be occurring, within the authority?</p> <ul style="list-style-type: none"> ➤ Have you identified any specific fraud risks within the authority? ➤ Do you have any concerns that there are areas within the authority that are at risk of fraud? ➤ Are there particular locations within the authority where fraud is more likely to occur? 	<p>Yes – we acknowledge and understand our fraud risks – we have a dedicated counter fraud team to respond to these risks.</p> <p>Yes – see below</p> <p>In line with key fraud risks highlighted nationally & consideration of the Council's own fraud risk profile, we believe areas to focus on are:</p> <ul style="list-style-type: none"> ■ Cyber Risks ■ Procurement ■ Payroll ■ Contracts ■ Schools ■ Adult Social Care
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> ➤ If not where are the risk areas? <p style="margin-left: 40px;"> Payroll } Schools and } Corporate AP </p> <ul style="list-style-type: none"> ➤ What other controls are in place to help prevent, deter or detect fraud? 	<p>Improvement plan implemented to strengthen the payroll control environment.</p> <p>Business World rebuild will review internal control design – minimising work arounds and access controls</p> <p>We will continue to review the adequacy of the control framework to ensure compliance where issues such as segregation of duties may become an issue.</p> <ul style="list-style-type: none"> ■ Whistleblowing arrangements ■ Robust CF Policy and zero tolerance stance to fraud ■ Proactive work programme – delivered by CF team (deter/detect) / raise awareness ■ Use of data analytics ■ Due diligence activities in Q4.

No.	Questions for management	Managements response
		<ul style="list-style-type: none"> ■ 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 ■ Targeted awareness campaign (Award winning) – school specific to tackle high risk area.
4	<p>How do you encourage staff to report their concerns about fraud?</p> <p>➤ What concerns about fraud are staff expected to report?</p>	<ul style="list-style-type: none"> ■ Whistleblowing arrangements ■ Counter Fraud Policy / leaflets / Fraud Response Plan ■ 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. <p>All suspicions about fraud, corruption or theft.</p>
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your area of responsibility?</p> <p>➤ How are the risks relating to these posts identified, assessed and managed?</p>	<ul style="list-style-type: none"> ■ Bank and authorised signatories ■ Treasury management e.g. borrowing <p>Policies, procedures – managed by established control framework, overall scheme of delegation, segregation of duties and IT Security processes.</p>
6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>➤ How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No.</p> <p>Requirement for officers to declare any interests / personal relationships (Code of Conduct / Personal Relationships at Work Policy). Management responsible for assessing the risk and taking any control actions i.e. transferring responsibilities / decision making, removing delegated authority, restricting access to information, meetings etc</p> <p>Internal Audit report identified that the policy and procedures around Officer Gifts and Hospitality need improving. Management action being taken.</p>
7	<p>Are you aware of any entries made in the</p>	<p>Yes – Low level fraud cases</p>

No.	Questions for management	Managements response
	<p>accounting records of the authority that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> ➤ Are there particular balances where fraud is more likely to occur? ➤ Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the authority? ➤ Could a false accounting entry escape detection? If so, how? ➤ Are there any external fraud risk factors which are high risk of fraud? 	<p>Investigation ongoing (not material value)</p> <p>Imprest (materiality low) Payroll entries & Procurement Card entries – lack of management information potentially increases the risk of fraud. Follow up payroll audit and data analytics work to scheduled Q4 to review risk.</p> <p>No</p> <p>No</p> <p>No</p>
8	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> ➤ Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets? 	<p>No</p> <p>No</p>

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

Report to:	Audit Committee
Date:	25 March 2019
Subject:	Statement of Accounts 2018/19 – Accounting Policies

Summary:

This report summarises:

- Changes to the Code of Practice on Local Authority Accounting which will be incorporated into the 2018/19 Statement of Accounts for Lincolnshire County Council and the Lincolnshire Pension Fund;
- The broad requirements of the Accounts and Audit Regulations 2015, and confirms that there are no changes to these which would impact on the 2018/19 Statement of Accounts;
- The review of the Council's Accounting Policies for both the main financial statements and the Lincolnshire Pension Fund statements.

Recommendation(s):

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

1. Note the changes required to the Statement of Accounts from the Code of Practice 2018/19;
2. Note that no amendments to the Accounts and Audit Regulations 2015 have been made this year;
3. Approve the Statement of Accounting Policies (Appendix A) to use in preparing the Council's accounts for the financial year ending 31 March 2019.
4. Approve the Statement of Accounting Policies (Appendix B) to use in preparing the Local Government Pension Scheme (LGPS) Pension Fund accounts for the financial year ending 31 March 2019.

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 2018/19 (the Code). This ensures the accounts are prepared using "proper accounting practice". The Council is also required to comply with the Accounts and Audit Regulations 2015 in preparing, submitting for audit and publishing its accounts.

Changes to the Code of Practice on Local Authority Accounting for 2018/19: Lincolnshire County Council

- 1.2 The Code of Practice for 2018/19 has introduced some revisions and clarifications to the accounting requirements for the 2018/19 Statement of Accounts. The main changes are:
- IFRS 9 Financial Instruments has replaced the previous accounting standard on financial instruments. Financial instruments are financial assets and liabilities such as loans, investments and amounts receivable from debtors. The new standard makes amendments to the classification and measurement of financial assets and amends the way that potential losses are measured. The amendments to this standard have resulted in a major piece of work for the Finance team involving re-classifying and measuring the Council's financial assets and evaluating the potential for losses, and this work is on-going. The changes have resulted in a substantial change to the Council's accounting policies for financial instruments, although it is unlikely that there will be a material impact on the Council's financial position as a result.
 - IFRS 15 Revenue from Contracts with Customers requires the Council to recognise revenue income in such a way that it represents the transfer of the promised goods and services to the service recipients (customer) in an amount that reflects the consideration to which the authority expects to be entitled in exchange for goods or services. This change will not have a significant impact on the Council's accounts.
 - Additional disclosures to enable the changes in liabilities arising from financing activities as shown in the cash flow statement to be evaluated.
 - Simplified disclosure requirements for debtors and creditors removing the requirement to analyse balances across public sector bodies.

Changes to the Code of Practice on Local Authority Accounting for 2018/19: Lincolnshire Pension Fund

- 1.3 The Code of Practice for 2018/19 has also introduced some revisions and clarifications to the accounting requirements for the 2018/19 Pension Fund Statement of Accounts. The main changes are:

- New financial instrument classifications from IFRS 9:
 - recognition of expected loss allowances for financial assets at amortised cost, fair value through other comprehensive income (FVOCI) assets, lease receivables, contract assets, loan commitments and financial guarantees; and
 - the option of additional disclosures for hedge accounting.

These changes in practice have a limited impact for the Lincolnshire Pension Fund because most assets and liabilities held by the pension fund are already classed as fair value through profit and loss (FVTPL) and there is likely to be limited need to recognise expected credit losses.

- Deletion of the analyses of debtors and creditors across public sector bodies.
- Separate analysis of any gains and losses arising from the de-recognition of assets held at amortised cost;
- Creation of a long-term debtor to reflect reimbursement arrangements put in place at many local authority pension funds for the lifetime tax allowance introduced in 2016.

The 2018/19 Pension Fund Accounts will also reflect the introduction of Local Government Pension Scheme (LGPS) asset pools in its accounting policies and financial statements.

1.4 There will be some changes in accounting standards in the future, which may impact on the Council in the 2019/20 accounts. The Chartered Institute of Public Finance and Accountancy (CIPFA) is due to publish a bulletin which will interpret any changes in accounting standards for the public sector. Once this is available, impacts will be assessed and will be acknowledged in a disclosure note in the 2018/19 accounts as forthcoming changes to the Code of Practice.

Accounts and Audit Regulations 2015

1.5 The Accounts and Audit Regulations 2015 set out the requirements for local authorities to prepare an annual statement of accounts, to publish such accounts and to have those accounts audited. The regulations also allow for the statement of accounts to be inspected by members of the public within certain time parameters.

1.6 Last year, a revised, shortened timetable for preparing, auditing and publishing accounts was implemented. Although this was a significant challenge for the Council, the statutory deadlines were all achieved with the accounts receiving an unqualified audit opinion.

1.7 There are no further amendments to these regulations and therefore no new impacts on the accounts for 2018/19.

Statement of Accounting Policies

1.8 An important section of the published Accounts is the statement of accounting policies. This summarises the rules and codes of practice used to prepare the accounts, together with any estimation techniques adopted. The policies for the Council's main financial statements have been reviewed and are attached at **Appendix A** for consideration and approval by this Committee. The policies for the Council's LGPS Pension Fund financial statements have been reviewed and are attached at **Appendix B** for consideration and approval by this Committee.

1.9 A number of changes have been made to the accounting policies for 2018/19 which are marked in ***bold italics*** in **Appendix A**, these include:

- Improvements to the narrative for the depreciation policy for non-current assets to provide greater clarity to users of the accounts;
- IFRS 15 Revenue from Contracts with Customers: Clarification is provided to confirm that this was considered by the Council and an appropriate policy adopted;
- IFRS 9 Financial Instruments; changes to policies to reflect the new requirements of the Code;
- An increase to the materiality limit for preparing group accounts to £20.000m from £10.000m to represent 2% of gross expenditure of 2017/18 accounts and be broadly similar to the £22.098m overall materiality threshold set by our External Auditor, Mazars LLP.
- Additional information or amendment to some policies in order to provide clarity, as advised by our External Auditor, Mazars LLP following a review of the 2017/18 accounts.

1.10 There is just one change to the Lincolnshire Pension Fund accounting policies for 2018/19. This has been marked with ***bold italics*** in **Appendix B**. This is the addition of an accounting policy to reflect the introduction of the LGPS asset pools. The Lincolnshire Pension Fund is part of the Border to Coast Pensions Partnership. During 2018/19 the fund purchased A and B Shares in the company. The accounting policy sets out how these shares will be accounted for in the 2018/19 statement of accounts. During 2019/20 the fund will revisit the accounting treatment after the company has been trading for over twelve months and review the valuation approach used.

Conclusion

2.1 The amended accounting requirements and disclosures as required by the Code of Practice will be incorporated into the Statement of Accounts for 2018/19.

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

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 for main financial statements 2018/19
Appendix B	Statement of Accounting Policies for LGPS Pension Fund financial statements 2018/19

Background Papers

Document title	Where the document can be viewed
CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19	Executive Director of Finance and Public Protection

This report was written by David Forbes, who can be contacted on 01522 553642 david.forbes@lincolnshire.gov.uk .

Lincolnshire County Council - Statement of Accounting Policies

1. General Principles and Concepts

The Statement of Accounts summarises the Council's transactions for the financial year ~~2017-18~~ **2018-19** and the position at the year-end 31 March ~~2018~~ **2019**. 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 ~~2017-18~~ **2018-19** and Service Reporting Code of Practice ~~2017-18~~ **2018-19**, supported by International Financial Reporting Standards and statutory guidance.

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

2. Changes in Accounting Policies

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

3. Prior period adjustments – estimates and errors

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

The following disclosures will be made:

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

- the amount of the correction at the beginning of the earliest prior period presented.

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

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

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

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

Classification

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

Operational Assets:

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

Non-Operational Assets:

- Surplus Assets; and
- Assets Under Construction.

a) Initial Recognition

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

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

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

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

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

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

b) Measurement after Recognition – Valuation Approach

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

The code requires the following valuation approaches to be adopted:

Operational Assets

- Land and property assets shall be measured at current value for their service potential, 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 **because** the **type of** 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 **do not** 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. This is the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Council use the assumptions that the market participants, ie buyers and sellers in the principal or most advantageous market, would use when pricing an asset or liability under current market conditions, including assumption about risk. Therefore, the Council's reasons for holding a surplus asset are not relevant when measuring its fair value.
- 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, **currently** varying from –
 - 1-3 years for capital pothole filling;
 - **6 to 12 years for carriageway surfacing and slurry sealing;**
 - **20 years for street furniture;**
 - **40 years for street lighting, kerbs and drains;**
 - **60 years for major road structures;**
 - **Up** to 120 years for bridge structures.

Depreciation is charged 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, **currently these varying depending on the nature of the asset between from 3 years up to and ~~15~~ 25 years for solar panels**. 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 **estimated** 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 the year the asset becomes available for use. The charge is for 6 months in the first year, for twelve months thereafter and ceases

when the asset has been derecognised. There is a full year's depreciation in the year of disposal.

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, **subject to the flexibility described in the next paragraph**. 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 can also** be **fully** used to fund **revenue** 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 Local Government Finance Settlement for 2018/19 announced a continuation of these rules for a further 3 financial years that begin on 1 April 2019, 2020 and 2021. ***The Council may use this temporary flexibility to fund relevant revenue expenditure.***

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

f) Impairment of non-Current Assets

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

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

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

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

5. Intangible Assets

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

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

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

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

c) Amortisation. The carrying value of intangible assets with a finite life is amortised on a straight line basis over its useful life. Amortisation begins when the asset is available for use. The charge is for 6 months in the first year, for twelve months thereafter and ceases at the date that the asset is derecognised. There is a full year's amortisation in the year of disposal. 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~~ **10** 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 ***using the current market conditions and recent sales prices and other relevant information for similar assets in the local area.***

The fair value of Investment Property held under a lease, is the lease interest in the asset. Investment Properties are subject to annual revaluations.

The fair value measurement of the Council's Investment Properties is categorised as Level 2 on the fair value hierarchy. It uses the market value approach for the County Farms and the term and reversion ***method*** for the other properties.

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. ***This is the capital expenditure on enhancements recognised since records began*** 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, ***however the Council may use the flexibility to apply capital receipts to fund certain types of revenue expenditure as described in policy 4e).***

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 **a minimum** 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.

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~~ **IAS 40** 'Investment Properties', any lease which is assessed to be an Investment Property will be treated as if it was a finance lease. The fair value of the lease interest is used for the asset recognised. Separate measurement of land and buildings elements is not required when the leases are classified as an Investment Property.

16. Government Grants and Contributions

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

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

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

Capital Grants and Contributions (non-current assets)

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

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

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

b) Capital grants where the conditions have not been met at the Balance Sheet date. At the Balance Sheet date the grant will be recognised as a Capital Grant Receipt in Advance in the liabilities section of the Balance Sheet. When the conditions have been met, the grant will be recognised as income in the

Comprehensive Income and Expenditure Statement and the appropriate statutory accounting requirements for capital grants applied.

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

Revenue Government Grants and Contributions

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

Specific revenue grants are included in the specific service expenditure accounts together with the service expenditure to which they relate. Grants which cover general expenditure (e.g. Revenue Support Grant) are credited to the Taxation and Non-specific Grant Income in 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 £25k for individual revenue items and £50k 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 £25k for individual revenue items and £50k 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 ***together with a review of all material debts***. 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.
- ***All debts over £25k which have been outstanding for more than 30 days will be reviewed on a case by case basis and an assessment will be made on whether a provision should be made for these debts in accordance with IFRS 9 Financial Instruments.***

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 £250k.

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~~ **disclosing** Contingent Liabilities of £500k.

24. Contingent Assets

A contingent asset is where there is a possible transfer **of** 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~~ **disclosing** 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 business rates**) where it is assumed there is no difference between the delivery and payment date.

The Council has revenue from contracts with service recipients, whether for services or provision of goods. This is recognised when the goods or services are transferred to the service recipient in accordance with the performance obligation in the contract. Some revenue is recognised ahead of service or provision of goods but is considered to be not materially significant for the Council and in some cases could be considered as non-exchange.

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.

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 acquired and/or 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 ***unless this is not recoverable from HM Revenue and Customs***. 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) Usable 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;
- ***Financial Instruments Revaluation Reserve;***
- 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 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)~~ **Department of Health and Social Care (DHSC)**. 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. The employer's contributions payable to the National Health Service Pension Scheme in the year are treated as expenditure in the Wellbeing and **Children's Children are Safe and Healthy** service lines 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)~~ **Ministry of Housing Communities and Local Government**. 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 2.6% to 2.7% - **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 *in Other Budgets*;
 - 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; and
 - 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- 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 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. ***Where a school transfers to Academy status and has signed a long term (125 year) lease the school is removed from the Council's Balance Sheet.***

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

Assets and Liabilities

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

Reserves

The Council maintains specific earmarked reserves for schools balances. At year end balances from dedicated schools 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 **£10.000m** **£20.000m** 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 ***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 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. ***Regulations state that the period to spread discounts is limited to a minimum period equal to the outstanding term on the replaced loan or 10 years if this is shorter. Premiums may be spread over the longer of the outstanding term on replaced loan or the term of the replacement loans or a shorter period if preferred. The Council will spread premiums over the term that was remaining on the loan replaced and spread discounts in line with regulation. When matching premium and***

~~discounts together from a re-scheduling exercise, 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 Council's policy is to spread the gain and loss over a ten year period or the term that was remaining on the loan replaced if greater than 10 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.

The Council receives interest free funding from Salix Finance as part of a revolving fund to finance energy saving projects (Soft Loans Receivables). The benefit of a loan to the Council at a below-market rate of interest is treated as a grant or contribution receivable within the Comprehensive Income and Expenditure Statement. The benefit is measured as a difference between the cash actually advanced to the Council and the fair value of the loan on recognition, discounted at a comparable market rate of interest for a loan. The amortised cost of the loan in the Balance Sheet is reduced as the benefit has been stripped away. The reconciliation of amounts debited and credited to the Comprehensive and Income Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

b) Financial Assets

Financial Assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- *Amortised Cost*
- *Fair Value Through Profit or Loss (FVPL); and*
- *Fair Value Through Other Comprehensive Income (FVOCI)*

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument). These types of asset will be measured at fair value.

Financial Assets Measured at Amortised Cost

Financial Assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and 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 most of the financial assets held by the Council, 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.

The following financial assets held by the Council are measured at amortised cost using an effective interest rate that takes account of other considerations attributable to the asset over its lifetime such as premiums paid or interest forgone. Interest payable in the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement will then be recognised on a smoothing effective interest rate basis over the life of the loan.

- **Secondary Certificates of Deposit and Bonds - are purchased at an amount different to par and hence a price premium is usually incurred on purchase. The price of the instrument is the amortised cost at initial measurement (its fair value), debited to Investments on the Balance Sheet. This price premium is factored into the cashflows of the instrument over its life that will result in a smoothing effective interest rate that when discounted will bring back cashflows to the price paid (initial measurement at fair value).**

Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure line at a marginally lower effective rate of interest than the rate receivable from the Instrument, with the difference serving to decrease the amortised cost of the loan in the Balance Sheet over its life.

Transaction costs paid to a custodian for purchasing these instruments are deemed as immaterial and hence charged directly to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement when incurred, not included within the amortised cost calculation of the instrument.

- **Soft Loans – The Council can make loans to third parties at less than market rates (soft loans) for 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 foregone over the life of the**

instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the third party recipients of the loans, 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 Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Council has set a £50k de minimis limit to the value of soft loans or the loss calculated by 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.

Expected Credit Loss Model – for Assets Measured at Amortised Cost

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables (debtors) that are more than 30 days past the due date, held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Where the counterparty for a financial asset is central government or a local authority for which relevant statutory provisions prevent default, then no loss allowance is required or recognised.

Impairment losses will be charged to the Financing and Investment Income and Expenditure line in the Surplus or Deficit on the Provision of Services and credited to the Financial Assets at Amortised Cost Loss Allowance.

The Council has set a de minimis level of £25k to the resultant impairment loss for financial assets at amortised cost, below which the impairment is deemed immaterial and not recognised.

The Council has a portfolio of a different types of loans measured at amortised cost. Where possible losses have been assessed on these loans on a collective basis as the Council does not have reasonable and supportable information that is available without undue cost or effort to support the measurement of expected losses on an individual instrument basis.

The Council has grouped the loans into the following groups for assessing loss allowances:

- **Group 1 – treasury investments governed by the Council's Annual Investment Strategy for Treasury Investments. These are loans made to highly credit rated counterparties under the credit analysis followed within the Investment Strategy. As such they are deemed low risk, so the 12 month Expected Credit Loss model is used. The Historical Default Table issued by Credit Rating Agencies and provided by the Council's Treasury Advisors is used to calculate the expected 12 month impairment losses.**
- **Group 2 – loans or soft loans to third parties for Service Reasons. These types of loans tend to be higher risk as credit worthiness is often not the prime consideration in making the loan. They will be assessed on an individual basis taking into consideration external credit ratings, economic conditions impacting the third party, the current financial position and financial forecasts of the third party and any history of defaults or extended credit terms. Due to the high risk nature, the lifetime Expected Credit Loss model would normally be followed for these loans. See *Note below.**
- **Group 3 – loans to Council owned Companies for Service Reasons. These types of loans tend to be higher risk as credit worthiness is often not the prime consideration in making the loan. They will be assessed on an individual basis taking into consideration external credit ratings, economic conditions impacting the company, the current financial position and financial forecasts of company and any history of defaults or extended credit terms. Due to the high risk nature, the lifetime Expected Credit Loss model would normally be followed for these loans.**

***Note**

Where the Council makes loans to companies in financial difficulties to ensure continuation of vital service fifty percent of the loan is thus deemed credit impaired on origination. This will mean that:

- *as lifetime expected credit losses are taken into account in the cash flows used for calculating the effective interest rate, no loss allowance is needed on initial recognition*
- *a loss allowance will then be built up on the basis of the cumulative change in lifetime expected credit losses since initial recognition*
- *the annual impairment gain or loss will be the change in lifetime expected credit losses over the year.*

Financial Assets Measured at Fair Value through Profit or Loss (FVPL)

Financial assets are measured at FVPL where they fail to meet the business model and principal or interest tests of the other two classifications. For the Council, financial assets under this category meet the business model of collecting contractual cash flows, but the cash flows are not solely payments of principal or interest, for example they include dividend payments.

Financial assets held by the Council that fall into this category include Constant Net Asset Value (CNAV) and Low Volatility Net Asset Value (LVNAV) Money Market Funds. These funds are pooled investment funds that invest in short-term assets that aim to offer returns in line with money market rates and preserve the value of investments. They are instant access, whereby units of the fund are bought and sold and dividends paid in accordance with daily yields returned, set at the end of each day. The Net Asset Value of these funds only vary by an insignificant amount due to changing values of the assets in the fund, therefore generally the price of the fund (fair value) will equal the carrying amount of units held.

Financial assets measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The Council has set a de minimis level to the adjustment to fair value of £50k for financial assets measured at fair value, below which the change in fair value will not be recognised and the asset will be held on the Balance Sheet at its carrying value.

Statutory provision as defined in SI 2018/1207 means that until 31 March 2023, English Local Authorities are prohibited from charging to a revenue account fair value gains or losses, unless the gain or loss relates to impairment or the sale of the asset. Instead that amount is charged to an account established solely for the purpose of recognising fair value gains and losses. This statutory override will not be applicable for CNAV/LVNAV Money Market funds as gains and losses to fair value will be zero and will not impact on the revenue account.

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.

Fair value measurement for Fair Value through Profit or Loss (FVPL)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This fair value measurement assumes that the following takes place either in the principal market for the asset or liability or in the absence of a principal market, the most advantageous market for the asset or liability. When measuring the fair value, the Council would use the assumptions of market participants when pricing the asset or liability whilst acting in their economic best interest. On fair value measurement, the Council takes into account the market participant's ability to generate economic benefit by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses the most appropriate valuation techniques for the asset, maximising the use of relevant observable inputs and minimising unobservable inputs. The fair value measurement of the financial assets is therefore based on the following techniques:

- **instruments with quoted market prices – the market price**
- **other instruments with fixed and determinable payments – discounted cash flow analysis.**

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

Expected Credit Loss Model –For Assets Measured at Fair Value through Profit and Loss

The impairment requirements do not apply to financial assets classified as 'fair value through profit or loss', as current market prices are considered to be an appropriate reflection of credit risk, with all movements in fair value (including those relation to credit risk) impacting on the carrying amount

being posted to the Surplus or Deficit on the Provision of Services as they arise.

Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

Financial assets are measured at FVOCI when the business model for holding the asset includes collecting contractual cash flows and selling assets. The Council does not hold any financial assets that meet this definition.

In line with the Code however, the Council has decided to designate some small equity holdings in companies held for service reasons to the category of FVOCI instead of FVPL. This designation is irrevocable and deemed to be a reliable accounting policy for these financial assets, based on the following reasons:

- The holdings are equity instruments as defined by the Code to exclude puttable shares (e.g., those where the issuer has a contractual obligation to exchange the shares for cash if the holder exercises an option for the return of their investment).**
- They naturally fall into the FVPL classification of investments.**
- The shares are held for a clear service benefit and not held for trading.**
- Future gains or losses are expected to be insubstantial.**

Assets designated at FVOCI will be carried in the Balance Sheet at Fair Value, with dividends credited to the Surplus or Deficit on the Provision of Services when the right for the Council to receive the payment is established. Movements in fair value will be credited to the Other Income and Expenditure Account and released to the General Fund. The impact on the General Fund will be removed through Movement in Reserves Statement to the Financial Instruments Revaluation Reserve. Gains or losses will be charged directly to the General Fund via the Financing and Investment Income and Expenditure in the Surplus or Deficit on the Provision of Services.

The Council has set a de minimis level to the adjustment to fair value of £50k for financial assets measured at fair value, below which the change in fair value will not be recognised and the asset will be held on the Balance sheet at its carrying value.

Fair value measurement for Fair Value through Other Comprehensive Income (FVOCI)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This fair value measurement assumes that the

following takes place either in the principal market for the asset or liability or in the absence of a principal market, the most advantageous market for the asset or liability. When measuring the fair value, the Council would use the assumptions of market participants when pricing the asset or liability whilst acting in their economic best interest. On fair value measurement, the Council takes into account the market participant's ability to generate economic benefit by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses the most appropriate valuation techniques for the asset, maximising the use of relevant observable inputs and minimising unobservable inputs. The fair value measurement of the financial assets is therefore based on the following techniques:

- **instruments with quoted market prices – the market price**
- **other instruments with fixed and determinable payments – discounted cash flow analysis.**

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

Expected Credit Loss Model – For Assets Measured at Fair Value through Other Comprehensive Income

The Council recognises expected credit losses on financial assets measured at FVOCI either on a 12-month or lifetime basis depending on an individual assessment of the credit risk of each financial asset as follows:

Has credit risk not increased significantly since initial recognition?

- **No: 12 month credit loss model.**
- **Yes: lifetime credit loss model.**
- **No information available to assess: lifetime credit loss model.**

Consideration will be made to external credit ratings, economic conditions impacting the company, the current financial position and financial forecasts of company and any history of defaults or extended credit terms when assessing the credit risk of these assets.

Impairment losses will be charged to Other Comprehensive Income and Expenditure and credited to the Financial Instruments Revaluation Reserve.

Where financial assets have been designated into the FVOCI category they are outside the scope of impairment for the same reasons that FVPL assets are.

The Council has set a de minimis level of £25k to the resultant impairment loss for financial assets at FVOCI, below which the impairment is deemed immaterial and not recognised.

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.~~

39. Fair Value Measurement

Some of the Council's non-financial assets, such as surplus assets and investment properties and some of its financial instruments, are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the following takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

When measuring the fair value, the Council would use the assumptions of market participants when pricing the asset or liability whilst acting in their economic best interest.

On fair value measurement, the Council takes into account the market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses the appropriate valuation techniques appropriate for the asset, maximising the use of relevant observable inputs and minimising unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, as follows:

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

APPENDIX B

Lincolnshire Pension Fund – Significant Accounting Policies

Fund account - revenue recognition

a. Contributions income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contributions rates are set in accordance with LGPS regulations using common percentage rates for all schemes which rise according to pensionable pay; and
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the day on which they are payable under the schedule of contributions set by the Fund actuary or on receipt if earlier than due date.

Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose.

Any amount due in year but unpaid will be classed as a current financial asset.

b. Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations 2013. Transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

c. Investment Income

i) Interest income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any

amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iv) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account - expense items

d. Benefits payable

Pensions and lump sum benefits payable are included in the accounts at the time of payment.

e. Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

f. Management expenses

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance: Accounting for Local Government Pension Scheme Management Expenses (2016), using the heading shown below. All items of expenditure are charged to the fund on an accruals basis.

i) Administrative expenses

All staff costs of the pensions administration team are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

ii) Oversight and Governance

All staff costs associated with the governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

iii) Investment management expenses

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments.

Fees for the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase and decrease as the value of the investments change.

In addition, the Fund has negotiated with the following managers that an element of their fee be performance related:

- Invesco Asset Management - Global Equities (ex UK)
- Schroder Investment Management - Global Equities
- Threadneedle Asset Management - Global Equities
- Morgan Stanley Investment Management Ltd - Alternative Investments

Where an investment manager's fee invoice has not been received by the financial year end, an estimate based upon the market value of their mandate is used for inclusion in the Fund accounts.

Fees on investments where the cost is deducted at source have been included within investment expenses and an adjustment made to the change in market value of investments.

Net assets statement

g. Financial assets

The investment in the LGPS asset pool, Border to Coast Pensions Partnership, is valued at transaction price i.e. cost. The pool's main trading company only became licensed to trade on 2 July 2018 and they do not have any reliable trading results or profit forecasts available yet. Consequently, the pension fund's view is that the market value of this investment at 31 March 2019 cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value.

All other investment assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Pension Fund Note 15). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

h. Foreign currency transactions

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. The exchange rates used at 31 March 2019 are shown in Pension Fund Note 30.

i. Derivatives

The Fund uses derivative financial instruments to manage its exposure to certain risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

j. Cash and cash equivalents

Cash comprises of cash in hand, deposits and includes amounts held by external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimum risk of changes in value.

k. Financial liabilities

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised cost are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

l. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (see Pension Fund Note 19).

m. Additional voluntary contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see Pension Fund Note 22).

n. Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes (see Pension Fund Note 25 and 26).

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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:	25 March 2019
Subject:	Changes to the Council's Contract Regulations

Summary:

The report proposes changes to the Contract Regulations in the Council's Constitution, firstly to increase the threshold above which the Council must seek competitive quotes and secondly to amend the thresholds governing who can take decisions to approve exceptions to the Contract Regulations.

The Audit Committee, in accordance with its terms of reference, is asked to consider the proposed changes and recommend to Council meeting for adoption.

Recommendation(s):

That the Audit Committee recommends that the Council, at its meeting on 17 May 2019, approves the amendments to the Contract Regulations forming part of the Constitution, as set out in the tracked changes at Appendix A to the Report.

Background

- 1.1 The Contract Regulations are part of the Council's internal governance mechanisms adopted to deliver efficient and effective administration. Below the EU thresholds set out in paragraph 1.9, the Council can generally lawfully let a contract without prior advertisement or competition. There can be exceptions to this but they are limited. The Contract Regulations set out the contract award processes that the Council has itself adopted in cases below the EU threshold and identifies the decision makers in that process.
- 1.2 Since 2016 the Council's Contract Regulations have required officers to request three written quotations based on a Request for Quotation ("RFQ") document with appropriate contract terms and conditions for all contracts over £5,000. Prior to 2016 direct approaches were permitted to a single supplier for anything below £10,000.

- 1.3 Direct approaches to a single supplier are popular with the market. This is particularly the case for small and medium sized enterprises as the reduction in official procedures makes the Council's business more available to them. Small and medium size enterprises (SMEs) form a significant proportion of the Lincolnshire economy and therefore the establishment and growth of SMEs is an important consideration for the Council. One way in which such growth can be encouraged is to enable SMEs more easily to carry out work for the Council.
- 1.4 Although generally competition can lead to increased value for money and potential savings for the Council the level of savings on contracts below £10,000 is not significant and may well be outweighed by the officer time spent in putting together RFQ documents, seeking and evaluating quotes. It is felt that the time saved could be better utilised on higher value activity such as improved contract and supplier management or in consideration of how innovation might streamline or improve services.
- 1.5 When the threshold was reduced in 2016 there were also concerns that this additional administrative burden on the Council and schools would mean non-compliance would simply increase or that the low value would act as an incentive to break the purchase of goods/services up to reduce the value under £5,000, and then have further purchases via a purchase order rather than going through the process of gaining a number of quotes or an exception report. Whilst it is difficult to know whether in fact this has happened there is certainly potential for it.
- 1.6 A review of the thresholds operated by other authorities from their websites shows the Lincolnshire Districts have a threshold of £5,000 with the exception of South Kesteven District Council which is £10,000. South Yorkshire County Council has a threshold of £25,000 and Derby City Council £10,000.
- 1.7 On the basis of the potential to improve the participation of SMEs in carrying out work for the Council and to release officer capacity it is proposed that the Low Value Procurement Threshold set out in paragraph 3.3 of the Contract Regulations In Appendix A below which officers may make a direct approach to a single supplier without requesting competitive quotations is increased from £5,000 to £10,000.
- 1.8 It is further proposed that the Medium Value Procurement upper threshold above which purchases will require four rather than three written quotations based on a Request for Quotation ("RFQ ") document with appropriate contract terms and conditions is increased from £15,000 to £25,000. This is primarily to encourage SMEs to participate by increasing their chances of success.
- 1.9 As indicated the Council's Contract Regulations set out the contract award process that must be followed and identify the appropriate decision makers for contracts below the EU thresholds set out below:

- £181,302 for Non-Health and Social Care Services Contracts.
- £615,278 for Health and Social Care Services Contracts.
- £4,551,413 for Works Contracts.

1.10 The Contract Regulations recognise that in exceptional cases an alternative route to the usual contract award process might be appropriate. Currently approval to follow an exception route is obtained from;

- a) Chief Officers where the contract has an Estimated Total Contract Value between £10,001 and £75,000.
- b) Executive Councillors for contracts with an Estimated Total Contract Value between £75,001 and £250,000.
- c) Executive for contracts with an Estimated Total Contract Value over £250,000.

The above thresholds have been the same for many years and have not increased in line with increases in prices.

1.11 Under the proposed new Procurement Strategy which will be considered by Overview and Scrutiny Management Board and the Executive in April and May 2019 respectively, as part of the efficiency approach, there is a commitment to reduce the number of bespoke procurements by increasing the use of Framework Agreements and exploring greater use of direct awards where appropriate and lawful.

1.12 To facilitate that and to update the thresholds it is proposed that:

- a) Chief Officer approval would be required to an exception route for contracts valued at up to £250,000 subject to the Chief Officer consulting with their Executive Councillor on all exceptions where the contract value exceeds £75,000.
- b) Executive Councillor' approval would be required to an exception route for contracts valued between £250,000 and the Health and Social Care Services Contracts EU Threshold as varied from time to time (currently £615,278).
- c) Executive approval would be required to an exception route for contracts valued at over the Health and Social Care Services Contracts EU Threshold as varied from time to time (currently £615,278).

1.13 This would speed up decision making and streamline the process, releasing resource. The officer decisions in particular (i.e. those under £250,000) would not be key decisions and therefore would not be required to be entered on the forward plan. Nor would they be subject to call in. Although this may lead to less scrutiny, it would enable the Council to respond more quickly. This would be of particular value for Social Care Services Contracts where central government money can be made available on the understanding that it must be spent quickly for example to alleviate winter pressures.

1.14 These extensions are consistent with Chief Officers' general powers to undertake the day to day management and control of their Directorate/office including the power to place contracts and are commensurate with the

values they expend doing so. Member oversight would be maintained by the requirement for Chief Officers to consult with their Executive Councillor on contracts worth more than £75,000. For these reasons it is not felt that there are any increased financial or other risks to the Council should the changes be agreed.

3. Conclusion

The proposals are put forward because they will streamline the procurement process, speeding it up at the same time as saving resource. The proposals to increase the direct award threshold and to only require three quotes for purchases between £15,000 and £25,000 will benefit Lincolnshire's SMEs.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

Set out in the body of the report

Appendices

These are listed below and attached at the back of the report	
Appendix A	Proposed changes to the Contract Regulations

Background Papers

Document title	Where the document can be viewed
Council's Contract Regulations in Part 4 of the Constitution	Democratic Services

This report was written by Sophie Reeve, who can be contacted on 01522 552578 or sophie.reeve@lincolnshire.gov.uk .

Contract Regulations

3.3 Procurement Processes

For quotations below £25,000 there is a requirement to use a local supplier where this gives value for money.

Low Value Procurement (Below ~~£105~~,000)

For these purchases direct approach to a single supplier is acceptable, competitive quotations are not required. The purchasing officer should be satisfied that the costs are reasonable. It is expected that ESPO will be considered for the majority of this type of purchase.

A local supplier should be used where appropriate. Where a local supplier is not used the reason must be recorded in writing.

Medium Value Procurement (~~£105~~,000 to ~~£245~~,000)

For contracts or orders of medium value at least three written quotations should be sought based on a Request For Quotations document with appropriate terms and conditions. Where applicable, quotations should be sought from contractors on the Council's Approved List of Contractors. If an approved list is not available appropriate suppliers should be selected in line with the guidance provided by the Commercial team. Where it is not possible to obtain three competitive quotes the officer must keep a record of the reasons for this.

At least one of the quotations must be from a local supplier and a local supplier should be used where they provide the most economically advantageous offer. Where a local supplier is not used the reason must be recorded in writing.

High Medium Value Procurement (~~£2545~~,001 to the EU threshold for Services)

Where EU Treaty principles require advertisement (in accordance with the "EU Commission Interpretative Communication on the Community law applicable to contract awards not or not fully subject to the provisions of the Public Procurement Directives") the contract must be advertised in Source Lincolnshire and Contracts Finder.

Otherwise unless a Chief Officer or his or her representative determines that such advertisement is appropriate to achieve value for money, high medium value contracts will be awarded without advertisement.

Instead, at least four written quotations should be sought based on a Request For Quotations document with appropriate terms and conditions.

At least two of the quotations must be from local suppliers.

Where applicable, quotations should be sought from contractors on the Council's Approved List of Contractors. Where it is not possible to obtain four competitive quotes the officer must keep a record of the reasons for this.

High Value Procurement (Above the OJEU Threshold for Services)

Contracts for services and supplies of a high value must be procured in accordance with EU procurement law as such contracts will be covered by the procurement regime.

For works contracts of a high value but below the EU threshold for works at least five tenders should be invited. Invitation may be by direct invitation from a select list if the EU Treaty principles do not require advertisement.

If EU Treaty principles require advertisement tenders shall be sought by

- open competitive tendering via public advertisement (Contracts Finder and Source Lincolnshire) supplemented by advertisement in newspapers and journals if appropriate; or
- a Framework let in accordance with EU legal requirements.

Where it is not possible to obtain five competitive tenders the officer must keep a record of the reasons for this.

High Value Procurement subject to European Regulations

The EU Regulations shall be followed for all procurements subject to them. This may include the use of a Framework let in accordance with EU legal requirements. Contract and Procurement Procedure Rules provide further guidance.

3.5 Exceptions to Normal Routes

In exceptional cases where a Chief Officer believes an alternative route to the four normal routes is required, (subject to the miscellaneous provisions in this document), the Chief Officer should comply with the requirements of this clause. For contracts with an estimated value above the Health and Social Care Services Contracts EU Threshold as varied from time to time (currently of £250,000 615,278) -and above, the proposal should be taken to the Executive for approval prior to the contract being entered into. For contracts with a value of between £75,001 and £250,000 and the Health and Social Care Services Contracts EU Threshold as varied from time to time (currently £615,278) the proposal should be taken to the relevant Executive Councillor for formal approval prior to the contract being entered into. For contracts with a value between £10,001 and £75,000 249,999 approval in writing can be given by the Chief Officer subject to the Chief Officer consulting with the relevant Executive Councillor on all exceptions where the contract value exceeds £75,000. The Chief Officer shall keep a register of contracts that they have approved as exceptions and the reasons why.

If public procurement (EU thresholds) rules apply this shall limit the ability to let contracts other than through competition. In this case advice should be sought from the Commercial team or Legal Services. Regardless of whether EU Regulations permit the use of direct negotiation, exception must be sought to the normal rules set out in these Contract Regulations in accordance with this section.

Regulatory and Other Committee

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

Report to:	Audit Committee
Date:	25 March 2019
Subject:	Internal Audit Progress Report

Summary:

The purpose of this report is to:

- Provide details of the audit work during the period 11th January 2019 to 12th March 2019
- Advise on progress with the 2018/19 plan
- Raise any other matters that may be relevant to the Audit Committee role

Recommendation(s):

That the Audit Committee note the outcomes of Internal Audit's work and identify any actions that need to be taken

Background

This paper covers the period 11th January 2019 to 12th March 2019 and reports on progress made against the 2018/19 audit plan.

Conclusion

During the period we have completed 12 audits and have a further 7 at draft report stage.

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	Internal Audit Progress Report

Background Papers

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

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

Internal Audit Progress Report



Image Courtesy of the Office of UKPuzzle Club

Lincolnshire County Council March 2019

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Assurance Definitions
Details of Limited / Low Assurances
Details of Overdue Actions
2018/19 Audit Plan to Date

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

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period 11th January 2019 to 12th March 2019
- Advise on progress with the 2018/19 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

During the period we have completed thirteen audits:

- 6 final assurance reports
- 3 consultancy reports
- 4 School audit reports

Assurances

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

High Assurance:

- Health and Safety
- Pension Admin

Substantial Assurance:

- Interests, Gifts and Hospitality Registers (Members)

Limited Assurance:

- Cyber Security
- Tax Compliance Employee Expenses and Benefits
- Interests, Gifts and Hospitality Registers (Officers)

Consultancy Report

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

- Local Enterprise Partnership
- Heritage Phase 2
- Governance Review – Culture and Values

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.



High Assurance

The scope of the audit was to assess the adequacy of arrangements in place, including:

- **Policy** – Effective health and safety policies set a clear direction for the Council to follow
- **Organisation** – An effective management structure and arrangements are in place for delivering the policy
- **Reviewing Performance** – The Council learns from all relevant experience and applies the lessons to the whole system to improve risk control.

Health and Safety

It was identified that a strong team was in place with effective policies, although a review schedule needs to be established for these. Following the move back to an internal service, substantial changes and developments have been made to ensure the efficiency of the service provision and Health and Safety as a whole across this authority. This was clearly shown across the course of the audit.

Note that this audit was completed by a neighbouring Authority to ensure a independent and objective opinion.

West Yorkshire Pension Fund, who deliver the Council's Pension Administration, has engaged an Internal Audit service. This is provide by Bradford Metropolitan District Council (MDC) who deliver an annual audit plan, this was 270 days in 2018/19.

We reviewed the outcomes of the pension administration audits for the end of 2017/18 and 2018/19. They are:

- New Pensions and Lump Sums – Deferred Pensions = Effective
- Reimbursement of Agency payments = Mostly Effective
- LGS Contributions = Excellent
- New Pensions and Lump Sums – Ill Health Pensions = Good
- New Pensions and Lump Sums – Fire Service Pensions = Good

Pensions Admin

Completed audits are reported to the WYPF Governance and Audit Committee, and the Pension Boards. Agreed actions are tracked and the Audit Manager confirmed that all have been implemented within agreed timescales.

Substantial Assurance

Interests, Gifts and Hospitality Registers (Members)

We found the Member Code generally being met but recommendations for better practice and increased transparency have been identified. We have given a Substantial assurance rating

Limited Assurance

Cyber Security

The National Cyber Security Centre has identified 10 steps for cyber security to help organisations manage cyber risks. A further 2 steps were introduced by the National Audit Office in their publication "Cyber security and information risk guidance for Audit Committees". Our review covered these 12 steps. Cyber Security remains a Strategic Risk for the Authority and is monitored on an ongoing basis.

The outcome of our work will be covered by the agenda item IMT update

Tax Compliance Employee Expenses and Benefits

This review focussed on expenses and benefits, purchasing card use and that pool cars / fleet vehicles, both at LCC and Fire & Rescue, were used appropriately for tax purposes.

Our review established that clear responsibility for ensuring compliance with HM Revenue & Customs (HMRC) requirements relating to employee benefits and expenses has not been identified since the officer previously responsible left more than 4 years ago. In the interim HMRC dispensations have been replaced and there is no indication that the Council has taken steps to confirm we have the correct exemptions/agreements and reporting arrangements in place for current employee expenses and benefits. Business process and recording arrangements have also changed since the implementation of Business World and these may also impact on our compliance. Our work also highlighted areas where the Council's Relocation Policy is not being complied with.

Interests, Gifts and Hospitality Registers (Officers)

We found that although some monitoring and governance controls are in place, in practice there was non-compliance with the policy, poor quality of information in declaration forms and a lack of clarity in the guidance. Officers Interests Gifts and Hospitality has therefore been given Limited assurance.

Consultancy Report

Local Enterprise Partnership

The Ministry of Housing, Communities and Local Government brought out a revision to the National Local Growth Assurance Framework guidance in January 2019. This new guidance outlines their expectations on what should be included in LEP's Local Assurance Frameworks from 1st April 2019. LEP's are required to review and refresh their frameworks using this latest guidance.

We were asked by the Greater Lincolnshire Local Enterprise Partnership (GLLEP) on a consultancy basis to compare their Local Assurance Framework (last reviewed Feb 18) with the revised guidance and highlight any weaknesses or missing information to allow updates to be made.

We will follow this up as part of the 19/20 audit plan as an assurance review and ensure that all recommendations have been actioned.

Heritage Phase 2

The Heritage Service is seeking to move from a traditional micro-site approach, managing individual sites and individual collections within those sites, to a supersite approach, creating multi-purpose progressive sites to showcase the county's heritage through all engagement mediums. The changes will also improve the visitor experience, while supporting LCC's wider aspiration to become more lean and efficient.

Our audit is a consultancy review which will offer advice and support on Governance, Risk and Controls. The project has now gone to Consultation and it was agreed that our second phase review would look at the stakeholder engagement and consultation process followed by the project team.

Through conversations with the Senior Project Officer and review of documentation we were able confirm that progress of the project is on track and there were no issues to raise concern.

Governance Review – Culture & Values

The Executive and Corporate Management Board have prime responsibility for **defining and analysing organisational culture** by promoting good ethics and values – **the outcome of this review aims to provide them with some insight and assurance on this.** This review helps support their **oversight** of the Council's ethical framework – recognised as **a key component** of good governance by all sectors and regulators. Selflessness, integrity, objectivity, accountability, openness, honesty, leadership plus stewardship of resources

The outcome of the review is being reported separately to the Audit Committee at its March 2019 meeting.



Audit reports at draft

We have seven audit's at draft report stage:

- Property Plant and Equipment
- Records Management
- Children's Statutory Complaints
- Strategic Workforce Planning
- General Ledger
- LFR Fleet management.
- Patch Management

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

Work in Progress

We also have twelve 2018/19 audits in progress:

- Highways 2020 Project
- Wellbeing
- Apprenticeships
- Debtors
- Creditors
- Holding Company
- IR35
- Counter Fraud review
- VAT Follow Up
- Financial Assessments
- Payroll
- Bank Reconciliation Key Control Testing

Details of these in progress audits can be seen in the 2018/19 plan at appendix 3

Audits planned for commencement in Quarter 1 19/20 include:

- Recruitment and Retention
- Local Enterprise Partnership follow up
- ICT Payment Gateway
- ICT Service Improvement Follow Up
- ICT Asset Management Follow Up
- ICT Disaster Recovery

Other Significant work

Other key work undertaken during the period includes:

School Audits

During this period we completed four School Audits.





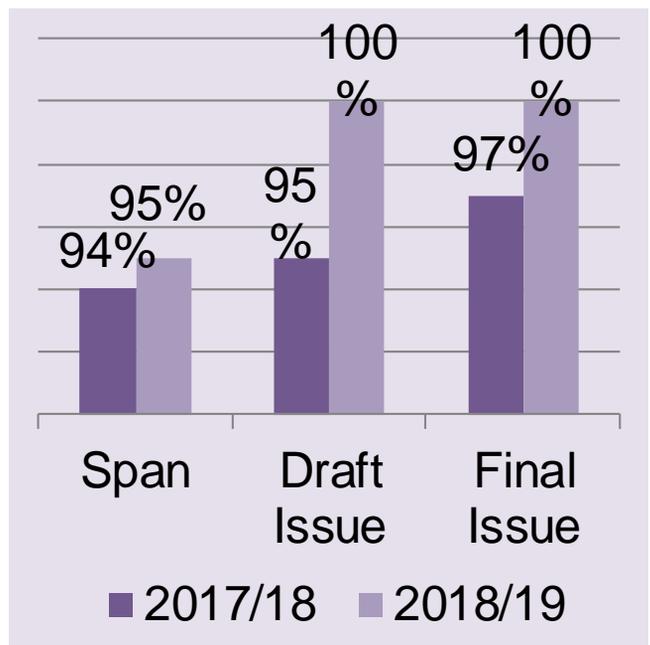
Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators

100%

Rated our service Good to Excellent

High achievement of Audit KPI's to date



Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

CIPFA Better Governance Forum Update

In February 2019 CIPFA produced an audit committee update paper. This highlights recent reports from external auditors, in particular the National Audit Office report on Local Authority Governance. It also takes stock of local audit arrangements in the light of recent developments.

Understanding the work of external auditors is a key responsibility of the audit committee, and supporting and overseeing the organisation's response to the auditor recommendations is an essential role for the committee.

The report examined local arrangements, particularly those that support financial sustainability. These included:

- operation and independence of the audit committee
- priority given to ethical standards
- effective internal audit
- robust risk management arrangements
- effective scrutiny and challenge
- the right conditions for statutory officers to fulfil their roles.

The NAO surveyed the external auditors of the authorities on the extent to which they were satisfied that these arrangements were effective. In 50% of authorities, the external auditors had no concerns and 19% had concerns on one area only. However, 30% of authorities were scored as having two or more concerns, including 9% with four or more areas of concern.

The findings from the survey of external auditors was further supported by a survey of section 151 officers and a range of focus groups and interviews with stakeholders.

The document also covers the work of the Committee on Standards in Public Life who have published a report on their review of standards arrangements in English local authorities. The report, Local Government Ethical Standards, acknowledges that the vast majority of councillors and officers maintain high standards of conduct but that there is clear evidence of misconduct by some councillors, particularly around bullying and harassment.

While the report concludes that local responsibility for standards should be maintained, it recommends a number of improvements, including:

- a new model code of conduct
- extending regulations about the disclosure of interests
- strengthening and clarifying the role of the independent person
- a new sanction to suspend a councillor for up to six months
- disciplinary protection for the statutory officers in authorities (monitoring officer, section 151 officer and head of paid service) should be extended to all disciplinary action
- amendments to the Transparency Code to cover disclosures of code of conduct complaints and changes to whistleblowing.



Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

In addition, there are 15 best practice recommendations made to local authorities.

Audit committee members should take account of the report as an individual councillor or independent member, but they should also be aware of the report when considering the strength of their authority's ethical framework for the Annual Governance Statement.

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
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.

Tax Compliance Employee Expenses and Benefits

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
The activity is not managed effectively	High	1	0
Non-compliance with LCC policy or HMRC regulations / legislation	High	3	3
Expense payments are incorrect	Medium	0	1
Inconsistent recording of benefit in kind deductions	Medium	0	1
Inaccurate payment to HMRC	Medium	0	1
Totals		4	6

Limited Assurance

Background and Context

Lincolnshire County Council (LCC) is responsible for complying with tax legislation set by HM Revenue and Customers (HMRC). This involves ensuring deductions are made appropriately under Pay as You Earn (PAYE) and are properly recorded, and paid across to HMRC. LCC are also responsible for identifying, reporting and where necessary taking deductions of tax and National Insurance on employee benefits/expenses such as lease cars, relocation expenses, cycle to work schemes, payment of professional subscriptions, long service awards etc.

Many employees' benefits and expenses have previously been covered by a Dispensation or Tax Exemption with HMRC to reduce the details that have to be reported by an employer on a P11D. The latest on file is dated April 2010. Prior to agreement of this Dispensation, in February 2010 LCC engaged KPMG to undertake a review of potential areas of employment tax risk. Dispensations ceased to exist in April 2016.

Tax compliance was last reviewed in 2013 prior to transfer of services from our previous provider to our current provider and the implementation of Agresso. A substantial assurance opinion was given. A review of Lincolnshire Fire and Rescue tax compliance in 2014 resulted in a limited assurance opinion. This review focussed on expenses and benefits, purchasing card use and that pool cars / fleet vehicles, both LCC and Fire & Rescue, were used appropriately for tax purposes.

Scope

The purpose of the review was to provide independent assurance that the Council is complying with HMRC requirements on employee benefits and expenses. We considered the Council's overarching arrangements to manage HMRC compliance, including the use of exemptions and looked in more detail at payment of relocation expenses and the contract hire/car lease schemes operated by Serco on behalf of LCC and by Lincolnshire Fire and Rescue. We reviewed sample transactions from 2017/18 and the current year.

The Council's Relocation Policy has recently been revised and will make the scheme simpler to administer with a maximum amount of £8000 that can be claimed. There will no longer be two levels of scheme available.

Executive Summary

Our review has established that clear responsibility for ensuring compliance with HM Revenue & Customs (HMRC) requirements relating to employee benefits and expenses has not been identified since the officer previously responsible left more than 4 years ago. In the interim HMRC dispensations have been replaced and there is no indication that the Council has taken steps to confirm we have the correct exemptions/agreements and reporting arrangements in place for current employee expenses and benefits. Business process and recording arrangements have also changed since the implementation of Business World and these may also impact on our compliance. Our work also highlighted areas where the Council's Relocation Policy is not being complied with. On this basis of the work completed our assurance around this activity is Limited.

HMRC & LCC employee benefits

There is a risk that the Council is not currently complying with HMRC requirements for recording, reporting and accounting for certain employee benefits and expenses. Previously HMRC dispensations were in place which meant the Council did not have to report some routine employee expenses to HMRC. This applied if they were paying a flat rate to their employees as part of their earnings, either a benchmark rate or a special ('bespoke') rate approved by HMRC or were paying back the employee's actual costs. This was administered by a member of staff. When she retired several years ago the file was passed to LCC Finance but no further activity or liaison with HMRC is evident. In April 2016 dispensations were replaced by exemptions. We have been unable to find any evidence that exemptions have been applied for in our discussions with officers in LCC and Serco. The Council may also need a PAYE Settlement Agreement (PSA). This allows the employer to make one annual payment to cover all the tax and National Insurance due on minor, irregular or impracticable expenses or benefits for their employees. We have been unable to establish if a PSA is held by the Council.

Since the KMPG review of potential areas of employment tax risk for the Council in 2010 there have been significant changes in business processes and the implementation of a new finance system. It is not clear how these changes (for example use of the Procurement Card for payment of employee related expenses) may impact on tax exemptions.

To address the issues we have identified the Council needs to liaise with HMRC to establish what exemptions are now needed for employee benefits & expenses and whether a PSA is needed. Whilst the likelihood of a HMRC inspection may be low, there is a risk that this could occur and penalties imposed where the Council is found to be non-compliant.

Executive Summary

We recommend management consider more detailed review over this area of activity by an expert resource (as completed by KMPG previously) so that we can more clearly identify and quantify issues, and demonstrate pro-active management when contacting HMRC.

Relocation Expenses

As part of our testing we reviewed details for a sample of employees receiving relocation expenses. Identifying all officers in receipt proved to be difficult as we found there is no central record of those entitled to or being paid expenses. Ideally expenses should be paid through payroll to ensure information is held in one place and any tax or NI liability can be monitored, but we found a number of expenses that had been paid using a procurement card. It is not clear how these are monitored to ensure the total payment does not exceed either LCC policy or HMRC limits. We also identified a payment direct to the bank account of an employee recruited from overseas where no supporting evidence of expenditure incurred was held. A lack of documentation increases the risk of fraud and error. HMRC may consider this payment to be a cash payment to an employee rather than a reimbursement of necessarily incurred expenditure for relocation.

We reviewed eleven employees receiving relocation expenses and found instances where the policy is not being followed:

- only two of the employees contracts make reference to relocation expenses
- an agreement had not been completed for a member of staff at LFR. Following our enquiry an agreement has now been completed for this member of staff and a further two officers
- two other agreements held were unsigned by the line manager and another could not be located as the manager at the time has since retired.
- evidence seen suggests that two employees have been overpaid
- the payment of relocation expenses to six employees is not in accordance with the policy.
- we identified one member of staff who left within 2 years but could not identify evidence that relocation expenses had been repaid.

The Council's relocation policy has recently been updated. Management should ensure that it contains sufficient guidance on the expenses that can be paid and how these should be processed. Managers need to be reminded of the requirements of the scheme, particularly to ensure that relocation agreements are signed off by both parties and securely retained for future reference.

Executive Summary

Management also need to consider how relocation agreements and payments can be made more visible and monitored to ensure policy and HMRC regulations are complied with.

Contract Hire – Lincolnshire Fire & Rescue

Changes in the taxation of emergency vehicles were due to be introduced in April 2018. This was included in the Finance Bill, but discussion with Lincolnshire Fire & Rescue (LFR) determined that the service was unaware of this and the impact on staff until part way through the year. The change has since been delayed until 2020. Officers responsible for tax compliance at the Council need to ensure there is liaison with LFR on any changes to legislation or the benefits / expenses that are paid to LFR officers.

Our testing identified errors in car lease deductions and mileage claims for Lincolnshire Fire & Rescue staff which we have notified to the Area Manager Corporate Support, LFR.

Management Response

This review has been most helpful in identifying a deficiency in the oversight of taxation matters relating to employee expenses and benefits that has, unfortunately, existed for around 4 years. The findings, conclusions and recommendations are accepted in their entirety. Responsibility for these matters will be fully embraced by the Council going forward with specialist tax advice being used to ensure current processes and documentation are up to current HMRC expectations. In addition a tax advisory service will be engaged to ensure the Council keeps fully up to date with future developments in the area.

David Forbes, County Finance Officer

Interests, Gifts and Hospitality Registers (Officers)

Limited Assurance

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
Conflicts of Interest are not being declared and managed	Medium	0	2
Declaration forms and register are not accurate or complete	Medium	0	5
Register is not being maintained by Democratic Services	Medium	0	2
TOTAL		0	9

Background and Context

Integrity is one of the seven key principles recommended by the Nolan Committee. Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

The Code of Conduct for Council Employees supplements the terms and conditions of employment and supports the Councils Core Values and Behaviours Framework. It encompasses guidance from the National Code of Conduct and is based on the key principles of public life recommended by the Committee on Standards in Public life (the Nolan Committee). The Code provides guidance to all employees and sets out the requirements for declaring and registering personal interests and gifts. It expects employees to refuse personal gifts and hospitality unless they are of "token value" or appropriate in the conduct of normal business.

The Members Code of Conduct in Part 5, Section B of the Constitution sets out the behaviours expected of members and added members and the requirement for them to comply with the Council Values Statement Guidance. It was adopted in 2012 and complies with the current regulatory requirements. Recent guidance on Local Government Ethical Standards Report published in January 2019 gives the Council the opportunity to review its arrangements.

The Localism Act provides for registration and disclosure of interest and the Code states that to comply with this, members must notify the Monitoring Officer of any "disclosable pecuniary interests" as prescribed by the secretary of state.

Scope

To provide assurance over the management and application of Interests, Gifts and Hospitality policy and registers.

Executive Summary

Officers Interests, Gifts and Hospitality

We found that although some monitoring and governance controls are in place, in practice there was non-compliance with the policy, poor quality of information in declaration forms and a lack of clarity in the guidance. Officers Interests Gifts and Hospitality has therefore been given **Limited** assurance.

The policy for the declaration of Interests, Gifts and Hospitality, included in the Code of conduct for Employees, is contradictory and the interest registration form is not aligned with the code. This makes it difficult to declare interests accurately and makes it more difficult for the authority to identify fraud, protect individuals and prevent bribery. Forms are also not fit for purpose and fail to capture key information (eg personal interests).

The quality and quantity of declarations needs to be improved with many of the forms details not complying with the policy.

The code requires a reason for accepting a gift to be entered in the register, this is not being done.

The Council needs to review the layout of the Officer Interests registration form to ensure that the information required complies with the policy and the form aligns with the code of conduct.

Ensuring consistency between the forms and the requirements set out in the Code of Conduct and carrying out a plain English review on the policy and code would provide greater clarity to officers wishing to make declarations of Interest.

Providing additional guidance and simplifying the language in the code will limit inconsistency in decision making and reduce the number of deviations from the code of conduct relating to the acceptance of gifts and hospitality.

The policy contains inconsistencies resulting in incomplete and inaccurate declaration forms.

Executive Summary

Members Interests, Gifts and Hospitality

We found the Code generally being met but recommendations for better practice and increased transparency have been identified. We have given a Substantial assurance rating

Members are declaring disclosable pecuniary interests and there is guidance in place to assist them to meet the requirements of the legislation, however this guidance has not always been followed resulting in some forms providing insufficient detail.

The code of conduct for members was adopted in 2012 – public expectations around transparency and accountability have changed since that time. A report published by the Committee on Standards in Public Life (issued in January 2019) sets out recommendation and good practice guidance. This provides a good opportunity for the current Code to be reviewed.

Management of the Registers:

The Head of Democratic services informed us that regular reviews are under taken. We acknowledge that records were kept on email however we saw no evidence of a robust monitoring system or evidence that checks were performed. The Council need to ensure that any checks, reviews and assessments are evidenced and demonstrate assurance on compliance with policy and legislation. A central record of emails has been created subsequent to our audit work.

There is no evidence to show how conflicts of interest are managed by line managers or any guidance to assist with this. The lack of detail in the register held in democratic services suggests that it is not a central register and that teams may be making declarations to their line managers. This could cause disconnect between the management of declarations of interest by line managers and the central register.

Management Response

We take very seriously our joint responsibility to ensure that both officers and members have adequate opportunity to declare their interests and gifts and hospitality openly and transparently. This is fundamental to providing confidence that holders of public office are acting appropriately and in the public interest.

We are therefore heartened to learn that during their work internal auditors found grounds for substantial assurance in relation to members interests and did not identify any significant or high risks that they felt should be considered for inclusion on our risk register.

We note the Report of the Committee on Standards in Public Life and acknowledge that there is currently no specific policy for declaration of personal interests by members, although there is evidence that members do make such declarations at meetings.

While it is acknowledged that at the time of the initial meeting with internal auditors there was no evidence of robust management of the registers available, that evidence has since been gathered and collated. This will be updated as checks continue to be carried out to ensure compliance.

Management will review the Council's policies and practices in the areas of interests and gifts and hospitality, of both Members and employees, to ensure they are fit for purpose.

This review will seek to remove any confusion regarding the requirements of those officers making declarations and provide a framework for a robust system that will lead to improved assurance.

Management will engage with Members and employees to ensure they are fully aware of their responsibilities.

We will review the Council's current Member code in light of the Committee on Standards in Public Life report. A report will be considered by the Council's Audit Committee.

Nigel West - Head of Democratic Services

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
LCC 2018/19-01 - Highways 2020 Procurement Programme	This consultancy assignment will offer support and advice on the programme throughout its journey of re-procurement and contract start in April 2020	15/11/17	01/04/18		Consultancy support in process
LCC 2018/19-02 - Heritage (Phase 2)	Our review will provide the Heritage Service with support and advice during the project to help ensure it is appropriately managed, and that the process is on track to deliver its outcomes. This project needs to identify and present the best options available for the Council to agree, and the future of the Heritage Service depends upon the successful implementation of this agreed method. It is therefore essential that the project has captured and presented the information accurately to allow for a decision to be made from the available options.	15/09/17	01/03/18	01/05/18	Phase complete
LCC 2018/19-03 - Domestic Homicide Review	The audit aims to provide assurance to management that processes for Domestic Homicide Reviews meet legislative requirements and reflect best practice. In addition the audit seeks to provide assurance that reviews have been satisfactorily followed up, with LCC owned actions having been implemented or progressed and lessons learnt embedded.	15/05/18	21/05/18	25/10/18	Substantial Assurance (Complete)
LCC 2018/19-04 - Workforce performance and reward	Assurance that there is a consistent and fair approach planned for linking employee increments to performance from 2018/19				Rolled forward to 19/20 plan at request of HR
LCC 2018/19-05 - Interests, Gifts and Hospitality Registers	To provide assurance over the management and application of Interests, Gifts and Hospitality policy and registers	11/10/18	11/10/18		Officers Limited. Members Substantial (complete)
LCC 2018/19-06 - Corporate Support Services Commissioning	To provide ongoing insight and advice around project management, governance, risk and control.	01/03/18	01/03/18	30/9/18	Consultancy support complete

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
LCC 2018/19-07 - Recommissioning of Domestic Abuse Support Service	To provide assurance around the commissioning and contract management of domestic abuse service for standard & medium risk victims and IDVA, including the approach to services for DA perpetrators	23/04/19			Cancelled due to timing by Director
LCC 2018/19-08 - Strategic Workforce Planning	To provide independent assurance that appropriate senior management succession planning is in place at LCC.	01/05/18	30/05/18		Draft report
LCC 2018/19-09 - Corporate Complaints, Compliments and Comments	Our review will aim to provide assurance that the complaints, compliments and comments process is fit for purpose and is meeting it's targets in resolving customer complaints at the earliest opportunity.	05/04/18	05/04/18	05/07/18	Substantial Assurance Complete
LCC 2018/19-10 - Records Management	Records Management processes are in place and consistently applied so as to ensure compliance with the General Data Protection Regulation.	01/10/18	21/11/18		Draft report
LCC 2018/19-11 - Cash Management in Registration Service	To gain assurance that management arrangements for income and imprest at Council Establishments ensure risk of loss or misappropriation is adequately controlled.	12/04/18	05/07/18	22/10/18	Substantial Assurance Complete
LCC 2018/19-12 - Transport Connect Assurance Review	Assurance over the governance arrangements of this Teckal company owned by LCC to help inform the annual governance statement	03/04/18	03/04/18	21/08/18	Complete
LCC 2018/19-13 - Operation Dovetail (counter terrorism)	Support and advice on the upcoming transfer of PREVENT activities from the Police to the Local Authority	13/03/18	27/09/18	27/09/18	Removed – transfer cancelled
LCC 2018/19-14 - School Admissions Software	Confirmation that the risks regarding implementation of the new admissions software have been managed to minimise the disruptions to schools.	01/08/18	01/08/18	9/11/18	High Assurance (complete)
LCC 2018/19-15 - Mosaic - Adult Care and Community Wellbeing	Review the effectiveness of Mosaic across Adults in meeting business needs.	01/05/18	02/05/18	28/05/18	Substantial Assurance (complete)

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
LCC 2018/19-16 - Good Governance Review – Culture and Ethics	Assurance that governance arrangements are working effectively to manage Ethics, Partnerships and Transparency. To be conducted from a member perspective.	01/04/18	01/04/18		Final report
LCC 2018/19-17 - Health & Safety	Assurance that the Council's arrangements to manage Health and Safety are adequate and effective.	01/10/18	01/10/18	10/03/19	High Assurance (complete)
LCC 2018/19-18 - Counter fraud arrangements	Assurance that the Council's management of Counter Fraud arrangements are adequate and effective.	01/10/18	20/02/19		Fieldwork stage
LCC 2018/19-19 - 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.	10/01/18	10/01/18		Limited assurance (complete)
LCC 2018/19-20 - Mosaic Application Review	The review will focus on system security, particularly in the following areas: System security (access controls) Performance (accuracy and timeliness) Operating procedures Back-up and recovery Change control	12/03/18	12/03/18	13/09/18	Substantial Assurance (Complete)
LCC 2018/19-21 - Emergency Planning Command Structure	To provide assurance around the plans being put in place to address command resource and support availability for major EP events.	25/06/18	03/09/18	17/12/18	Substantial Assurance (Complete)
LCC 2018/19-22 - Programme / Project Management Support	Assurance that the programme / project support function is effective in supporting management on key programmes and projects	03/07/18	11/07/18	05/12/18	Substantial Assurance (complete)
LCC 2018/19-23 - Members Allowances Scheme	Assurance that a robust policy is in place, applied and payments to members are timely, appropriate and accurate.	26/06/18	10/09/18	20/11/18	Substantial assurance (Complete)

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
LCC 2018/19-24 - Heritage Service Operating Model Change Programme	To provide the Heritage Service with support and advice during the project to help ensure it is appropriately managed, and that the process is on track to deliver its outcomes.	02/07/18	05/07/18		3 rd phase On hold until Q1 2019
LCC 2018/19-25 LEP Review	LEP team are meeting the requirements of the Governments 2017 review	10/01/19	21/01/19	31/01/19	Final report (consultancy)
LCC 2018/19-26 - Cash Management in establishments - Business Support	To gain assurance that management arrangements for income at Council Establishments ensure risk of loss or misappropriation is adequately controlled.	01/07/18	10/08/18	25/10/18	Substantial Assurance Complete
LCC 2018/19-27 - Cash Management in Establishments - Heritage sites	To gain assurance that management arrangements for income at Council Establishments ensure risk of loss or misappropriation is adequately controlled.	01/07/18	05/07/18	25/10/18	High Assurance Complete
LCC 2018/19-28 - Cash Management in establishments - Eastgate Children's Home	To gain assurance that management arrangements for income at Council Establishments ensure risk of loss or misappropriation is adequately controlled.	01/07/18	05/07/18	25/10/18	High Assurance Complete
LCC 2018/19-29 - Cash Management in Establishments - Music Service	To gain assurance that management arrangements for income and imprest at Council Establishments ensure risk of loss or misappropriation is adequately controlled.	01/07/18	05/07/18	25/10/18	Substantial Assurance Complete
LCC 2018/19-30 - Local Transport Capital Funding Grant 2017-18	To confirm that the expenditure complies with the conditions of the Grant and the funding received agrees to the Grant determination letter.	12/07/18	12/07/18	06/09/18	Complete – grant signed
LCC 2018/19-31 - Payroll Interim Audit 2018/19	Assurance that the payroll processes and controls are working effectively	24/07/18	04/09/18	20/11/18	Substantial Assurance Complete
LCC 2018/19-32 - Children's Service Statutory Complaints	Assurance that robust procedures are in place to manage and monitor statutory complaints and that lessons are shared from these to ensure learning and improvements	01/09/18	05/11/18		Draft report
LCC 2018/19-33 - Supplier Reliability	Lessons learned review of management of the impact on Lincoln Eastern Bypass when contractor Carillion collapsed.	20/07/18	20/07/18	20/11/18	High assurance (Complete)

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
LCC 2018/19-34 - SEND Home Tuition	Assurance on provision of temporary home tuition to SEND children that require school places with a focus on provider monitoring including safer recruitment processes.	28/08/18	28/08/18	5/11/18	Substantial Assurance (Complete)
LCC 2018/19-35 - Families Working Together	Audit sign off as per the requirements of the grant	06/05/18	06/05/18	05/09/18	Complete
LCC 2018/19-36 - PCI – DSS	Assurance that the Council fulfils all PSI DSS statutory requirements	01/08/18			Delayed due to project being at an early stage
LCC 2018/19-37 - Capital Strategy and capital Receipts	Seeking to gain assurance that ; ·LCC has adequate plans to fulfill emerging legislation relating to capital strategy ·management of capital receipts is transparent and complies with legislation	02/08/18	13/08/18	19/12/18	Receipts-Limited assurance Strategy– Substantial assurance (Complete)
LCC 2018/19-38 - Proportionate auditing for Direct Payments	To review the impact of the implementation of the Direct Payments Proportionate Auditing Guidance on the effectiveness of the Direct Payments auditing process.	02/08/18	10/9/18	29/11/18	Consultancy report - Complete
LCC 2018/19-39 - Tax Compliance Construction schemes	That the Council is consistently meeting tax reporting requirements of HMRC, to include Real time information reporting, CIS and employee expenses.	01/08/18	06/09/18	17/12/18	High assurance (Complete)
Tax compliance Employee expenses and benefits	As above	01/08/18	06/09/18	31/01/19	Limited Assurance (complete)
LCC 2018/19-40 - Bus Service Operators Grant 2017-18	Audit to validate all expenditure on the return has been spent on eligible schemes. In preparation for sign off and return to the Department for Transport (grant making body).	22/08/18	22/08/18	25/09/18	Complete – grant signed
LCC 2018/19-41 Apprenticeships	To provide independent assurance over the extent to which services are effectively able to use the apprenticeship reforms to develop the workforce for both current and future needs and compliance with Government Requirements	15/10/18	01/11/18		Fieldwork in progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
LCC 2018/19-42 - VAT follow up	To follow up previous VAT audit in 17/18	06/09/18	19/02/19		Fieldwork stage
LCC 2018/19-43 - Pension Fund Asset Pooling	That fund management remains effective and efficient and has successfully implemented the changes necessary for Pension Fund Asset Pooling	10/09/18			Planned Q4
LCC 2018/19-44 - Assurance assessment re NCC	Review of the report from Northampton County Council and benchmarking against the issues identified in that report	06/07/18	06/07/18		On going
LCC 2018/19-45 - LFR Fleet Management	To provide assurance on the adequacy and effectiveness of the fleet management contract for Lincoln Fire and rescue.	18/10/18	20/11/18		Draft report
LCC 2018/19-46 - Patch Management	To provide assurance that IT vulnerabilities are identified and minimized through patch management.	23/10/18	04/12/18		Draft report
LCC 2018/19-47 – Property , Plant & Equipment	The purpose of this review is to provide independent assurance that the Council is complying with the accounting policy and legislation for Plant, Property and Equipment..	12/12/18	12/12/18		Draft report
LCC 2018/19-48 - Wellbeing	To revisit Wellbeing service to ensure that it is working efficiently and effectively	10/01/19	25/02/19		Fieldwork stage
LCC 2018/19-49 – Recruitment and retention	Assurance that procedures in place for the recruitment of staff to the Authority maximize the chance of successful appointments.	08/01/19			Planned
LCC 2018/19-50 – IR35	Assurance the Council has implemented and consistently applies IR35 correctly	01/01/19	05/02/19		Fieldwork stage
LCC 2018/19-51 – Pensions administration	To analyse and report on the outcomes of West Yorkshire pension funds internal auditors report	22/02/19	22/02/19	07/03/19	High Assurance (complete)
LCC 2018/19-52- Families Working Together 2	Audit sign off as per the requirements of the grant	12/12/18	12/12/18	19/12/18	Completed (consultancy)
LCC 2018/19-53- Holding Company	To review & provide assurance around the set-up of the Holding Company, governance arrangements, and the business case for the subsidiary company	22/01/19	14/01/19		Fieldwork stage

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
LCC 2018/19-54- General Ledger Key Control Testing	We will be carrying out testing of the General ledger process covering: <ul style="list-style-type: none"> control accounts suspense accounts holding accounts Journals 	21/01/19	23/01/19		Draft report
LCC 2018/19-55- Accounts Receivable (debtors) key control testing	The purpose of the review is to provide assurance that: Key controls are in place within the Accounts Receivable system Controls are consistently operated Transactions examined are complete and accurate.	05/03/19	05/03/19		Fieldwork stage
LCC 2018/19-56- Bank Reconciliation Key Control Testing	We will be carrying out testing of the bank reconciliation process covering: <ul style="list-style-type: none"> System access Reconciliation Separation of duties Independent approval 	07/03/19	07/03/19		Fieldwork stage
LCC 2018/19-57- Financial Assessments	To gain assurance that the processes and controls put in place to improve the efficiency of processing Financial Assessments, are effectively mitigating the safeguarding and financial risks around this process.	11/03/19			Planned
LCC 2018/19-58- Accounts Payable (Creditors) Key Control Testing	The purpose of the review was to provide assurance that: <ul style="list-style-type: none"> key controls are in place within the accounts payable system controls are consistently operated transactions examined are complete and accurate 	14/02/19	05/03/19		Fieldwork stage
LCC 2018/19-59- Payroll Key Control Testing	Provide independent assurance that appropriate controls are in place and operating in HR Admin & Payroll systems and processes, payroll payments are bona fide and correct and that payments comply with local and statutory regulations	15/02/19	15/02/19		Fieldwork stage

Regulatory and Other Committee

Open Report on behalf of David Coleman, Monitoring Officer

Report to:	Audit Committee
Date:	25 March 2019
Subject:	Member Standards Arrangements

Summary:

The Council adopted its Member Code of Conduct ("the Code") and Local Arrangements for Dealing with Standards Complaints ("the Local Arrangements") in 2012. The Code consists of the seven Principles of Public Life (the so-called Nolan Principles) supplemented later by the addition of "Respect". On Interests members are not required to register anything other than statutory disclosable recuniary interests.

The publication of a report on Local Government Ethical Standards by the Committee on Standards in Public Life (January 2019) ("the Report") and the outcome of a recent Internal Audit report on Officers and Members Gifts and Hospitality provide the Council with the opportunity to review its current standards arrangements including both the Code of Conduct and the Local Arrangements.

Oversight of the Council's Standards arrangements is part of the Audit Committee's role and remit.

Recommendation(s):

That the Committee agree with the proposal to establish a working group of members to:

1. Consider the Committee on Standards in Public Life report on Local Government Ethical Standards
2. Consider whether changes to the Code and Local Arrangements should be made as a result of the Report or otherwise
3. Consider whether any changes should be made to any other elements of Part 5 of the Constitution which relate to standards

Background

1. A number of developments have come together to require the Council to review its standards arrangements
 - Publication of the Committee on Standards in Public Life (CSPL) Report on Local Government Ethical Standards
 - Audit Report on Interests and Gifts and Hospitality

Legal Background

2. The Council is under an obligation under section 27 of the Localism Act 2011 to promote and maintain high standards of conduct by members and co-opted members of the authority. It must, in particular, adopt a code dealing with the conduct that is expected of members and co-opted members of the authority when they are acting in that capacity. That Code must be consistent with the Seven Principles of Public Life ("the Nolan Principles") of Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.
3. Members are required by section 30 of the 2011 Act to register a defined list of statutory disclosable interests with the Monitoring Officer and required by section 31 of the Act not to participate in any discussion or vote in respect of any matter in which he or she has a disclosable pecuniary interest.
4. A number of criminal offences are created by section 34 of the Act including where a member fails to disclose a disclosable pecuniary interest or participates in a discussion or vote on a matter in which he or she has a disclosable pecuniary interest.
5. This list of disclosable pecuniary interests does not prevent a Council from including other interests within its Code.

The Current Position

6. The Council adopted its Code and Local Arrangements in 2012. A copy is attached at Appendix A. The Code consists of the Nolan Principles supplemented with the later addition of "Respect". On interests members are not required to register anything other than statutory disclosable pecuniary interests.
7. Independently of each other recommendations have been made by the Audit Report and the CSPL Report which means the Council needs to review its current arrangements particularly in the light of the recommendations and best practice set out by the CSPL in its Report.

Issues

8. The headline issues from the CSPL Report can be summarised as follows:-
 - Standards should remain a local matter
 - A model code should be produced to facilitate consistency

- The registration of interests provisions should be strengthened but decriminalised
 - Gifts and hospitality provisions should be strengthened
 - Codes of Conduct should not simply adopt the Nolan Principles which are standards and not a code
 - Sanctions should be clarified and strengthened to include a new power to suspend
 - The role of the Independent Person should be strengthened and formalised
9. A copy of the Executive Summary of the report on Local Government Ethical Standards by the CSPL is provided in Appendix B. A link to the full Report is contained in the Background Papers section of the Report. The Committee recognises that a vast majority of councillors and officers maintain high standards of conduct but has made a number of recommendations and best practice for both the government and local authorities to consider.
10. The CSPL express the view that local authorities can and should accept the best practice recommendations they have made. Appendix C includes an initial analysis of the Recommendations and Best Practice from the CSPL to indicate how they compare to LCC's current practice. It does not deal with all of the recommendations and best practice proposals in the CSPL Report as some of those relate to Parish Councils where the County Council does not have a role to play. Although the CSPL distinguish between recommendations and best practice they are all in essence recommendations. It is just that the recommendations are aimed at the government and other bodies such as the LGA while the best practice proposals are aimed directly at local authorities.

Future Process

11. The Council needs a process to engage with the CSPL's Report.
12. Audit Committee has oversight of the Council's Constitution and the Code of Conduct. It will be receiving a Report in March giving the summary of findings of an audit into officer and member's interests and declaration of gifts and hospitality. Independently of the CSPL Report it has questioned whether the interests and Gifts and Hospitality provisions of the Constitution should be strengthened
13. The almost simultaneous publication of the CSPL Report presents an opportunity to widen the discussion to encompass the Council's response to the wider findings and recommendations of the CSPL's Report. The proposal is to establish a working group of members to:-
- Consider the CSPL Report
 - Consider whether the changes to the Code and Local Arrangements should be made
 - Consider whether any changes should be made to any other elements of Part 5 of the Constitution which relate to standards

14. The intention would be to report back to the Audit Committee with a view to any proposed changes being put to Council in September or December 2019.

Conclusion

There is scope to review the current standards regime of the Council against the recommendations and best practice from reports by Committee on Standards in Public Life and the Council's Internal Auditors.

This Report introduces the issues and proposes a mechanism for moving forward with such a review.

Consultation

a) Have Risks and Impact Analysis been carried out?

No

b) Risks and Impact Analysis

Any risks and impacts analysis will be considered by the working group as part of reviewing standards arrangements.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Code of Conduct and Local Arrangements
Appendix B	Executive Summary of Report on Local Government Ethical Standards - A Review by the Committee on Standards in Public Life
Appendix C	Commentary on the Recommendations and Best Practice in the report by the Committee on Standards of Public Life

Background Papers

Document title	Where the document can be viewed
Report on Local Government Ethical Standards published January 2019 by the Committee on Standards in Public Life	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/777315/6.4896_CO_CSPL_Command_Paper_on_Local_Government_Standards_v4_WEB.PDF

Report to County Council 18 May 2012 entitled New Standards Arrangements	http://lincolnshire.moderngov.co.uk/CeListDocuments.aspx?Committeeld=120&MeetingId=958&DF=18%2f05%2f2012&Ver=2
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This report was written by David Coleman, who can be contacted on 01522 552134 or David.Coleman@lincolnshire.gov.uk .

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MEMBERS CODE OF CONDUCT

Lincolnshire County Council Members' Code of Conduct

The County Council has adopted this Code setting out the expected behaviours required of its members and added members, acknowledging that they have a shared commitment to representing the community and working constructively and in a spirit of mutual respect and co-operation with each other, Council staff and partner organisations to secure better social, economic and environmental outcomes for all.

In accordance with the Localism Act provisions, when acting in their capacity as Councillors, all Councillors must be committed to behaving in a manner that is consistent with the (Lincolnshire County Council Values Statement and Good Practice Guide to Meeting the Values of the Authority and to the) following principles to achieve best value for Lincolnshire residents and maintain public confidence in the Council.

SELFLESSNESS: Councillors must act solely in terms of the public interest. They must not act in order to gain financial or other material benefits for themselves, their family, or their friends. They must not use their position improperly to confer an advantage or disadvantage on any person.

INTEGRITY: Councillors must not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

OBJECTIVITY: In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, Councillors must make choices on merit.

ACCOUNTABILITY: Councillors are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

OPENNESS: Councillors must be as open as possible about all the decisions and actions that they take. They must give reasons for their decisions and restrict information only when the wider public interest clearly demands.

HONESTY: Councillors have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

RESPECT: Councillors must at all times show respect to each other, staff and members of the public and engage with them in an appropriate manner and one that underpins the mutual respect that is essential to good local government. Councillors

may not always agree with the political views of their member colleagues, but they respect the right for those views to be held.

LEADERSHIP: Councillors promote and support these principles by leadership and example.

The Act further provides for registration and disclosure of interests and in Lincolnshire County Council this will be done as follows:

On taking up office a member or added member must, within 28 days of becoming such, notify the Monitoring Officer of any 'disclosable pecuniary interests', as prescribed by the Secretary of State.

On re-election or re-appointments, a member or added member must, within 28 days, notify the Monitoring Officer as if for the first time of any 'disclosable pecuniary interests' whether or not such 'disclosable pecuniary interests' were already included in his or her previous register of interests.

If a member or added member is aware that they have a 'disclosable pecuniary interest' in a matter they must not participate in any discussion or vote on the matter at a meeting and if present at the meeting must leave the room during discussion of the matter.

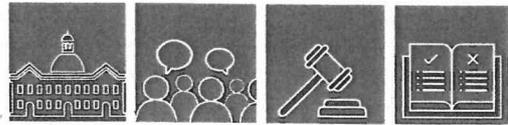
If a member or added member is aware of a 'disclosable pecuniary interest' in a matter under consideration at a meeting but such an interest is not already on the Council's register of interests or in the process of entry onto the register having been notified to the Monitoring Officer, the member or added member must disclose the 'disclosable pecuniary interest' to the meeting and register it within 28 days of the meeting at which it was first disclosed.

Local Arrangements for dealing with Standards complaints

1. These Local Arrangements apply to complaints against members of the Council alleging failure to comply with the Members Code of Conduct (a 'standards complaint').
2. For clarity, they do not apply to complaints alleging more serious issues such as alleged criminal offences which are dealt with by other means such as referral to the Police.
3. The arrangements reflect commitment of Group Leaders to maintaining high standards of conduct and their wish to demonstrate that commitment by playing a leading role.
4. Following a standards complaint made to the Monitoring Officer (MO) or referred to him, the MO will inform the Member and relevant Group Leader that a complaint has been received.
5. The MO will review the complaint to evaluate whether it is covered by the Code of Conduct.

6. If it is not covered by the Code of Conduct the MO will inform the Member and relevant Group Leader and notify the complainant.
7. Where the complaint is covered by the Code of Conduct the MO will consult the Group Leader and evaluate whether the behaviour complained about presents a serious risk to the reputation of the Council.
8. If there is no serious risk to the reputation of the Council, the MO will work with the Member and relevant Group Leader to seek an informal resolution. The MO will notify the complainant.
9. If there is a serious risk to the reputation of the Council the MO will appoint a suitable person to investigate the complaint.
10. Where the investigator finds that no breach of the Code has occurred, the MO will notify the Member and relevant Group Leader and complainant.
11. Where the investigator finds that a breach of the Code has occurred, the MO will make arrangements for a Local Hearing. The Hearing will be by at least three non-Executive Members of the Council from at least two political groups drawn from the Audit Committee nominated by the Chairman of Audit Committee. The Chairman of Audit Committee will consult Group Leaders on those nominations. The Local Hearing will consider the Investigators Report, consult the Independent Person and, except in cases covered by paragraph 12 below, make recommendation(s) to the relevant Group Leader who will decide the appropriate action and notify the Member and MO. The MO will notify the complainant.
12. Where the Local Hearing, having consulted the Independent Person, decides that the complaint is of such extreme seriousness that it should result in a motion to Council proposing that the Member be censured then the motion will be referred to the next Council Meeting direct.
13. In cases where the Member complained about is not part of a recognised political grouping, the MO will proceed as in paras 4-11 above but without liaison with any Group Leader. In such cases the Local Hearing will decide the appropriate action.
14. In cases where the complaint is against a Member who is a Group Leader the MO will proceed as in paras 4-11 above except that the MO will consult a senior Member from outside the County Council (nominated for that purpose in advance of any complaint by the Group Leader) in all cases where he would otherwise have consulted a Group Leader. In such cases the Local Hearing will consult the senior Member from outside the County Council as well as the Independent Person and then make recommendations to the relevant Deputy Leader who will decide the appropriate action.

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Local Government Ethical Standards

Committee on Standards in Public Life

Chair: Lord Evans of Weardale KCB DL

January 2019



Executive summary

Local government impacts the lives of citizens every day. Local authorities are responsible for a wide range of important services: social care, education, housing, planning and waste collection, as well as services such as licensing, registering births, marriages and deaths, and pest control. Their proximity to local people means that their decisions can directly affect citizens' quality of life.

High standards of conduct in local government are therefore needed to protect the integrity of decision-making, maintain public confidence, and safeguard local democracy.

Our evidence supports the view that the vast majority of councillors and officers maintain high standards of conduct. There is, however, clear evidence of misconduct by some councillors. The majority of these cases relate to bullying or harassment, or other disruptive behaviour. There is also evidence of persistent or repeated misconduct by a minority of councillors.

We are also concerned about a risk to standards under the current arrangements, as a result of the current rules around declaring interests, gifts and hospitality, and the increased complexity of local government decision-making.

Giving local authorities responsibility for ethical standards has a number of benefits. It allows for flexibility and the discretion to resolve standards issues informally. We have considered whether there is a need for a centralised body to govern and adjudicate on standards. We have concluded that whilst the consistency and independence of the system could be enhanced, there is no reason to reintroduce a centralised body, and that local

authorities should retain ultimate responsibility for implementing and applying the Seven Principles of Public Life in local government.

We have made a number of recommendations and identified best practice to improve ethical standards in local government. Our recommendations are made to government and to specific groups of public office-holders. We recommend a number of changes to primary legislation, which would be subject to Parliamentary timetabling; but also to secondary legislation and the Local Government Transparency Code, which we expect could be implemented more swiftly. Our best practice recommendations for local authorities should be considered a benchmark of good ethical practice, which we expect that all local authorities can and should implement. We will review the implementation of our best practice in 2020.

Codes of conduct

Local authorities are currently required to have in place a code of conduct of their choosing which outlines the behaviour required of councillors. There is considerable variation in the length, quality and clarity of codes of conduct. This creates confusion among members of the public, and among councillors who represent more than one tier of local government. Many codes of conduct fail to address adequately important areas of behaviour such as social media use and bullying and harassment. An updated model code of conduct should therefore be available to local authorities in order to enhance the consistency and quality of local authority codes.



There are, however, benefits to local authorities being able to amend and have ownership of their own codes of conduct. The updated model code should therefore be voluntary and able to be adapted by local authorities. The scope of the code of conduct should also be widened, with a rebuttable presumption that a councillor's public behaviour, including comments made on publicly accessible social media, is in their official capacity.

Declaring and managing interests

The current arrangements for declaring and managing interests are unclear, too narrow and do not meet the expectations of councillors or the public. The current requirements for registering interests should be updated to include categories of non-pecuniary interests. The current rules on declaring and managing interests should be repealed and replaced with an objective test, in line with the devolved standards bodies in Scotland, Wales and Northern Ireland.

Investigations and safeguards

Monitoring Officers have responsibility for filtering complaints and undertaking investigations into alleged breaches of the code of conduct. A local authority should maintain a standards committee. This committee may advise on standards issues, decide on alleged breaches and sanctions, or a combination of these. Independent members of decision-making standards committees should be able to vote.

Any standards process needs to have safeguards in place to ensure that decisions are made fairly and impartially, and that councillors are protected against politically-motivated, malicious, or unfounded allegations of misconduct. The Independent Person is an important safeguard in the current system. This safeguard should be strengthened and clarified: a local authority should only be able to suspend a councillor where the Independent

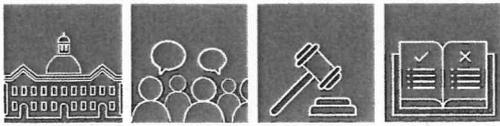
Person agrees both that there has been a breach and that suspension is a proportionate sanction. Independent Persons should have fixed terms and legal protections. The view of the Independent Person in relation to a decision on which they are consulted should be published in any formal decision notice.

Sanctions

The current sanctions available to local authorities are insufficient. Party discipline, whilst it has an important role to play in maintaining high standards, lacks the necessary independence and transparency to play the central role in a standards system. The current lack of robust sanctions damages public confidence in the standards system and leaves local authorities with no means of enforcing lower level sanctions, nor of addressing serious or repeated misconduct.

Local authorities should therefore be given the power to suspend councillors without allowances for up to six months. Councillors, including parish councillors, who are suspended should be given the right to appeal to the Local Government Ombudsman, who should be given the power to investigate allegations of code breaches on appeal. The decision of the Ombudsman should be binding.

The current criminal offences relating to Disclosable Pecuniary Interests are disproportionate in principle and ineffective in practice, and should be abolished.



Town and parish councils

Principal authorities have responsibility for undertaking formal investigations of code breaches by parish councillors. This should remain the case. This responsibility, however, can be a disproportionate burden for principal authorities. Parish councils should be required to adopt the code of their principal authority (or the new model code), and a principal authority's decision on sanctions for a parish councillor should be binding. Monitoring Officers should be provided with adequate training, corporate support and resources to undertake their role in providing support on standards issues to parish councils, including in undertaking investigations and recommending sanctions. Clerks should also hold an appropriate qualification to support them to uphold governance within their parish council.

Supporting officers

The Monitoring Officer is the lynchpin of the current standards arrangements. The role is challenging and broad, with a number of practical tensions and the potential for conflicts of interest. Local authorities should put in place arrangements to manage any potential conflicts. We have concluded, however, that the role is not unique in its tensions and can be made coherent and manageable with the support of other statutory officers. Employment protections for statutory officers should be extended, and statutory officers should be supported through training on local authority governance.

Councils' corporate arrangements

At a time of rapid change in local government, decision-making in local councils is getting more complex, with increased commercial activity and partnership working. This complexity risks putting governance under strain. Local authorities setting up separate bodies risk a governance 'illusion', and should

take steps to prevent and manage potential conflicts of interest, particularly if councillors sit on these bodies. They should also ensure that these bodies are transparent and accountable to the council and to the public.

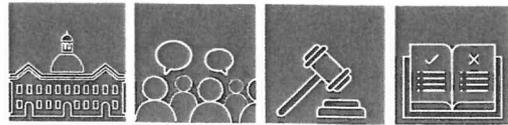
Our analysis of a number of high-profile cases of corporate failure in local government shows that standards risks, where they are not addressed, can become risks of corporate failure. This underlines the importance of establishing and maintaining an ethical culture.

Leadership and culture

An ethical culture requires leadership. Given the multi-faceted nature of local government, leadership is needed from a range of individuals and groups: an authority's standards committee, the Chief Executive, political group leaders, and the chair of the council.

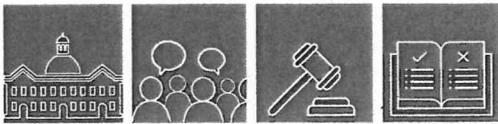
Political groups have an important role to play in maintaining an ethical culture. They should be seen as a semi-formal institution sitting between direct advice from officers and formal processes by the council, rather than a parallel system to the local authority's standards processes. Political groups should set clear expectations of behaviour by their members, and senior officers should maintain effective relationships with political groups, working with them informally to resolve standards issues where appropriate.

The aim of a standards system is ultimately to maintain an ethical culture and ethical practice. An ethical culture starts with tone. Whilst there will always be robust disagreement in a political arena, the tone of engagement should be civil and constructive. Expected standards of behaviour should be embedded through effective induction and ongoing training. Political groups should require their members to attend code of conduct training provided by a local authority, and this should also be



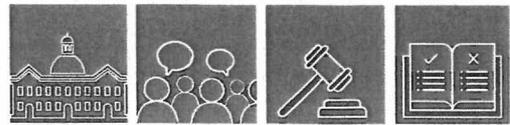
written into national party model group rules. Maintaining an ethical culture day-to-day relies on an impartial, objective Monitoring Officer who has the confidence of all councillors and who is professionally supported by the Chief Executive.

An ethical culture will be an open culture. Local authorities should welcome and foster opportunities for scrutiny, and see it as a way to improve decision making. They should not rely unduly on commercial confidentiality provisions, or circumvent open decision-making processes. Whilst local press can play an important role in scrutinising local government, openness must be facilitated by authorities' own processes and practices.



List of recommendations

Number	Recommendation	Responsible body
1	The Local Government Association should create an updated model code of conduct, in consultation with representative bodies of councillors and officers of all tiers of local government.	Local Government Association
2	The government should ensure that candidates standing for or accepting public offices are not required publicly to disclose their home address. The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 should be amended to clarify that a councillor does not need to register their home address on an authority's register of interests.	Government
3	Councillors should be presumed to be acting in an official capacity in their public conduct, including statements on publicly-accessible social media. Section 27(2) of the Localism Act 2011 should be amended to permit local authorities to presume so when deciding upon code of conduct breaches.	Government
4	Section 27(2) of the Localism Act 2011 should be amended to state that a local authority's code of conduct applies to a member when they claim to act, or give the impression they are acting, in their capacity as a member or as a representative of the local authority.	Government
5	The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 should be amended to include: unpaid directorships; trusteeships; management roles in a charity or a body of a public nature; and membership of any organisations that seek to influence opinion or public policy.	Government
6	Local authorities should be required to establish a register of gifts and hospitality, with councillors required to record any gifts and hospitality received over a value of £50, or totalling £100 over a year from a single source. This requirement should be included in an updated model code of conduct.	Government

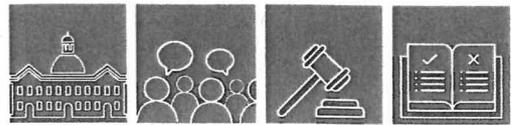


Number	Recommendation	Responsible body
7	Section 31 of the Localism Act 2011 should be repealed, and replaced with a requirement that councils include in their code of conduct that a councillor must not participate in a discussion or vote in a matter to be considered at a meeting if they have any interest, whether registered or not, "if a member of the public, with knowledge of the relevant facts, would reasonably regard the interest as so significant that it is likely to prejudice your consideration or decision-making in relation to that matter".	Government
8	The Localism Act 2011 should be amended to require that Independent Persons are appointed for a fixed term of two years, renewable once.	Government
9	The Local Government Transparency Code should be updated to provide that the view of the Independent Person in relation to a decision on which they are consulted should be formally recorded in any decision notice or minutes.	Government
10	A local authority should only be able to suspend a councillor where the authority's Independent Person agrees both with the finding of a breach and that suspending the councillor would be a proportionate sanction.	Government
11	Local authorities should provide legal indemnity to Independent Persons if their views or advice are disclosed. The government should require this through secondary legislation if needed.	Government / all local authorities
12	Local authorities should be given the discretionary power to establish a decision-making standards committee with voting independent members and voting members from dependent parishes, to decide on allegations and impose sanctions.	Government
13	Councillors should be given the right to appeal to the Local Government Ombudsman if their local authority imposes a period of suspension for breaching the code of conduct.	Government

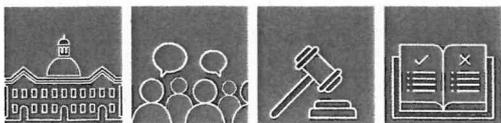


List of recommendations

Number	Recommendation	Responsible body
14	The Local Government Ombudsman should be given the power to investigate and decide upon an allegation of a code of conduct breach by a councillor, and the appropriate sanction, on appeal by a councillor who has had a suspension imposed. The Ombudsman's decision should be binding on the local authority.	Government
15	The Local Government Transparency Code should be updated to require councils to publish annually: the number of code of conduct complaints they receive; what the complaints broadly relate to (e.g. bullying; conflict of interest); the outcome of those complaints, including if they are rejected as trivial or vexatious; and any sanctions applied.	Government
16	Local authorities should be given the power to suspend councillors, without allowances, for up to six months.	Government
17	The government should clarify if councils may lawfully bar councillors from council premises or withdraw facilities as sanctions. These powers should be put beyond doubt in legislation if necessary.	Government
18	The criminal offences in the Localism Act 2011 relating to Disclosable Pecuniary Interests should be abolished.	Government
19	Parish council clerks should hold an appropriate qualification, such as those provided by the Society of Local Council Clerks.	Parish councils
20	Section 27(3) of the Localism Act 2011 should be amended to state that parish councils must adopt the code of conduct of their principal authority, with the necessary amendments, or the new model code.	Government
21	Section 28(11) of the Localism Act 2011 should be amended to state that any sanction imposed on a parish councillor following the finding of a breach is to be determined by the relevant principal authority.	Government
22	The Local Authorities (Standing Orders) (England) (Amendment) Regulations 2015 should be amended to provide that disciplinary protections for statutory officers extend to all disciplinary action, not just dismissal.	Government



Number	Recommendation	Responsible body
23	The Local Government Transparency Code should be updated to provide that local authorities must ensure that their whistleblowing policy specifies a named contact for the external auditor alongside their contact details, which should be available on the authority's website.	Government
24	Councillors should be listed as 'prescribed persons' for the purposes of the Public Interest Disclosure Act 1998.	Government
25	Councillors should be required to attend formal induction training by their political groups. National parties should add such a requirement to their model group rules.	Political groups National political parties
26	Local Government Association corporate peer reviews should also include consideration of a local authority's processes for maintaining ethical standards.	Local Government Association



List of best practice

List of best practice

Our best practice recommendations are directed to local authorities, and we expect that any local authority can and should implement them. We intend to review the implementation of our best practice in 2020.

Best practice 1: Local authorities should include prohibitions on bullying and harassment in codes of conduct. These should include a definition of bullying and harassment, supplemented with a list of examples of the sort of behaviour covered by such a definition.

Best practice 2: Councils should include provisions in their code of conduct requiring councillors to comply with any formal standards investigation, and prohibiting trivial or malicious allegations by councillors.

Best practice 3: Principal authorities should review their code of conduct each year and regularly seek, where possible, the views of the public, community organisations and neighbouring authorities.

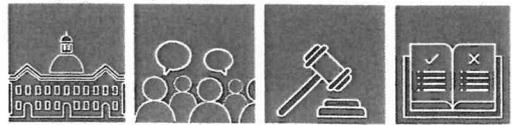
Best practice 4: An authority's code should be readily accessible to both councillors and the public, in a prominent position on a council's website and available in council premises.

Best practice 5: Local authorities should update their gifts and hospitality register at least once per quarter, and publish it in an accessible format, such as CSV.

Best practice 6: Councils should publish a clear and straightforward public interest test against which allegations are filtered.

Best practice 7: Local authorities should have access to at least two Independent Persons.

Best practice 8: An Independent Person should be consulted as to whether to undertake a formal investigation on an allegation, and should be given the option to review and comment on allegations which the responsible officer is minded to dismiss as being without merit, vexatious, or trivial.



Best practice 9: Where a local authority makes a decision on an allegation of misconduct following a formal investigation, a decision notice should be published as soon as possible on its website, including a brief statement of facts, the provisions of the code engaged by the allegations, the view of the Independent Person, the reasoning of the decision-maker, and any sanction applied.

Best practice 10: A local authority should have straightforward and accessible guidance on its website on how to make a complaint under the code of conduct, the process for handling complaints, and estimated timescales for investigations and outcomes.

Best practice 11: Formal standards complaints about the conduct of a parish councillor towards a clerk should be made by the chair or by the parish council as a whole, rather than the clerk in all but exceptional circumstances.

Best practice 12: Monitoring Officers' roles should include providing advice, support and management of investigations and adjudications on alleged breaches to parish councils within the remit of the principal authority. They should be provided with adequate training, corporate support and resources to undertake this work.

Best practice 13: A local authority should have procedures in place to address any conflicts of interest when undertaking a standards investigation. Possible steps should include asking the Monitoring Officer from a different authority to undertake the investigation.

Best practice 14: Councils should report on separate bodies they have set up or which they own as part of their annual governance statement, and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principle of openness, and publish their board agendas and minutes and annual reports in an accessible place.

Best practice 15: Senior officers should meet regularly with political group leaders or group whips to discuss standards issues.

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Appendix C

Commentary on Committee on Standards in Public Life recommendations and best practice.

Recommendations

The recommendations are aimed to enable councillors to be held to account effectively and would enhance the fairness and transparency of the standards process. A number of these recommendations would involve legislative change with the CSPL believe the government should implement.

No	Recommendation	Commentary
1	The Local Government Association should create an updated model code of conduct	There is already a model Code from LGA and MHCLG. The Council should have regard to this as and when it becomes available.
2	Regulations should be amended to clarify that a councillor does not need to register their home address on an authority's register of interests.	The law currently requires the address to be disclosed unless its disclosure could lead to violence or intimidation (a sensitive interest). The government has called on Councils to remind members of the potential for a sensitive interests dispensation
3	Councillors should be presumed to be acting in an official capacity in their public conduct, including statements on publicly-accessible social media.	Not part of the current law. A Councillor must be acting in their capacity as a Councillor for the Code of Conduct to apply. That is a judgement to be made in each case on the evidence.
4	A local authority's code of conduct should apply to a member when they claim to act, or give the impression they are acting, in their capacity as a member or as a representative of the local authority.	See above
5	Disclosable Pecuniary Interests should include: unpaid directorships; trustees; management roles in a charity or a	Not part of the current law but the Council currently has the power to widen the scope of interests beyond statutory

Appendix C

Commentary on Committee on Standards in Public Life recommendations and best practice.

No	Recommendation	Commentary
	body of a public nature; and membership of any organisations that seek to influence opinion or public policy.	disclosable pecuniary interests.
6	Local authorities should be required to establish a register of gifts and hospitality, with councillors required to record any gifts and hospitality received over a value of £50, or totalling £100 over a year from a single source. This should be included in an updated model code of conduct.	Not part of the current law. However, the Councils Protocol on Councillors Involvement in Commercial Transactions in Part 5 of the Constitution includes a Gifts and Hospitality requirement.
7	Section 31 of the Localism Act 2011 should be repealed, and replaced with a requirement that councils include in their code of conduct that a councillor must not participate in a discussion or vote in a matter to be considered at a meeting if they have any interest, whether registered or not, "if a member of the public, with knowledge of the relevant facts, would reasonably regard the interest as so significant that it is likely to prejudice your consideration or decision-making in relation to the matter".	<p>The repeal of the criminal offences in the Localism Act would require legislation.</p> <p>The wording in brackets would serve to clarify when a member would be required not to participate in a discussion or vote</p>
8	The Localism Act 2011 should be amended to require that Independent Persons are appointed for a fixed term of two years, renewable once.	Not the law at present
9	The Local Government Transparency Code should be updated to provide that the view of the Independent Person in relation to a decision on which they are consulted should	Not the law at present

Appendix C

Commentary on Committee on Standards in Public Life recommendations and best practice.

No	Recommendation	Commentary
	be formally recorded in any decision notice or minutes.	
10	A local authority should only be able to suspend a councillor where the authority's Independent Person agrees both with the finding of a breach and that suspending the councillor would be a proportionate sanction.	No current power to suspend so can only be done through legislation.
11	Local authorities should provide legal indemnity to Independent Persons if their views or advice are disclosed. The government should require this through secondary legislation if needed.	Not something done at present as IPs views and advice are not disclosed. The current legal power to grant such an indemnity is uncertain.
12	Local authorities should be given the discretionary power to establish a decision-making standards committee with voting independent members and voting members from dependent parishes, to decide on allegations and impose sanctions.	The power to appoint such a committee already exists. It is the voting rights which would be new. This role currently played by Audit Committee.
13	Councillors should be given the right to appeal to the local Government ombudsman if their local authority imposes a period of suspension for breaching the code of conduct.	No power to suspend at present.
14	The Local Government Ombudsman should be given the power to investigate and decide upon an allegation of a code of conduct breach by a councillor, and the appropriate sanction, on appeal by a councillor who has had a suspension imposed. The Ombudsman's decision should be binding on the local authority.	No power to suspend at present.
15	The Local Government Transparency Code should be updated to require councils to publish annually: the number	No requirement to do this at present.

Appendix C

Commentary on Committee on Standards in Public Life recommendations and best practice.

No	Recommendation	Commentary
	of code of conduct complaints they receive; what the complaints broadly relate to (e.g. bullying; conflict of interest); the outcome of those complaints, including if they are rejected as trivial or vexatious; and any sanctions applied.	
16	Local authorities should be given the power to suspend councillors, without allowances, for up to six months.	Requires legislation. No such power now
17	The government should clarify if councils may lawfully bar councillors from council premises or withdraw facilities as sanctions. These powers should be put beyond doubt in legislation if necessary.	The law is unclear at present. Would have to be judged in a particular case.
18	The criminal offences in the Localism Act 2011 relating to Disclosable Pecuniary Interests should be abolished.	Requires legislation
19	The Local Authorities (Standing orders) (England) (Amendment) Regulations 2015 should be amended to provide that disciplinary protections for statutory officers extend to all disciplinary action, not just dismissal.	Requires legislation
20	The Local Government Transparency Code should be updated to provide that local authorities must ensure that their whistleblowing policy specifies a named contact for the external auditor alongside their contact details, which should be available on the authority's website	Requires legislation to change the Transparency Code but the Council could implement this if it chose.
21	Councillors should be listed as 'prescribed persons' for the purposes of the Public Interest Disclosure Act 1998.	Requires legislation
22	Councillors should be required to attend formal induction	Not a matter for the Council.

Appendix C

Commentary on Committee on Standards in Public Life recommendations and best practice.

No	Recommendation	Commentary
	training by their by their political groups. National parties should add such a requirement to their model group rules.	
23	Local Government Association corporate peer reviews should also include consideration of a local authority's processes for maintaining ethical standards.	Not a matter for the Council.

List of best Practice

The best practice recommendations are directed to local authorities, and we expect that any local authority can and should implement them. CSPL intend to review the implementation of our best practice in 2020.

No	Best Practice Recommendation	Commentary
1	Local authorities should include prohibitions on bullying and harassment in codes of conduct. These should include a definition of bullying and harassment, supplemented with a list of examples of the sort of behaviour covered by such a definition.	No specific mention in the current Code. There is a category of Respect.
2	Councils should include provisions in their code of conduct requiring councillors to comply with any formal standards investigation, and prohibiting trivial or malicious allegations by councillors.	No specific mention of this in the current Code. There are categories of Accountability and Respect.
3	Principal authorities should review their code of conduct each year and regularly seek, where possible, the views of the public, community organisations and neighbouring authorities.	There has not been a specific review period for the Code of Conduct

Appendix C

Commentary on Committee on Standards in Public Life recommendations and best practice.

No	Best Practice Recommendation	Commentary
4	An authority's code should be readily accessible to both councillors and the public, in a prominent position on a council's website and available in council premise.	The Code is part of the Constitution and on the Council's website as such.
5	Local authorities should update their gifts and hospitality register at least once per quarter, and publish it in an accessible format, such as CSV.	Gifts and hospitality register is part of the Protocol on Councillor Involvement in Commercial Transactions in Part 5 of the Constitution.
6	Councils should publish a clear and straightforward public interest test against which allegations are filtered.	The Council's existing Local Arrangements contain a test based on damage to the reputation of the Council
7	Local authorities should have access to at least two Independent Persons.	LCC seeks to have two Independent Persons.
8	An Independent Person should be consulted as to whether to undertake a formal investigation on an allegation, and should be given the option to review and comment on allegations which the responsible officer is minded to dismiss as being without merit, vexatious, or trivial.	This is current practice.
9	Where a local authority makes a decision on an allegation of misconduct following a formal investigation, a decision notice should be published as soon as possible on its website, including a brief statement of facts, the provisions of the code engaged by the allegations, the view of the Independent Person, the reasoning of the decision-maker, and any sanction applied.	The current Local Arrangements do not state what will happen if a decision is made on an allegation of misconduct following a formal investigation
10	A local authority should have straightforward and accessible guidance on its website on how to make a	The existing Local Arrangements are part of the Constitution and available on the website as such.

Appendix C

Commentary on Committee on Standards in Public Life recommendations and best practice.

No	Best Practice Recommendation	Commentary
	complaint under the code of conduct, the process for handling complaints, and estimated timescales for investigations and outcomes.	
11	A local authority should have procedures in place to address any conflicts of interest when undertaking a standards investigation. Possible steps should include asking the Monitoring Officer from a different authority to undertake the investigation.	The current Local Arrangements make no explicit provision for this.
12	Councils should report on separate bodies they have set up or which they own as part of their annual governance statement, and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principle of openness, and publish their board agendas and minutes and annual reports in an accessible place.	Appropriate mention is made of commercial trading activities 'in general' in the Annual Governance Statement. Assurance statements are obtained from companies as part of the background audit work but the Council's current commercial activity is limited.
13	Senior officers should meet regularly with political group leaders or group whips to discuss standards issues.	This does not happen at present specifically for standards.

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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:	25 March 2019
Subject:	Governance Review - Cultures and Values Report

Summary:

This review focuses on the Council's awareness and understanding of its culture and values - highlighting how well the Council's governance arrangements work in practice.

It is clear that the Council has well defined values that are understood and influence the culture of the authority. Although culture differences across the service areas have been found, these are seen to be beneficial for the differences between the service areas.

The review benchmarked the Council's arrangements against a best practice maturity model with a scale of 1-5.

It was concluded that overall the Council has reached Level 3 - with a good culture and ethical framework that is working well for the Council and its partners.

It is not unexpected, given the nature of the review that the results showed some mixed messages - but it does give the Council the opportunity to reflect on the findings and a platform to seek improvements.

Recommendation(s):

That the Committee consider the report and track implementation of agreed actions in its 2019 work plan.

Background

1. It is **crucial to the Council's success** that our governance arrangements are applied in a way that demonstrates the spirit and ethos of good governance – this **cannot be achieved by rules and procedures alone**. The Council is expected to have **a culture that places the public and integrity at the heart of its business**.

2. Organisations have developed a **greater awareness of their ethical obligations** in recent years – partly due to the **high profile failures** of some organisations to adhere to the Standards of Public Life.¹ The public want **services to be delivered responsibly and ethically, regardless of the provider.**

3. The Executive and Corporate Management Board have prime responsibility for **defining and analysing organisational culture** by promoting good ethics and values – **the outcome of this review aims to provide them with some insight and assurance on this.** This review helps support their **oversight** of the Council's ethical framework – recognised as a **key component** of good governance by all sectors and regulators.

4. The **scope** has encompassed key aspects of the Good Governance **Principle A- Integrity & Values:-**

 "Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law".

5. Specifically, we have focussed on five recognised 'strands' that support an effective culture and ethical framework, namely:
 - Leadership and Management
 - People
 - Culture, Values and Consistency
 - Processes and Procedures
 - Assurance and Accountability

6. The work has been co-ordinated through the Council's Governance Group (chaired by Pete Moore) with the terms of reference agreed with Corporate Management Board.

Executive Summary of the Report

7. From the beginning of our review it was clear that the Council has well defined values that are understood and influence the culture of the authority. There is recognition of some cultural differences across the wide variety of service areas the Council has, but this is seen to be more beneficial as services are so different and not considered detrimental to the overall corporate culture.

8. There was a strong positive response to our survey, workshops and interview process. Comments around the overall culture at the Council included:

*"There is an **open door** policy and people come in and **say what they think, debate is logical**"*

¹ Selflessness, integrity, objectivity, accountability, openness, honesty, leadership plus stewardship of resources

"A positive culture that is lived, not just quoted"
"Open, transparent and inclusive".

9. We found that the core values² were at the heart of what the Council does. Members and officers recorded a 100% and 97% positive response respectively that they understood the values of the Council.

Conclusions on the individual assessment criteria

10. On the basis of the evidence obtained during our review we have concluded as follows:

Strand	Assessment of maturity (scale 1 to 5)	
Leadership and Management	4	Embedded and integrated
People	3	Working
Culture, Values and Consistency	3	Working
Processes and Procedures	4	Embedded and integrated
Assurance and Accountability	3	Working

Overall Conclusion and recommendations

11. Our overall assessment is that the Council has reached **Level 3** in its governance arrangements around culture and values.

Level 3	Good culture and ethical framework is working for the Council & key partners
----------------	---

Key Findings

12. During the review we found many examples of good practice, these include,
- Clear and effective Leadership setting the 'tone from the top'.
 - Although culture can be a hard area to pinpoint we found agreement and understanding across officers and members. Individuals gave similar responses on their feeling of positive culture and values at the Council.
 - There was strong positive feedback from the workforce towards the Council as a whole. Officers and Members gave an average 95% positive response that they understand the Council's values, that they have the support of colleagues and that the Council is ethical and respectful.
 - Clear corporate values and behaviours which are threaded through employee induction and appraisal systems.

² Council's values – Professional, Resourceful, Respectful, Reflective

- Active encouragement and promotion of high standards by the Management throughout the Council.
- The feeling of confidence to empower and be empowered to take decisions
- A willingness to subject the Council's governance arrangements around culture and its ethical framework to independent review and assessment. Modify existing arrangements where possibilities exist to support further integration and embedding.

Suggested Improvements

13. It is not unexpected, given the nature of the review, the results showed some mixed messages – but it does give the Council the opportunity to reflect on the findings and a platform to seek improvements. Key areas for consideration include:

Ref	Recommendation
R1	Senior managers need to be more visible to those not based in Lincoln and On Call fire fighters. This has started to be addressed through CEX roadshows and more are planned for Spring 2019. Periodic attendance by senior management at team meetings to discuss objectives, values and culture will also help keep the connection with more remote team members.
R2	A review of lessons learnt from the recent senior leader appointments should be undertaken – with consideration of 'cultural fit' in the recruitment process.
R3	That the Head of Paid Service and new Corporate Management Board consider whether there is a need to develop a statement to describe the Council's culture – linking this to the stated Values.
R4	The appraisal process should be reviewed to ensure that the individual is at the heart of the assessment and there is adequate focus on achievement and development. Consider ways the Council can make better use of appraisal data. Currently number driven analysis should be expanded to bring out information that can be acted upon to improve workforce development.
R5	There is no specific training or e-learning around the Council's ethical framework. This should be established and cover: <ul style="list-style-type: none"> • Values and Culture of the Council • Bringing them to life on a day to day basis • Expectations around key policies such as gifts and hospitality, Whistleblowing, counter fraud, identifying and managing personal relationships at work (potential conflicts of interest)

Ref	Recommendation
R6	We suggest that employees and members are reminded of expectations around the Council's ethical values and key policies – emphasising the safe and secure whistle blowing arrangements put in place.
R7	Raise awareness across the workforce on the how to respond and report issues which may breach our codes of conduct – even if information is shared in confidence.
R8	The Council continues its review of the Overview and Scrutiny process and considers information, training, and support to enable getting the most effective challenge and pre-decision scrutiny for the Council on its key decisions.
R9	The Council uses the report on Local Government Ethical Standards by the Committee on Standards in Public Life to review the Members Code against the Committee's recommendations and update as considered appropriate.
R10	Review of declarations of interests, gifts and hospitality as per the recent audit report considering the recommendations made in the recent review by the Committee on Standards in Public Life.
R11	Consider updating the website with information on the Council's governance / ethical framework – including all relevant policies. This will help support transparency and accountability within the Council and set out expectations to those who work with or for the Council.
R12	Only about 15% of leavers since April 2015 have record of an exit interview on the system – whilst these are not mandatory managers should be reminded to encourage them wherever possible to try and increase this rate and the valuable feedback they can provide as this can help improve workforce motivation and satisfaction in the future.
R13	To include in the Audit Committees work plan areas around standards and the Council's ethical framework eg reviewing contract exceptions, member code of conduct, gifts and hospitality etc.

14. **Appendix A** provides the Committee with a copy of the report which sets out our detailed findings and recommendations. It is proposed that the Governance Group develop an action plan – monitored by the Corporate Management Board.

Conclusion

This report provides the Audit Committee with assurance around the effectiveness of the Council's governance arrangements – a key element of its terms of reference.

Consultation

a) Have Risks and Impact Analysis been carried out?

No

b) Risks and Impact Analysis

The outcome of this report aims to improve the governance arrangements of the Council - which will impact on risk culture and the way the Council conducts its business.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Governance Review - Culture and Values

Background Papers

Document title	Where the document can be viewed
Report on Local Government Ethical Standards (published January 2019)	Committee on Standards in Public Life website

This report was written by Lucy Pledge, who can be contacted on 01522 533692 or lucy.pledge@lincolnshire.gov.uk .

Governance Review – Culture and Values

March 2019

Employees

Councillors

Responses to the survey...

2534

2534 employees completed the survey



57%



46%

32

32 Councillors completed the survey

Employee's feel...

The majority of employees provided positive feedback towards the council as a whole and their opinion of the council's behaviour is positive



... Councillors feel

The majority of Councillors provided positive feedback towards the council as a whole and their opinion of the council and councillors' behaviour is overall positive

Delivers good services	They are supported	The council is ethical	They know the values	Money is used responsibly	Respected by other Councillors	The Council is ethical	They know the values
90%	96%	87%	97%	91%	97%	94%	100%

Outcome of the Assessment of Maturity...

Level 3



Good culture and ethical framework is working for the Council & key partners

Proud of where we work...

88%



88% of employees have a sense of pride working for LCC. 90% also believe LCC provides a good service to residents.

100% of Councillors are proud to sit on Lincolnshire's County Council

Whistle blowing...

91%



91% of Councillors are aware of the whistle blowing process and 89% of employees are aware of the whistle blowing process

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Distribution

Corporate Management Team
Informal Executive
Audit Committee
Governance Group

The contacts at Assurance Lincolnshire:

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Rachel Abbott CMIIA, CIA
Audit Team Leader
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Executive Summary

From the beginning of our review it was clear that the Council has well defined values that are understood and influence the culture of the authority. There is recognition of some cultural differences across the wide variety of service areas the Council has, but this is seen to be more beneficial as services are so different and not considered detrimental to the overall corporate culture.

There was a strong positive response to our survey, workshops and interview process. Comments around the overall culture at the Council included:

*"There is an **open door** policy and people come in and **say what they think**, debate is logical"*

*"A **positive culture** that is **lived**, not just quoted"*

*"**Open, transparent and inclusive**".*

We found that the core values¹ were at the heart of what the Council does. Members and officers recorded a 100% and 97% positive response respectively that they understood the values of the Council.

Conclusions on the individual assessment criteria

On the basis of the evidence obtained during our review we have concluded as follows:

Strand	Assessment of maturity (scale 1 to 5)	
Leadership and Management	4	Embedded and integrated
People	3	Working
Culture, Values and Consistency	3	Working
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¹ Council's values – Professional, Resourceful, Respectful, Reflective

Overall Conclusion and recommendations

Our overall assessment is that the Council has reached **Level 3** in its governance arrangements around culture and values.

Level 3	Good culture and ethical framework is working for the Council & key partners
----------------	---

Key Findings

During the review we found many examples of good practice, these include,

- Clear and effective Leadership setting the 'tone from the top'.
- Although culture can be a hard area to pinpoint we found agreement and understanding across officers and members. Individuals gave similar responses on their feeling of positive culture and values at the Council.
- There was strong positive feedback from the workforce towards the Council as a whole. Officers and Members gave an average 95% positive response that they understand the Council's values, that they have the support of colleagues and that the Council is ethical and respectful.
- Clear corporate values and behaviours which are threaded through employee induction and appraisal systems.
- Active encouragement and promotion of high standards by the Management throughout the Council.
- The feeling of confidence to empower and be empowered to take decisions
- A willingness to subject the Council's governance arrangements around culture and its ethical framework to independent review and assessment. Modify existing arrangements where possibilities exist to support further integration and embedding.

Suggested Improvements

It is not unexpected, given the nature of the review, the results showed some mixed messages – but it does give the Council the opportunity to reflect on the findings and a platform to seek improvements. Key areas for consideration include –

Ref	Recommendation
R1	Senior managers need to be more visible to those not based in Lincoln and On Call fire fighters. This has started to be addressed through CEX roadshows and more are planned for Spring 2019. Periodic attendance by senior management at team meetings to discuss objectives, values and culture will also help keep the connection with more remote team members.

Ref	Recommendation
R2	A review of lessons learnt from the recent senior leader appointments should be undertaken – with consideration of 'cultural fit' in the recruitment process.
R3	That the Head of Paid Service and new Corporate Management Board consider whether there is a need to develop a statement to describe the Council's culture – linking this to the stated Values.
R4	<p>The appraisal process should be reviewed to ensure that the individual is at the heart of the assessment and there is adequate focus on achievement and development.</p> <p>Consider ways the Council can make better use of appraisal data. Currently number driven analysis should be expanded to bring out information that can be acted upon to improve workforce development.</p>
R5	<p>There is no specific training or e-learning around the Council's ethical framework. This should be established and cover:</p> <ul style="list-style-type: none"> • Values and Culture of the Council • Bringing them to life on a day to day basis • Expectations around key policies such as gifts and hospitality, Whistleblowing, counter fraud, identifying and managing personal relationships at work (potential conflicts of interest)
R6	We suggest that employees and members are reminded of expectations around the Council's ethical values and key policies – emphasising the safe and secure whistle blowing arrangements put in place.
R7	Raise awareness across the workforce on the how to respond and report issues which may breach our codes of conduct – even if information is shared in confidence.
R8	The Council continues its review of the Overview and Scrutiny process and considers information, training, and support to enable getting the most effective challenge and pre-decision scrutiny for the Council on its key decisions.
R9	The Council uses the report on Local Government Ethical Standards by the Committee on Standards in Public Life to review the Members Code against the Committee's recommendations and update as considered appropriate.
R10	Review of declarations of interests, gifts and hospitality as per the recent audit report considering the recommendations made in the recent review by the Committee on Standards in Public Life.

Ref	Recommendation
R11	Consider updating the website with information on the Council's governance / ethical framework – including all relevant policies. This will help support transparency and accountability within the Council and set out expectations to those who work with or for the Council.
R12	Only about 15% of leavers since April 2015 have record of an exit interview on the system – whilst these are not mandatory managers should be reminded to encourage them wherever possible to try and increase this rate and the valuable feedback they can provide as this can help improve workforce motivation and satisfaction in the future.
R13	To include in the Audit Committees work plan areas around standards and the Council's ethical framework eg reviewing contract exceptions, member code of conduct, gifts and hospitality etc.

Reporting and next steps

Our findings and recommendations are set out in the following sections of the report. These recommendations provide a roadmap for future improvements – creating an action plan designed to sustain a culture of integrity to enhance and embed good governance across the Council.

Background

It is crucial to the Council's success that its governance arrangements are applied in a way that demonstrates the spirit and ethos of good governance – this cannot be achieved by rules and procedures alone. The Council is expected to have a culture that places the public and integrity at the heart of its business.

Organisations have developed a greater awareness of their ethical obligations partly due to the high profile failures of some organisations to adhere to the Standards of Public Life.

The public expect services to be delivered responsibly and ethically, regardless of the provider. They also need to apply high ethical standards when managing public money.

The Officer and member leadership have prime responsibility for defining and analysing organisational culture by promoting good ethics and values – this review aims to provide them with some insight on this.

Our report sets out the results of our independent assessment of how well the Council's governance arrangements work in practice on a scale of 1 to 5 – where level 5 is the highest level of maturity. The assessment is based upon the principles of good practice in good governance as recognised by:

- CIPFA / SOLACE²
- International Federation of Accountants
- Institute of Business Ethics
- Committee of Standards in Public Life
- Institute of Internal Auditors

In this context the level of ethical maturity is described as follows:

Maturity Level	Descriptor
1	Good culture & ethical framework are emerging within the Council
2	Good culture and ethical framework is happening within Council & key partners
3	Good culture and ethical framework is working for the Council & key partners
4	Good culture and ethical framework is embedded & integrated within the Council & key partners
5	Good culture and ethical framework is driving the Council

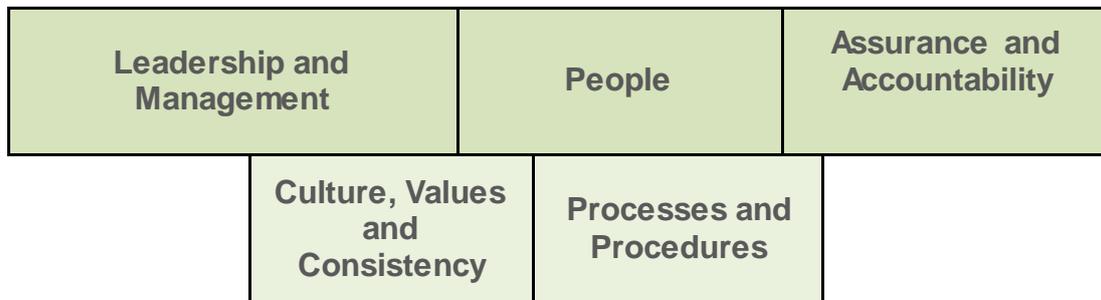
² The Chartered Institute of Public Finance and Accountancy and Society of Local Authority Chief Executives

Our Scope and objectives

The **scope** has encompassed key aspects of **Principle A - Integrity & Values** of the good practice:-

"Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law".

Specifically, we have focussed on five recognised 'strands' that support an effective culture and ethical framework, namely:



Our main **objective** has been to assess the current level of Culture and Ethical maturity across the Council and to work with you to develop an action plan to support success and continuous improvement of good governance.

Our Approach

To help us establish how your governance arrangements work in practice our approach has included the following:

- A staff **survey** (2017) and Member **survey** (2018) with questions around
 - Behaviour
 - Understanding of policies
 - Scenarios

Exploring employees and managers attitudes to certain ethical practices in the workplace and their perceptions of ethical behaviour in the organisation.

- **Data analytics** – a comprehensive review of relevant documentation and the intelligence that these show us eg complaints, staff exit interviews, whistleblowing.
- **Focus groups** to research and obtain perceptions, opinions, beliefs and attitudes around the 'ethical mind-set' on how you do your business and make decisions.
- **Discussions with key stakeholders** – including the Leader of the Council, Corporate Management Board, lead members, Heads of Service and Chairman of the Audit Committee.

Key Question

Do senior officer's and member's support and promote expectations around ethical conduct?

Why is it Important

Clear leadership from the very top level of the organisation is crucial to the Council's success. How it conducts its business is as important as what it does. Senior officer and member leaders need to recognise and actively support a culture that places the public and integrity at the heart of its business and decision making – championing this throughout the organisation.

Findings

Responses confirmed that 87% of staff and 94% of members think Lincolnshire County Council is an ethical organisation. 96% of staff and 97% of members feel respected and supported, indicating a strong positive culture.

There is a clear "tone from the top" around what Senior Management and Members expect from the organisation – communicating shared values with members, staff and the community and partners.

Leaders have defined the way that the Council expects its employees to behave and conduct themselves and this is documented in the Code of Conduct.

Ethical behaviour is also at the heart of the Council's values: Professional, Respectful, Resourceful, and Reflective.

Part 5 of the Council's constitution sets out expectations on Members standards, values and code of conduct.

During 2018 the Council saw a great deal of change in its officer leadership with four different Heads of Paid Service and the appointment of new Executive Directors. Such extensive changes in senior management inevitably bring with them differences in approach, vision, management style and cultural assumptions. This in turn can impact on the "tone from the top" and potentially blur previously clear messages about the Council's culture and values.

It is particularly important that the Council's culture and values play a key role in all stages whether that be recruitment, induction or the ongoing building of senior management relationships at such times of change.

A recent HMICFRS³ inspection of Fire and Rescue reported Staff on the whole displays a positive and friendly culture that is focused on people.

The Audit Committee terms of reference set out its role and responsibilities – this includes oversight of member standards and the Governance & Ethical Framework of the Council.

People generally thought the senior managers display corporate values and this has improved over the last decade or so. Some, especially those outside of Lincoln, felt disconnect from senior management. They felt the Council is 'Lincoln centric'. This was also the outcome in a recent Fire and Rescue inspection that reported senior managers are well regarded by most whole-time staff. They describe them as visible and approachable. However they did report On Call firefighters' disconnectedness from senior management, the County Council and its values.

Conclusion

Level 4 Good culture and ethical framework is embedded & integrated within the Council & key partners

Scope for further improvement

Ref	Recommendation
R1	Senior managers need to be more visible to those not based in Lincoln and On Call fire fighters. This has started to be addressed through CEX roadshows and more are planned for Spring 2019. Periodic attendance by senior management at team meetings to discuss objectives, values and culture will also help keep the connection with more remote team members.
R2	A review of lessons learnt from the recent senior leader appointments should be undertaken – with consideration of 'cultural fit' in the recruitment process.
R3	That the Head of Paid Service and new Corporate Management Board consider whether there is a need to develop a statement to describe the Council's culture – linking this to the stated Values.

³ Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services

Key Question

Why is it Important

Are people aware of our values, our ethical and governance framework?

People who work in or for the public sector need to understand the standards of public life and the requirements placed upon them. It is extremely important to develop, review and maintain an effective awareness and training strategy within the context of overall organisational development strategies.

Findings

Our work has told us that members and staff know what is expected of them around culture and behaviours. 97% of employees and 100% of members consulted knew the values of the Council.

There is good understanding throughout the organisation of individual and collective responsibility for maintaining high ethical standards

The organisation has a positive record for good governance & ethical decision-making. The Council regularly reviews its Constitution, Code of Conduct and Annual Governance Statement.

Our conversations further confirmed that people are aware of our frameworks for values, ethics and governance and how these link into their training, development and appraisal. Whilst people were familiar with the values they found it harder to describe culture. They felt this was not really defined and that it differed from one director area to the next.

The code of conduct and other ethical guidance are easily accessed on the Council website and people knew where to find them.

One area where knowledge of corporate values and culture requires improvement is for On Call firefighters. The recent HMICFRS inspection of Fire and Rescue reported:

'We found that many staff do not understand the service's values, or the concepts behind them. This is most notable among on-call firefighters. They describe themselves as disconnected from the senior management team at the service headquarters and the county Council. On-call station staff say they feel a greater sense of identity with their local community

than with the fire and rescue service. As a result, some on-call stations have developed their own values that they view as more relevant'.

We evidenced a number of examples of good practice:

- Induction process for staff which includes reference to the Code of Conduct and Council values framework.
- Values and culture questions included in the staff survey.
- A complaints process that ensures that outcomes and actions are reported to back to services as well as members through Audit committee meetings— supporting resolution and future learning to take place.
- There is good awareness values and behaviours expected in delivering services to the public.
- 96% of staff feel they are supported.
- 97% of staff saying they know the values.
- Good working relationships with the Unions through the JCC panel.

We asked staff for suggestions on 'what would improve the way the Council is run / operates?' The following areas were mentioned:

- Less focus on statistics and more focus on individuals and the value they add.
- Building better relationships with partners.
- The positive steps being taken to develop a next generation workforce.
- Use the power of informal conversation to strengthen relationships and create inclusive decision making.
- Continue to encourage people to be open and honest so learning can continue.
- Work better with customers – engage with them rather than impose on them.

For Members the following suggestions were made:

- More opportunity for informal discussions and information sharing between members and officers.
- Easier ways to do things online.
- Better communication links that are effective across the whole county.
- More information sharing with Councillors.

Conclusion

Level 3 Good culture and ethical framework is working for the Council & key partners

Scope for further improvement

Ref	Recommendation
R4	<p>The appraisal process should be reviewed to ensure that the individual is at the heart of the assessment and there is adequate focus on achievement and development.</p> <p>Consider ways the Council can make better use of appraisal data. Currently number driven analysis should be expanded to bring out information that can be acted upon to improve workforce development.</p>
R5	<p>There is no specific training or e-learning around the Council's ethical framework. This should be established and cover:</p> <ul style="list-style-type: none"> • Values and Culture of the Council • Bringing them to life on a day to day basis • Expectations around key policies such as gifts and hospitality, Whistleblowing, counter fraud, identifying and managing personal relationships at work (potential conflicts of interest)

Key Question

How does the organisation perceive member and management's commitment to compliance?

Why is it Important

This question is about the effectiveness of action taken for bad practice across all levels of the organisation. It is vital that bad practice is handled appropriately and proportionately as this influences people's attitudes, habits and behaviours.

Senior leaders need to encourage and support people to raise concerns without fear of reprisal – learning from mistakes and promoting a 'just culture'.

Ethics is about making choices. Decisions about right and wrong are part of everyday life. Delivering services in the public sector it's about –

'doing the right things in the right way – putting the public interest in decision making at all times'

It is widely accepted that ethics begins where the law ends – consequently ethical decisions commonly inhabit what are referred to as 'grey areas' where the course of action invariably is not a simple black/white decision. Differences in opinion, upbringing and experience influence people's **behaviours** and **attitudes** at work. We asked a number of questions to test this out – the results showed:

- Members overwhelmingly selected the 'most ethical' answer.
- there were a very small number of outliers stating that it was 'totally acceptable' to:
 - accept gifts from a potential supplier or contractor at the time of awarding contracts
 - recommend family or friends when awarding contracts or recruiting for a job

Policy and procedures do exist to help manage potential conflicts of interest but the above does indicate that it may be worthwhile reminding members and staff of some of these.

89% of employees and 87% of members are aware of the Council's whistleblowing facilities and 100% of members are aware of the role of the Council's monitoring officer.

Generally people felt the Council makes it easy to report wrong doing and were confident that if they reported wrong doing it would be followed up. There were some instances of people disclosing concerns regarding behaviour to peers in confidence. Generally these confidences were maintained, when it would have been in the interest of the individual and the Council for confidence not to be accepted and the concerns escalated.

Discussions at focus groups provided feedback that the Council responds fairly to serious mistakes. They recognised the need to manage each case differently and talked about people needing to take, and be held to account for their actions and they recognised that this is not the same as blame.

Employees at all levels talked about accountability and decision making. They felt that managers at all levels demonstrated willingness to empower people to make decisions.

Our discussions verified that people thought communication between members, officers, suppliers and contractors is open and honest with good relationships established. We did get feedback from some stakeholders on the quality of information to scrutiny in terms of timing and also support of officers. They felt this could be improved to inform members of options sooner and to provide more information to allow them to fully appraise all options.

The East Midlands Councils completed a review over scrutiny arrangements, making a number of recommendations that were implemented by the Council from May 2017. Work is currently being undertaken to review what difference this has made and if any further improvements could be made. This should take account of feedback from this review.

We noted that the Council's member code of conduct was established in 2012. Expectations and good practice has changed since and the recent publication of the report on Local Government Ethical Standards by the Committee on Standards in Public Life provides the Council with an opportunity to review the Members Code against the Committee's recommendations.

Conclusion

Level 3 Good culture and ethical framework is working for the Council & key partners

Scope for further improvement

Ref	Recommendation
R6	We suggest that employees and members are reminded of expectations around the Council's ethical values and key policies – emphasising the safe and secure whistle blowing arrangements put in place.
R7	Raise awareness across the workforce on the how to respond and report issues which may breach our codes of conduct – even if information is shared in confidence.
R8	The Council continues its review of the Overview and Scrutiny process and considers information, training, and support to enable getting the most effective challenge and pre-decision scrutiny for the Council on its key decisions.
R9	The Council uses the report on Local Government Ethical Standards by the Committee on Standards in Public Life to review the Members Code against the Committee's recommendations and update as considered appropriate.

Key Question

Are there clear policies and procedures for standards of conduct, linked to the CIPFA / SOLACE Delivering Good Governance Framework – Principle A – Integrity & Values?

Why is it Important

Policies and procedures need to be user-friendly, understood and accessible to clarify expectations around conduct and behaviour – the culture and values of the organisation. They need to be flexible enough to allow for changes faced by the sector in general.

Findings

Currently the Council's governance framework is based on the following:

- Delivering Good Governance in Local Government Framework 2016 Edition CIPFA.
- Audit Committee.
- Governance Framework and Annual Governance Statement.

During 2016 we benchmarked the Council against the CIPFA Delivering Good Governance in Local Government Framework. This provided substantial assurance around the quality of the Council's governance processes and procedures.

Our review evidenced a commitment to setting expectations around ethical governance – integrity and values in the following ways:

- We confirmed that a code of conduct is in place.
- The Council has counter fraud and whistleblowing policies.
- A complaint policy is in place.
- Financial regulations are in place that set out expectations and accountabilities and are in the process of being updated.
- There is an effective risk management strategy and process in place.
- A gifts and hospitality policy and register is in place - although we acknowledge that the process needs improvement following a recent Internal Audit.

Our examination of the documents in place confirmed that the policies are fit for purpose as well as being up to date. Those reviewed also included the constitution, disciplinary policy and procedures, grievance policy and procedures, recruitment and

selection, and records management.

We recently conducted an audit of register of interests, gifts and hospitality which made some recommendations around updating the policy to ensure clarity and consistent application. A recent review by the Committee on Standards in Public life highlighted some recommended actions in relation to declarations of interest, gifts and hospitality. These recommendations should be considered as part of the review.

Our review of the Council's website confirmed that although documents and policies can be found it was not easy to navigate or identify the Council's local code of corporate governance eg how the Council is run, its values and code of conduct, Annual Governance Statement.

Conclusion

Level 4 Good culture and ethical framework is embedded & integrated within the Council & key partners

Scope for further improvement

Ref	Recommendation
R10	Review of declarations of interests, gifts and hospitality as per the recent audit report considering the recommendations made in the recent review by the Committee on Standards in Public Life.
R11	Consider updating the website with information on the Council's governance / ethical framework – including all relevant policies. This will help support transparency and accountability within the Council and set out expectations to those who work with or for the Council.

Key Questions

Does the organisation have assurance that its governance framework is working well?

How effective is the structure for monitoring ethical conduct and enforcing accountability?

Why is it Important

This is about the day to day reality, and specifically about the extent to which governance issues are handled well. The organisation needs to have assurance that its governance arrangements work well in practice – giving the public an open and honest account on any significant governance issues it is facing.

Findings

The public want services to be delivered responsibly and ethically, regardless of the provider. They also need to apply high ethical standards when managing public money⁴.

Organisations have developed a greater awareness of their ethical obligations in recent years – partly due to the high profile failures of some organisations to adhere to the Standards of Public Life⁵.

Our review provides strong evidence that governance framework work well.

Turnover of staff and staff sickness levels are two strong indicators of an effective governance framework. Staff turnover of 10.92% falls within the 'healthy' national of 10-12% and sickness averaged 6.1 days per employee against a target of 7.5 at the end of Dec 17.

Exit interviews are available to all leavers if they wish to partake. Currently only 15% of leavers have an exit interview on record. These interviews can provide valuable insight into culture, ethics and improvements to the employee experience so whilst not mandatory managers should encourage these to be completed.

Records of Council disciplinary hearings show the most frequent reason is Behaviour, along with standards of work, demonstrating the Council's strong approach to dealing with issues relating to behaviour.

Statistics on use of the whistleblowing line demonstrate that

⁴ The Committee on Standards in Public Life – The Continuing Importance of Ethical Standards for Public Service Providers – May 2018

⁵ Selflessness, integrity, objectivity, accountability, openness, honesty, leadership plus stewardship of resources

this is a trusted confidential reporting mechanism and that both employees and the public are confident to use it.

Complaints are monitored and reported to audit committee annually and do not identify any trends in relation to complaints about ethics or behaviours.

The Council has an annual 'Combined Assurance report' which is reported to the Corporate Management Board and Audit Committee with the support of its Internal Auditors – Assurance Lincolnshire.

This process provides an assurance overview of the Council's critical services is reviewed by senior management and members and provides information and supports the Annual Governance Statement and the Annual Internal Audit Plan.

The Council produces an Annual Governance Statement. It requires an organisation to report publicly on the extent to which they comply with their own governance arrangements on an annual basis.

Whilst the Audit Committee Terms of Reference requires them to review matters in relation to standards the only work undertaken in recent times is to receive the annual report on complaints.

Conclusion

Level 3 Good culture and ethical framework is working for the Council & key partners

Scope for further improvement

Ref	Recommendation
R12	Only about 15% of leavers since April 2015 have record of an exit interview on the system – whilst these are not mandatory managers should be reminded to encourage them wherever possible to try and increase this rate and the valuable feedback they can provide as this can help improve workforce motivation and satisfaction in the future.
R13	To include in the Audit Committees work plan areas around standards and the Council's ethical framework eg reviewing contract exceptions, member code of conduct, gifts and hospitality etc.

Appendix 1 – Some useful definitions

Governance



"Achieving the Intended Outcomes While Acting in the Public Interest at all Times"

It is comprised of systems, processes, culture and values, by which the Council is directed and controlled and through which they account to shareholders on their stewardship.

The public want all providers of public services to adhere to and operate by common ethical standards, regardless of whether they are in the private, public or voluntary sectors. For the public "how" things are done are as important as "what" is done⁶.

Good Governance can mean different things to people – in the public sector it means:

"Achieving the Intended Outcomes While Acting in the Public Interest at all Times"

"If management is about running the business – governance is about seeing that it is run properly"⁷

It means:

- **Reflecting the organisations values** – the principles and standards underpinning the way we interact with others to support excellent service delivery
- **Behaviour** – the way we conduct ourselves and act out those values as part of our day to day functions in business operations and service delivery (the principles of public life). How this is perceived by colleagues, members of the public, partners, suppliers and the media
- **Good governance** – achieving business success by having the good systems and processes in place to run the organisation well

It means distinguishing between:

- **Simple mistakes or errors** – individuals should not be 'blamed' for things going wrong but they should be held accountable for their actions and learn from mistakes
- **Risky behaviour** – having a strong risk and control culture. Clearly understanding your risks and their potential impact. Where risk decisions need to be improved then individuals should be coached and educated to be more careful
- **Reckless behaviour** – systems and processes set up to encourage people to comply but where they deliberately over-ride controls – action is taken

⁶ Committee on Standards of Public Life – Ethical Standards for providers of public services

⁷ Robert Tricker. An expert in Corporate Governance.

Public Interest

The definition of public interest is complex and can vary but a useful way to think about the 'public interest test' is to reflect on the following.

It's more than putting self-interest aside – it also includes the spirit of public services (integrity and transparency).

The public want services to be delivered responsibly and ethically, regardless of the provider. They also need to apply high ethical standards when managing public money⁸.

Organisations have developed a greater awareness of their ethical obligations in recent years – partly due to the high profile failures of some organisations to adhere to the Standards of Public Life.⁹

It's about:

- Ensuring that private interests do not interfere with the broader public interest considerations (social responsibility).
- Making sound decisions and informed judgements with an evidenced based decision making process – avoiding suggestion of private gain
- As part of the decision making rationale to not only think about 'what' you are doing but 'how' and 'should' you do it. You still may go ahead but you will have a more informed rationale.
- Having an 'ethical mind-set' – it's about the Leadership Team looking at high profile cases where something has gone wrong and asking yourself - could it happen here? If it did would we get to know about it?
- Taking care that own political and intellectual priorities and prejudices do not interfere with their judgement or their responsibilities
- Managing conflicts as they inevitably arise – in a transparent and appropriate manner

⁸ The Committee on Standards in Public Life – The Continuing Importance of Ethical Standards for Public Service Providers – May 2018

⁹ Selflessness, integrity, objectivity, accountability, openness, honesty, leadership plus stewardship of resources

What we do best...

Innovative assurance services

Specialists at internal audit

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...and what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

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

Disclaimer

The matters raised in this report are only those which came to our attention during our internal audit work. Our quality assurance processes ensure that our work is conducted in conformance with the UK Public Sector Internal Audit Standards and that the information contained in this report is as accurate as possible – we do not provide absolute assurance that material errors, fraud or loss do not exist.

The Head of Audit is only responsible for the due professional care in developing the advice offered to managers on risk, control and governance issues. Where managers accept our advice they accept the accountability for the consequences of implementing the advice. Internal Auditors working in partnership with managers during the consultancy assignment will not take part in any sign off decision.

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



Regulatory and Other Committee

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

Report to:	Audit Committee
Date:	25 March 2019
Subject:	Work Plan

Summary:

This report provides the Committee with information on the core assurance activities currently scheduled for the 2019 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 2020
2. Consider the actions identified in the Action Plan

Background

The work plan has been compiled 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 23 September 2019).

Appendix B – keeps track of actions agreed by the Committee and future potential agenda items.

The following additional meeting dates are planned:

- **20 May 2019 (pm)** – a workshop looking at Northamptonshire County Council. Picking up from the 19 December 2018 workshop – looking at culture and accountability and the improvement plan.
- **17 June 2019 (pm)** – workshop to undertake a review of Committee effectiveness supporting the development of the Committee's annual report to Council.

Conclusion

The work plan helps the Audit Committee effectively deliver its terms of reference and keeps track of areas where it requires further work and/or assurance.

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	Work plan
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 .

Audit Committee Work Plan 2019

25 March 2019		
Item	Contributors	Assurances Required/ Sought
External Audit Strategies – Lincolnshire County Council and Pension Fund 2018/19	Mike Norman (Senior Manager, Mazars)	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.
Draft Internal Audit Annual Plan 2019/20	Lucy Pledge (Audit and Risk Manager)	<p>That the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion.</p> <p>Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year.</p>
Review of Governance Framework and development of the Annual Governance Statement 2018/19	Lucy Pledge (Audit and Risk Manager)	<p>Confirm that the Annual Governance Statement reflects the Committee's understanding of how the Council is run and that any significant governance issues / risks have been identified / published.</p> <p>Constructively challenge the information and evidence being presented.</p> <p>Ensuring value for money assurance arrangements are reported on and assessing how this features in the Annual Governance Statement.</p> <p>Improving how the Council discharges its responsibilities for public reporting e.g. better targeting at the audience and plain English</p>
Counter Fraud Annual Plan 2019/20	Matt Drury (Principal Investigator)	<p>Gain assurance that the Council has effective arrangements in place to fight fraud locally.</p> <p>Ensure that counter fraud resources are targeted to the Council's key fraud risks.</p>
International Audit Standard – Response to Management Processes Questions	Dianne Downs (Team Leader – Audit)	Seek assurance that the statements made against the standard accurately reflect the Council's counter fraud arrangements.

Statement of Accounts 2018/19 – Accounting Policies	Sue Maycock (Head of Finance – Corporate)	Seek assurance that the statements made against the standard accurately reflect the Council's counter fraud arrangements.
Changes to the Council's Contract Regulations	Sophie Reeve (Chief Commercial Officer)	Maintain an overview of the Council's Constitution.
Internal Audit Progress Report	Rachel Abbott (Team Leader – Audit)	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.
Member Standards Arrangements	David Coleman (Chief Legal Officer)	Monitoring the operation of the Members' Code of Conduct. Advising the Council on the adoption or revision of the Members' Code of Conduct.
Governance Review – Culture and Values Report	Lucy Pledge (Audit and Risk Manager)	Seek assurance around the effectiveness of the Council's governance arrangements
IMT Assurance	John Wickens, Chief Digital Officer	Seek assurance on the progress in addressing the IT issues which have been identified to the Committee Actions being taken to improve control regime and assurance levels

17 June 2019		
Item	Contributors	Assurances Required/ Sought
External Audit Progress Report	Mike Norman (Senior Manager, Mazars)	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.
Annual Governance Statement	Lucy Pledge (Audit and Risk Manager)	Confirm that the final Annual Governance Statement accurately reflects the Committees understanding of how the Council is run and any comments made on the draft have been acted upon.
Approval of Counter Fraud Annual Report 2018/19, reviewing the delivery of the Counter Fraud Work Plan.	Dianne Downs (Team Leader – Audit)	On the overall effectiveness of the Authority's arrangements to counter fraud and corruption.

17 June 2019

Item	Contributors	Assurances Required/ Sought
Review of Head of Internal Audit's Annual Report and Opinion 2018/2019	Lucy Pledge (Audit and Risk Manager)	<p>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.</p> <p>To consider how well the Internal Audit Functions is performing:</p> <ul style="list-style-type: none"> • Is it what you want – independent, objective and provide a knowledgeable view of how well the Council is being run? • Conforms to the Public Sector Internal Audit Standards? • Has an effective Quality Assurance framework? • Successfully delivers results that make a difference in how well the Council is run?
External Audit Grant Certification Report	Mike Norman (Senior Manager, Mazars)	Seek assurances that claims and returns have been managed appropriately and that there are no significant errors that would result in loss of funding.
Draft Statement of Accounts	Sue Maycock (Head of Finance – Corporate)	<p>By asking questions (supported by independent advisor), confirm the integrity of the Council's financial statements prior to audit/publication.</p> <p>Improving how the Council discharges its responsibilities for public reporting e.g. better targeting at the audience and plain English.</p>

22 July 2019

Item	Contributors	Assurances Required/ Sought
Approval of Audit Committee Annual Report	Lucy Pledge (Audit and Risk Manager)	Provide assurance that the Committee has adequately discharged its terms of reference and has positively contributed to how well the Council is run.
External Audits ISA 260 Report to Those Charged with Governance on Lincolnshire County Council's Statement of Accounts and Lincolnshire County Council Pension Fund Accounts for 2018/19	Mike Norman (Senior Manager, Mazars)	<p>Consider the outcome of the External Audit and the appropriateness of management responses.</p> <p>Consider any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council</p>

22 July 2019		
Item	Contributors	Assurances Required/ Sought
Final Statement of Accounts for Lincolnshire County Council for the year ended 31 March 2019	Sue Maycock (Head of Finance – Corporate)	Ensure that the explanatory forward to the accounts help the public understand the authority's financial management of public funds.
Internal Audit Progress Report	Rachel Abbott (Team Leader – Audit)	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.
Review of Audit Committee's Terms of Reference and Update of the Audit Charter	Lucy Pledge (Audit and Risk Manager)	Provide assurance that the Committee terms of reference meets good practice for an effective Audit Committees. Provide assurance that the Internal Audit function terms of reference meets good practice and conforms to the Public Sector Internal Audit Standards
Review and Approval of Financial Procedures – Risk and Audit	Lucy Pledge (Audit and Risk Manager)	To monitor the effective development and operation of risk management, internal control and corporate governance in the Council

23 September 2019		
Item	Contributors	Assurances Required/ Sought
Internal Audit Progress Report	Rachel Abbott (Team Leader – Audit)	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.
External Audit Progress Report	Mike Norman (Senior Manager, Mazars)	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.
Update on strategic risk register	Debbie Bowring (Principal Risk Officer)	Seek assurance that risk-related issues are being addressed.

23 September 2019

<p>Counter Fraud progress report (including Fraud Risks Register)</p>	<p>Matt Drury (Principal Investigator)</p>	<p>Confirm that the Council's counter fraud activity is targeted and effective.</p> <p>Ensure that appropriate progress is being made on the delivery of the Counter Fraud plan.</p> <p>Ensure that lessons have been learnt – understand fraud risks facing the Council and actions being taken to reduce the risk</p>
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Appendix B

Audit Committee Action Plan 2019			
Action	Terms of Reference Outcome	Key Delivery Activities	When
1. Clarify who should attend the Audit Committee and expectations on the information being presented.	<p>Ensure that relevant and focussed reports are presented. Provide more certainty that assurance is relevant and reliable</p> <p>Promote constructive challenge during meetings</p> <p>Strengthen accountability arrangements and the effectiveness of the Audit Committee</p>	Develop reporting protocol	<p>May 2018</p> <p>Revised to June 2019</p>
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	Completed
		New Committee members appointed – work with new Committee to draw up a training and development plan	Briefing on Counter Fraud – September meeting
		Recruit an additional 'independent' member	Completed
		Deliver risk management training and awareness for members and staff	Delivered
		Ensure that there is a private meeting with External Auditor at least once a year.	Agreed. Next one will take place in March 2019

Audit Committee Action Plan 2019

		End of meeting debrief / lunch	Chairman to arrange as required
		Briefing / update on key risks between meetings	Noted
		Arrange meeting with CMB	Completed
3. A report be brought back to the Committee on the general learning points around what happened in Northamptonshire, including the role of the Audit Committee	Improve effectiveness of the committee		Completed

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Agenda Item 15

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

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