

County Offices
Newland
Lincoln
LN1 1YL

5 June 2020

In accordance with the powers granted by the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 this will be a virtual meeting.

Audit Committee

A meeting of the **Audit Committee** will be held on **Monday, 15 June 2020 at 10.00 am as a Virtual - Online Meeting via Microsoft Teams** for the transaction of the business set out on the attached Agenda.

Access to the meeting is as follows:

Members of the Audit Committee and officers of the County Council supporting the meeting will access the meeting via Microsoft Teams.

Members of the public and the press may access the meeting via the following link: <https://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=133&MId=5490&Ver=4> where a live feed will be made available on the day of the meeting.

Yours sincerely



Debbie Barnes OBE
Chief Executive

Membership of the Audit Committee

(7 Members of the Council and 2 Non-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

Non-Voting Added Members

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

**AUDIT COMMITTEE AGENDA
MONDAY, 15 JUNE 2020**

Item	Title	Pages	Estimated Time
1	Apologies for Absence	~	~
2	Declarations of Members' Interests	~	~
3	Minutes of the meeting held on 10 February 2020	5 - 16	~
4	Statement of Accounts 2019/20 - Accounting Policies <i>(To receive a report by Sue Maycock (Head of Finance – Corporate), which invites the Committee to approve the Statement of Accounting Policies, as detailed in the report)</i>	17 - 60	10.10 am
5	Review of Governance Framework and development of the Annual Governance Statement 2019/20 <i>(To receive a report by Lucy Pledge (Head of Internal Audit and Risk Management), 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>	61 - 92	10.25 am
6	External Audit Strategies - Lincolnshire County Council and Lincolnshire Pension Fund 2019/20 <i>(To receive a report by Mike Norman (Senior Manager, Mazars), which invites the Committee to consider the external audit strategies and progress report and to identify any further information or actions that may be required)</i>	93 - 142	10.40 am
7	Counter Fraud Annual Report 2019/2020 <i>(To receive a report by Dianne Downs (Team Leader – Counter Fraud and Investigations), which provides information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption and reviews the delivery of the 2019/20 counter fraud work plan)</i>	143 - 164	10.55 am
8	Internal Audit Progress Report <i>(To receive a report by Lucy Pledge (Head of Internal Audit and Risk Management), which provides detail of the audit work completed to 22 May 2020; updates on progress of the 2019/20 plan; and advises on progress on the 2020/21 plan and the impact of Covid19)</i>	165 - 200	11.10 am

9	Forward Plan <i>(To receive a report by Lucy Pledge (Head of Internal Audit and Risk Management), which invites the Committee to consider its forward plan for the coming year)</i>	201 - 210	11.25 am
10	REPORTS FOR INFORMATION <i>(These reports are for information only and do not require discussion at this time. Any issues the Committee feel require discussion can be highlighted under the work plan and scheduled for a future meeting. As these reports are for information only, they will only be circulated electronically)</i>	~	~
	10a Fee Scale for the Audit 2020/21 and update on 2019/20	211 - 214	~

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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



AUDIT COMMITTEE 10 FEBRUARY 2020

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

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

Also in attendance: Mr I Haldenby (Independent Added Member) and Mr A Middleton (Independent Added Member).

Officers in attendance:-

Debbie Barnes OBE (Chief Executive), Debbie Bowring (Principal Risk Officer), Les Britzman (Chief Fire Officer), Andrew Crookham (Executive Director Resources), James Drury (Executive Director Commercial), Cheryl Evans (Democratic Services Officer), Glen Garrod (Executive Director - Adult Care and Community Wellbeing), Michelle Grady (Assistant Director for Strategic Finance), Andy Gutherson (Executive Director Place), Andrew Hancy (Head of Business Support), Shagofta Noreen (Corporate Project Support Officer), Lucy Pledge (Head of Internal Audit and Risk Management), Mark SurrIDGE (External Auditor, Mazars), Jill Thomas (Principal Auditor) and Fiona Thompson (Head of Human Resources).

41 APOLOGIES FOR ABSENCE

There were no apologies for absence.

42 DECLARATIONS OF MEMBERS' INTERESTS

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

43 MINUTES OF THE MEETING HELD ON 18 NOVEMBER 2019

RESOLVED

That the minutes of the meeting of the Audit Committee held on 18 November 2019 be approved and signed by the Chairman as a correct record.

44 COMBINED ASSURANCE REPORTS - 2019/20

The Chairman congratulated Debbie Barnes OBE on her recent appointment as Chief Executive of Lincolnshire County Council.

The report provided an insight on the assurances across all the Council's critical services, key risks, partnerships and projects. The Corporate Leadership Team was in attendance to present their respective area.

Chief Executive Summary

The Chief Executive's summary was set out on page 22 of the agenda pack. The Chief Executive highlighted the substantial assurance for the Council and stated that over the last twelve months there had been a change in leadership with the appointment of a new Chief Executive; and three new Executive Directors. It was also highlighted that interviews were scheduled to appoint to the post of Executive Director of Children's Services.

Strategic Risks

The Strategic Risks were set out on pages 23 – 24 of the agenda pack. The Chief Executive highlighted there were four critical areas of risk. The first was the uncertainty over the long-term funding for local government, in particular for adult social care; and the increase in demand for special educational needs and disabilities services remained a risk. The Council continued to lobby for fairer funding, which aimed to improving the distribution of funding and address some of the challenges of delivering services in a rural county.

The second area of risk related to the priority for an integrated health and care system, which was being mitigated by the appointment of a seconded senior manager to lead on the neighbourhood team initiative. In response to a question, it was advised that the pace of change in this area was slow, which was due in part to the NHS needing to seek approval of any proposed changes at a national level.

The third area of risk was IMT. The roll out of windows 10 machines had led to greater staff satisfaction and the implementation of Office 365 would further improve user experience. The Committee was assured that this was an improving area and employees were advising that systems had become more reliable.

The fourth area of risk was workforce, where there was a challenge to recruit in certain areas, such as social work; legal services; and engineers.

In response to a question, it was hoped that the Lincoln Medical School would assist with recruitment of medical staff across the County. Particular reference was made to the retention and recruitment of staff for NHS roles, particularly in a rural county.

NOTE: Andrew Middleton (Independent Added Member) wished it to be noted that he was the lay Vice-Chairman of South West Lincolnshire Clinical Commissioning Group.

Adult Care and Community Wellbeing (AC&CW)

The key messages of the Executive Director of Adult Care and Community Wellbeing were set out of pages 25 – 26 of the agenda pack.

The Executive Director highlighted that the Wellbeing Service, which was delivered in partnership with district councils, was working well. Approximately 8,000 people benefited from this service each year.

Work was being undertaken on *Team Around the Adult* which would involve multi-agency partnership working based around each individual. It was anticipated that this could be rolled out in the summer of 2020.

The occupational therapy service had been reorganised to better align with district councils. A sum of £6 million was spent each year on adaptations, with district councils working closely with the County Council on this. It was noted that in line with national trends, it was working age people with high intensive support needs who generated the highest expenditure.

In terms of workforce, AC&CW had adopted a policy of 'grow your own' and, alongside the introduction of apprenticeships, were supporting up to twelve unqualified fieldworkers to become qualified as social workers or occupational therapists which would aim to replace staff, who were retiring and where such roles were hard to recruit.

It was intended that neighbourhood teams would reduce pressures on GPs and hospitals.

In response to questions, the following points were noted:

- The backlog of financial assessments had been cleared, owing to a change in charging practices; the digitisation of systems; and a change in the focus of the main contractor.
- There was a relatively stable and well-resourced residential care sector in Lincolnshire. For home care there was a turnover rate of around 30%, and there was a need for care workers to have recognition and status similar to that in the NHS. Withdrawal from the European Union was considered a relatively low risk for the sector, compared to the 30% turnover rate, which represented a challenge in Lincolnshire as elsewhere.
- A report on the *Team Around the Adult* initiative was requested for one year's time.

Children's Services

The Directors' key messages were outlined on page 27 of the agenda pack. The Chief Executive was pleased to report that this had been a successful year for Children's Services which had been judged *Outstanding* by Ofsted.

It was also highlighted that inspections in Children's Public Health and Special Educational Needs and Disabilities (SEND) had also secured enviable outcomes.

In response to the Committee's questions on the key messages, the following points were noted:

- Reference was made to the national review being led by Tony McArdle, as the Chair of the SEND System Leadership Board, and the Council's expected outcomes of the review. It was hoped that the review would identify the need

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for a ring-fenced budget for SEND school funding allocations, rather than a notional budget.

- There was a link between attainment and free school meals. The Council was undertaking targeted work with schools aimed at reducing the attainment gap.
- The Council had introduced a SEND Strategy with an investment of £50-60 million of capital funding to increase capacity. The main aim of the strategy was to meet the needs of children with SEND closer to home and to reduce travel across the county.

NOTE: Ian Haldenby (Independent Added Member) wished it to be noted that he had family members with special needs.

The Committee welcomed the SEND Strategy and the improvements it would introduce to the higher needs offer across Lincolnshire.

Resources

The Executive Director – Resources key messages were detailed on pages 28 – 29 of the agenda pack.

The Executive Director highlighted that corporate oversight of the capital programme would be implemented during 2020-21.

The outcomes of a risk review in 2019 would see improvements in corporate oversight; reporting consistency; and measurable controls.

There had been short term resourcing issues in internal audit. Temporary staffing had provided short term assurance and the recruitment to permanent posts.

The overview and scrutiny function had been identified as a potential area of improvement by the LGA Corporate Peer Review. The outcomes of a scrutiny review currently underway would seek to increase the effectiveness of this function.

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

- There was a national shortage of lawyers in the legal childcare area and short term measures had been introduced by the Council, including the use of private practice in maintain provision. It was advised that a key factor was that local government pay structures could not compete with those of private practice, which had made it difficult to recruit to positions on a permanent basis.
- Debtors – there had continued to be poor performance of the recovery of aged debt. It was suggested that this could be an area for overview and scrutiny.
- The Information Assurance Annual Report would include detail on the records management project.
- Work was being undertaken with Internal Audit to improve the processes around starters and leavers of the council.

- It was acknowledged that the changes in risk status was as a result of work being undertaken by the new Executive Directors to review and assess areas of risk in their departments, which had resulted in some movement in risk ratings.

Commercial

The Executive Director – Commercial's key messages were set out on pages 30 – 31 of the agenda pack.

It was highlighted that the new directorate had been formed in April 2019 and comprised of: IMT; Property; Commissioning / Commercial; and Transformation and Performance.

It was advised that the 10% of the risks that had been deemed 'red' equated to six critical activities, with five of these in IMT and one in Commissioning / Commercial. Those in IMT had related to old infrastructure, servers and systems which had become high risk. This was now being addressed and the *Fixing the Basics* programme had focused on urgent upgrades.

The other critical activity had related to resources and capacity in the Commissioning / Commercial Team. Demand in the Team had increased over recent years without a corresponding increase in capacity.

In response to questions, the following points were noted:

- Work was being undertaken to rationalise the County Council's estate. The co-location of the blue light collaboration project was highlighted as a success.
- It was advised that most of the *Fix the Basics* programme should be completed within three months. However, there were some further areas of activity which had been highlighted as part of this project and it was hoped that these would be completed within twelve months.
- It was highlighted that the Council had recently agreed its ten year Corporate Plan, in which property management was a component.
- It was likely IMT would remain as an amber / red risk in future, as it was a complex area, with ever changing circumstances. However, as projects progressed they would move into the green.
- It was confirmed that the Council would support the farm estate tenants through the challenges of the withdrawal from the European Union.

Place

The Executive Director – Place's key messages were outlined on pages 32 – 33.

The Executive Director advised that most services delivered were *universal* services and this had created a high level of customer demand and expectation. The Executive Director was pleased to report there had been a reduction in the number of formal complaints received.

It was recognised that there was a need to improve the flow of information between officers and councillors.

Across all the services there was an element of uncertainty in that external factors could create pressures on service activity. For example, the level of rainfall over the last twelve months had added a significant burden onto the drainage systems across the County and as a consequence a significant rise in Section 19 investigations and resultant identified necessary works.

In response to questions, the following points were noted:

- It was advised that through the new Highways 2020 contract, it was anticipated that councillors would be provided with a user friendly dashboard to enable them to report and track issues within their community. Customers would continue to report faults via the fix my street interface.
- Environment, Resilience and Climate Legacy was likely to remain as an amber risk, as it was an ever changing environment.

Fire, Rescue and Public Protection

The Chief Fire Officer's key messages were detailed on page 34 of the agenda pack.

It was advised that the Directorate was formed in April 2019 and covered: Fire and Rescue; Emergency Planning and the Lincolnshire Local Resilience Forum; Coroner's Service; Birth, Deaths and Marriage Registrations; and Public Protection.

It was highlighted that succession planning had been identified as a red risk, which had primarily related to middle manager levels such as station managers, but also to key specialist areas such as fire protection. Work was underway to consider criteria, progression frameworks and remuneration to make key managerial roles more attractive.

The asset management system project had been identified as a red risk, owing to the high obligations Fire and Rescue had to manage the safety of its critical equipment under regulations such as LOLER [Lifting Operations and Lifting Equipment Regulations 1998] and PUWER [Provision and Use of Work Equipment Regulations 1998]. The Committee was assured this would be completed by June 2020.

Corporate

The Chief Executive's key messages were detailed on page 35.

The Chief Executive highlighted that the directorate's objective was to drive the accomplishment of the Council's Corporate Plan, embedding the *One Council* approach to ensure services were working together more effectively for the people of Lincolnshire. This would be completed through effective communication with residents and partners.

The Chairman thanked the Chief Executive and Executive Directors for their attendance at the meeting.

RESOLVED

That the update be noted.

(NOTE: At this point in proceedings, the Committee adjourned from 12.25pm to 12.40pm.

At this stage, Councillor A J Spencer left for the remainder of the meeting.)

45 EXTERNAL AUDIT PROGRESS REPORT - FEBRUARY 2020

Consideration was given to a report from Mark SurrIDGE (Mazars), which set out progress on the delivery of the Council's and Pension Fund External Audit for 2019/20.

It was stated that the interim report had commenced in February 2020 and the external audit would be completed in July 2020. It was noted that the Committee would receive an update at its meeting scheduled in March 2020 on any matters arising from the interim work.

The Value for Money risk assessment for the County Council audit was in progress and had been focused on the Council's arrangements for sustainable resource deployment and its medium term budget pressures. At this stage, based on their findings to date, Mazars advised that they did not expect to flag these items as a significant risk area for the conclusion.

The Committee was informed that there had been a change in the Engagement Lead for the West Yorkshire Pension Fund.

It was highlighted that it was likely there would be a national consultation on the level of external audit fees in the coming months, which would probably lead to an increase in these fees.

In response to a question, the Committee was assured that the County Council was in regular dialogue with Mazars, and lessons had been learned from previous years.

RESOLVED

That the report be noted.

46 INTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report by Lucy Pledge (Head of Internal Audit and Risk Management), which provided detail of the audit work completed between 1 November 2019 and 13 January 2020; and advised on progress of the 2019/20 plan.

The outcome of the audit work had shown no significant governance issues, with most assurance opinions being high (4) or substantial (3) assurance. There was only one area: settlement agreements, where limited assurance had been given. The Internal Audit Progress Report was attached at Appendix A to the report.

The Committee was advised that details on the audits with limited assurance were outlined in Appendix 4 to the report. It was advised that an internal audit on settlement agreements had been undertaken, as this had not been reviewed for circa five years. This had also been undertaken at the request of the Audit Committee during an informal session.

In response to a question, it was advised that details of any financial settlement agreements were included in the Council's annual budgetary information.

It was highlighted that there were some significant resource changes in progress in the Audit Team, which should have a positive impact on the completion of the audit plan. It was highlighted that there had been an appointment made to the Audit Manager vacancy and to the post of senior auditor. Two temporary senior auditors were scheduled to join the Team in February for six months, to assist support the delivery over the short term and provide capacity during the induction of new staff.

RESOLVED

That the report be noted.

47 GOVERNANCE REVIEW - CULTURE AND VALUES

Consideration was given to a report by Fiona Thompson (Head of Human Resources), which provided information on the progress made to date and the timescales for planned actions being taken by the Council in the light of the 2019 Governance Review of Culture and Values.

A copy of the Governance Review Action Plan was set out at Appendix A to the report, which set out the recommendations and associated actions and progress to date. A range of action had been completed and timescales established for the remaining actions to be completed. A summary of the key points of progress were detailed on pages 84 – 86 of the agenda pack.

During discussion of the report, the following points were noted:

- The *One Council* approach was deemed positive. The Corporate Leadership Team road shows were also welcomed by the Committee as a good opportunity for employees to meet the Chief Executive and Executive Directors.
- It was advised that exit interviews were voluntary and when completed, the content was reviewed by the Head of Human Resources.
- It was suggested that further updates on the progress with the governance review of cultures and values could form part of the annual governance

statement or, alternatively, the Committee could programme a future update under its work programme.

RESOLVED

That the report be noted.

48 RISK MANAGEMENT PROGRESS REPORT - FEBRUARY 2020

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 to make recommendations on any further scrutiny required.

The strategic risks continued to be monitored with risk owners and assurances had been obtained that the strategic risks were being managed effectively. All directorates, in line with the governance review, were reconfiguring and reconstructing the groups and therefore some had identified their risks and some were being worked through with the Team's support.

The Risk Management Progress Report was detailed at Appendix A to the report, which provided updates on key messages relating to the governance review, strategic and operational risks since the last update to the Committee in September 2019.

It was advised that the current Strategic Risk Register contained ten risks, and a summary of those risks were detailed on page 127 of the Agenda Pack by way of a chart. The chart detailed the likelihood and impact of the risk occurring and also its target score. The direction of travel was shown by way of an arrow.

In response to a question, it was advised that a summary of the direction of travel for each risk was set out in the full Strategic Risk Register, which was detailed on pages 129 – 132 of the Agenda pack.

It was advised that following the Governance Review on Risk Management and Health and Safety arrangements, the overall message from the review and the suggested areas for improvement were outlined on page 99 of the Agenda pack.

Reference was made by a member of the Committee to the Peer Review finding of a *"risk averse culture and behaviours due to fear of failure and this is stifling innovation and creativity"* and a recommendation that the Council *"review and maintain a risk culture that enables risks to be taken – creating confidence in a just culture"*. The Committee was advised that the Peer Review Team had clarified that this related to management oversight, rather than employees feeling stifled by a tightly controlled financial environment. Members of the Committee referred to the importance of empowering the workforce. In response to a question, it was advised that some of the Council's policies and procedures were being reviewed as part of the process of addressing this.

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The Committee was assured that the Council's strategic risks continued to be managed pro-actively. 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.

49 REPORT ON CORPORATE AND STATUTORY COMPLAINTS -
QUARTERS 1&2 2019/2020

Consideration was given to a report by Shay Noreen (Complaints Resolution Manager), which updated on all corporate and statutory complaints, including performance data for the first two quarters of the 2019-20 financial year and actions taken; and provided information since the team's 'insourcing' in April 2019. A full data review of the first two quarters of the financial year 2019/2020 was set out in Appendix A to the report.

Following a review of the complaints function, an additional step had been introduced into the process, whereby customers were offered early resolution on contact before entering the formal process. This new step had seen a significant reduction in the number of customers beginning the formal complaints process. This was being achieved in areas where the Council was able to meeting the customers' desired outcome by liaising with the relevant service area.

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

- In quarters one and two of 2019/2020, a total of 335 contacts had been received from the public, unhappy with services that had been provided. Of the 335 contacts, 253 had proceeded to enter the formal complaints process with the remaining 82 being resolved. It was confirmed that all cases, whether resolved informally or formally, were logged on the complaints management system.
- There were certain areas of the Council, for example the highways and transport; and children services departments which were proactive in finding resolutions at an informal stage. However, it was not always possible to achieve this.

(NOTE: At this stage in the meeting, Ian Haldenby (Independent Added Member) left for the remainder of proceedings.

- Further training and support would be provided to service areas on the complaints process.
- A lack of communication was the cause of over a third of all complaints, which were fully or partly substantiated. It had been recommended that service areas develop clear guidelines for staff, as to how often it was expected that contact should be made with individuals receiving their services.

- There had been a limited number of complaints (approximately 1-2) relating to the time it had taken for a call to be answered and therefore that had not been deemed an area of concern.
- It was advised that the Team would need to complete a piece of work to ascertain whether there was a correlation between the number of potholes reported with the number of complaints received.
- The improvements in communication had been attributed to the 47% decline in complaints received by the highways and transport department received in quarter one, compared to the same period on 2018/19.
- There was clear guidance provided to employees on how to deal with vexatious complainants.

RESOLVED

That the report be noted.

50 FORWARD PLAN

A report was considered which provided the Committee with information on the core assurance activities scheduled for 2020 forward plan.

It was agreed that the Audit Committee informal workshop on *Corporate Plan and Assurance Framework* would be rearranged from 18 March to the afternoon of 13 July 2020.

It was suggested that the meeting of the Committee in March 2021, when the Chief Executive and the Executive Directors were scheduled to present the Combined Assurance Reports, would become a one-item agenda to enable the Committee sufficient time to consider the update.

RESOLVED

- (1) That the Audit Committee's informal workshop on *Corporate Plan and Assurance Framework* be rearranged from 18 March to the afternoon of 13 July 2020.
- (2) That the meeting of the Committee scheduled for March 2021, when the Chief Executive and the Executive Directors were scheduled to present the Combined Assurance Reports, become a one-item agenda to enable the Committee sufficient time to consider the update.

51 LGA CORPORATE PEER CHALLENGE - LINCOLNSHIRE COUNTY COUNCIL - FEEDBACK REPORT

A copy of the LGA Corporate Peer Challenge – Lincolnshire County Council – Feedback Report had been circulated with the agenda pack for information.

The meeting closed at 1.45 pm.

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Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	Audit Committee
Date:	15 June 2020
Subject:	Statement of Accounts 2019/20 – Accounting Policies

Summary:

This report summarises:

- Changes to the Code of Practice on Local Authority Accounting which will be incorporated into the 2019/20 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 2019/20 Statement of Accounts themselves;
- The key change to the reporting timescale, as set out in the Accounts and Audit (Coronavirus) (Regulations) 2020;
- 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 2019/20;
- (2) Note the amended deadline of 30 November 2020 for publication of the audited Statement of Accounts 2019/20;
- (3) Approve the Statement of Accounting Policies (Appendix A) to use in preparing the Council's accounts for the financial year ending 31 March 2020.
- (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 2020.

Background

- 1.1 The Council is required to prepare its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2019/20 (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 2019/20: Lincolnshire County Council

- 1.2 The Code of Practice for 2019/20 has introduced some revisions and clarifications to the accounting requirements for the 2019/20 Statement of Accounts (there are no changes relating to the Lincolnshire Pension Fund). The main changes are:
- a) A few clarifications have been made in the Code, which are in line with our current accounting practice e.g. accounting for the apprenticeship levy.
 - b) Amendments to IAS 40 Investment Property: Transfers of Investment Property. This amendment deals with property assets and clarifies when they transfer into or out of the 'Investment Property' classification and their accounting treatment. The amended standard is unlikely to impact on our accounts due to the nature of the Investment Properties held by the Council, which are mainly Farms.
 - c) Annual Improvements to IFRS Standards 2014–2016 Cycle contains some minor changes to standards which do not impact on our main accounts.
 - d) IFRIC 22 Foreign Currency Transactions and Advance Consideration. The amendment to this standard clarifies the date of a foreign currency transaction for the purpose of determining an exchange rate to use when measuring the value of the transaction. We have very few foreign currency transactions so this will not have any significant impact on the council's main accounts.
 - e) IFRIC 23 Uncertainty over Income Tax Treatments. The amendments to this standard specify how to reflect the effects of any uncertainties in the treatment of income taxes. As the Council is not subject to income taxes, the amendments to this standard will not impact on the Council's main accounts.
 - f) Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation will not impact on our accounts as this relates to discounts received on debt rescheduling under a modification which we do not do.
 - g) The Code reconfirms that the provisions of the new accounting standard IFRS 16 Leases do not apply because the implementation of IFRS 16 has

been delayed until 1 April 2020 for local authorities. Since the publication of the Code, it has been announced by the Chartered Institute of Public Finance and Accountancy (CIPFA) that the implementation of IFRS 16 will be delayed for a further year until 1 April 2021. We will continue to use the existing accounting standard on leases this year, and we will prepare for the new standard which will affect the 2021/22 financial year.

- 1.3 There will be some changes in accounting standards in the future, which may impact on the Council in the 2020/21 accounts. CIPFA has published a bulletin on the closure of accounts for 2019/20 and this refers to future changes in accounting standards. The impacts of these will be acknowledged in a disclosure note in the 2019/20 accounts as forthcoming changes to the Code of Practice.

Accounts and Audit Regulations 2015

- 1.4 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 a certain timeframe.
- 1.5 These regulations were previously updated to require local authorities to prepare accounts within a shortened timescale.
- 1.6 On 30 April 2020 the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 came into force and these state that the deadline for publication of the audited Statement of Accounts is moved from 31 July 2020 to 30 November 2020. This change only applies to the 2019/20 accounts.
- 1.7 In addition to these regulations, the Government wrote to Chief Executives of all councils in April confirming that other relevant deadlines were also changing for this year i.e. draft accounts must now be approved and published by 31 August 2020 and the public inspection period can now be later than the first 10 working days in June.

Statement of Accounting Policies

- 1.7 An important section of the published Accounts is the statement of accounting policies. This summarises the rules and codes of practice used to prepare the accounts, together with any estimation techniques adopted. The policies 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.
- 1.8 A number of changes have been made to the accounting policies for 2019/20 which are marked in ***bold italics*** in **Appendix A**, these include:

- Change in the use of capital receipts within 4 Non-Current Assets – Property, Plant and Equipment and 8 Non-Current Assets Held for Sale. Capital receipts can now be set aside for future use, which reflects the updated Medium Term Financial Plan Strategy.
- Removal of paragraph within 17 Debtors - policy relating to revenue from contracts as this is already included in Recognition of Revenue (Income) policy.
- Removal of 19 Provision for bad and doubtful debt policy as this is no longer applicable following the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue Recognition. Debt is now assessed for expected credit loss in accordance with the 38 Financial Instruments policy.
- Removal of the narrative about fair value measurement within the 38 Financial Instruments policy as this is already included in the 39 Fair Value Measurement policy.

1.9 There have only been minor amendments to the Lincolnshire Pension Fund accounting policies for 2019/20. These have been marked with ***bold italics*** in **Appendix B**. Changes include:

- Investment Management Expenses – performance related fees, this policy has been updated to remove two managers, Schroders and Columbia Threadneedle. These mandates have transferred into the Border to Coast Global Equity Alpha Sub-fund.
- Financial Assets – an update of the Border to Coast share-holding valuation to reflect that the company has now been trading for two accounting periods.
- Financial Assets – clarification on the valuations used within the financial statements for private equity, property venture and infrastructure.

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 2019/20.

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

2.3 Revised timescales and deadlines for this year, due to the impact of the coronavirus pandemic, have been adopted.

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 2019/20
Appendix B	Statement of Accounting Policies for LGPS Pension Fund financial statements 2019/20

Background Papers

Document title	Where the document can be viewed
CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20	Executive Director of Resources

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Lincolnshire County Council - Statement of Accounting Policies

Statement of Accounting Policies

1. General Principles and Concepts

The Statement of Accounts summarises the Council's transactions for the financial year ~~2018-19~~ **2019-20** and the position at the year-end 31 March ~~2019~~ **2020**. 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 ~~2018-19~~ **2019-20** and Service Reporting Code of Practice ~~2018-19~~ **2019-20**, supported by International Financial Reporting Standards and statutory guidance.

The accounting convention adopted in the Statement of Accounts is principally historical cost, 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.

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).

Measurement after Recognition – Valuation Approach

The Council values 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 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 uses the assumptions that the market participants, i.e. 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.

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).

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 on a straight line basis over their estimated useful lives, currently varying from:
 - 1-3 years for capital pothole filling;
 - 6-12 years for carriageways 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.
- 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 vary depending on the nature of the asset from 3 years up to 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:

- Depreciated Replacement Cost (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).

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 **or to carry them forward to be used in future years**, 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 **or set aside within the capital receipts reserve for future use to reduce the underlying need to borrow**. 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 can also be 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.

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.** Intangible assets are recognised when it is more likely that future benefits will flow to the Council and the cost of the asset can be reliably measured. Assets that qualify as intangible assets shall be measured and carried at cost, in the absence of an active market to determine fair value.

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 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 for Disposal of Property, Plant and Equipment and 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 **or to carry them forward to be used in future years**, however the Council may use the flexibility to apply capital receipts to fund certain types of revenue expenditure as described in policy 4e. **These receipts are transferred from the General Fund Balance via the Movement in Reserves to be utilised to fund the capital programme or set aside within the capital receipts reserve for future use to reduce the underlying need to borrow.**

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, and 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 in 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 Major New Road Schemes**, 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 **for Major New Road Schemes** until assets **have** 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 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:

- **Capital grants where no conditions are 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.
- **Capital grants where the conditions have not been met** 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.
- **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.

~~**Revenue from contracts with service recipients, whether for services or the provision of goods is recognised when the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.**~~

Debtors are initially recognised and measured at fair value **of the consideration payable** in the accounts. Most debtors are considered to be contractual and these are then subsequently measured at amortised cost.

If settlement is over a year this is accounted for as long term debtor. When considering the amortised cost 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 amortised cost.

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 initially recognised and measured at fair value in the accounts. **If payment is deferred to over a year, this is accounted for as long term creditor.** When considering the amortised cost 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 amortised cost.

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 an expectation that the future cash flows might not take place because the debtor could default on their obligation, a lifetime loss allowance is recognised for material debt. The Council's policy is:~~

- ~~• Adult Social Care debtors are grouped by type and assessed on this basis;~~
- ~~• Other aged debtors over 12 months old are assessed individually; and~~
- ~~• All debts over £25k which have been outstanding for more than 30 days but below 12 months old are assessed on a case by case basis.~~

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

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

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.

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. Where a bank overdraft is assessed as part of the Council's cash management it will be included within Cash and Cash Equivalents.

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 has an 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 £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 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 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 period 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 is accounted for in the year it takes place, not simply when cash payments are received.

The Council recognises revenue from contracts with service recipients, whether for services or the provision of goods, when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligation in the contract.

Interest receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

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, ***net of the impairment allowance for doubtful debts***), creditors (prepayments, overpayments and collection fund deficits), and provisions (business rate appeals).

32. Reserves

Useable Reserves

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

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

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).

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)

The 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 employers' 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 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 are Safe and Healthy service lines in the Comprehensive Income and Expenditure Statement.
- Uniformed Firefighters Pension Scheme (FPS): From 1 April 2015, a new pension fund for Firefighters was set up. This scheme replaced the 2006 & 1992 Firefighters schemes for new Firefighters. 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 Ministry of Housing Communities and Local Government

(MHCLG). 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 **2.4% - (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;
 - unlisted securities – current bid price.

The change in net pension's 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 is 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.

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 £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

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's policy is to spread the gain/loss over a ten year period or the term that was remaining on the loan replaced if greater than ten years. The reconciliation of premiums/discounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund is managed by a transfer to or from the Financial Instruments Adjustment Account through the Movement in Reserves Statement.

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 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 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.

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 that financial assets are 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 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 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.

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.

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 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.

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.

For financial instruments measured in fair value (FVPL and FVOCI) 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.***

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

- 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.
- ***Level 3 – unobservable inputs for the asset or liability.***

Lincolnshire Pension Fund Significant Accounting Policies **2019/20**

Fund account – revenue recognition

a. Contributions income

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

- Employee contribution rates are set in accordance with LGPS regulations using common percentage rates for all Funds 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, for example, in respect of 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. They 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 headings shown below. All items of expenditure are charged to the Fund on an accruals basis.

i) Administrative expenses

All staff costs of the pension's 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 directly 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 Invesco Asset Management (for Global Equities – ex UK) and Morgan Stanley Investment Management Ltd (for Alternative Investments) that an element of their fee will be performance related.

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

All 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 and are classified as FVPL.

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 14). 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).

Private equity, property and infrastructure valuations are based on valuations provided by managers at the year-end date. If valuations at the year-end are not produced by the manager, the latest available valuation is adjusted for cash flows in the intervening period.

The investment in the LGPS asset pool, Border to Coast Pensions Partnership, is also carried at fair value. This has been classified as FVOCI rather than FVTPL as the investment is a strategic investment and not held for trading.

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 28.

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.

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 18).

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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**Open Report on behalf of Andrew Crookham, Executive Director -
Resources**

Report to:	Audit Committee
Date:	15 June 2020
Subject:	Review of Governance Framework and development of the Annual Governance Statement 2019/20

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 2020 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"

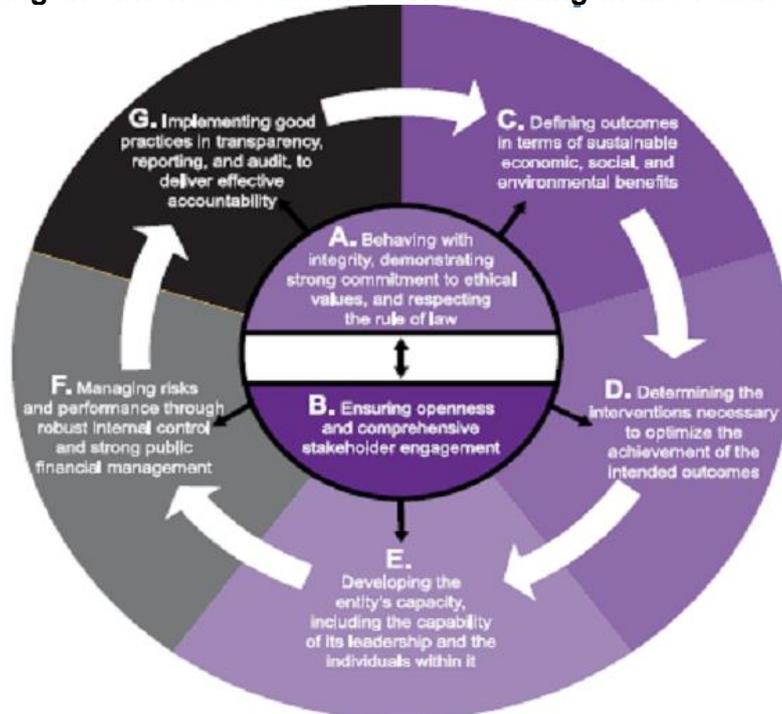
2. It is comprises of systems, processes and culture and values, by which the Council is directed and controlled and through which they account to, engage with, and where appropriate, lead their communities.

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 – Resources
- Assistant Director – Strategic Finance
- Chief Legal Officer
- Head of Audit and Risk Management
- Head of Democratic Services

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

- The assurance arrangements of the Council, particularly each Executive 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. The onset of Covid19 and subsequent lockdown has had a significant impact on all areas of the public sector. The impact on governance will be felt by all organisations for example changes to decision making arrangements and the conduct of meetings. Other aspects will reflect changes to the organisation's priorities and programmes.

8. For the twelve months ended 31 March 2020 the Council's arrangements for governance is unaffected by the coronavirus. The full impact of the coronavirus is largely unknown but we have included information because the AGS must be up to date at the time of approval / publication (July 2020). We have also recommended that the Annual Governance Statement includes a significant governance issue - reviewing lessons learned from its Covid-19 response and recovery.

9. The Council's annual review of assurance also identified the following areas for improvement:

Area	Executive Director
Better governance and oversight of key projects – including benefit realisation	Executive Director Commercial
Delivery and oversight of transformation programmes – including IT	Executive Director Commercial
Review of contract management and associated commercial / third party risks	Executive Director Commercial
Implement improvements over our risk management arrangements – including updating the Strategic Risk Register	Executive Director Resources
Reviewing our decision making and scrutiny processes	Executive Director Resources
Update of Corporate Plan & performance management arrangements	Corporate Leadership Team
Review of Assurance and Accountability framework following the review of the Corporate Plan and corporate oversight functions	Corporate Leadership Team
Implement improvement actions arising from the Peer Review 2019	Corporate Leadership Team
Implement improvement actions arising from the Employee Survey 2019	Corporate Leadership Team

10. 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 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.

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 2017 to March 2018 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. The Council's governance arrangements have adapted well to the emergency but as full impact of the coronavirus is largely unknown.

15. 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'.

16. The final Annual Governance Statement will be presented to the Committee on 13th July 2020 for approval.

Consultation

a) Have Risks and Impact Analysis been carried out?

No

b) Risks and Impact Analysis

Any changes to services, policies and projects are subject to an Equality Impact Analysis. The considerations of the contents and subsequent decisions are all taken with regard to existing policies.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Draft Lincolnshire County Council - Annual Governance Statement 2020

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 Annual Governance Statement 2020



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Executive summary

Lincolnshire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded.

The statement enables us to monitor our achievements and to provide assurance that our strategic objectives have led to the delivery of strong, effective services which continue to provide value for money.

This statement has been prepared by those with knowledge of the key governance issues facing the Council and conforms to good practice^[1].

Whilst our governance, risk and control arrangements up to 31st March 2020 has largely been unaffected by the coronavirus - emergency measures implemented have resulted in a significant level of change to our business practices, how we work with partners and deliver our services to the community. The level of impact is also changing as the situation develops – the future is not what we thought it would be a few months ago.

We recognise the importance of having good leadership and management, effective processes and other appropriate controls in place to have a well-run Council. We are very proud of how the Council has continued to support and help our communities during this challenging time – working with private, public and voluntary partners.

"Working together in reducing the risk Covid-19 presents to our communities – ensuring sufficient resources, capacity and expertise within the health and care system to support members of our communities at times of need and thereby save lives".

The whole Council has been involved in the response effort in one way or another. This has been an enormous collective effort and whilst there is still a long way to go, everyone should be proud of how they and their colleagues have risen to the challenges involved to date.

What worked before and what needs to happen in the future has changed – our response and re-set will enable us to re-focus our Corporate Plan and transformation plan which will lead to a change in how we deliver services. We have therefore identified the re-set of our organisation as a significant governance issue and opportunity.

Significant governance issue

Key improvement area	Lead officer	To be delivered by
Reviewing lessons learned from our response to Covid-19 – implementing a re-set plan over the short, medium and longer term.	Chief Executive and Corporate Leadership Team	Transformation and recovery critical success factors will be monitored throughout the year.

^[1] CIPFA/ SOLACE Delivering Good Governance in Local Government – published April 2016

We have also identified a number of improvements over our governance framework – these can be found later in the document and will be monitored through the Council's performance management processes.

Signed on behalf of Lincolnshire County Council

Councillor Martin Hill OBE
Leader of the Council

Debbie Barnes OBE
Chief Executive

Andrew Crookham
Executive Director – Resources

DRAFT

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.

On the 15th June 2020 the Audit Committee considered and challenged the content and the significant governance issues identified in the draft 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 13th July 2020 where it was recommended for signing by the Leader of the Council, Chief Executive and the Executive Director – Resources.

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 2018/19

A number of improvement actions were identified as part of last years 2018/19 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 2018	Improvements implemented during 2019/20
Governance and oversight of key projects and transformation programmes	31 st March 2020	On track to approve transformation plan in June 2020. Being revisited in light of Covid-19.
Business World – re-engagement (our ERP system)	31 st December 2019	On-track – Hoople engaged as implementation partner. Re-design work due to commence 1 st April 2020.
Update of Corporate Plan & performance management arrangements	31 st March 2020	On track – Corporate Plan approved December 2019. New performance monitoring arrangements being developed. Corporate Plan being reset in light of Covid-19.

How the Council works

The Annual Governance Statement covers the 2019/20 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 2019/20 the Leader and 7 councillors sat on the Executive.

The remaining 62 councillors form Scrutiny and Regulatory 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.



During 2019/20 the Council reviewed its Member Code of Conduct in the light of the recommendations of the Committee on Standards in Public Life.

It also undertook a review of its Overview and Scrutiny arrangements in the light of Statutory Guidance issued on local authority scrutiny arrangements by the government.

The onset of Covid19 and subsequent lockdown has had a significant impact on all areas of the public sector. The impact on governance will be felt by all organisations and there will be some aspects experienced by all, for example changes to decision making arrangements and the conduct of meetings. Other aspects will reflect changes to the organisation's priorities and programmes.

Outcomes

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 2019/20. We track our progress with the performance of the 17 commissioning strategies is shown below:

Note: performance up to 31st December 2019. Reporting for Q4 has been deferred due to the Council's emergency response to Covid-19.



We asked the Local Government Association to undertake a **Corporate Peer Review in September 2019** (*insert link*). Their feedback stated that:

"Lincolnshire County Council is a stable, reliable and solid organisation delivering good quality services to its residents. It is financially strong and has maintained a particular focus on children and adult services and delivers these to a very good standard – with children's services having been judged as "Outstanding".

Areas where they recommended improvements included:

- *Develop a clear, bold and inclusive vision and strategy for Lincolnshire in conjunction with partners and residents..*
- *Review the membership of "Leaders in Lincolnshire" forum to ensure that key partners are involved and that it does what it says on the tin.*
- *Finalise the corporate plan and "Lead on the front-foot" by reaching out to key partners and communities to reset and strengthen relationships.*
- *Embed the corporate plan and the 'One Council' model into the organisation through an organisational development programme.*
- *Improve transparency of the financial reports.*
- *Develop and implement a climate strategy for Lincolnshire.*

Council's Response to Covid-19

The whole Council has been involved in the response effort in one way or another. This has been an enormous collective effort and whilst there is still a long way to go, everyone should be proud of who they and their colleagues have risen to the challenges involved to date.

Potential Outbreak (January 2020)

The Council was alert to the potential need for an emergency response as the situation in China developed, engaging with national and regional agencies to ensure that international intelligence informed local actions.

The Director of Public Health took the strategic lead for the county, pro-actively monitoring the international situation and World Health Organisation (WHO) information and attendance at virtual briefings with the Chief Medical Officer, Public Health England and liaison with the Association of Directors of Public Health. The Director of Public Health briefed the Council's Corporate Leadership Team (CLT), Executive members and partner agencies to enable an effective response when required. The first precautionary strategic coordination group (SCG) was called on Friday 31st January to brief the Lincolnshire Resilience Forum (LRF) on the emerging situation.

Early Response (February 2020)

With the spread of the virus from China to other parts of the world, LCC Public Health moved to initiate & support the Council and wider system response. Council Directorates moved to review business continuity plans. LRF Precautionary Calls were launched & the precautionary Strategic Command Group was stood up and chaired by Director of Public Health. The WHO raised the threat level at the end of February.

Response Activation (March 2020 ongoing)

The Director of Public Health continued as the chair of the Strategic Command Group for the Covid-19 incident and LRF stood up countywide emergency systems through the LRF. Colleagues in Public Health and other Council Directorates assumed strategic, tactical and operational roles, as cell chairs, etc. Business continuity plans were implemented across the Council, particularly in Adult Care & Children's Service to identify the most vulnerable service users and ensure capacity to support them. Non-essential work was risk assessed and put on hold to free staff capacity. New budget reporting processes were established to track covid related spend

The Health Protection Team established a dedicated response team and set up enquiry lines, with Public Health Registrars adding extra clinical expertise and staffing resilience. Working with Commercial Team colleagues, stocks of PPE were reviewed and augmented, with PPE distributed to key settings. Significant work was undertaken with commissioned providers to ensure their resilience, with daily calls to review impact and assurance of financial stability. Significant work was undertaken to establish new and adapt existing services to support business grant distribution and support the most vulnerable people, working closely with District Councils to redesign the Wellbeing Service, with considerable support from serco colleagues. Systems were put in place to mobilise volunteers and community groups, with light touch due diligence checks to enable activity but provide appropriate safeguards.

Staff with health needs were able to start working from home, followed during the week commencing 23 March, with a wider closure of LCC offices in response to the government requirements, enabled by significant support by IT colleagues to move from c400 to over 4000 people able to access systems.

The Council provided daily video briefings to the community regarding its services. The DPH provided regular radio interviews to support community information, understanding and response.

Response & Recovery (May 2020 onwards)

Whilst response activity continues (and for some services will last well into 2021), recovery planning is advancing at the Council and through the Lincolnshire Resilience Forum, with identification of risks and threats, but also of opportunities to adapt services for a 'new normal'.

We continue to support the care home sector, communities and businesses – helping to build resilience and sustainability during this crisis and beyond.

A Local Outbreak Control Plan is being developed – with oversight by the Local Outbreak Engagement Board. The plan aims to set out County's response to the pandemic in the next phase - including communication with our communities.

Value for money

It is anticipated that the external auditors of the Council will issue an unqualified Value for Money judgement for 2019/20.

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. 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 2021.** The 2020/21 budget is balanced and includes a £2.6m surplus which is being placed in a new 'development fund' reserve. The 2020/21 position is much better than was expected at the beginning of this financial year, which is mainly due to the 'Budget 2020' project work that has been undertaken during 2019, and the additional social care grant funding announced by government as part of its financial settlement for 2020/21.

The **Budget 2020 project** was undertaken during 2019 with the objective of producing a balanced budget over the medium term with a reducing reliance on our reserves. This highlighted a number of efficiencies which has reduced the previously forecast shortfall in the budget over the medium term. It also identified a number of service areas where a 'deep dive' more forensic budget review would be undertaken, with a potential for offering future budget savings.

The Council adopted a new Corporate Plan in December 2019. Future budget proposals will need to include any investment required to support its delivery, as well as giving consideration to the potential efficiencies from the emerging transformation plan.

The 2020/21 budget includes low risk efficiency savings and income increases but does not include any significant service reductions.

We have also undertaken a **comprehensive review of the earmarked reserves**, which identified £10.2m of reserves that could be released so have also been transferred to the new 'development fund' reserve.

As in previous years, **the public are generally satisfied** with the standard of services delivered. Services which have received external inspections over the last year in Children's Services have received outstanding ratings.

The second iteration of the Council's capital strategy introduces a new gateway review and challenge process from April 2020. This will bring added transparency and rigour to the processes for approving, assessing the affordability of, and monitoring of the capital programme.

A 10 year capital programme has been approved within the provisions of the capital strategy and allows for future investment as well as continuing to maintain and replace our existing assets.

The Council is constantly monitoring its long term financial position and has published a Medium Term Financial Plan (MTFP) which forecasts our financial position to March 2023. Future years take into account known cost pressures and planned savings and although we have a surplus budget position for 2020/21, the MTFP predicts a budget shortfall for the years beyond this. This position will be updated during 2020 and will also need to give consideration to:

- the outcome of the Government's comprehensive spending review
- the partial localisation of business rates from April 2021
- the outcomes of the Fair Funding Review being undertaken by Government
- the government review of funding for Adult Social Care services

In response to the financial challenges being faced by Local Government, CIPFA have now published a financial resilience index to act as an analytical tool to consider the Council's position over a number of measures associated with financial risk.

We are regularly assessing our latest financial performance for its potential impact on our overall financial resilience. To date, we have not identified any significant impacts which would affect our financial resilience in the near future.

CIPFA have also published a new Financial Management (FM) Code designed to support good practice in financial management and demonstrating financial sustainability. We will undertake a review of our current practice against the new code to aim to meet the compliance implementation date of April 2021.

The Council is the accountable body for the [Greater Lincolnshire Local Enterprise Partnership](#) (GLEP) and supports its governance framework – providing assurance and transparency on the spending of government funds.

Key considerations on how covid-19 has impacted on VFM

Medium Term Financial Planning – the Council had set our budgets for 2020/21 amidst a level of uncertainty due to delays in government reviews of public sector finances following Brexit. These reviews now look to be deferred for at least a further year, so we will continue to operate with an uncertainty about what the future funding levels will be to delivery our services.

We are still planning to update our Medium Term Financial Strategy over the summer, which will look to capture the likely short and medium term impacts of the current emergency situation on the Council's financial position.

We are increasing the number of **budget monitoring reports** to be shared with our members, to ensure the monitoring of our financial position is more timely and transparent. Our reporting is also capturing the additional costs resulting from the emergency response.

There has been a **delay on some of our procurement activity**, this does not mean we are no longer receiving value on these contracts, but this may have delayed planned service improvements or the delivery of efficiencies. We have also been supporting our suppliers by continuing to pay for normal levels of service, when this may not reflect the services being delivered. This is to ensure our suppliers can continue to operate and remain financially stable to beyond the Covid-19 pandemic.

The Council has had to initiate some new activity as a result of the pandemic, including **support to those members of our communities identified as clinically vulnerable**.

The government has made **emergency grant payments** to the Council specifically for the purpose of supporting the additional costs of the local decisions being made to manage the emergency response and recovery. The additional costs and impacts of the Covid-19 pandemic, and use of the government grant are being closely monitored and regularly updated.

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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 Chief Legal Officer 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.

Chief Finance Officer

The Council has designated the Executive Director – Resources (formally 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 Leadership Team 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 Finance Officer.

Senior Information Risk Owner

The Executive Director – Resources is the designated Senior Information Risk Owner with responsibility for strategic information risks and leads and fosters a culture that values, protects and uses information in a manner that benefits the Council and the services it delivers.

The Senior Information Risk Owner also ensures an appropriate governance framework is in place to support the Council in meeting its statutory, regulatory, and third party information obligations, and which mitigates information risk from internal and external threats.

Director of Public Health

The Director of Public Health gains assurance from a range of organisations on the suitability and effectiveness of arrangements for protecting the health of local people from a broad range of threats to their health.

One of the statutory duties of each local authority Director of Public Health is to produce an independent report on the state of the health of the people they serve on an annual basis. Local authorities have a statutory duty to publish the report. As the reports are aimed at lay audiences, the key feature of the reports must be their accessibility to the wider public. This year's report is on the burden of disease in Lincolnshire and is available [here](#).

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 Leadership Team

Our corporate leadership team oversees the Council's governance arrangements and the development of the Annual Governance Statement. There is also a corporate governance group of officers whose role is to support the Council to ensure that it complies with the standards of good governance.

The Leader of the Council, Chief Executive and Executive Director - Resources have overseen the review of our governance arrangements 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 Management Board 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.

They also review the annual governance statement to assess if it accurately reflects their understanding of Council.

Information Assurance

Information is a critical asset and must be subject to an effective governance and assurance approach throughout its lifecycle, from creation through to destruction. Information assurance provides a mechanism which seeks to achieve this by confidently managing information risk through the application of a diverse set of controls.

It also ensures that the Council understands, and aligns with, the legal and regulatory environment within which it operates by using information in a way which is lawful, fair, secure and transparent, achieving this in a way which helps, not hinders, the delivery of council services.

Employee Survey

An employee survey was undertaken in **November 2019**. The completion rate was 48% of the workforce. All the work we are doing to improve the experience as an employee of LCC is supported by the Transformation programme.

57% of staff thought that we do operate and work well as One Council however you wanted to know more about what 'One Council' is and how it will work.

At its core, transformation will:

- create identity as a Council, not separate services,
- use digital and enabling technology
- consider climate action and sustainability.

The 4 workstreams are People, Customers, Property and Processes

People: What it means to be a great LCC employee, manager and leader – what is a digital employee. Adapting Services and processes to deliver our strategies

Customers: Putting our customers at the heart of everything we do. New community strategy, accessible, digitally enabled and personalised customer experience

Property: Reviewing the property strategy including the buildings we need, their upgrade and our agile and flexible working approaches.

Processes: Reviewing, refreshing and simplifying corporate processes making use of new digital opportunities. Using data and programme management to enable and demonstrate effective performance.

How we carry out assurance

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

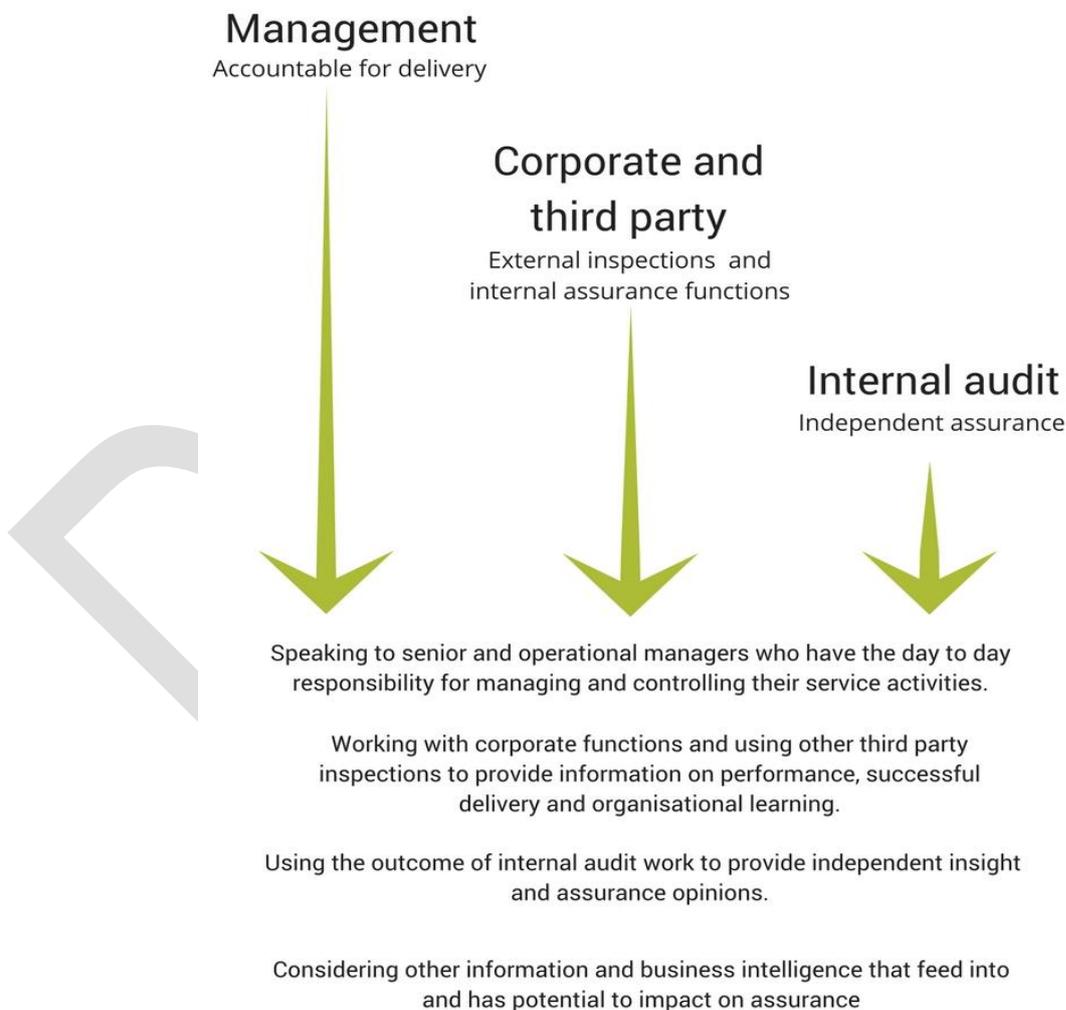
It looks at the level of confidence the Council can have in each area for:

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

These reports were reviewed by the Audit Committee on 10th February 2020.

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

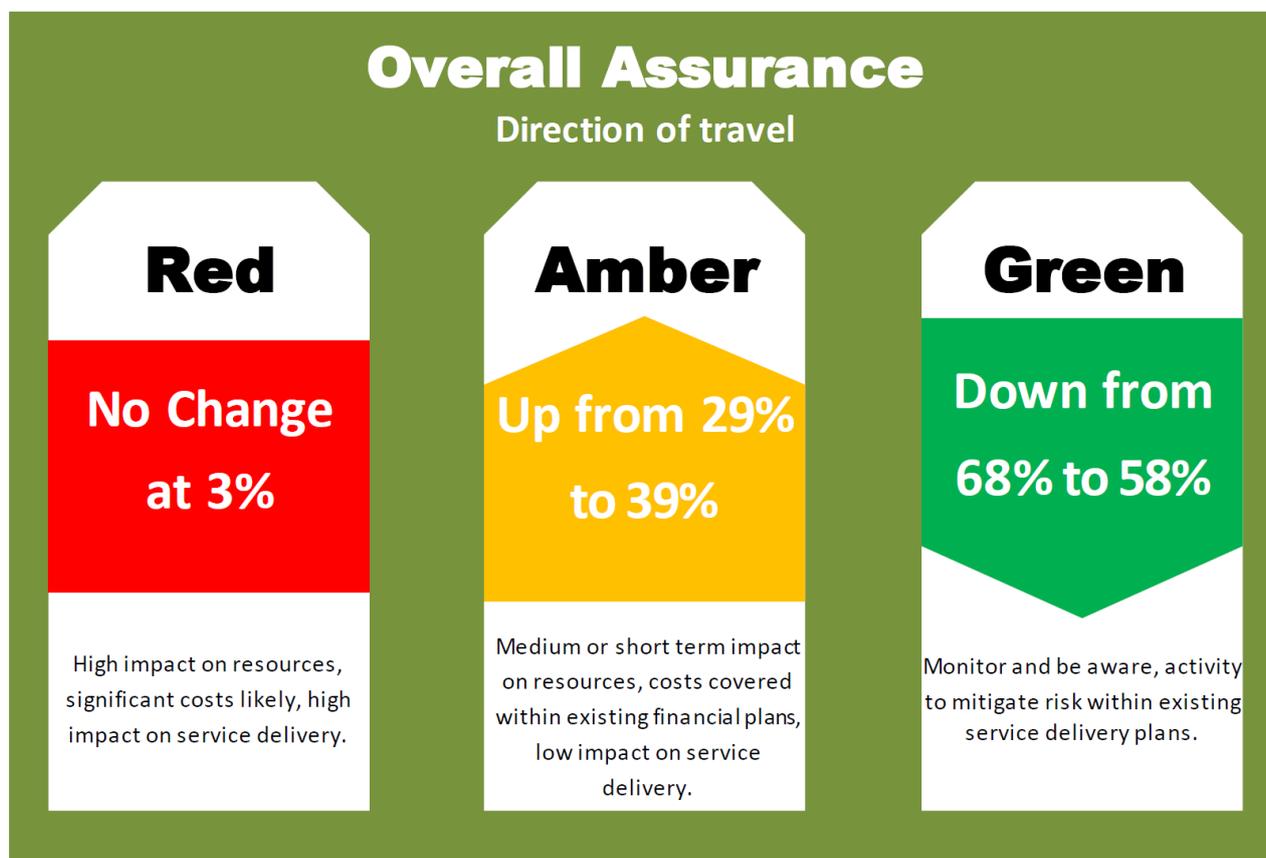
How do we assure ourselves about how the council is run?



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.



Areas of improvement identified include:

Area	Executive Director
Better governance and oversight of key projects – including benefit realisation	Executive Director Commercial
Delivery and oversight of transformation programmes – including IT	Executive Director Commercial
Review of contract management and associated commercial / third party risks	Executive Director Commercial
Implement improvements over our risk management arrangements – including updating the Strategic Risk Register	Executive Director Resources
Reviewing our decision making and scrutiny processes	Executive Director Resources

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Area	Executive Director
Update of Corporate Plan & performance management arrangements	Corporate Leadership Team
Review of Assurance and Accountability framework following the review of the Corporate Plan and corporate oversight functions	Corporate Leadership Team
Implement improvement actions arising from the Peer Review 2019	Corporate Leadership Team
Implement improvement actions arising from the Employee Survey 2019	Corporate Leadership Team

Implementation of agreed actions are monitored through the Council's performance management systems

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Head of Internal Audit Opinion

The opinion of the Head of Internal Audit is given for 2019/20 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)

For the twelve months ended 31 March 2020 the Council's arrangements for governance, risk management and control is unaffected by the coronavirus. That said, my opinion needs to be contemporary and take into account its impact on the Council's governance, risk and control environment.

Based on the work we have undertaken and information from other sources of assurance, my opinion on the adequacy and effectiveness of the Council's arrangements for governance, risk management and control is:

This opinion is however **caveated** as it **not possible for us to quantify** the additional risk arising from the Council's response and recovery or the overall impact on the framework of governance, risk management and control.

Governance 	Performing Adequately – Some improvement required to manage a high risk in a specific business area and medium risks across the Council
Risk 	Performing Adequately – Some improvement required to manage a high risk in a specific business area and medium risks across the Council
Internal Control 	Performing Adequately – Some improvement required to manage a high risk in a specific business area and medium risks across the Council
Financial Control 	Performing Adequately – Some improvement required to manage a high risk in a specific business area and 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	DoT
Safeguarding children	Good and effective management arrangements in place with controls working effectively	Medium	Substantial	↑
Safeguarding adults	Programme in place to develop and implement suitable assurance frameworks for commissioned services & personal budgets.	Medium	Substantial	↑
Good business continuity and resilience	Programme in place to review and test continuity and recovery plans	Medium	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.	Medium	Limited	↑
Ability to deliver our programme of designated projects	Project governance arrangements in place – but corporate oversight needs improving	Will be updated once the transformation plan agreed		↑
Funding and maintaining financial resilience	2019/2020 budget underway. Good financial management and monitoring.	Medium	Substantial	=
Ability to recruit and retain staff in high risk areas	Proactive work continuing in this area	Medium	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	Medium	Limited	=

Risk	Mitigating actions	Risk rating	Level of assurance	DoT
	contracts			
There is a risk of a successful cyber-attack against the council which will have a significant/critical impact	Ongoing work to identify and manage the ever changing risk presented by cyber threats. ISO/IEC 27001:13 accreditation attained	High	Limited	↑
IT Infrastructure – the ability to implement transformational aspirations and deliver business as usual	IT Governance Board in place – together with appropriate resources / projects to deliver transformation. New post established to support oversight and accountability.	Medium	Limited	↑

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

Direction of Travel (DoT)	
↑	Improving
=	Static

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Regulatory and Other

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	Audit Committee
Date:	15 June 2020
Subject:	External Audit Strategies – Lincolnshire County Council and Lincolnshire Pension Fund 2019/20

Summary:

Our external auditors, Mazars LLP, present three reports on their 2019/20 audit strategies for Lincolnshire County Council and the Lincolnshire Pension Fund, and a progress report on these.

Actions Required:

The Executive Director for Resources recommends that the Audit Committee considers the external audit strategies and progress report and identifies any further information or actions that may be required.

1. Background

1.1 Our external auditors, Mazars LLP, have prepared two strategies setting out their approach to this year's audit work on Lincolnshire County Council's main accounts and on the Lincolnshire Pension Fund. The purpose of these strategies is to summarise for this Committee the audit approach, the significant audit risks and areas of key judgements, and details of the audit team.

1.2 These first documents set the scene for this year's audit, and a progress report has also been prepared to give the Audit Committee an update on work carried out so far, as well as some information about the likely impact of the Coronavirus pandemic on the accounts and the audit.

1.3 The strategies include the following main themes:

- The audit engagement team;
- The audit scope, approach and timeline (note that the timeline has since been amended);
- Significant risks and areas of key judgements for this year;
- Value for money (applies to the main LCC accounts only);
- Audit fees;
- Auditor independence;
- Communications with the Audit Committee

1.4 The progress report brings the two strategies up to date where appropriate, and provides details of the changes to the audit approach as a result of the Coronavirus pandemic. These include changes to the timelines; remote working; the impact on financial reporting in the accounts and the impact on the value for money conclusion.

1.5 The external auditors welcome the opportunity to interact with Members of the Audit Committee and will be presenting their reports at the meeting.

2. Conclusion

2.1 The Audit Strategy Memoranda provide detail on how the external auditors plan to conduct this year's audit work. The progress report gives assurance about the progress and delivery of the external audit plan, and assurance that risks to the successful production of the accounts and delivery of the audit are being managed, particularly in the current pandemic environment.

3. Consultation

a) Have Risks and Impact Analysis been carried out?

No

b) Risks and Impact Analysis

N/A

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire County Council (LCC) Audit Strategy Memorandum 2019/20
Appendix B	Lincolnshire Pension Fund (LPF) Audit Strategy Memorandum 2019/20
Appendix C	Audit Committee Progress Report – February 2020 (LCC and LPF)

5. 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 Michelle Grady, who can be contacted on 01522 553235 or michelle.grady@lincolnshire.gov.uk.

Audit Strategy Memorandum

Lincolnshire County Council

Year ending 31 March 2020





CONTENTS

1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant 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 [optional]

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 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

March 2020

Dear Committee Members

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for Lincolnshire County Council for the year ending 31 March 2020

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 2020. 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.

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.

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.

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

E-Mail: mark.surridge@mazars.co.uk
Tel: 07875 974 291



Mike Norman
Senior Manager

E-Mail: michael.norman@mazars.co.uk
Tel: 07909 984 151

In addition a separate Engagement Quality Control Reviewer (EQCR) 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 Council'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 valuation	Keir Property Services <i>The Council's external valuer for PPE and Investment Properties</i> Savills LLP <i>The Council's external valuer for Investment Properties</i>	Not applicable
Financial instrument disclosures	Link Asset Services <i>Treasury management advisors</i>	Not applicable

Service organisations

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
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).

Group Accounts Approach

The Council's group structure for 2019/20 includes:

- Transport Connect, a wholly owned subsidiary;
- Eastern Shires Trading Organisation, the Council is one of the 6 shareholder councils;
- Lincolnshire Futures
- Lincolnshire County Property Ltd; and
- Lincolnshire Legal Services

The Council has not in previous years prepared group accounts on the grounds that these companies were not material or had not yet started trading. They are not therefore expected to fall within the scope of our audit for 2019/20. We will review the Council's assessment of these arrangements for this year's financial statements as part of our detailed audit work.



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:

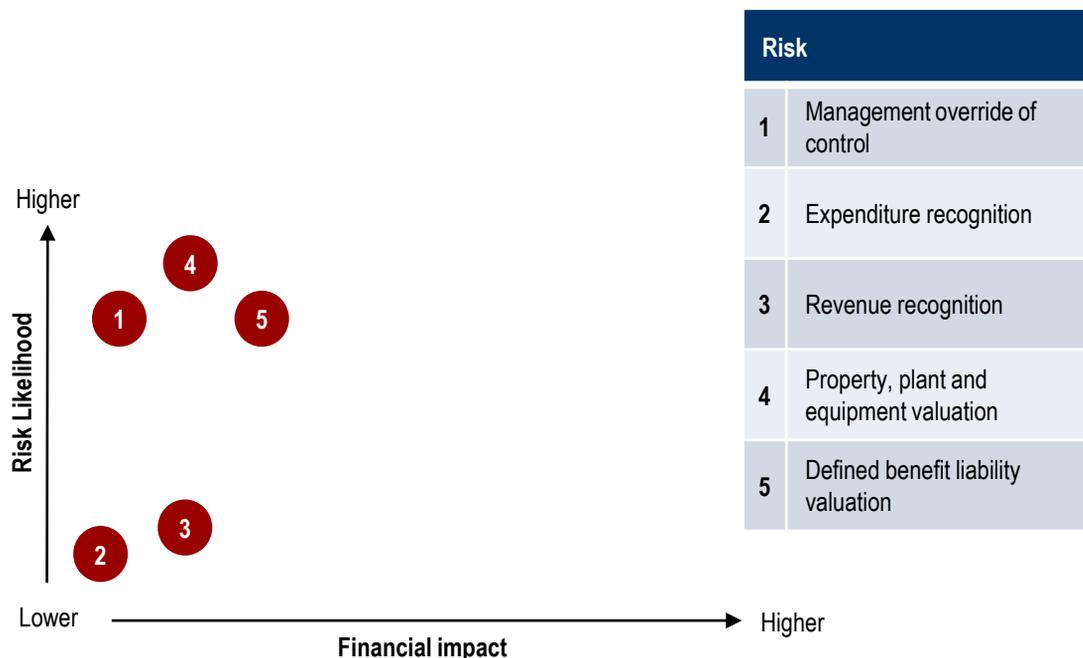
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to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

Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at 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 table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



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 plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>
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 2019/20 accounts; and • testing journals.

4. SIGNIFICANT 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 2019/20 accounts; and • testing journals.
4	<p>Property, plant and equipment valuation</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 land and buildings, investment properties and assets held for sale we will:</p> <ul style="list-style-type: none"> • Critically assess the Council's valuers' 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 valuers' 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 information available from other sources; • 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; and • Critically assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers.

4. SIGNIFICANT 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, Hyman Robertson; • Liaise with the auditors of the 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; • 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 • 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. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Key areas of management judgement and enhanced risks

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 continues to have been developed with regard to the statutory guidance; • Assessing whether the provision has been calculated and recorded in accordance with the Council's policy; and • Assessing whether the amount provided for the period is appropriate, taking into account the Council's Capital Financing Requirement.
2	<p>Accounting for the schools Private Finance Initiative and other school assets and liabilities</p> <p>The Council's 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"> • challenging the reasonableness of judgments management has made; and • Substantively testing the assets and liabilities as part of our planned testing programmes.

5. VALUE FOR MONEY

Our approach to Value for Money

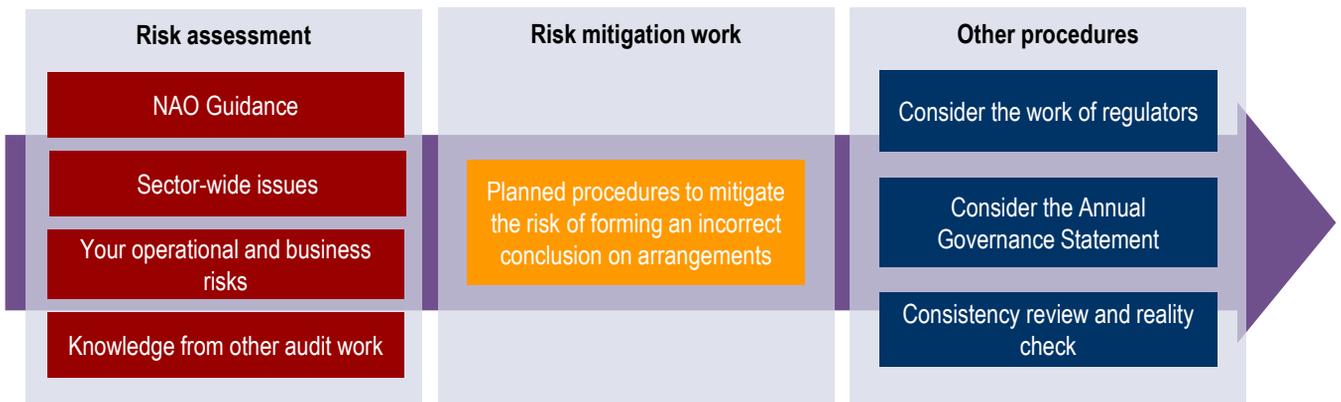
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria 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 2019/20 financial year, we have not identified any significant risks to 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. In particular, we will keep under review:

- The reports of Internal Audit
- The 2019/20 financial and performance outturn and budget setting for 2020/21 and updated MTFS.
- The outcome of other aspects of assurance work, such as the audited financial position and the Head of Internal Audit's opinion
- The work on the Council's 2019/20 Annual Governance Statement
- Updates to the Council's strategic risk register
- Issues noted following meetings with management or Those Charged with Governance
- The work and reports of regulators

Any significant audit risk identified will be reported to the Audit Committee as part of our Audit Completion Report.



6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

The scale fees set by PSAA, as communicated in our April 2019 fee letter are set out below, together with the fees for our non audit work a the Council.

Service	2018/19 fee	2019/20 fee
Code audit work	£82,640	£82,640
Non Audit Fees for assurance reports		
Education and Skills Funding Agency (ESFA)- External assurance on subcontracting systems and controls	£5,250	
Local Transport Plan Major Projects S31 AUD Return (Lincolnshire County Council Lincoln Eastern Bypass) - Reporting Accountant's Independent Reasonable Assurance Report	£6,000	TBC
Teachers Pensions Agency Return - Reporting Accountants' Independent Reasonable Assurance Report	£5,500	

We need to alert the Committee at this stage to matters which are likely to impact on the final audit fee for the year. During 2019/20 there has been a raised expectation on the quality and extent of work by all auditors on:

- Defined benefit pension schemes; and
- Valuation of Property, Plant and Equipment.

Both these areas are highlighted as significant audit risks in this document. This requirement, as well as other regulatory changes affecting the audit, emerged since the current scale fees were agreed by PSAA at the start of the current contract. As a result it is expected that additional fees will need to be agreed for 2019/20. This is in line with other audit suppliers under the PSAA contracts who increased fees substantially in 2018/19. As in previous years any proposed increases to the fee to address, for example, changes to the identified risks or other additional required work will be discussed with management in the first instance and are in any event subject to approval from PSAA. We will update the Committee as the position becomes more certain and will confirm the final position in our July 2020 Audit Completion Report.

Fees for non audit work

We expect to perform the assurance review on the 2019/20 Teachers' Pensions Return. The fee for 2018/19 was £5,500 and the expectation is that this work and this fee will apply to 2019/20. A separate Engagement Letter will be agreed for this work. It is unclear at this stage if assurance reviews will be required in 2019/20 for the ESFA and Local Transport Plan Major Projects work.

Should the Council wish us to undertake any additional work, before agreeing to this we will consider whether there are any 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.

We have not yet been separately engaged by the Council to carry out any additional work in relation to the 2019/20 year in addition to the scale fees in relation to our appointment by PSAA. At Section 6 we have identified the non audit work we were engaged by the Council in 2018/19 to carry out .The principal threats to our independence relating to these pieces of work and identified associated safeguards are set out below:

Service	Considerations
Education and Skills Funding Agency (ESFA)- External assurance on subcontracting systems and controls	<p>We considered threats and safeguards as follows:</p> <ul style="list-style-type: none"> • Self Review: The work did not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars; • Self Interest: The total fee level was not deemed to be material to the Council or Mazars. The work undertaken was not paid on a contingency basis; • Management: The work did not involve Mazars making any decisions on behalf of management; • Advocacy: The work did not involve Mazars advocating the Council to third parties; • Familiarity: Work was not deemed to give rise to a familiarity threat given this was the first year these pieces of assurance work had been completed; and • Intimidation: The nature of the work did not give rise to any intimidation threat from management to Mazars.
Local Transport Plan Major Projects S31 AUD Return (Lincolnshire County Council Lincoln Eastern Bypass) - Reporting Accountant's Independent Reasonable Assurance Report	
Teachers Pensions Agency Return - Reporting Accountants' Independent Reasonable Assurance Report	

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	£000s
Overall materiality	22,125
Performance materiality	17,700
Trivial threshold for errors to be reported to the Audit Committee	664

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

We have set our materiality threshold initially at 2% of the benchmark based on the 2018/19 audited financial statements.



8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on the 2018/19 audited financial statements we anticipate the overall materiality for the year ending 31 March 2020 to be £22,125,000 for the audit of the Council's financial statements.

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 second year of audit, we have cumulative audit knowledge about the Council's financial statements, and that we identified no complex errors in the prior year. We have therefore set our performance materiality at 80% (increased from 70% last year) of our overall materiality being £17,170,000.

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 Council's 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 £000s
Officer remuneration	5*
Members' allowance and expenses	248
External audit costs	21

* - 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 £664k 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

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	<p>The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies.</p> <p>The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee’s Balance Sheet.</p> <p>In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.</p>

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Audit Strategy Memorandum

Lincolnshire Pension Fund

Year ending 31 March 2020





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1. Engagement and responsibilities summary
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

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

March 2020

Dear Committee Members

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for Lincolnshire Pension Fund (the Fund) for the year ending 31 March 2020.

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 07387 242 052.

Yours faithfully

Cameron Waddell

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 (the Fund) for the year to 31 March 2020. 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 Pension Fund.

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 Pension Fund 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



- Cameron Waddell, Partner
- Cameron.Waddell@mazars.co.uk
- 07387 242 052



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

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.

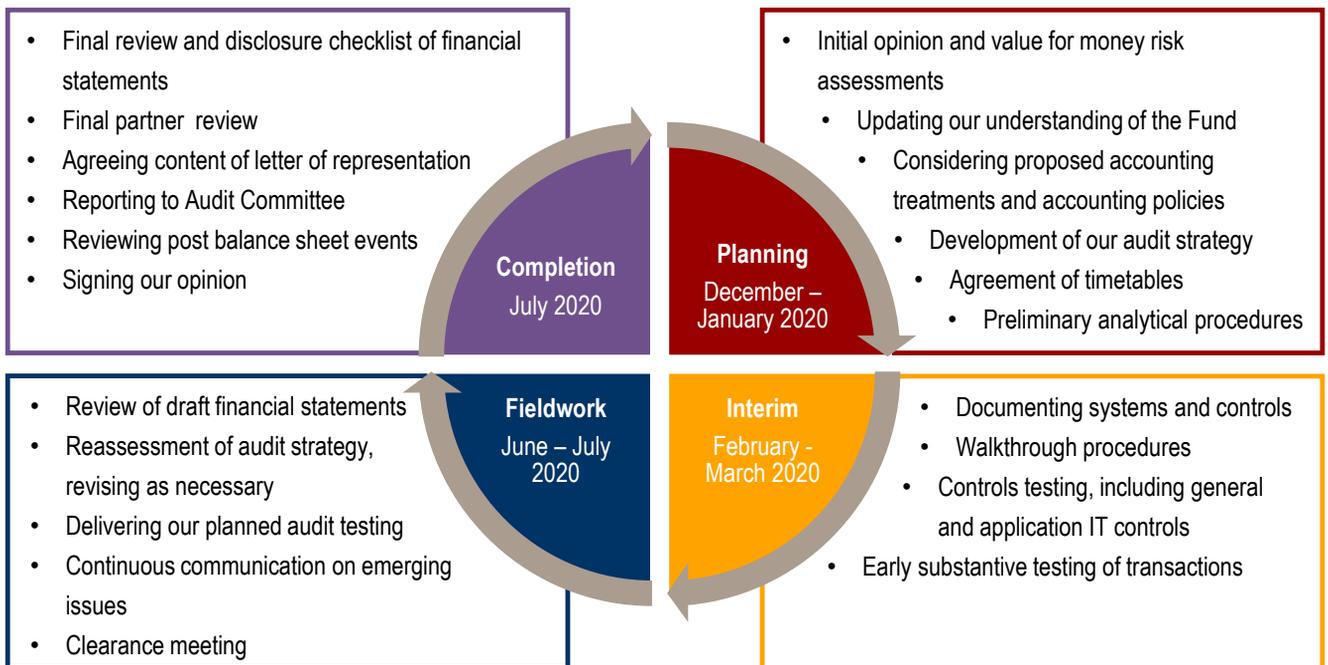
Audit approach

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)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures. Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and 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 – Northern Trust	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.

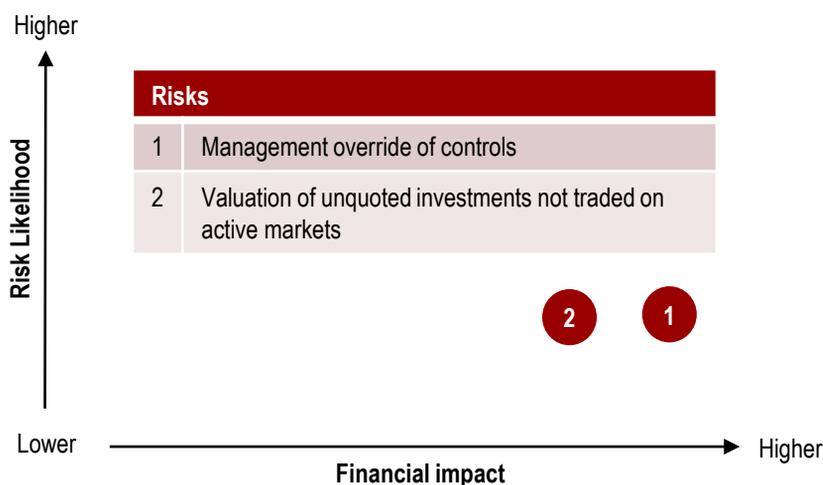


4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

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



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 2019 the Pension Fund held investments which were not quoted on an active market with a fair value of £346m, accounting for 13.6 per cent of the Fund's net investment assets. 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; • agree the investment manager valuation to audited accounts or other independent supporting documentation, where available; and • review independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Fund's financial statements.

Revenue recognition

We have considered the presumed risk under ISA (UK) 240 in relation to revenue recognition, and have determined that there is little incentive or opportunity to manipulate revenue at the Fund. We therefore rebut this risk and do not incorporate specific risk procedures over and above our standard fraud procedures to address the management override of controls risk.

Key areas of management judgement

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. We have not identified any such judgements.



5. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Fund's appointed auditor

The scale fee set by PSAA as communicated in our April 2019 fee letter is summarised below:

Service	2018/19 fee	2019/20 fee
Code of Audit Practice work	£18,750	£18,750

At this stage we expect to need to charge an additional £3,000 for the extra audit work required this year as part of our audit of the 2019/20 financial statements in relation to the triennial valuation as at 31 March 2019. As in previous years any proposed increases to the scale fee are subject to approval from PSAA. We will update the Committee on this and confirm the final position in our July 2020 Audit Completion Report.

Fees for pension assurance

The fee for Code audit work does not include fees chargeable to the Fund for IAS19 pension assurance work undertaken at the request of employer auditors for the year ended 31 March 2020. It is expected that the Fund will recharge any fees chargeable for these requests to the relevant employers. This approach is in line with the PSAA Terms of Appointment, and the expectation within NAO's AGN01 General Guidance Supporting Local Audit.

Fees for non-PSAA work

At this stage we have not been separately engaged by the Fund to carry out additional work.

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 Cameron Waddell in the first instance.

Prior to the provision of any non-audit services [RIName] will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

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	24,572
Performance materiality	19,658
Specific materiality:	
Fund account overall materiality	9,828
Fund account performance materiality	7,862
Trivial threshold for errors to be reported to the Audit Committee	0.7

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.



7. MATERIALITY AND MISSTATEMENTS (CONTINUED)

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 the value of investment assets at Q1 we anticipate the overall materiality for the year ending 31st March 2020 to be in the region of £24.6m (£23.6m in the prior year).

Asset values can vary significantly from quarter to quarter. After setting initial materiality, we will therefore continue to monitor materiality throughout the audit to ensure that it is set at an appropriate year-end 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 second year of audit, we have cumulative audit knowledge about the Fund's financial statements, and that we identified no complex errors in the prior year. We have therefore set our performance materiality at 80% (increased from 70% last year) of our overall materiality being £19.6m.

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.

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 Cameron Waddell.

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

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	<p>The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies.</p> <p>The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee's Balance Sheet.</p> <p>Although the number of leases the Fund is party to is expected to be low, it is important that work is undertaken to identify and assess all leases, particularly any implicit within a service contract.</p>

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Audit Committee Progress Report – February 2020

Lincolnshire County Council
Lincolnshire Pension Fund
Year ending 31 March 2020





CONTENTS

1. Summary

2. Audit Progress

Appendix 1 – Communications and Timeline

Appendix 2 – CIPFA 2019/20 Year end Bulletin

1. SUMMARY

Purpose of this report

This report provides the Audit Committee at its June 2020 meeting with an update on progress in delivering our responsibilities as your external auditor for Lincolnshire County Council and the Lincolnshire County Pension Fund.

The County Council and Pension Fund 2019/20 Audit Strategy Memoranda were issued ahead of the planned March 2020 Audit Committee and are included now on the agenda for this meeting. This report provides updates to those documents where necessary.

Financial Statements Audits

The changes to working arrangements during the COVID-19 'lock-down' period and other pressures in the local government sector has led to a number of changes to the audit approaches and matters outlined in the Audit Strategy Memoranda.

- Remote working - Mazars moved to working remotely on 16 March 2020. So far these arrangements have worked reasonably well at our clients and the systems in place for sharing information between clients and ourselves have operated as expected. We expect to need to continue to operate on this remote basis throughout the upcoming audits and for the near future, including the reporting and closure stages of the audit. We will continue to work with management to deal with any practical difficulties in delivering the audit as the work progresses.
- Timetable changes – there have been significant changes to the statutory timetable for the 2019/20 accounts preparation and publication. The statutory deadlines for the publication of the draft and audited financial statements have been changed to 31 August (from 31 May) and 30 November (from 31 July) respectively. We have agreed with management changes to the scheduling of our work to accommodate the new timetable. The majority of the audit work will now take place in July and August, based on the draft financial Statements produced by 30 June. We plan to submit our Audit Completion Reports to the September Audit Committee meeting and issue the Auditor's Report before the end of September. This timetable is dependent on a number of factors and we will update to Audit Committee if any changes are required.
- Financial Reporting Issues – a number of key financial reporting issues as a result of the COVID-19 pandemic have emerged over recent weeks. CIPFA's Bulletin 05 on the Closure of the 2019/20 Financial Statements summarises the key points to consider and we have included a summary of the Bulletin at Appendix 2 to this report. We have discussed with management the local position on these issues and other COVID-19 related matters and are taking them into account in our detailed audit work.

We have included at Section 2 of this report a summary of the current position on the audit risks and other reporting requirements set out in our 2019/20 Audit Strategy Memoranda. We will report further on these matters in our Audit Completion Reports to the Audit Committee in June 2020. We have included an updated Communications and Timeline summary at Appendix 1.

Value for Money Conclusion

In our Lincolnshire County Council Audit Strategy Memorandum we reported that we had not identified any significant risks to our 2019/20 VFM conclusion. We keep our assessment up to date and before concluding on the work take into account any matters which come to our attention through the course of our audit which may affect our reporting. Our Audit Strategy Memorandum sets out the sources of information we consider. We have not to date identified any matters in those areas which indicate any additional significant VFM risks or that we will be unable to give an unqualified VFM conclusion. NAO's updated guidance clarifies that auditors should generally consider local bodies' arrangements and their response to the COVID-19 pandemic as part of their 2020/21 work on VFM arrangements. Only where there is a clear indication of a significant failure of arrangements during the 2019/20 as a result of COVID-19 would it be appropriate to raise a 2019/20 significant VFM risk. We have not identified any significant failures in the Council's arrangements during 2019/20 and are satisfied that no additional significant VFM risks have been identified.

2. AUDIT PROGRESS

This section includes a summary of the key matters reported in the 2019/20 Audit Strategy Memorandum for the County Council and the Pension Fund and updates based on the audit work carried out to date. We will report the final position on this matters in our Audit Completion Reports to the September Audit Committee.

Significant Audit Risks – Lincolnshire County Council

	Description of risk	Planned response	Update June 2020
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 plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>	<p>No significant findings from the audit work carried out to date that we need to report to the Audit Committee at this stage.</p>
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 2019/20 accounts; and • testing journals. 	<p>No significant findings from the audit work carried out to date that we need to report to the Audit Committee at this stage.</p>

2. AUDIT PROGRESS (CONT.)

Significant Audit Risks – Lincolnshire County Council

	Description of risk	Planned response	Update June 2020
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 2019/20 accounts; and • testing journals. 	<p>No significant findings from the audit work carried out to date that we need to report to the Audit Committee at this stage.</p>
4	<p>Valuation of Land and Buildings</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>We will:</p> <ul style="list-style-type: none"> • Critically assess the Council's valuers' 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 valuers' 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; • Critically assess the treatment of the upward and downward revaluations in the Council's financial statements; and • Critically assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct. 	<p>We have updated the scope of our work under this risk to reflect the uncertainty over the year-end land and buildings valuations caused by the impact of COVID-19 on market values and building cost indices. We will also consider engaging our own expert valuer to advise on the valuation approaches followed and the reasonableness of the Council's year-end valuations.</p> <p>There are no specific significant findings from the audit work carried out to date that we need to report to the Audit Committee at this stage.</p>

2. AUDIT PROGRESS (CONT.)

Significant Audit Risks – Lincolnshire County Council

	Description of risk	Planned response	Update June 2020
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>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 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; • 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 • 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. 	<p>We have updated the scope of our work under this risk to reflect the uncertainty over the year-end pension fund investment asset valuations caused by the impact of COVID-19 on market values.</p> <p>There are no specific significant findings from the audit work carried out to date that we need to report to the Audit Committee at this stage.</p>

2. AUDIT PROGRESS (CONT.)

Significant Audit Risks – Lincolnshire Pension Fund

	Description of risk	Planned response	Update June 2020
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. 	<p>No significant findings from the audit work carried out to date that we need to report to the Audit Committee at this stage.</p>
2	<p>Valuation of unquoted Investments</p> <p>At 31 December 2019 the Pension Fund held investments which were not quoted on an active market with a fair value of £346m, accounting for 13.6 per cent of the Fund's net investment assets.</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; • agree the investment manager valuation to audited accounts or other independent supporting documentation, where available; and • review independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Fund's financial statements. 	<p>CIPFA's Bulletin 05 on the Closure of the 2019/20 Financial Statements (see summary at Appendix 1) highlights specific matters relevant to the fair value measurement of pension fund assets given the increased volatility in the markets resulting from the COVID-19 pandemic. The Bulletin highlights the increased estimation uncertainty around investment asset valuations. We are liaising with management on these issues and are taking them into account in our detailed audit work. At this stage we have not engaged our own expert for the valuation of unquoted investments. However we may engage an expert if considered necessary to support the valuation of unusual or complex investments.</p>

2. AUDIT PROGRESS (CONT.)

Materiality

Our Audit Strategy Memoranda set out our planning materiality assessments for 2019/20. These are based on the audited 2018/19 financial statements and the forecast position for 2019/20 at December 2019. We will update these assessments to reflect the 2019/20 draft statements and expect the levels set for the Pension Fund to change given the fall in the relevant benchmark (investment asset values) at 31 March 2020. We will report the updated materiality levels and any audit differences in our Audit Completion Report.

Other Reporting Matters

We have no issues to report at this stage in relation to the following audit matters:

- Fraud
- Significant internal control deficiencies
- Accounting practices
- Non-compliance with laws and regulations
- Practical difficulties in carrying out the audit or co-operation from management
- Threats to our independence

APPENDIX 1 – COMMUNICATIONS AND TIMELINE

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) specify the matters we are required to communicate to you. These matters, and the reports we will issue, are as follows:

Required communication	Audit Strategy Memorandum Separate reports for the Council and the Pension Fund – deferred from to March to June 2020 Audit Committee	Audit Completion Report Separate reports for the Council and the Pension Fund deferred from July to September 2020 Audit Committee
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		✓

Further outputs from our audit (and planned dates, based on our current understanding of the statutory timetable) include:

- Audit Committee Progress Reports – January and June 2020
- Value for Money Conclusion – September 2020 (included within our Audit Completion Report and draft audit report)
- Audit Opinion on the Pension Fund Annual Report – September 2020
- Audit Report on the 2019/20 Whole of Government Accounts return – November 2020

APPENDIX 2 – CIPFA YEAR END BULLETIN

CIPFA's Bulletin 05 on the Closure of the 2019/20 Financial Statements (May 2020) summarises the key points for local authorities to consider and includes a particular focus on areas impacted by the COVID-19 pandemic. A copy of the Bulletin can be found via the following link:

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-05-closure-of-the-201920-financial-statements>

We have included below a summary of the matters highlighted in the Bulletin and their impact on our audit approach.

Topic	Description	Comment
Dedicated Schools Grant	The Bulletin confirms the expected accounting and disclosure of deficit and surplus balances carried forward in the 2019/20 accounts.	We have discussed the topic with management and the Council is expected to prepare its draft financial statements following the CIPFA guidance.
Accounting for McCloud and Sargent Judgements in 2019/20	The Bulletin provides updated guidance on the recognition and accounting for these liabilities.	We have discussed the topic with management and the Council is expected to prepare its draft financial statements following the CIPFA guidance.
Changes to the 2019/20 financial reporting deadlines	The Bulletin confirms the changes to the 2019/20 timetable	The accounts timetable and our planned audit dates have been changed to reflect the new dates.
Deferral of the implementation of IFRS16	The implementation of IFRS 16 Leases has been deferred for one year in-line with the government's Financial Reporting Advisory Board's proposals for central government departments. The effective date for implementation is now 1 April 2021.	Management is aware of this deferral.
Going concern basis of accounting	The Bulletin confirms that despite the impact of COVID-19 on local authority financial sustainability the going concern basis of reporting in the Code and the rationale behind it remains unchanged. The Bulletin does though highlight the need for local authorities to report on the impact of financial pressures in the narrative report will also need to ensure that their reports on credit risks in the financial statements appropriately reflect the impact of the COVID-19 pandemic.	We have discussed this with management and the matters highlighted in the Bulletin are being considered as part of the preparation of the draft 2019/20 financial statements.
Accounting for COVID-19 support measures	The Bulletin clarifies the role of councils as 'agents' or 'principles' in the distribution of grants and the expected accounting treatment.	Management is aware of the guidance and the reporting requirements.
S.31 Grants for 2020/21 paid in 2019/20	The Bulletin sets out the issues to consider in recognising this income in the 2019/20 financial statements.	Management is aware of the guidance and expected to prepare its draft financial statements following the CIPFA guidance.

APPENDIX 2 – CIPFA YEAR END BULLETIN (CONT.)

Topic	Description	Comment
Financial reporting issues arising from COVID-19	<p>The issues highlighted include:</p> <ul style="list-style-type: none"> • The assessment and disclosure of relevant events after the reporting period • Impact on land and buildings valuations • Fair values of investments and investment properties • Expected Credit Losses • Narrative Reporting • Reporting significant accounting judgements and estimation uncertainty. 	<p>We have discussed these matters with management and the issues highlighted in the Bulletin are being considered as part of the preparation of the draft 2019/20 financial statements. The matters relating to land and buildings valuation overlaps with a significant audit risk identified in our Audit Strategy Memorandum and will therefore be a specific are of focus for our audit work and reporting.</p>
Impact of COVID-19 on Pension Fund investment measurement and Impairment	<p>The Bulletin highlights a number of significant matters relating to the impact of COVID-19 on year end values and the increased estimation uncertainty. The Bulletin identifies the importance of pension funds engaging early with its fund managers, custodians and investment advisers to ensure it is well placed to prepare materially accurate financial statements and make disclosures (regarding, for example, estimation uncertainty) which are complete and up to date.</p>	<p>We have discussed these matters with management and the issues highlighted in the Bulletin are being considered as part of the preparation of the draft 2019/20 financial statements. This overlaps with a significant audit risk identified in our Audit Strategy Memorandum and will therefore be a specific are of focus for our audit work and reporting.</p>

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Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	Audit Committee
Date:	15 June 2020
Subject:	Counter Fraud Annual Report 2019/2020

Summary:

This report provides information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption and reviews the delivery of the 2019/20 counter fraud work plan.

Recommendation(s):

To assess the overall effectiveness of the Council's arrangements to counter fraud and corruption and the progress made to implement policy.

Background

The Counter Fraud Annual Report provides an overview of the investigation and proactive counter fraud work completed in 2019/20.

This summary provides information to enable the Committee to review performance and the effectiveness of the Council's arrangements. The progress reports submitted throughout the year and this annual report are the key sources of assurance for the Committee on the adequacy of Council's counter fraud activities.

The report supports the Committee in discharging its duties around:

- To review the assessment of fraud risks and the potential harm to the council from the risk of fraud
- To monitor the counter fraud strategy, actions and resources.

Details included within Appendix A includes information on:

- Fraud referrals received and subsequent investigations made
- Investigation outcomes
- Recovery of fraud losses
- Proactive work to detect and prevent fraud
- 2019/20 update of the council's Fraud Risk Register
- Work delivered by the Lincolnshire Counter Fraud Partnership

- Recent developments including the raised threat presented by the Coronavirus outbreak
- Future counter fraud work and planning

Conclusion

We can provide assurance that arrangements in place to counter fraud continue to remain effective. This is demonstrated by our success in 2019/20 to recover and prevent losses through several different methods – we secured recovery of £86k through our investigation work while our proactive and data analysis work detected a further £28k of overpayments. Furthermore, our proactive work to build awareness reaped dividends when a major fraud attempt (valued at £1.6m) was thwarted through vigilance of an employee – using knowledge provided through our awareness campaign on mandate fraud.

Our service delivers value for money. This is demonstrated through the level of recoveries (£124k) against the cost of providing a Counter Fraud & Investigation function (£237k). Recoveries are not the only measure of success and there are prevention measures that we support - the mandate fraud noted above being an example. This demonstrates real and tangible benefit. It is not possible to capture the value of all fraud stopped as preventative work stops them happening even before an attempt is made. However, it does support our stance to mitigate the risks of fraud to the Council.

We were able to complete 87% of the work tasks included within the annual Counter Fraud Plan 2019/20 including an update of the Fraud Risk Register and also significant proactive work exercises in priority areas. We have also been able to respond promptly and effectively to ensure employees are aware of the raised threat levels posed by the Coronavirus outbreak. We will continue to monitor developments to ensure a continued response in preventing and detecting fraud in these rapidly changing circumstances.

Building on our success in 2019 Government Counter Fraud Awards we were approached by CIFAS to input into the new Local Government Counter Fraud Strategy (Fighting Fraud and Corruption Locally) and we are currently working in conjunction with Mazars on this. This demonstrates evidence of the Council's growing reputation for its counter fraud activities.

The Lincolnshire Counter Fraud Partnership has continued its successful collaboration with its partner authorities. Lincolnshire Finance Officers have also agreed to consider a longer term funding commitment (3-5 years) for LCFP. Partnership activities will contribute to more money for local service delivery.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Counter Fraud Annual Report 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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COUNTER FRAUD

2020 Annual Report



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Appendix 1 – Counter Fraud Plan 2019/20

Lucy Pledge - Head of Audit and Risk
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Dianne Downs – Audit Team Leader
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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

Key Messages

The purpose of the Annual Report is to provide assurance to the Audit Committee on the effectiveness of the Council's arrangements in countering fraud and corruption. The report also informs the committee of performance against the 2019/20 Counter Fraud Work Plan and the outcomes of proactive fraud work and investigations.

PERCENTAGE OF PLAN COMPLETE



We are pleased to have delivered 87% of the tasks included within the 2019/20 Counter Fraud Work Plan (see Appendix B). We have maintained a high level of delivery consistent with the previous 2 years.

£114k recovered in 2019/20

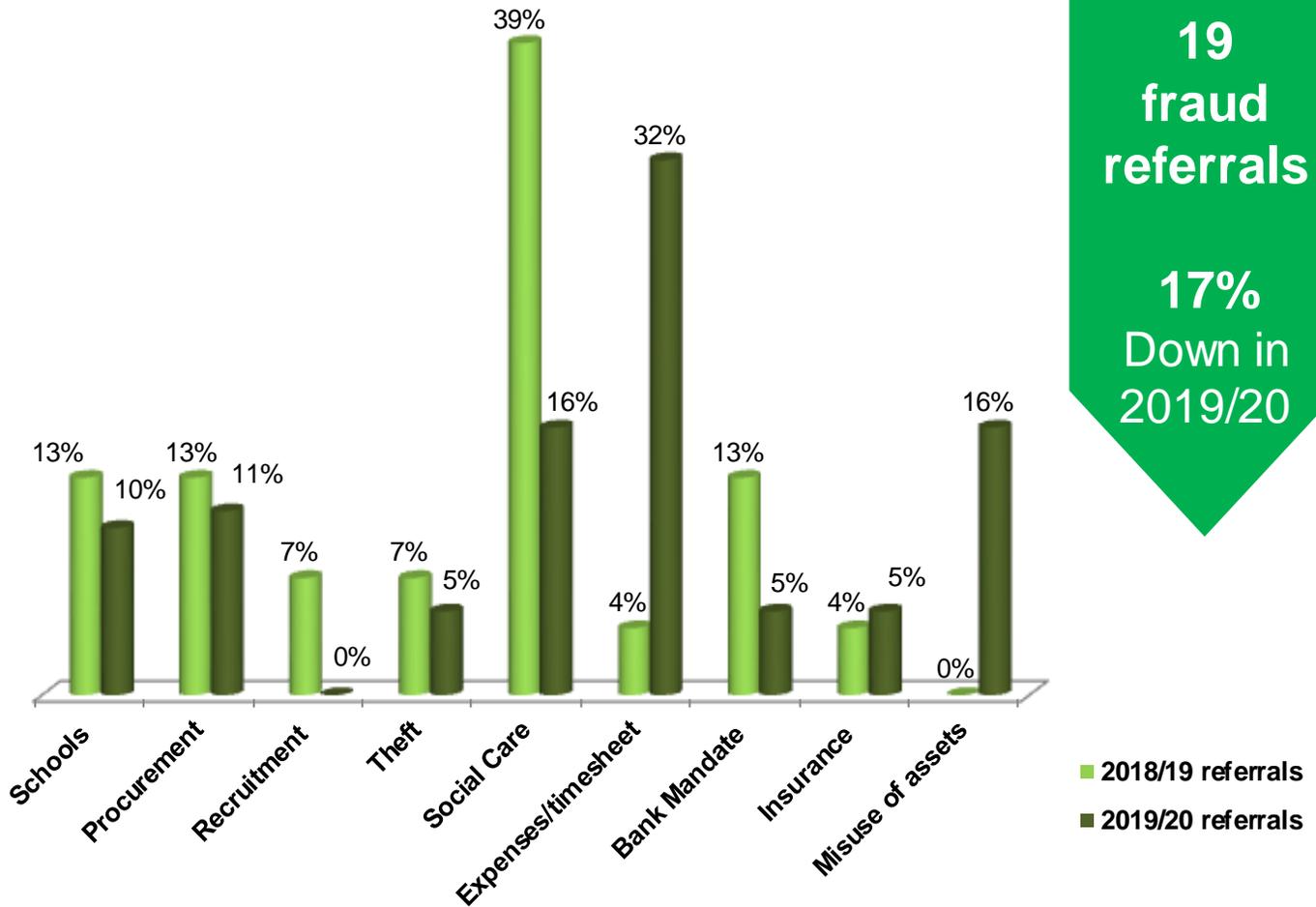


We were able to recover over £114k during 2019/20 from our proactive counter fraud work and investigations.

£1.56m attempted fraud stopped

We have done extensive work to raise awareness of bank mandate fraud in recent years and have built up good lines of communication with service areas and Serco colleagues. In June 2019 a significant fraud attempt was identified by a member of staff. Vigilance was key in preventing this fraud from being successful

Fraud Referrals



Time & expenses
28%

The most notable increase in 2019/20 related to timesheet and expenses frauds. These tend to be low level but we monitor trends and correlations and are working with specific director and service areas to address issues identified.

23%
Social Care

After a spike in social care related cases in 2018/19, the number of cases referred to us in 2019/20 stabilised to a more 'normal' level. We were able to conclude a long running social care investigation and were successful in securing a significant recovery

The chart also demonstrates that the proportion of frauds relating to procurement and schools have remained consistent in 2019/20. We have delivered extensive pro-active work in both areas in recent years.

Investigation - Headlines

We have achieved some significant results during 2019/20 from our investigation work.



During 2019/20 we concluded a case relating to deprivation of capital in which a property was not declared – therefore resulting in overpayment over a sustained period. In accordance with the zero tolerance approach in the Counter Fraud Policy, we referred this for criminal proceedings – this did not go ahead but we were able to recover £83k through civil means.



We were required to investigate allegations that an employee has been falsifying details within their timesheets submitted.

Our investigation resulted in the individual being dismissed from their role and the subsequent recovery of monies fraudulently obtained (£1.2k)



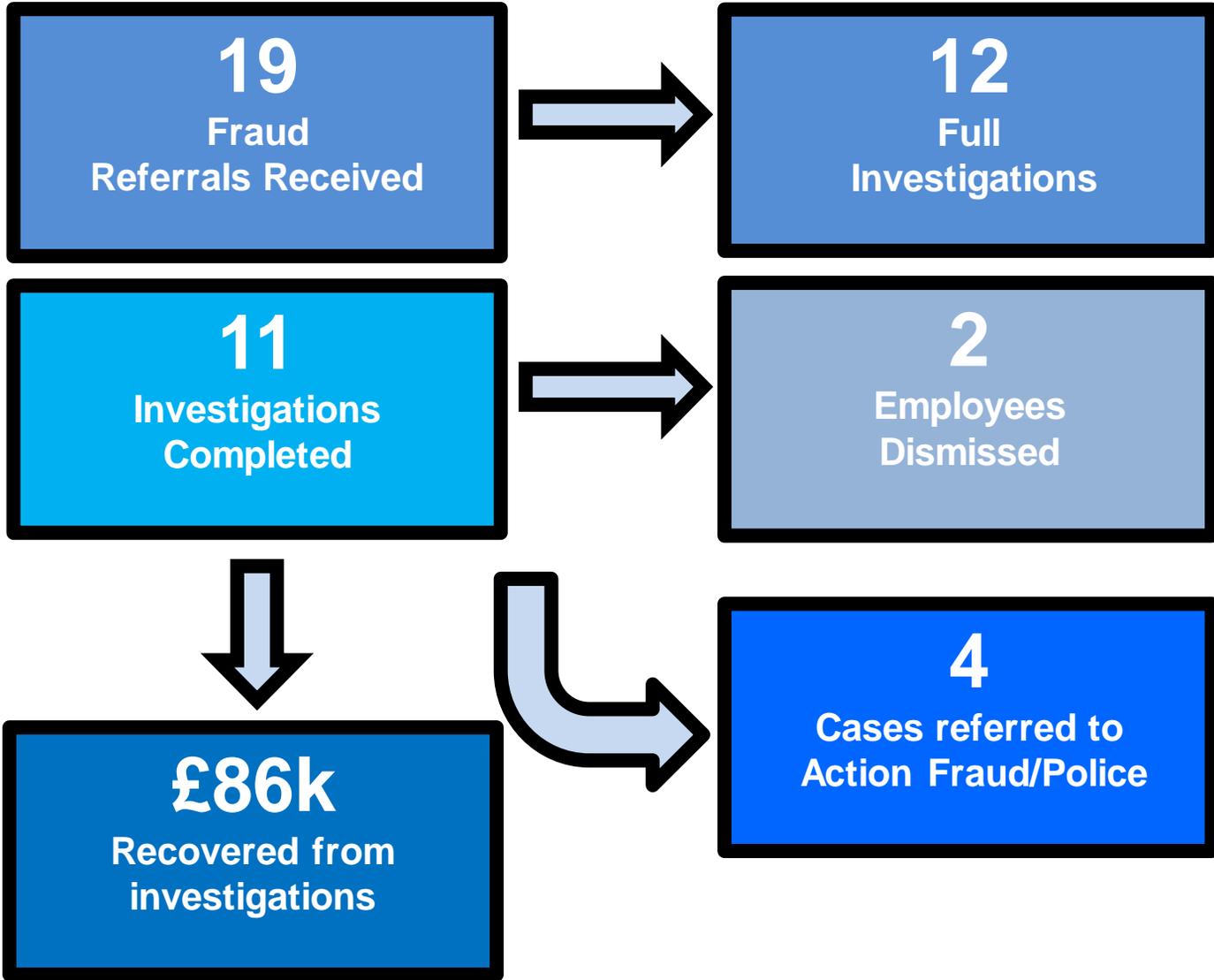
We continue to investigate a case relating to a significant suspected purchasing card fraud.

The individual has been dismissed from their role and we are currently gathering details and evidence in liaison with Lincolnshire Police and the Crown Prosecution Service.

Fraud Recoveries

Whilst recoveries are not the only measure of success or effectiveness, we are pleased to have recovered £114k through a variety of routes during 2019/20. Any amounts recovered can be ploughed back into providing vital services for those most in need of them.

Investigation - Outcomes



SANCTION

In accordance with our Counter Fraud Policy and zero tolerance approach to fraud we seek to take sanctions against those who commit fraud at or against the Council – this is shown by the dismissal of 2 employees following disciplinary procedures. Where we find sufficient evidence of a fraud taking place, we try to ensure maximum sanction via Action Fraud or Police. In 2019/20 we referred 4 cases to law enforcement authorities. 3 cases led to no further action but one significant case continues to be investigated by Lincolnshire Police.

REDRESS

Another key element of the Counter Fraud Policy is Redress – this requires us to be rigorous in our pursuit to recover money lost through fraud. In 2019/20 we were able to recover over £86k from 3 investigations conducted.

This demonstrates our commitment to using various routes to claw back amounts lost and ensuring this money can be reinvested into providing key services for the people of Lincolnshire.

Proactive Work

A proactive approach is a key factor in any counter fraud efforts. This reinforces the aims of our service laid out within our Counter Fraud Policy. We protect our resources through our proactive principles of **Deterrence, Prevention and Detection**.

Proactive Work - Achievements in 2019/20

National Fraud Initiative	We have almost completed our review of the data matches identified in the 2018/19 exercise. We were able to enhance our review using data analysis techniques – this contributed to another successful process with over £25k in overpayments DETECTED and recovered. We are now making preparations for the 2020/21 exercise.
Fraud Awareness	Our fraud awareness e-learning package has continued its success in 2019/20 with 1555 employees now completing it. We have also rolled it to school employees. We have also continued to enhance fraud awareness on numerous fronts with general and targeted awareness campaigns. It was pleasing that our Business Support colleagues were able to directly PREVENT a major bank mandate fraud attempt in June 2019 through vigilance derived from our fraud awareness work.
Fraud Risk Register	We updated the Fraud Risk Register in 2019/20. We gather intelligence throughout the year to inform this and it allows us to focus on our DETERRENT proactive work priorities. We will be using this process to guide our post Coronavirus virus counter fraud efforts.
Proactive exercises	We have been involved in a joint proactive review of Contract Management with the Council's Commercial Team in 2019/20. We have also continued our regular reviews of payroll transactions – this DETECTED overpayments of £2.7k. We have also worked closely with our Information Assurance Team to enhance knowledge of cyber fraud threats.
Data Analysis	We have continued to enhance our data analysis capabilities and used it effectively to DETECT amounts recovered and data trends. We have also transferred our analytic knowledge to the audit and risk teams within our wider service.
Midland Fraud Group	We lead this regional group of counter fraud professionals and organise regular meetings to share intelligence. Knowledge sharing during the Coronavirus has proved invaluable in formulating an urgent response to DETERRING the increased threats facing local authorities.

Fraud Risk Register

LIKELIHOOD	4 ALMOST CERTAIN		Social Care – Financial Abuse		
	3 PROBABLE	Schools & establishments Payroll & employees	Contract Management Procurement Social Care – Overstated Care Needs	Cyber Fraud Council Tax	
	2 POSSIBLE	Pensions Income Collection Payments/ Creditors BACS & Cheque False accounting Blue Badge Identity Insurance Electoral	Social Care – Financial Assessments	Corruption (including bribery)	
	1 HARDLY EVER	Debt Management Petty Cash & Imprest accounts	Property, land & equipment Grants	Money Laundering Investment Serious & Organised Crime	
	1 NEGLECTABLE	2 MINOR	3 MAJOR	4 CRITICAL	
IMPACT					

We updated the Fraud Risk Register in 2019/20. Fraud risk identification is essential to understanding our exposure to the fraud threats we face. We continually update the information and intelligence so we have an accurate picture of the current status of each risk area. We were pleased to agree a downgrade in the rating of Cyber Fraud – moved to Amber from Red in view of improvements in the response to this threat.

Fraudsters will seek to exploit the uncertainty created by major and unexpected events – the current Coronavirus issue is no exception. We have used this process to log all known information on the prevalent fraud risks raised by this situation. This has helped formulate our prompt response to warn and inform employees and the public of fraud and scams. It will also help guide our proactive efforts to detect potential fraud against the Council.

Lincolnshire Counter Fraud Partnership

Key Outcomes in 2019/20

Revenue Generation

- ✓ £1.65m revenue savings for LCC since 2015 (Council Tax related and business rates)
- ✓ Business case developed for an Invest to Save project – this highlights scope to deliver Council Tax recoveries of £10.5m

Fraud Awareness

- ✓ Tailored fraud awareness sessions delivered to members
- ✓ Improved fraud Awareness e-learning platform delivered

Fraud resilience and fraud proofing

- Regular liaison and sharing of information on:
- ✓ Scams
 - ✓ Alerts
 - ✓ Fraud cases

2019/20 saw the LCFP develop a business case that sets out a revenue proposal taking a proactive approach to council tax fraud and error. Changing the approach to Council Tax Single Person Discounts (SPDs), delivered in partnership with all District Councils in Lincolnshire will have potential to deliver revenue of over £10m (gross) over a 5 year period. This will contribute to more money for local service delivery.

Lincolnshire Finance Officers have also agreed to consider a longer term funding commitment (3-5 years) for LCFP. This will provide better medium term planning and allow LCFP to identify and support cross-cutting counter fraud related projects that would benefit all partners and explore more cost effective delivery models to deliver partnership

Effectiveness

Value for Money

The annual cost of the Counter Fraud & Investigation Team is calculated at £237k.

There are tangible benefits delivered by the team that demonstrates how effective our work is. Fraud recoveries are probably the clearest indicator – the level of recoveries (£114k) in 2019/20 was very encouraging and shows we are effective in ensuring redress is taken where we identify fraud. We also recovered amounts through both our investigation and counter fraud work and across several cases and approaches - this provides more evidence of effectiveness. However, recoveries can be subject to many factors including timing and nature of cases so cannot be the only comparison.

We were able to prevent a sizeable fraud from taking place in 2019/20 when a Business Support employee showed awareness to recognise fraud red flags when supposedly contacted by a contractor. We have delivered regular work with this team and this directly helped prevent this fraud happening – again showing the tangible benefits our work brings.

There are also areas where benefits cannot be measured. The volume and range of our fraud prevention work and our promotion of it acts a deterrent - therefore stops fraud attempts from occurring at Lincolnshire County Council. We cannot place a value on this but the amount of losses would be much higher without the team's contribution to countering fraud.

We publicise the range of work we undertake and the successes we deliver – this is designed to make potential fraudsters reluctant to target the Council as they believe that attempts will be identified and strong action taken.

We maintain regular contact with our Midland Fraud Group colleagues and undertake basic benchmarking activity with them – this provides valuable insight and our results always compare favourably with other teams across the region.

Annual cost of team

£237k

2019/20 Recoveries

£114k

Large fraud stopped

£1.56m

Many other frauds stopped before they happen

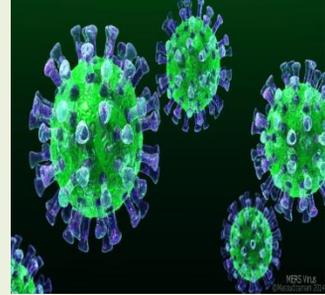
We also participate in the annual CIPFA Fraud and Corruption Tracker survey – the 2019 results estimated that £253m of fraud was detected and prevented by local authorities. The report provides valuable insight into trends and statistics on fraud activity across similar councils. This enables us us to align our work to ensure we are aware and responding in the correct areas.

These factors demonstrate that the team provides a proportionate approach to mitigate fraud risks and delivers a Value for Money service.

Moving Forward.....

Coronavirus

The unprecedented crisis created by the COVID-19 outbreak crisis has brought many challenges. It is a fast changing and developing situation that has required a rapid yet coherent response.



Unfortunately, fraudsters seek to take advantage of such major issues – they exploit confusion and vulnerability where individual decision making may be affected. We were able to ensure a prompt and joined up response to ensure employees, our partners and the wider public were aware of the raised threat of fraud – messages were mainly around the current risks of supplier fraud and cyber attacks such as phishing scams.

Moving forward, we have been gathering intelligence and information (from national and local sources) regarding potential fraud risks relating to the changed scenario in which the Council finds itself. This information is acting as a guide to those specific service areas and transactions most vulnerable to fraud at this time and we are revising our plans accordingly to ensure our response remains effective.



Recognition

Following our team's success in the Government Counter Fraud Awards 2019 for our fraud awareness for schools campaign, we have been invited to make presentations at national conferences to provide insight into our work.

We were invited to present at several events including the Cabinet Office Counter Fraud Conference in February 2020 and the Inside Government Conference in June 2019. This demonstrates how Lincolnshire County Council has become established as a nationally respected authority in the counter fraud community.

Fighting Fraud and Corruption Locally 2020...

..is the Local Government Counter Fraud Strategy and is aimed specifically towards councils and their fraud fighting efforts. The FFCL sets the approach local authorities should take to transform counter fraud and corruption performance as well as offering major recommendations for local authorities and other stakeholders - it looks at current issues, risks and good practice

The Strategy is due for renewal in 2020 and Lincolnshire County Council have been approached by CIFAS to deliver the guidance aimed at schools to help them to prevent fraud. We have vast experience in dealing with school fraud and this represents a good opportunity to share knowledge with other local authorities and establish our position as an exemplar authority. Our current plans are aligned to FFCL 2016-19 and we report against its 5 core principles. We will continue to reflect the national strategy priorities when we review our own policies later in 2020 to ensure they remain compatible. We will report back on progress to the Committee in November 2020.

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Progress
CIPFA Code of Practice – Key Principle A: Acknowledge Responsibility			
A1 - Acknowledge the threat of fraud and corruption	Audit Committee reporting	Annual and progress reports of counter fraud activity to Audit Committee:	Annual and progress reports completed as scheduled:
A2 - Acknowledge the importance of a culture that is resilient to the threats of fraud and corruption	Engagement, training and fraud awareness	<ul style="list-style-type: none"> • Annual Report on delivery of 2018/19 Counter Fraud Work Plan 	Completed
A3 - Governing Body acknowledges its responsibility for the management of its fraud and corruption risks	Engagement with Public Sector Partners in Lincolnshire	<ul style="list-style-type: none"> • Fraud Risk Assessment – 2019 update • Counter Fraud Progress report 2019-20 	Completed
A4 - Governing Body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption		<ul style="list-style-type: none"> • Annual Whistle-blowing Report • Annual Counter Fraud Work Plan 	Completed
		Briefing sessions – training for members and senior management	Outstanding
		Continued development of fraud resilience through the Lincolnshire Counter Fraud Partnership (LCFP). Delivery of reports to Lincolnshire Finance Officers Group	Completed – report presented in January 2020
		Participation in Safer Lincolnshire Partnership's (SLP) Serious and Organised Crime – Fraud Group (current focus on vulnerable adults)	Completed

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

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Progress
CIPFA Code of Practice – Key Principle C : Develop a Strategy			
C1 - Governing Body formally adopts a counter fraud and corruption strategy to address identified risks	Counter Fraud Strategy	Refresh & Promote Counter Fraud Strategy	Outstanding
C2 - Strategy includes the organisation's use of joint working or partnership approaches	Review and refresh policy documents	Review and updates of Policies including: <ul style="list-style-type: none"> • Counter Fraud / Bribery & Corruption Policy 	Outstanding
C3 - The strategy includes both proactive and responsive approaches:		<ul style="list-style-type: none"> • Fraud Response Plan 	Outstanding
		<ul style="list-style-type: none"> • Fraud Communication Strategy 	Completed
		<ul style="list-style-type: none"> • Money Laundering Policy (ML) 	Draft produced and under consultation

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Progress
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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	Lincolnshire Counter Fraud Partnership	Development and delivery of annual counter fraud work plan	Completed
D2 - The organisation utilises an appropriate mix of experienced and skilled staff	Midlands Fraud Group Collaboration with and support to Internal Auditors at Assurance Lincolnshire	Fraud advice across LCC services areas and to strategic partners Management of Lincolnshire Authorities Whistleblowing Facility	Completed
D3 - The organisation grants counter fraud staff unhindered access to its employees	Manage pool of Conduct Investigators	Ongoing participation with SLP Serious Organised Crime - Fraud Group	Completed
D4 - The organisation has protocols in place to facilitate joint working and data and intelligence sharing	Website updates	Engagement with national and regional best practice groups including co-ordination and Chairing of 2 x Midland Fraud Group Meetings	Completed - Meetings arranged and delivered

CIPFA Code of Practice – Key Principle D : Provide Resources

		<p>Use of pooled funding contributions from Lincolnshire's District Councils and Lincolnshire Police for provision of support to the Lincolnshire Counter Fraud Partnership, including:</p> <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 module <p>Continuing professional Development and training for Counter Fraud & Investigations Team</p>	<p>Completed</p> <p>Completed - 1 delivered but approach being revisited</p> <p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p>
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Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Progress
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 • Proactive counter fraud exercises • Data analysis 	<p>Completion of ongoing data analysis exercise and investigation of payroll outliers</p>	Completed
E2 - Plans and operations are aligned to the strategy	<ul style="list-style-type: none"> • Investigations - whistleblowing referrals 	<p>Follow up and investigation of data matches identified through National Fraud Initiative 2018/19</p>	Completed
E3 - Making effective use of initiatives to detect and prevent fraud, such as data matching or intelligence sharing	<ul style="list-style-type: none"> • Investigations - fraud • Applications of sanctions 	<p>Delivery of Communications Plan promotion and publicity through various publications and media channels including internal communications of:</p>	Completed
E4 - Providing for independent assurance over fraud risk management, strategy and activities	<ul style="list-style-type: none"> • Seeking redress • Advice 	<ul style="list-style-type: none"> • fraud prevention measures • fraud awareness – updates, risk, red flags, scams etc. 	
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"> • Promotion of counter fraud activity • Organisational learning • Reports to Audit Committee 	<ul style="list-style-type: none"> • investigation outcomes • policy and expectations 	Completed
* Note also Specific Step – C3		<p>Proactive procurement fraud exercises and use of data analytics:</p> <ul style="list-style-type: none"> • off contract purchasing • purchasing card (P-Card) transactions 	Completed
		<p>Pro-active work – research & scoping for contract monitoring practice audits and</p>	Completed

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Progress
CIPFA Code of Practice – Key Principle E : Take Action			
		Quarterly liaison meetings with Information Governance Teams – pro-active cyber security review	Completed
		Risk review and activity planning - fraud in Adult Social care	Outstanding
		Investigations arising from whistleblowing reports and frauds identified	Completed
		Production of management reports and action plans to aid organisational learning – learning points	Completed
		Applications of sanctions – civil, disciplinary and criminal	Completed
		Seeking redress where successful prosecutions are achieved	Completed
		Provision of advice on fraud risks and mitigating controls	Completed

Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	Audit Committee
Date:	15 June 2020
Subject:	Internal Audit Progress Report

Summary:

The purpose of this report is to:

- Provide details of the audit work completed to 22 May 2020
- Advise on progress of the 2019/20 plan
- Advise on progress on the 20/21 plan and the impact of Covid19
- Raise any other matters that may be relevant to the Audit Committee role

Recommendation(s):

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

Background

This paper covers the period of 14 January 2020 to 22 May 2020 and reports on progress made in our audit plans.

Our progress report is attached in appendix A and shows:

- Reports issued
- Assurance opinions including a summary
- Benchmarking information in performance indicators
- Other matters of interest
- Outstanding audit recommendations
- Audit schedule

Conclusion

The outcome of our work shows no significant governance issues – with all of our assurance opinions being **high** (4) or **substantial** (5) assurance. There was also one Consultancy report issued.

Were we are able to we are concluding audit work from our 2019/20 plan. Some audits have been deferred to 20/21 due to the impact of COVID 19 and the effect that had on services resources and availability. We completed 94% of the 2019/20 revised audit plan (excluding ICT).

During the period we have completed 9 assurance audits one consultancy review and have a further 7 at draft report stage. We have 9 audits in progress – either at scoping or fieldwork stage.

We have filled the Audit Manager vacancy and appointed a Senior Auditor to increase capacity in the team.

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.

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Internal Audit Progress Report



Image Courtesy of iStockphoto.com

Lincolnshire County Council June 2020

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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 14th January 2020 to 22nd May 2020
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

Assurances

The following audit work has been completed

High Assurance:

- Financial Strategy (MTFP) and Budget Preparation
- Mosaic System – Children’s
- Children in Need
- Bank Reconciliation

Substantial Assurance:

- Property Health & Safety – Legionella Bacteria
- Impact Assessments
- Recruitment and Selection Checks
- Pension Administration
- General Ledger

Consultancy Report:

- Spalding Western Relief Road

Audit reports at draft

We have 7 audits at draft report stage:

- Business World - System Administration Access
- Contracts management review – consultancy audit
- Debtors
- Payroll & HR Admin
- Accounts Payable
- Carers follow up (interim report issued)
- Annual Care assessments



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 conditions for each level are shown in **Appendix 1**.

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period 14th January 2020 to 22nd May 2020
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

Our audit plan for 2019/20 is almost complete – the 5 audits that remain in progress will be concluded before the end of June. The onset of the **Covid 19** pandemic and subsequent lockdown has created some delays in finishing work and finalising draft audit reports. Seven other audits (including 4 ICT audits that were scheduled with specialist resources for May 2020) have been deferred and will be included in planned work for 2020/21. **We have delivered 94% of our revised audit plan (excluding ICT).**

The onset of Covid19 and subsequent lockdown has had a significant impact on all areas of the public sector. The impact on governance will be felt by all organisations and there will be some aspects experienced by all, for example changes to decision making arrangements and the conduct of meetings. Other aspects will reflect changes to priorities and programmes.

A proposed 2020/21 audit plan was prepared for the Audit Committee in March 2020 - this meeting was cancelled as a result of Covid-19. We have attached the original draft plan in **Appendix 5.**

We propose to review the 2020/21 plan, in consultation with senior management – taking into account the current risk profile and recovery plan . A revised plan will be taken to the Corporate Leadership Team and Audit Committee in September. – focussing on where we can add most value and assurance to the Council.

We have re-prioritised our work from April to date to support the Council's response to the pandemic. Through proactively liaising with senior managers we have provided advice on risk and control and are undertaking some consultancy activities. These include:

- advice on processes for the payment of Councillors' grants, submission of relief staff pay claims and lease car expense claims.
- support and advice to the project overseeing the future Transformation developments
- review of letters to unpaid carers advising them on where to seek advice and to schools on payments to contractors.
- support and advice to the project overseeing the future development in Direct Payment system.
- support and advice to the project overseeing the future development of carers emergency response scheme.
- Public Health with a root cause analysis around the procurement of PPE face masks.

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period 14th January 2020 to 22nd May 2020
- Raise any other matters that may be relevant to the Audit Committee role

During lockdown the project to move the Council's Enterprise Resource Planning (ERP) system, Business World (BW) to a 'standard version' on the Hoople platform is continuing.

The system delivers services including finance, HR, payroll, payment processing and income management. The Hoople 'standard version' is already used by other local authorities including Herefordshire and Rutland County Councils. For Lincolnshire the greatest challenge and risk to project delivery will be Change Management. The engagement with stakeholders and culture change required to prepare the Council for changes in business processes will be **essential** for effective use of BW going forward. Internal Audit will provide independent assurance around the project (including business change and engagement / governance) and redesigned business processes.

Risk and issues facing the Council are also being updated and reported to the Corporate Leadership Team fortnightly.

Follow up of improvement actions

In preparation for the March 2020 Audit Committee we followed up progress with the implementation of agreed management actions due for completion by the 1st February (see summary at Appendix 2) and confirmed that 82% of these have been actioned. Of those outstanding a number have been delayed due to other priorities and are now due to be completed in early 2020.

For other activities management actions are linked to process and build changes in the BW redesign project.

A further update on outstanding actions will be included in the Annual Report.

Resources

During February and March we completed a successful recruitment. Your new Audit Manager – Matthew Waller started on 1st April 2020 (an internal promotion) and we increased senior auditor capacity. We have supported staff remotely through induction and training.

Monitoring processes to track the position of all planned and outstanding audits have been strengthened.

High Assurance

Medium Term Financial Strategy and Budget Preparation

Our review of medium term financial planning and budget preparation confirmed that processes followed are well defined and controlled and there are clear stages that allow for robust scrutiny and challenge before the final budget is approved by Full Council. A more in depth budget review has been completed through the Budget 2020 project and the Finance Team has plans in place to update Members on Financial Resilience and address any gaps in compliance with the CIPFA Financial Management Code by April 2021.

Mosaic System - Children's

We reviewed the effectiveness of the Children's Mosaic system in meeting the business needs of the user. To do this we interviewed a sample of officers including managers, practitioners, practice supervisors and some officers who access Mosaic as an external organisation.

All gave the system a score for all questions of either good, very good or excellent. We also found that there were many areas of good practice; regular feedback meetings at different operational levels and future development plans in place for Mosaic are in place. A High audit rating has been given in recognition of the positive feedback we received from the staff we interviewed and the areas of good practice that we identified during the audit.

Children in Need

Our audit work confirmed that the Child and Family assessment process is working well and that all those identified as a "Child in Need" have been assessed within expected time frames. The assessments tested in the audit were found to meet the requirements of the "Working together to Safeguard Children" statutory guidance. This assessment is supported by an Ofsted inspection in May 2019 which found assessments to be timely, comprehensive and of good quality.

Bank Reconciliation

Our review of Bank reconciliation procedures found that key controls have continued to work effectively throughout the year. We found that there were good governance and access control in place. Bank reconciliations were performed on a timely basis and were reviewed and authorised correctly.

Substantial Assurance

Property Health and Safety – Legionella Bacteria

Our work confirmed that there are processes in place to manage the control of legionella bacteria in water systems inside council premises. These processes are generally well managed, with good governance in place and compliance with the Health and Safety Executive's legislation L8.

We did however identify that some risk assessments were not carried out within the 2 year deadline and for the cases tested there was an average delay of 5 weeks between the date the assessment was carried out and the date it was entered onto the Concerto system. Therefore the main recommendations related to the fact that the timeliness of risk assessments needed to be improved.

Impact Assessments

Our review confirmed that overall the process for completing Equality Impact Assessments (EIA's) is working effectively. Controls are in place to ensure that assessments are completed when required and to a satisfactory standard, ensuring that the Authority can evidence compliance with the Public Sector Equality Duty. From a sample of 35 reports we identified that 21 included a fully completed EIA, and 2 made reference to equality having been considered. The remaining 12 did not complete an EIA which we found reasonable based upon the content.

We made some recommendations to strengthen the process including clearer definition of overall corporate ownership, and the requirement to ensure that all staff completing the EIA's complete Lincs2learn training to ensure a consistent level of quality.

Recruitment and Selection checks

The Council has arrangements in place to process recruitments using the U4R system which are designed to ensure that the process is fair, transparent and that appropriate pre-employment checks are completed ensuring the Council employs suitable individuals. As with most processes, success is reliant on manager compliance and we identified only minor exceptions. The Council currently has appropriate training and recruitment policies / guidance available to support compliance.

Our audit report makes a number of recommendations around areas for improvement including to policies, recruitment resources and training which can feed into the reviews the HR service already has underway.

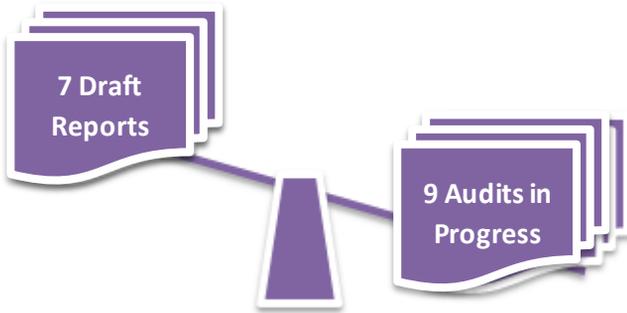
Substantial Assurance

General Ledger

Our testing of General ledger key controls found that the majority are in place and working effectively. General ledger Virements, Journals, Holding accounts and Suspense accounts were all found to be working well. The Control accounts reconciliations process could be strengthened since they are presently not performed on a cumulative basis. This issue is being addressed.

Pensions Admin

Our review of the audit reports completed by Bradford MDC (WYPF audit provider) enable us to place assurance on effectiveness of the controls within the Pensions Admin system. We noted that the audit around the Accuracy of contributions recorded on member records has a lower level of assurance and that this will reflect similar issues with LGPS members. We intend therefore to liaise with the Bradford MDC team to confirm that management actions are fully implemented within agreed timescales. The Bradford MDC Audit Manager has also confirmed that time has been allocated in the 2020/21 audit plan to revisit this activity towards the end of that financial year.



Audits in Progress

We have 9 audits at fieldwork stage:

19/20 audits:

- Property, Plant and Equipment
- One Plan (the co-ordination of School Improvement delivery)
- LFR Grievances
- Managing Children and Young People Exploitation
- Business Continuity

20/21 audits:

- Treasury Management and Investment Strategy
- Transport Providers
- Better Care Fund
- Blue Badge Scheme Grant

Details of audits in progress can be seen at **Appendix 3** (2019/20 plan) and **Appendix 4** (2020/21 plan).

Other Significant work

Other key work undertaken during the period

Project audit work

Transformation Programme

A key Programme of work for the Council is the Transformation Programme. This sits along side the new Corporate Plan and Success Framework and supports the achievement of Corporate plan goals and outcomes.

Working with the Transformation team Audit will provide independent advice and support on governance risk management and controls throughout 2020/21.

Business World Redesign

We have been involved in 'solution design' workshops to understand the Hoople 'Standard' version of Business World (BW). The principle of the design is that the Council will adopt the 'Standard' whilst identifying any gaps and differences to our current system. These will then be progressed through an agreed governance process.

Our involvement is designed to provide assurance around the controls within the system build and allow us to support the Council in change management and developing new business processes.





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

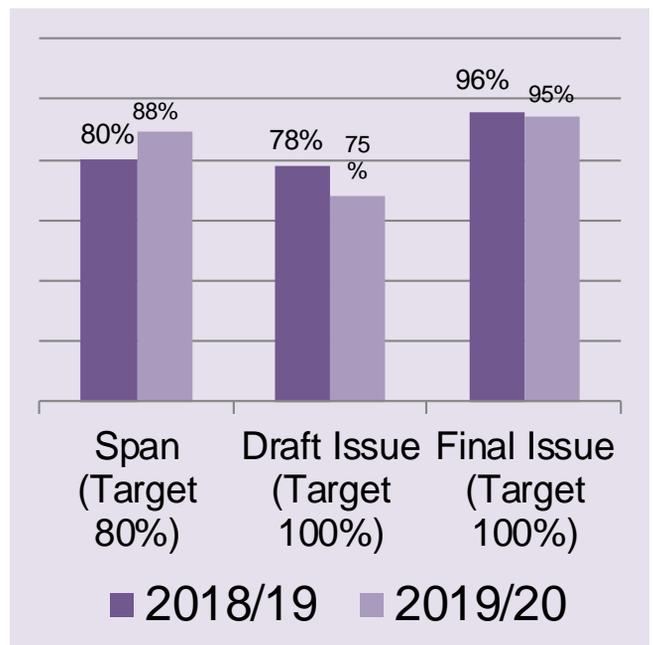
100%

Rated our service Good to Excellent

Audit KPI's to date

Plan Delivered

94%





Other Matters of Interest

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

Maintained School Internal Audits

In July 2019 the DfE launched a consultation around possible changes to the financial transparency arrangements of academy trusts and maintained schools. The Department has been looking at ways of improving transparency in the financial health of LA maintained schools, and believe that a number of transparency measures currently used in the academy trust sector could be adapted for LA maintained schools.

As part of the consultation the DfE sought LA views on the introduction of mandatory internal audits on maintained schools at least every 3 years. Through the Head of Finance – Children’s Services we responded positively to this proposal whilst highlighting the impact on audit resources and a requirement for additional funding to support the work. We understand that the DfE is considering responses to the consultation and how the financial burdens might be funded but communication of consultation response has been delayed due to the Covid 19 pandemic.

Public Sector Audit Appointments - External Auditor Update

We received an update from the Chief Executive of Public Sector Audit Appointments Limited – giving national picture on the delivery of External Audit over the past 2 years. The key messages included:

- There are still nearly 80 opinions still outstanding for 2018/19 - which they felt is an incredibly unsatisfactory position, particularly for all the bodies and auditors concerned, and a significant concern going forward. **We obtained our opinion on time - but it was tight.**
- They have recently commissioned independent research into the sustainability of the audit market - which they plan to publish soon.
- One of the consequences of the multiple pressures and challenges which have arisen in 2018/19 audits is an increase in the number of proposed fee variations for additional audit work.
- Audits of 2019/20 accounts are approaching. In planning for this next round, PSAA has tried to address :
 - greater certainty about when the audit will take place and,
 - if it cannot be undertaken in time to meet the 31 July target, they want to know as soon as possible.
 - want early information and explanation of any fee variation.



Other Matters of Interest

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

They are currently consulting on the scale of audit fees for this year in accordance with the timetable prescribed in statutory regulations, which requires PSAA to fix the scale of fees before the start of the relevant year of account:

<https://www.psaa.co.uk/audit-fees/consultation-on-2020-21-audit-fee-scale/>

They have also identified a series of new developments which are likely to impact on the audit including revised auditing and accounting standards as well as a new Code of Audit Practice.

Again, PSAA is encouraging auditors and local bodies to consider these issues in audit planning discussions, to give proper early notice of factors which may require additional work and have implications for fees, and also to allow time for actions which might mitigate risk to the smooth conduct of the audit.

New deadlines for English Authorities

Due to the Covid 19 pandemic the accounts timetable has been changed and the regulations to amend the Accounts and Audit Regulations 2015 have now been published. This means that authorities in England have until 31 August 2020 to produce their draft Annual Governance Statement and accounts for the financial year beginning 1st April 2019. The final versions must be published by 30 November 2020.

There will be no changes to the Code for 2019/20. CIPFA's proposals to simplify and reduce the Code proved unacceptable to regulators and auditors.

High

Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.

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

Substantial

Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.

Limited

Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.

The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.

Low

Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

Outstanding Audit Recommendations for all audits at 1st February 2020

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Tax Compliance	Jan 19	Limited	10	7	2	1	0	0
	External consultants KMPG were engaged to provide additional review and advice in this area. Their report was received in December 2019 and work is progressing to address their recommendations and those of the audit report. NOTE – follow up work on this activity is included in the draft 20/21 Internal Audit plan.							
Accounts Payable	August 19	Substantial	10	5	1	4	0	0
	The remaining actions are linked to the redesign and rebuild of Business World which will not be completed until April 2021.							
Members allowance scheme	Dec 18	Substantial	6	5	0	1	0	0
	The remaining action is inked to the redesign and rebuild of Business World which will not be completed until April 2021.							
Client Contributions Policy	Nov 17	Limited	5	3	0	2	0	0
	Support brought in to review and update the policy. New completion date of April 2020 put in place.							
Budget Management	July 18	Substantial	3	2	0	1	0	0
	Finding relates to the Budget Holder Handbook which cannot be updated until the Financial Procedures have been finalised. Approval of Procedures is expected in March 2020.							
Payroll key control testing	Aug 19	Substantial	20	18	1	1	0	0
	Implementation of 2 outstanding actions has been delayed due to their reliance on the BW redesign project. One is due to be implemented early in 20/21 the other is reliant on completion of the rebuild in April 2021.							
Emergency Planning Command Structure	Dec 18	Substantial	2	0	0	2	0	0
	Brexit caused delays with availability of training staff. Training recruitment has been put in place to ensure this is delivered with a new completion date of July 2020							

Outstanding Audit Recommendations for all audits at 1st February 2020

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Records Management	April 19	Substantial	4	2	0	1	0	1
	Base plan in place and program in development which will clear the outstanding action. This has been moved back to July 2020.							
Interests, Gifts and Hospitality Registers	March 19	Limited	9	7	0	2	0	0
	Remaining actions are linked to the Member Code of Conduct which is being developed. Will be followed up as part of the next tracker report.							
Counter Fraud Arrangements	April 19	Substantial	6	3	0	3	0	0
	Revised dates due to caseload prioritisation. New completion date of 31 st March 2020 and will be shared with Audit Committee once completed							
Health and Safety	April 19	High	2	1	0	1	0	0
	Work has progressed but not yet updated all documents. This is scheduled in and will be completed by new date of July 2020.							
Good Governance Review - Ethics	April 19	n/a	13	12	0	1	0	0
	Remaining action is being developed in line with the new LCC website. Moved back to June 2020.							
Information Governance	Jan 18	Substantial	9	8	0	1	0	0
	Final action will be completed as part of Information Governance phase 2 which has a completion date of March 2020.							
LFR Fleet Management	April 19	Limited	8	0	1	4	0	3
	Actions that were pushed back now have a completion date of 30 th June 2020 in line with the actions not yet due.							
Supplier Reliability	Nov 18	High	1	0	0	0	0	1
VAT follow up	May 19	Substantial	4	2	0	0	0	2
IR35	July 19	Limited	7	2	0	0	0	5

Outstanding Audit Recommendations for all audits at 1st February 2020

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Financial Assessments	June 19	Substantial	4	2	0	0	0	2
	Recruitment and Selection Checks	March 20	Substantial	13	0	0	0	0
Income	Sept 19	High	2	1	0	0	0	1
Financial processes in Children's Residential Units	Oct 19	Substantial	9	8	0	0	0	1
Commercial Property Portfolio	Jan 20	Substantial	6	1	0	0	0	5
LSAB Peer Review	Nov 19	High	2	2	0	0	0	0
Coroners Case Management	Nov 19	High	1	0	0	0	0	1
Impact Assessments	Feb 20	Substantial	2	0	0	0	0	2
IMT Asset Management	Jan 20	Substantial	1	0	0	0	0	1
Follow Up	Oct 19	Substantial	8	0	0	0	0	8
Fuel Card Follow Up	Oct 19	Substantial	8	0	0	0	0	8
Vinci Contract	Aug 19	Substantial	2	1	0	0	0	1
Property H &S - Legionella	Feb 20	Substantial	9	0	0	0	0	9
Medium Term Financial Strategy and Budget Preparation	Feb 20	High	1	0	0	0	0	1
Settlements	Jan 20	Limited	12	5	2	2	0	3
TOTAL			191	97	7	27	0	60

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-01 - Transport Connect Governance Assurance	Assurance review to assess governance arrangements of Transport Connect, a company wholly owned by Lincolnshire County Council.	08/04/19	25/03/19	05/04/19	Not applicable
LCC 2019/20-02 - Business World Rebuild Project	Support and advice to the project overseeing the future development of the Business World ERP system	01/04/19	01/04/19	31/03/20	N/A Rebuild continues in 2020/21
LCC 2019/20-03 - Pension Fund	Assurance over this key system that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	01/04/19	03/04/19	30/04/19	High Assurance
LCC 2019/20-05 - Highways 2020 Procurement	Support and advice on the programme throughout its journey of re-procurement and contract start in April 2020.	01/05/19	01/04/19	12/12/19	Not applicable
LCC 2019/20-06 - Settlements	To confirm that the policy in relation to settlement agreements is robust and consistently applied across the Council	24/04/19	22/04/19	13/01/20	Limited Assurance
LCC 2019/20-07 - Recruitment and Selection Checks	Assurance that checks during the recruitment and selection processes are equitable and meet safer recruitment requirements.	02/09/19	25/09/19	01/03/20	Substantial Assurance
LCC 2019/20-08 - 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	01/10/18	March 2020		Deferred - mgt request – included in 20/21 plan
LCC 2019/20-09 - Income	Assurance over this key system that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	09/05/19	12/06/19	24/10/19	High Assurance

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-10 - Financial processes in Children's Residential Units	To review the financial processes in place at each of the 8 Children's Residential Units for procurement cards, expense claims, purchase orders and petty cash imprest operation to provide independent assurance that the processes in place are robust , consistent and in line with Council financial regulations and procurement card guidance.	01/06/19	03/06/19	10/10/19	Substantial Assurance
LCC 2019/20-11 - Commercial Property Portfolio	Assurance over the effective management of LCC's commercial office and business units.	01/06/19	05/07/19	28/01/20	Substantial Assurance
LCC 2019/20-12 - Local transport capital funding grant	To confirm that the expenditure complies with the conditions of the Grant and the funding received agrees to the Grant determination letter.	27/05/19	27/05/19	05/08/19	Not applicable
LCC 2019/20-13 - LEP Follow Up	Follow up to confirm that appropriate changes have been made to the LEP framework and it is compliant with the updated requirements from the revised guidance for LEP National Local Growth Assurance Frameworks. The key risk is that Lincolnshire's Assurance Framework does not meet the requirements of the Governments updated guidance.	01/04/19	15/04/19	29/08/19	Substantial Assurance
LCC 2019/20-14 - ICT Business Continuity and Disaster Recovery	Assurance that the Council's ICT business continuity and disaster recovery processes are in place, adequate and regularly tested.	12/06/19	April 2020		Allocated to external IT resource. Now moved to 20/21.

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-16 - LSAB peer review actions	To ensure that the recommendations made in the review are being addressed.	01/07/19	22/08/19	27/11/19	High Assurance
LCC 2019/20-17 - Personal Data Breaches	We will review the personal data breaches arrangements and provide independent assurance on the effectiveness of the processes in place.	01/08/19	30/08/19	04/11/19	High Assurance
LCC 2019/20-18 - Families Working Together #1	Review and validation of periodic claims for the Families working together programme.	02/07/19	02/07/19	08/10/19	Not applicable
LCC 2019/20-19 - Contract Management Review - Contract Payments	The scope of our work is limited to the defined 15 contracts and providing assurance that LCC: makes adequate budget provision for these contracts; pays the right amount as per the signed contract; can demonstrate it has agreed the most appropriate payment mechanism for each contract	05/08/19	05/08/19		Draft report Consultancy work
LCC 2019/20-20 - Coroner's Service Case Management	Review the new case management system and how performance is captured and reported.	05/07/19	03/09/19	22/11/19	High Assurance
LCC 2019/20-22 - Impact Assessments	Review of this key system that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	01/08/19	14/10/19	22/01/20	Substantial Assurance

Appendix 3 2019/20 Audit Plan to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-24 - Business World Systems Administration access	The purpose of the audit is to provide assurance that Business World (BW) Systems Administration access arrangements follow best practice and minimise the risk of fraud and error.	14/08/19	14/08/19		Draft report Limited Assurance
LCC 2019/20-25 - IMT Asset Management Follow Up	Follow up audit of the recent ICT Asset Management (Hardware) audit to confirm agreed actions have been implemented and assurance has improved.	03/06/19	03/06/19	30/01/20	Substantial Assurance
LCC 2019/20-26 - Fuel card - follow up audit	To gain assurance that the actions agreed in the previous Fuel Card audit report have been implemented.	05/08/19	19/08/19	28/10/19	Substantial Assurance
LCC 2019/20-27 - Data Integrity	To carry out an authority wide audit which focusses on data integrity. The work seeks to confirm how the Council assures itself that the data feeding into corporate KPI's, which comes from 3rd parties, is accurate and timely.	22/08/19	22/08/19	18/11/19	Substantial Assurance
LCC 2019/20-28 - Vinci Contract Management	Assurance over the contract management arrangements for this key property services contract.	01/06/19	10/06/19	28/08/19	Substantial Assurance
LCC 2019/20-29 - Bus services operators grant	To confirm that the expenditure complies with the conditions of the Grant and the funding received agrees to the Grant determination letter.	02/09/19	02/09/19	01/11/19	Not applicable

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-30 - Property Health and Safety audit - Legionella Bacteria	Assurance over arrangements to ensure corporate properties meet required regulations such as gas, electricity and control of substances hazardous to health.	13/09/19	13/09/19	30/01/20	Substantial Assurance
LCC 2019/20-31 - School funding allocations	Assurance over data validation and funding allocations to maintained schools.	09/09/19	25/09/19	26/11/19	High Assurance
LCC 2019/20-32 - Managing Children and Young People exploitation	Assurance that the newly established team for completing return interviews for missing children is operating effectively	23/09/19	01/03/20		Fieldwork In Progress
LCC 2019/20-33 - Financial Strategy (MTFP) and 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.	01/11/19	31/10/19	17/02/20	High Assurance
LCC 2019/20-34 - Payroll	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	07/01/20	27/01/20		Draft report Substantial Assurance
LCC 2019/20-36 - Accounts Payable	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	01/03/20	09/03/20		Draft report

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-39 - Families Working Together #2	Review and validation of periodic claims for the Families working together programme.	23/09/19	23/09/19	25/09/19	N/A
LCC 2019/20-41 - Business Continuity	Business Continuity arrangements ensure the council is prepared for business interruption and can maintain and restore services promptly based on criticality.	17/03/20	17/03/20		Fieldwork in progress
LCC 2019/20-42 - 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).	04/03/20	04/03/20	30/04/20	Audit Work ceased due to Covid 19. To add to 20/21 audit plan.
LCC 2019/20-43 - 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.	01/01/20	08/01/20	30/04/20	Final report High assurance
LCC 2019/20-44 - Property, Plant & Equipment KCT	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	01/03/20	25/4/20		Terms of Reference agreed – work in progress.

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-45 - Spalding Western Relief Road	A review of the progress of the SWRR route options between 2012 and 2019 to highlight any processes that could be improved to ensure decision making is better captured and communicated in the future.	25/11/19	04/12/19		N/A
LCC 2019/20-46 - Bank Reconciliation KCT	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	29/01/20	03/02/20	25/03/20	Final Report High Assurance
LCC 2019/20-47 - LFR Training System	Provide independent assurance around the implementation and effectiveness of the new training records system.	01/03/20			Work ceased due to Covid 19. To add to 20/21 audit plan
LCC 2019/20-48 - General Ledger KCT	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	06/01/20	20/12/19	9/04/20	Final Report Substantial Assurance
LCC 2019/20-49 - Debtors	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	13/02/20	13/02/20		Draft Report Substantial Assurance
LCC 2019/20-50 - Children in Need	Provide assurance that the Child and Family assessment process is effective and that all those identified as a "Child in need" have been assessed within expected time frames.	01/01/20	08/01/20	11/03/20	Final report Substantial Assurance

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-52 - Pension Admin	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	01/02/20	01/02/20	12/3/20	Final report - substantial
LCC 2019/20-53 - Integrated Health and Social Care	Assurance that there are alternative reporting and governance oversight following the disbanding of the Children's Joint Commissioning Board				Deferred – Management request
LCC 2019/20-55 One Plan	Duplicated – see LCC 2019/20- 68				
LCC 2019/20-56 - Starters and Leavers (IMT)	Scope to be agreed				Allocated to external resource – to add to 20/21 Plan
LCC 2019/20-57 - Asset Management - Software	Scope to be agreed				Allocated to external resource – to add to 20/21 Plan
LCC 2019/20-58 - Mobile Devices	Scope to be agreed				Allocated to external resource – to add to 20/21 Plan
LCC 2019/20-59 - Network Infrastructure Security	Scope to be agreed				Allocated to external resource – to add to 20/21 Plan
LCC 2019/20-63 - Better Care Fund	Assurance over the management of the fund, it's use and the appropriateness of expenditure as per the Section 75 and other agreements	01/03/20			Work ceased due to Covid 19. To add to 20/21 audit plan.

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2019/20-65 - Carers Follow up	Assurance that all recommendations of the previous audit have been implemented and are embedded.	10/12/19	20/01/20		Interim report issued – to complete in 20/21
LCC 2019/20-66- Families working together Grant	Review and validation of periodic claims for the Families working together programme.	12/12/20	12/12/20	18/12/20	Not applicable
LCC 2019/20-67- BDUK Grant	To confirm that the expenditure complies with the conditions of the Grant and the funding received agrees to the Grant determination letter.	01/05/19	1/5/19	02/07/19	Not applicable
LCC 2019/20-68- One plan	Consultancy audit looking at the One Plan approach that is being developed by the Lincolnshire Learning Partnership.	01/03/20	01/03/20		Fieldwork stage
LCC 2019/20-69- Families working together Grant	Review and validation of periodic claims for the Families working together programme.	25/02/20	25/02/20	28/04/20	Not applicable
LCC 2019/20-70- LFR Grievance Process	Review of the Grievance process in place within Lincolnshire Fire and Rescue to ensure a consistent approach is operating and that learning points are taken forwards.	09/03/20	09/03/20		Field work stage

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 20/21-01 - Business World System Redesign Project	Providing independent assurance, advice and insight around the project implementing the Business World ERP system on the Hoople platform.	01/04/20	01/04/20		Ongoing
LCC 20/21-02 - Treasury Management and Investment Strategy	To give assurance that the Council's investment and borrowing is properly managed in accordance with corporate policies and legal requirements. The review will determine that approved Treasury Management and investment strategies are in place.	01/05/20			Terms of Reference agreed
LCC 20/21-03 - Transport Providers	Supporting commercial and transport during Covid19 to ensure that transport providers are paid 100% or 85% depending upon circumstances.	1/4/20			Fieldwork stage
LCC 20/21-04 - Unpaid Carers Letter	Consultancy work - review of Covid 19 letters sent to Carers.	1/4/20			
LCC 20/21-05 - Better Care Fund	Assurance over the management of the fund, it's use and the appropriateness of expenditure as per the Section 75 and other agreements	1/4/20			
LCC 20/21-06 - Transformation	Support and advice to the project overseeing the future Transformation developments	1/04/20			Ongoing
LCC 20/21-07 – Direct Payments	Support and advice to the project overseeing the future development in Direct Payment system	26/04/20			Ongoing
LCC 20/21-08 – Blue Badge Grant	To ensure that Grant conditions have been met	1/04/20			Fieldwork stage

These are the audits with the highest priorities for each Directorate. This is a dynamic plan subject to review and change based on the changing risks and priorities of the Council and any legislative changes. This year they may also be impacted by the new Corporate Plan. Audits will be undertaken in priority order subject to agreement with the client over scheduling and where applicable availability of specialist staff eg ICT audits.

AUDIT TITLE	ASSURANCE BEING SOUGHT	INTERNAL AUDIT RISK ASSESSMENT	ASSURANCE MAP RAG RATING	INDEPENDENT ASSURANCE	LINK TO SRR	LINK TO CORPORATE PLAN	MANAGEMENT REQUEST
ADULT CARE AND COMMUNITY WELLBEING							
Financial assessments	Confirm improvements have been made in the Financial assessments process following the implementation of the new policy and management actions.	69%	A		✓		✓
Homecare providers	Confirm that appropriate contingency arrangements are in place around the potential failure / loss of capacity of a major homecare provider, ensuring the Council is adequately resilient.	69%	A	✓			
Quality Performance Unit	To provide assurance around the quality performance arrangements that support adult safeguarding.	61%			✓		
Safeguarding Adults	Review the Prevention Strategy and assess the impact of its implementation as a safeguarding control.	53%	G		✓		
Telecare	To review the management of the Telecare service to ensure that it is working effectively and efficiently to provide a good service to users.	47%	A	✓			
ICES	To follow up the recommendations made in the previous audit (which was given Limited assurance) to ensure agreed management actions have been implemented.	42%	G	✓			

AUDIT TITLE	ASSURANCE BEING SOUGHT	INTERNAL AUDIT RISK ASSESSMENT	ASSURANCE MAP RAG RATING	INDEPENDENT ASSURANCE	LINK TO SRR	LINK TO CORPORATE	PLAN MANAGEMENT REQUEST
Occupational Therapist reshape of service	To provide assurance that reorganisation of the service and collaboration at district level is working well and delivering improved performance.	42%	A	✓		✓	
	COMMERCIAL						
Transformation programme	To act as critical friend and provide on-going advice and assurance to the programme.	69%	A	✓	✓	✓	✓
Business World system redesign	To provide on-going advice and independent assurance around project management, process, risk and control on the BW redesign project.	67%	A	✓			✓
Capital Contracts	Assurance that capital contracts are effectively managed to ensure that projects are delivered to specification, on time and within budget.	67%	A	✓			
Commissioning process	To act as critical friend and provide on-going advice and assurance during the external review of the commissioning process.	53%	A			✓	✓
Performance Management	Ensure appropriate performance management arrangements are in place to monitor the delivery of Corporate Plan objectives.	53%	A	✓		✓	
Management of corporate buildings	The strategic planning, management and monitoring around corporate buildings (repairs / maintenance/ disposals) is effective.	47%	G		✓	✓	
Procurement	To review the delivery of procurement advice and activity on a sample of high value procurements to ensure they are performed efficiently and effectively.	44%	A		✓		

AUDIT TITLE	ASSURANCE BEING SOUGHT	INTERNAL AUDIT RISK ASSESSMENT	ASSURANCE MAP RAG RATING	INDEPENDENT ASSURANCE	LINK TO SRR	LINK TO CORPORATE PLAN	MANAGEMENT REQUEST
County Farms	Assurance that strategic planning and management of County Farms is effective– taking into new legislation and the impact of Brexit.	44%	G				
	COMMERCIAL - ICT						
ICT/Finance - PCI DSS	Assurance that the Council is compliant with the Payment Card Industry Data Security Standard.	67%	R		✓		
ICT - Monitoring	Assurance that system logs are secured, monitored and reviewed to confirm activity is appropriate.	56%	A				
ICT Physical and Environmental Security	Assurance around the prevention of physical access, and possible consequential damage and interference to the organisation's information and information processing facilities.	56%	A		✓		
ICT - Privileged Account Management	Assurance that privileged accounts are suitably controlled.	56%	A				
ICT Database management	Assurance that the Council's key databases are managed effectively.	56%	A				
	CHILDREN'S SERVICES						
School Capital Programme	Assurance that the mainstream school capital programme adequately reflects pupil numbers planning / forecasting.	61%				✓	
Families Working Together	Audit sign off as per the requirements of the grant.	58%	G				
Closing the Attainment Gap	Independent review to confirm the Council has effective arrangements in place to close the attainment gap.	56%	A	✓		✓	
SEND	To confirm compliance with funding schemes and accuracy of data and funding allocations to SEND schools.	44%	A	✓		✓	

AUDIT TITLE	ASSURANCE BEING SOUGHT	INTERNAL AUDIT RISK ASSESSMENT	ASSURANCE MAP RAG RATING	INDEPENDENT ASSURANCE	LINK TO SRR	LINK TO CORPORATE PLAN	MANAGEMENT REQUEST
Joint Diversionary Panel	Review of the joint diversionary panel work in Futures 4 Me / Youth Offending Service to confirm delivery of improvements.	42%	A	✓			
Children's Centres	Arrangements are in place to monitor and manage activities in Children's Centres to ensure they are high quality and support families.	44%		✓		✓	
	FIRE & RESCUE AND PUBLIC PROTECTION						
F&R Expenses	Confirmation that the expenses system is working as expected and that only genuine claims are being processed.	69%		✓			
F&R Protection	Examination of the current staffing levels and capacity, as well as information sharing, to ensure an informed and effective service is in place.	56%	A	✓			
Emergency Response - Flooding Lessons Learnt	Audit that will look at the processes and reporting lines in place, and identify if any improvements have been internally identified and planned due to the ongoing flooding incidents in Lincolnshire.	56%	A		✓	✓	
Staffing – Succession planning	Follow up audit of the review that the Internal Resource Board is completing on middle management recruitment difficulties. This will focus on the impacts of reduced capacity and service delivery.	47%	A		✓		
Replacement of mobile data terminals	Involvement in the procurement process of the Mobile Data Terminals to ensure best value and quality of equipment is gained by the Council.	44%	A	✓			

AUDIT TITLE	ASSURANCE BEING SOUGHT	INTERNAL AUDIT RISK ASSESSMENT	ASSURANCE MAP RAG RATING	INDEPENDENT ASSURANCE	LINK TO SRR	LINK TO CORPORATE PLAN	MANAGEMENT REQUEST
	PLACE						
Transport Connect	Review of the Governance and oversight processes that are in place within Transport Connect to confirm that Members and Senior Management are aware of issues that may impact the Council and the company. This may be expanded out to cover other businesses operated by LCC.	69%	A			✓ ✓	
Environment resilience and Climate Change	Support role to ensure that environment and climate change priorities and commitments are delivered by LCC.	64%	A			✓ ✓	
Shared Prosperity Funding	Assurance over adequacy of the Council's input and influence over the development of future funding schemes following the decision to leave the EU.	61%	A		✓	✓	
Economic Development	Review looking at the decision making around business loans and regeneration projects to ensure that the Council is not impacted by reputational damage.	56%	A		✓	✓	
Strategic/ Operational Flood management	Review looking at the management of our relationships and communication channels with flooding partner organisations to ensure that we remain well prepared for future incidents.	53%	A		✓		
Highways 2020	Audit looking at both contract management and delivery monitoring after 12 months of the contract being awarded to ensure that LCC is receiving the best value and service possible.	53%	A		✓	✓ ✓	
Lincolnshire Enterprise Partnership	Assurance on effective investment decisions, the delivery of projects and benefit realisation.	47%	A	✓	✓	✓	

AUDIT TITLE	ASSURANCE BEING SOUGHT	INTERNAL AUDIT RISK ASSESSMENT	ASSURANCE MAP RAG RATING	INDEPENDENT ASSURANCE	LINK TO SRR	LINK TO CORPORATE PLAN	MANAGEMENT REQUEST
	RESOURCES						
Budget control/ management/ reporting	That the Council's budgetary control, monitoring and reporting arrangements are effective and actioned in line with agreed policies and procedures. Two potential areas of focus: - employee costs - reconciliation of actual costs to agreed establishment large service contracts.	72%	G	✓	✓		
Pension Fund Asset Pooling	Provide assurance around the arrangements in place for transferring assets to Border to Coast Pension pool (deferred from 2019/20).	69%	G	✓			
Treasury Management & Investment Strategy	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	67%	G	✓			
Payroll	Key financial system - annual audit required to provide assurance that appropriate controls are working effectively and compliance with policy and legislation is maintained.	64%	G	✓			
Making Tax Digital	Assurance that project management and implementation ensure VAT processes are MTD compliant (deferred from 2019/20).	64%	A				✓
HR Talent & Early Years Strategy (including apprenticeships)	To consider the Council's approach as an employer provider of apprenticeships - including corporate approach and value for money.	58%	A			✓	✓
FOI / SARS / Complaints	The service transferred from Serco to LCC and has been subject to changes in staffing and processes. To provide assurance that the service is working effectively and meeting timescales required by policy and legislation.	58%	A	✓			

AUDIT TITLE	ASSURANCE BEING SOUGHT	INTERNAL AUDIT RISK ASSESSMENT	ASSURANCE MAP RAG RATING	INDEPENDENT ASSURANCE	LINK TO SRR	LINK TO CORPORATE PLAN	MANAGEMENT REQUEST
Key financial systems - key financial control testing	Annual testing of key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements (to include creditors and debtors and one other area of finance).	53%	G	✓			
Workforce Strategy	Consider the revision of employment policies and strategy delivery plans.	53%	A		✓	✓	✓
Procurement Cards	To provide assurance over the processes and controls in place around the use of procurement cards to ensure it is appropriate and in accordance with agreed policy.	47%	A	✓			
Risk Management	Key system that supports the running of the Council's business and ensure compliance with corporate policies and legal requirements.	44%	A				✓
Tax Compliance – employee benefits & expenses	Follow up of the previous audit to confirm that agreed management actions have been implemented.	31%	A	✓			

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 2019/20 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. Delivery of training and support.
Work Force Development	Time to develop audit skills and competencies for our Apprentice and Professional grade staff in a work environment with deliverable audits.

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**Open Report on behalf of Andrew Crookham,
Executive Director - Resources**

Report to:	Audit Committee
Date:	15 June 2020
Subject:	Forward Plan

Summary:

This report provides the Committee with information on the core assurance activities currently scheduled for the 2020/21 forward plan.

Recommendation(s):

- (1) Review and amend the Audit Committee's forward plan ensuring it contains the assurance areas necessary to approve the Annual Governance Statement 2021.
- (2) Consider the actions identified in the Action Plan.

Background

The forward work plan, as attached at Appendix A, has been compiled based on the core assurance activities of the Committee as set out in its terms of reference and best practice.

Appendix B – keeps track of actions agreed by the Committee and future potential agenda items.

The Committee has previously held an annual workshop to review and evaluate its effectiveness. The results from the workshop held in 2019 are outlined in appendix B. A workshop will be arranged for 2020 in the coming months.

Conclusion

The forward 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	Forward 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 Forward Plan 2020-21

30 March 2020 – MEETING CANCELLED		
Item	Contributors	Revised Arrangements for Business
Statement of Accounts 2019/20 – Accounting Policies	Sue Maycock (Head of Finance – Corporate)	Rescheduled to 15 June 2020
External Audit Strategies – Lincolnshire County Council and Pension Fund 2019/20	Mike Norman - attending (Senior Manager, Mazars)	
Review of Governance Framework and development of the Annual Governance Statement 2019/20	Lucy Pledge (Head of Internal Audit and Risk Management)	
Draft Internal Audit Annual Plan 2020/21	Lucy Pledge (Head of Internal Audit and Risk Management)	Rescheduled to 15 June 2020, as part of progress report
Counter Fraud Annual Plan 2020/21	Matt Drury (Principal Investigator)	Rescheduled to 28 Sept 2020
Financial Management Code / Lessons Learnt from Northamptonshire County Council	Sue Maycock (Head of Finance – Corporate)	Rescheduled to 2021
International Auditing Standards – Management responses to Counter Fraud & material mis-statements in the Council and Pension fund accounts.	Dianne Downs (Team Leader – Counter Fraud & Investigations)	To be considered via email
Financial Procedures Review and Update	Dave Simpson (Technical and Development Finance Manager)	To be considered via email

15 June 2020 – 10.00 am - Virtual Meeting

Item	Contributors	Assurances Required/ Sought
Statement of Accounts 2019/20 – Accounting Policies	Sue Maycock (Head of Finance – Corporate)	Confirm that the appropriate accounting policies are being applied and understand the impact of any material changes that affect the Council's or Pension fund accounts.
Review of Governance Framework and Development of the Annual Governance Statement 2019/20	Lucy Pledge (Head of Internal Audit and Risk Management)	<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>
External Audit Strategies - Lincolnshire County Council and Pension Fund 2019/20	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.
Counter Fraud Annual Report 2019/2020	Dianne Downs (Team Leader – Counter Fraud & Investigations)	On the overall effectiveness of the Authority's arrangements to counter fraud and corruption.
Internal Audit Progress Report	Lucy Pledge (Head of Internal Audit and Risk Management)	<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>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>

13 July 2020 - 11.00 am - Virtual Meeting

Item	Contributors	Assurances Required/ Sought
Internal Audit Annual Report	Lucy Pledge (Head of Internal Audit and Risk Management)	<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?
Approval of the Council's Annual Governance Statement 2019/20	Lucy Pledge (Head of Internal Audit and Risk Management)	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.
Information Assurance – Annual Report	David Ingham (Head of Information Assurance)	Gain an understanding of the level of assurances being provided by the Head of Information Assurance over the Council's information governance arrangements and why.
Monitoring Officer Annual Report	David Coleman (Monitoring Officer)	Confirm compliance with the Council's code of conduct and constitutional arrangements – ensuring the lawfulness of decisions and promoting / maintaining high standards of conduct by officers and members.
Draft Statement of Accounts 2019/20	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>

28 September 2020 – 10 am

Item	Contributors	Assurances Required/ Sought
Statement of Accounts for Lincolnshire County Council & Lincolnshire Pension Fund for the year ending 31 March 2020	Sue Maycock (Head of Finance – Corporate) Mike Norman (Senior Manager, Mazars)	Ensure that the explanatory forward to the accounts help the public understand the authority's financial management of public funds. Consider the outcome of the External Audit and the appropriateness of management responses. Consider any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council Consider the proposed Value for Money Conclusion and any matters arising.
Internal Audit Progress Report	Lucy Pledge (Head of Internal Audit and Risk Management)	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.
Risk Management Progress Report – September 2020	Debbie Bowring (Principal Risk Officer)	Seek assurance that risk-related issues are being addressed.
Fraud Risk Register	Matt Drury (Principal Investigator)	Confirm that the Council's counter fraud activity is targeted and effective. Ensure that appropriate progress is being made on the delivery of the Counter Fraud plan. Ensure that lessons have been learnt – understand fraud risks facing the Council and actions being taken to reduce the risk.
Audit Committee Annual Report August 2020	Lucy Pledge (Head of Internal Audit and Risk Management)	Provide assurance that the Committee has adequately discharged its terms of reference and has positively contributed to how well the Council is run.
Annual Audit Letters for Lincolnshire County Council & Lincolnshire Pension Fund for the year ending 31 March 2020	Michelle Grady (Assistant Director – Strategic Finance)	

16 November 2020 – 10 am		
Item	Contributors	Assurances Required/ Sought
Counter Fraud Progress Report to 30 September 2020	Matt Drury (Principal Investigator)	Gain assurance that the Council has effective arrangements in place to fight fraud locally. Ensure that counter fraud resources are effectively targeted to the Council's key fraud risks.
Whistleblowing Annual Report 2019-20	Matt Drury (Principal Investigator)	That the Council's process and procedures for dealing with whistleblowing referrals is effective.
Review of Audit Committee Terms of Reference and Internal Audit Charter	Lucy Pledge (Head of Internal Audit and Risk Management)	Provide assurance that the Committee terms of reference meets good practice for an effective Audit Committee. Provide assurance that the Internal Audit function terms of reference meets good practice and conforms to the Public Sector Internal Audit Standards
Internal Audit Progress Report	Lucy Pledge (Head of Internal Audit and Risk Management)	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.

TBC February 2021 - 10 am		
Item	Contributors	Assurances Required/ Sought
Combined Assurance Status Reports – 2020/21	Chief Executive and Executive Directors	Understand the level of assurances being provided on the Council's critical systems, key risks and projects and how they link to the Committees role and remit and the Annual Governance Statement. Seeking assurance that they are working well and that any significant risk and issues are being actively managed.

TBC March 2021 - 10 am

Item	Contributors	Assurances Required/ Sought
Statement of Accounts 2020/21 – Accounting Policies	Sue Maycock (Head of Finance – Corporate)	Confirm that the appropriate accounting policies are being applied and understand the impact of any material changes that affect the Council's or Pension fund accounts.
Financial Management Code / Lessons Learnt from Northamptonshire County Council	Sue Maycock (Head of Finance – Corporate)	
External Audit Strategies – Lincolnshire County Council and Pension Fund 2020/21	Mike Norman - attending (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.
External Audit Progress Report – March 2021	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.
Review of Governance Framework and Development of the Annual Governance Statement 2020/21	Lucy Pledge (Head of Internal Audit and Risk Management)	<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>
Draft Internal Audit Annual Plan 2021/22	Lucy Pledge (Head of Internal Audit and Risk Management)	<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>

TBC March 2021 - 10 am

Item	Contributors	Assurances Required/ Sought
Counter Fraud Annual Report 2020/21	Matt Drury (Principal Investigator)	On the overall effectiveness of the Authority's arrangements to counter fraud and corruption.

Items to be Programmed

The items listed below have been deferred from the February 2021 agenda at the request of the Committee so that the meeting can be a single item agenda.

Item	Contributors	Assurances Required/ Sought
Internal Audit Progress Report	Lucy Pledge (Head of Internal Audit and Risk Management)	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.
Risk Management Progress Report – February 2021	Debbie Bowring (Principal Risk Officer)	Seek assurance that risk-related issues are being addressed.
Annual Report on Corporate Compliments and Complaints	Shay Noreen (Corporate Project Support Officer)	Whether the council is compliant with its own and other published standards and controls.

APPENDIX B - Audit Committee Action Plan 2020

Action	Terms of Reference Outcome	Key Delivery Activities	When
1. Develop Action plan following self-assessment workshop considering the following	Improve effectiveness of the committee	Improving Attendance – Chairman to meet with each member and obtain feedback	On-going
		Meeting with Corporate Leadership Team around new corporate plan, accountability and assurance framework	TBC
		Partnership assurance (combined assurance status reports)	TBC
		Integrated Assurance – PWC Better Care Fund report	In progress – new governance arrangements being developed
		Feedback the outcome of meetings: <ul style="list-style-type: none"> • End of meeting summary • Diarise meeting with CEX / Leader 	From September 2019
		Look at venue and time of meeting	

30 April 2020

By email

Email generalenquiries@psaa.co.uk

Dear Section 151 Officer and Audit Committee Chair

Fee Scale for the Audit 2020/21 and update on 2019/20

I am writing to notify you of your 2020/21 audit scale fee. In previous years your auditor has been required to write to you to do this. However, going forward, we have agreed with the audit firms that it is more efficient for PSAA to write out to all bodies directly.

PSAA commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of the financial year, and we published the 2020/21 scale fees on our website on 31 March 2020. In addition to notifying you directly of your scale fee, this letter provides you with key updates and information on audit matters in these difficult times.

We wrote to all S151 officers on 12 December 2019 describing that local audit and audit more widely is subject to a great deal of turbulence with significant pressures on fees. These pressures still apply and the key aspects are summarised below;

- It is apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon has reviewed the audit product.

- It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

How we set your scale fee

We consulted on the 2020/21 Scale of Fees in early 2020 and received a total of 54 responses. We published the final document on our website ([Scale fee document](#)). In it we explained that although we have set the scale audit fee at the same level as for 2019/20, we do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage.

The impact of these changes is likely to vary between bodies depending on local circumstances, and information to determine that impact with any certainty is not yet available. Our view is that it would also be inappropriate to apply a standard increase to all authorities given the differing impact of these changes between bodies. As the impact of these changes is understood, fee variations will need to be identified and agreed reflecting the impact on each audit

	Scale fee for the audit 2020/21	Scale fee for the audit 2019/20
Lincolnshire Pension Fund	£18,750	£18,750

As well as the Scale of Fees document, we have also produced a [Q&A](#) which provides detailed responses to the questions raised as part of the consultation. We will update the Q&As periodically to take account of ongoing developments affecting scale fees.

The fee for the audit is based on certain assumptions and expectations which are set out in the [Statement of Responsibilities](#). This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of both in certain areas.

The final fee for the audit will reflect the risk-based approach to audit planning as set out in the Code. Under the Code, auditors tailor their work to reflect local circumstances and their assessment of audit risk. This is achieved by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting audit responsibilities or financial reporting standards.

Fee Variations

As noted above, we recognise that with so much turbulence and change in the local audit environment, additional fee variations are likely to arise for most if not all bodies.

The amount of work required on arrangements to secure VFM is a matter of auditor judgement and is based on the requirements set out in the new Code and supporting guidance which will be published later in 2020. Once the Auditor Guidance Notes have been published we will be able to consider the impact of the new requirements in more depth, and may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

Given that local circumstances at each audited body are key to determining the assessment of risk and the audit work required, we would encourage early dialogue with your auditor to determine any related implications for fees. The process for agreeing fee variations begins with local communication, and ideally agreement. We have produced a fee variation process note which is available on our website ([Fee variations process](#)). Please note that all fee variations are required to be approved by PSAA before they can be invoiced.

Quality of Audit Services

We are committed to do all we can to ensure good quality audits and a high-quality service for the bodies that have opted into our arrangements. The service that you can expect to receive from your auditors is set out in their Method Statement, which is available from your auditors.

Whilst professional regulation and contractual compliance are important components of the arrangements for a quality audit service, so too is the aspect of relationship management. We recently commissioned a survey via the LGA Research team to obtain audited bodies' views of the audit service provided to them. The themes and improvement areas from the survey will be discussed with firm contact partners for development at a local level. The results from our 2018/19 survey of all opted-in bodies will be available on our website in May and we will notify all S151 officers and Audit Committee Chairs.

Impact of COVID-19 on current 2019/20 audits

The global COVID-19 pandemic has created further turbulence impacting on all aspects of the economy including the public sector. There are potentially significant repercussions for the delivery of audits, audit-related issues and delays to signing audit opinions for 2019/20. MHCLG has acted to ease these pressures by providing more flexibility in the 2019/20 accounts preparation and auditing timetable by temporarily revising the Accounts and Audit Regulations. This has extended the period which an authority has to publish its draft financial statements until 31 August, and importantly there is much greater flexibility for the public inspection period as it is now required to start on or before the first working day of September 2020. The revised date for publishing audited accounts (if available) is 30 November 2020.

We recommend that you discuss with your auditors the use that can be made of this flexibility in meeting mutual governance and assurance responsibilities, noting that in a letter to all local authority Chief Executives on 22 April, MHCLG encouraged approval of pre-audit accounts earlier than 31 August if possible.

We have referred to the importance of audit quality in this letter, and just as important is the quality of the pre-audit financial statements and the working papers that are prepared by bodies. The disruption caused by COVID-19 will impact on areas of judgement and creates uncertainty in preparation of the financial statements, and it is key that bodies ensure there is sufficient focus upon financial reporting and related processes and controls, and that the planned timetable allows for sufficient internal quality assurance and review of financial reporting issues taking into account the wider impact of the pandemic on the officers' time.

Local Audit Quality Forum

Our Local Audit Quality Forum focuses on providing information to support audit committees (or equivalent) in delivering their remit effectively. We are disappointed that we are not able to host our planned event this summer due to the COVID-19 pandemic. However, we plan to host our next event towards the end of the year. It will provide an opportunity to discuss a range of relevant topics and themes. If there are any particular areas you would like to see included on a future agenda, or if you wish to raise any other issues with PSAA, please feel free to contact us at generalenquiries@psaa.co.uk

Your auditor will, of course, be best placed to answer any questions you may have with regard to your audit.

Yours sincerely,

Tony Crawley

Chief Executive