

County Offices
Newland
Lincoln
LN1 1YL

4 June 2021

Audit Committee

A meeting of the Audit Committee will be held on **Monday, 14 June 2021** in **Council Chamber, County Offices, Newland, Lincoln LN1 1YL** at **10.00 am** for the transaction of business set out on the attached Agenda.

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), M G Allan (Vice-Chairman), S Bunney, P E Coupland, J L King, 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, 14 JUNE 2021**

Item	Title	Pages	Estimated Time
1	Apologies for Absence		
2	Declarations of Members' Interests		
3	Minutes of the meeting held on 19th March 2021	5 - 12	
4	External Audit Strategy the Lincolnshire Pension Fund 2020/21 <i>(To receive a report by Michelle Grady (Assistant Director - Finance), which provides the Committee with Mazars LLP's 2020/21 audit strategy memorandum for Lincolnshire Pension Fund.)</i>	13 - 44	10.10 a.m.
5	Annual Audit Letters for Lincolnshire County Council & Lincolnshire Pension Fund for year ending 31st March 2020 <i>(To receive a report by Michelle Grady (Assistant Director – Finance), which provides the Committee with the Annual Audit Letters from the Council's external auditors, Mazars, for Lincolnshire County Council and the Lincolnshire Pension Fund for the financial year 2019/20)</i>	45 - 72	10.25 a.m.
6	Internal Audit Plan - 2021/22 <i>(To receive a report by Lucy Pledge (Head of Internal Audit and Risk Management), which provides the Committee with the 2021/22 Audit Plan and explains the reasoning why the Audit areas chosen)</i>	73 - 100	10.30 a.m.
7	Internal Audit Progress Report <i>(To receive a report by Lucy Pledge (Head of Internal Audit and Risk Management), which provides the Committee with details of the audit work completed to 30th April 2021 and updates on the progress of the audit plan)</i>	101 - 132	10.45 a.m.
8	CIPFA Financial Management (FM) Code <i>(To receive a report by Michelle Grady (Assistant Director - Finance), which provides the Committee with the details of the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management (FM) Code)</i>	133 - 166	11.05 a.m.

9 Work Programme

167 - 176

11.20 a.m.

(To receive a report by Lucy Pledge (Head of Internal Audit and Risk Management), which invites the Committee to consider its work programme for the upcoming year)

Democratic Services Officer Contact Details

Name: **Robert Close**
Direct Dial
E Mail Address robert.close@lincolnshire.gov.uk

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

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

Contact details set out above.

Please note: This meeting will be broadcast live on the internet and access can be sought by accessing [Agenda for Audit Committee on Monday, 14th June, 2021, 10.00 am \(moderngov.co.uk\)](#)

All papers for council meetings are available on:
<https://www.lincolnshire.gov.uk/council-business/search-committee-records>



**AUDIT COMMITTEE
19 MARCH 2021**

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

Councillors 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 Bowring (Principal Risk Officer), Michael Butler (Mazars), Andrew Crookham (Executive Director Resources), James Drury (Executive Director Commercial), Cheryl Evans (Democratic Services Officer), Rachael Gratrick (Senior Auditor), Sue Maycock (Head of Finance (Corporate)), Tony Maycock (Senior Auditor), Lucy Pledge (Head of Internal Audit and Risk Management), John Pressley (Mazars), Amanda Reid (Senior Finance Technician), Alastair Simson (Principal Auditor), Mark Surrige (External Auditor, Mazars), Matthew Waller (Internal Audit Manager) and John Wickens (Assistant Director - IMT and Enterprise Architecture)

34 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor A J Spencer.

35 DECLARATION OF MEMBERS' INTERESTS

There were no declarations of interests.

36 MINUTES OF THE MEETING HELD ON 8 FEBRUARY 2021

RESOLVED

That the minutes of the meeting held on 8 February 2021 be confirmed and signed by the Chairman as a correct record.

37 UPDATE ON ACCOUNTS 2019/20

An update report by the Executive Director - Resources on the 2019/20 was presented by the Head of Finance – Corporate. The Committee was advised of the progress of the work on the completion of the external audit of the Statement of Accounts for 2019/20. The report also sought the approval by the Committee of a delegation of its usual responsibilities for the Statement of Accounts to the Executive Director – Resources, in consultation with

AUDIT COMMITTEE
19 MARCH 2021

the Chairman of the Audit Committee, so that these responsibilities could be undertaken after the meeting.

The Committee was advised that the accounts had still not been signed off, owing to a valuation of the Energy from Waste Plant in North Hykeham, which had been raised by the external auditors, Mazars. The valuation process was described to the Committee. The Committee was assured that a re-evaluation of the Energy from Waste Plant would be included in the five year rolling programme, to avoid a repeat of the delay in future.

RESOLVED

That the Executive Director – Resources, in consultation with the Chairman of the Audit Committee, be delegated authority:

- (a) to consider the Audit Completion reports of the External Auditor regarding their audit work on the Statement of Accounts 2019/20;
- (b) to approve and sign the Letters of Representation on behalf of the Council to enable the Audit Opinion to be issued following the report of the External Auditor; and
- (c) to approve the audited Statement of Accounts for 2019/20.

38 **EXTERNAL AUDIT STRATEGY - LINCOLNSHIRE COUNTY COUNCIL 2020/21**

The Head of Finance – Corporate introduced a report on behalf of the Executive Director - Resources on the 2020/21 external audit strategy. Mark Surridge and Michael Butler, from the Council's external auditors, Mazars, presented the strategy. The strategy would include a broader assessment of the Council's approach to value for money.

In response to a question on the use of comparator data from similar local authorities for the value for money assessment, it was stated that as part of the assessment the Council's use of comparator data, including established benchmarking information, would be reviewed by the external auditors, as well as a risk assessment of.

On the external auditor's fees for 'other additional costs' of £7,021 for 2019-20, the Committee was advised that these related to one-off expenditure on the re-evaluation of the Energy from Waste Plant and Covid-19.

The external auditor's review of the revised code of practice and the additional guidance notes, as detailed on page 40 of the agenda pack, indicated that the auditor's fee would be 'at least £10,000' on these items. The external auditor indicated that the stated cost had been consistently applied to eighty other local authorities, and further guidance notes were due to be published by the National Audit Office, so a final estimate could not be made at this stage.

In response to a question on how external auditors retrospectively assessed of value for money, it was stated that the auditors would expect to see regular monitoring of the capital programme, including any additional expenditure. However, it was recognised that not all circumstances could be predicted at the beginning of a scheme, but transparency and an understanding of unforeseen events were key.

It was confirmed that details of the income and expenditure of Covid-19 grants would be included in the Statement of Accounts for 2020-21, and highlighted accordingly.

RESOLVED

That the External Audit Strategy for the Lincolnshire County Council accounts for 2020/21 be noted.

39 EXTERNAL AUDIT QUALITY

The Head of Finance – Corporate presented a report on behalf of the Executive Director - Resources on external audit quality, following the publication of two recent reviews. The Redmond Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting had made 23 recommendations and all but one had been accepted by the Government.

The Financial Reporting Council (FRC) report on Audit Quality Inspection had concluded positively on the value for money work by external auditors. However, some improvements had been identified in the FRC's report for some external auditors, which included the Council's external auditor, Mazars, whose response to the FRC was set out at Appendix B to the report.

It was confirmed that the Committee's annual self-assessment exercise would be completed later in 2021. It was noted that the Committee reported annually to the County Council and already included two independent members. The Committee welcomed the external auditor's annual report being submitted to the County Council meeting.

RESOLVED

That the report on external audit quality be noted.

40 STATEMENT OF ACCOUNTS 2020/21 - ACCOUNTING POLICIES

The Head of Finance – Corporate presented a report on behalf of the Executive Director - Resources on the accounting policies, which would be used in preparing the forthcoming statements of accounts for both Lincolnshire County Council and the Lincolnshire Pension Fund. The report highlighted changes to the Code of Practice on Local Authority Accounting, which would be incorporated into the 2020/21 Statement of Accounts; and the proposed changes to the reporting timescales in the Accounts and Audit Regulations 2015.

AUDIT COMMITTEE
19 MARCH 2021

It was confirmed that the draft accounts would be submitted to the Committee's July meeting and consideration would be given to any specific training on leasing standards for members of the Committee, in addition to the standard training provided.

The Committee was advised that a general induction session would be provided to all Committee members, following the County Council elections. A dedicated training session on the statement of accounts would be provided prior to the Committee's meeting on 14 June 2021, and delivered by Ian Fifield, an external consultant.

RESOLVED

- (1) That the changes required to the Statement of Accounts from the Code of Practice 2020/21 be noted.
- (2) That the potential for (a) the deadline for the publication of the audited Statement of Accounts 2020/21 being amended to 30 September 2021; and (b) the deadline for the publication of the draft unaudited accounts being amended to on or before the first working day of August 2021, be noted.
- (3) That the Statement of Accounting Policies (Appendix A to the report) be approved for use in preparing the Council's accounts for the financial year ending 31 March 2021.
- (4) That the Statement of Accounting Policies (Appendix B to the report) be approved for use in preparing the Local Government Pension Scheme (LGPS) Pension Fund accounts for the financial year ending 31 March 2021.

41 INTERNAL AUDIT PROGRESS REPORT

The Principal Auditor presented the internal audit progress report, which detailed the audit work completed up to 15 February 2021; and advised on the progress of the 2020/21 plan, which would be completed by April 2021. Progress on the actions arising from all audit reports in the plan was also detailed.

The report referred to two items of limited assurance: the ICT Network Infrastructure Security; and the ICT Business Continuity and Disaster Recovery. The Executive Director – Commercial and the Assistant Director for IMT and Enterprise Architecture were in attendance to respond to questions on these two items.

In response to a question on recruitment and staffing arrangements within the Audit Team, as detailed in the report, it was advised that Covid-19 had impacted on recent recruitment exercises with a reduced number of applicants. There would be further recruitment in April 2021 to appoint to remaining vacancies and the use of agency staff would be a temporary measure. It was advised that apprenticeships would be used within the Team as a 'grow your own' initiative. It was confirmed that the Audit and Counter Fraud Teams worked in collaboration with pooled resources for specific pieces of work.

In relation to the limited assurance reports, the following points were raised:

- Reference was made to the statement on page 144 of agenda that IMT had no plans to put into effect more stringent data leakage prevention technologies as the business had not supported these technologies and would not commission them and the Council expected all staff to be able to share information beyond the Council with limited formality and technical constraints, therefore the Council was in effect accepting that risk, relying instead on the knowledge and judgement of staff. The Assistant Director for IMT and Enterprise Architecture explained that data leakage prevention technologies were highly constraining on staff and for this reason some organisations, which had purchased these technologies, had ceased to use them. Staff had received mandatory annual training on information assurance and had high levels of awareness. It was further explained that the limited assurance did not relate to this particular finding.
- It was advised that within Office 365 there were some low level elements of data leakage prevention, and a decision would be made on their use at a later date. Higher level data leakage prevention technologies would represent an additional cost.
- Reference was made to page 143 of the agenda to the statement on starters, movers and leavers and timings for these issues to be resolved. It was advised that there was a need to confirm the processes, using the appropriate technology, for starters, movers and leavers to ensure all relevant personnel in the organisation were informed. It was confirmed that the transformation programme, of which the Corporate Leadership Team was aware, would address this issue.

(Note: Ian Haldenby left the meeting at this point.)

- The Committee recorded its thanks to IMT staff over the last year for their efforts in enabling at short notice working from home arrangements for over 4,000 members of staff. The Committee recognised that this had impacted on other routine work.
- In response to a question on business continuity and disaster recovery, it was explained that the testing of some systems had not been implemented, as they would not now be appropriate as the Council would be continuing to migrate to more standardised IMT systems; and there would always be an impact on service from any testing. This issue would be followed up by the Audit Team.

RESOLVED

That the outcomes of Internal Audit's work be noted.

42 RISK MANAGEMENT PROGRESS REPORT - MARCH 2021

The Principal Risk Officer presented the progress report on the Council's risk management arrangements and highlighted current status of the strategic risks facing the Council. The Committee was advised that there continued to be a level of assurance with the risks. The report identified 22 high risks and 15 high issues, with most of the risks remaining static or improving. The main category of risk continued to be within the area of People, with the

main issues being Technology and Economic. Appendix 1 to Appendix A set out a breakdown of the risks, issues and status by directorate.

With regard to the limited assurance on market supply for adult care, it was advised that the Executive Director of Adult Care and Community Wellbeing, as the risk owner, would be asked to attend a future meeting on mitigating factors. Similarly, in relation to the assessment of safeguarding children, the Executive Director for Children's Services, as the risk owner, would be invited to attend a future meeting to discuss this topic.

RESOLVED

- (1) That the current status of the strategic risks facing the Council be noted.
- (2) That the Executive Director of Adult Care and Community Wellbeing and the Executive Director for Children's Services be requested to attend a future meeting to discuss the mitigating factors for the risks relating to the market supply for adult care and safeguarding children respectively.

43 INTERNATIONAL STANDARDS ON AUDITING - RESPONSE TO MANAGEMENT PROCESSES QUESTIONS

The Head of Internal Audit and Risk Management reported on a self-assessment of whether the County Council and Pension Fund financial statements had been mis-stated owing to fraud or error.

RESOLVED

That the conclusion that the self-assessment accurately reflected the Council's management processes to minimise the risk of fraud or error in the County Council and Pension Fund financial statements be recorded.

44 COUNTER FRAUD PLAN 2021/22

The Head of Internal Audit and Risk Management submitted a report on the planned Counter Fraud and Anti-Corruption activities, scheduled in the 2021/22 work plan.

In response to a question on Covid-19 business support grants and the associated risks, it was confirmed that the Counter Fraud Team had worked with colleagues in Finance and Legal Services on due diligence and developing the appropriate processes were in place to mitigate fraud risk. This would include some assurance work post-payment.

RESOLVED

That the Counter Fraud Plan 2021/22 be approved.

45 WORK PROGRAMME

The Committee considered its forward work programme for its forthcoming meetings. A request was made for members of the Committee to submit comments on the training content for the new Committee. It was suggested that the number of items programmed for the June 2021 meeting be reduced to make the business manageable for the new Committee.

It was requested that corporate capital contracts be added to the Audit Plan.

RESOLVED

That the Committee's work plan be noted.

The meeting closed at 12.35 pm.

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

Report to:	Audit Committee
Date:	14 June 2021
Subject:	External Audit Strategy for Lincolnshire Pension Fund 2020/21

Summary:

Our external auditors, Mazars LLP, present their 2020/21 audit strategy memorandum for Lincolnshire Pension Fund. This report summarises the content of this strategy.

Actions Required:

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

1. Background

1.1 Our external auditors, Mazars LLP, have prepared a strategy setting out their approach to this year's audit work on Lincolnshire Pension Fund. The purpose of this strategy is to summarise for this Committee the audit approach, the significant audit risks and areas of key judgements and details of the audit team, of which some members are new this year.

1.2 The strategy includes the following main themes:

- An overview of the audit and its elements;
- The audit engagement team;
- The audit scope, approach and timeline;
- Significant risks and areas of key judgements for this year;
- Fees for audit and other services;
- Auditor independence;
- Materiality and other misstatements;
- Key communication points.

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

2. Conclusion

2.1 The Audit Strategy Memorandum provides 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) Risks and Impact Analysis

None

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pension Fund Audit Strategy Memorandum 2020/21

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 Pension Fund

Year ending 31 March 2021

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- 03 Audit scope, approach and timeline
- 04 Significant risks and other key judgement areas
- 05 Fees for audit and other services
- 06 Our commitment to independence
- 07 Materiality and misstatements
- Appendix – Key communication points

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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

27 May 2021

Dear Audit Committee Members

Audit Strategy Memorandum – Year ending 31 March 2021

We are pleased to present our Audit Strategy Memorandum for Lincolnshire Pension Fund for the year ending 31 March 2021. 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:

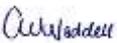
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- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the 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 Pension Fund which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

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

Yours faithfully

Signed: 

Cameron Waddell

Mazars LLP

Mazars LLP – Park View House, 58 The Ropewalk, Nottingham, NG1 5DW

Tel: 0115 964 4789 – www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861. VAT number: 839 8356 73

Mazars LLP
Park View House
58 The Ropewalk
Nottingham
NG1 5DW

01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Lincolnshire Pension Fund (the Pension Fund) for the year to 31 March 2021. 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/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. 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 does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.



Fraud

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. This includes establishing and maintaining internal controls over reliability of financial reporting.

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



Consistency report

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



Going concern

The Pension Fund is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Chief Finance Officer is responsible for the assessment of whether it is appropriate for the Pension Fund to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.



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 Lincolnshire County Council and consider any objection made to the accounts. This would include an objection made to the accounts of the Pension 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.

02

Section 02:

Your audit engagement team

2. Your audit engagement team

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Cameron Waddell
Role: Engagement Lead
 Email: cameronwaddell@mazars.co.uk
 Telephone: 0781 375 2053.

Engagement manager name
Role: Engagement Manager
 Email: john.pressley@mazars.co.uk
 Telephone: 0790 998 0880

Alexander Campbell
Role: Team Leader
 Email: alexander.campbell@mazars.co.uk
 Telephone; 0790 998 2058

Engagement and responsibilities summary	Your audit engagement team	Audit scope, approach and timeline	Significant risks and key judgement areas	Fees for audit and other services	Our commitment to independence	Materiality and misstatements	Appendix
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03

Section 03:

Audit scope, approach and timeline

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 impacted 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 on the next page outlines the procedures we perform at the different stages of the audit.



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3. Audit scope, approach and timeline

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

Planning February 2021

- Planning visit and developing our understanding of the Pension Fund
- Initial opinion assessment
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Completion September 2021

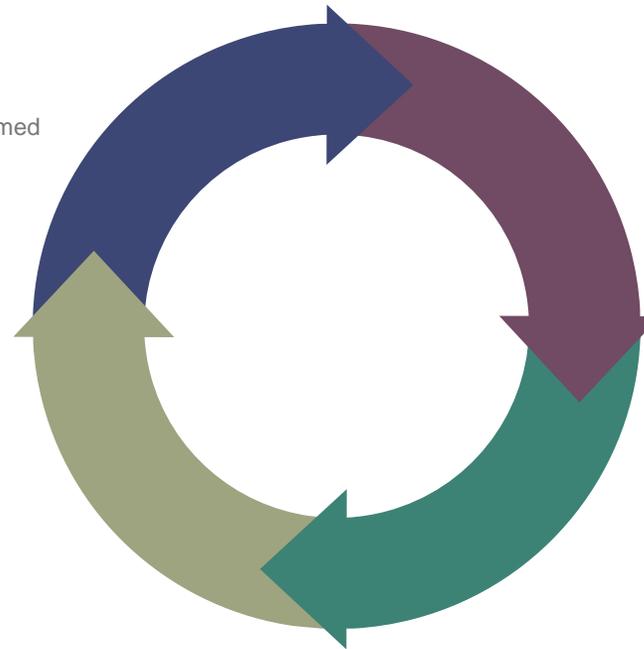
- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Audit Committee
- Reviewing subsequent events
- Signing the auditor's reports

Interim March 2021

- Documenting systems and controls
- Performing walkthroughs
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork July to September 2021

- Receiving and reviewing draft financial statements
- Technical review of financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting



3. Audit scope, approach and timeline

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 liaise 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 on 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 Pension Fund’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Disclosure notes on funding arrangements and actuarial present value of promised retirement benefits.	Barnett Waddingham	NAO Consulting actuary PWC
Valuation of unquoted investments not traded on active markets.	Fund managers	At this stage we have not engaged our own expert for the valuation of level 3 investments. However, we may engage an expert if considered necessary to support our work on the valuation of unusual or complex level 3 investments.

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Pension 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 Pension 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 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.



04

Section 04:

Significant risks and other key judgement areas

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4. Significant risks and other 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. The definitions of the level of risk rating are given 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 (‘RMM’) at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include 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 (RMM), 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.

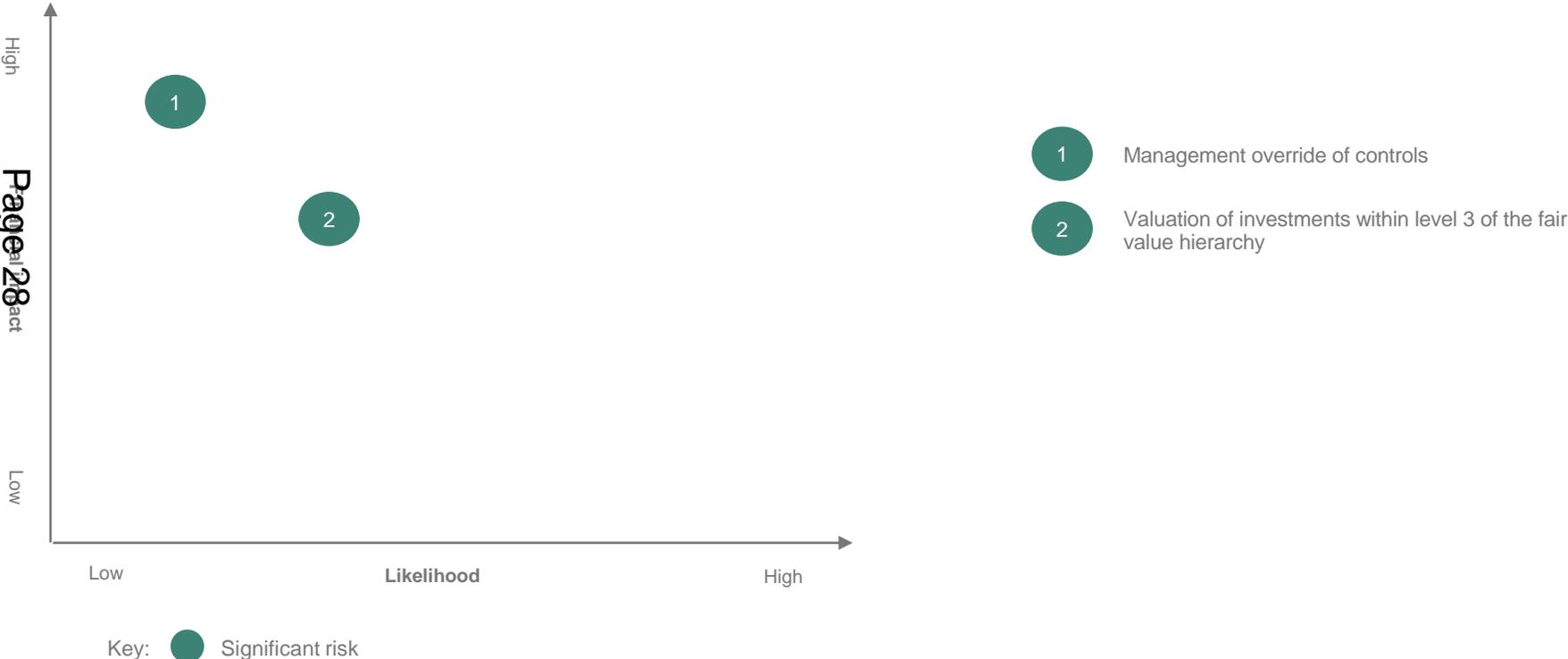
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4. Significant risks and other key judgement areas

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Lincolnshire Pension Fund. We have summarised our audit response to these risks on the next page.



4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. 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	Fraud	Error	Judgement	Planned response
1	<p>Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</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>	●	○	○	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.

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4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p>Valuation of investments within level 3 of the fair value hierarchy</p> <p>At 31 March 2020 the Pension Fund held investments which were not quoted on an active market with a fair value of £514.2 million, accounting for 23.3 per cent of the Fund's net investment assets. This included: Alternatives (£260.6m), Property (£190.8m), Infrastructure (£46.3m) and Private Equity (£16.5m). Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.</p> <p>As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.</p>	○	●	●	<p>We plan to address this risk by completing the following additional procedures:</p> <ul style="list-style-type: none"> • agree the valuation included in the Pension Fund's underlying financial systems to supporting documentation including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation; • agree holdings from fund manager reports to the custodian's report; • agree the investment manager valuation to audited accounts or other independent supporting documentation, where available; • review the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager, where required; • where audited accounts are available, check that they are supported by a clear opinion; and • where available, review independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Pension Fund's financial statements.

05

Section 05:

Fees for audit and other services

6. Fees for audit and other services

Fees for work as the Pension Funds’s appointed auditor

Details of the 2019/20 actual and planned 2020/21 fees are set out below:

Area of work	2020/21 Fees	2019/20 Actual Fee
Scale audit fee ¹	£18,750	£18,750
<i>Fee variations:</i>		
Additional Testing in relation to the triennial valuation as at 31 March 2019 as part of our audit of the 2019/20 financial statements ²	£Nil	£3,000
Fee variations ³	£6,000	£6,000
Audit related assurance services		
Pension assurance letters to employer auditors ⁴	£14,000	£13,200

¹ This scale fee was originally set in 2018.

² The additional fee in 2019/20 relates to work carried out on the process for submission of data to the actuary for triennial valuation purposes. This work currently occurs every three years, and will next take place in 2022/23.

³ £6,000 of the additional audit cost in 2019/20 relates to enhanced procedures on unquoted investments in response to increased regulatory expectations. These procedures will be repeated for our 2020/21 audit and we may need to respond to further recommendations from our regulator.

⁴ During the year we respond to requests received from 10 employer body auditors to undertake a programme of work to provide assurance in respect of data held by the Fund, which is used by the actuary to calculate pension assets and liabilities for individual employers. It is expected that the Fund will recharge these fees 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.

PSAA Ltd has issued a consultation on the 2021/22 audit fee scale. We will revisit our fee proposal in line with the outcome of this consultation to ensure we are consistent with sector wide changes.

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5. Fees for audit and other services

Fees for other non-PSAA related work

We have not been separately engaged by the Pension Fund to carry out additional work.

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06

Section 06:

Our commitment to independence

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 FRC’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 ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team; and
- 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, 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 Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

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

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07

Section 07:

Materiality and other misstatements

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7. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	26,602
Performance materiality	21,282
Specific materiality - We set a specific materiality for the fund account using a benchmark of 10% of contributions receivable.	10,426
Trivial threshold for errors to be reported to the Audit Committee	798

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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 design to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

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

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7. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 1% of net assets. Based on the investment values as at 31 December 2020 we anticipate the overall materiality for the year ending 31 March 2021 to be in the region of £26.6m (£23.6m in the prior year).

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. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

Misstatements

We accumulate 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 £798,000 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

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).

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Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The 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; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- 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; and
- Independence.

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Appendix: 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	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
Page 41 With respect to misstatements: <ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant. 	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud. 	Audit Completion Report and discussion at the Audit Committee, Audit Planning and Clearance meetings



Appendix: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity. 	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Committee in the context of fulfilling their responsibilities. 	<p>Audit Completion Report</p>
<p>Significant deficiencies in internal controls identified during the audit.</p>	<p>Audit Completion Report</p>
<p>Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.</p>	<p>Audit Completion Report</p>

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Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit Completion Report and Audit Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements. 	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.



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

Report to:	Audit Committee
Date:	14 June 2021
Subject:	Annual Audit Letters for Lincolnshire County Council & Lincolnshire Pension Fund for year ending 31 March 2020

Summary:

This report presents the Annual Audit Letters from our external auditors, Mazars, for Lincolnshire County Council and the Lincolnshire Pension Fund for the financial year 2019/20.

Recommendation(s):

The Executive Director for Resources recommends that the Audit Committee notes:-

1. the Annual Audit Letter for Lincolnshire County Council for 2019/20, which is attached at Appendix A; and
2. The Annual Audit Letter for the Lincolnshire Pension Fund for 2019/20, which is attached at Appendix B.

Background

1.1 The Statements of Accounts for 2019/20 and the external audit of these accounts were considered by the Audit Committee at its meetings on 13 July 2020 and on 28 September 2020. Our external auditors, Mazars, also presented their draft Audit Completion report to Audit Committee on the 16th November 2020 ahead of the publication deadline at the end of November.

1.2 Due to a need for an independent valuation for the LCC energy from waste plant, the external audit of the 2019/20 accounts was not completed until the 30th April 2021. The audit of the accounts is now fully complete and the auditors have provided their Annual Audit Letters which summarise the work carried out by the auditors and the conclusions they reached. The Annual Audit Letter for Lincolnshire County Council is attached at Appendix A, and the Annual Audit Letter for the Lincolnshire Pension Fund is attached at Appendix B.

Annual Audit Letters

1.3 The Executive Summaries in both letters report positive conclusions arising from the audit, and this is followed by more detail in the subsequent sections of each letter.

1.4 Each letter also provides a forward look to future audit developments and details how Mazars intend to work with us as we deal with upcoming challenges.

Financial Implications

1.5 Each Annual Audit Letter gives details of the fee expected to be charged by Mazars. The fee for the audit of the financial statements will be £101,934, which is £19,304 more than the fee proposed in June 2020. The additional fees relate to scope changes caused by increased audit quality expectations; scope changes caused by Covid-19; and one-off matters relating to pension liabilities and the valuation of the energy from waste plant. Assurance related services are also charged relating to Teachers Pension Return and assurance on the subcontracting arrangements for the Education and Skills Funding agency.

1.6 The fee for audit work relating to the Lincolnshire Pension Fund will be £27,750 which was £6,000 more than fee proposed in June 2020. The additional cost relates to enhanced procedures on unquoted investments in response to increased regulatory requirements. These procedures will be repeated for the 20/21 audit.

1.7 In addition to the Pension Fund audit fee, it is expected, subject to PSAA approval, that the Fund will be charged £1,320 for nine employers receiving audit assurance work on their actuaries accounting reports. These costs cannot be met by the Fund, therefore they will be recharged to the employers receiving this assurance work.

Publication of Information

1.8 The two Annual Audit Letters will be published on our website. The Pension Fund received the consistency opinion on its Annual Report and Accounts on 30th April 2021. A copy of the Lincolnshire Pension Fund Annual Report and Accounts are published here: <https://www.wypf.org.uk/media/3124/pf-annual-report-2020.pdf>

Conclusion

2.1 The Annual Audit Letters bring to a close the annual preparation, audit and publication of our statutory accounts.

Consultation

a) Risks and Impact Analysis

none

Appendices

These are listed below and attached at the back of the report	
Appendix A	Annual Audit Letter for Lincolnshire County Council for 2019/20
Appendix B	Annual Audit Letter for Lincolnshire Pension Fund for 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 Michelle Grady, who can be contacted on 01522 553235 or Michelle.Grady@Lincolnshire.gov.uk.

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Annual Audit Letter

Lincolnshire County Council

Year ending 31 March 2020





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- 01** Executive summary
- 02** Audit of the financial statements
- 03** Value for money conclusion
- 04** Other reporting responsibilities
- 05** Our fees
- 06** Forward look

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Lincolnshire County Council (the Council) for the year ended 31 March 2020. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Outcome	Summary
Audit of the financial statements	[Green]	<p>Our auditor's report issued on 30 April 2021 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
Other information published alongside the audited financial statements	[Green]	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none">• the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	[Green]	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020</p>
Reporting to the group auditor	[Green]	<p>In line with group audit instructions, issued by the NAO on 4th November, we reported to the group auditor in line with the requirements applicable to the Council's Whole of Government Accounts return on 30 April 2021.</p>
Statutory reporting	[Green]	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the National Audit Office and International Standards on Auditing. These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our auditor's report was modified to include an emphasis of matters paragraph. This drew attention to the financial statement disclosure explaining that COVID-19 had contributed to 'material valuation uncertainty' in the valuation of the Council's land and buildings and investment properties, and in the Council's share of Lincolnshire Pension Fund's property assets included in the estimated net Pension Liability.



2. AUDIT OF THE FINANCIAL STATEMENTS

Our approach to materiality

We apply the concept of materiality when planning and performing our audit. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. We set materiality for the financial statements as a whole (financial statement materiality) and set a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure.	£22.8m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.7m
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: <ul style="list-style-type: none">• Senior Officer Remuneration• Members Allowances• External Audit Fee	£5k £258k £17k

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit risks

As part of our continuous planning procedures, we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls</p> <p>In all entities, 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. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits</p>	<p>We addressed this risk through performing audit testing over accounting estimates and financial journal entries and considering any significant transactions outside the normal course of business.</p>	<p>Our audit procedures did not identify any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention.</p>
<p>Valuation of Land and Buildings and Investment Properties</p> <p>The Council's accounts contain material balances relating to its Land and Buildings and Investment Properties with the majority of these assets required to be carried at valuation.</p>	<p>We performed a range of audit tests, including, but not limited to:</p> <ul style="list-style-type: none"> • Reviewing the valuer's qualifications, objectivity and independence to carry out the required programme of revaluations. • Testing a sample of valuations to ensure the correct methodology had been applied and were supported by appropriate evidence. • Considering the impact of assets not revalued in 2019/20 to ensure these remained materially correct at the balance sheet date. • engaging a valuation expert to specifically review the Council's original and updated valuation of the Energy from Waste (EFW) assets. 	<p>Our audit procedures did not identify any material errors or uncertainties in the financial statements. The updated EFW valuation report was received by the Council in March 2021. The difference in valuation (£6.674m) was not material and the draft financial statements were not adjusted.</p> <p>The Council's valuer declared that the valuation of the Council's property assets were subject to 'material valuation uncertainty' as a result of COVID-19 and this was disclosed in Note 3 of the financial statements and referred to in the 'emphasis of matter' paragraph in our audit report.</p> <p>A 'material valuation uncertainty' declaration does not mean that the valuation cannot be relied upon, only that, because of the extraordinary circumstances arising from COVID-19, less certainty can be attached to the valuation.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p>Valuation of the Net Pension 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 <i>International Accounting Standard 19 Employee Benefits</i>.</p>	<p>We performed a range of audit tests, including, but not limited to:</p> <ul style="list-style-type: none"> • Liaising with the auditor of the Lincolnshire Pension Fund to obtain direct assurance over the controls surrounding membership, contributions and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. • Reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. • Considered the impact of the remedy solution for the McCloud legal judgement on the net pension liability. 	<p>'Material valuation uncertainty' was disclosed on the Pension Fund's property investment assets as a result of COVID-19. As the Council's share of those assets in the net Pension Liability in its own balance sheet is material, the Council has disclosed this in Note 3 of the financial statements and we have reflected this in the 'emphasis of matters' paragraph in our Audit Report.</p>
<p>Revenue Recognition</p> <p>Under <i>International Standards on Auditing 240</i>, there is a presumed risk that revenue may be misstated due to improper revenue recognition.</p>	<p>We evaluated the design and implementation of controls to mitigate the risk of material debtors being recognised in the wrong period. We tested debtors to ensure that they are supported by sufficient and appropriate evidence and were accounted for correctly.</p> <p>Our audit approach also incorporated a range of other substantive procedures, including, but not limited to the testing of receipts around the year-end to provide assurance that any material items of income had been recorded in the correct financial year</p>	<p>Our audit procedures in relation to this risk did not identify any material errors or uncertainties in the financial statements, or other matters that we wish to bring to your attention.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit risks (continued)

Identified management judgement	Our response	Our findings and conclusions
<p>Expenditure Recognition</p> <p>Under <i>International Standards on Auditing 240</i>, there is similarly a presumed risk that material misstatement may occur due to improper expenditure recognition.</p>	<p>We evaluated the design and implementation of controls to mitigate the risk of material creditors being recognised in the wrong period. We tested creditors to ensure that they are supported by sufficient and appropriate evidence and were accounted for correctly.</p> <p>Our audit approach also incorporated a range of other substantive procedures, including, but not limited to the testing of payments around the year-end to provide assurance that any material items of expenditure had been recorded in the correct financial year</p>	<p>Our audit procedures in relation to this risk did not identify any material errors or uncertainties in the financial statements, or other matters that we wish to bring to your attention.</p>

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. The matters we report are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported.

We reported a small number of minor control deficiencies in our Audit Completion Report presented to the Audit Committee in November 2020 and there are none that we need to highlight in this report.



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Our audit approach

We are required to consider 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 in order to form our conclusion, and sets out the 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.

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our 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.

When we perform our work, we consider whether there are any areas requiring additional audit attention as a "Significant Audit Risk", which we report to the Audit Committee prior to finalising our conclusion. As set out in our Audit Strategy Memorandum we identified no significant audit risks. We did though identify the Council's medium term financial sustainability as a matter which we needed to keep under close review during our audit. Before drawing our conclusion we, amongst other things:

- Reviewed the 2019/20 financial performance and forecasts during the year and considered the Council's financial outturn position as presented in the financial statements.
- Reviewed the 2020/21 Revenue and Capital budgets and Medium Term Financial Plan, Treasury Management Strategy, incorporating the Minimum Revenue Provision Policy and Capital and Investment Strategies
- Considered the Council's latest financial monitoring information and its updated medium term outlook.

From the work performed, no new significant VFM risks were identified.

In April 2020 NAO issued an update to its VFM guidance to auditors which set out how local auditors should approach considering the impact of COVID-19 on their 2019/20 VFM arrangements conclusion risk assessment. We did not identify in considering this guidance any significant failures in the Council's arrangements during 2019/20 and are satisfied that no additional significant VFM risks have been identified in relation to these matters.

Overall Conclusion

Our auditor's report stated that that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	No matters to report
Other information published alongside the audited financial statements	Consistent

The Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The National Audit Office, as group auditor, requires us to complete a Whole of Government Accounts Assurance Statement in respect of financial consolidation data produced by the Council. We have completed the work required for this assurance return and submitted the information requested to the NAO on 30 April 2021.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum in June 2020. Having completed our work for the 2019/20 financial year, we can confirm that our final proposed fees are as follows. These fees are subject to agreement with management and approval by PSAA:

Area of work	2019/20 proposed fee	2019/20 Final fee
Scale fee for delivery of audit work under the NAO Code of Audit Practice	£82,630	£82,640
Fee Variations*		
Scope changes caused by increased audit quality expectations:		£12,273
<ul style="list-style-type: none"> • Additional Testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes • Additional Costs associated with being a 'Major Local Audit' and requiring additional level of audit procedures and quality control 		
Scope changes caused by Covid-19:		£4,899
<ul style="list-style-type: none"> • Impact of 'Material Valuation Uncertainty' in Council's Property Assets and its share of Pension Fund Assets • Updating audit risk assessments, including the value for money conclusion • Additional considerations of estimation uncertainty and the Going Concern assertion 		
One-off matters for 2019/20:		£2,122
<ul style="list-style-type: none"> • Changes impacting pension liabilities through McCloud and Goodwin • Additional testing on the valuation of the Energy from Waste assets, including engaging an auditor's valuation expert. 		
Final audit fee	£82,630	£101,934
Assurance related services		
<ul style="list-style-type: none"> • Assurance on the 2019/20 Teachers Pensions Return • Assurance on the subcontracting arrangements for the Education and Skills Funding Agency 		£5,700 £5,250

*Fee variations subject to confirmation from PSAA.

Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.



6. FORWARD LOOK: AUDIT CHANGES 2020/21

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and applies to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work will focus on three criteria specified in the revised Audit Code:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code, we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and our view as to whether recommendations have been implemented satisfactorily.

The new Audit Code will result in additional officer time and auditor time and therefore audit fees.



6. FORWARD LOOK: AUDIT CHANGES 2020/21

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report made several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The recommendations and findings have been considered by the Ministry of Housing, Communities and Local Government (MHCLG) and we look forward to working with all stakeholders to implement the agreed changes. The main agreed outcomes are:

- a recognition by MCHLG that audit fees are not sufficient to meet the work required, with £15m additional central funding support to be provided in 2021/22.
- Confirmation by MCHLG that the date for publication of audited accounts will be 30th September for the 2020/21 and 2021/22 financial years, with a commitment to review whether it is realistic to return to a 31st July date in future years.

MHCLG has also proposed that a new audited 'standardised statement of service information and costs' is produced by Local Government bodies to help simplify financial reporting. CIPFA has been asked to work on this for introduction in 2021/22.



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Annual Audit Letter

Lincolnshire Pension Fund

Year ended 31 March 2020





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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Lincolnshire Pension Fund. No responsibility is accepted to any member or officer in their individual capacity or to any third party. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for the Lincolnshire Pension Fund (the Pension Fund) for the year ended 31 March 2020. Although this letter is addressed to the members of Lincolnshire County Council, as a body and as administering authority for the Lincolnshire Pension Fund, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 30 April 2021 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Pension Fund's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under section 24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Pension Fund.</p>
Consistency Report	<p>Information within the Pension Fund Annual Report is consistent with the financial statements within Lincolnshire County Council Statement of Accounts.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Pension Fund and whether they give a true and fair view of the Pension Fund's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Pension Fund's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Pension Fund's financial position as at 31 March 2020 and of its financial performance for the year then ended. We drew attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Pension Fund's property investment assets as at 31 March 2020. As disclosed at Note 5 these valuations have been reported by the valuers on the basis of 'material valuation uncertainty' in line with guidance from the Royal Institute of Chartered Surveyors. Our opinion is not modified in respect of this matter.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table on the next page provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:



2. AUDIT OF THE FINANCIAL STATEMENTS

Our approach to materiality (continued)

Financial statement materiality	Our financial statement materiality is based on 1% of net assets available to pay benefits	£22.2 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.7 million
Specific materiality	We set a specific materiality for the fund account using a benchmark of 10% of contributions receivable.	£8.3 million

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Pension Fund's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below and on the next page outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls In all entities, 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. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our audit procedures did not identify any material errors or uncertainties in the financial statements, or other matters in relation to management override of controls.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p>Valuation of level 3 unquoted investments for which a market price is not readily available</p> <p>As at 31 December 2019 the fair value of investments which were not quoted on an active market was £346m, which accounted for 13.6 percent of 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 considered that there was an increased risk of material misstatement</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> • agreeing holdings from fund manager reports to the custodian’s report; • agreeing the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation; • agreeing the investment manager valuation to audited accounts or other independent supporting documentation, where available; and • reviewing independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Fund’s financial statements. 	<p>No material misstatements were identified in the course of the audit work completed.</p> <p>The Financial Statements include at Note 5 a disclosure referring to the ‘material valuation uncertainty’ reported by valuers in relation to the Pooled Property Unit Trust investment assets caused by COVID-19. Our audit report included an ‘emphasis of matter’ paragraph referring to this disclosure. Our audit opinion was not qualified in respect of this matter.</p>

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. Our work did not identify any internal control issues to bring to the attention of the Audit Committee.



3. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Other information published alongside the audited financial statements	Consistent
Consistency Report on information within the Pension Fund Annual Report	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Pension Fund's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Pension Fund. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



4. OUR FEES

Fees for work as the Pension Fund's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in June 2020. This detailed a proposed additional charge of £3,000 (plus VAT) above the scale charges set by PSAA to undertake additional work this year in relation to the triennial valuation as at 31 March 2019 as part of our audit of the 2019/20 financial statements. The two main elements of the testing involved were:

- testing the membership data held in the pension administration system as at 31 March 2019; and
- undertaking procedures to provide assurance that the membership data submitted to the actuary as at 31 March 2019 agrees to the data held in the pension administration system.

This work was in addition to the annual audit procedures that we undertake. Having completed our work for the 2019/20 financial year, we can confirm that our proposed final fees are as follows. These fees are subject to agreement with management and approval by PSAA:

Area of work	2019/20 proposed fee	2019/20 final fee*
Scale fee for Delivery of audit work under the NAO Code of Audit Practice	£18,750	£18,750
Additional core work – triennial valuation (2019/20 only)	£3,000	£3,000
Additional core work - FRA requirements (recurring)	-	£6,000**
Total	£21,750	£27,750

* Please note the final fee does not include the fees chargeable by the Pension Fund to nine participating employers for assurances given to their auditors (see below).

** The additional audit cost of £6,000 in 2019/20 relates to enhanced procedures on unquoted investments in response to increased regulatory expectations. These procedures will be repeated for our 2020/21 audit and we may need to respond to further recommendations from our regulator.

Fees for other work

As communicated in our audit Strategy Memorandum we are required to respond to requests from other auditors, with the fees for such work to be charged initially to the Pension Fund. In line with this requirement we have reported the results of the performance of our work programme at Lincolnshire Pension Fund to the auditors of nine participating employers. The PSAA has clarified that fees for all such work, regardless of whether the employer is within the PSAA regime, will be an audit fee variation, which means that the fees for the IAS19 assurance work will be billed to the Pension Fund; the expectation is that the Fund will seek to recover the costs of this work from relevant employers.

The fee for this IAS 19 assurance work in 2019/20 is £1,320 per employer. We are satisfied this IAS 19 assurance work does not impact our independence or objectivity in relation to the audit of the Pension Fund.

At the present time we have not been separately engaged by the Pension Fund to carry out any other additional work outside of the fees in relation to our appointment by PSAA.



5. FORWARD LOOK

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and applies to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

Reporting the results of the auditor's work

The new Audit Code has introduced changes to the way we report the outcomes of our work to you. We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit. The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released.

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report made several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The recommendations and findings have been considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement the agreed changes to ensure the development and sustainability of local audit.



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

Report to:	Audit Committee
Date:	14 June 2021
Subject:	Internal Audit Plan - 2021/22

Summary:

The purpose of this report is to:

- Provide the content of the 2021/22 Audit Plan.
- Explain the reasoning of the Audit areas chosen.

Recommendation(s):

The Committee approve the 2021/22 Internal Audit plan.

Background

Our draft plan has been developed – taking into account the key risks and priorities of the Council. It is a statement of intent and is revised and updated regularly during the year to enable us to respond to changing assurance needs. The plan includes a number of **fixed plan** fundamental areas to review, the rest of the plan is dynamic to allow us to change and respond to emerging issues.

This year's plan includes a greater focus on cross cutting corporate activities to support and reflect the One Council approach. We continue to provide assurance oversight on the Business World on redesign project and Transformation Programme. There is also a maintained focus on IMT audits using the three year IMT Audit plan we have developed, which now forms part of the annual plan papers.

The Council's Internal Audit Plan for 2021/22 includes time for activities supporting delivery of audit assignments including advice, liaison, planning, staff development and Audit Committee reporting.

Annual Internal Audit Opinion - I am satisfied that the level and mix of resources - together with the areas covered in the plan - will enable the Head of Internal Audit to be provided in 2022.

The plan includes information on our:

- Internal audit strategy – how we choose what to audit and deliver the Head of Internal Audit opinion.
- Working protocols to support an effective and efficient audit process
- Our quality assurance framework – designed to ensure that we confirm to best practice and professional standards – continuing to add value and insight to the Council.

Consultation

a) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	2021/22 Audit Plan

Background Papers

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

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

Internal Audit

2021/22 Plan



Lincolnshire County Council June 2021

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The Planning Process

Introduction

This report sets out the Internal Audit Plan as at 1st June 2021. The plan details the activities to be audited and the indicative scope for each audit. The audits are listed by Directorate and in priority order. The draft plan gives you an opportunity to comment on the plan and the priorities that we have established.

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

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

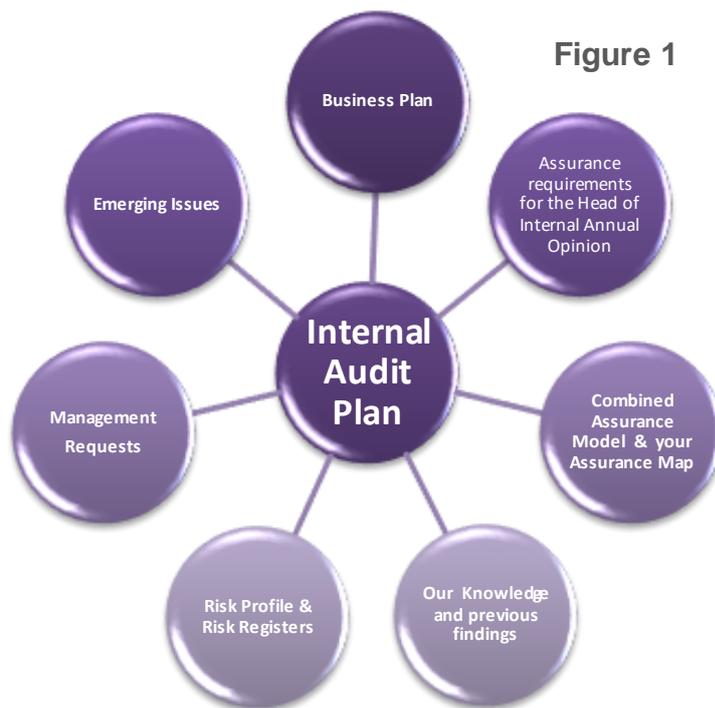
In Appendices A to E we provide for you information details of:

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

Developing the plan

The internal audit plan has been developed from the Council's Assurance Map – which was updated in February 2021 with input from the

Management Board. **Figure 1** below also shows other key sources of information that help to inform the plan.



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

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

Updating the Plan

Through the year we will liaise with the Executive Directors and collect business intelligence that identifies emerging audits which will be included in the plan according to priority. The 2021 Assurance Map plays a key part in the annual review of the plan.

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

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

Delivery and Focus

Delivering the Plan

The aim is to deliver the audits included in the plan in accordance with their assessed priority. This will be modified in accordance with requests from management and practical considerations around the timing of audits. It may also be modified by the availability of specialised staff, in particular ICT audits.

We are continuing to show resilience during the pandemic, working with Directorates to deliver audits while recognising the challenges that staff are facing at the moment. Our processes have adapted to allow us to provide the same high level of service while working remotely, and we continue to be adaptable and flexible in our approach and delivery. Our plan will include a focus upon processes and teams that have been impacted by Covid-19, and we are also completing a number of cross-cutting audits that span Directorates as we move closer to the One Council approach.

Having skilled and effective people remains at the heart of our workforce strategy. We are

currently recruiting additional Senior Auditors to ensure that we have the capacity to deliver audit work for LCC and our clients.

The Council's Internal Audit Plan for 2021/22 includes time for activities supporting delivery of audit assignments including advice, liaison, planning, staff development and Audit Committee reporting.

Audit Focus for 2021/22

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

Area	Reason for inclusion
Financial Governance	<p>Providing assurance that key financial controls are in place and operating effectively during the year across all areas of the Council. This work provides the Section 151 Officer with a key element of his assurance that the Council has effective arrangements for the proper administration of its financial affairs.</p> <p>The areas of coverage and key controls to be tested will be agreed the Section 151 officer.</p>
Governance & Risk	<p>Providing assurance that key governance controls are in place and operating effectively. These cross cutting audits focus on the One Council approach and the Council's second line of assurance - corporate rather than service level systems. Areas proposed include:</p> <ul style="list-style-type: none"> ▪ Contract Management ▪ Corporate Plan ▪ Success Framework and Performance Management ▪ Capital Contracts

Area	Reason for inclusion
Critical Activities	The combined assurance work undertaken in 2020/21 identified some critical activities where a potential audit would provide independent assurance over the effectiveness of risk management, control and governance processes. Working with management we will prioritise when audit work will be undertaken - potential areas for 2021/22 are listed in appendix 1.
Project Assurance	<p>There have been a number of critical projects identified by the Council. We will seek to provide assurance around their successful delivery (on-time – within budget – deliverables achieved and benefits realised). These will include:</p> <ul style="list-style-type: none"> ▪ Business World Redesign ▪ Transformation
IMT	<p>Technology and associated threats and opportunities continue to evolve at a pace. The effectiveness of IMT has a great impact on how well the Council works. We will seek to provide assurance that key controls comply with industry best practice and are operating effectively.</p> <p>We have created an IMT Audit Universe and Assurance Map to provide improved overall risk assessment and coverage based on current risks. This is attached as Appendix E</p> <p>The areas in order of priority can be found at appendix A.</p>

Area	Reason for inclusion
Follow Up	<p>Where an audit receives a Limited or Low Assurance level we will carry out a follow up audit to provide assurance that the identified control improvements have been effectively implemented and the risks mitigated.</p> <p>Areas include</p> <ul style="list-style-type: none"> ▪ Implementation of Mosaic Finance ▪ IMT Business Continuity ▪ IMT Network Infrastructure and Security. ▪ IMT Mobile Devices <p>Working with management we also track the implementation of agreed management actions for all audit reports issued.</p>
Combined Assurance	Working with management we co-ordinate the levels of assurance across the Council's critical activities, key risks, projects and partnerships – producing a Combined Assurance Status report in February 2022.
Consultancy Assurance	At the request of management we undertake specific reviews where they may have some concern or are looking for some advice on a specific matter or around governance, risk and controls for a developing system. Such reviews are not normally given an audit opinion.

Area	Reason for inclusion
	Management have asked us to be involved in the rebuilding of the Business World system and to sit on the Transformation Programme Board.

Annual Internal Audit Opinion

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

Appendix A – Dynamic Internal Audit Plan

These are the audits with the highest priorities corporately and 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. We have also included fixed plan audits, fundamental must do areas and these are listed in the plan as Fixed. 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 e.g 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
CROSS CUTTING CORPORATE REVIEWS							
Fixed Plan Contract Management	Working with the counter fraud team to confirm that contracts are being effectively managed to ensure that projects are delivered to specification, on time and within budget.	72%	A	✓		✓	
Fixed Plan Transformation Programme	Continue to act as critical friend and provide on-going advice and assurance to the programme.	67%	G	✓		✓	✓
Fixed Plan Governance Review	Review recent Public Interest Reports from Liverpool City Council and York Council to consider lessons learned and governance and controls assurance.	69%		✓		✓	
Fixed Plan Effective Decision Making	Review decision making and ensure there is appropriate due diligence and scrutiny on decisions.	67%	A	✓		✓	
Fixed Plan Business World Redesign project	Providing on-going advice and independent assurance around project management, process, risk and control.	67%	A	✓		✓	✓
Fixed Plan	Provide assurance around the	67%		✓		✓	

AUDIT TITLE	ASSURANCE BEING SOUGHT	INTERNAL AUDIT RISK ASSESSMENT	ASSURANCE MAP RAG RATING	INDEPENDENT ASSURANCE	LINK TO SRR	LINK TO CORPORATE PLAN	MANAGEMENT REQUEST
Corporate Plan, Success Framework and Performance Management	governance and corporate oversight of the Corporate plan and performance monitoring and management.						
Fixed Plan Transformation Programme Project Review	To provide assurance around the governance and delivery of key transformation projects including SMARTER Working and the Green Master Plan.	67%	A	✓		✓	✓
Fixed Plan Programme & Project Management	Review of the programme and project management procedures in place at LCC.	64%		✓	✓	✓	
Fixed Plan Follow Up Reviews	To follow up progress with management actions from Low or Limited audits completed in 2020/21			✓		✓	
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	✓		✓	✓
Fixed Plan 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	69%	A	✓		✓	
ICES follow up	To provide assurance on this activity and follow up the recommendations made in the previous audit (which was given Limited assurance) to ensure agreed management actions have	56%	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
	been implemented.						
Fixed Plan Safeguarding	Provide assurance that the Council has maintained robust safeguarding arrangements through the Covid-19 pandemic.	67%	G	✓	✓	✓	
Occupational Therapy	To provide assurance that reorganisation of the service and collaboration at district level is working well and delivering improved performance.	56%		✓		✓	✓
COMMERCIAL							
Commercial Activities	Provide assurance that the Councils Commercial ventures and activities have been set up and managed with adequate governance, scrutiny and compliance.	69%				✓	✓
Commissioning process	To act as critical friend and provide on-going advice and assurance during the external review of the commissioning process.	69%	G	✓		✓	✓
Fixed Plan Capital Contracts	Assurance that capital contracts are effectively managed to ensure that projects are delivered to specification, on time and within budget.	67%	A	✓		✓	
IMT/Finance - PCI DSS	Consultancy audit with discussions with ICT, Information Governance and Finance to understand the issues faced by each department along with expectations. This will feed into the full audit planned in 2022/23.	56%	R	✓		✓	

AUDIT TITLE	ASSURANCE BEING SOUGHT	INTERNAL AUDIT RISK ASSESSMENT	ASSURANCE MAP RAG RATING	INDEPENDENT ASSURANCE	LINK TO SRR	LINK TO CORPORATE PLAN	MANAGEMENT REQUEST
IMT - Network Access Controls: Internal (S/ML)	Provide assurance that the authority has appropriate arrangements in place to ensure that only authorised users are enrolled promptly onto the network and the removal of access is promptly actioned when no longer required.	64%	R	✓	✓	✓	✓
IMT - Privileged Account Management	Assurance that privileged accounts are suitably controlled.	64%	A	✓	✓	✓	
IMT - Virus Protection / Malware	Provide assurance that the risks associated with malware and viruses are mitigated through the use of appropriate security measures.	72%	G	✓	✓	✓	
IMT - Cloud/Hosted Services	Review recent instances of cloud/hosted services to establish the due diligence undertaken and the security deployed through that arrangement.	69%	G	✓		✓	
Property – capital repairs and maintenance	To follow up and confirm that the recommendations from the previous capital contract report have been implemented, and to review and provide support and advice on the Repairs & Maintenance budget setting process.	50%	A	✓		✓	✓
CHILDREN'S SERVICES							
Supporting Families Grant	Audit sign off as per the requirements of the grant.	58%	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
SEND	To confirm compliance with funding schemes and review the accuracy of data and funding allocations to SEND schools.	44%	A	✓		✓	✓
Youth Offending	To assess the impact on the effectiveness and efficiency of the youth offending service following the implementation of the new assessment framework.	69%	A			✓	✓
Foster Carers	To confirm that there are robust processes / checks over the recruitment of foster carers and that these processes are followed in practice.	47%				✓	✓
Maintained Schools	Delivery of internal audit to maintained schools that 'buy-back' our services. This covers key areas of governance and financial control.	36%	G	✓		✓	✓
FIRE & RESCUE							
On call sustainability	Review the key risk to the service around the on call system for providing officer cover.	67%	R	✓		✓	
Governance Review	Seeking assurance around the governance roles and processes in place within the Directorate.	69%		✓		✓	
PLACE							
Economic Development	Review looking at the decision making around business loans and regeneration projects to ensure that the Council is not impacted by reputational	64%	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
	damage.						
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.	69%	A	✓		✓	✓
Waste	Act as a critical friend as the service develops three key building projects alongside a range of cost benefit schemes designed to reduce overspend.	58%	A	✓		✓	
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.	62%	G	✓	✓	✓	
Financial Resilience	Assurance that the medium term financial strategy supports financial resilience as the Council moves from pandemic arrangements to recovery and business as usual.	58%	G	✓	✓	✓	
Payroll	Key financial system – testing and analytical review required to provide assurance that appropriate controls are working effectively and compliance with policy and legislation is maintained.	64%	G	✓		✓	
Debtors	Review the debtors' process, including any changes in the new	61%	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
	finance system. To assess debt reporting governance and senior management oversight on debt levels and write offs. Coverage will include the impact of gross social care payments & recovery of contributions.						
Key financial systems - key financial control testing	Testing and analytical review of key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements	53%	G	✓		✓	
Compliance with Financial Procedures	Utilising root cause analysis, understand reasons for recent examples of non-compliance with financial procedures and provide advice on raising wider awareness.	64%		✓		✓	✓
Grant work	Working with the counter fraud team to undertake testing and provide assurance that grant monies have been used in accordance with terms and conditions. To review checks and balances for the detection of fraud and error.	67%	A	✓		✓	
HR Talent & Early Careers Strategy - including apprenticeships	To consider the Council's approach as an employer provider of apprenticeships - including corporate approach and value for money	58%	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 2020/21 where an audit opinion of Limited or Low may be followed to establish progress in implementing agreed management actions.
External Quality Assessment.	Prepare for the assessment of the internal audits service against professional standards to ensure compliance with best practice.
Advice & Liaison	Time for liaison with management to schedule audits and update the plan with emerging risks etc.
Annual Report	Collation of data and production of the Head of Audits annual opinion on the Council's Governance, Risk and Control framework
Annual Governance Statement	Support development of the AGS
Audit Committee	Production of reports to and attendance at Audit Committee
Work Force Development	Time to develop audit skills and competencies for our Apprentices and existing staff in a work environment with deliverable audits.

Appendix B – Head of Internal Audit's Opinion

Our work is carried out in conformance with the UK Public Sector Internal Audit Standards. These require that the scope of Internal Audit covers the whole range of the Council activities – seeking to provide an annual internal audit opinion on the governance, risk and internal control environment of the Council which has been established to:

- Achieve strategic objectives
- Ensure effective and efficient operational systems and programmes.
- Safeguard assets and interests of all kinds (including risks that relate to work it undertakes through partnerships)
- Ensure the reliability and integrity of financial and operational information.
- Ensure economic, efficient and effective use of council resources.
- Ensure compliance with established policies, procedures, laws, regulations and contracts.

Our Internal Audit Strategy

It is important that the Internal Audit function focusses its work on what matters most to you – providing insight, assurance and added value to the Council. To help us do this we use a dynamic planning approach. This has the benefit of enabling greater flexibility and responsiveness – ensuring each piece

of work is the right one, delivered at the right time. It also delivers greater productivity and efficiencies – reducing abortive planning and engagement time. The plan becomes more dynamic and responsive – essential for an effective Internal Audit service.

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

We aim to align our work with other assurance functions – seeking to look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council.

By adopting this approach it is possible to give the Council comfort that there is a comprehensive risk and assurance framework with no potential gaps. We are then able to use our audit planning tool to target resources. This will to minimise duplication of effort through sharing and coordinating activities with management and other management oversight functions.

We have identified the level of assurances in place by using the "Three lines of assurance" model – See **Figure 1**.

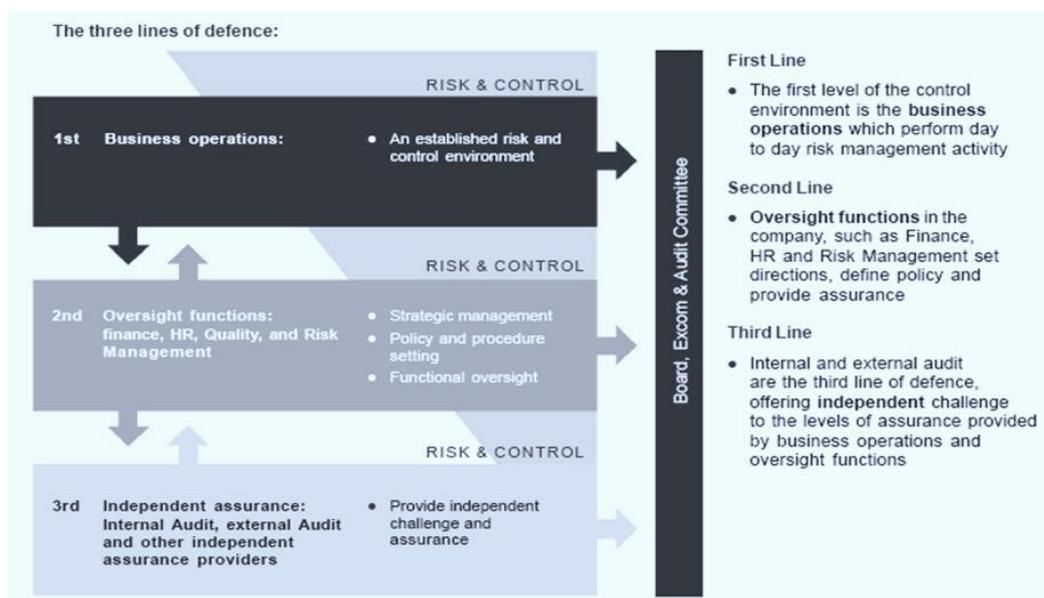


Figure 1

Figure 2 shows the overall percentage assurance levels on the Council's critical activities as at February 2021.

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

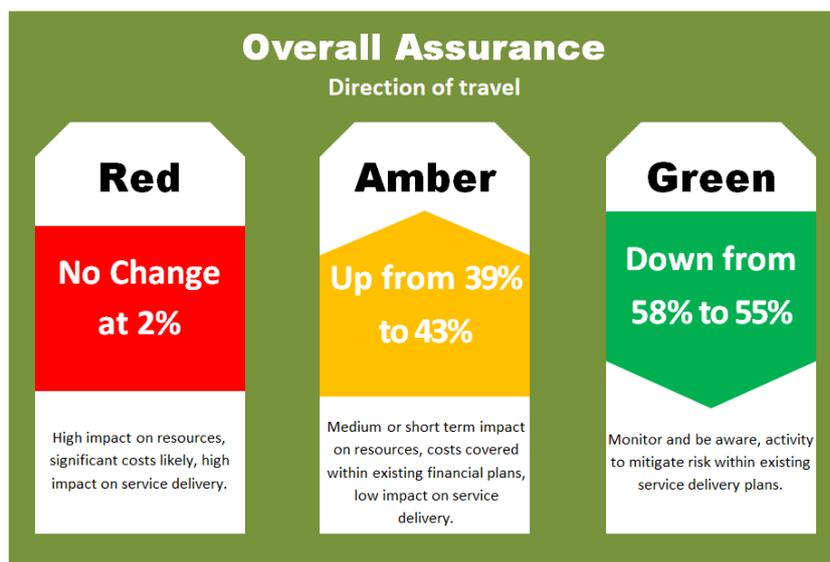


Figure 2

Appendix C – Working Protocols

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

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

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

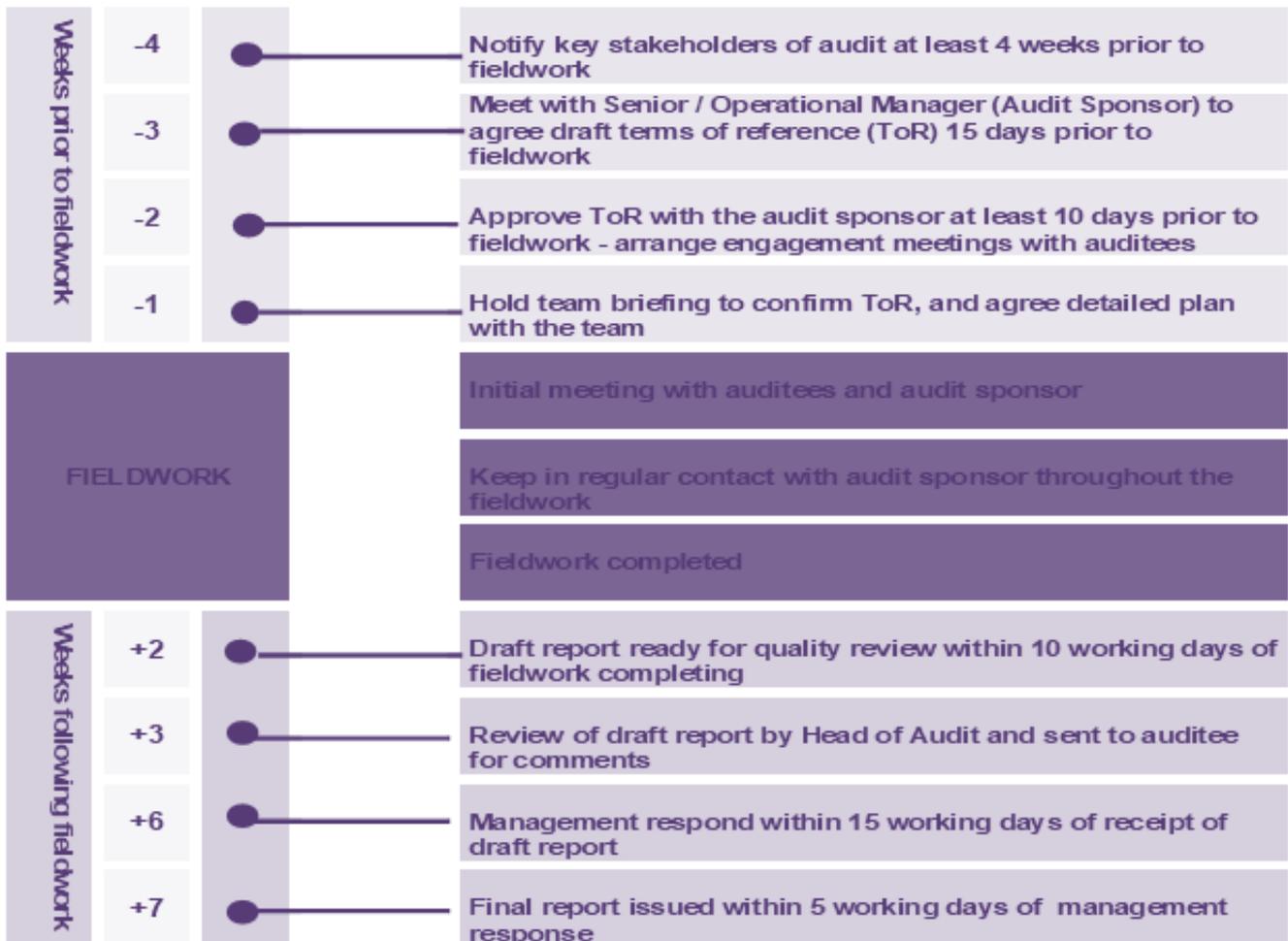
Strong communication is fundamental to quality delivery and maintaining trusting relationships. We keep management informed in accordance with agreed protocols including:

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

progress and discuss activities and priorities for the next quarter.

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

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



Appendix D – Our Quality Assurance Framework

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

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

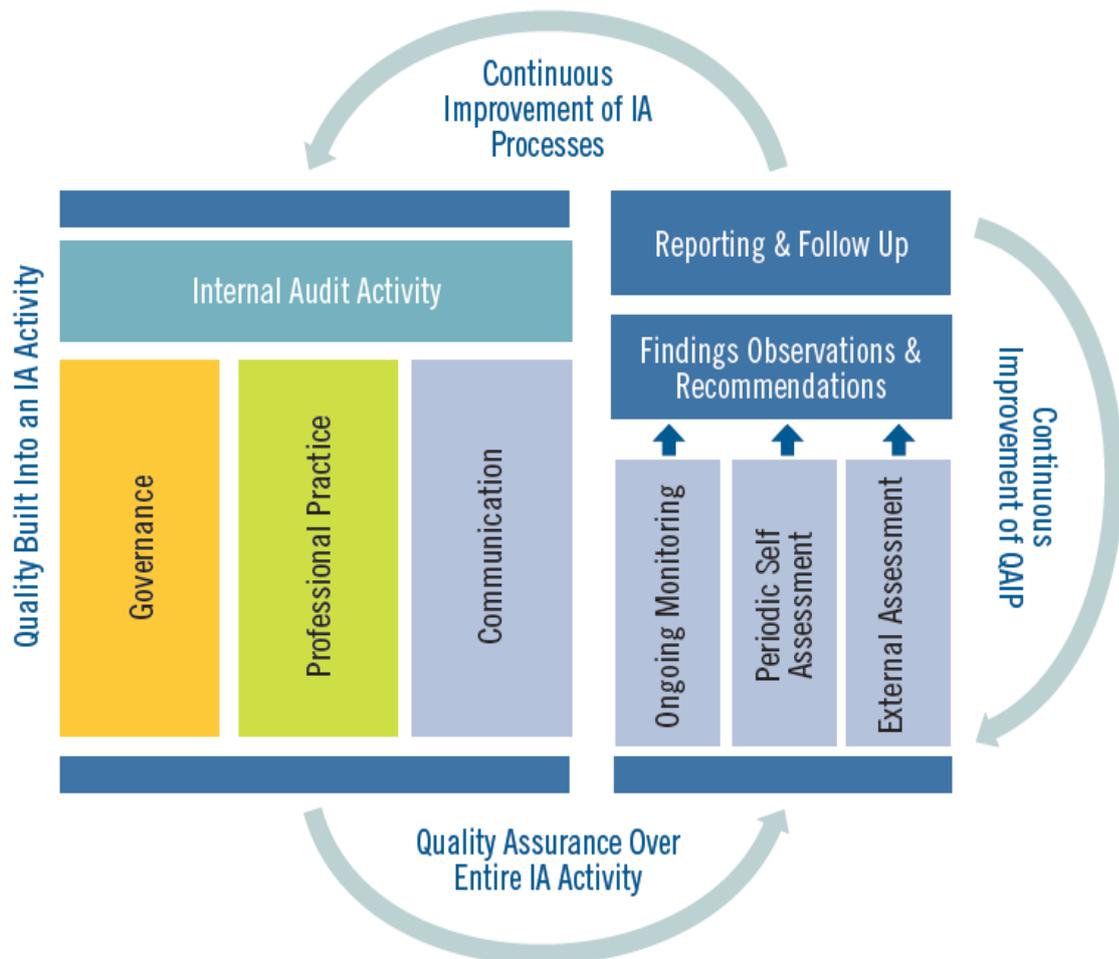
Our Quality Assurance Improvement Programme incorporates both the internal (self) and external assessments – this is a mandatory requirement and the Head of Audit reports annually on the results and areas for improvement. Our internal assessments must

cover all aspects of internal audit activity. **The diagram below** shows how we structure our internal assessments to ensure appropriate coverage.

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

Our Internal Audit Charter sets out the nature, role, responsibilities and authority of the Internal Audit service within the Council – this was approved by the Governance & Audit Committee and was reviewed in 2019 following the planned revision of the CIPFA Local Government Application Note.

Quality Assurance and Improvement Program (QAIP) Framework



Appendix E – IMT Audit Universe

Introduction

As part of our 2020/21 combined assurance work, we undertook a detailed review of ICT in order to create a proposed IT Audit plan.

The plans are presented over 3 years to give some indication of future intent. However, it is likely that risk profiles may change and that new, emerging risks, may present themselves. The ICT Audit Planning document will therefore be presented annually.

Production of the ICT Audit Plan

In order to create this plan we focused on mapping assurances against the ISO27001 IT security standard.

Through discussion, we examined each standard to identify what assurances were currently in place. These assurances were then categorised in accordance with the four lines of assurance.

- First Line – Business Management
- Second Line - Corporate Oversight
- Third Line - Internal Audit assurance
- Fourth Line- External Independent assurance

We assessed assurance on over 40 different areas grouped into the following areas:

- Governance
- Infrastructure
- Operations
- Projects
- Applications
- Compliance Elements (e.g. PSN, PCI-DSS)
- Emerging Risks

The outcome of our Combined Assurance work was as follows:

- High Assurance (Green)** – 73%
- Medium Assurance (Amber)** – 16%
- Low Assurance (Red)** – 11%

The proposed ICT Audit plans are presented below.

- High:** Controls in place assessed as adequate/effective and in proportion to the risks.
- Medium:** Some areas of concern over the adequacy/effectiveness of the controls in place in proportion to the risks'
- Low:** Significant concerns over the adequacy/effectiveness of the controls in place in proportion to the risks

Annual Evaluation

The assurance map is an evolving document and although it has been used to develop a proposed ICT Audit plan it will be reviewed and updated annually to reflect the current risks and assurances affecting the organisation.

Disclaimer

The matters raised in this report are only those which came to our attention during our internal audit work. Our quality assurance processes ensure that our work is conducted in conformance with the UK Public Sector Internal Audit Standards and that the information contained in this report is as accurate as possible – we do not provide absolute assurance that material errors, fraud or loss do not exist. 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 Head of Audit is only responsible for the due professional care in developing the advice offered to managers on risk, control and governance issues. Where managers accept our advice they accept the accountability for the consequences of implementing the advice. Internal Auditors working in partnership with managers during the consultancy assignment will not take part in any sign off decision.

2021/22 – Year One

Audit Area	Indicative Scope
Network Access Controls: Starters Movers and Leavers	<p>The registration and maintenance of users within the corporate network is a key component of protecting the confidentiality of the data the Council holds.</p> <p>Effective and secure operation requires that access is provided promptly for new starters to enable them to commence their duties without delay and similarly removing an individual's access to Council data when there is no longer a business need, e.g. through changed duties or leaving employment.</p> <p>The review will focus on providing assurance that the authority has appropriate arrangements in place to ensure that:</p> <ul style="list-style-type: none"> • Only authorised users are enrolled promptly onto the network. • The removal of access is undertaken without delay where access is no longer required (e.g. leaving employment).
Network Access Controls: Privileged Account Management	<p>Review to confirm that the allocation and use of privileged access rights is restricted and controlled.</p> <p>Inappropriate use of system administration privileges (any feature or facility of an information system that enables the user to override system or application controls) is a major contributory factor to failures or breaches of systems.</p>
Cloud Hosted Services	<p>The risks associated with Cloud are wide ranging and varied, and when</p>

	<p>auditing Cloud or considering the risks you are effectively assessing the whole range of IT risks because whole sections of IT operations are being outsourced to a third party. Often, in the race to migrate to the Cloud, insufficient consideration is given to the entirety of what is required to move to this new operating model. We propose to review recent instances of cloud/hosted services to establish the due diligence undertaken in arriving at the selected option and security deployed through that arrangement.</p>
Virus Protection/Anti-Malware	<p>Malicious software or malware is an umbrella term to cover any code or content that could have a malicious, undesirable impact on systems. Any exchange of information carries with it a degree of risk that malware might be exchanged, which could seriously impact your systems and services.</p> <p>The review will look to provide assurance that the risk associated with malware and viruses is mitigated through the use of appropriate security measures.</p>
PCI DSS Planning	<p>Short consultancy audit with discussions with ICT, Information Governance and Finance to understand the issues faced by each department along with expectations. This will feed into the full audit planned in 2022/23.</p>
Follow up Audits	<p>To follow up progress with management actions from Low or Limited audits completed in 2020/21</p>

2022/23 – Year Two

Audit Area	Indicative Scope
Patch Management	<p>Whilst software vendors make every effort to deliver error free code, this in practice is very difficult to achieve. Therefore patches are issued as errors are identified and corrected. Once a patch is released, then awareness of the vulnerability becomes known and attackers could seek to exploit this. Having an effective patch management operation helps ensure that identified errors are promptly resolved, incurring little or no inconvenience to the Council, and that systems are kept secure.</p> <p>The review will focus on the patching of the Council’s software to ensure that such software is kept up to date and safe against known exploits and in doing so will provide independent assurance that the patch management process is operating effectively.</p>
Asset Management: Software	<p>Following on from the review of Software Asset Management undertaken in 2020/21, this consultancy review will examine the management and funding of business applications within the Council.</p>
Physical and Environmental Security	<p>Review to confirm that the allocation and use of privileged access rights is restricted and controlled.</p> <p>Inappropriate use of system administration privileges (any feature or facility of an information system that enables the user to override system or application controls) is a major contributory factor to failures or breaches of systems.</p>
Programme Management	<p>The review will look to understand the design and operational</p>

	<p>effectiveness of the project management disciplines to help ensure the perceived benefits of projects are delivered and known weaknesses are addressed.</p>
PCI DSS	<p>PCI DSS is the Payment Card Industry Data Security Standard. This is a worldwide standard that was set up to help businesses process card payments securely and reduce card fraud. It does this through tight controls surrounding the storage, transmission and processing of cardholder data that businesses handle. PCI DSS is intended to protect sensitive cardholder data.</p> <p>This review will provide independent assurance that the Council is compliant with the PCI DSS standard.</p>
ICT Governance	<p>IT governance is the structure, oversight, responsibilities and management and decision making processes which ensure the IT infrastructure supports and enables the achievement of corporate strategies and objectives. It enables the delivery of the expected benefits of IT in a controlled way, to help enhance long term sustainable success.</p> <p>Good IT governance ensures that an organisation's investment in IT generates business value and mitigates IT associated risks.</p> <p>The review will provide assurance on the governance arrangements for the delivery of ICT within Lincolnshire County Council.</p>

2023/24 – Year Three

Audit Area	Indicative Scope
Cyber Security	<p>The National Cyber Security Centre (NCSC) has identified 10 steps for cyber security to help organisations manage cyber risks. The review will cover these 10 steps, albeit at a high level, with a view to confirming that appropriate consideration has been given to these areas.</p> <p>Cyber Security and data security has been one of the Institute of Internal Auditors (IIA) top three priority risks identified in their Risk in Focus publications over the past five years. It is documented as the number one priority risk for 2021, and this trend is expected to continue for the next three years.</p>
PSN Compliance	<p>The review will examine the progress being made to resolve issues that may be preventing the Council from demonstrating its compliance with PSN requirements. The review will also consider recent IT Health Check results and the Councils monitoring of progress in remediating any issues identified.</p> <p>It is possible by this point that PSN will no longer exist in its current iteration. In which case an alternative audit will be proposed.</p>
Active Directory	<p>Active Directory (AD) is a Microsoft Windows directory service that allows IT administrators to manage users, applications, data, and various other aspects of their organization’s network. Active Directory security is vital to protect user credentials, company systems, sensitive data, software applications, and more from unauthorized access. A</p>

	<p>security compromise of AD can essentially undermine the integrity of your identity management infrastructure, leading to potentially catastrophic levels of data leakage and/or system corruption/destruction.</p> <p>The audit will provide an objective and independent opinion on the adequacy and effectiveness of the control framework operating for Active Directory.</p>
<p>Network Infrastructure & Security</p>	<p>Review of the network architecture and design from a security perspective to determine whether adequate security mechanisms are in place and operating effectively.</p> <p>The planned review will encompass the design and configuration of key elements of IT infrastructure which protect access to data, plus the policy and procedures that provide guidance on how network security should be managed by both the IT department and users.</p>

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

Report to:	Audit Committee
Date:	14 June 2021
Subject:	Internal Audit Progress Report

Summary:

The purpose of this report is to:

- Provide details of the audit work completed to 30th April 2021.
- Advise on progress of the audit plan
- 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 16th February 2021 to 30th April 2021 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 via our tracker report
- Audit schedule
- Planned work

The outcome of our work shows some governance & risk issues – with 1 of our assurance opinions being low. This relates to:

- Implementation of Mosaic Finance

We have invited the Assistant Director - Corporate Transformation, Programmes & Performance to attend the Audit Committee to give an update to members on the low assurance reviews.

We have also issued 2 high assurance and 3 substantial assurance opinions, along with 3 pieces of consultation work.

We are making good progress towards completing the revised 2020-21 audit plan with 92% progress achieved. This year has been made more difficult by the on-going impact of Covid-19 and staff capacity issues within the team. We have had a number of sickness absences that we have had to manage. Recent positive developments in this area have been the recruitment of two Senior Auditors which will help to increase team numbers going forward.

We continue to utilise additional specialist resources to support the delivery of ICT audits and additional external resources have been contracted to help deliver the remaining audits in the plan, as well as the plan for 21/22.

As part of our regular follow up around implementation of recommendations from previous audits we have used our audit tracker report to monitor progress at 30 April 2021. We found that 75% of the actions have been completed, with 3% not yet due at this date. Management responses established that the remaining 22% have been deferred for a number of reasons.

There is one audit with outstanding actions for which we originally reported a Limited Assurance opinion:

- Cyber Security

There are 2 High risk actions still outstanding for the Cyber security audit. These relate to access to the network and Disaster Recovery. These now have completion dates of March 2022 and 2024 respectively. Both are reliant on the delivery of Microsoft Azure as the network moves towards Cloud based architecture. These have been previously explained by John Wickens, Assistant Director IMT and Enterprise Architecture to the Committee in the March 2021 meeting.

Appendix A – shows our Internal Audit Progress Report June 2021.

Consultation

a) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Internal Audit Progress Report

Background Papers

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

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

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Internal Audit Progress Report



Image Courtesy of iStock.com/UPPuzzle Club

Lincolnshire County Council June 2021

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- 1 Assurance Definitions
- 2 Tracker Report – all outstanding audit actions due 30/4/21
- 3 2020/21 Audits to date
- 4 Low / Limited assurance reports

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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 16th February 21 to 30th April 2021
- Give an update on outstanding management actions from previous audits
- 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:

- Bank Reconciliation
- Lincolnshire Fire & Rescue training records system

Substantial:

- Safeguarding children under council's care
- Spalding Western relief road follow up
- ICT Software Asset Management

Low:

- Implementation of Mosaic Finance

Consultancy:

- Transport Providers
- Business World Redesign & Risk Register review
- Transformation Programme

Audit reports at draft

We have 1 piece of audit work at draft report stage:

- General Ledger
- ICT Mobile Devices / Agile Working



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

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Key Messages

We continue to work on delivery of a number of audits from the revised 2020-21 audit plan. Audits are due to be completed and reported in the annual audit report to the July Audit Committee. Progress continues to be made difficult by the on-going impact of Covid-19 and staff capacity issues within the team. We have a number of sickness absences and have previously been unable to fill vacant auditor posts. However we are pleased to report that our latest adverts have led to the recruitment of two new senior auditors that will start with the team in June 2021.

To ensure we have sufficient auditor resource to deliver our audit plans we continue to utilise experienced external resources and will also be continuing to engage specialist resources for complex ICT audits. Based on these developments we are now looking to defer the recruitment of an apprentice until October 2021 and focus our talent management on the new members of staff.

Our work to provide advice and insight to the project to implement the Hoople Standard version of Business World continues. The assurance level reported has moved to Amber / Red. A number of issues have been encountered in completing the first cycle of payroll parallel runs. The reconciliation and checks being completed are appropriately and necessarily rigorous to ensure the Council's payroll will be correct. For a number of reasons this process is taking longer than planned and if this cannot be addressed, successful delivery by November is at risk. The project team is currently undertaking a review of the approach to identify ways to accelerate reconciliation, including additional resources, and build a plan to meet the go-live date. The Shareholder agreement has been agreed and is to be adopted by resolution of the existing shareholders. Work continues to finalise the supporting Service Level and On Boarding agreements.

We have one Low Assurance report included in our progress report this month. The Assistant Director – Transformation will be attending this Audit Committee to provide Members with an update on their Low Assurance report seen in appendix 4.

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2021/22 Audit Plan

We have developed our 2021/22 audit plan based on the assurances around critical activities, projects and risks gained as part of the Combined assurance process and with additional intelligence gathered from wider internal and external audit sources. We have consulted with Corporate and senior leadership teams to ensure that assurance in the plan is focused around the most important risks and priorities.

We operate a dynamic plan and do regularly liaise with senior management to ensure we capture the rapid changes to the risks and issues experienced by services and can adapt our plan accordingly.

In line with One Council approach we have also included more focus in the plan on corporate cross cutting areas to review, such as the Corporate Plan, Performance Management, Transformation Programme and Contract Management.

Details of our planned audits are included in a **separate paper** the Annual Plan.

We will also be continuing our development work around:

- Talent management & well-being activity within the team
- IT Audit Strategy
- Planning & preparing for our External Quality Assessment – due in March 2022

The plan also includes a number of IMT audits. Following assurance discussions with the Assistant Director, IMT & Enterprise Architecture we have compiled an IMT audit 'universe'. This gives us a three year plan and overview of IMT audits and helps us plan our resources and training to provide assurance.

This IMT document forms part of our annual plan papers and can be seen as Appendix E in that document.

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- Provide details of the audit work during the period 16th February 21 to 30th April 2021
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Outstanding Recommendations

As part of our regular follow up around implementation of recommendations from previous audits we have used our audit tracker report to monitor progress at 30 April 2021. We found that 75% of the actions have been completed, with 3% not yet due at this date. Management responses established that the remaining 22% have been deferred for a number of reasons.

There is one audit with outstanding actions for which we originally reported a Limited Assurance opinion:

- Cyber Security

There are 2 High risk actions still outstanding for the Cyber security audit. These relate to access to the network and Disaster Recovery. These now have completion dates of March 2022 and 2024 respectively. Both are reliant on the delivery of Microsoft Azure as the network moves towards Cloud based architecture. These have been previously explained by John Wickens, Assistant Director IMT and Enterprise Architecture to the Committee in the March 2021 meeting.

All outstanding actions will continue to be tracked and monitored with progress reported to the Audit Committee. Further details are found in the tracker report attached as Appendix 2.

High Assurance

Bank Reconciliation

We have carried out key control testing around the bank reconciliation process for Lincolnshire County Council's six bank accounts and also followed up the agreed actions from our previous review to confirm that they have progressed as intended.

Our review found that key controls have continued to operate effectively throughout the current financial year despite the team working from home since March 2020 due to the Coronavirus pandemic.

We are satisfied that key controls such as timely bank reconciliations, the investigation of unreconciled items, and the review of reconciliations continue to operate.

LFR Training Records System

In 2018, Lincolnshire Fire & Rescue Service (LFRS), was inspected by Her Majesty's Inspectorate of Constabulary & Fire & Rescue Services (HMICFRS). The inspectorate identified that LFRS "required improvement" to ensure that suitable operational training is provided, assessed and recorded accurately. To address this recommendation a new training records system was introduced.

We can provide a high level of assurance around the implementation and effectiveness of the Lincolnshire Fire & Rescue Service new training records system. The system was found to be comprehensive and enables all aspects of an individual's training and competency in all skills to be recorded and reported in one place. This ensures that the Fire and Rescue staff can now clearly demonstrate that they are fully trained in the core and specialised competencies required for them to perform their role of protecting the public of Lincolnshire.

Substantial Assurance

Safeguarding Children Under Council's Care

Our review found that robust safeguarding measures have been implemented by Children's Services and Corporately to mitigate the risks from the impact of Covid-19. These measures involved strengthening the governance and reporting processes and controls, adapting the operational processes and increasing the links with partner agencies.

Some issues have arisen as a result of Covid-19 which have impacted on the safeguarding of children under the council's care. Children's Services were unable to address these issues due to Covid-19 restrictions.

Spalding Western Relief Road Follow Up

In November 2019, Assurance Lincolnshire were asked to undertake a review on the progress of the Spalding Western Relief Road (SWRR) route options between 2012 and 2019. The aim of the review was to highlight any processes that could be improved to ensure future decision making was better captured and communicated. Following the review, a small number of recommendations were made including improvements for the sharing of information and knowledge on future schemes.

Our follow up review has confirmed that good progress has been made in addressing the actions arising from the previous audit. Governance and oversight of major schemes has been strengthened and the restructure of the Place directorate has enabled a more cohesive and joined up approach to decision making. Implementation of the Project Wise/Building Information modelling system will further enhance project management processes by providing a more effective way of storing and managing information.

Substantial Assurance

Software asset management (SAM) is a business practice that involves managing and optimising the purchase, deployment, maintenance, utilisation, and disposal of software applications within an organisation.

Our audit found that overall the Software Asset Management processes in place, as managed by Serco and overseen by the Council, appear to be largely effective. Good practice included clear management oversight over the SAM process, regular meetings between LCC and Serco to discuss any issues throughout the SAM process, and LCC identifying current and future licencing requirements through reporting.

Areas of improvement were identified around the follow up of a number of “in breach” licences identified and the clarity of roles and responsibilities in Service Level Agreements, and these findings will be followed up.

ICT Software Asset Management

Low Assurance

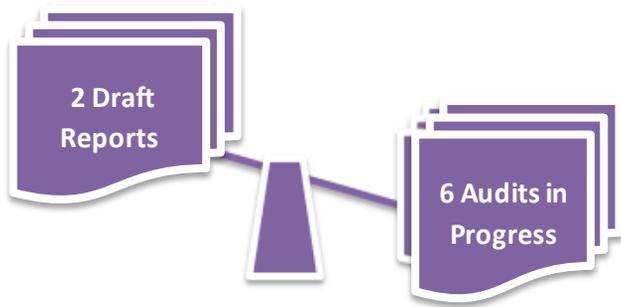
Implementation of Mosaic Finance

The project to deliver the financial elements of Mosaic has been running since December 2016. The intention is to replace legacy systems such as Abacus and Softbox and provide the financial functionality for Adults and Children's Services.

Our review found that expected governance and project management controls such as strong governance oversight, detailed project plans with agreed milestones, risk management and regular reporting were not formally evidenced. This included the lack of:

- Board Terms of Reference
- Project Initiation Documents
- Overarching programme plans
- Risk and issues logs
- Highlight reports and formal reporting

Further details can be seen in Appendix 4.



Audits in Progress

We have 6 audits at fieldwork stage:

- Accounts Payable
- Debtors
- Lincolnshire Fire & Rescue Expense payments
- Payroll
- ICT Privileged Account Management
- Property repairs and maintenance budgets

Other Significant Work

Grants

Audit and Counter Fraud supported our Finance Team colleagues by helping to check through the Covid-19 Business Grant applications that local business applied for in March. This involved checking through the forms and evidence to ensure that they were bonafide claims.

We have also continued to undertake work on the Delta Loss of Income grant to provide assurance to the Executive Director of Resources covering the period December 2020 to March 2021. We are waiting to hear from Finance colleagues if there will be a final sign off when it comes to an end.

Consultation Work

Transport Providers

We completed work for Transport that looked at the grants that were provided to Lincolnshire transport companies to support them through lockdown. We assessed the process that was followed, the documents that the firms signed up to and ensured that the money provided to the firms was given to the drivers and contractors as expected.

Some findings were identified around the process followed in the early stages of the process that have since been rectified. This report was shared with CLT.

Business World Redesign Risk Register

To supplement our work on the Business World Redesign project we examined the risk register being completed and maintained by the project team. We were pleased to see that a robust risk and issues register was in place, that it met the expectations in terms of the format and processes followed, and that risks were added and closed as the project progressed. The outcomes of our work were shared with the Project Board via an audit highlight report.



Transformation Programme

Audit continues to support the programme and remains a core member of the Steering Board. We have produced our first highlight report for the board.

The assurance is Green / Amber based on a successful launch of the programme and the approach taken to introduce a corporate programme aimed at supporting the whole Council.

We have made several recommendations around improving the levels of scrutiny and challenge applied to such a key programme.

The Council also need to be assured that governance structures and accountability are robust and provide the necessary structure to support delivery and question progress.

Business World Redesign

We continue to undertake assurance work with the BW project.

Progress with the first payroll parallel run has been slower than expected and is around 2 months behind plan. The approach to checks and reconciliation has been necessarily robust and delays have been due to a number of factors including quality and completeness of data in the legacy system, data mapping between systems, rate changes not notified to Hoople and the availability of experienced payroll resources to undertake investigation of differences. A review of approach is underway to present a revised plan in order to achieve the go-live date.

The 3rd round of data reconciliation has been successfully completed and lessons continue to be learnt is preparation for cutover to go-live. Focus is on plans to cleanse data in the current BW system to ensure it is as up to date as possible for migration. This presents challenges for payroll data due to historic practice and the build of our system. A plan is being agreed to deliver data cleanse before the next round of data reconciliation.

Integrated System testing was successfully completed and User Acceptance testing has been underway since the middle of April. This will confirm the system works as expected and begin to expose the system to a wider audience in the Council.

A testing strategy has been agreed and plans are being drafted to train staff on the new system. This will include appropriate staff in schools and Lincolnshire Fire & Rescue. The project team continues to work with staff within the business on change management in readiness for adopting the new system.





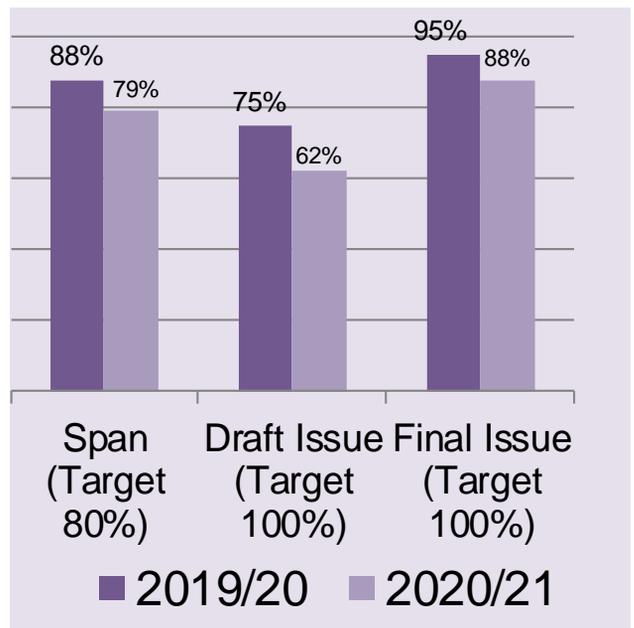
Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators

Positive feedback has been received

Revised Plan completed 92%

Improving achievement of Audit KPI's to date



Other Matters of Interest

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



Liverpool City Council: Best Value inspection report

The report sets out the detailed findings of the inspection including the inspector's conclusions, the evidence and methodology used, and proposals for the future. The report concluded :-

- There were major gaps in the documentary evidence to support the decisions and actions of the Council at both Member and Officer level.
- Compliance with the Council's Standing Orders, regulations and the overriding legislation was not part of the culture of the organisation .
- Failure to comply with the rules relating to Key Decisions, Scrutiny, Exempt reports and probity was evident. Processes were in place to ensure these matters can be drawn out, but there was no evidence that this was done.
- Officers drew attention to the risks and losses incurred by the Council but these were not always visible because of structures/resource limitations/reporting lines and in some cases these offices were not supported and exposed to aggressive challenge.
- Early steps have been taken to improve control and compliance and these are starting to have an impact. It is clear that there is insufficient resource at the top and in the corporate centre of the Council to drive changes and embed them Council wide.
- There is evidence that the failings reported in reviews of Nottingham City Council and London Borough of Croydon are reflected in what was noted in the Council's LATCO's .

The full report can be found at <https://www.gov.uk/government/publications/liverpool-city-council-best-value-inspection-report>



Grant Thornton

Lessons from recent Public Interest Reports

The pandemic has highlighted four essential factors about Local Government:-

1. Local government has provided fantastic support to its communities in working with the NHS and other partners.
2. The centralised approach to government has been exposed to some degree in terms of its agility to tailor pandemic responses to regional and local bodies.
3. Years of reduced funding have exposed underlying flaws in the local authority business model, with too much reliance on generating additional income.
4. Not all authorities exercise appropriate care with public money, exercise appropriate governance or have the capability of managing risk.

Local authorities have a variety of different governance models . Recent public interest cases have found that it is less about the system of governance and more about how it operates, who operates it and how willing they are to accept scrutiny and challenge.

Other Matters of Interest

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

The report discusses the three main areas where lessons can be learned through reports on the context of local government in a Covid-19 world, Governance, scrutiny and culture and Council leadership.

A number of recommendations are made:-

Councils are required to consider how they measure up against CIPFA 's new Financial Management Code

Councils are mindful of reserve levels at all times, maintaining a clear strategy for maintain g adequate reserves.

Internal Audit and risk assurance arrangements can be strengthened.

Greater focus on establishing a healthy management culture – starting with the tone from the top

Look for opportunities to learn fro the Council's past experience and that of others.

Council members should strive to work more collegiately, particularly for strategic decisions with implications that reach many years in the future.

The full document can be found provided on request.



The governance risk and resilience framework

The framework is designed to support individual council officers and councillors to play their part in understanding, and acting on, risks to good governance. It centres on an analytical framework which is designed to help councillors and officers to identify emerging risks to governance, and to tackle them proportionately. It is based on three stages:

- Anticipating – the framework supports councillors and officers (even if they aren't governance professionals) to observe and reflect on governance practice, through a set of characteristics and behaviours which are designed to give people a “common language” to talk about governance pressures;
- Managing – understanding and accepting where risks lie, and taking action to find solutions. The framework is designed to be bottom-up – to empower people other than senior managers to take active responsibility to find and implement solutions themselves. However, the support of people at the top of the organisation – and especially the principal statutory officers – is important;
- Adapting – learning from these experiences in the interests of continuous improvement.

It is envisaged councillors and officers use the framework to talk about their experiences with governance, with these insights – and concerns – being escalated to principal statutory officers in a council (the Chief Executive, the Monitoring Officer and the Chief Finance Officer) for review. In so doing, this insight can help councils to agree robust and accurate Annual Governance Statements.

The full framework can be found at <https://www.cfgs.org.uk/governancerisk/#link-seven>

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.

Tracker Report – all outstanding audit actions due 30/04/21

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Members Allowances Scheme	April 19	Substantial	6	5	0	1	0	0
	Discussion has confirmed that final action is part of the Business World rebuild which now has a deadline of Nov 2021.							
IR35	May 20	Limited	7	7	0	0	0	0
	All actions have now been completed							
Commercial Property Portfolio	Jan 20	Substantial	6	5	0	1	0	0
	Remaining action relates to update to procedure manual. At final review stage so expected to be completed end of May 2021.							
LFR Fleet Management	April 19	Limited	8	8	0	0	0	0
	All actions have now been completed							
LSAB Peer Review	Dec 19	High	2	0	0	2	0	0
	First draft of the Policy and Procedures is still under construction and expected to be completed by the end of July 2021. Awaiting Executive Board following this which is 07/09/2021 where the Policies and Procedures will go for full sign off. New deadline set for 08/09/2021							
Counter Fraud Arrangements	April 19	Substantial	6	3	0	3	0	0
	The policy has now been reviewed, updated and is currently in draft format. The aim is for a number of policies to be brought to audit committee in November 2021.							
Health and Safety	April 19	High	2	2	0	0	0	0
	All actions now completed.							
Tax Compliance	Jan 19	Limited	10	10	0	0	0	0
	All actions now completed							

Tracker Report – all outstanding audit actions due 30/04/21

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Financial Strategy and Budget Management	April 20	High	1	1	0	0	0	0
	All actions now completed							
IMT Asset Management Follow up	Jan 19	Substantial	1	0	0	1	0	0
	The procedure document has not been written for the outstanding finding. A new process has now superseded this and is currently being tested. This finding will be looked again in August 2021.							
Cyber Security	March 19	Limited	6	2	0	2	0	2
	There are 2 High risk actions still outstanding for the Cyber security audit. These relate to access to the network and Disaster Recovery. These now have completion dates of March 2022 and 2024 respectively. Both are reliant on the delivery of Microsoft Azure as the network moves towards Cloud based architecture.							
BW-Systems Administration Access	Aug 20	Substantial	2	1	0	1	0	0
	Change freeze on the existing system is in place whilst they are implementing the new Hoople BW system. Therefore cannot change the reporting function at this time. This finding will be looked at again in March 2022.							
Treasury Management and Investment Strategy	April 20	High	2	0	0	2	0	0
	Progress has been delayed due to focus on the closure of accounts. Additional cover staff have been identified and will be trained by September. The aim is also to update Treasury Management Practices (TMP) by the end of September, however this may be delayed as CIPFA is currently consulting on a new Treasury Code and this includes amendments to some of the TMPs.							
Total			59	44	0	13	0	2

Appendix 3 20/21 audits to date

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 work over the year
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	19/05/20	27/08/20	Completed High Assurance
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.	01/06/20	12/10/20	23/03/21	Completed consultancy report
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	02/01/21	28/01/21		Postponed at auditee request to 21/22
LCC 20/21-06 - Transformation	Support and advice to the project overseeing the future Transformation developments	01/04/20	01/04/20		Ongoing work over the year
LCC 20/21-08 – Carers Follow up	Follow up of the Audit work completed in 19/20	01/10/20	15/10/20	21/01/21	Completed High Assurance

Appendix 3 20/21 audits to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 20/21-09 – Blue Badge Grant	To ensure that Grant conditions have been met	01/04/20	28/04/20	25/06/20	Completed, confirmation letter sent to DfT
LCC 20/21-10 – Carers' Emergency Response Scheme	Support and advice to the project overseeing the future development in Carers Emergency Response system	26/04/20	03/06/20	18/06/20	Support and advice provided
LCC 20/21-11 – Public Health Personal Protective Equipment procurement	Consultancy work examining how the Council reacted and responded to the Government change in guidance around suitability of PPE in April.	18/05/20	18/05/20	01/06/20	Final consultancy report issued
LCC 20/21-12 – Bus Service Operators Grant	To confirm compliance with grant funding criteria	01/06/20	21/07/20	11/09/20	Completed and grant signed off
LCC 20/21-13 – Highways Grant	To confirm compliance with Grant funding criteria	01/06/20	01/08/20	28/09/20	Completed and grant signed off
LCC 20/21-14 – Troubled Families 1	Review and validation of periodic claims for the Troubled Families programme.	15/06/20	15/06/20	17/06/20	Completed. Highlight report issued.
LCC 20/21-16 – Implementation of Mosaic Finance	Review of the effectiveness of the Mosaic Finance System Project	24/06/20	24/06/20	08/03/21	Completed Low assurance
LCC 20/21-17 - Education Healthcare Plans	To assess the effectiveness of the processes and controls in place to support the councils completion of Education, Health and Care Needs Assessments.	12/08/20	25/9/20	22/12/20	Completed Substantial assurance

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Troubled Families 2	Review and validation of periodic claims for the Troubled Families programme.	22/09/20	25/09/20	25/09/20	Completed. Highlight report issued.
Loss of Income Grant (1)	Confirmation that the loss of income recorded by the Delta system in Q1-4 was correct.	14/09/20	14/09/20	30/09/20	Completed. Grant signed off.
Capital Programme	To provide assurance around the effectiveness of the governance and reporting arrangements for the Capital Programme to ensure that it delivers expected outcomes on time and within budget.	21/09/20	16/10/20	25/01/21	Completed. Substantial assurance
BW Redesign Risk Register	Consultation examination of the BW Redesign Risk Register to confirm that key risks are appropriately managed, assessed and monitored	05/10/20	05/10/20	15/03/21	Completed consultancy report
Loss of Income Grant (2)	Confirmation that the loss of income recorded by the Delta system in Q1-4 was correct.	17/12/20	17/12/20	21/12/20	Completed. Grant signed off.
Bank Reconciliation	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	11/11/20	08/01/21	12/04/21	Completed High assurance
Payroll	Annual audit required to provide assurance that appropriate controls are working effectively and compliance with policy and legislation is maintained.	16/11/20	19/01/21		Field work stage
Safeguarding Children	To gain assurance over the Children's Directorate's safeguarding response to Covid 19	12/12/20	14/12/20	22/03/21	Completed Substantial assurance
Troubled Families (3)	Review and validation of periodic claims for the Troubled Families programme.	14/12/20	16/12/20	05/01/21	Completed. Highlight report issued.

Appendix 3 20/21 audits to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Troubled Families (4)	Review and validation of periodic claims for the Troubled Families programme.	02/01/21	04/01/21	05/01/21	Completed. Highlight report issued.
Pensions Admin	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	06/01/21	06/01/21	04/02/21	Complete. Final report issued
ICT Mobile Devices / agile working	To assess the controls in place for preventing data loss via mobile devices and the management of mobile devices.	01/12/20	01/12/20		Draft report – limited assurance expected
ICT Software asset management	To review the arrangements LCC has in place over software asset Licencing.	01/12/20	01/12/20	22/04/21	Completed Substantial assurance
ICT Network Infrastructure	To assess the security controls in place around the network infrastructure, including network set-up and protection	01/12/20	01/12/20	12/02/21	Completed Limited assurance
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.	01/12/20	01/12/20	12/02/21	Completed Limited assurance
Accounts Payable	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	15/01/21	15/02/21		Fieldwork stage
Spalding Western Relief Road follow up	Assurance that all recommendations of the previous audit have been implemented and are embedded.	15/01/21	26/01/21	30/03/21	Completed Substantial assurance

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Debtors	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	15/2/21	30/1/21		Fieldwork stage
General ledger	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	15/02/21	15/02/21		Draft report – Substantial Assurance
LFR Training System	Provide independent assurance around the implementation and effectiveness of the new training records system	01/02/21	12/01/21	08/03/21	Completed High assurance
Transport Connect	Review of the Governance and oversight processes that are in place with Transport Connect	15/03/21	15/03/21		Fieldwork stage

IMPLEMENTATION OF MOSAIC FINANCE – LOW ASSURANCE

ISSUED MARCH 2021

Background and Context

With Mosaic going live in December 2016, LCC were advised by external consultants that to successfully go live with the finance functions they would need to have a period of dual running. The success of this was dependent on the system build being fit for purpose and stable, the migration of data from legacy systems needed to be accurate and clearly understood with solid business processes agreed and the workflow and forms within Mosaic needing to be fit for purpose. Unfortunately none of these were in place.

An Interim Mosaic Purchasing Team was formed in the summer of 2016 to support the implementation through data cleaning and record amendments. This has required a great deal of ongoing work since that time and has resulted in the go live for Mosaic Finance being significantly delayed.

A strategic decision was made in 2017 to take a phased approach concentrating on one service at a time. Much work was still required to ensure that data was accurate and the system was fit for purpose before the first service could go live. This took around 18 months before the system was at a stage where the first service could transfer to Mosaic. Five services are due to be added and the Community Supported Living went live in Jun 2019. Progress has been steadily made with Foster Care Direct Payments and Adult Direct Payments going live in 2020. The remaining two services have now been delayed further – Residential and Nursing with a target of August 2021, and the Homecare and Invoiced Services (which may be split) with a target of December 2021. If achieved the project will be completed over 5 years later than the original expected start date.

Scope

To gain assurance over:

- the progress made against the phased implementation plan for the Mosaic Finance system.
- the likely achievement of the remaining actions within the timescale.
- the areas of the project that have worked well so far.
- the lessons learnt and actions taken to address these lessons.

Executive Summary

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
Mosaic Finance project management is ineffective	High	4	0
Mosaic Finance project Governance arrangements are ineffective	High	1	2
Lessons learnt are not effectively identified and addressed	Medium	0	1
TOTAL		5	3

Mosaic was brought in to replace legacy systems such as Abacus and Softbox, providing the financial functionality for Adults and Children's Services. Following the intention to dual run Mosaic alongside the financial systems for 6 months, it was found that Mosaic was not fit for purpose. This led to time required to get it to a functional state and then start to activate and go live with financial modules one at a time, while still running legacy systems alongside.

An Interim Mosaic Purchasing Team (IMPT) was created through Business Support to facilitate this and the cost of that was estimated at £313,000 for 2018/19 to 2020/21 as reported to CLT in June 2020. This therefore became a major and high profile strategic project for the Authority, and has led to significant levels of staff resource (internal and external) and funding to maintain.

For a project to be run efficiently and effectively, delivering the desired outcomes on time and within budget, key governance and monitoring processes and controls need to be in place. Elements such as strong governance oversight, detailed project plans with agreed milestones, risk management and regular reporting ensure there is a shared vision and clear accountability around delivery. Through our discussions and review of the documentation made available we determined that many of these controls were not formally evidenced within the project to implement Mosaic finance. On this basis we are reporting a Low Assurance opinion.

Governance

Mosaic Finance is a major strategic project for the Council affecting over £220 million worth of care purchasing payments per annum. To support the successful delivery we would expect there to be ownership and oversight of the project at a strategic level. This is not in place and the project lacks effective corporate scrutiny and oversight that a multi directorate project of this size needs. We recommend that the project is raised to a corporate standard and receives improved strategic governance and scrutiny similar to the robust reporting mechanisms found in the Transformation programme.

The core membership of the mosaic finance board is made up of the Head of Corporate Systems and the Mosaic Finance Officer who in an effort to drive this project forward have assumed the roles of project sponsor and project manager, along with stakeholders from LCC and Serco Finance. While discussion has confirmed that the Board is well attended by those stakeholders, the delays in delivery and lack of fundamental project documentation means that we are unable to conclude that this has been effectively able to hold the project to account. The project sponsor and project manager roles should be formally recognised as should the roles and responsibilities of all members of the board.

We also noted the following;

- Board Terms of Reference – there was no evidence of a written TOR. There is a lack of clarity on the roles and responsibilities of members and the function of the Board and how it will operate. This could lead to potential delays to project completion as well as a lack of scrutiny.
- Business case – whilst there was a business case for the original project to implement Mosaic, no details have been provided around a specific business case for the finance element. If there is no justification through funding, rationale, evaluation of benefits realisation and post implementation review, then there is nothing to support the decision to commence a project and a lack of direction for the project sponsor.
- Fundamental elements / tools of project management – there appears to be no overarching detailed programme plan or individual project plans against which the board can measure and challenge delivery. If clear milestones and robust scrutiny are not in place then a project can drift and be delayed.
- Formal minutes of the Board – whilst there is evidence that the board meetings are minuted and actions required are clearly recorded there was no record of the outcomes of those actions. We have not seen minutes that document discussion on deliverables / progress / issues and decisions. Again this can lead to project delays if expected actions are not completed on time.

Project management arrangements

Our discussions and requests for project information have determined that the fundamental tools to manage the phased programme to implement the finance element of Mosaic are not yet in place. We have established that the project appears to not have:

- a programme / project implementation document (PID) that sets out the scope of the project, including its objectives, deliverables, governance arrangements, reporting, costs and risks
- an overarching programme plan setting out the phases of implementation, key deliverables, resources and milestones for delivery. Similarly there appear to be no individual project plans in place for the separate elements of the finance module (since

- the audit began a plan has been developed for the Adult Care Direct payments element).
- a risk and issues register and risk management arrangements where risks are regularly reviewed, updated and reported to the Board
 - formal project highlight reports setting out progress against the delivery plan, activities completed, any issues and problems encountered and decisions required. This should be shared with the Board for scrutiny and discussion at each meeting.
 - regular reporting on progress to Senior Management, with issues and delays escalated.
 - a lessons learned report / log that is completed as each stage of implementation is finished to inform the remainder of the project.

We understand that the project has had three project managers and four sponsors since it began which has hindered consistent delivery. This situation reinforces the importance of having robust project management arrangements in place to support handover of responsibility.

Since 2017 when the decision was taken to implement Mosaic finance on a phased basis there are factors that have impacted on the ability to progress that have been outside the control of the team, including:

- updates being required to Abacus and Mosaic systems before payments could be transferred
- the move to Hoople affecting the transfer of residential & nursing payments
- the decision on methods of collecting client contributions

Progress will now be further delayed due to the impact of the Covid-19 pandemic on the supplier of the Provider Portal which is integral to the go live of Homecare payments. The project completion date is now expected to be Dec 2021, a 9 month additional delay.

If the new completion date is to be met, it is essential that governance arrangements are strengthened and the fundamentals of project management put in place. Management should consider whether additions need to be made to the Board to support scrutiny and challenge.

Project documentation should include a detailed plan, with agreed milestones for the remainder of implementation, regular formal highlight reports utilising the standard LCC report, a risk, issues and decision log, and formal meeting minutes with agreed actions.

We would like to thank everyone who provided us with the supporting documents we requested and who took the time to talk to us during this audit.

Managers Response

I welcome the feedback in this report and understand the importance in formalising a number of the processes that haven't been previously. The Mosaic Finance project was handed over to me a couple of years ago when I took on a more senior role within the Mosaic Development and Support service. I was unaware that some of the necessary project elements had not been established to begin with when the planning for Mosaic Finance commenced in 2017.

Over the last couple of years, once a vast amount of remedial and preparatory Mosaic Finance work had taken place, a number of Mosaic Finance elements have successfully gone live. Key stakeholders have always been involved throughout, via attendance at the monthly Board meetings. Also Adults and Children's senior managers have been engaged with to agree time scales, secure support from teams and to be updated on progress.

It has to be noted that in the last 12 months, the scope and remit of Mosaic finance has broadened into what is now a much larger interdependent programme of finance changes, of which Mosaic Finance is only one part. Continued success of all finance projects will be managed through the Finance Board with an improved set of project tools to support it.

By now using the measures highlighted in this report there will be much more structure and clarity to the projects process. In fact some of the agreed actions put forward were already under way before the report was completed, or have already started to be put in place over the last couple of months. I'm positive that when I attend the Audit Committee in June that solid progress will have been made and in many cases, full resolution of the actions will be evidenced.

Miles Winterburn
Head of Corporate Systems

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

Report to:	Audit Committee
Date:	14 June 2021
Subject:	CIPFA Financial Management (FM) Code

Summary:

The Chartered Institute of Public Finance and Accountancy (CIPFA) has published its Financial Management (FM) Code to provide guidance for good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

The first full year of compliance with the FM code is 2021/22, however, recognising the challenges currently being experienced due to the Covid-19 pandemic a proportionate approach is encouraged with adherence to some parts of the Code demonstrating a direction of travel.

An assessment has been undertaken against the FM Code standards and actions have been identified in line with the CIPFA requirements.

A new Code of Audit Practice came into force in April 2020 which included strengthening arrangements around Value for Money reporting by our External Auditors. An assessment has been undertaken for our Auditor's to support this work.

Recommendation(s):

That Audit Committee note the requirements set out in the CIPFA FM Code, and the assessment undertaken to evaluate the Council against the standards within the code.

The committee reviews the evidence identified against the standards within the code and considers the compliance against the code and any outstanding actions required to evidence full compliance.

That the Audit Committee note the change in VFM reporting requirements - reviewing the evidence identified against the questions raised by our External Auditors.

Background

The Chartered Institute of Public Finance and Accountancy (CIPFA) has introduced the Financial management (FM) Code, recognising that good financial management is an essential element of good governance and longer term service planning, factors which are critical in ensuring that local service provision is sustainable.

CIPFA also states the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future.

Local government finance in the UK has been governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, was not supported by a professional code.

CIPFA have now introduced the FM Code which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority;
- manage financial resilience to meet unforeseen demands on services; and
- manage unexpected shocks in their financial circumstances.

The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. This code incorporates their existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.

The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable. The six principles of good financial management are:

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.

- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

Each local authority must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team.

The FM Code was launched during 2019, with a shadow year expected during 2020/21, with a compliance requirement from 2021/22.

The COVID-19 crisis has seen local authorities placed under extreme pressure to respond to the needs of their communities by providing services and support to an unprecedented extent.

CIPFA considers good financial management to be even more essential during the current challenge, but acknowledges the additional extraordinary burdens being faced by Local Authorities. Reflecting on these pressures CIPFA has concluded that while the first full year of compliance with the FM Code can remain as 2021/2022, it can do so within a more flexible framework where a proportionate approach is encouraged. In practice this is likely to mean that adherence to some parts of the Code will demonstrate a direction of travel.

Appendix A sets out the assessment we have undertaken to evidence our current compliance with the FM Code and any actions required. The summary table below identifies where we have assessed further action can be implemented to support our evidence with the standard.

CIPFA Financial Management Code Standards

A	The leadership team is able to demonstrate that the services provided by LCC provide value for money.	No Action
B	LCC complies with the CIPFA <i>Statement on the Role of the Chief Finance Officer in Local Government</i> .	No action but improvement identified
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	No action but improvement identified
D	LCC applies the CIPFA/ SOLACE <i>Delivering Good Governance in Local Government: Framework</i> (2016).	No action but improvement identified

E	The financial management style of LCC supports financial sustainability	No action but improvement identified
F	LCC has carried out a credible and transparent financial resilience assessment.	No action but improvement identified
G	LCC understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	Action required
H	LCC complies with the CIPFA <i>Prudential Code for Capital Finance in Local Authorities</i> .	No Action
I	LCC has a rolling multi-year medium-term financial plan consistent with sustainable service plans.	No action but improvement identified
J	LCC complies with its statutory obligations in respect of the budget setting process.	No Action
K	The budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.	No Action
L	LCC has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.	Action required
M	LCC uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	Action required
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	No action but improvement identified
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability	Action required
P	The Chief Finance Officer has personal and statutory responsibility for ensuring that the statement of accounts produced by LCC complies with the reporting requirements of the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i>	No Action
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions	No Action

Key themes for improvements identified:-

- Longer term financial planning, with clear links to the corporate plan, service performance, asset management strategies and capital investment.
- Clear methodology for options appraisal, to support decision making with full consideration of value for money.
- More transparency of our financial resilience assessment, including management of risks, and key areas of risk in our balance sheet (e.g. debtors).

- Continued improvement in our reporting particularly of our MTFP assumptions and LCC Companies.
- Improved stakeholder engagement.
- Continued development of financial literacy in the organisation, and skills in the finance team, supporting an enabling financial management style.

Value for Money Arrangements

A new Code of Audit Practice came into force in April 2020 – with supporting guidance issued by the National Audit Office in October 2020. This aims to provide more meaningful and accessible annual reporting on the Council's Value for Money arrangements – giving sharper focus on reporting in key areas of financial sustainability, governance and improving economy, efficiency and effectiveness. The outcome of this work will be published as part of the External Auditor's Annual Report for 2020/21 reporting period.

We have completed a self-assessment for our Auditor's – Mazars to support this work – see Appendix B.

Conclusion

The CIPFA FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

Compliance with the code is required from 2021/22, but due to the pressures relating to the Covid-19 response CIPFA has encouraged a proportionate approach to be taken and recognises in practice this is likely to mean that adherence to some parts of the Code will demonstrate a direction of travel.

An assessment against the requirements of the FM Code has been undertaken, with evidence of compliance detailed in the report along with further actions required.

An assessment has been undertaken to help support the Auditor's work on our VFM arrangements – ensuring compliance with the new Code of Audit Practice which is required from 2020/21.

Consultation

a) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	The Council's assessment against the FM Code standards
Appendix B	The Council's assessment against the VFM questions raised by our External Auditor's

Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
The CIPFA Financial Management Code	https://www.cipfa.org/policy-and-guidance/publications/f/financial-management-code#:~:text=The%20Financial%20Management%20Code%20(FM,as%20part%20of%20a%20package
NAO guidance - work on value for money arrangements - new Code	Resources

This report was written by Michelle Grady, who can be contacted on 01522 553235 or Michelle.Grady@Lincolnshire.gov.uk.

FM Standard ref	Financial Management Standard	Page of the code	Key Questions – from FM Code guidance	Assessment Evidence and any further actions
Section 1: The responsibilities of the Chief Finance Officer and the leadership team				
A	The leadership team is able to demonstrate that the services provided by LCC provide value for money.	17/18	<p>Does the authority have a clear and consistent understanding of what value for money means to it and to its leadership team?</p> <p>Does the authority have suitable mechanisms in place to promote value for money at a corporate level and at the level of individual services?</p> <p>Is the authority able to demonstrate the action that it has taken to promote value for money and what it has achieved</p>	<p>The Council's Constitution explains how the Council operates and makes decisions efficiently and effectively. Key Officers include; Chief Finance Officer (CFO), Head of Paid Service and Monitoring Officer – Their job description and profiles identify their responsibilities.</p> <p>The authority has a clear governance structure, with well-defined roles for all members of the leadership team.</p> <p>The constitution includes contract regulations with supporting guidance documents. These include arrangements for ensuring that goods and services are procured in an economic manner.</p> <p>The authority's activities are subject to appropriate levels of scrutiny by scrutiny committees for each major service area and an overview and scrutiny board</p> <p>The authority has in place detailed plans and strategies for the delivery of its principal services, which are consistent with the achievement of the objectives in the corporate plan. The authority also has in place an annual budget, setting out how the delivery of these services will be funded. The Council reports internally to its leadership team on financial performance against the annual budget.</p> <p>The external auditor confirms, as part of their annual audit opinion, whether the authority has in place suitable arrangements to secure value for money.</p> <p>External auditors have issued an unqualified VFM conclusion</p> <p>The council underwent a peer challenge review in 2019, and progress on actions following this has been reported in the Annual Governance Statement (AGS).</p> <p>All decision reports include a section on Equality Impact Assessment. To ensure that they do not – deliberately or inadvertently – discriminate against certain groups or individuals, especially those that are disadvantaged or vulnerable. They also include Resources Comments to highlight that the decision can be met from the approved budget and demonstrate VFM.</p> <p>A new Code of Audit Practice came into force in April 2020 – with supporting guidance issued by the National Audit Office in</p>

				<p>October 2020. This aims to provide more meaningful and accessible annual reporting on the Council's Value for Money arrangements – giving sharper focus on reporting in key areas of financial sustainability, governance and improving economy, efficiency and effectiveness. The outcome of this work will be published as part of the External Auditor's Annual Report for 2020/21 reporting period.</p> <p>We have completed a self-assessment for our Auditor's – Mazars to support this work. The Auditor's Annual Report is expected by December 2021.</p> <p>Assessment - Green <u>Further Improvements / Actions</u> – None</p>
B	LCC complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	18/19	<p>Is the authority's CFO a key member of the leadership team, involved in, and able to bring influence to bear on, all material business decisions?</p> <p>Does the CFO lead and champion the promotion and delivery of good financial management across the authority?</p> <p>Is the CFO suitably qualified and experienced?</p> <p>Is the finance team suitably resourced and fit for purpose?</p>	<p>The CFO - The Executive Director of Resources, is a key member of the Corporate Leadership Team (CLT), therefore is integral to all material business decisions. These include a 'One Council' approach to priority areas for the Council such as the Corporate Plan the Transformation Programme and our People Strategy.</p> <p>The CFO sponsors the regular budget monitoring reports reviewed by CLT keeping financial management a priority for the Council. The financial position of the council is always promoted at whole council staff briefings and senior leadership events.</p> <p>The CFO has led on the development of the Council's Medium Term Financial Strategy, and Capital Strategy and is a member of the officer Capital Review Group, providing support and challenge to the Council's project leads.</p> <p>The Council has access to and calls upon specialist professional advice in areas of treasury investment and taxation.</p> <p>The CFO is a qualified member of CIPFA, with prior experience as a CFO and undertakes continuing professional development (CPD) as required by his professional accounting body.</p> <p>The Finance Team is suitably resourced with appropriately qualified staff and is fit for purpose. We have a number of accounting apprentice roles to support future succession planning of the team. We regularly hold whole team CPD activities, to ensure the professional knowledge of the team remains up to date, which has continued virtually whilst the team have been working from home.</p>

				<p>Assessment - Green</p> <p><u>Further Improvements / Actions</u> – continue to develop the skills required to future proof and enable the finance team to support the council in line with the requirements of this FM Code. In particular around Business Partnering and to be an enabling service supporting VFM.</p>
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Section 2: Governance and Financial Management Style				
FM Standard ref	Financial Management Standard	Page of the code	Key Questions – from FM Code guidance	Assessment Evidence and any further actions
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	22	<p>Does the leadership team espouse the Nolan principles?</p> <p>Does the authority have in place a clear framework for governance and internal control?</p> <p>Has the leadership put in place effective arrangements for assurance, internal audit and internal accountability?</p> <p>Does the leadership team espouse high standards of governance and internal control?</p> <p>Does the leadership team nurture a culture of effective governance and robust internal control across the authority?</p>	<p>The Leadership team exhibit the Nolan principles which are, Selflessness, integrity, objectivity, accountability, openness, honesty and leadership. These are also set out in the Codes of Conduct and all new employees are made aware of this as part of their induction process.</p> <p>The authority maintains an up to date register of interests for all members of the leadership team.</p> <p>The authority has a clear framework for governance, internal control and decision making within its constitution, which includes the councils Financial Regulations and Contract Regulations. These are also supported by Financial Procedures and Contract and procurement procedure rules.</p> <p>The council has an effective audit committee in place that discharges its role in accordance with good practice. It accounts for its performance to the Council each December. The committee has independent members as well as elected councillors. The Terms of Reference for the committee are set out in the constitution, which states the role as being</p> <p><i>It provides independent review of Lincolnshire County Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.</i></p> <p>The leadership engage fully in high standards of governance and internal control collaborating to report on the combined assurance of the authority. Head of Internal Audit & Risk opinion assessed the governance, risk and control environment as 'performing adequately'. Financial Control is</p>

				<p>likely to be 'some improvement' needed.</p> <p>The Centre for Governance and Scrutiny issued a 'Governance risk and resilience framework' in March 2021. This is designed to support understanding, and acting on, risks to good governance.</p> <p>Assessment - Green</p> <p><u>Further Improvements / Actions –</u></p> <p>Assess our governance arrangements against the new 'Governance Risk and Resilience Framework'.</p> <p>Implement improvement action identified in the AGS - 2021</p>
D	LCC applies the CIPFA/ SOLACE <i>Delivering Good Governance in Local Government: Framework (2016)</i> .	22	<p>Has the authority sought to apply the principles, behaviour and actions set out in the framework to its own governance arrangements?</p> <p>Does the authority have in place a suitable local code of governance?</p> <p>Does the authority have a robust assurance process to support its AGS?</p>	<p>The council's Annual Governance Statement (AGS) sets out the principles of 'delivering good governance' and sets out how we have demonstrated them for the year. The AGS is reviewed and challenged by the audit committee.</p> <p>The audit committee is a key component of our corporate governance as it provides an independent and high level focus on the arrangements that underpin good governance and financial standards.</p> <p>The audit committee includes independent members and their effectiveness is reviewed each year and reported to Council.</p> <p>The authority has a robust process in place for the leadership team to provide assurance to support the AGS.</p> <p>The Head of Internal Audit works proactively with the audit committee to review 'lessons learned' from other LA's to review our own process of governance and assurance.</p> <p>Our Internal Audit Team assess their compliance against the Public Sector Internal Audit Standards. An External Quality Assessment is planned in January 2022.</p> <p>The Head of Internal Audit has completed a self-assessment against the CIPFA role requirements.</p> <p>Assessment - Green</p> <p><u>Further Improvements / Actions –</u></p> <p>External Quality Assessment of our Internal Audit function.</p>
E	The financial management style of LCC supports financial	22/23	Does the authority have in place an effective framework of financial accountability?	The Council has an effective framework of financial accountability. Our Financial Regulations and procedures are part of the constitution and set out financial decision

	<p>sustainability</p>		<p>Is the authority committed to continuous improvement in terms of the economy, efficiency, effectiveness and equity of its services?</p> <p>Does the authority's finance team have appropriate input into the development of strategic and operational plans?</p> <p>Do managers across the authority possess sufficient financial literacy to deliver services cost-effectively and to be held accountable for doing so?</p> <p>Has the authority sought an external view on its financial style, for example through a process of peer review?</p> <p>Do individuals with governance and financial management responsibilities have suitable delegated powers and appropriate skills and training to fulfil these responsibilities?</p>	<p>requirements.</p> <p>Financial Procedures set out officer responsibilities. Schemes of Authorisation set out delegation of financial responsibility.</p> <p>Appropriate authorisations are built into our systems and processes.</p> <p>The control environment is reviewed regularly by Internal Audit.</p> <p>The finance team provide support and training to officers with delegated financial responsibility and e-learning is also available to support financial literacy.</p> <p>All budget codes have clear ownership and accountability which is reflected in our reporting.</p> <p>Regular budget monitoring reports are provided to the council's leadership team and members and financial sustainability and emerging risks are commented upon as part of this reporting.</p> <p>Performance measures are also reported regularly.</p> <p>The finance team are aligned to specific service areas, to ensure service knowledge is obtained to support service developments and continuous improvement. The team are looking at ways that they can further support the financial management style of the council, enabling transformation and service delivery.</p> <p>The finance team support ad hoc service reviews to ensure services remain relevant and sustainable. There are also a number of reviews being undertaken as part of the Transformation Programme.</p> <p>The authority held a peer challenge review in 2019, and recommendations were made and have been enacted upon, these include the development of our MTFS, more frequent and informative reporting and a review process for capital programme spend.</p> <p>Budget Management and Financial Resilience are included in the Internal Audit Plan 2021/2.</p> <p>Assessment - Green</p> <p><u>Further Improvements / Actions</u> – continuous improvement for financial skills, to move to a mature financial management style. Monitoring completion of financial literacy training.</p>
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				Look at a more systematic approach to areas of service for review to ensure financial sustainability.
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Section 3: Long to medium-term financial management

FM Standard ref	Financial Management Standard	Page of the code	Key Questions – from FM Code guidance	Assessment Evidence and any further actions
F	LCC has carried out a credible and transparent financial resilience assessment.	26	<p>Has the authority undertaken a financial resilience assessment?</p> <p>Has the assessment tested the resilience of the authority's financial plans to a broad range of alternative scenarios?</p> <p>Has the authority taken appropriate action to address any risks identified as part of the assessment?</p>	<p>The MTFS includes prudent assumptions in relation to funding and savings are not included unless they are clearly identified and deliverable.</p> <p>In working up our MTFS worst, medium, best case scenarios are considered in arriving at a prudent plan for the medium term. As the government have only published one year settlements for the last couple of years, our MTFS has been published at a time when the forecasts for the forthcoming year are fairly certain (i.e. in conjunction with the one year budget). In future we would like to publish our MTFS earlier in the year, at which point it would be beneficial to include the scenarios we have modelled to give a range of risk in our longer term forecasts.</p> <p>We need to review and update appropriately our risk management tools and support to bring out emerging risks to financial sustainability, risks associated with strategic partners, etc.</p> <p>Our regular budget monitoring reports to CLT and members include a review of the impact on financial resilience of the financial position reported and emerging risks.</p> <p>The CIPFA resilience index has been reviewed and considered by Audit Committee the index is used as an analytical tool for a range of measures associated with risk, which points to the Council being financially sustainable.</p> <p>Risks and mitigating actions are reviewed and considered as part of the S151 Officer Robustness statement of the budget set for the upcoming year and the levels of reserves supporting financial resilience.</p> <p>Service areas of risk are prioritised in the councils</p>

				<p>transformation programme.</p> <p>Assessment - Green</p> <p><u>Further Improvements / Actions</u> – To bring forward our publishing of the MTFS for 2022 and to include the range of positions forecast from a number of scenarios (i.e. including best and worst case risks).</p> <p>Review risk management toolkit and training materials to support emerging risks around financial sustainability etc.</p> <p>Commission an external review of financial resilience.</p>
G	LCC understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	26	<p>Does the authority have a sufficiently robust understanding of the risks to its financial sustainability?</p> <p>Does the authority have a strategic plan and long-term financial strategy that adequately address these risks?</p> <p>Has the authority sought to understand the impact on its future financial sustainability of the strategic, operational and financial challenges that it might face (e.g. using a technique such as scenario planning)?</p> <p>Has the authority reported effectively to the leadership team and to members its prospects for long-term financial sustainability, the associated risks and the impact of these for short and medium-term decision making?</p>	<p>The published MTFS considers risks to financial sustainability; the plan currently covers three years looking forward. Scenario modelling is completed based on worst, mid-point and best case scenarios (although mid-point is the version published).</p> <p>We had been hopeful that a review of Local Government funding would have been completed to enable a longer term strategy to be developed, however, given the uncertainty of the delivery of this review – it would be prudent to develop a longer term strategy to encompass the ambitions set out in the councils Corporate plan.</p> <p>The council operates a robust budget setting process which engages service managers to fully understand the short term and on-going risks to our costs and budgets, to build these into our financial forecast for the medium term. This is reviewed and addressed in the S151 statement of robustness of the budgets and adequacy of reserves, presented to Council alongside the budget each February.</p> <p>Assessment - Amber</p> <p><u>Further Improvements / Actions</u> – development of a longer term financial strategy to demonstrate robust approach to financial sustainability and alignment with our Corporate plan and budget.</p>
H	LCC complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	26/27	<p>Has the authority prepared a suitable capital strategy?</p> <p>Has the authority set prudential indicators in line with the Prudential Code?</p> <p>Does the authority have in place suitable</p>	<p>The Council complies with the CIPFA Prudential Code.</p> <p>The CIPFA Prudential Code requires councils to ensure that capital spending plans are affordable, sustainable and prudent.</p> <p>Our capital strategy is approved with our budget each year</p>

			<p>mechanisms for monitoring its performance against the prudential indicators that it has set?</p>	<p>and supports a ten year rolling capital programme. The strategy sets out the key principles and objectives of our capital spending to support decision making and ensure the programme is affordable over the longer term.</p> <p>In line with the code, the Council sets Prudential Indicators and has monitoring procedures to ensure that the authority stays within authorised limits. All prudential indicators are included in the Council's budget book (appendix N) for approval each year.</p> <p>Treasury Management performance (including prudential indicators) is reported quarterly to OSMB and any breaches are reported to the CFO and OSMB every quarter and at year end in the Review of Financial Performance.</p> <p>Assessment - Green</p> <p><u>Further Improvements / Actions</u> – None</p>
<p>I</p>	<p>LCC has a rolling multi-year medium-term financial plan consistent with sustainable service plans.</p>	<p>27</p>	<p>Does the authority have in place an agreed medium-term financial plan?</p> <p>Is the medium-term financial plan consistent with and integrated into relevant service plans and its capital strategy?</p> <p>Has the medium-term financial plan been prepared on the basis of a robust assessment of relevant drivers of cost and demand?</p> <p>Has the medium-term financial plan been tested for resilience against realistic potential variations in key drivers of cost and demand?</p> <p>Does the authority have in place a suitable asset management plan that seeks to ensure that its property, plant and equipment including infrastructure assets contribute effectively to the delivery of services and to the achievement of the authority's strategic aims?</p>	<p>The council has a rolling multi-year Medium Term Financial Plan (MTFP), which is included in the MTFS and approved with the budget. The plan is updated each year to take account of changes to funding expectations, and reflect service delivery plan requirements.</p> <p>The MTFP incorporates all cost pressures and savings identified as part of a robust setting process and these are set out in the detailed budget for the year. The executive directors and service managers are fully engaged in this process to ensure service budgets reflect an expected level of activity and spend and to ensure the capital programme is consistent with the capital strategy and incorporates the relevant revenue impact.</p> <p>Cost drivers and demand are considered as part of the budget setting process, and are being prioritised as part of the councils transformation programme.</p> <p>Our MTFP is supported by assumptions about a number of factors affecting the budget, and we model scenarios based on differing levels of risk for each major assumption: high risk; medium risk and low risk.</p> <p>Savings targets are only included in the approved budget if there is confidence in their delivery. Delivery of savings is monitored in our quarterly monitoring reports.</p> <p>Executive Directors lead the development of their service</p>

				<p>budgets, which form the basis of cost pressures and savings included in the MTFP.</p> <p>Our capital strategy clearly sets out that our capital programme spend will need to support the delivery of services or the achievement of the ambitions with in the council's corporate plan.</p> <p>Assessment - Green</p> <p><u>Further Improvements / Actions –</u></p> <p>To ensure our capital programme clearly aligns with the corporate plan and asset strategies, particularly as part of the budget setting process.</p> <p>The council has individual asset management strategies, but these need bringing together with one overarching strategy to prioritise and support spending decisions.</p> <p>Budget proposals need to align with service performance.</p>
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Section 4: The Annual Budget				
FM Standard ref	Financial Management Standard	Page of the code	Key Questions – from FM Code guidance	Assessment Evidence and any further actions
J	LCC complies with its statutory obligations in respect of the budget setting process.	29	<p>Is the authority aware of its statutory obligations in respect of the budget-setting process?</p> <p>Has the authority set a balanced budget for the current year?</p> <p>Is the authority aware of the circumstances under which it should issue a Section 114 notice and how it would go about doing so?</p>	<p>The council complies with the statutory requirements on budget and Council Tax setting. We publish our budget on the Council website and work with our District Council's to produce the required council tax information within the required timescales.</p> <p>The council has set a balanced budget for the current year, with all savings identified. We take a blended approach each year in a mix of balancing the budget through savings and efficiencies and use of earmarked reserves.</p> <p>We engage with key stakeholders when setting the annual budget. We consult via county news and our website. We invite key partners and stakeholders to a budget consultation meeting and the budget is scrutinised by the relevant scrutiny committee members.</p> <p>The CFO is aware of circumstances of S114 notice and has had experience of the process from a former role.</p>

				<p>Assessment - Green</p> <p><u>Further Improvements / Actions</u> – none</p>
K	<p>The budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.</p>	29/30	<p>Does the authority's most recent budget report include a statement by the CFO on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves?</p> <p>Does this report accurately identify and consider the most significant estimates used to prepare the budget, the potential for these estimates being incorrect and the impact should this be the case?</p> <p>Does the report set out the current level of the authority's reserves, whether these are sufficient to ensure the authority's ongoing financial sustainability and the action that the authority is to take to address any shortfall?</p> <p>Does the authority have sufficient reserves to ensure its financial sustainability for the foreseeable future?</p>	<p>In line with Section 25 of the Local Government Act, the budget report includes a statement by the Section 151 Officer (the CFO) on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.</p> <p>The CFO requires each Executive Director area to complete their own robustness statement confirming the adequacy of their budgets to deliver the services expected, to highlight any risk or volatility in their budgets, to confirm the expected delivery of savings incorporated and to give assurance that appropriate measures in place to manage these budgets.</p> <p>The CFO reviews all of these statements, the estimates included in the budgets and potential risks and mitigations. This is reflected in the report along with details of contingency budgets and general reserves available to manage any unexpected costs not budgeted for.</p> <p>The Council currently has sufficient reserves, which ensures its sustainability for the foreseeable future. The additional costs of responding to the Covid-19 pandemic, have in the main, been met by additional government grants, but consideration will need to be given to the longer term impact on our costs and levels of reserves to support this.</p> <p>Assessment - Green</p> <p><u>Further Improvements / Actions</u> – None</p>

Section 5: Stakeholder engagement and Business Plans				
FM Standard ref	Financial Management Standard	Page of the code	Key Questions – from FM Code guidance	Assessment Evidence and any further actions
L	LCC has engaged where	31	How has the authority sought to engage with key stakeholders in developing its long-term financial	The Council's Constitution ensures we consult with Members

	<p>appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.</p>		<p>strategy, its medium-term financial plan and its annual budget?</p> <p>How effective has this engagement been?</p> <p>What action does the authority plan to take to improve its engagement with key stakeholders?</p>	<p>of the Public and its partner organisations in accordance with our legal obligations.</p> <p>We engage with key stakeholders when setting the annual budget. We consult via county news and our website; there has been little response via this route in the last couple of years. The budget proposals have seen little impact on service delivery during this time, so a limited response was expected.</p> <p>We invite key partners and stakeholders to a budget consultation meeting and the budget is scrutinised by all the relevant scrutiny committee members.</p> <p>The Council is currently developing its customer engagement strategy, to support our corporate plan. We will need to ensure the budget reflects the ambitions in the Corporate plan and any customer engagement via this route.</p> <p>Assessment - Amber</p> <p><u>Further Improvements / Actions –</u></p> <p>We need to develop a long term financial strategy to ensure our services reflect the engagement with our residents and the delivery of the ten year Corporate plan.</p>
M	<p>LCC uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.</p>	31/32	<p>Does the authority have a documented option appraisal methodology that is consistent with the guidance set out in IFAC/PAIB publication <i>Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal</i>?</p> <p>Does the authority offer guidance to officers as to when an option appraisal should be undertaken?</p> <p>Does the authority's approach to option appraisal include appropriate techniques for the qualitative and quantitative assessment of options?</p> <p>Does the authority's approach to option appraisal include suitable mechanisms to address risk and uncertainty?</p> <p>Does the authority report the results of option appraisals in a clear, robust and informative manner that gives clear recommendations and outlines the risk associated with any preferred option(s)?</p>	<p>The Council's Capital Strategy outlines the capital process which includes submitting a business case, Options appraisal which considers VFM, financial sustainability, risks and capacity to deliver the project. Business cases are then reviewed by DLT before presented to Officer Capital Challenge group ahead of formal decision making.</p> <p>The criteria for a key decision is set out in the councils constitution, and the format of the decision report requires input from relevant professionals, and has a format that gives clear recommendations and outlines associated risks. The report will consider options available and reasons for recommended option.</p> <p>The Project tools available to officers include options appraisal, however, these are not used consistently, as the information can often be determined by the format required by external funders (e.g. Treasury green book for government funding) or by the scale of the project.</p> <p>Assessment - Amber</p> <p><u>Further Improvements / Actions –</u></p>

				Roll out use of consistent options appraisal tool to support the decision making process and incorporate principles if appropriate of <i>Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal</i>
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Section 6: Monitoring financial performance				
FM Standard ref	Financial Management Standard	Page of the code	Key Questions – from FM Code guidance	Assessment Evidence and any further actions
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	33	<p>Does the authority provide the leadership team with an appropriate suite of reports that allow it to identify and to correct emerging risks to its budget strategy and financial sustainability?</p> <p>Do the reports cover both forward and backward-looking information in respect of financial and operational performance?</p> <p>Are there mechanisms in place to report the performance of the authority's significant delivery partnerships such a contract monitoring data?</p> <p>Are the reports provided to the leadership team in a timely manner and in a suitable format?</p> <p>Is the leadership team happy with the reports that it receives and with its ability to use these reports to take appropriate action?</p>	<p>Reports are created to the specified timetable and reviewed monthly by CLT for discussion and management action.</p> <p>We provide management accounting reports, which include spend in prior periods and a forward forecast, and incorporates risks identified to financial sustainability.</p> <p>Our ongoing service pressures are also built into our forward looking MTFS, which the leadership team engage with putting together, and supports our MTFS budget strategy, aligning service delivery and sustainable finances.</p> <p>We monitor against an approved budget; we forecast for the remainder of the budget period; and we reconcile totals back to the aggregate position. Our forecast position is reporting to members on a quarterly basis, with explanations of variances, and emerging risks identified.</p> <p>Performance information is provided by services against the Council Business Plan and is presented to the Leadership Team, Scrutiny and the Executive on a quarterly basis.</p> <p>Infographics are produced for all measures in the Council's Business Plan showing performance against target, direction of travel, historical performance and, where available, benchmarking.</p> <p>A contracting dashboard is being established to ensure the leadership team has monthly oversight of performance of the council's key partnerships and contracts.</p> <p>The leadership team have been proactive in developing the</p>

				<p>reports for their decision making.</p> <p>Assessment - Green</p> <p><u>Further Improvements / Actions</u> – to align our financial reporting with service performance reporting providing business intelligence for decision making.</p> <p>To include details of the Council owned companies within our reporting consider their impact on services and financial sustainability.</p>
<p>○</p>	<p>The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability</p>	<p>33</p>	<p>Has the authority identified the elements of its balance sheet that are most critical to its financial sustainability?</p> <p>Has the authority put in place suitable mechanisms to monitor the risk associated with these critical elements of its balance sheet?</p> <p>Is the authority taking action to mitigate any risks identified?</p> <p>Does the authority report unplanned use of its reserves to the leadership team in a timely manner?</p> <p>Is the monitoring of balance sheet risks integrated into the authority's management accounts reporting processes?</p>	<p>The council reports on the areas of risk on the balance sheet. Our Investments and Borrowing are determined by our Treasury Management strategy, and performance on this area is reported quarterly to Overview and Scrutiny Management Board.</p> <p>Our reserves position is reported in our outturn report (use of reserves) and our budget report (planned use of reserves), with specific reference to the financial sustainability of the council and its services.</p> <p>Any unplanned use of reserves would be reported in our quarterly financial monitoring reports (although this has not happened in recent years). Any emerging risks to our service budgets are reported to the leadership team on a monthly basis, and as part of our quarterly financial monitoring reports to members to establish any required mitigating actions.</p> <p>The finance team undertake regular reviews of the balance sheet.</p> <p>Specific areas of the balance sheet are reported to managers and relevant Executive Directors– e.g. Debtors and aged debt.</p> <p>Assessment - Amber</p> <p><u>Further Improvements / Actions</u> – to report planned and actual use of reserves together as part of our quarterly monitoring reports to members.</p> <p>To identify any other areas of the balance sheet that may pose a significant risk to the council, and include these if relevant in our financial management reports (e.g. debtors, cash balances)</p> <p>To undertake a review using the tools in "Balance Sheet Management in the Public Services: A Framework for Good Practice CIPFA 2017" and introduce processes to ensure that information about key assets and liabilities in the balance sheet is sound and current platform for management.</p>

Section 7: External financial reporting				
FM Standard ref	Financial Management Standard	Page of the code	Key Questions – from FM Code guidance	Assessment Evidence and any further actions
P	The Chief Finance Officer has personal and statutory responsibility for ensuring that the statement of accounts produced by LCC complies with the reporting requirements of the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i>	35/36	<p>Is the authority's CFO aware of their responsibilities in terms of the preparation of the annual financial statements?</p> <p>Are these responsibilities included in the CFO's role description, personal objectives and other relevant performance management mechanisms?</p> <p>Have the authority's financial statements hitherto been prepared on time and in accordance with the requirements of the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i>?</p>	<p>The Council is compliant with the key questions.</p> <p>The Council has received an unqualified audit opinion from our External Auditors for the Statement of Accounts.</p> <p>The CFO carries out an independent review of the Statement of Accounts before it is finalised.</p> <p>Processes are in place to ensure that finance staff keep up to date with changes to CIPFA Code of Practice for Local Authority Accounting</p> <p>Assessment - Green</p> <p><u>Further Improvements / Actions</u> – none</p>
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions	36	<p>Is the authority's leadership team provided with a suitable suite of reports on the authority's financial outturn and on significant variations from budget?</p> <p>Is the information in these reports presented effectively?</p> <p>Are these reports focused on information that is of interest and relevance to the leadership team?</p> <p>Does the leadership team feel that the reports support it in making strategic financial decisions?</p>	<p>The Council reports internally to its leadership team on financial performance and outturn against the annual budget. We have a robust budget monitoring process which monitors our financial and activity performance in delivering planned outcomes throughout the financial year. These reports are provided to CLT (Monthly) and Executive (Quarterly) and include details on significant variations from budget.</p> <p>Detailed explanations for under and overspends are provided in the report for context and to aid understanding. The reports enable CLT to drill down into the data, to have a sound understanding of over/under spending, delivery of planned savings and any relevant context, such as legislative changes, or changing patterns of demand.</p> <p>This information also supports our Medium Term Financial Planning. CLT review the final outturn report and make recommendations on transfer to and from reserves. This has enabled the collective support of the councils Development Fund and support to the Corporate plan.</p> <p>Assessment - Green</p> <p><u>Further Improvements / Actions</u> – none</p>

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VFM: Management Self-Assessment

Appendix B

Contents

VFM: Management Self-Assessment 1

 Do any of the following apply? 1

 Are you aware of any of the following? 3

 Do any of the following risk factors apply? 8

Name of individual completing this form: Sue Maycock / Lucy Pledge / Dave Simpson

This self-assessment helps ensure both auditor and organisation are familiar with and understand the potential risk factors that may lead to additional audit work and reporting. We will perform our own risk assessment and triangulate our findings against this self-assessment.

At this stage, we are not seeking detailed commentary or explanations of any mitigating controls etc. For example, where the medium-term financial plan includes material levels of savings yet to be identified this is a risk indicator that we will follow up.

It is management’s choice whether to present a version of this paper to Audit Committee.

Do any of the following apply?

Matter	Yes/ No	Comment	Is this included in the Strategic Risk Register?	Lead executive director?
Organisational change or transformation, including mergers or local authority reorganisation	Yes	LCC has a Transformation Programme which is in progress. <i>Embed latest programme highlight report (Lucy, to do once audit process complete)</i> Local authority reorganisation is still a possibility for the future. At the moment we are looking for collaborative opportunities with North Lincolnshire and North East Lincolnshire Councils.	 App D3 Strategic risk register - Feb 2021.p	Transformation Programme – James Drury Reorganisation – Debbie Barnes

Matter	Yes/ No	Comment	Is this included in the Strategic Risk Register?	Lead executive director?
		 Public Agenda Pack - 8 February 2021.pdf Appendix A = Combined Assurance Report including assurance over transformation programm		
Outsourcing, or transfer to alternative delivery models, e.g. formal partnerships, mutuals, social enterprises, joint ventures, or transferring services and functions back in-house/insourcing etc	Yes	Nothing current, but work has started on looking beyond the end of the current services contract with Serco, which finishes in March 2024.		James Drury
Major (new) capital projects	Yes	Major road scheme – North Hykeham Relief Road had funding approved by DfT in the current year. The project is not due to start for a couple of years yet, however there will be some preliminary expenditure in the short term. Arrangements are well established for preparing and monitoring the capital programme. The Capital Strategy refers to the affordability of the capital programme, and we have set a voluntary prudential limit on the proportion of capital financing charges to net revenue budget i.e. no more than 10%.		Andy Gutherson
Commercial activities, such as investment or trading, where the organisation has not considered the risks and benefits and is not managing those risks	No	Our trading activities are generally well established and risks are managed. A new company has been set up in 2020/21 for trading legal services, although trading has not yet started. Commercial investment is historic and minimal (see Annex F of Capital Strategy), and our Capital Strategy does not support new commercial investment for profit (see Annex B of Capital		James Drury

Matter	Yes/ No	Comment	Is this included in the Strategic Risk Register?	Lead executive director?
		Strategy). Our subsidiary companies are: <ul style="list-style-type: none"> • Transport Connect Ltd (trading) • Lincolnshire Futures Ltd (dormant) • Lincolnshire County property Ltd (dormant) • Legal Services Lincolnshire (Trading) Ltd (not yet started trading) • ESPO (jointly owned) • EMPSN (jointly owned)  Capital Strategy 2021_22 Final.docx		
Debt restructuring, especially where this involves entering into unusual or complex forms of new borrowing, or is being used to finance unusual or complex schemes	No			Andrew Crookham
Legislative/policy changes requiring a body to take on a significant new function(s)	No			Debbie Barnes

Are you aware of any of the following?

Matter	Yes/ No	Comment	Is this included in the Strategic Risk Register?	Lead executive director?
Financial sustainability:				
Material levels of unidentified savings/funding gaps in financial planning that would substantially threaten the	No	Medium Term Financial Plan shows a deficit of £6m in 2022/23 and a deficit of £9m in 2023/24. These are not material	Yes – Risk No. 6	Andrew Crookham

Matter	Yes/ No	Comment	Is this included in the Strategic Risk Register?	Lead executive director?
delivery of the plan		gaps in the context of our overall budget, and we have sufficient reserves to cover them. The Transformation Programme is expected to fill part of the deficit and our future funding assumptions are cautious. Current MTFP assumptions are:  Current MTFP Assumptions extract.		
Seeking to make significant use of capital resources to relieve short-term revenue pressures	No		Yes – Risk No. 6	Andrew Crookham
Significant inconsistencies between budgetary information and the financial position as reflected in the financial statements	No	Generally this is "No", however 2020/21 has been significantly impacted by covid expenditure and grant income, neither of which were budgeted for.	Yes – Risk No. 6	Andrew Crookham
Financial plans based on key assumptions that are unrealistic, e.g. are over-reliant on uncertain income streams that are significant to the delivery of plan, or not backed by appropriate supporting evidence	No	Medium Term Financial Plan assumptions are prudent / realistic and are reviewed continually throughout the budget process. Our Budget Book 2021/22 includes the S151 Officer's statement on the robustness of the budget and the adequacy of reserves.	Yes – Risk No. 6	Andrew Crookham
Unsustainable planned use of reserves to bridge funding gaps	No	Use of reserves to support future budget deficits is only ever a temporary "cushion" as we transition towards a lower budget.	Yes – Risk No. 6	Andrew Crookham
Significant unplanned use/reliance on reserves to cover unplanned spending.	No	We hold a revenue and a capital annual contingency, which are sufficient to cover unplanned spending.	Yes – Risk No. 6	Andrew Crookham

Matter	Yes/ No	Comment	Is this included in the Strategic Risk Register?	Lead executive director?
Persistent failure to meet savings plans or financial targets	No	The outturn position has historically always been within budget, and savings plans are generally achieved with only minor exceptions.	Yes – Risk No. 6	Andrew Crookham
Governance				
Decision making that is unlawful, or could lead to significant loss or exposure to significant financial risk, or reputational risk such as conflicts of interests	No	<p>The Council has a Constitution which incorporates the legal requirements relating to Council meetings, procurement, financial regulations, employment of senior staff and the ethical framework. This is reviewed annually regularly by the monitoring officer and a new version of the Constitution approved at the annual meeting. Any amendments are approved at a meeting of the full Council.</p> <p>Financial Regulations were reviewed last year and Contract Regulations were last reviewed 19 February 2021.</p> <p>All decision making reports are required to be reviewed for legality and financial probity. All reports have legal and resources comments on them as a control to avoid acting contra to the statutory framework. The monitoring officer presents an annual report to the Audit Committee.</p> <p>The Council has a Codes of Conduct for employees; it sets out</p>		David Coleman

Matter	Yes/ No	Comment	Is this included in the Strategic Risk Register?	Lead executive director?
		<p>expected ethical standards and is based on Nolan Principles for standards in public life. New employees are made aware of The Code of Conduct as part of the Council's induction process.</p>		
<p>Serious and pervasive weaknesses in final accounts processes leading to material errors in draft accounts, failure to meet statutory reporting deadlines and/or a modified opinion on the financial statements.</p>	No	<p>Our performance on closing the accounts and producing the financial statements is historically good.</p>		Andrew Crookham
<p>Failure to implement or achieve progress on recommendations raised, either as a result of previous external audit recommendations, or those from another regulator or inspectorate</p>	No	<p>There is no evidence that we fail to act on recommendations made by auditors or inspectors.</p>		Andrew Crookham
<p>Pervasive and significant weaknesses in internal controls, especially where these have had a significant financial/service-delivery impact or exposed the body to fraud</p>	No	<p>The Council has in place appropriate internal control arrangements including budget setting and monitoring and outturn reporting against which to consider the reasonableness of financial transactions.</p> <p>Internal Audit delivers a risk based programme, including due diligence work of key financial systems to provide management with assurance about the effectiveness of internal controls in place. The Head of Internal Audit & Risk</p>		Andrew Crookham

Matter	Yes/ No	Comment	Is this included in the Strategic Risk Register?	Lead executive director?
		opinion assessed the governance, risk and control environment as 'performing adequately' in 2019/20.		
A weak or ineffective audit committee that fails to provide appropriate challenge or hold officers and members to account.	No	The Council has an effective audit committee in place that discharges its role in accordance with good practice. It accounts for its performance to the Council each December.		Andrew Crookham
Significant or repeated departure from key regulatory and statutory requirements or professional standards, such as the CIPFA Financial Management Code, Prudential Code, Treasury Management Code, departmental statutory guidance issued to local government and local NHS bodies, etc. Note that in assessing arrangements, auditors are not expected to test bodies' compliance, for example with the CIPFA Financial Management Code, but evidence of significant failures to comply could be indicative of a significant weakness in arrangements	No			Andrew Crookham
Improving economy, efficiency and effectiveness:				
Failure to take appropriate action or secure improvement in areas where the body has identified, or a relevant inspectorate or regulatory body has identified, weaknesses in terms of cost/effectiveness or service performance	No			
Significant financial loss or failure to deliver efficiency/performance improvements as expected when working through significant partnerships	No			

Matter	Yes/ No	Comment	Is this included in the Strategic Risk Register?	Lead executive director?
Significant financial loss or failure to deliver efficiency/performance improvements as expected when managing significant outsourced contracts/services	No			

Do any of the following risk factors apply?

Matter	Yes/ No	Comment	Is this included in the Strategic Risk Register?	Lead executive director?
Informed Decision Making				
High/sudden turnover of those charged with governance (TCWG) or key operating personnel, or over-reliance on individuals. The organisation might be unable to respond appropriately to unplanned changes in the composition of key personnel, leading to loss of resources or reduced performance	No	Turnover of TCWG would be linked to the election cycle, but our cohort of elected members has been fairly stable. In 2018/19 and 2019/20 there was a turnover of executive officers at CLT level, but CLT membership has been stable since then.	Yes – Risk No. 7	TCWG - Andrew Crookham Officers - Debbie Barnes
Incomplete or inaccurate management information used for decision-making purposes. The organisation might be unaware of or otherwise unprepared for responding to business risks that could materially affect its ability to carry out its functions.	No			
Bodies may need to ensure that any significant decisions about future investment or borrowing plans fully consider the potential for the increased levels of uncertainty that may arise as the UK prepares to leave the European Union. Previously applied parameters applied to	No	Our Treasury Management Strategy and our Capital Strategy allow us to respond to emerging economic conditions which may impact on investment or borrowing, as evidenced by the impact of covid on the economy during the last year.		Andrew Crookham

Matter	Yes/ No	Comment	Is this included in the Strategic Risk Register?	Lead executive director?
scenario planning or sensitivity analysis may need to be revisited				
Sustainable resource deployment				
Absence of an achievable medium-term resource plan that makes appropriate reference to the organisation's position and performance together with consideration of relevant risks. Where such a plan does not exist or is not achieved, the organisation is at increased risk of being unable to deploy its resources sustainably.	No	Medium Term Financial Strategy considers risk and is supported by the Medium Term Financial Plan Our Budget Book 2021/22 includes the S151 Officer's statement on the robustness of the budget and the adequacy of reserves.	Yes – Risk No. 6	Andrew Crookham
Reduction in surplus or increase in deficit that is either sudden or an ongoing trend, and that is not supported by a viable resource plan. This might be evidenced by depletion of reserves (either planned or unplanned), reallocation of resources to support unbudgeted costs, or unplanned extensions of borrowing. Sustained or excessive budget deficits, where permitted, will limit an organisation's ability to allocate resources strategically and may lead to poorer service outcomes.	No		Yes – Risk No. 6	Andrew Crookham
Significant deterioration in staffing indicators, such as staff survey outcomes, staff turnover, staffing ratios or days lost to sickness, against either historic baselines or comparable bodies. Where significant deterioration in such indicators is apparent it can be a signal that the culture of the organisation is under strain, which could put the organisation's ability to meet its planned objectives at risk.	No	Staff surveys have been conducted to ascertain the impact on staff of working from home since the first covid lockdown. Staff bulletins have regularly been published which signpost employees to wellbeing material. Webinars have been held for all staff to attend, to discuss the future of Smarter Working, and there has been engagement on this with the trade union.		Andrew Crookham

Matter	Yes/ No	Comment	Is this included in the Strategic Risk Register?	Lead executive director?
<p>Postponement or cancellation of capital investment, or clear deterioration of the carrying value of operational assets, that either is or should be recognised in the statutory accounts, such that the organisation's ability to perform its objectives might be reasonably expected to deteriorate as well. Also, delay in capital investment could affect service provision by "sweating" existing assets beyond their useful life. Where the organisation relies heavily on its property, plant and equipment to deliver services, any decline in availability of those assets below that demanded may well be detrimental to outputs and outcomes</p>	No			Andrew Crookham
Working with partners and other third parties				
<p>An imbalance in partnership working, with one party able to disproportionately direct the culture and outcomes of the partnership. This could in turn lead to additional resources being required to secure partial outcomes, with associated impact on proper arrangements for VFM.</p>	No			
<p>Where significant functions are commissioned or contracted out by the organisation, an absent or unfit framework to cover these arrangements would be likely to present a risk of weaknesses to proper arrangements, where those services are material.</p>	No		Yes – Risk No. 8	James Drury
<p>A lack of a clear and documented process for letting, maintaining, and reviewing material contracts that is adhered to in practice. Without this the organisation may</p>	No	Contract management processes have been improved over the past year and this is on-going.	Yes – Risk No. 8	James Drury

Matter	Yes/ No	Comment	Is this included in the Strategic Risk Register?	Lead executive director?
end up with less than they budgeted for, pay more than budgeted for the same outputs, or may not achieve the required outcomes.				
Repeated commissioning from previous service partners without sufficient regard to the market position. While there may be good reasons for maintaining effective partnership arrangements, a default to previous suppliers for each new project may not represent good VFM. Repeat contracting of a monopolistic supplier may both increase the unit cost of the contract and constrain alternative options when the contract is re-let.	No	<p>A few of our contracts were extended in 2020/21 due to the pandemic and the temporary relaxation of procurement rules. These are shown in this spreadsheet summary:</p>  <p>Summary of Contracts Extended d</p>	Yes – Risk No. 8	James Drury

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

Report to:	Audit Committee
Date:	14 June 2021
Subject:	Work Programme

Summary:

This report provides the Committee with information on the core assurance activities currently scheduled for the 2021 work plan.

Recommendation(s):

To review and amend the Audit Committee's work plan ensuring it contains the assurance areas necessary to approve the Annual Governance Statement 2021.

Background

The 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.

Conclusion

The work plan helps the Audit Committee effectively deliver its terms of reference and keeps track of areas where it requires further work and/or assurance.

Consultation

a) Have Risks and Impact Analysis been carried out?

No

b) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Work Programme

Background Papers

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

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

Appendix A - Audit Committee Work Plan 2021/22

14 June 2021 – 10.00 am		
Item	Contributors	Assurances Required/ Sought
External Audit Strategy – Lincolnshire Pension Fund 2020/21	Representatives of Mazars	Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.
Annual Audit Letters for Lincolnshire County Council & Lincolnshire Pension Fund for the year ending 31 March 2020	Representatives of Mazars	<p>Seek assurance over the adequacy of the External Audit opinion on the financial statements and the Council's value for money arrangements.</p> <p>Ensure any issues / risks identified are being effectively managed.</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>
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>

14 June 2021 – 10.00 am

Item	Contributors	Assurances Required/ Sought
		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.
Financial Management Code / VFM regime	Dave Simpson (Head of Technical and Development Finance)	Provide assurance that the Council's arrangements follow good practice - supporting financial resilience, sound financial management and VfM.
Mobile Devices Audit Review	John Wickens (Assistant Director - IMT and Enterprise Architecture) Andrew Mclean (Assistant Director - Transformation, Programmes and Performance)	

12 July 2021 - 11.00 am (Informal Statement of Accounts Training at 9.15am)

Item	Contributors	Assurances Required/ Sought
Internal Audit Annual Report 2020/21	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?
Review and approval of Council's Annual Governance Statement 2020/21	Lucy Pledge (Head of Internal Audit and Risk Management)	Review and approve 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.
Draft Statement of Accounts 2020/21	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>
Information Assurance Annual Report 2020/21	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.

12 July 2021 - 11.00 am (Informal Statement of Accounts Training at 9.15am)		
Item	Contributors	Assurances Required/ Sought
Monitoring Officer's 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.
Annual Report on Corporate Compliments and Complaints	Shay Noreen (Complaints Manager)	Provide assurance on the effectiveness of the Councils complaints policy and processes.
Counter Fraud Annual Report 2021/22	Dianne Downs (Team Leader – Audit)	On the overall effectiveness of the Authority's arrangements to counter fraud and corruption.

27 September 2021 – 10.00 am		
Item	Contributors	Assurances Required/ Sought
Statement of Accounts for Lincolnshire County Council & Lincolnshire Pension Fund for the year ending 31 March 2021	Sue Maycock (Head of Finance – Corporate) Mike Norman / Michael Butler / John Pressley (Mazars)	<p>Ensure that the explanatory forward to the accounts help the public understand the authority's financial management of public funds.</p> <p>Consider the outcome of the External Audit and the appropriateness of management responses.</p> <p>Consider any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council</p> <p>Consider the proposed Value for Money Conclusion and any matters arising.</p>
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.

27 September 2021 – 10.00 am		
Risk Management Progress Report – September 2021	Debbie Bowring (Principal Risk Officer)	Seek assurance that risk-related issues are being addressed.
Fraud Risk Register	Matt Drury (Principal Investigator)	<p>Confirm that the Council's counter fraud activity is targeted and effective.</p> <p>Ensure that appropriate progress is being made on the delivery of the Counter Fraud plan.</p> <p>Ensure that lessons have been learnt – understand fraud risks facing the Council and actions being taken to reduce the risk.</p>
Horizon Scanning	Lucy Pledge (Head of Internal Audit and Risk Management)	To provide early signs of potentially important developments – identifying potential treats, risks, emerging issues and opportunities.

15 November 2021 – 10.00 am		
Item	Contributors	Assurances Required/ Sought
Updated Audit Completion Report 2020/21 – Lincolnshire County Council	Representatives of 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 Progress Report	Matt Drury (Principal Investigator)	<p>Gain assurance that the Council has effective arrangements in place to fight fraud locally.</p> <p>Ensure that counter fraud resources are effectively targeted to the Council's key fraud risks.</p>
Annual Whistleblowing Report	Matt Drury (Principal Investigator)	That the Council's process and procedures for dealing with whistleblowing referrals is effective.

15 November 2021 – 10.00 am		
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.
Draft Audit Committee Annual Report 2020/21	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.

TBC February 2022 – 10.00 am		
Item	Contributors	Assurances Required/ Sought
Combined Assurance Status Reports – 2021/22	Chief Executive, Executive Directors and Chief Fire Officer	<p>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.</p> <p>Seeking assurance that they are working well and that any significant risk and issues are being actively managed.</p>

TBC March 2022 – 10.00 am		
Item	Contributors	Assurances Required/ Sought
External Audit Strategy – Lincolnshire County Council 2021/22	Representatives of 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.

TBC March 2022 – 10.00 am

Item	Contributors	Assurances Required/ Sought
External Audit Quality	Sue Maycock (Head of Finance – Corporate)	Effectiveness of the External Auditors Quality Assurance Framework / processes following the 2020/21 audit experience, changes in audit resources and the October 2020 publication of the report by the Financial Reporting Council on Major Local Audits - Audit Quality Inspection.
Statement of Accounts 2021/22 – 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.
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>
Risk Management Progress Report - March 2022	Debbie Bowring (Principal Risk Officer)	Seek assurance that risk-related issues are being addressed.

TBC March 2022 – 10.00 am		
Item	Contributors	Assurances Required/ Sought
International Standards on Auditing - Response to Management Processes Questions	Dianne Downs (Team Leader – Audit)	Each year the External Auditors are required to obtain an understanding of the Council’s management processes in a number of areas. The International Auditing Standards specify the areas concerned – with the aim to support risk assessment around fraud, error or a material mis-statements in the County Council and Pension Fund financial statements. This report sets out the management responses to those questions.
Counter Fraud Plan 2022/23	Dianne Downs (Team Leader – Audit)	On the overall effectiveness of the Authority's arrangements to counter fraud and corruption.

Items to be programmed:

- **Integration of Health and Social Care (including IMT)** – Glen Garrod (Executive Director of Adult Care and Community Wellbeing) – Date TBC.