

County Offices
Newland
Lincoln
LN1 1YL

11 March 2021

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

Audit Committee

A meeting of the **Audit Committee** will be held on **Friday, 19 March 2021 at 10.00 am as a Virtual - Online Meeting via Microsoft Teams** for the transaction of the business set out on the attached Agenda.

Access to the meeting is as follows:

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

Members of the public and the press may access the meeting via the following link: <https://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=133&MId=6081&Ver=4> where a live feed will be made available on the day of the meeting.

Yours sincerely



Debbie Barnes OBE
Chief Executive

Membership of the Audit Committee

(7 Members of the Council and 2 Non-Voting Added Members)

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

Non-Voting Added Members

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

**AUDIT COMMITTEE AGENDA
FRIDAY, 19 MARCH 2021**

Item	Title	Pages	Estimated Time
1	Apologies for Absence		
2	Declaration of Members' Interests		
3	Minutes of the meeting held on 8 February 2021	5 - 10	
4	Update on Accounts 2019/20 <i>(To receive a report by Sue Maycock (Head of Finance – Corporate) which updates on progress towards the completion of work outstanding on the statement of accounts 2019/20)</i>	11 - 14	10.05 am
5	External Audit Strategy - Lincolnshire County Council 2020/21 <i>(To receive a report by Sue Maycock (Head of Finance - Corporate) which invites the Committee to consider Mazars', the County Council's external auditors, audit strategy 2020/21 for Lincolnshire County Council. Representatives of Mazars will be in attendance)</i>	15 - 52	10.15 am
6	External Audit Quality <i>(To receive a report by Sue Maycock (Head of Finance – Corporate) which presents information on two recent reviews into the external audit of local authority accounts and reports on their key findings)</i>	53 - 66	10.30 am
7	Statement of Accounts 2020/21 - Accounting Policies <i>(To receive a report by Sue Maycock (Head of Finance – Corporate) which seeks approval of the Statement of Accounting Policies to use in preparing the County Council and the Local Government Pension Scheme Pension Fund accounts for the financial year ending 31 March 2021)</i>	67 - 108	10.45 am
8	Internal Audit Progress Report <i>(To receive a report by Lucy Pledge (Head of Internal Audit and Risk Management) which details the audit work completed up to 15 February 2021; advises on progress of the 2020/21 plan (including planned work to June 2021); and raises any other matters that may be relevant to the role of the Audit Committee. James Drury (Executive Director – Commercial and John Wickens (Assistant Director IMT and Enterprise Architecture) will also be in attendance)</i>	109 - 152	10.55 am

9	Risk Management Progress Report - March 2021 <i>(To receive a report by Debbie Bowring (Principal Risk Officer) which invites the Committee to consider the current status of the strategic risks facing the Council)</i>	153 - 174	11.25 am
10	International Standards on Auditing - Response to Management Processes Questions <i>(To receive a report by Lucy Pledge (Head of Internal Audit and Risk Management) which provides an assessment on whether the County Council and Pension Fund financial statements may be mis-stated due to fraud or error)</i>	175 - 192	11.45 am
11	Counter Fraud Plan 2021/22 <i>(To receive a report by Lucy Pledge (Head of Internal Audit and Risk Management) which provides information on Counter Fraud and Anti-Corruption activities currently scheduled in the 2021/22 work plan)</i>	193 - 206	11.55 am
12	Work Programme <i>(To receive a report by Lucy Pledge (Head of Internal Audit and Risk Management), which provides the Committee with information on the core assurance activities currently scheduled for the 2021 work plan)</i>	207 - 216	12.05 pm

Democratic Services Officer Contact Details

Name: **Cheryl Evans**
 Direct Dial **07387 133755**
 E Mail Address cheryl.evans@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.

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



AUDIT COMMITTEE 8 FEBRUARY 2021

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

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

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

Officers in attendance:-

Debbie Barnes OBE (Chief Executive), Mark Baxter (Chief Fire Officer), Andrew Crookham (Executive Director Resources), James Drury (Executive Director Commercial), Cheryl Evans (Democratic Services Officer), Glen Garrod (Executive Director - Adult Care and Community Wellbeing), Michelle Grady (Assistant Director – Finance), Andy Gutherson (Executive Director Place), Lucy Pledge (Head of Internal Audit and Risk Management), Jonathan Pocock (Senior Auditor), Heather Sandy (Executive Director of Children's Services), Alastair Simson (Principal Auditor), Jill Thomas (Principal Auditor) and Matthew Waller (Internal Audit Manager).

29 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor A N Stokes.

30 DECLARATION OF MEMBERS' INTERESTS

There were no declarations of interest made at the meeting.

31 MINUTES OF THE MEETING HELD ON 16 NOVEMBER 2020

RESOLVED

That the minutes of the meeting held on 16 November 2020 be signed by the Chairman as a correct record.

32 COMBINED ASSURANCE REPORT

A report was submitted to the Committee on the Council's combined assurance status, with the Chief Executive and each executive director assessing: critical service delivery activities; key risks; key projects; and key partnerships. This provided the Council with an effective framework to assess risk, which in turn would provide an overall assurance level for the Council.

The Chief Executive introduced the report by reflecting on the challenges of the Covid-19 pandemic. Staff had risen to the challenge, both in their response to the pandemic, and by maintaining business-as-usual activity, as far as possible, including the Council's transformation programme. In particular the work of Derek Ward, as the Director of Public Health, and the public health team was acknowledged.

The Chief Executive also highlighted several risks: adult and children safeguarding arising from the reduced levels of home visiting; staffing resilience during the pandemic; the impact of Covid-19 on the management of the Council's budgets; the ability of the market to continue to provide certain adult care and children services; IMT and challenges of expanding the network and its modernisation; and the levels of workforce turnover and sickness.

The Committee recorded its thanks to all the staff who had responded to the challenges of the Covid-19 pandemic.

Responses were made to questions from members of the Committee on the following topics:

- Child and Adolescent Mental Health – In Lincolnshire there was an emphasis on prevention through services, such as *Healthy Minds*, and *Kooth* (an online service), as well as the mental health in schools pilot. Training had been provided to schools-based staff, with both maintained schools and academies participating.
- Recruitment of Staff – For most council posts there were no challenges in recruitment. Areas such as social work, legal services and engineers were cited as areas where recruitment was difficult. Strategies to address this included training being offered to the Council's existing staff; and the smarter working programme was also expected to aid recruitment.
- Special School Provision – Special schools had been in regular contact with the families of pupils of these schools during the pandemic, with offers of support.
- Strategic Risk Management – During 2020 there had been rapid refinement of the Council's risk management processes. Internal structures, which had been in place prior to the pandemic, had placed the Council in a strong position both to identify new risks and to meet the challenges of all risks during the last year.
- Recruitment and Retention of Retained Firefighters – Whilst there were new applicants to become retained firefighters, the challenge was to retain existing staff. It was anticipated applicants for the role would increase as a result of the Covid-19 pandemic.
- Market Supply of Residential Adult Social Care – Nationally there had been reductions in placement into residential care of up to 15% and in Lincolnshire an assessment was being made of the likely effects on the availability of residential care, as opposed to residential with nursing care, as there was an over-supply in Lincolnshire of the latter. The use of alternatives to residential care, such as supported housing and extra care housing, were likely to increase in Lincolnshire. The impact of Covid-19 on residential care homes

had been less in Lincolnshire, although the sector had seen a reduced number of placements, which was attributed to the negative media coverage at a national level. Government support for local authorities in response to Covid-19 had in effect created an artificial financial position for 2020-21. Proposals for the reform of adult social care were expected from the Government during 2021.

- Home to School Transport – The Council had been following the Government's national procurement policy to ensure providers could cover their fixed costs during the pandemic. There had been additional grants from the Government to fund additional home to school transport routes during the pandemic, to remove pupils from busy public transport routes.
- Impact on Families – The Council was still continuing its safeguarding operations, with adequate PPE to maintain home visits. Schools were also active in providing support for families and during the most recent national lockdown were continuing to make safeguarding referrals. The Council was working with all partners to ensure effective safeguarding activity continued.
- Pension Fund – The management of risk was inherent in the operation of the pension fund, and the fund's wide-ranging portfolio of assets had helped to spread and manage risks. Many parts of the global economy were recovering well, and this would be reflected in the investment returns in the most recent quarter.
- Future Funding of the County Council – It had previously been announced that the Government's Fair Funding Review had been deferred by one year. The County Council Network continued to lobby the Government on behalf of county councils. During the Covid-19 pandemic funding from the Government had shifted towards areas of deprivation rather than areas of sparsity. The Council had previously made decisions which had ensured it was in a strong financial position; the offsetting budget pressures by making savings was cited as an example.
- Cyber-Security – Cyber-security would remain an identified risk on the Council's risk register, owing to the nature of ever-changing cyber-threats. The Council monitored and managed these threats. The Council's direction of travel was positive, with the Council's software preventing attacks. Staff were required to complete annual mandatory training on information assurance, which covered cyber-security.
- Impact of Brexit - Brexit continued to form part of the Council's Risk Register. There were a number of sectors in Lincolnshire dependent on import and exports, and whilst there had been localised problems, there had been no significant impact on business closures and employment rates had remained stable. There was no evidence of any problems being reported by hauliers and customs agents.
- Safeguarding Children – With regard to the statement in the report on the medium and long-term uncertainty on any impact on staff capacity, future funding pressures, and placement provision for children in care, reference was made to the unpredictability of the long-term impact of the pandemic on families; the time required to reverse challenges to young people; foster carer recruitment; and the increase in the price of placements for children, with demand outstripping supply.

- Horizon Scanning and Future Expectations – Some of the challenges highlighted in the report would have longer-term impacts, beyond 2021-22. For example, there was uncertainty over the Government's plans for the future funding of adult social care. In future combined assurance reports would explore the emerging risks in more detail.
- High Street Viability – Addressing the issues of the high street retail sector was a matter for further consideration. An announcement was expected from the Government on the 'Town Deal' programme and funding.
- Food Industry Workforce – There had been no significant workforce issues in Lincolnshire as a result of Covid-19.
- Smarter Working – Smarter working was one of the projects in the transformation programme, which would consolidate the positive benefits of working from home such as staff having more choice and flexibility on how they worked, with improvements to their emotional wellbeing. Continued investment in IMT and digitalisation would be required. The Council's human resource team had been working with Lincolnshire Partnership NHS Foundation Trust to provide an emotional wellbeing offer to staff.
- Transformation Programme – To challenge and advocate the transformation programme, which included a range of projects, 150 members of staff had volunteered to become *change influencers*. A key role of a *change influencer* would be to assist in embedding the transformation within the organisation and to provide support for their colleagues.
- Recruitment of Fire and Rescue Station Managers – Many fire and rescue services were seeking staff with specialist skills, and Lincolnshire Fire and Rescue was addressing this in part by training its own staff. Across the sector, there were a large number of managers approaching retirement age, so most fire and rescue services were experiencing the same issues. This was being addressed by plans for the career development of management.
- Adult Social Care Collaboration with the NHS – Prior to the pandemic, collaboration with the local NHS had been excellent and this collaboration had continued to develop during the pandemic, which had driven forward collaborative change more quickly.
- Recruitment of Social Care Workers – Large retail organisations were still able to pay higher rates than the County Council could afford to pay social care workers so sufficient capacity to meet need was a challenge. In Lincolnshire providers were collaborating on sharing staff, to address particular shortfalls in some parts of the Council due to Covid-19.
- Payroll Services – The development of *Business World On!* was progressing well, with an anticipated go-live date of November 2021. All staff would receive training on the use of *Business World On!* prior to roll out.
- Investment in Workforce – Investment in the workforce would continue. The aim was to empower staff to be able to perform well, with the necessary IMT support.
- Investment in Strategic Partnerships – It was important for the Council to invest in strategic partners, such as the NHS, district councils, and the Police.
- Corporate Plan – The Transformation Programme would start to have an impact on the delivery of the corporate plan.

- Medium Term Financial Strategy - The agenda for the Council County meeting on 19 February 2021 would include the medium-term financial strategy, which would set out the principles for managing future finances and risks. The strategy, based on current information and trends, had projected the Council's financial position for the next three financial years. Based on this, a deficit had been predicted for the 2022-23 and 2023-24 financial years. Work on addressing the projected deficits would begin during the 2021-22 financial year.
- Internal Audit Resources - To address the staff shortage and challenges in recruitment in the Internal Audit Team, a policy of grow-your-own was being applied. Until these trainee auditors had been fully trained, agency resources were being bought at a higher cost. Different ways of working were also in place to manage resources.
- Internal Audit Opinion – A report would be submitted to a future meeting of the Committee on the latest guidance issued by the Chartered Institute of Public Finance and Accountancy on the Head of Internal Audit Opinion.

The Chairman thanked the Corporate Leadership Team for their attendance at the meeting, and stressed this as a useful meeting for the Committee.

RESOLVED

- (1) That the Combined Assurance Report be noted.
- (2) That *adequate assurance* following consideration of the Combined Assurance Report be recorded by the Audit Committee.
- (3) That all members of staff be thanked for their contribution in their response to the Covid-19 pandemic.

33 WORK PROGRAMME

The Committee considered its forward work programme for its forthcoming meetings. It was noted that the next meeting of the Committee would now be held on 19 March 2021, and the key items of this agenda were highlighted. It was agreed that an item on horizon scanning would be included in the work programme for the meeting on 14 June 2021. An item on the integration of health and social care, including the compatibility of IMT, would be included in the work programme at a later date.

RESOLVED

That the work programme of the Committee be approved, including the above amendments.

The meeting closed at 12.25 pm.

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

Report to:	Audit Committee
Date:	19 March 2021
Subject:	Update on Accounts 2019/20

Summary:

The external audit of the Statement of Accounts 2019/20 is not yet complete. This report provides an update on progress towards completion of all work outstanding on these accounts. The report also seeks the approval of the Audit Committee to delegate its usual responsibilities for the Statement of Accounts to the Executive Director – Resources, in consultation with the Chairman of the Audit Committee, so that these responsibilities can be carried out after this meeting.

Recommendation(s):

That the Audit Committee delegates to the Executive Director – Resources, in consultation with the Chairman of the Audit Committee, the responsibility for:

1. Considering the Audit Completion reports of the External Auditor regarding their audit work on the Statement of Accounts 2019/20.
2. Approving and signing the Letters of Representation on behalf of the Council to enable the Audit Opinion to be issued following the report of the External Auditor.
3. Approving the audited Statement of Accounts for 2019/20.

1. Background

- 1.1 The Audit Committee last received a report on the Statement of Accounts 2019/20 at its meeting on 28 September 2020. At that time, draft audit completion reports had been submitted by the external auditor (Mazars) and audit work on the accounts was largely complete. We were expecting to publish the accounts on the Council's website by the statutory deadline of 30 November 2020.
- 1.2 On 19 November 2020, Mazars notified us of a query relating to the valuation of our Energy from Waste facility in the accounts. This facility is a

specialised asset and the method of valuation had been determined when the facility came into use in 2014 and had not previously been queried by the external auditors. Mazars' technical review team raised the issue. Following discussions between Mazars and senior officers, it was concluded that it was unclear as to whether or not our accounting valuation did comply with the accounting Code of Practice. As the value is a material amount at £98.8m, we agreed to obtain a new valuation from a specialist valuation company. We also published a notice on our website alongside the draft accounts, which excluded the audit opinion, explaining why the publication of the audited accounts was delayed.

- 1.3 A valuation company was engaged following competitive quotations and work began in January. We have now received a valuation from them and have sent the valuation to Mazars for review by an independent specialist valuation company that they have engaged. The amount of the new valuation is £92.1m, which is £6.7m less than we had accounted for. As this is not materially different (our level of materiality for the 2019/20 accounts was £22.1m), we have agreed with Mazars that we will not amend our 2019/20 accounts. Instead we will reflect this new valuation in the 2020/21 accounts, taking into account our usual reviews of property, plant and equipment valuations.
- 1.4 At the time of writing this report, work was on-going to review any potential events since the draft accounts were published, which would need to be reflected in the accounts, and to conclude the audit work on the new valuation. Once all work is complete, Mazars will issue their audit opinion, the letters of representation and their audit completion report. This is likely to happen after the date of this committee meeting.

2. Conclusion

- 2.1 The finance team will implement new processes for the valuation of the Energy from Waste facility for the 2020/21 closure of accounts process, to ensure that this query does not arise again in future years.
- 2.2 As external audit outputs are likely to be after this committee meeting, arrangements will need to be put in place to allow for the necessary approvals and signing to take place. These are detailed in the Recommendations section of this report.

3. Consultation

a) Risks and Impact Analysis

N/A

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

Report to:	Audit Committee
Date:	19 March 2021
Subject:	External Audit Strategy – Lincolnshire County Council 2020/21

Summary:

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

Recommendation(s):

The Executive Director - 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 County Council's main accounts. 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;
- Value for money;
- Audit fees;
- Auditor independence;
- Materiality;
- Communications with the Audit Committee.

1.3 A new risk area is introduced, which relates to covid grants, and arises from the significant sums of grant income allocated to councils over the past year.

The auditors will be testing that our accounting treatment of covid grants is correct.

1.4 The Value for Money section refers to the new audit code of practice governing the reporting of value for money findings from 2020/21 onwards. The strategy outlines how Mazars intend to carry out their work in this area, to take account of the amended requirements.

1.5 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

N/A

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire County Council (LCC) Audit Strategy Memorandum 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 County Council

Year ending 31 March 2021

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- 03 Audit scope, approach and timeline
- 04 Significant risks and other key judgement areas
- 05 Value for Money
- 06 Fees for audit and other services
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- Appendix – Key communication points

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



Audit Committee

Lincolnshire County Council
County offices
Newland
Lincoln
LN1 1YL

March 2021

Dear Committee Members

Audit Strategy Memorandum – Year ending 31 March 2021

We are pleased to present our Audit Strategy Memorandum for Lincolnshire County Council 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 8 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

• reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;

• sharing information to assist each of us to fulfil our respective responsibilities;

• providing you with constructive observations arising from the audit process; and

• ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Lincolnshire County Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

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 mark.surridge@mazars.co.uk

Yours faithfully

Mark Surridge

Mazars LLP

Mazars LLP – First floor, Two Chamberlain Square, Birmingham, B3 3AX

Tel: 0121 232 9500 – 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
First floor
Two Chamberlain Square
Birmingham
B3 3AX

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Section 01:

Engagement and responsibilities summary

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1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Lincolnshire County Council (the Council) for the year to 31 March 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 Audit Committee 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 and Internal audit, 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.

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Going concern

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The section 151 officer is responsible for the assessment of whether it is appropriate for the Council 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 section 151 officer's use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.



Value for money

We are also responsible for forming a commentary on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



Reporting to the National Audit Office

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.



Electors' rights

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

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Value for money

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

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Section 02:

Your audit engagement team

2. Your audit engagement team

Your external audit service continues to be led by Mark Surridge. A summary of key team members are detailed below. An Engagement Quality Control Reviewer has also been appointed:



Mark Surridge
Engagement Lead

Mark is our UK Sector Lead for Local Government and leads our public sector external audit team in the Midlands. He has over 15 years' experience in the provision of audit, assurance and advisory services to organisations across the whole breadth of public and not-for-profit sectors.



Michael Butler
Audit Manager

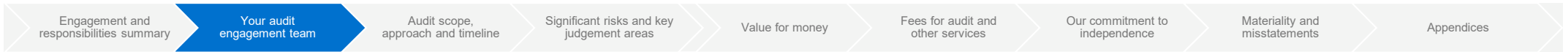
Michael replaces Mike Norman as audit manager for 2020/21 to maintain compliance with independence considerations as Mike had reached the maximum term of appointment as audit manager to the Council.

Michael has 7 years' experience in external audit and worked for Grant Thornton prior to Mazars. Michael has relevant experience working with complex audits, with a current client portfolio of local authority and NHS foundation trust clients.



Bethan Frudd
Audit Assistant Manager

Bethan joined Mazars public services as an external audit graduate and has shown continual development and progression through professional qualification to lead on a range of large and complex local authority and NHS foundation trust audits.



2. Your audit engagement team

Roles and Responsibilities for 2020/21:

Mark Surridge

- Responsible for signing the audit opinion of both the main financial statements audit and value for money conclusion;
- Main contributor to audit committee;
- Review of audit work produced by audit manager and team.

Michael Butler

- Responsible for managing the audit;
- First point of call for technical concerns raised by management; and
- Review of the audit work covering all areas.

Ethan Frudd

- Responsible for day to day operations of the audit;
- Main contact for the finance team;
- First point of call for audit team queries; and
- Responsible for delivery of substantive testing against audit approach.

Why the change in audit team:

- Rotation of staff to comply with auditor independence;
- [Separating the Council and Pension Fund audit teams to improve team focus.](#)



Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

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Fees for audit and other services

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Section 03:

Audit scope, approach and timeline

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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.

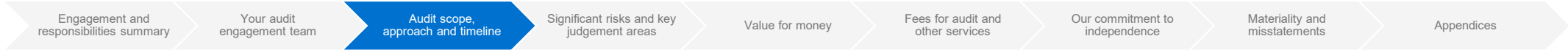
Audit approach

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 8.

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



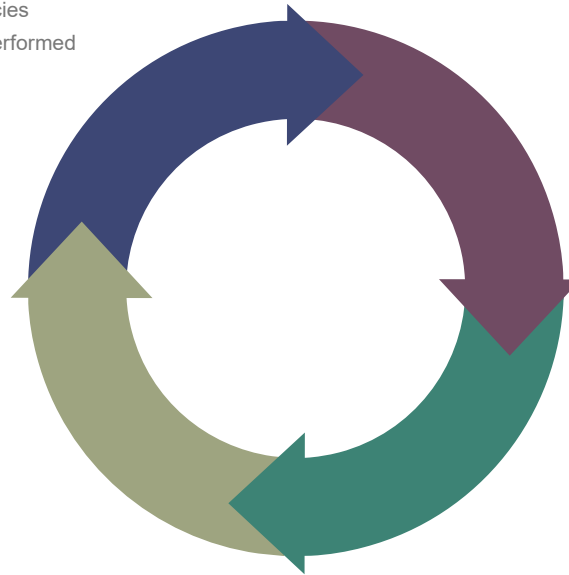
3. Audit scope, approach and timeline

Planning January 2021 – February 2021

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- 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

Interim March 2021

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

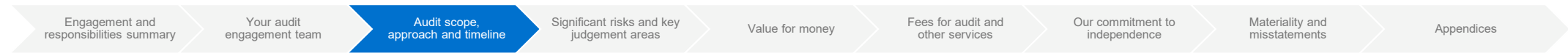


Completion September 2021

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

Fieldwork July 2021

- Receiving and reviewing draft 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 meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Management’s and our experts

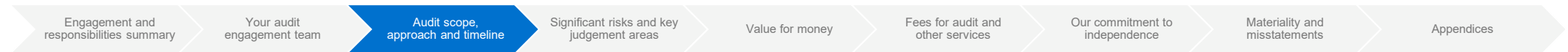
Management makes use of experts in specific areas when preparing the Council’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Property Plant and Equipment & Investment Properties	Keir Property Services The Council’s external valuer for PPE (where held at valuation) and Investment Properties	We expect to engage Cluttons LLP to support our testing. We may also use third party evidence provided via the NAO to support our challenge of valuation assumptions.
	Savills LLP The Council’s external valuer for Investment Properties	
Pensions	Barnett Waddingham Actuary for Lincolnshire Pension Fund (LGPS)	PWC (Consulting actuary appointed by the NAO).
	Hymans Actuary for Lincolnshire Fire Authority Pension fund	
Financial Instrument disclosures	Link Asset Management (LAM) Treasury management advisors	None.

Service organisations

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

Items of account	Service organisation	Audit approach
Pay and non-pay expenditure	Serco	We will review the controls operating the Council over these transactions and carry out substantive testing (possibly including substantive analytical procedures and sample testing of transactions occurring in the year).
Other income	The Council’s provider of financial and other support services, including the processing of payroll, accounts payable and accounts receivable.	



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:

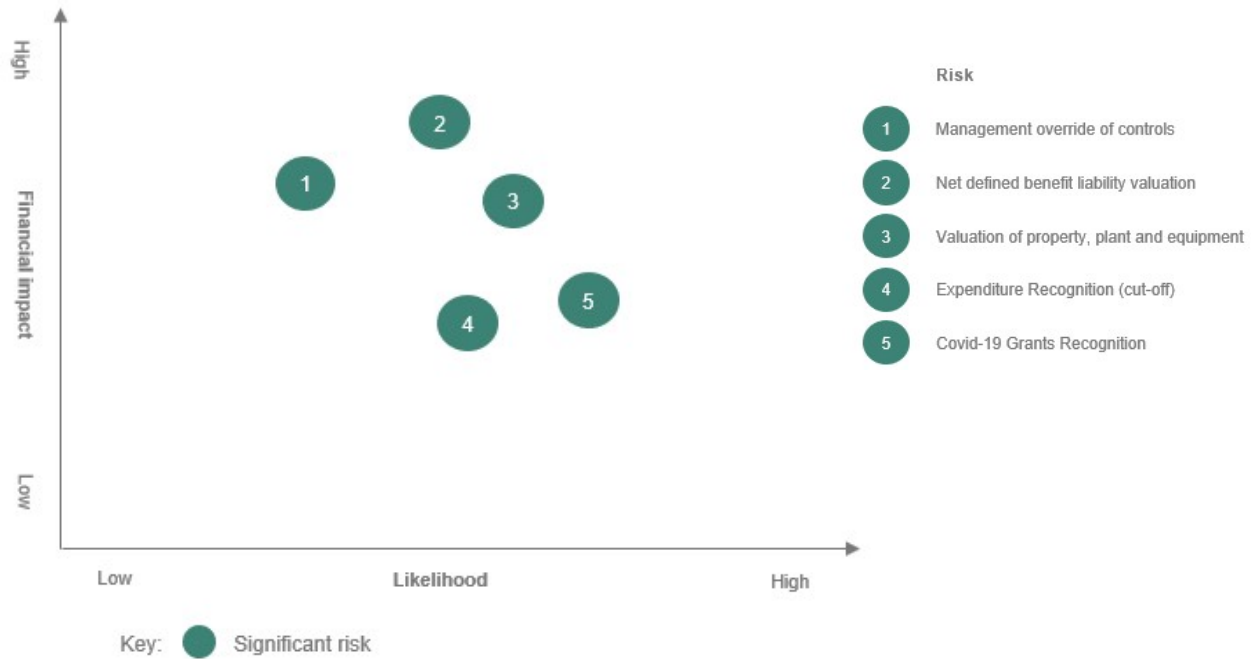
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

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.

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 Council. We have summarised our audit response to these risks on the next page.



4. Significant risks and other key judgement areas

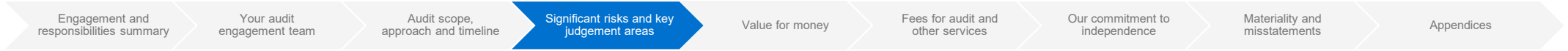
Specific identified audit risks and planned testing strategy

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</p> <p>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 consideration of any significant transactions outside the normal course of business or otherwise unusual.

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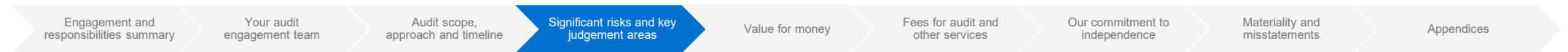


4. Significant risks and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
2	<p>Net defined benefit liability valuation</p> <p>The defined benefit liability relating to the Local Government pension scheme represents a significant balance on the Council's balance sheet.</p> <p>The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits.</p> <p>Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p> <p>Relevant Account Balances (taken from the 2019/20 draft financial statements):</p> <ul style="list-style-type: none"> £857m – Note 28 (Net pension liability), made up from: <ul style="list-style-type: none"> Local Government Pension Scheme - £617m Fire-Fighters Pension Scheme - £240m 	-	●	●	<p>We plan to address the risk by:</p> <ul style="list-style-type: none"> critically assess the competency, objectivity and independence of the Pension Fund's Actuary; liaise with the auditors of the Lincolnshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information by the consulting actuary engaged by the National Audit Office; and agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements. <p>In line with 2019/20 and the continuing COVID19 pandemic, we will discuss the whether there are any potential material uncertainty disclosure to be made. We will monitor this throughout the audit process.</p>

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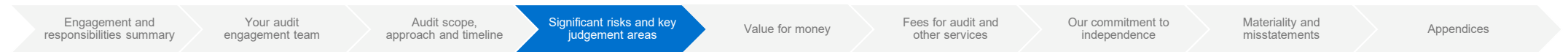


4. Significant risks and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
3	<p>Property Valuation</p> <p>Property related assets are a significant balance on the council's balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements. Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p> <p>At the planning stage of the audit, this risk covers (figures have been taken from the draft 2019/20 financial statements):</p> <ul style="list-style-type: none"> Land & Buildings (£535m - Note 15) Investment Properties (£106m – Note 17) 	-	●	●	<p>We plan to address this risk by:</p> <ul style="list-style-type: none"> critically assessing the scope of work, qualifications, objectivity and independence of the Council's valuer to carry out the required programme of revaluations; considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA code of practice and the Council's accounting policies; assessing whether valuation movements are in line with market expectations by considering valuation trends; critically assessing the approach that the Council adopts to ensure that assets that are not subject to revaluation in 2020/21 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Councils valuers. <p>In line with 2019/20 and the continuing COVID19 pandemic, we will discuss the whether there are any potential material uncertainty disclosure to be made. We will monitor this throughout the audit process.</p>

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4. Significant risks and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
4	<p>Expenditure recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council (FRC), which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular whether cut-off (recognition in the correct financial year) is materially accurate. From our consideration of the Council's expenditure streams, we believe the risk is focused on Premises, transport, and supplies & services (being £632m per Note 10 of the draft 2019/20 financial statements).</p>	●	●	-	<p>We will address this risk by performing work in the following areas:</p> <ul style="list-style-type: none"> ensuring the accounting policies in relation to expenditure recognition and recognition of accruals are appropriate and consistently applied; and carrying out cut-off testing, and testing for unrecorded liabilities, to confirm expenditure has been coded to the correct accounting year.
5	<p>Covid-19 Grants recognition</p> <p>Over March and April 2020, the government provided £3.2 billion of emergency grant funding and over £5 billion of cashflow support to support local authorities through COVID-19. Throughout 2020/21, the Government has continued to provide substantial sums of financial support to local authorities, including Lincolnshire County Council.</p> <p>Management have had to exercise a level of judgement in relation to these specific COVID-19 grants, including:</p> <ul style="list-style-type: none"> the extent to which the Council is acting as an agent or principal and therefore whether to account for the grant income on a gross or net basis; and whether conditions associated with the grants have been met at the reporting date. <p>Overall therefore, we believe there is a significant audit risk relating to the completeness and accuracy of Covid-19 grant income in the 2020/21 financial statements.</p>	●	●	-	<p>We will address this risk by performing work in the following areas:</p> <ul style="list-style-type: none"> reviewing the Council's approach to determine whether grants are or are not ringfenced for specified areas of expenditure; and testing a sample of grant income recorded in the ledger to grant allocations/ notifications; and challenge the Council's judgements as to whether it is acting as agent or principal in respect of the administration of individual grant funding streams, and the accounting treatment associated with these judgements; and reviewing a sample of grants to ensure conditions to recognise the income in 2020/21 have been met or not.

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Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Value for money

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendices

05

Section 05: Value for Money

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5. Value for money

The framework for Value for Money work

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

The new Code of Audit Practice (the Code) has changed the way in which we report our findings in relation to Value for Money (VFM) arrangements from 2020/21. Whilst we are still required to be satisfied that the Council has proper arrangements in place, we will now report by exception in our auditor's report where we have identified significant weakness in those arrangements. This is a significant change to the requirements under the previous Code which required us to give a conclusion on the Council's arrangements as part of our auditor's report.

Under the new Code, the key output of our work on VFM arrangements will be a commentary on those arrangements which will form part of the Auditor's Annual Report.

Specified reporting criteria

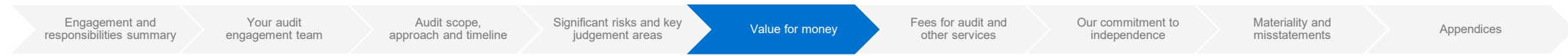
The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks
3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment	<p>Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:</p> <ul style="list-style-type: none"> NAO guidance and supporting information Information from internal and external sources including regulators Knowledge from previous audits and other audit work undertaken in the year Interviews and discussions with staff and members
Additional risk-based procedures and evaluation	<p>Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.</p>
Reporting	<p>We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.</p> <p>Our commentary will also highlight:</p> <ul style="list-style-type: none"> Significant weaknesses identified and our recommendations for improvement Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.



5. Value for money

Under the 2020 Code, we are required to structure our commentary on the Council's 'proper arrangements' under three specified reporting criteria, which are expanded in the supporting guidance notes produced by the National Audit Office:

Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services

- how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them
- how the body plans to bridge its funding gaps and identifies achievable savings
- how the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- how the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system
- how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

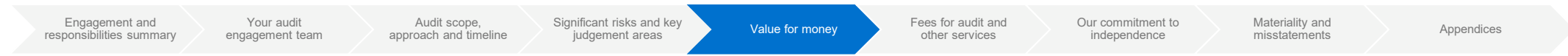
Governance: how the body ensures that it makes informed decisions and properly manages its risks, including

- how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- how the body approaches and carries out its annual budget setting process
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

Improving VFM: how the body uses information about its costs and performance to improve the way it manages and delivers its services

- how financial and performance information has been used to assess performance to identify areas for improvement
- how the body evaluates the services it provides to assess performance and identify areas for improvement
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve
- where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

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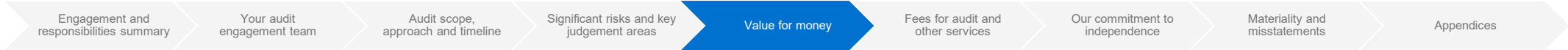


5. Value for money

The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Due to the late release of the NAO's Auditor Guidance Note and supporting information to auditors, we have not yet fully completed our Value for Money planning and risk assessment work. On completion of our risk assessment, we will report any risks of significant weaknesses in arrangements identified to the Audit Committee.

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06

Section 06:
Fees for audit and other services

6. Fees for audit and other services

Fees for work as the Council's appointed auditor

Details of the 2019/20 Actual and 2020/21 Audit fees in line with PSAA and other reporting mechanisms are set out below:

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Scale audit fee	£82,640	£82,640
<i>Fee variations:</i>		
Additional Testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes as a result of changes in regulatory expectations	£12,273 ¹	£12,273 ¹
Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; and ISA570 (Revised) Going Concern.	£2,000 ²	N/A
Other additional costs	TBC	£7,021
Sub-total	£96,913	
Additional work arising from the change in the Code of Audit Practice	£10,000 ³	N/A
Total	£106,913 ⁴	£101,934 ⁵

¹ As previously reported to you, the scale fee has been adjusted to take into account the additional work required as a result of increased regulatory expectations over these areas. Plus the designation of the Authority as a 'Major Local Audit' requiring additional audit quality control procedures..

² For 2020/21, two new auditing standards have been introduced incurring additional time and audit work not reflected in the scale fee. Additional testing as a result of the implementation of IFRS 16 Leases is deferred to the financial year 2021/22.

³ As explained in section 5, the revised Code of Audit Practice results in a substantial amount of additional audit work to support the value for money conclusion and the changes in reporting requirements, requiring additional time and input from the senior members of the team. Our review of the Code and supporting guidance notes shows that the additional fee impact at all public sector entities is expected to be at least £10,000. The final fee will take into account the extent, and complexity of, any significant weaknesses in arrangements to review and report upon.

⁴ This is a proposed fee for 2020/21 at the point of the issue of our ASM. This figure is subject to change and additional costs will be discussed with management, for example material valuation uncertainty on asset valuations as a result of Covid-19.

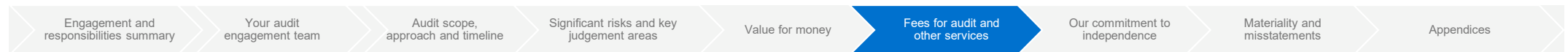
⁵ The 2019/20 financial statements audit is still on-going, therefore, additional costs will be discussed and agreed with management and communicated to audit committee through our annual audit letter.

⁶ We have not yet been engaged to provide similar services to the Council for 2020/21. Should these proceed in 2020/21, the fee is expected to be consistent with 2019/20.

Fees for non-audit work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below.

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Assurance services - Education and Skills Funding Agency	TBC ⁶	£5,000
Assurance services – Teachers Pensions Return	TBC ⁶	£3,000



07

Section 07: **Our commitment to independence**

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7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the 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.

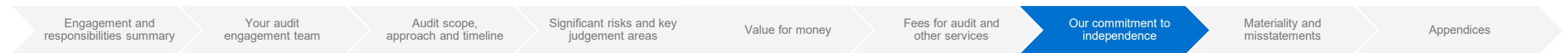
We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- 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 Mark Surridge in the first instance.

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

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



08

Section 08: Materiality and other misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality (2%)	22,817
Performance materiality (75%)	17,113
Trivial threshold for errors to be reported to Audit Committee (3%)	685
Areas of specific materiality selected on the basis these items are of specific interest to a reader of the financial statements:	
• Senior Officer Remuneration (Note 36b in the 2019/20 draft accounts)	£5k (being one band)
• Members Allowances (Note 35 in the 2019/20 draft accounts)	£258k

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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

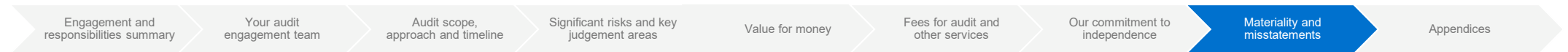
the common financial information needs of users as a group and not on specific individual users.

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;
- Recognize 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.



8. Materiality and misstatements

Materiality (continued)

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 Gross Revenue Expenditure at Surplus/deficit on Provision of Services level for 2019/20. 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 Audit Committee.

We consider that the Gross Revenue Expenditure at Surplus/deficit on Provision of Services level remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of Gross Revenue Expenditure at Surplus/deficit on Provision of Services level. Based on prior year financial statements we anticipate the overall materiality for the year ending 31 March 2021 to be in the region of £22,817k.

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 75% of overall materiality as performance materiality.

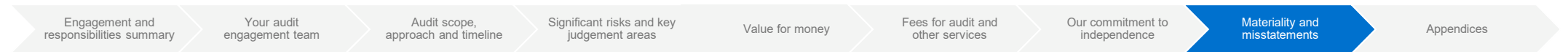
Misstatements

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 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 £685k based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Surridge.

Reporting to Audit Committee

The following three types of audit differences will be presented to Audit Committee:

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





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.

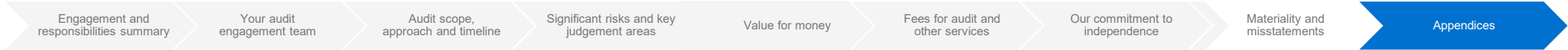
Key communication points at the planning stage as included in this Audit Strategy Memorandum

- 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.

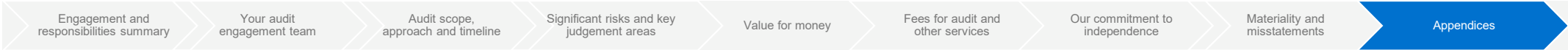


Appendix: Key communication points

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
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 Audit Committee. Audit Planning and Clearance meetings

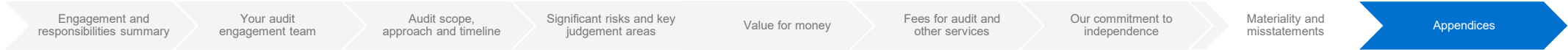
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Appendix: Key communication points

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 AuditCommittee 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>

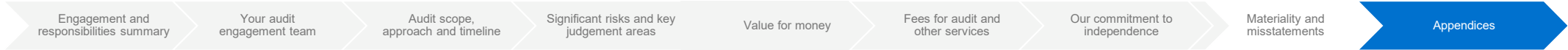
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Appendix: Key communication points

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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Mark Surridge

Mazars

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Birmingham, B3 3AX

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.

The Mazars logo, consisting of the word "mazars" in a bold, lowercase, blue sans-serif font.

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

Report to:	Audit Committee
Date:	19 March 2021
Subject:	External Audit Quality

Summary:

This report considers two recent reviews into the external audit of local authority accounts and reports on their key findings.

Actions Required:

The Executive Director - Resources recommends that the Audit Committee:

1. Notes the contents of this report.

1. Background

- 1.1 The quality of the work carried out by audit firms of the accounts of public bodies is seen as essential to providing local taxpayers and the wider public with an impartial and independent view of their financial statements and their arrangements for securing value for money (VfM).
- 1.2 The external audit of statutory accounts has been under the spotlight recently with a number of independent reviews* of audit having taken place.
- 1.3 This report focuses on the findings of the two of these reviews: the Redmond Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, as well as the Financial Reporting Council Report on Audit Quality Inspection.

The Redmond Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

- 1.4 The review was commissioned by the government to consider the effectiveness of the legal framework for local audits that was introduced by the Local Audit and Accountability Act 2014.
- 1.5 The Redmond review was led by Sir Tony Redmond, and his consultation was first published in September 2019. Interested parties were invited to

respond to the consultation, which consisted of 43 questions covering areas such as: audit and wider assurance; the governance framework; audit product and quality; the financial reporting framework. Lincolnshire County Council provided a response to this consultation.

1.6 After considering the consultation responses, Sir Tony Redmond published the results of his review in September 2020 and made 23 recommendations. These were grouped under four headings:

- External Audit Regulation
- Smaller Authorities Audit Regulation
- Financial Resilience of Local Authorities
- Transparency of Local Reporting.

1.7 The key recommendations relating to external audit quality were that:

- A new body be created to manage, oversee and regulate local audit to replace the current arrangements;
- All auditors engaged in local audit be provided with the requisite skills and training;
- The current fee structure be revised to ensure that adequate resources can be deployed, and to ensure the stability of the local audit market;
- Internal audit work can be used as a key support to external audit work where appropriate;
- The deadline for publishing audited accounts be revisited with a view to extending it from 31 July to 30 September.

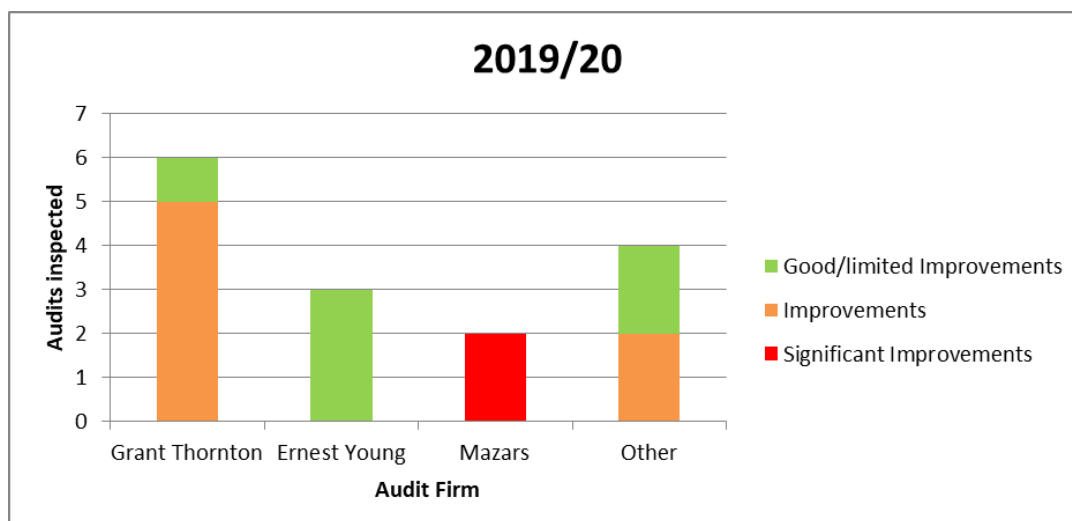
1.8 The government responded to the Redmond review in December 2020. It accepted the recommendation that audit fees be increased, and pledged £15m of additional funding in 2021/22 to cover this. It also accepted the recommendation that the deadline for publication of audited accounts be extended as it would help to mitigate some of the issues reported, however the government's view was that the extension should be for two years only, and should then be reviewed. The government committed to working with accounting bodies and the Financial Reporting Council to consider how the uptake of local audit training can be improved, and agreed to work with the relevant bodies on strengthening engagement between external and internal audit.

1.9 The main area where the government did not support Sir Tony Redmond's recommendations was in the creation of a new body to oversee local audit. The government would prefer to explore other options as it is not of the view that a new arm's length body is required.

- 1.10 Following the publication of its response to the Redmond review, the government made the first moves towards implementing the recommendations it supported. Firstly it published a consultation on the proposed audit fee scale (a summary of the detail of this is shown at Appendix A), and then a consultation on extending the deadlines for publishing draft accounts for inspection (from 31 May to 1 August) and audited accounts (from 31 July to 30 September) for the financial years 2020/21 and 2021/22 only.
- 1.11 There were other recommendations arising from the Redmond review which may be of interest to the Audit Committee. These were all supported by government and are likely to be implemented in due course:
- That an annual report be submitted to full Council by the external auditor.
 - That consideration is given to the appointment of at least one independent member, suitably qualified, to the Audit Committee.
 - That a standardised statement of service information and costs, which compares the financial position to the approved budget, be prepared and presented alongside the accounts.

The Financial Reporting Council Report on Audit Quality Inspection

- 1.12 In October 2020, the Financial Reporting Council (FRC) published their findings into the quality of major local audits in England. The FRC reviewed 15 audits across the seven largest audit firms and covered the Financial Statements opinions and Value for Money conclusions.
- 1.13 The inspection was conducted between December 2019 and September 2020 and covered health bodies, other bodies and local Government authorities. The report focused on key areas requiring action across the firms to safeguard and enhance audit quality, such as property valuations, multi-employer pension deficits, occurrence and completeness of expenditure, first year audit procedures, impairment of receivables and the fraud risk assessment.
- 1.14 The quality of VfM conclusion work across all the firms has continued to improve and all audits reviewed require no more than limited improvements. The report noted that this is a pleasing aspect to the audit firms' work as they are providing high quality assurance to stakeholders around the VfM conclusions.
- 1.15 When inspecting Financial Statements audits it was found that nine of the 15 audits reviewed required improvement, which the FRC deemed as unacceptable. Urgent action is required by some of the firms to ensure swift resolutions are put in place.
- 1.16 Two firms are not consistently achieving the necessary level of audit quality and therefore need to make significant improvement. The FRC has advised these firms to produce a detailed Root Cause Analysis of the issues identified and put in place an audit quality action plan across local audits.



1.17 Mazars is one of the firms that was considered as requiring significant improvement following a trend of poor inspection results. Key areas of focus included the audit of property valuations, group audit oversight, the sufficiency of audit testing over income and receivables and expenditure, and Engagement Quality Control review procedures.

1.18 In response to these findings, Mazars has acted in putting plans in place to improve the quality of their local audit work which also incorporates the emerging changes from the updated National Audit Office Code of Practice. The firm's full response to the FRC's findings can be seen in Appendix B.

1.19 The quality of audit work over property valuations continues to be the biggest area for concern as the FRC. In response to this result, Mazars have mandated their use of a sector-specific audit testing programme for 2020/21 audits onwards.

* In addition to the two reviews considered in this report, in 2018 Sir John Kingman carried out the Independent Review of the Financial Reporting Council, and the government's Committee of Public Accounts published a report on Auditing Local Government in 2019.

2. Conclusion

2.1 This report shows that the two reviews covered have led to a number of recommendations which have been welcomed, and the majority of these recommendations are being either consulted or implemented. This should lead to an improvement in the quality of local audits.

3. Consultation

a) Have Risks and Impact Analysis been carried out?

No

b) Risks and Impact Analysis

N/A

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Public Sector Audit Appointments Ltd Consultation on Audit Fee Scale 2021/22
Appendix B	Mazars' Response to the Financial Reporting Council Report
Link to the Redmond review	https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review
Link to the FRC report	https://www.frc.org.uk/news/october-2020/frc-publishes-major-local-audit-inspection-results

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 .

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Public Sector Audit Appointments Ltd (PSAA) Consultation on Audit Fee Scale 2021/22

(Consultation closed 19th February 2021)

1. Background Information

- 1.1 The consultation sets out the background as to why a change is required, and then sets out the PSAA's proposal to setting next year's audit fee scale.
- 1.2 The audit fee scale must be set before the start of the financial year to which the fees relate, by law, and is subject to consultation. The Redmond review made a recommendation that "the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements" and this recommendation was accepted by the government. This was one of the recommendations aiming at supporting market stability.
- 1.3 The PSAA points out that setting the fees in advance of the start of the financial year poses a challenge, as a significant proportion of audit work takes place after the fees for the work have been determined, and new issues may emerge during the course of the audit that lead to more work. Added to that is the issue that a significant number of audit opinions remain outstanding in respect of the 2019/20 accounts which means that not all information about the audits is available yet. These issues will be addressed in due course as this was acknowledged by the Redmond Review and the government has committed to review the Appointing Person Regulations which cover the setting of scale fees.

2. Proposals for Setting the 2021/22 Audit Fee Scale

- 2.1 The PSAA has reviewed all 2018/19 approved fee variations to establish which ones have an on-going impact e.g. on-going elements of additional work on property valuations and pensions valuations. This information will be used to update individual authority's fees and the PSAA will write to each local authority to confirm the impact on their 2021/22 fees.
- 2.2 The same process will be followed when determining the 2022/23 fees i.e. on-going elements of all 2019/20 approved fee variations will be built in, after excluding any fee variations relating to 2018/19 which will have already been taken into account.
- 2.3 There are other forthcoming developments in financial reporting requirements and auditing, but the PSAA feels that at this point in time there is insufficient information about these to be able to evaluate their potential impact on audit

fees, so the proposal is to deal with these through the recently revised in-year fee variation process (set out below).

- 2.4 An allowance for inflation will also need to be built into the fees in accordance with the contracts, although the PSAA believes that this is unlikely to be required for 2021/22 as the inflation rate is currently low.

3. Summary of Proposal

- 3.1 The fee scale for 2021/22 will be built up as follows:

- 2020/21 scale fees, plus
- relevant adjustments for on-going additional audit work arising from 2018/19 approved fee variations, plus
- any adjustments relating to changes in auditing and financial reporting requirements which are classified as national variations under PSAA's new arrangements for dealing with fee variations and which are determined before 31 March 2021, plus
- any relevant adjustment for inflation arising from PSAA's contracts with audit suppliers (although at this stage it appears unlikely that the relevant provision will result in additional fees payable by audited bodies in respect of 2021/22).

4. In Year Fee Variation Process

- 4.1 The PSAA has recently consulted on a proposed new system for fee variations. The consultation responses were positive so the proposed system will now be implemented.
- 4.2 The new approach will be to introduce national fee variations where changes in audit requirements relate to the conduct of all or most audits and where a standard cost can be reasonably estimated. The PSAA will embark on a piece of research into the expected changes in audit requirements, and will consult audited bodies on proposals where changes in audit approach are identified for which a national fee variation approach could be taken.
- 4.3 This new approach will first apply to audits of the 2020/21 financial statements. An increase in fee variation rates of 25% will also be applied, to address the fact that fee variation rates have been reducing over recent years as they are tied to the main audit fee which has reduced. Over the same period, rates for audit work in other sectors have risen, reflecting both pay inflation and the increasing complexities within accounts.
- 4.4 The process for local fee variations will continue, to cover additional audit work on aspects of accounts affecting individual authorities.

5. Financial Impact

- 5.1 Lincolnshire County Council's 2020/21 scale audit fee is £82,640. We received a fee variation charge this year of £750 for the additional work

carried out on the pension funds arising from the Guaranteed Minimum Pension issue and the McCloud legal case relating to the 2018/19 accounts.

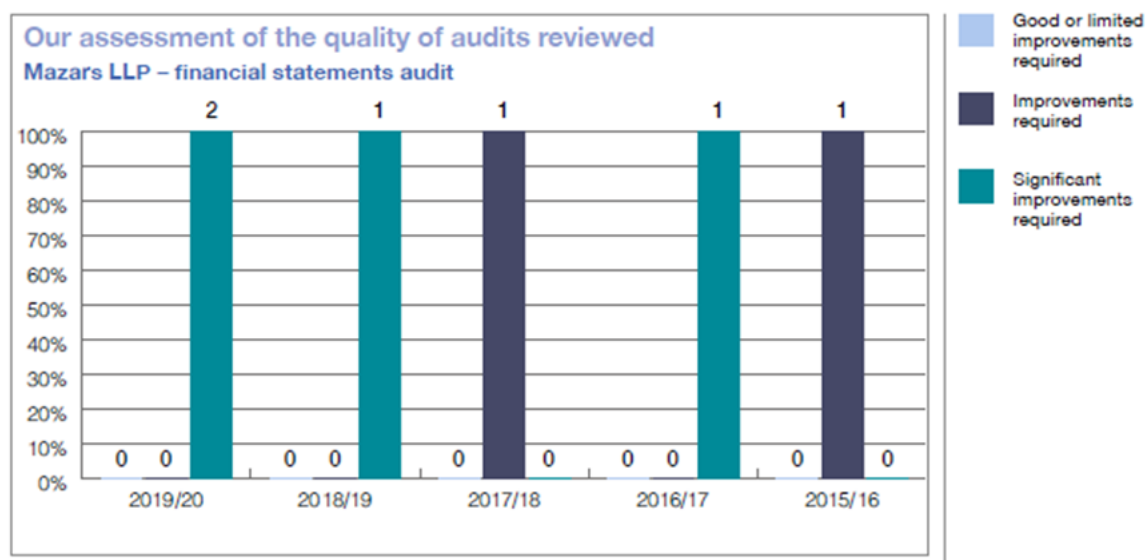
- 5.2 We were notified in August 2020 by Mazars that there was likely to be a fee variation for their 2019/20 work. This has since been confirmed, and our total fee will be £101,934. This comprises £82,640 for the scale audit fee, £12,273 for additional work as a result of changes in regulatory expectations and £7,021 estimated for other work. This latter figure will be confirmed once the audit is complete for 2019/20. We regard the additional £12,273 as an on-going cost, and elements of the estimated £7,021 may also be on-going. This increase has not been built into our 2021/22 budget as in its response to the Redmond Review, the government said that £15 million will be provided for councils in 2021/22 to pay for additional costs arising from new reporting requirements recommended by the Redmond review and expected increases in audit fees driven by additional audit requirements arising from the new NAO code of practice. In addition to this, fee variations are set to increase by 25% (see section above on In Year Fee Variation Process). It remains to be seen whether longer term financial impacts will be covered by additional grant or are expected to be absorbed by local authorities.

6. Lincolnshire County Council's Response to the Consultation

- 6.1 We supported the proposals as they seemed reasonable and there were no other obvious alternatives. It also gives us more certainty over our audit fee each year as we would receive notification of the fee each March just before the start of the year. Although this is late for our budget process we would at least know if this will cause an overspend / underspend at the start of the year whereas now we get very late notifications of fee variations from Mazars after they have been agreed with the PSAA.
- 6.2 In the comments part of the consultation response, we said that whilst the government has pledged financial support to cover fee increases in 2021/22, there is clearly a longer term financial implication and it would be helpful to know that the government is committed to increasing the overall amount of funding for local authorities from 2022/23 onwards as part of its reforms to local government finance.

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Mazars' response to the Financial Reporting Council Report



Both audits reviewed by AQR were assessed as requiring significant improvement. This is clearly unacceptable and follows a trend of poor inspection results.

Following its poor results over the past five years, the firm needs to commit to an action plan for local audit quality improvement. Key areas of quality focus for the firm include the audit of property valuations, group audit oversight, the sufficiency of audit testing over income and receivables and expenditure, and EQC review procedures. The firm should submit to AQR a full RCA for each audit and should also undertake RCA over the firm’s own quality monitoring programme and the inspections performed by ICAEW to establish how audit quality can be restored.

AQR will assess the firm’s local audit quality action plan and will then determine whether any additional procedures of increased audit reviews will be required in the scope of our 2020/21 inspection programme for Mazars.

VfM arrangements conclusion – both reviews were assessed as requiring no more than limited improvement.

Firm’s response:

Our commitment to audit quality is at the core of our values and we are dedicated to the continuous improvement of our audit work and the service we provide to our audit clients. Whilst we are pleased with the results of the AQR’s reviews of our work on Value for Money conclusions (which show only limited improvements identified for a number of years), we are disappointed with its findings on our work on the audit of the financial statements at 2 of our local audit clients. The firm will robustly respond to the findings and has plans in place to improve the quality of our local audit work.

We have prepared a Local Audit Quality Plan, which is a sector-specific element of our firm-wide Audit Quality Plan. These draw together information on risks to audit quality from a range of sources including quality monitoring findings, changes to auditing and financial reporting standards, and feedback from auditors. The Local Audit Quality Plan has also taken account of the AQR's findings and emerging audit quality risks arising from the update of Practice Note 10 and the National Audit Office's Code of Audit Practice. This plan will be maintained by the firm's Audit Quality Team and subject to oversight from our Audit Board.

Root cause analysis (RCA)

Our Audit Quality Team has undertaken a detailed RCA project to identify and understand the drivers of poor audit quality in some of our local audit work. The RCA project has focused on all local audits where the need for improvements or significant improvements have been identified either by the AQR, ICAEW or our internal Quality Monitoring Team.

A report on the findings of the RCA project was considered by our Audit Quality Board in August 2020 and our Local Audit Quality Plan will be refreshed to ensure key findings from the RCA are addressed. Our next RCA project cycle, which is due to commence in October 2020, will consider the two files reviewed by the AQR for audit years ended 31 March 2019.

Engagement Quality Control Review (EQCR)

Prior to the AQR findings, we had recognised a need to increase our capacity in relation to engagement quality control reviews. We have made investments in this area by increasing the number of individuals with detailed knowledge of local audit who are licensed to undertake this key role. We have also targeted our engagement quality control reviewer resources more effectively for the March 2020 year-end audits, focusing on those local audits that are of a significant scale, complexity, or which present additional risks to audit quality.

We recognise that our engagement quality control reviewers need a broad understanding of the particular complexities and nuances of the local government and NHS sectors, as well as emerging audit and financial issues relevant to those sectors. Therefore, from the March 2021 year-end audits, all engagement quality control reviewers who do not have significant sector expertise will attend a mandatory sector briefing, provided by the Audit Quality Team.

We have also undertaken a thematic review of our firm-wide engagement quality control review processes during 2020 in order to identify potential improvements. The report will be presented to the Audit Board in its October meeting. The findings and recommendations will help us improve the impact of our engagement quality control reviews upon audit quality.

The audit of property valuations

The nature of property valuations makes it a complex area which involves the application of a high degree of management judgement, which must be appropriately challenged by auditors. We are disappointed that the AQR has identified a need for improvements in respect of our work on property valuations.

We have developed a comprehensive suite of guidance to auditors over recent years. This has been refreshed during early 2020 to ensure that our teams are clear on the level of testing that is required in key areas such as the accuracy and completeness of source data, the challenge of management and expert judgements, and the assessment of potential risks of material misstatement arising from rolling valuation programmes. In response to the latest reviews, use of a sector-specific audit testing programme will be mandated from our 2020/21 audits onwards (having been strongly recommended for the 2019/20 audit year).

To further respond to the complexity associated with the audit of some property valuations, we have re-visited the arrangements in place for auditors to access valuations expertise to support their audit work, where required. This support is being used extensively during the audit of 2019/20 financial statements.

Group audit oversight

Our audit approach is fully compliant with underlying auditing standards. To support auditors in meeting the requirements in respect of group audit oversight, a range of mandatory templates is in place. A briefing from our Audit Quality Team to Key Audit Partners reminded them of the importance of documenting how they have exercised appropriate oversight of the group audit through, for example, their direction, supervision and review of the work of component auditors.

The audit of income and expenditure

Sector-specific briefings have reminded local auditors of the importance of fully documenting their judgements relating to the testing of income and expenditure. Such judgements include those made in determining the appropriate period before and after the year-end which should be subject to cut-off and completeness testing.

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

Report to:	Audit Committee
Date:	19 March 2021
Subject:	Statement of Accounts 2020/21 – Accounting Policies

Summary:

This report summarises:

- Changes to the Code of Practice on Local Authority Accounting which will be incorporated into the 2020/21 Statement of Accounts for Lincolnshire County Council and the Lincolnshire Pension Fund;
- The broad requirements of the Accounts and Audit Regulations 2015, and the proposed changes to the reporting timescales set out in these regulations, which are subject to consultation at the time of writing this report;
- The review of the Council's Accounting Policies for both the main financial statements and the Lincolnshire Pension Fund statements.

Recommendation(s):

The Executive Director of Resources asks the Members of the Audit Committee to:

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

Background

- 1.1 The Council is required to prepare its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2020/21 (the Code). This ensures the accounts are prepared using "proper accounting practice". The Council is also required to comply with the Accounts and Audit Regulations 2015 in preparing, submitting for audit and publishing its accounts.

Changes to the Code of Practice on Local Authority Accounting for 2020/21: Lincolnshire County Council

- 1.2 The Code of Practice for 2020/21 has introduced some revisions and clarifications to the accounting requirements for the 2020/21 Statement of Accounts:

a) For the main accounts, the key changes are:

- Amendments to emphasise the definition of "material". An example of this is in section 2.1 of the Code covering accounting concepts, which specifies the importance of ensuring that material information is not obscured in the accounts. This will be of particular importance when considering how to report expenditure and grant income relating to Covid-19, which will be both exceptional and material;
- For financial instruments, it is specified that fair value through profit or loss financial instruments are included in the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement (CIES). This is a clarification rather than a change and we have amended our accounting policy to reflect this clarification;
- References to RICS valuation guidance publications will need to be updated in our accounts;
- The line for total comprehensive income and expenditure in the CIES must provide clarity on the signage used e.g. as we use brackets to denote income or a surplus in the CIES, the final line should be amended from "Total Comprehensive Income and Expenditure" to "Total Comprehensive (Income) and Expenditure";
- Confirmation that it is anticipated that the initial application of IFRS 16 Leases will be 1 April 2021, so will not be applicable for the 2020/21 accounts.

b) For the Pension Fund, the Code guidance has been aligned with the reporting requirements set out in the 2018 Pensions Statement of Recommended Practice. The changes include:

- Removal of the requirement to analyse assets between quoted/unquoted and UK/overseas. Note 12B Analysis of Investment will be removed from the 2020/21 accounts;
- Revised analysis for pooled investment holdings. This will be reflected through Note 12 Investments;

- More detailed disclosure requirements in respect of investment management fees. The fees disclosed in Note 10 Management Expenses, will be analysed by type of investment.

1.3 There will also be changes in accounting standards in the future, which may impact on the Council in the 2021/22 accounts. The Chartered Institute of Public Finance and Accountancy (CIPFA) is due to publish a bulletin which will interpret any changes in accounting standards for the public sector. Once this is available, impacts will be assessed and disclosure made in the 2020/21 Accounts at Note 2 Accounting Standards that have been Issued but have not yet been Adopted.

Accounts and Audit Regulations 2015

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

1.5 In February 2021 the Ministry of Housing, Communities and Local Government wrote to Local Authority Chief Executives to consult on amendments to the 2015 regulations, which would apply to the 2020/21 and 2021/22 accounts and then be subject to review. This consultation referred to the review of the effectiveness of external audit and transparency of financial reporting in local authorities (the Redmond review) which had recommended that the deadline for publishing audited accounts be extended from 31 July to 30 September.

1.6 The consultation proposed that audited accounts be published by 30 September, instead of 31 July, and that draft unaudited accounts be published on or before the first working day in August. We have responded positively to this consultation, which closed on 1 March 2021.

1.7 We will continue to work to the 31 May deadline for publishing draft accounts, and may review this when the government announces its decision following the consultation.

Statement of Accounting Policies

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

1.9 A number of changes have been made to the accounting policies for 2020/21 which are marked in ***bold italics*** in **Appendix A**, these include:

- Property, Plant and Equipment – references to the Royal Institute of Chartered Surveyors' (RICS) valuation guidance publications have been updated;
- Disposal of Property, Plant and Equipment – reference is now made to the extension of the flexibility to use capital receipts to fund revenue transformation costs, as confirmed in the Local Government Finance Settlement 2021/22;
- Heritage Assets - confirmation that windmills will be valued at existing use value, but that where there is insufficient market data, depreciated replacement value will be used as a proxy for existing use value;
- Accounting for Schools Income, Expenditure, Assets, Liabilities and Reserves – new text has been added to say that any school with an overall cumulative deficit on its dedicated schools grant (DSG) must produce a management plan detailing how it will return to a balanced position in the future;
- Financial Instruments – the policy has been amended to say that financial assets measured at fair value through profit or loss will have fair value gains and losses recognised as they arrive in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement, as clarified in the 2020/21 Code.

1.10 There have only been minor amendments to the Lincolnshire Pension Fund accounting policies for 2020/21. These have been marked with ***bold italics*** in **Appendix B**. Changes include:

- Contribution income – employer deficit payments: clarification of wording linking the timing of payments to the rates and adjustments certificate issued by the Fund actuary to each employer.
- Transfer to and from other schemes: clarification to the wording for individual and bulk transfers and the point at which the transfer will be accounted for.
- Financial Assets: Clarification on the valuations to be used within the financial statements for alternatives, private equity, property venture and infrastructure assets. This policy was revised during the accounts preparation period last year to reflect the extended accounts and audit deadlines, which allowed more up to date information to be considered for inclusion in the financial statements. As the proposed changes to the Accounts and Audit Regulations include extended deadlines, the Fund considers a continuation of this policy to be appropriate.

Conclusion

- 2.1 The amended accounting requirements, disclosures and timescales, as required by the Code of Practice and the Audit and Accounts Regulations, will be incorporated into the Statement of Accounts for 2020/21.
- 2.2 The Statement of Accounts will be prepared using the Accounting Policies approved by the Audit Committee at this meeting.

Consultation

a) Have Risks and Impact Analysis been carried out?

No

b) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Statement of Accounting Policies for main financial statements 2020/21
Appendix B	Statement of Accounting Policies for LGPS Pension Fund financial statements 2020/21

Background Papers

Document title	Where the document can be viewed
CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21	Executive Director of Resources

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Lincolnshire County Council - Statement of Accounting Policies

Statement of Accounting Policies

1. General Principles and Concepts

The Statement of Accounts summarises the Council's transactions for the financial year ~~2019-20~~ **2020-21** and the position at the year-end 31 March ~~2020~~ **2021**. The Statement of Accounts has been prepared in accordance with the Accounts and Audit Regulations 2015.

These regulations require the accounts to be prepared in accordance with proper accounting practice. These practices are set out in the Code of Practice on Local Authority Accounting in the United Kingdom ~~2019-20~~ **2020-21** and Service Reporting Code of Practice ~~2019-20~~ **2020-21**, supported by International Financial Reporting Standards and statutory guidance.

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

2. Changes in Accounting Policies

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

3. Prior period adjustments – estimates and errors

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

The following disclosures will be made:

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

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

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

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

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

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

Classification

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

Operational Assets:

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

Non-Operational Assets:

- Surplus Assets; and
- Assets under Construction.

Initial Recognition

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

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

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

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

De minimis level

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

De-recognition associated with asset enhancements

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

a. Measurement after Recognition – Valuation Approach

The Council values Property, Plant and Equipment using the basis recommended by CIPFA in the Code of Practice and in accordance with the ~~Statements of Asset Valuation Principles and Guidance Notes Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards, the RICS Valuation – Global Standards 2017 and RICS Guidance Notes. issued by The Royal Institution of Chartered Surveyors (RICS).~~

The code requires the following valuation approaches to be adopted:

Operational Assets

- Land and property assets shall be measured at current value for their service potential, which is determined as the amount that would be paid for the asset in its existing use (EUV). For assets where there is no market-based evidence of fair value because of the specialist nature of the asset and because the type of asset is rarely sold, a Depreciated Replacement Cost (DRC) approach will be used (such specialised assets include schools);
- Non-property assets (including: vehicles, plant and equipment) shall be measured at current value. These are determined to have short asset lives and historic cost is used as a proxy for current value;
- Land, Property and Equipment associated with the Energy from Waste Plant shall be measured at current value on a Depreciated Replacement Cost (DRC) approach as it is a specialised asset; and
- Infrastructure assets (such as roads and bridges) and community assets are measured at historic cost. NB: where historic cost information is not known for community assets these have been included within the Balance Sheet at a nominal value.

Non-Operational Assets

- Surplus assets (i.e. assets which the Council no longer operates/are no longer used for service delivery, but are not Investment Properties or meet the definition for held for sale) have their current value measured at fair value which is estimated at the highest and best use from a market participant's perspective. This is the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Council uses the assumptions that the market participants, i.e. buyers and sellers in the principal or most advantageous market, would use when pricing an asset or liability under current market conditions, including assumption about risk. Therefore, the Council's reasons for holding a surplus asset are not relevant when measuring its fair value;
- Surplus assets are depreciated in line with the operational asset class; and
- Assets under Construction are held at cost. When these assets are operationally complete, they are reclassified into the appropriate asset class and valued under the adopted approach.

b. Valuation Programme

Assets are included within the Balance Sheet at current value. The Council's land and property portfolio is revalued on a five year rolling programme. On an annual basis at year-end, all asset values are reviewed to ensure they are not carried at amounts materially different to current value.

Revaluation Gains and Losses

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

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

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

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

c. Depreciation

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

- Operational buildings are depreciated over their useful life. For buildings which are held at existing use value a useful life of 40 years has been assumed. Asset lives for buildings held on a depreciated replacement cost basis are reviewed as part of the rolling programme of revaluations and the Valuer estimates the useful life. Depreciation is charged on a straight line basis;
- Infrastructure assets, primarily roads, are depreciated on a straight line basis over their estimated useful lives, currently varying from:
 - 1-3 years for capital pothole filling;
 - 6-12 years for carriageways surfacing and slurry sealing;
 - 20 years for street furniture;
 - 40 years for street lighting, kerbs and drains;
 - 60 years for major road structures;
 - Up to 120 years for bridge structures.
- Furniture and non-specialist equipment is depreciated over a period of 5 years, on a straight line basis;
- Vehicles, plant and specialist equipment (including computing equipment) are depreciated over their estimated useful lives, currently these vary depending on the nature of the asset from 3 years up to 25 years for solar panels. **~~For vehicles purchased after 1 April 2004, the reducing balance method of depreciation is used;~~**
- Land, Property and Equipment associated with the Energy from Waste Plant are depreciated over their estimated useful life. These range from 70 years for Civils (including Building Structures) to 10 years for Instrumentation, Control and Automation assets (ICA); and
- Surplus assets are depreciated in line with the operational asset class.

No depreciation is charged on: ~~Heritage Assets, Investment Properties,~~ Land, or Assets Under Construction, and Assets Held for Sale.

Depreciation of an asset begins the year the asset becomes available for use. The charge is for 6 months in the first year, for twelve months thereafter and ceases when the asset has been derecognised. There is a full year's depreciation in the year of disposal.

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

d. Component Accounting for Property, Plant and Equipment

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

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

e. Disposal of Property, Plant and Equipment

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

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

Amounts in excess of £10k are categorised as capital receipts and can then only be used for new capital investment or to repay the principal of any amounts borrowed. It is Council policy to utilise these receipts to fund the capital programme in the year they are received or to carry them forward to be used in future years, subject to the flexibility described in the next paragraph. These receipts are transferred from the General Fund Balance via the Movement in Reserves to be utilised to fund the capital programme or set aside within the capital receipts reserve for future use to reduce the underlying need to borrow. Sale proceeds below £10k are below the de-minimis and are credited to the Comprehensive Income and Expenditure Statement.

Under a Direction issued pursuant to sections 16 and 20 of the Local Government Act 2003 these receipts can also be used to fund revenue expenditure that is designed to generate ongoing revenue savings or transform services to reduce costs and is properly incurred for the financial years commencing on 1 April 2016, 2017 and 2018. The Local Government Finance Settlement for 2018-19 announced a continuation of these rules for a further 3 financial years that begin on 1 April 2019, 2020 and 2021. **The Local Government Finance Settlement for 2021-22 announced a further 3 years extension from 2022/23.** The Council may use this temporary flexibility to fund relevant revenue expenditure.

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

f. Impairment of Non-Current Assets

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

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

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

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

5. Intangible Assets

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

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

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

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

c) **Amortisation.** The carrying value of intangible assets with a finite life is amortised on a straight line basis over its useful life. Amortisation begins when the asset is available for use. The charge is for 6 months in the first year, for twelve months thereafter and ceases at the date that the asset is derecognised. There is a full year's amortisation in the year of disposal. Amortisation is charged to the relevant service area in the Comprehensive Income and Expenditure Statement.

The useful lives for intangible assets are between 3 and 10 years. Useful asset lives are determined by the ICT budget holder and reviewed and updated annually.

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

6. Investment Properties

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

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

b) **Measurement after Recognition.** Investment Properties will be measured at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, Investment Properties are measured at highest and best use using the current market conditions and recent sales prices and other relevant information for similar assets in the local area.

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

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

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

d) **Depreciation** is not charged on Investment Properties.

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

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

7. Heritage Assets

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

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

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

a) Initial Recognition

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

b) Measurement after recognition:

- **Historic Buildings** – Windmills will be valued at existing use value by the Council's Valuer **and where there is insufficient market data Depreciated Replacement Value is used as a proxy**. These valuations will be included on the Council's rolling programme and will be valued every 5 years.
- **Historic Buildings** – Lincoln Castle and Temple Bruer will continue to be carried at historic cost. This is the capital expenditure on enhancements recognised since records began as the Council does not consider that a reliable valuation can be obtained for these assets. This is because of the nature of the assets held and the lack of comparable market values.
- **Collections** will be valued based on the insurance valuations held by the Council. Insurance valuations will be reviewed and updated on an annual basis.

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

d) **Depreciation** is not charged on Heritage Assets.

8. Non-Current Assets Held for Sale

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

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

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

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

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

Amounts in excess of £10k are categorised as capital receipts and can then only be used for new capital investment or to repay the principal of any amounts borrowed. It is Council policy to utilise these receipts to fund the capital programme in the year they are received or to carry them forward to be used in future years, however the Council may use the flexibility to apply capital receipts to fund certain types of revenue expenditure as described in policy 4e. These receipts are transferred from the General Fund Balance via the Movement in Reserves to be utilised to fund the capital programme or set aside within the capital receipts reserve for future use to reduce the underlying need to borrow.

9. Donated Assets

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

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

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

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

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

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

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

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

11. Minimum Revenue Provision

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

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

12. Revenue Expenditure Financed through Capital under Statute

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

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

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

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

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

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

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

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

14. Borrowing Costs

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

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

15. Classification of Leases

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

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

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

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

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

a) Finance Leases

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

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

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

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

iii) **Lessor – Property.** When a finance lease is granted on a property, the relevant assets are written out of the Balance Sheet to gain or loss on disposal of assets in the Other Operating Expenditure line of the Comprehensive Income and Expenditure Statement. A gain is also recognised on the same line in the Comprehensive Income and Expenditure Statement to represent the Council's net investment in the lease. This is matched by a lease asset set up in long term

debtors in the Balance Sheet. The lease payments are apportioned between repayment of principal written down against the lease debtor and finance income (credited to the Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

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

b) Operating Leases

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

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

c) Investment Property Leases (Lessee).

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

16. Government Grants and Contributions

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

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

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

Capital Grants and Contributions (non-current assets)

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

- **Capital grants where no conditions are attached** to the grant and the expenditure has been incurred. The income will be recognised immediately in Comprehensive Income and Expenditure Statement, in the taxation and non-specific grant income line.
Capital grant income is not a proper charge to the General Fund. It is accounted for through the Capital Financing Requirement (set out in statute) and therefore it does not have an effect on council tax. To reflect this, the income is credited to the Capital Adjustment Account through the Movement in Reserves Statement.
- **Capital grants where the conditions have not been met** at the Balance Sheet date. The grant will be recognised as a Capital Grant Receipt in Advance in the liabilities section of the Balance Sheet. When the conditions have been met, the grant will be recognised as income in the Comprehensive Income and Expenditure Statement and the appropriate statutory accounting requirements for capital grants applied.
- **Capital grants where no conditions remain outstanding** at the Balance Sheet date, but expenditure has not been incurred. The income will be recognised immediately in the Taxation and Non Specific Grant Income line of the Comprehensive Income and Expenditure Statement. As the expenditure being financed from the grant has not been incurred at the Balance Sheet date, the grant will be transferred to the Capital Grants Unapplied Account (within usable reserves section of the Balance Sheet), through the Movement in Reserves Statement. When the expenditure is incurred, the grant shall be transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account to reflect the application of capital resources to finance expenditure.

Revenue Government Grants and Contributions

Government grants and other contributions are accounted for on an accruals basis and recognised in the Comprehensive Income and Expenditure Statement when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received. Where the conditions have not been met these grants will be held as creditors on the Balance Sheet. Specific revenue grants are included in the specific service expenditure accounts together with the service expenditure to which they relate. Grants which cover general expenditure (e.g. Revenue Support Grant) are credited to the Taxation and

Non-specific Grant Income in the Comprehensive Income and Expenditure Statement after Net Cost of Services.

17. Debtors

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

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

If settlement is over a year this is accounted for as long term debtor. When considering the amortised cost of long term debtors, the Council has set a £50k de minimis limit. Below this amount, the carrying value of the long term debtor will be used as a proxy for amortised cost.

For estimated manual debtors, a de-minimis level of £25k for individual revenue items and £50k for capital items is set.

18. Creditors

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

Creditors are initially recognised and measured at fair value in the accounts. If payment is deferred to over a year, this is accounted for as long term creditor. When considering the amortised cost of long term creditors, the Council has set a £50k de minimis limit. Below this amount, the carrying value of the long term creditors will be used as a proxy for amortised cost.

For estimated manual creditors, a de-minimis level of £25k for individual revenue items and £50k for capital items is set.

19. Inventories

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

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

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

20. Cash and Cash Equivalents

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

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

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

Bank Overdrafts are to be shown separately from Cash and Cash Equivalents where they are not an integral part of an Authority's cash management. Where a bank overdraft is assessed as part of the Council's cash management it will be included within Cash and Cash Equivalents.

21. Provisions

The Council sets aside provisions for future expenses where:

- a past event has created a current obligation (legal or constructive) to transfer economic benefit;
- it is probable that an outflow of economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

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

The Council has set a de-minimis level for recognising provisions £250k.

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

Provisions are recognised and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When considering the valuation of long term

provisions, the Council has set a £50k de minimis limit. Below this amount long term provisions are measured using carrying value.

22. Contingent Liabilities

A contingent liability is where there is a possible obligation to transfer economic benefit resulting from a past event, but the possible obligation will only be confirmed by the occurrence or non-occurrence of one or more events in the future. These events may not wholly be within the control of the Council. The Council discloses these obligations in the narrative notes to the accounts.

These amounts are not recorded in the Council's accounts because:

- it is not probable that an outflow of economic benefits or service potential will be required to settle the obligation; or
- The amount of the obligation cannot be measured with sufficient reliability at the year end.

The Council has set a de-minimis level for disclosing Contingent Liabilities of £500k.

23. Contingent Assets

A contingent asset is where there is a possible transfer of economic benefit to the Council from a past event, but the possible transfer will only be confirmed by the occurrence or non-occurrence of one or more events in the future. These events may not wholly be within the control of the Council. The Council discloses these rights in the narrative notes to the accounts.

The Council has set a de-minimis level for disclosing Contingent Assets of £500k.

24. Events after the Reporting Date

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

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

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

25. Recognition of Revenue (Income)

Revenue is accounted for in the year it takes place, not simply when cash payments are received.

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

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

26. Exceptional Items

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

27. Costs of Support Services

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

28. Acquired and Discontinued Operations

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

29. Value Added Tax (VAT)

The Council's Comprehensive Income and Expenditure Statement excludes VAT unless this is not recoverable from HM Revenue and Customs. All VAT must be passed on (where output tax exceeds input tax) or repaid (where input tax exceeds output tax) to HM Revenue and Customs.

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

30. Council Tax and Business Rates Income

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

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

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

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

31. Reserves

Useable Reserves

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

Unusable Reserves

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

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

32. Employee Benefits – Benefits Payable during Employment

Benefits Payable During Employment – Short Term Benefits. These are amounts expected to be paid within 12 months of the Balance Sheet date. These include:

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

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

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

33. Employee Benefits – Termination Benefits

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

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

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

to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

34. Employee Benefits – Post Employment Benefits (Pensions)

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

- Teachers' Pension Scheme: This is a notionally funded scheme administered nationally by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The pension contributions to be paid by the Council are determined by the Government Actuary and reviewed periodically. The scheme is accounted for as if it were a defined contribution scheme. There is no liability for future payments of benefits recognised in the Balance Sheet. All employers' contributions payable to teachers' pensions in the year are treated as expenditure on the Schools' service line in the Comprehensive Income and Expenditure Statement.
- National Health Service Pension Scheme (NHSPS): This is a notional funded scheme administered national by NHS Pensions on behalf of the Department of Health and Social Care (DHSC). The pension contributions to be paid by the Council are determined by the Government Actuary and reviewed periodically. The scheme is accounted for as if it were a defined contribution scheme. There is no liability for future payments of benefits recognised in the Balance Sheet. The employer's contributions payable to the National Health Service Pension Scheme in the year are treated as expenditure in the Wellbeing and Children are Safe and Healthy service lines in the Comprehensive Income and Expenditure Statement.
- Uniformed Firefighters Pension Scheme (FPS): From 1 April 2015, a new pension fund for Firefighters was set up. This scheme replaced the 2006 & 1992 Firefighters schemes for new Firefighters. The 2015, 2006 and 1992 schemes remain unfunded but there are differences in the contributions payable into each scheme and the benefits paid to members. Both employee and employer contributions are paid into the three funds, against which pension payments are made. Each fund is topped up by additional government funding if contributions are insufficient to meet the cost of the pension payments. Any surplus in the funds at the end of each year will be repaid back to the ~~Ministry of Housing Communities and Local Government (MHCLG)~~ Home Office. Contributions in respect of ill health retirements are still the responsibility of the Council.
- Local Government Pension Scheme (LGPS): Other employees are eligible to join the LGPS. The Council pays contributions to a funded pension scheme from which employee pension benefits are paid out.

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

The Local Government Pension Scheme (LGPS)

The LGPS is accounted for as a defined benefits scheme:

- The liabilities of the Lincolnshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate ~~of xx% – (to be updated once information is available)~~ (based on long term UK Government bonds greater than 15 years);
- The assets of Lincolnshire Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
 - quoted securities – current bid or last traded price;
 - unquoted securities – professional estimates;
 - unitised securities – current bid price.
 - **Property – market value**

The change in net pension's liability is analysed into the following components:

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

into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

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

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

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

35. Accounting for Schools Income, Expenditure, Assets, Liabilities and Reserves

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

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

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

If assets are owned by the Council or the governing body of the school or the future economic benefits are identified to sit with the Council, then the non-current assets will be recorded in the Balance Sheet. Where a school transfers to Academy status and has signed a long term (125 year) lease, the school is removed from the Council's Balance Sheet.

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

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

Any school with an overall cumulative deficit on its dedicated schools grant (DSG) must produce a management plan detailing how it will return to a balanced position in the future.

36. Group Relationships

The Council assesses on an annual basis relationships with other bodies to identify the existence of any group relationships. A de-minimis level of £20.000m **aggregated gross turnover** has been set for **considering bodies to be included within group accounts. determining whether or not group accounts will be prepared.**

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

37. Financial Instruments

Financial Liabilities. Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

All the Council's borrowings are carried at amortised cost and the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. Regulations state that the period to spread discounts is limited to a minimum period equal to the outstanding term on the replaced loan or 10 years if this is shorter. Premiums may be spread over the longer of the outstanding term on replaced loan or the term of the replacement loans or a shorter period if preferred. The Council will spread premiums over the term that was remaining on the loan replaced and spread discounts in line with regulation. When matching premium and discounts together from a re-scheduling exercise, the Council's policy is to spread the gain/loss over a ten year period or the term that was remaining on the loan replaced if greater than ten years. The reconciliation of premiums/discounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund is managed by a transfer to or from the Financial Instruments Adjustment Account through the Movement in Reserves Statement.

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

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

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

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

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

Financial Assets Measured at Amortised Cost

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

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

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

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

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

- Soft Loans – The Council can make loans to third parties at less than market rates (soft loans) for service objectives. When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement, (debited to the appropriate service), for the present value of the interest that

will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the third party recipients of the loans, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

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

Expected Credit Loss Model – for Assets Measured at Amortised Cost

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables (debtors) that are more than 30 days past the due date, held by the Council. **These are individually assessed to determine whether or not the trade receivable (debtors) are likely to default on their obligations.**

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

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

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

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

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

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

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

*Note

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

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

- the annual impairment gain or loss will be the change in lifetime expected credit losses over the year.

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

Financial assets held by the Council that fall into this category include Constant Net Asset Value (CNAV) and Low Volatility Net Asset Value (LVNAV) Money Market Funds.

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

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

Financial assets measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services, ***specifically within the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.***

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

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

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

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

The impairment requirements do not apply to financial assets classified as 'fair value through profit or loss', as current market prices are considered to be an appropriate reflection of credit risk, with all movements in fair value (including those relation to credit risk) impacting on the carrying amount being posted to the ***Surplus or Deficit on the Provision of Services Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement*** as they arise.

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

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

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

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

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

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

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

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

Has credit risk increased significantly since initial recognition?

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

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

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

Where financial assets have been designated into the FVOCI category they are outside the scope of impairment for the same reasons that FVPL assets are. The Council has set a de minimis level of £25k to the resultant impairment loss for financial assets at FVOCI, below which the impairment is deemed immaterial and not recognised.

38. Fair Value Measurement

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

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

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

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

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

For financial instruments measured in fair value (FVPL and FVOCI) is therefore based on the following techniques:

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

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

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

Lincolnshire Pension Fund Significant Accounting Policies 2020/21

Fund account – revenue recognition

a. Contributions income

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

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

Employer deficit funding contributions are accounted for on the basis advised by the Fund actuary in the rates and adjustment certificate issued to the relevant employing body.

Additional employers' contributions, for example, in respect of early retirements, are accounted for in the year the event arose.

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

b. Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund. They are calculated in accordance with the LGPS Regulations 2013:

- ***Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.***
- ***Bulk transfers are accounted for in accordance with the terms of the transfer agreement.***

c. Investment Income

i) Interest income

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

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-

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

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iv) Changes in the net market value of investments

Changes in the net market value of investments are recognised as income/expense and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

d. Benefits payable

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

e. Taxation

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

f. Management expenses

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

i) Administrative expenses

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

ii) Oversight and Governance

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

iii) Investment management expenses

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

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

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

In addition, the Fund has negotiated with Invesco Asset Management (for Global Equities – ex UK) and Morgan Stanley Investment Management Ltd (for Alternative Investments) that an element of their fee will be performance related.

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

Net assets statement

g. Financial assets

All investment assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the Fund and are classified as Fair Value through Profit and Loss (FVPL).

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Pension Fund Note 14). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

Alternatives, private equity, property venture and infrastructure valuations are based on valuations provided by managers at the year-end date. ***Where more up to date valuations are received during the accounts preparation or audit period, their materiality, both individually and collectively will be considered, and the accounts revised to reflect these valuations if necessary. If valuations at the year-end are not produced by the manager, the latest available valuation is adjusted for cash flows in the intervening period.***

The investment in the LGPS asset pool, Border to Coast Pensions Partnership, is also carried at fair value. This has been classified as Fair Value through Other Comprehensive Income (FVOCI) rather than FVPL as the investment is a strategic investment and not held for trading.

h. Foreign currency transactions

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. The exchange rates used at 31 March 2021 are shown in Pension Fund Note 27.

i. Derivatives

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

Future value of forward currency contracts are based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract. The contracts are valued using Northern Trust closing spot/forward foreign exchange rates on 31 March.

j. Cash and cash equivalents

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

k. Financial liabilities

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

Other financial liabilities classed as amortised cost, are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest.

l. Actuarial present value of promised retirement benefits

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

19 and relevant actuarial standards. At year end, the promised retirement benefits have been projected using a roll forward approximation from the latest formal funding valuation. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (see Pension Fund Note 18).

m. Additional voluntary contributions

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

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note for information (see Pension Fund Note 21).

n. Contingent assets and contingent liabilities

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

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

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes (see Pension Fund Note 24 and 25).

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

Report to:	Audit Committee
Date:	19 March 2021
Subject:	Internal Audit Progress Report

Summary:

The purpose of this report is to:

- Provide details of the audit work completed to 15th February 2021.
- Advise on progress of the 2020/21 plan (including planned work to June 2021).
- 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 14th October 2020 to 15th February 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
- Audit schedule
- Planned work to June 2021

Conclusion

The outcome of our work shows some governance & risk issues – with **2** of our assurance opinions being **limited**. These relate to:

- ICT Network infrastructure Security; and
- ICT Business Continuity & Disaster Recovery.

We have invited the Assistant Director IMT & Enterprise Architecture to attend the Audit Committee to give an update to members on the limited assurance reviews.

We have also issued **2 high assurance** and **2 substantial assurance opinions** and completed the co-ordination of the Combined Assurance Report for the Corporate Leadership Team and Audit Committee.

We are making good progress towards completing the revised 2020-21 audit plan - **69%** progress 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 and have been unable to recruit to vacant auditor posts.

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.

All audits have been allocated – given the challenges to delivery this year we are now working to complete the plan by the end of April 2021.

Our recruitment activity this year has demonstrated the limited availability of experienced auditors. Moving forward, we are looking to build capacity and 'grow our own' through recruiting apprentices in 2021/22.

Follow up of outstanding recommendations so that **74%** have been implemented – with 11% not yet due at this date. Management responses established that the remaining 15% have been deferred for a number of reasons, including better aligning actions with ongoing service projects and the Council's ongoing Covid-19 response and recovery plans remaining the priority.

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. We will continue to track both actions.

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

Consultation

a) Have Risks and Impact Analysis been carried out?

No

b) Risks and Impact Analysis

N/A

Appendices

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

Background Papers

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

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

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Internal Audit Progress Report



Image Courtesy of iStock.com/UPZZA

Lincolnshire County Council March 2021

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Assurances

Audit Reports at Draft

Work in Progress

Other Significant Work

Benchmarking Page 9

Key Performance Indicators

Other Matters of Interest Page 10

- CIPFA - Facing up to COVID-19 in the public sector
- Financial Reporting Council - Major Local Audits - Audit Quality Inspection
- Internal Audit Standards Advisory Board – Conformance with the PSIAS during the coronavirus pandemic
- National Audit Office Auditor Guidance Note 3 - Auditors' Work on Value for Money (VFM) Arrangements
- CIPFA Guidance - Head of Internal Audit Annual Opinions: Addressing the Risk of a Limitation of Scope

Appendices Page 14

- 1 Assurance Definitions
- 2 Tracker Report – all outstanding audit actions due 1/2/21
- 3 2020/21 Audits to date
- 4 Limited assurance reports
- 5 Planned 2021/22 audits

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

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

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period 14th October to 15th February 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:

- Carers follow up audit
- Pensions Admin (Highlight report)

Substantial:

- Education Health care plans
- Capital programme

Limited:

- ICT Network Infrastructure Security
- ICT Business Continuity and Disaster Recovery

Consultancy:

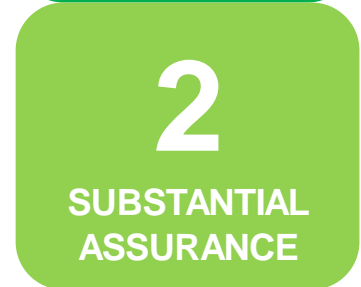
- Assurance Mapping

Audit reports at draft

We have six pieces of audit work at draft report stage:

- Implementation of Mosaic Finance
- Bank Reconciliation
- ICT Mobile Devices / Agile Working
- ICT Software Asset Management
- Transport Providers
- LFR training records system

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.



Introduction

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Key Messages

We are making good progress towards completing the revised 2020-21 audit plan. Progress 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 and have been unable to recruit to vacant auditor posts. 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. All audits have been allocated – given the challenges to delivery this year we are now working to complete the plan by the end of April 2021.

Our recruitment activity this year has demonstrated the limited availability of experienced auditors. Moving forward, we are looking to build capacity and ‘grow our own’ through recruiting apprentices in 2021/22. We are also looking at succession planning through an ‘acting up’ opportunity where one of our senior auditors has stepped up to Principal level, supporting our management capacity.

We continue to provide advice and insight on risk and controls to the Business World Re-design project. As previously reported, implementation has been rescheduled for a November 2021 go-live. Project assurance remains Amber as work to finalise the Shareholder agreement with Hereford Council is continuing and there has been some slippage against the project delivery plan due to delays in completing the second round of data reconciliation. The Shareholder agreement along with the supporting Service Level and On Boarding agreements are now a standing agenda item for Project Board meetings. The project team has reported that they expect slippage to be made up as work progresses to reach the User Acceptance stage that is planned to start in April 2021.

Before Christmas, the Project Sponsor also engaged an external project management and IT consultancy to provide additional insight on project readiness and delivery. Their report is due to be shared with the Project Board in March.

The Assistant Director IMT & Enterprise Architecture will be attending this Audit Committee to provide Members with an update on the two recent limited ICT audits seen in appendix 4.

Introduction

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2021/22 Audit Plan

The annual Combined Assurance report was completed and reported to the Audit Committee in February 2021. The assurances around critical activities, projects and risks, along with additional intelligence gathered from wider internal and external audit sources will be used to develop the audit plan for 2021/22.

Given the current position with the pandemic, ongoing delivery of the 2020/21 plan and tight committee timescales, we have delayed the production of the plan so that we have sufficient time to consult with Corporate and senior leadership teams ensuring our assurance is focused around the most important risks and priorities. In line with One Council working we are looking to include areas that cut across the whole council, such as the transformation programme, Contract Management and Covid-19 recovery and response.

Details of our planned audits are provided in Appendix 5. 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 October 2020

The plan will also include a number of ICT audits. Following assurance discussions with the Assistant Director, IMT & Enterprise Architecture we have compiled an ICT audit 'universe' and through risk assessment developed an ICT audit plan spanning multiple years. More detailed information on assurance assessments and plans will be shared with the Committee in June.

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period 14th October to 15th February 2021
- Give an update on outstanding management actions from previous audits
- Raise any other matters that may be relevant to the Audit Committee role

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 31 January 2021. We found that 75% of the actions have been completed, with 11% not yet due at this date. Management responses established that the remaining 14% have been deferred for a number of reasons, including better aligning actions with ongoing service projects and the Council's ongoing Covid-19 response and recovery plans remaining the priority.

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. We will continue to track both actions.

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

Carers follow up.

Work on the follow up audit commenced in March 2020. However, shortly afterwards this was put on hold due the impact on Carers FIRST services and general restrictions brought about by the Covid-19 pandemic. An interim report was issued earlier in the year on the work to date.

Our audit review resumed in October 2020 and we confirmed that SERCO and Carers FIRST have addressed the actions arising from the previous audit in 2018 and substantial progress has been made in improving quality assurance processes across the service, training is now evidenced and adequate supervision processes are in place.

Pensions Admin

Pension Administration arrangements are audited by the audit team from Bradford Metropolitan District Council (MDC). Our review of their audit reports enables us to place assurance on the effectiveness of the controls within the Pensions Admin system.

This year all reports were given a Good or Excellent rating. Our discussions confirmed that Covid-19 had not impacted on the delivery of the 2020/21 audit plan. Bradford MDC have been able to carry out their testing as normal since they have direct access to pension systems and therefore were able to test remotely and contact pension admin staff to resolve queries. Any issues they have come across have been resolved on a timely basis.

Substantial Assurance

We found that there were effective processes and controls in place to support the Council's completion of Education, Health and Care (EHC) Needs Assessments on time and within statutory guidance. The EHC team has a clear understanding of the statutory guidance in this area and there are good controls in place relating to completion of EHC Plans. Robust arrangements are also in place to effectively manage any disagreements between parent / young person and the Council. The service has a positive attitude to resolving complaints at the earliest opportunity with parent involvement.

We found some periods during 2019/20 where the controls could have been applied more consistently or robustly. This was due to the overriding impact and delays caused by the lack of Educational Psychologist resource which has now been resolved.

As part of the audit we also reviewed the 3 EHC plans where the Council was found to be at fault in 2019/20 by the Ombudsman. In all 3 cases the team undertook a lessons learnt review and addressed the issues identified. This resulted in changes in procedures and sharing of best practice. This is supported by on-going training and development across the team to address training needs and improve working practices.

Our previous audit on the Capital Programme gave a limited assurance opinion. Due to higher priorities identified by key service areas such as Property it was not possible to carry out the full scope of the review we originally planned for 2020/21. This review therefore focused on follow up of the recommendations and agreed management actions from the previous audit report.

We were able to confirm that all but one of the previous recommendations had been addressed. This included the formation of the Capital Review Group to review and challenge business cases and monitor project delivery, and improved reporting on capital spend to OSMB and Executive which is now separate to revenue and includes whole life reporting. The outstanding action relates to whole life reporting directly from Business World - whether this is available from the Hoople Standard will be investigated but alternative methods are in place.

We plan to complete further work around individual projects in 2021/22.

Education Health care Plans

Capital Programme

Limited Assurance

ICT Network Infrastructure

The audit identified a noticeable presence of legacy operating systems and network equipment, with a significant number of devices with obsolete operating systems. Legacy equipment that is out of support significantly increases the attack surface on the network infrastructure presenting a risk of the network being compromised, or being unavailable in the event of faults. Furthermore, the legacy systems often have an impact on the overall capacity of the IT infrastructure, and may adversely impact the availability of the IT operations.

LCC is aware of this security challenge on its IT environment and is making efforts to reduce the risks of obsolete equipment and systems through decommissioning.

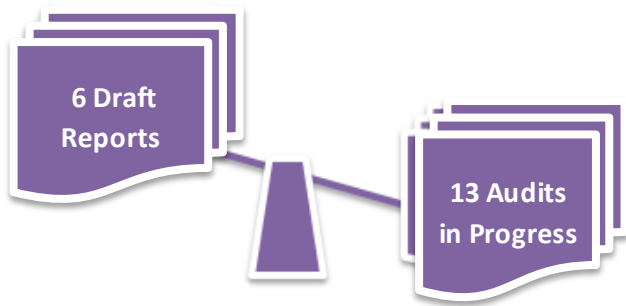
Further information can be seen in Appendix 4.

ICT Business Continuity and Disaster Recovery

This review identified that whilst the Council has a good strategy in place for Business Continuity and Disaster Recovery (BC and DR) planning, the development of the BC and DR plans for IMT and their testing had not been appropriately implemented. These issues significantly increase the risk that the Council may not be able to recover its systems and data in line with business requirements in the event of a serious event.

This review was based on the current, mainly traditional, architecture of the IT environment at the Council. As part of digital transformation, the Council is aiming to migrate its IT infrastructure to public cloud. Cloud computing simplifies the management and monitoring of the DR Service and effectively deals with most issues of traditional disaster recovery.

Further information can be seen in Appendix 4.



Audits in Progress

We have 13 audits at fieldwork stage:

- Budget Management and Reporting
- Accounts Payable
- Better Care Fund
- Business Grants Scheme
- Debtors
- General Ledger
- ICT Privileged Account Management
- LFR Expenses payments
- Payroll
- Safeguarding Children – review of response to Covid-19
- Transport Connect
- Business World Redesign Risk Register (Consultancy work)
- Spalding Western relief road follow up.

Other Significant Work

Grants

At the request of the Executive Director of Resources we have carried out quarterly reviews on the new 'Loss of Income' grant. COVID-19 has impacted local authorities' ability to generate revenues in several service areas as a result of lockdown, government restrictions and social distancing measures related to the pandemic. This new, one-off income loss grant scheme will compensate for irrecoverable and unavoidable losses from sales, fees and charges income generated

in the delivery of services, in the financial year 2020/21.

We were asked to provide review and challenge on the appropriateness of the quarterly claims that were submitted in line with the grant guidance. Our work did not identify any issues. We will do a similar review on further grants submissions this year and into the new financial year.

We are also carrying out certification work on the Community testing grant to ensure that funds have been used in line with grant conditions. The purpose of the grant is to provide support to the Local Authority towards expenditure lawfully incurred or to be incurred in relation to community testing in response to the COVID-19 outbreak.

Transformation Programme

Audit continue to attend the monthly Transformation Programme (TP) Governance Board and provide input and challenge around the governance arrangements.

Advice and assurance on progress and delivery is regularly fed back to the TP management team informally and through highlight reports. The first highlight report is at draft stage and will be reported in the next progress report to committee.

The recent Combined Assurance report set a Green rating for the governance structures for TP and Amber for the actual project delivery.



Key Transformation areas under review include the effectiveness of the lead governance board in steering this large programme of work.

Further review planned for 21/22 will focus on key issues such as Red or Amber rated projects, management of resource across multiple services.

We will also consider the ability of IMT services to support the programme and delivery of individual projects.

Business World Redesign

We continue to undertake assurance work with the BW project:

- two rounds of data reconciliation have been undertaken and lessons are being learned to improve and streamline each stage. We are reviewing the output from this activity
- the initial system build has been completed and integrated testing is in progress to confirm it works as expected. This is being led by the project team and we will review test coverage and successful completion
- regular meetings are in place to monitor progress with delivery of the first payroll parallel run. Acceptance criteria have been agreed in advance ensuring variances in results due to Hoople and LCC system builds are clearly explained and documented prior to moving on
- initial business process reviews are complete and the project team is focused on mapping key areas where changes are needed to align with the Hoople solution
- we are reviewing Roles allocation to provide advice around segregation of duties

- To support identification of process improvements, Serco & the BW project team produced a transactional metrics report highlighting areas which are restricting the Council from operating a best practice approach and priority areas for improvement. We have provided a briefing note to the Executive Director of Resources on where these overlap with our audit coverage and previously reported recommendations. We will utilise this metrics report to help inform our work on key financial systems.

External Audit report 2019/20 – Internal Control Recommendation

The Audit Completion report made a recommendation around processes to ensure the BW Systems Admin Team were notified of leavers in order to keep Business World user accounts accurate and up to date.

We have confirmed that processes have been strengthened to run more regular reports identifying leavers and close accounts promptly. However, there are some delays in closing user accounts where these have open BW ‘tasks’ progressing within workflow. Tasks have to be manually assigned to alternative BW users.

The compensating control is removal of access to the Council’s ‘active directory’ ensuring that former employees cannot access any system. We plan to undertake an audit of IMT starters and leavers processes early in 2021/22.





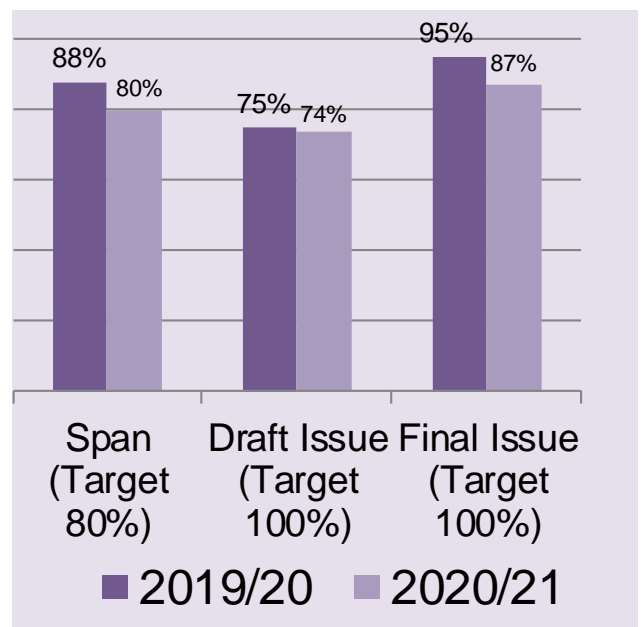
Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators

Positive feedback has been received

Revised Plan completed 69%

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

CIPFA - Facing up to COVID-19 in the public sector

The COVID-19 pandemic presented an unprecedented challenge to public bodies. This created a challenge for public sector heads of internal audit who had to balance supporting their organisation and the wider public interest with their need to provide assurance to the leadership team and Committees as well as maintaining their professional standards.

This publication includes examples of how some internal audit teams have responded to the challenges providing some lessons to share and helping the leadership team and Committee understand the role and potential of internal audit.

Summary of the Key learning points for Maintaining effective engagement with clients, the leadership team and the audit committee

- Be proactive in putting forward suggestions in how internal audit can help.
- Make it your business to find out how the governance of your organisation's response to the crisis is being managed.
- Consider how advisory work may contribute to the head of internal audit's annual opinion.
- Consider opportunities to place reliance on other sources of assurance within the first and second lines.
- Consider how the organisation has maintained wider governance arrangements that impact on the work of internal audit.
- Prompt audit reporting and good planning and focused scoping of work.
- Consider the use of shorter report templates with focused outcomes to enable a quicker response.
- Keep the audit committee informed of your work at regular intervals.
- Discuss with your audit committee chair what information they would most value to support them in their role.

Summary of Key Questions for Audit Committee members to ask

1. Has the internal audit service redeployed any staff during 2020/21 to support COVID-19 related activity?
2. What impact have these had on the overall operation of the internal audit service?
3. Have key organisational risks been subject to internal audit review during 2020/21?
4. Has internal audit been able to follow up recommendations, any areas of concern?
5. Is there sufficient audit resource to deliver an internal audit opinion at the end of the year?
6. Will the head of internal audit be able to take assurance from any second line functions?
7. Which audit areas have been deferred or cancelled and the potential impact?
8. Has the head of internal audit been able to keep up to date with changes in the organisation's COVID-19 governance processes?
9. Is senior leadership providing the audit committee with regular information around key risks and governance developments arising from COVID-19?
10. Does the internal audit team need to undertake a skills assessment to ensure the skills mix is appropriate in a changing environment?

The full report can be found through this link:-

[Facing Up to COVID-19 in the Public Sector | CIPFA](#) Page 125



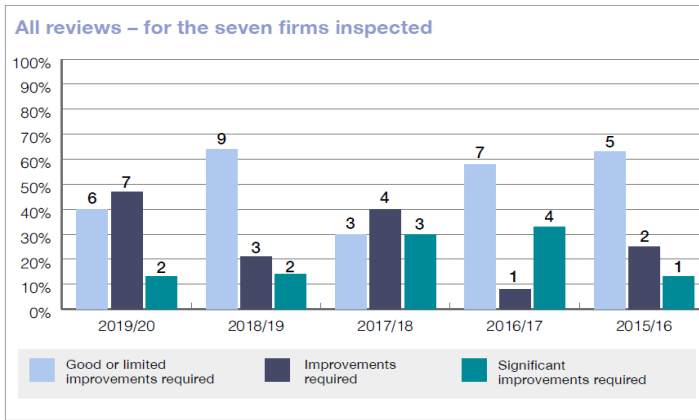
Other Matters of Interest

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

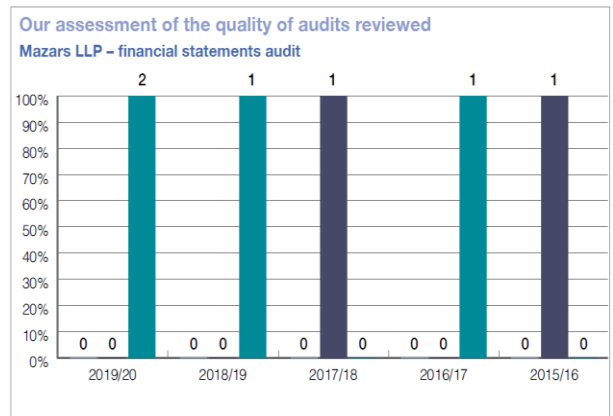
Financial Reporting Council - Major Local Audits - Audit Quality Inspection

The Financial Reporting Council is responsible for monitoring the quality of Major Local Audits. The reports sets out it's findings arising from the 2019/20 inspection of 7 audit firms completing major local audits in England.

The overall assessment results were :-



The result for Mazars was:-



Both audits selected for Mazars required significant improvement and was shown as being unacceptable, following a trend of poor inspection results. It gave the key areas of quality to focus on as audit of property valuations, group audit oversight and ensuring sufficiency of testing on income and receivables and expenditure.

Each accountancy firm provided a detailed response. Mazars response was:

Our commitment to audit quality is at the core of our values and we are dedicated to the continuous improvement of our audit work and the service we provide to our audit clients. Whilst we are pleased with the results of the AQR's reviews of our work on Value for Money conclusions (which show only limited improvements identified for a number of years), we are disappointed with its findings on our work on the audit of the financial statements at 2 of our local audit clients. The firm will robustly respond to the findings and has plans in place to improve the quality of our local audit work.

We have prepared a Local Audit Quality Plan, which is a sector-specific element of our firm-wide Audit Quality Plan. These draw together information on risks to audit quality from a range of sources including quality monitoring findings, changes to auditing and financial reporting standards, and feedback from auditors. The Local Audit Quality Plan has also taken account of the AQR's findings and emerging audit quality risks arising from the update of Practice Note 10 and the National Audit Office's Code of Audit Practice. This plan will be maintained by the firm's Audit Quality Team and subject to oversight from our Audit Board.

The full report can be found at <https://www.frc.org.uk/getattachment/da3446de-8d37-4970-828d-e816d7c0826c/FRC-LA-Public-Report-30-11-2019.pdf>



Other Matters of Interest

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

Internal Audit Standards Advisory Board – Conformance with the PSIAS during the coronavirus pandemic

This guidance has been produced to support internal audit within the public sector in its compliance with the Public Sector Internal Audit Standards. It recognizes the difficulties being experienced during the pandemic and the effects this could have on conformance with the PSIAS.

The guidance sets out some examples of how Internal Audit can protect organizational value and the challenges it might face in applying the standards. It sets out 7 key steps which the Head of Internal Audit should take.

A full copy of the document can be provided on request.

National Audit Office Auditor Guidance Note 3 - Auditors' Work on Value for Money (VFM) Arrangements

This guidance was issued in October 2020. It identifies how local External Auditors are expected to approach and report their work on VFM arrangements under the new Code and applies to audits of 2020-21 financial statements onwards.

The approach set out in this AGN re-focuses the work of local auditors to:

1. promote more timely reporting of significant issues to local bodies;
2. provide more meaningful and more accessible annual reporting on VFM arrangements issues in key areas;
3. provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness; and
4. provide clearer recommendations to help local bodies improve their arrangements.

From 2020-21 audits onwards, the key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, published as part of the Auditor's Annual Report. The commentary will enable auditors to explain the work they have undertaken during the year, and to highlight any significant weaknesses that they have identified and brought to the body's attention, along with their recommendations for improvement. The commentary will, however, also allow auditors to better reflect local context and draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself.



Other Matters of Interest

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

When reporting on these arrangements, the 2020 Code requires auditors to structure their commentary on arrangements under three specified reporting criteria:

1. Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services
2. Governance: how the body ensures that it makes informed decisions and properly manages its risks
3. 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

A full copy of the document can be provided on request.

CIPFA Guidance - Head of Internal Audit Annual Opinions: Addressing the Risk of a Limitation of Scope

The impact of COVID-19 on all the public services has been considerable and for internal auditors it has raised the question of whether they will be able to undertake sufficient internal audit work to gain assurance during 2020/21. This is a key consideration to fulfil the requirement of the Public Sector Internal Audit Standards (PSIAS) for the head of internal audit (HIA) to issue an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This opinion is in turn one of the sources of assurance that the public body relies on for its annual governance statement.

CIPFA recognises that local government bodies are struggling with considerable challenges and are having to make difficult decisions on how best to use their available staff and financial resources to meet critical needs. However, the professional and regulatory expectations on local government bodies to ensure that their internal audit arrangements conform with PSIAS have not changed. In this difficult situation, heads of internal audit will need to consider whether they can still issue the annual opinion or whether there will need to be a limitation of scope. A limitation of scope arises where the HIA is unable to draw on sufficient assurance to issue a complete annual opinion in accordance with the professional standards. This is an issue not only for the HIA but also for the leadership team and the audit committee who normally rely on that opinion. It may also have wider consequences for stakeholder assessments of the organisation.

Work is currently ongoing between HIA, Team Leaders and Audit Principals and meetings are scheduled to reduce the likelihood of a limitation of scope at LCC despite the Covid-19 impact.

A full copy of the document can be provided on request.

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 31/01/21

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Records management	April 19	Substantial	4	3	0	1	0	0
	The outstanding action relates to deployment of an Internal Assurance health check program. The Head of IA has stated that resource limitations mean this cannot be completed at present, however other business as usual activities now exist which support the council in achieving the principles of the records management policy.							
IR35	May 20	Limited	7	7	0	0	0	0
	Process and communications review are now completed, currently being checked for accessibility compliance and will be issued to managers and schools on 1 March 2021.							
Commercial Property Portfolio	Jan 20	Substantial	6	3	0	3	0	0
	The information to the public on the website for work spaces has now been resolved. The three remaining actions relate to updated documentation, legislation sharing protocols and client surveys which have been deferred to April 2021 due to the impact of Covid-19 on resources.							
Recruitment and Selection Checks	March 20	Substantial	13	10	0	3	0	0
	The remaining actions have been delayed to the end of February & March 2021. This allows completion of specific tasks to align with the launch of Sharepoint & delivery of the mandatory training project. One action around the planned review of when we can use DBS checks has been delayed due to workloads as a result of Covid-19.							
Good Governance Review- Ethics	March 19	Consultancy	13	12	0	1	0	0
	The last remaining action relates to updating the website with information on the Council's governance / ethical framework. This is an aspirational action and requires ongoing alongside continued development of the Council's public-facing website and internal intranet arrangements. This will be revisited September 2021.							
Counter Fraud Arrangements	March 19	Substantial	6	3	0	3	0	0
	Updating of policies has been further delayed due to other priorities including Covid-19 related work.							

Tracker Report – all outstanding audit actions due 31/01/21

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Tax Compliance	Jan 19	Limited	10	10	0	0	0	0
	Management actions are now all completed.							
Processes To Improve Financial Assessments	June 19	Substantial	4	3	0	1	0	0
	Action required was that policy development to consider timing of Direct Payment start before financial assessment completed. This action has progressed 50%. Policy review has commenced, estimated completion date 31.08.21, proposal to pay at earlier stage will be considered by the Policy Review Group							
Settlements	Dec 19	Limited	14	14	0	0	0	0
	All have been implemented. The Settlement operational guidance and tracking guidance have been updated and issued. These addressed the majority of the findings.							
Financial processed in Children's Residential Units	Sept 19	Substantial	9	9	0	0	0	0
	Action completed: All homes have now adopted much more robust processes to ensure that there is proper hand over of cash and that Business Support understand this process.							
Coroners Service Case Management	Nov 19	High	1	1	0	0	0	0
	Management action completed – annual report was presented to Public Protection Scrutiny Committee on 8 th December.							
IMT Asset Management Follow up	Jan 19	Substantial	1	1	0	0	0	0
	Management actions now all completed.							

Tracker Report – all outstanding audit actions due 31/01/21

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Cyber Security	March 19	Limited	6	2	2	0	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. We will continue to track both actions.							
Programme/ Project Management Support	Dec 18	Substantial	2	2	0	0	0	0
	Both findings have not been fully actioned due to the development of the Transformation Programme.							
Payroll	July 20	Substantial	22	19	0	0	0	3
	All actions due have been completed. The remainder have due dates of April 2021 and are linked to the implementation of the new BW system.							
Mosaic Children's	May 20	High	2	2	0	0	0	0
	All actions have now been completed. A programme of training has been completed and Performance managers were consulted over onboard reporting and a substantial suite of reports is now available.							
Debtors	June 20	Substantial	9	2	0	2	0	5
	The two overdue recommendations have been partially progressed. A change to how information is reported from the BW system cannot be progressed due to a 'change freeze' but a spreadsheet being used to provide additional analysis. Training for budget holders to support debt recovery has been delayed to later in the year to align with wider training around the new BW system and business processes.							
Adults LT Care Assessments and Reviews	May 20	High	1	1	0	0	0	0
	Action has been completed. Practice Standards Adapted. Audit tool currently being updated to focus on 6-8 week review.							

Tracker Report – all outstanding audit actions due 31/01/21

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
LFR Grievance	June 20	Substantial	3	2	0	1	0	0
	Two actions have been completed. The final remaining action requires an update to the training being provided to managers and expected to be completed by 1 st April 2021.							
Spalding Western Relief Road	May 20	Consultancy	3	0	0	3	0	0
	These actions will be reviewed in detail as part of the SWRR follow up audit which is at fieldwork stage.							
Emergency Mortuary – Procurement & Project Management	Oct 20	Consultancy	5	0	0	0	0	5
	Improvement actions are still being developed with the Executive Director, Commercial.							
Total			141	106	2	18	0	15

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		Draft 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		Fieldwork stage
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		Draft report stage
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		Fieldwork stage
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		Draft report
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		Fieldwork stage
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
ICT Software asset management	To review the arrangements LCC has in place over software asset Licencing.	01/12/20	01/12/20		Draft report
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
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
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		Fieldwork stage

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		Fieldwork stage
LFR Training System	Provide independent assurance around the implementation and effectiveness of the new training records system	01/02/21	12/01/21		Draft Report
Transport Connect	Review of the Governance and oversight processes that are in place with Transport Connect	15/03/21	15/02/21		Fieldwork stage

NETWORK INFRASTRUCTURE SECURITY REVIEW – LIMITED ASSURANCE

ISSUED DECEMBER 2020

Background and Context

BDO (external ICT audit specialists) has undertaken an audit of Network Infrastructure Security. Network security consists of the policies and practices adopted to prevent and monitor unauthorised access, misuse, modification, or denial of a computer network and network-accessible resources.

At LCC, an IT Management (ITM) team holds the management responsibilities for IT operations. A single Wide-Area-Network (WAN) based on Multiprotocol Label Switching (MPLS) is deployed across 209 end-users sites, providing a common method for internet connectivity, filtering, and logging. The IT systems are hosted in two data centres, one in Orchard House County Offices, and the second one as a virtual data centre is hosted in a private cloud, owned by a specialised third-party provider SunGard Availability Services (SunGard AS). A third party, Serco, currently manages the infrastructure across the LCC IT estate and is responsible for designing and implementing technical security controls on the LCC network. LCC has a formal plan to move the majority of systems to the Cloud – MS Azure, although at the time of the audit, only Office 365 was in use in Azure.

An Information Security Management System (ISMS) based on ISO 27001 is implemented at LCC. A dedicated team placed outside of the IT department is responsible for continuous improvement and compliance with the LCC ISMS. The information security management system is running in cooperation with Serco.

Scope

The purpose of this review was to assess the security controls in place around the network infrastructure, including network set-up and protection. The review covered the Council's network infrastructure, network controls, assurance over third-party access management, and performance monitoring.

The work included a review of relevant documentation, an inspection of implemented solutions and security-related configuration for key network and infrastructure components, and interviews with key staff in the Serco and LCC IMT team.

The review considered the information/cyber security controls at the LCC network infrastructure in alignment with the (US) National Institute of Standards and Technology (NIST) cyber security framework. NIST cyber security framework is organised into five main domains. Based on these domains, we reviewed the following:

- Identify - Information security policies, standards procedures and strategies, as well as risk assessment processes, cyber threat intelligence gathering, and security governance.
- Protect – Design of the network (isolation and segmentation), as well as the management of key controls such as perimeter (firewall) configuration, access restrictions, asset management (including mobile assets), and training/awareness.
- Detect – Threat detection controls, such as intrusion detection systems, intrusion prevention systems, and antivirus/malware tools.
- Respond - Security event, logging, and incidents management processes.
- Recover – Data backup/restore, fail-over, and recovery processes

Executive Summary

Risk	Rating (R-A-G)	Findings	
		High	Medium
1. Policies may not have been defined, communicated and implemented to ensure the security of the Council's IT network.	G	-	1
2. Third party providers may not have been adequately assessed, or assessments refreshed, to confirm competence and certification to provide services	G	-	-
3. Third party provider access may not be appropriately restricted, and reviewed	G	-	-
4. Key IT infrastructure assets, e.g. servers, firewalls and routers, may not be adequately protected against unauthorised physical access and environmental hazards.	G	-	-
5. Security updates and patches may not be applied to key infrastructure assets in a controlled and timely manner.	A	1	1
6. The failure of IT infrastructure may not be formally identified, assessed, rectified and reported in a timely manner.	A	-	1
7. The performance and capacity of IT infrastructure may not be monitored and reported.	G	-	-

LCC has adopted a traditional IT infrastructure, utilising data centres where the server and related hardware are typically housed onsite and employees connect to a network to access the organisation's applications and stored data. This IT model has been considered one of the most secure solutions, if configured appropriately, and allows the organisation to have full control of their data and applications on the on premise servers. In this type of IT model, network security is only as strong as the security of the devices and systems running it. As a consequence, to preserve the level of security, the organisation needs to decommission non-supported or obsolete equipment and systems from its IT ecosystem. That constant renewal of the devices and systems can be difficult to achieve in a complex IT environment such as LCC, but can have a significant impact on network security as the legacy IT systems are often at the heart of cyber breach incidents.

The audit highlighted the following areas of good practice:

- *Governance*: The policies, procedures, and processes to manage and monitor the organisation's regulatory, legal, risk, environmental, and operational requirements are understood and inform the management of cyber security risk.
- *Risk Assessment*: LCC understands the security risk to its operations.
- *Asset Management*: Devices and systems are identified, and managed, consistent with their relative importance to business objectives.
- *Standard Secure Builds*: Standard secure builds are used for newly introduced servers and end-user devices.
- *Anti-Virus Protection*: An enterprise AV solution is implemented and constantly monitored.

- *Data in Rest Protection:* Bitlocker is used for encrypting end devices
- *Network Capacity Monitoring:* Constant monitoring of the network and network capacity via specialised tools is implemented.
- *Logging:* A Security Information and Event Management (SIEM) tool is used to log the network devices including the load balancer.
- *Vulnerability Scanning:* Weekly vulnerability scans are performed on the network infrastructure.
- *Penetration Testing:* Annual external and internal penetration testing is performed.

Notwithstanding the good practices that have been implemented to the network infrastructure security, this review identified a noticeable presence of legacy operating systems and network equipment; we noted a significant number of devices with obsolete operating systems. Legacy equipment that is out of support significantly increases the attack surface on the network infrastructure presenting a risk of the network being compromised, or unavailable in the event of faults. Furthermore, the legacy systems often have an impact on the overall capacity of the IT infrastructure, and may adversely impact the availability of the IT operations.

LCC is aware of this security challenge on its IT environment and is making efforts to reduce the risks of obsolete equipment and systems, through decommissioning. At the end of 2018 an Obsolescence Review Board was established. The objectives of the Board are:

- To identify all assets and applications which are, or will, become obsolete in the next 12 months in order to understand the risks and impact of obsolete IT systems to the LCC IT environment.
- Provide LCC with the information required to put in place a remediation plan or mitigation plan, enabling LCC to make investment and commissioning decisions in a timely manner.
- Agree and update the obsolescence rules.

The Board holds meetings quarterly. As a result of Board activities to date, some obsolete equipment has been decommissioned and the progress is tracked. However no end date has been set for decommissioning all obsolete equipment. We noted this as a high-priority finding and underline the need for further prioritisation and acceleration of this decommissioning process.

We also identified three medium priority findings. These are related to:

- *Patch management:* Software patches and updates prevent software and systems from being vulnerable to bugs, malware, and major issues. The LCC's patching practices do not include network devices meaning there is a risk that the network is infected and security weaknesses exploited. There are compensatory controls in place and hence this is assessed as medium priority.

- *Network Segregation:* Network segregation and segmentation restricts the level of access to sensitive information, hosts and services. Whilst basic segmentation is in place for the network there is no additional segmentation that will include the remote council office sites.
- *Access Control:* The process of allocating privileges and permissions to users, known as user provisioning, ensures users have access to everything they need to do their jobs whilst also protecting access to data and systems. There is no line manager approval of the request for user provisioning for joiners and movers, raising the risk of unauthorised access. There were also 9706 disabled active directory users. Disabled accounts could be re-enabled by attackers and used for malicious purposes.

We also identified weaknesses in the Council's draft Disaster Recovery (DR) Plan relating to the business impact assessment and risk assessment not being followed, the DR metrics not being developed, or approved by business areas, and there has been no testing of the plan. A finding has been raised in our report relating to ICT Business Continuity and Disaster Recovery, and so is not repeated here.

Management Response

The IMT Management endorse the report as covering the key concerns the service has also identified over a protracted period.

All recommendations have remediation work in progress (excepting Data Leakage Control) and significant progress has been made on these issues, but a significant amount of work remains.

A decade of poor lifecycle management followed by significant delays in the business commissioning of replacement systems and then delays in the delivery of projects to replace systems has required the operating life of legacy systems to be extended at risk. It is believed this workstream will deliver remediation of this significant component of non compliance, legacy Operating Systems in use, over the coming 12 months.

NB: Please Note simply switching system off has not often been possible where critical Council services are involved. Whilst IMT technical resource has been insufficient to meet demands over the last 18 months, the specialised nature of many of the remaining applications places a reliance on key technical staff with skills and knowledge not available in the market to scale the resource and shorten timelines. The risk profile also limits the number of tasks than can be operated in parallel.

Having significantly rectified the slow patching of End User Device's in the last year we are now requiring our Partner Serco to deliver a Service Improvement Plan to address the

shortcoming's in the delivery of security operations which lead to falling behind in patching network and other appliances. This is a high priority requirement that Serco must now address in the coming year.

The segregation of our Access networks from our service networks has been a design goal for a number of years and further work planned this year will continue the work towards this target architecture, however the very high risk and complexity requires the change to be delivered in numerous stages over the coming two years.

The failure of convincing access control processes is in significant part due to the failure of non-IMT service processes upstream, whereby the service is not informed of leaving staff, contractors, or long-term absences from all business units and 3rd parties (working as if LCC). The transformation program has been asked to look holistically at the business process and create the triggers to the IMT service where account management can then be automated.

IMT Have no plans to put into effect more stringent DLP technologies as the business has not supported these technologies and would not commission them. The Council expects all staff to be able to share information beyond LCC with limited formality and technical constraints, therefore the Council is in effect accepting that risk, relying instead on the knowledge and judgement of staff.

ICT BUSINESS CONTINUITY & DISASTER RECOVERY – LIMITED ASSURANCE

ISSUED JANUARY 2021

Background and Context

BDO has undertaken an audit of ICT Business Continuity (BC) and Disaster Recovery (DR). The audit is a part of the approved Lincolnshire County Council (LCC) annual Internal Audit plan for 2020.

ICT Business Continuity (BC) and Disaster Recovery (DR) planning enables an organisation to prepare for and recover its business IT operations in the event of a serious incident or event. The effectiveness of such plans depends largely on the detail they contain and this can cover a number of different aspects including risk assessments, business impact analysis, emergency response and crisis management.

The Emergency Response (ER) plan should detail the steps that will be taken to get business operations up and running again, whilst the Crisis Management (CM) plan provides detail for communicating status updates to key stakeholders and managing media or public interest. Another vital component of Business Continuity planning is Disaster Recovery. This is concerned with assisting an organisation to recover technology operations and critical data in a timely manner to allow for a resumption of business operations.

All of these components inform the holistic approach required to effectively recover and allow an organisation to continue to operate. LCC performs a number of essential and statutory functions. Effective IT Business Continuity and Disaster Recovery arrangements are vital in enabling the Council to restore service delivery without undue delay in the event that an unplanned event prevents normal systems and processes occurring.

LCC organises its IT operations in a number of ways by using in-house and outsource services; the in-house ICT team are responsible for a number of different IT functions, business relationship management, technical architecture, application and web development and the management of enterprise data. Outsource operations are contracted to Serco, who are responsible for the provision and management of the IT network and operational infrastructure. Third party vendors also provide and support a number of business critical applications such as MOSAIC (Social Care) and CONFIRM (Highways).

Serco, LCC and third party vendors all maintain business continuity and disaster recovery plans for their respective areas of responsibility, though some of these are limited in detail

based on their scope of responsibility i.e. a single application as opposed to entire network infrastructure. There is a degree of interfacing between all these aspects, reporting into LCC.

As part of the Council's outsource arrangements, Serco is contractually obliged to provide DR functionality for all Platinum, Gold Silver and Bronze services and applications (Serco has categorised its services by priority level, Platinum being the highest). Serco has performed restore testing of critical (Platinum) applications to ensure resilience of the IT systems. Furthermore, Serco and LCC have entered into an agreement with SunGard to provide disaster recovery protection for Orchard House. The agreement with Serco also includes the requirement for Serco to support the designing of the BC and DR plans for the Councils' IT department (IMT).

As multiple control environments exist, regular interfacing between the main stakeholders takes place, led by the LCC ICT team. This is also initiated when a new system goes live and requires BC/DR plans to be updated to cover off any new contingencies.

The Council is undergoing a review of its Business Continuity Management process including the corporate Business Continuity plan. This is being undertaken by the Emergency Planning & Business Continuity Service with each critical service area reviewing its BC Plan, facilitated by their dedicated Emergency Planning and Business Continuity Officer. Once complete, the documents will be reviewed by the Business Continuity Steering Group and signed off by all of the business continuity leads to make sure it aligns with the Council's policies and principles.

The Council's Emergency Planning Service, as part of the multi-agency response to Covid19, has been working on exercising the business continuity plans to ensure the Council has remained fully functional during this time. This involved both ICT and Serco working closely to ensure staff were able to work from home by providing the relevant equipment, support and robust infrastructure.

Scope

The purpose of this review was to assess the Business Continuity and Disaster Recovery plans in place to support the Council recover its IT systems following an unforeseen event, focusing on the Business Continuity and Disaster Recovery plans of the ICT function. The review assessed recovery plans and recovery times.

The work included a review of relevant documentation and interviews with key staff in the Serco and LCC IT teams in order to establish an understanding of the design of controls. Specifically we:

1. Reviewed the documented risks in relation to ICT business continuity and disaster recovery plans.

2. Reviewed roles and responsibilities for ICT BC and DR plans to ensure key person dependencies have been documented and assigned.
3. Assessed senior management involvement and commitment with regards to the ICT BC and DR process.
4. Reviewed ICT BC and DR documentation in place to assess it is sufficient, up to date and accessible in the event of an incident.
5. Reviewed communication arrangements in place to inform employees, and various stakeholders, in the event of an incident or crisis.
6. Reviewed ICT BC and DR testing arrangements and any training provided to staff.
7. Reviewed the design of system and data backup procedures to determine whether they are sufficient and can be restored upon system failure.

Executive Summary

Risk	Rating (R-A-G)	Findings	
		High	Medium
Risks related to ICT business continuity and disaster recovery at LCC not being identified, documented and addressed.	R	1	-
Roles and responsibilities with regards to ICT BC, ER, CM, DR and data backup are not appropriately defined, assigned and understood or create an increased dependency on key individuals.	R		-
BCP, ER, CM and IT DR documentation is insufficient, outdated or inaccessible in the event of an incident.	R		-
A lack of senior management involvement/commitment with regards to BC, CM and DR.	G	-	-
Inability to respond adequately to emergency situations and inform employees, and various stakeholders in the event of an incident or crisis.	G	-	-
Failure to respond to an adverse event and recover as expected due to a lack of training and / or testing.	R	1	-
Data may not be able to be restored upon system failure due to weaknesses in the backup design or operational procedures.	G	-	-

BC and DR plans outline procedures and instructions an organisation must follow to respond to a serious event. The recovery plans, the contingency IT architecture and the metrics used, should be developed based on a formal methodology and be formally approved. In addition, all recovery plans should be communicated and regularly tested for their verification and improvement.

This review has identified that whilst the Council has a good strategy in place for BC and DR planning, the development of the BC and DR plans for IMT and their testing has not been appropriately implemented. These issues significantly increase the risk that the Council may not be able to recover its systems and data in line with business requirements, in the event of a serious event.

Based on the above, we have identified the following areas of improvement, both are rated High priority.

1. Serco BC and DR plans - The IMT BC and DR plans, have not been formally approved. The DR plan has not been updated since 2017. Furthermore the plans have been developed without following the Council's Business Impact Analysis (BIA) and Risk Assessment templates.
2. BCP/DR testing and training - There are currently no arrangements in place to test the BC and DR plans. The current BCP/DR testing is based only on the restoration of the IT systems. There is no end-to-end testing of the BCP/DR preparedness with involvement of business functions.

This audit has also highlighted the following areas of good practice:

- BCM Strategy - A Business Continuity Management (BCM) framework is in place with formal risk assessment and business impact analysis templates for the identification and prioritisation of critical business functions and systems, including the timeframes within which each function needs to be recovered. LCC has a Business Continuity Management (BCM) framework in place which was recently updated and approved by management. It includes the actions to be taken prior to, and following, the invocation of the business continuity arrangements, the roles and responsibilities of members of staff and the procedures for returning to business as usual.
- Emergency Planning and Business Continuity service -The Council is part of the Lincolnshire Resilience Forum which helps prepare for and respond to emergencies around the county. The forum has discussed the threats and risks from the Pandemic on Lincolnshire and how to respond to the crisis and impacts from illness/contamination.
- Emergency response (ER) and Crisis management (CM) - There is an established Emergency Preparedness & Fire Safety Procedure which clearly defines the systems and processes that will be put in place to control the risk of fire and minimise risk to the health and safety of staff, contractors and visitors at LCC premises.
- Backup Policy -The backup policy has been documented by Serco and shared with LCC ICT. The policy is a key part of the business continuity strategy and provides clear guidance on the Council's backup needs and data storage.
- Business continuity - The Council has demonstrated that it has been able to execute business continuity plans to ensure it remained operational during the pandemic crisis.

It should be noted that this review is based on the current, mainly traditional, architecture of the IT environment at the Council. As part of digital transformation, the Council is aiming to migrate its IT infrastructure to public cloud. Cloud computing simplifies the management and monitoring of the DR Service and effectively deal with most issues of traditional disaster recovery. As a consequence, the BCP/DR planning should be re-visited after the future cloud migration.

We would like to thank all staff for their help during this review.

Management Response

IMT BC & DR

The Audit report findings are being adopted into the IMT forward work plan and IMT management only wish to add context to the recommendations.

1.1 We will engage with the new BIA process and templates and will analyse any outputs this generates to establish any gaps in business needs and affordability. Amending these parameters involves change control within our outsource service contracts.

1.2 We do have RTO's and RPO's for all significant systems the Audit finding makes the point these are not informed by the new Council Business Impact approach in 1.1.

1.3 We will circulate our BC & DR Plans to those involved in these functions across the Council.

NB: please note they are not in fact an operational artifact for the IMT Service which maintains a number of procedural technical documents which are actually used, which often include restricted technical and security information.

Testing of DR

Testing of platform recovery has typically been undertaken during Pilot and pre-live stages of delivery. In recent years a sequence of significant (P1) outages have repeatedly invoked recovery plans meaning we have in fact run these procedures more often than most Corporate Organisations would have tested them.

However, we are now seeing few major system outages and a rolling pattern of tests will be developed and placed into work plan along with refresher training for those with duties when invoked.

Given the current migration to Cloud program the significant resource requirement, cost, risk and disruption for large scale hosting tests, no such test will be planned for the remainder of those hosting arrangements.

While the audit plan for 2021/22 is still being developed with the support of Executive Directors and will be shared with the Audit Committee at the June meeting, we wanted to highlight a number of audits that we have planned.

Audit name	Proposed scope
Contract Management	Cross-Directorate review ensuring that capital contracts are effectively managed to ensure that projects are delivered to specification, on time and within budget. Will involve support from Counter Fraud colleagues.
Financial Assessments	Confirm improvements have been made in the Financial assessments process following the implementation of the new policy and management actions.
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.
Capital Contracts	Assurance that capital contracts are effectively managed to ensure that projects are delivered to specification, on time and within budget.
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.
Transformation Programme	Continue to act as critical friend and provide on-going advice and assurance to the programme.
Maintained schools	Delivery of internal audit to maintained schools that 'buy-back' our services. This covers key areas of governance and financial control.
Business World	Continue to provide on-going advice and independent assurance around project management, process, risk and control on the BW redesign project.
Grants	Continued work on ensuring the proper use of grants within LCC. This will include Track and Trace, Bus Services Operators Grant and Highways.

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

Report to:	Audit Committee
Date:	19 March 2021
Subject:	Risk Management Progress Report - March 2021

Summary:

The Committee is responsible for overseeing the effectiveness of the Council's risk management arrangements, challenging risk information and escalating issues to the Executive.

The Committee needs to gain assurance that the systems and processes in place to enable decision makers to understand the level of risk being taken and the Council is prepared to accept.

In addition, the Committee have responsibility to monitor effective development and operation of risk management and corporate governance in the Council.

This report assists the Committee in fulfilling that role, by providing an update on how well the Council's biggest risks are being managed.

Recommendation(s):

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

To make recommendations on any further scrutiny required.

Background

In accordance with the risk management strategy and to ensure effective monitoring, all the strategic risks have been reviewed with risk owners and assurances obtained that the strategic risks are being managed effectively.

The report also provides an update on the activities being undertaken to support the Council in developing a culture of being 'creative and aware of risk' in line with the agreed appetite along with the key strategic and operational issues facing the Council since the last update in September 2020.

Conclusion

Overall, the Council's strategic risks continue to be managed pro-actively. There is a good level of awareness of the current and emerging risks, with positive action being taken, where appropriate.

In response to Brexit and associated risks, this has been considered and agreed that the risks are highlighted within operational risks or current strategic risks. We therefore have assurance that these are been managed.

Activity on the action plan from the Governance review is progressing well, despite the implications of Covid19.

To maintain high levels of assurance, all risks, strategic and operational need to be regularly reviewed by the risk owners and updates provided.

Consultation

a) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	Risk Management Progress Report – March 2021

Background Papers

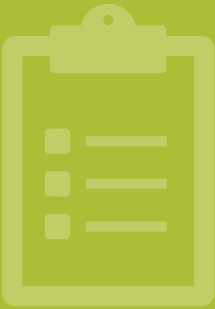
No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Debbie Bowring, who can be contacted on 01522 553772 or debbie.bowring@lincolnshire.gov.uk .



Progress Report

March 2021



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Appendices

Appendix 1 – Extract of CLT report on high risks & issues

Appendix 2 – Risk and Safety Governance Action Plan February 2021

Appendix 3 – Strategic Risk Register – February 2021

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Introduction

The purpose of this report is to provide an update on:

- The activities being undertaken to support the Council in developing a culture of being 'Creative & Aware of Risk'¹ in line with the agreed risk appetite.
- The key strategic and operational risks facing the Council;

It is also to provide assurance on the effectiveness of the Council's risk management arrangements.

Key Messages

Covid19 – On-going Implications for Risk Management

The unprecedented events of Covid19 continues into 2021 and as a result, we continue to report to Corporate Leadership Team (CLT) on a quarterly basis the key red risks and issues arising from the crisis.

The latest report in February identified 22 high risks and 15 high issues with most of them either holding static or showing an improving status. Most of the controls were also holding static or showing an improving status.

The main category of risk continues to be within the area of People with the main issue categories being Technology and Economic. See appendix 1 for a breakdown of the risks, issues and status by Directorate.

Progress on Governance review - See Appendix 2

Progress on the action plan arising from the Governance review that was undertaken in Autumn 2019 has continued but has been affected by the change in priorities arising from Covid19.

The current Governance review report can be found in Appendix 2 with the updates highlighted. Key actions completed / implemented since the last report in September 2020 are as follows;

- ✓ Work on risk appetite completed with Resources Leadership Team (RLT) giving refined risk appetite statements. This work will be progressed with the Corporate Leadership Team (CLT) in 2021.
- ✓ Continue to report quarterly to CLT on risk management including high risks and issues.
- ✓ All Directorates have a Directorate Risk & Safety Group (DRSG) or equivalent in place and have meetings that report into the Corporate Risk & Safety Steering Group (CRSSG).
- ✓ A highlight report is produced from the DRSG to the CRSSG with key messages on both Risk Management & Health & Safety. This happens on a quarterly basis.

1. The Council wishes to be creative and open to considering all potential delivery options, with well measured risk taking whilst being aware of the impact of its key decisions

Key Messages continued..

- ✓ The '10' questions snap survey has been completed by 42 risk champions and representatives on the DRSG and CRSSG. Work is in progress to produce a report noting the findings.
- ✓ Work is on-going with the directorates and services to review and challenge the data that they produce. This is completed via the highlight reports. We are also introducing a risk management software system called Sharp Cloud which will enable better intelligence going forward on risks. We have started to populate this system with the Resources directorate and their risk registers.
- ✓ Continuous involvement with the Transformation programme and projects and better sight of risk management.

The remaining priorities and essential actions continue to be worked through and these will be monitored through the CRSSG.

Strategic risk register – See Appendix 3

Overall the strategic risks continue to be managed pro-actively. We have reviewed the effectiveness of the control actions – focussing on those that can be measured such as KPIs, external sources etc. This will help us measure their impact in managing the risk.

There is a **high** level of awareness of current and emerging risks that could impact services.

6 risks

**SUBSTANTIAL
ASSURANCE**

Safeguarding Adults (2)
Resilience (Business Continuity) (3)
Key projects & programmes (5)
Budget – LCC (6)
Recruitment / Staffing (7)
IT infrastructure (10)

Resilience (Business continuity) has increased to **high amber** due to the risk of concurrent incidents. It does remain **substantial assurance** due to the work that is being done to mitigate the risk.

4 risks

**LIMITED
ASSURANCE**

Safeguarding Children (1)
Market Supply – Adult Care (4)
Strategic Contracts (8)
Cyber Security (9)

Safeguarding Children remains a **high risk** and **limited assurance** due to the on-going impacts of Covid. This will be reduced, once Covid restrictions are lessened.

Cyber Security remains a **high risk** and is still **limited assurance** despite monitoring controls. This is on-going and as an authority, we are always going to be exposed to cyber threats.

Our Operational Risks

As previously mentioned earlier in the report, we are reporting on a regular basis to CLT on the key high risks and issues for services within the Council. As part of this work, we continue to work with Directorate Risk & Safety Groups in identifying the top risks for each directorate.

To support reporting of risks and issues more dynamically, we have started to populate the risk management system, Sharp Cloud. This will enable us to have even richer data around our risks and controls and will improve the risk intelligence.

Looking Forward

It has been a challenging 12 months with lots of changes including more robust and regular reporting through CLT on operational risks, home working as a norm and learning to access and use new IT systems such as Microsoft Teams.

The risk management profile has been brought to the forefront and all services have engaged well in the revised reporting arrangements.

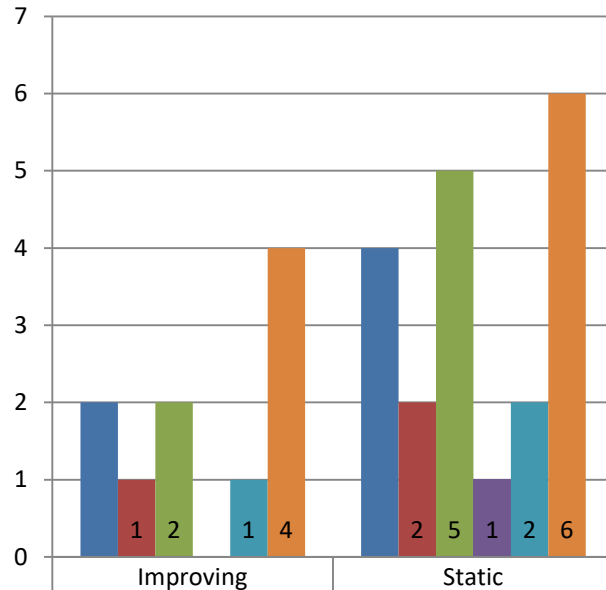
Over the coming months, we aim to:

- Work with the services and look at any lessons learnt from Covid19
- Continue to report regularly to CLT for as long as is required with the red risks & issues
- Capitalise on the work that we have started in ensuring that every service within the Council, has either a risk register or is aware of their operational risks and report to risk management on a regular basis
- Continue to populate and use the new risk management software system Sharp Cloud to improve reporting.
- Continue to work through any outstanding actions from the Governance review.
- Continue to horizon scan through relevant sources both internally and externally.

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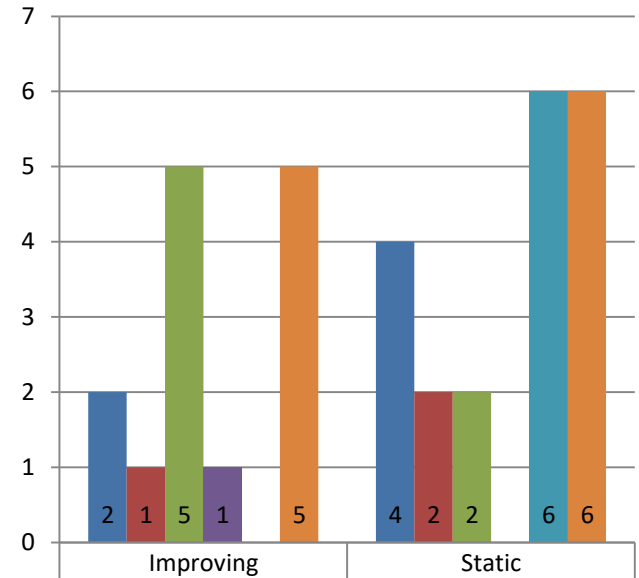
Appendix 1 - Directorate Position

Status of High Risks & Issues by Directorate



	Improving	Static
Adult Care & Wellbeing	2	4
Childrens	1	2
Commercial	2	5
F&R		1
Place	1	2
Resources	4	6

Status of High Risk & Issue Controls by Directorate



	Improving	Static
Adult Care & Wellbeing	2	4
Childrens	1	2
Commercial	5	2
F&R	1	
Place		6
Resources	5	6

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Appendix 2 - Risk and Safety Governance Action Plan




Overall Message

The Council has effective risk management and health and safety arrangements in place that enables risks to be taken in an informed manner.

There is a clear tone from the top from the Corporate Leadership Team (CLT) and senior management in risk taking and avoidance.

Essential Actions

Item	Description	What?	When?	Who?	Status
1	CLT should update the Strategic Risk Register and risk appetite statements to align to the new Corporate Plan.	As part of the review of strategic risk register (SRR), risk owners have agreed the risks against the new objectives. Report to CLT for agreement. <i>New Corporate plan in place, working on aligning this to the strategic risks.</i>	Mar 2021	CLT	In progress
		Risk appetite statements to be reviewed as part of work with Directorate groups and then fed into SRR <i>Session completed with Resources Leadership Team (RLT) on risk appetite and reviewed risk statements, following feedback. Looking to repeat the exercise with CLT in 2021.</i>	Sept 2021	CARM	In progress
2	CLT strengthen oversight of both health and safety and the Council's strategic risks. Ensuring effective monitoring and board intelligence on the key risks	Agreed to report to CLT 3 times a year.	Feb June Nov	CLT/LP	Complete
		CLT to ensure Directorate groups set up and reporting arrangements in place to both Directorate		CLT	Complete

	facing the Council.	<p>and Corporate Steering Group.</p>  <p>Risk and Safety Governance Arranger</p> <p>All directorates have some form of directorate risk & safety Group or reporting mechanism for risk management and report into the Corporate Risk & Safety group. This happens 4 times a year.</p> <p>We continue to report the red risks and issues to CLT on a quarterly basis.</p>			
3	Ensure that risk information is made clearer and more transparent in reports to guide all major decision making and transformation programmes.	<p>Council is currently reviewing decisions making process to include scrutiny – assessment of risks will be included as part of this. Project being led by Executive Director of Resources. – Andrew to update</p>	July 2021	Executive Director of Resources	In progress
4	A risk culture workshop is held with the Corporate Leadership Team / Senior Leadership Group to enable them to scrutinise and challenge the Council's risk culture.	<p>Workshop utilising the Institute for Risk Management's 'Ten Questions' to be arranged with CLT and SLG</p>  <p>Ten questions a board should ask itself</p> <p>10 questions snap survey has been distributed and responses being collated. Pulling together key messages from the survey and will share with relevant groups / committee in due course.</p>	Apr 2021	CARM team	In progress
8	More regular oversight of both risk and safety. The Corporate Risk and Safety Steering Group (CRSSG) should meet more frequently with the Corporate Leadership Team reviewing / challenging risk and safety	<p>A template has been developed for Directorate groups to use and report back to CRSSG</p>  <p>CRSSG Feedback Templates V1.docx</p>		CARM team	Complete

	intelligence on a more regular basis.	<p>Agreed that CRSSG will meet 4 times per year. February meeting took place on 2nd and all directorates completed highlight reports noting key messages both from risk management and Health & Safety.</p> <p>Agreed to report to CLT 3 times a year – CLT receive quarterly reports on the red risks and issues. They also receive confirmation of the updates to the strategic risk register on a twice yearly basis. This goes to RLT in the first instance, then CLT.</p>	Quarterly	CRSSG	Complete
			Quarterly / twice yearly	CLT	Completed
10	The Directorate groups should be reviewed to align with the new structures.	<p>Agreed that Directorate groups will align to new structure. (see 2 above for document)</p> <p>CARM team to support Directorate groups to review and challenge risk data. We continue to work with Directorate groups and services within them to review and challenge data. This is completed through the highlight reports received. We are also introducing new risk management software called Sharp Cloud which will enable better intelligence going forward on risks.</p>	Quarterly	CRSSG CARM/Directorate Gps	Complete In progress
11	A Health and Safety Committee is set up – with appropriate Union representation.	The Committee has been set up, terms of reference have been drafted and are awaiting approval and it will chaired by Head of Internal Audit & Risk Management. Meetings are planned for year ahead and minutes produced		H&S Committee	Complete

Recommended Actions

5	Our good practice tools to support management of risk	CARM team producing quick guides – drafted, more comments. Due to Covid and other priorities,	September 2021	CARM	On hold due to
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	should be simplified – using quick guides etc.	the review date has been revised. This is an area that will be looked at in 2021.			resource issue
6	Review our Health and Safety policies to align with the updated HR policies – simplifying and streamlining where appropriate. Improving access to information and website.	Awaiting updated HR policies, expected May 2020 to plan this review. New policies issued in January 2021 – work beginning	Apr 2021	CARM – H&S Lead	In progress
7	Review and maintain an effective health and safety / risk management training strategy within the context of overall organisational development strategies. This should include Senior Management induction and key roles in the risk and safety governance structure. A combination of e-learning/workshops is suggested.	Review current training provided and identify gaps. <ul style="list-style-type: none"> • Must dos • E-learning • Classroom based • Induction Due to Covid and the changes to delivery of training, this has stalled at present. However, moving forward, we will be looking at a blended approach to training which will incorporate more virtual training where appropriate.	Dec 2021	CRSSG	To be planned
9	Consider developing a communications strategy. The objective is to ensure that relevant information regarding risk and safety management is communicated effectively to all key internal stakeholders.	Communications Strategy to be reviewed and updated – On-going updates of the document, however in light of Covid, we need to update accordingly as to how communications will be delivered going forward. Need to use it as a key document to refer to rather than a tick box exercise with regular updates.	Initial work completed – on-going updates to document so live 2021	CARM/CRSSG	Planned
12	Better use of risk and safety data by both the Directorate and Steering groups to help drive improvements, share learning and take action.	Template developed for use by Directorate groups to feed through to CRSSG. (see 8 above for document) Actions arising will be fed into forward plan for CRSSG		CARM	Complete
13	Common themes / learning from major incidents should be shared as part of organisational development strategies.	Directorates to feed in themes/learning as part of updates to CRSSG. Any actions arising to be built into forward plan –	On-going	CRSSG	In progress

		Forward plan being created to ensure themes or 'hot topics' are included on the agenda. Highlight reports completed from all directorates and fed in to CRSSG meetings.			
14	Corporate oversight of project and partnership risks – limited information provided at the moment.	Link to corporate work within Commercial Directorate Training to be reviewed – tools/bite size sessions Continuous involvement with the Transformation programme / projects that sit within it both from Risk Management and Internal Audit.	On-going	CARM team	On-going
15	Directorate Groups to provide highlight reports to the Corporate Risk and Safety Steering Group to give insight and assurance on their risks	Template developed for use by Directorate groups to feed through to CRSSG. (see 8 above for document) CARM team to support Directorate groups and provide challenge to risks/assurance. This is happening and highlight reports provided at each CRSSG.	On-going	CARM team Directorate Gps/CARM team	Complete On-going
16	Development and oversight of risk registers at Directorate level – aligning to Directorate business plans and focussing on control measures.	Directorate Gp structure agreed to align to new structure. (see 2 above for document) CARM team to support Directorate groups to review/produce risk registers against new Directorate plans once produced. Work on-going with services to ensure that they have up to date risk registers. Risks and issues are being identified through the reporting of these to CLT on a quarterly basis.	On-going	CRSSP Directorate Gps	Complete On-going

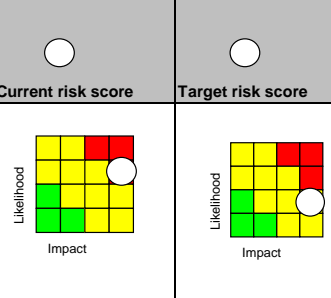
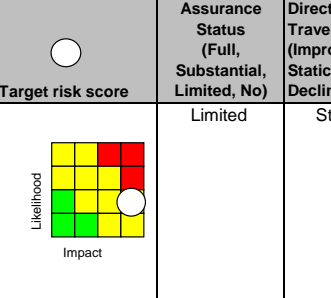
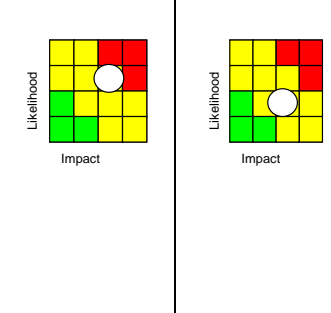
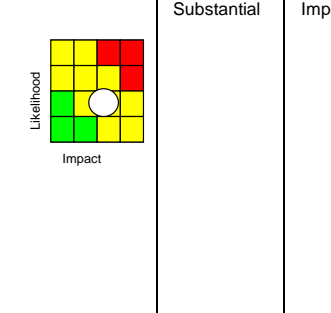
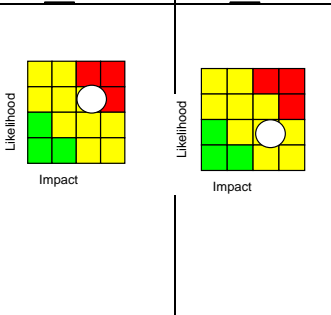
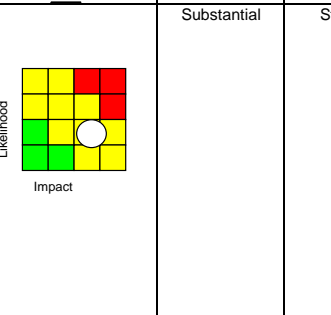
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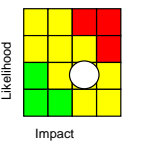
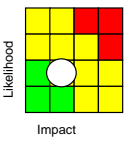
Strategic Risk Register

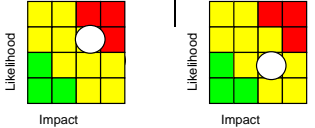
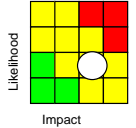
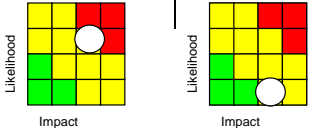
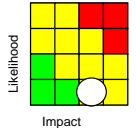
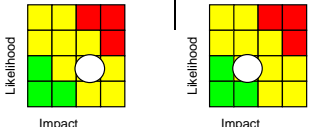
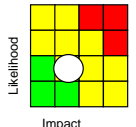
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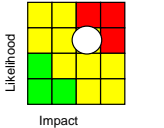
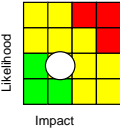
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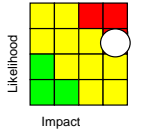
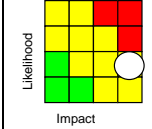
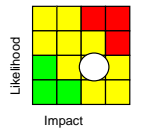
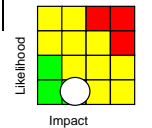
Owner: Chief Executive

No of Risk	Risk Owner	Corporate Strategy	Risk description	Current risk score	Target risk score	Assurance Status (Full, Substantial, Limited, No)	Direction of Travel (Improving, Static, Declining)	Actions
1	Janice Spencer	Enable everyone to enjoy life to the full	Safeguarding Safeguarding children			Limited	Static	<p>Existing Controls</p> <ul style="list-style-type: none"> Annual review of health Assessments reaching 90% & over Registration with GPs reaching 95% & over Registration with dentists reaching 95% & over Immunisations up to date reaching 95% & over No of children on child protection plan is below all England & stat neighbours <p>New and Developing Controls</p>
2	Glen Garrod	Provide good value Council services	Safeguarding Safeguarding adults			Substantial	Improving	<p>Existing controls</p> <ul style="list-style-type: none"> Prevention Strategy agreed and being implemented LSAB risk register in place Multiagency Safeguarding Policy & local procedures in place Rolling programme of training for staff development in place Quality Performance Unit <p>New / Developing controls</p> <ul style="list-style-type: none"> Number of safeguarding cases supported by an advocate Concluded enquiries Quality practice audits Actions arising from the "Strategic Plan" Lincolnshire Resilience Recovery Plan The Team around the Adult Initiative
3	Mark Baxter	Create thriving environments	Resilience (Business Continuity) Capacity and resilience to respond to, and recover from, wider area and prolonged emergencies and business disruption (e.g. coastal flooding / pandemic flu) impacting on public safety, continuity of critical functions and normal service delivery.			Substantial	Static	<p>Existing controls</p> <ul style="list-style-type: none"> Deliver Emergency Planning and Business Continuity training to Elected Members. Ensure commanders are available and briefed Continue to develop LCC business continuity management system Ensure new guidance and good practice is disseminated To ensure awareness of the partnership is maintained nationally with proactive engagement regionally and nationally in key policy developments. Provided command and control training to LCC strategic, tactical and operational managers. Taking advantage of new ways of working ie. Microsoft Teams and Zoom More resilience built around Business Continuity with Tactical Command Team Substantially improved facility within County Emergency Centre to share and support response and recovery for emergencies Multiagency debrief in November 2020 for Covid19 work <p>New and Developing</p> <ul style="list-style-type: none"> Reviewing plans for core teams and command locations Progress against action plan created following the June 2019 floods. Looking at more resilience for Emergency Planning Team Progress against multiagency report including lessons learnt following Covid 19 work and debrief

4	Glen Garrod	Provide good value Council services	Market Supply Adequacy of Social Care market supply to meet eligible needs as defined in the Care Act			Limited	Static	Existing controls <ul style="list-style-type: none"> • CQC ratings • Detoc (Delayed Transfer of Care) Performance • Provider closure contract handbook • Performance of the well being service • The Care Home Action Plan • Proof of concept, re-enablement service • Additional payments related to Covid-19 New / Developing controls <ul style="list-style-type: none"> • Development of the housing strategy including extra care development • All major re-procurements delayed by at least 1 year • Targeted recruitment support for homecare • Support to Covid-19 vaccination programme for careworkers • Responding to concurrent emergencies
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No of Risk	Risk Owner	Corporate Strategy	Risk description	Current risk score	Target risk score	Assurance Status (Full, Substantial, Limited, No)	Assurance - Direction of Travel (Improving, Static, Declining)	Actions
5	James Drury	Create thriving environments	Projects Ability to deliver our key projects and programmes e.g. Transformation programme			Substantial	Improving	<p>Existing controls</p> <ul style="list-style-type: none"> Developed a programme management office and appointed a Head of Transformation All key Corporate projects are on the Transformation Programme, with reporting mechanisms being established for high priority projects not part of the Transformation Programme. Engagement with Informal Executive and political leadership Sounding Board. Initial projects all identified and agreed with identified service leads at Assistant Director and Head of Service level. Weekly project manager leads group in place to share knowledge, which produce weekly reporting to service leads and Exec. Director sponsors. Weekly and monthly individual project boards in place which report into the Transformation Steering board who has overview of the whole programme. Transformation Steering Board meets monthly, including representation of all service leads and corporate services, such as audit, HR, Finance, ICT. Regular reporting to CLT Standard Corporate templates developed and shared to all via the Professionals website to ensure consistency and best practice. Developed scrutiny reporting requirements. Comms plan and strategy developed for communication to staff <p>New and Developing</p> <ul style="list-style-type: none"> Working on forecast of costs and benefits Reviewing other programmes / projects of work across the Council and seeing what needs to be included within the Transformation Programme
6	Andrew Crookham	Provide good value Council services	Budget - LCC Funding and maintaining financial resilience			Substantial	Static	<p>Existing controls</p> <ul style="list-style-type: none"> Balanced budget proposed for 2020/21 with modest surplus transferred to reserves Refinements to the revenue budget monitoring process including monthly exception reporting to CLT, and a further public report to be introduced in 2020/21, to increase timeliness and accuracy of figures. Introduction from February 2020 of a new, clearer Medium Term Financial Strategy, setting out the council's financial context and steps to longer term financial sustainability. Assessment of our Financial Resistance. <p>New and Developing</p> <ul style="list-style-type: none"> Identification of deep dive reviews as part of the process, and introduction of benefits realisation for the transformation programme, to support longer term sustainability Improvements to the management of the capital programme including a 10 year affordable programme, introduction of a new challenge process for 2020/21 and dedicated monitoring reports Post Covid Economic Landscape Reform of Property Taxes Health & Social Care White Paper
7	Andrew Crookham	Support high aspirations	Recruitment / Staffing Ability to recruit & retain staff in high risk areas			Substantial	Improving	<p>Existing controls</p> <ul style="list-style-type: none"> Corporate Employee Health & Wellbeing strategy and enhanced corporate offer introduced during the Covid-19 pandemic Listening and responding to employee feedback through Smarter Working and other surveys and staff engagement events informing corporate actions Shorter and more user friendly employment policies located on the new web platform enabling easier access and search by employees and prospective applicants Corporate recruitment and retention measures established including new employer branding/social media campaigns Apprenticeship campaigns embedded including hard to recruit and retain posts <p>New / Developing controls</p> <ul style="list-style-type: none"> Launch Employer of Choice - Our People Strategy 2021 – 24 to support the delivery of our Corporate Plan – focussed on recruiting and retaining skills to enable current and future delivery of services including: <ul style="list-style-type: none"> Expansion of current enhanced health and well-being offer including launch of Mental Health First Aiders Introduction of Smarter Working and associated changes to performance appraisal and working flexibly policies Embedding all new employment policies to support cultural shift to more collaborative ways of working and early resolution of issues Completion of Manager survey to review and validate hard to recruit/retain posts and launch the updated corporate toolkit for attraction, development and retention of talent

8	James Drury	Provide good value Council services	<p>Strategic contracts Ensuring contracts and markets (other than adult care) are fit for purpose & are managed effectively</p>			Limited	Static	<p>Existing controls</p> <ul style="list-style-type: none"> • Business cases • Options appraisals • Access to legal advice and support • Use of industry standard contracts e.g. NEC • Project decision making and governance including accountable decision maker • Contract and procurement procedure rules (CPPR) • Commercial Board <p>New / Developing controls</p> <ul style="list-style-type: none"> • Commercial awareness training • Commissioning review (Sept 2020 - June 2021) • Developing reporting back to CLT • Putting together a Contract Management Toolkit which promotes good practice • Having a Commissioning Hub to overview commissioning activity including contract management in the county to promote good standards.
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No of Risk	Risk Owner	Corporate Strategy	Risk description	Current risk score	Target risk score	Assurance Status (Full, Substantial, Limited, No)	Direction of Travel (Improving, Static, Declining)	Actions
9	James Drury	Provide good value Council services	Cyber The risk of a successful cyber-attack against the council with significant / critical impact			Limited	Improving	Existing controls <ul style="list-style-type: none"> Email filtering tool to protect from malicious email Internet security tool to identify and block internet born threats. Improved intruder detection and prevention software implemented. Cyber security training and awareness in place. Adoption of National Cyber Security Centre Active Cyber Defence tools Back up regime confirmed as in place by service provider Independently certified information security management system across ICT environment. Serco Security Operations team FTE increased. Developing controls <ul style="list-style-type: none"> Unsupported Windows operating systems continue to be removed from our network Continued improvements to vulnerability management (internal scanning). Microsoft 365 security controls
10	James Drury	Provide good value Council services	IT IT Infrastructure - ability to implement transformational aspirations and deliver BAU.			Substantial	Improving	Existing controls <ul style="list-style-type: none"> Portfolio of remedial projects is progressing with all projects in the build stages The infrastructure in Q1 2020 will be able to support the foreseeable aims of the council The infrastructure in Q1 2020 will be readily extensible by virtue of comprising current technologies No firm transformational challenges have been defined by the council and therefore it cannot be determined to what extent that infrastructure would need to change, if at all, to support that challenge. The ability to support transformational agendas will be commensurate with most modern organisations and will present no particular or elevated risk unique to LCC. The ability to support transformational challenges will be better than most County Councils by virtue of the extent of the recent refit LCC required. Significant level of investment in Mosaic programmes which leads to additional funding from external sources New & Developing <ul style="list-style-type: none"> New Cloud platforms (Amazon and Azure) being brought into the Architecture will deliver agility in the delivery of new systems at an unprecedented scale and capacity Delivery of the Office 365 program will deliver new tools and methods for the councils business areas to self help, with greater agility and collaboration, often not needing the IMT professional services

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

Report to:	Audit Committee
Date:	19 March 2021
Subject:	International Standards on Auditing - Response to Management Processes Questions

Summary:

This report provides the Committee with an assessment around whether the County Council and Pension Fund financial statements may be mis-stated due to fraud or error.

Recommendation(s):

To consider if the assessment accurately reflects the Council's management processes to minimise the risk of fraud or error in the County Council and Pension Fund financial statements.

Background

Each year the External Auditors are required to obtain an understanding of the Council's management processes in a number of areas. The International Auditing Standards specify the areas concerned – 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. Responses to External Audit Questions cover both LCC Financial Accounts and those of Lincolnshire Pension Fund.

Note: A material mis-statement for the Authority's accounts in 2020/21 is £22.8m for the Council and £22.2m for the Pension Fund.

Responses to External Audit Enquiries

The questions asked by External Audit fall under 5 enquiry areas:

1. Fraud Risk and Control

The Council acknowledges that inherent fraud risks are ever present, but has appropriate arrangements in place to manage and reduce this risk.

The Council adopts a zero tolerance approach to fraud. This is demonstrated through Council policies and procedures which are designed to prevent, detect, deter and mitigate fraud.

Appendix A to this report set out management responses to questions about:

- Controls and processes established by management to prevent, detect, deter and mitigate fraud
- Management's monitoring arrangements
- How fraud risks are identified, specific risk areas, disclosures and fraud responses
- Management communication and reporting about fraud risk and response to those charged with governance
- Communication to employees about management's views about business practices and ethical behaviours
- Instances of actual, suspected or alleged fraud within the Council and of misconduct or unethical behaviour related to financial reporting or misappropriation of assets, and how the instances were addressed.
- The nature and extent of management monitoring of operating locations or business segments for fraudulent activities, including fraudulent financial reporting

Management responses to the questions outline a variety of controls that are in place to ensure that the accounts are accurate and reflect properly authorised expenditure and income of the Council and Lincolnshire Pension Fund.

Management considers there is a **low** risk of material misstatement due to fraud in both the financial statements of the Council, and Lincolnshire Pension Fund.

2. Transactions Outside the Normal Course of Business

Management advised there have been no significant decisions made outside the normal course of business for the Council that would impact LCC financial statements, with the exception of emergency response to the Pandemic. There have been significant transitions across the Pension Fund - but these are also part of normal business.

It was recognised that the Council has been involved in support for emergency arrangement in response to the pandemic. Activity is characterised by the Council's powers and role in the Civil Contingencies response. Finance managers are now involved with tactical and strategic groups and receive weekly reports so that they can identify matters of financial concern at an early stage. There have been no significant decisions made outside of the Council's normal decision making processes.

Management is not aware of other transactions outside normal business.

3. Laws and Regulations

Financial statements produced for the Council and Lincolnshire Pension Fund are in accordance with the regulatory framework within which local government operates.

Appendix A sets out management responses to confirm:

- The applicable legal and regulatory frameworks and identification of laws and regulations that would have a direct effect on the determination of material amounts or disclosures in the financial statements
- How the Council is complying with the legal and regulatory framework
- Summary details of instances of actual, suspected or alleged non-compliance with laws and regulations, including actual or possible illegal acts, and statement that there is no material impact on accounts.
- Arrangements in place to account for litigation, claims and assessments that the Council is involved in.

Management reported that sufficient provision has been made for claims and that outstanding actions will not have a material effect on the financial statements and do not require disclosure in the financial statements.

4. Accountancy Estimates

There were no material changes that would give rise to new or the need to revise existing accounting estimates. Reports to this effect are scheduled for Audit Committee and Pensions Committee in March 2021.

5. Related Parties

Details of related parties and the nature of the relationship between the Council and each related party are included in Statements of Accounts. Appendix A records details of:

- Connected subsidiary companies of the Council.
- The arrangements to identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework.
- How significant transactions and arrangements with related parties are authorised and approved.

Management assurances were given that they were not aware of transactions and arrangements outside the normal course of business.

Conclusion

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

Consultation

a) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Responses to fraud and error questions from External Audit

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 via lucy.pledge@lincolnshire.gov.uk .

Appendix A - Response to External Audit Questions 2021

Inquiry Area	Description	Lincolnshire County Council and Lincolnshire Pension Fund responses.
<p>Fraud [ISA 240.17a]</p>	<p>What is management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessment?</p>	<p>Overall, we consider the risk that the financial statements may be materially misstated due to fraud is low.</p> <p>Materiality levels for fraud risks in financial statements are set at £22.8m and for Lincolnshire Pension Fund £22.2m</p> <p>The Council acknowledges that inherent fraud risks are ever present, but has systems of internal control to manage and reduce this risk.</p> <p>Financial procedures are in place to provide guidance over accounting records and financial systems: The finance function is resourced by appropriately experienced and qualified teams. Financial Procedure 2 covers Risk Mgt and Internal Control - including Audit & fraud and Financial Procedure 3 sets out provision for maintaining accuracy and reliability in accounting records.</p> <p>Assurance Lincolnshire delivers the internal audit function to provide independent, objective and risk-based assurance on the internal control environment. Assurance mapping is in place and annual plans support due diligence reviews of key financial systems.</p> <p>A separate Counter Fraud and Investigations team has been established to support the council minimise fraud and corruption risks. A fraud risk register is maintained for the Council and assessments are reported annually to Audit Committee.</p>

Inquiry Area	Description	Lincolnshire County Council and Lincolnshire Pension Fund responses.
Fraud [ISA 240.A12]	<p>What controls and processes has management established to prevent, detect, deter and mitigate fraud?</p> <p>How does management monitor these controls and processes?</p>	<p>The Council adopts a zero tolerance approach to fraud. This is demonstrated in a range of measures including:</p> <ul style="list-style-type: none"> • Counter Fraud and anti-corruption policy (currently being refreshed) and fraud response plan • Anti-money laundering policy • Whistleblowing policy & arrangements including confidential reporting facility • Dedicated resources in Counter Fraud and Investigations Team (CFIT) - including accredited counter fraud specialists and investigators • Well established networks with counter fraud specialists and enforcement officers (local, regional & national) • Fraud awareness work – internal communications, eLearning, programmes, bespoke and support targeted to high risk areas • Proactive work programme – delivered by CF team to deter and detect • Due diligence checks (internal audit) • Participation in National Fraud Initiative (NFI) led by the Cabinet Office <p>Investigation of concerns and reports of fraud or irregularity followed by appropriate sanctions & recovery actions. This is supported by the sanctions set out in the Council's Codes of Conduct and employment policies.</p> <p>A reporting framework is in place ; CFIT produces regular fraud related reports for Audit Committee :</p> <ul style="list-style-type: none"> Annual Counter Fraud Plans <ul style="list-style-type: none"> • Progress and Annual Reporting to demonstrate achievements against the plan • Annual Whistleblowing reports • Fraud Risk Assessment • Self-assessment against best practice set out in the latest Fighting Fraud and Corruption Locally (FFCL) recommendations <p>RLT and CLT are sighted to these reports in advance of Audit Committee meetings.</p>

Inquiry Area	Description	Lincolnshire County Council and Lincolnshire Pension Fund responses.
		<p>Similar reporting arrangements are in place for Internal Audit to make sure management and members receive assurances around risk management and governance arrangements.</p> <p>The Pension fund has additional checking in place with participation in 'Tell us Once' scheme.</p>
Fraud [ISA 240.17b]	What is management's process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist	<p>The Council has appropriate Counter Fraud, Anti-corruption, anti-money laundering and whistleblowing policies.</p> <p>Reliance is placed upon an appropriate internal control environment and financial management arrangements. Management are accountable for the 'management processes' - the procedures are covered in Financial Procedure 2 and the Counter Fraud Policy includes as a paragraph about accountabilities and specific responsibilities for stakeholders.</p> <p>Internal Audit provides independent an objective review in accordance with PSIAS standards; any fraud concerns are referred to CFIT for follow up.</p> <p>Confidential reporting and whistleblowing arrangements are established, so that staff, contractors, Councillors or the public are able to report any concerns of wrong-doing.</p> <p>Management are encouraged to contact CFIT for counter fraud advice at an early stage. A fraud response plan in place to allow CFIT investigation of referrals and where fraud is found, action is taken for sanctions and recovery.</p>

Inquiry Area	Description	Lincolnshire County Council and Lincolnshire Pension Fund responses.
Fraud [ISA 240.A14]	Are there particular operating locations or business segments for which a risk of fraud may be more likely to exist?	<p>In line with key fraud risks highlighted nationally & consideration of the Council's own fraud risk profile, we believe areas to focus on are:</p> <ul style="list-style-type: none"> • Cyber Risks • Contracts • Procurement • Adult Social Care • Corruption, bribery, serious and organised crime • Payroll and employees • Schools <p>As the Council is supporting local business during the pandemic; grant fraud is emerging as a heightened risk area. Risk areas include:</p> <ul style="list-style-type: none"> • Passported funding for ASC providers (infection control) • Transport support scheme • Local economy support packages. • Accelerated Discharge funding (ASC commissioning on behalf of CCG) • Test & trace support grants • Business grants – distributed to district councils to administer <p>Pension fund risks: claiming pensions following the death of a pensioner. This is mitigated through NFI checks every 6 months and participates in 'Tell Us Once' checks etc.</p>
Fraud [ISA 240.17c]	What is the nature and extent of management's communication, if any, to those charged with governance regarding its processes for	The Audit Committee is a Regulatory Committee of the Council and is a key component of the Council's corporate governance. They provide high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

Inquiry Area	Description	Lincolnshire County Council and Lincolnshire Pension Fund responses.
	identifying and responding to the risks of fraud in the Council?	<p>The Audit Committee work plan is structured to include regular reports from Internal Audit, Risk Management and CFIT functions of Assurance Lincolnshire.</p> <p>Reports include;</p> <ul style="list-style-type: none"> • Annual plans for audit and counter fraud work • Updates of progress against plans – including summaries of audits completed and investigation outcomes • Annual fraud risk assessment • Results of audit's combined assurance mapping exercises • Annual Governance Statement <p>Pensions Committee receives risk register updates on a quarterly basis and an annual review, as does the Local Pension Board.</p>
Fraud [ISA 240.17d]	What is the nature and extent of management's communication, if any, to employees regarding its views on business practices and ethical behaviour?	<p>The Council has a Codes of Conduct for employees; it sets out expected ethical standards and is based on Nolan Principals 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>The Code of Conduct is incorporated into the Council's employment policies and is supported by disciplinary policies and procedures. The Council's employment policies were refreshed in 2020. Mandatory training courses were available for all managers and the disciplinary policy training made specific reference to Codes of Conduct and reporting of concerns via the CFIT team.</p> <p>Fraud awareness is regularly communicated to employees in 'News Lincs' and Management bulletins delivered by Internal Communications. This reinforces the zero tolerance approach taken in the counter fraud policy. A targeted approach is taken</p>

Inquiry Area	Description	Lincolnshire County Council and Lincolnshire Pension Fund responses.
		<p>where there is an increased risk; for example, management communications around bank mandate fraud risks.</p> <p>Financial procedures provide the framework for managing Council resources. The Finance Team discusses expectations with budget holders during quarterly monitoring review meetings.</p> <p>CLT oversees the Council's governance arrangements and the development of the Annual Governance Statement. There is also a corporate governance group of officers whose role is to support the Council to ensure that it complies with the standards of good governance and a Governance Action Plan is in place.</p>
<p>Fraud [ISA 240.18]</p>	<p>Are you aware of or have you identified any instances of actual, suspected or alleged fraud within the Council? This includes instances of misconduct or unethical behaviour related to financial reporting or misappropriation of assets.</p> <p>Where you are aware of such instances how have these been addressed?</p>	<p>Yes, reports were received and investigated by our dedicated counter fraud & investigation team. Investigations included fraud, forgery and other financial irregularity issues.</p> <p>Reports of fraud received in 2020/2021 were not over the materiality levels.</p> <p>Head of Internal Audit provides fraud updates (especially high profile, significant and material cases) to S151 officer, EA liaison and Audit Committee.</p> <p>A range of sanctions and redress have been applied. These included:</p> <ul style="list-style-type: none"> • Internal disciplinary procedures (outcomes included: management actions, verbal and written warnings, gross-misconduct dismissals) • Salary recoveries / raising of debtor invoices • Police referrals for criminal prosecution <p>We are also aware of instance where major external mandate fraud attempts were successfully blocked.</p> <p>Where we identify that weaknesses in internal control contributed to fraud losses,</p>

Inquiry Area	Description	Lincolnshire County Council and Lincolnshire Pension Fund responses.
		<p>recommendations are made to management to ensure proportionate controls are put in place. Recommendations are communicated to internal audit.</p> <p>Audit Committee has oversight of the Council's counter-fraud arrangements. An annual report of Counter Fraud activity is produced and presented to Audit Committee.</p> <p>We are not aware of any issues affecting the Pension Fund.</p>
<p>Fraud [ISA 240.A14]</p>	<p>What is the nature and extent of management monitoring of operating locations or business segments for fraudulent activities, including fraudulent financial reporting?</p>	<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.</p> <p>Additional pro-active Counter Fraud reviews are undertaken by CFIT where there is heightened risk of fraud.</p> <p>Financial accounts are subject to independent review by external audit.</p>
<p>Transactions Outside the Normal Course of Business [ISA 240.32c]</p>	<p>Is management aware of any significant transactions outside the normal course of business for the entity?</p>	<p>The Council has been involved in support for emergency arrangement in response to the pandemic.</p> <p>There have been no significant decisions made outside of the Council's normal decision making processes. Finance managers have been involved with tactical and strategic groups and receive weekly reports so that they can pick up on matters of financial concern at an early stage.</p> <p>Management is not aware of any other issues.</p>

Inquiry Area	Description	Lincolnshire County Council and Lincolnshire Pension Fund responses.
		<p>Lincolnshire Pension Fund: There have been significant transitions across the Pension Fund - but these are part of normal business. Management is not aware of other transactions outside normal business.</p>
Laws and Regulations [ISA 250.A11]	What legal and regulatory frameworks are applicable to the Council?	<p>There are a wide range of other legal and regulatory frameworks which are applicable to the Council. These derive from the regulatory framework within which local government operates.</p> <p>The outcome of internal audit's work is reported in regular progress reports and an annual report to Senior Management and the Audit Committee – these all help inform the Council's Annual Governance statement</p> <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 regularly by the monitoring officer and any changes to the Constitution 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>In line with legal requirements the Council has a Monitoring Officer, A Head of Paid Service and a Chief Financial Officer all of whom are responsible for ensuring compliance. The Council's statutory officers are all appropriately qualified and experienced officers.</p>

Inquiry Area	Description	Lincolnshire County Council and Lincolnshire Pension Fund responses.
		The Monitoring Officer delivers an Annual Report to Audit Committee providing comment on lawfulness of the Council's arrangements and decision making.
Laws and Regulations [ISA 250.A11]	What laws and regulations have a direct effect on the determination of material amounts or disclosures in the financial statements?	<p>The Council operates in the light of the guidance provided within the current CIPFA framework for the preparation of its financial statements.</p> <p>This includes consideration of The Accounts and Audit Regulations 2015 and Prudential Code</p>
Laws and Regulations [ISA 250.15a]	How is the Council complying with the legal and regulatory framework?	<p>The Council's view is that it is fully compliant with the legal and regulatory framework and this will be reassessed as part of the process of preparing its Annual Governance Statement.</p> <p>An appropriately qualified and experienced legal and senior management team is in place. The constitution defines the decision making protocols and this is supported by a policy framework.</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.</p> <p>The Monitoring Officer ensures that LCC acts and operates within the law, and advises on whether decisions of the Executive are lawful and in accordance with the Budget and Policy Framework. An annual report is presented by the Monitoring Office to Audit Committee.</p>

Inquiry Area	Description	Lincolnshire County Council and Lincolnshire Pension Fund responses.
Laws and Regulations [ISA 250.A11]	What policies, procedures, and controls has management established to prevent instances of non-compliance with las and regulations?	<p>The financial regulations form part of our Constitution. They provide the framework for managing our affairs and apply to every Councillor and officer and anyone acting on its behalf.</p> <p>The procedures underpin the Councils systems of internal control and are designed to ensure that our use of resources is legal, properly authorised and provides value for money. They must be adhered to at all times so that reasonable actions are taken to provide for the security of the assets under our control.</p> <p>The Code of Conduct sets out expected standards, with regard to:</p> <ul style="list-style-type: none"> • Accountability- required to comply with legislation, terms and conditions of employment, service and other written guidelines. • Stewardship • Honesty, integrity, impartiality and objectivity • Conflicts of interest • compliance <p>Employment policies provide for disciplinary action if employees fail to comply with the code and associated policies.</p> <p>There is a framework of strategies and policies in place to ensure compliance: including: Financial strategies, Investment and treasury management policies and treasury management and prudential indicators. These are checked for legal compliance against regulatory and statutory frameworks.</p> <p>The Head of Internal Audit and Risk provides an annual opinion on the governance risk and control arrangements and the Council and Pension Fund compliance with Accounts and Audit Regulations. The Annual Governance Statement details governance arrangements. This is signed off by the Leader of the Council, Chief Executive and Executive Director – Resources.</p>
Laws and Regulations [ISA	Are you aware of any instances of actual, suspected	Yes, see details below:

Inquiry Area	Description	Lincolnshire County Council and Lincolnshire Pension Fund responses.
250.A15]	or alleged non-compliance with laws and regulations, including actual or possible illegal acts?	<p>Reports were received and investigated by our dedicated counter fraud & investigation team. Investigations included fraud, forgery and other financial irregularity issues against LCC. Reports of fraud received in 2020/2021 were well below the materiality levels set.</p> <p>There has been an allegation of non-compliance linked to ASC charging arrangements. The impact of these matters will not exceed materiality levels to the accounts.</p> <p>The Council has received other challenges by way of judicial review or threatened judicial review to individual decisions. These were minor matters and not material to the accounts.</p>
Laws and Regulations [ISA 250.A11]	What policies, procedures and controls has management established for identifying, evaluating and accounting for litigation, claims and assessments?	<p>Financial Procedure 2 , which forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council sets out that:</p> <p><i>The Section 151 Officer is responsible for advising the council on proper insurance cover, and will:</i></p> <ul style="list-style-type: none"> • <i>Effect corporate insurance cover, through external insurance and internal funding, and negotiate all claims in consultation with other officers, where necessary.</i> • <i>Include all appropriate employees of the council in suitable fidelity guarantee insurance.</i> • <i>Offer insurance cover to schools in accordance with arrangements for financing schools.</i> • <i>Ensure that provision is made for losses that might result from identified risks.</i> • <i>Ensure that procedures are in place to investigate claims within required timescales.</i> <p><i>An annual report on insurance activity will be provided to the Corporate Leadership Team.</i></p> <p><i>The Section 151 Officer will notify the Executive Member for Resources if the total amount paid to claimants exceeds £2m in any classes of insurance cover.</i></p> <p>The insurance strategy sets out approach. There is an insurance Fund - the process for claims involves legal and insurance. The scheme of delegation sets out approval</p>

Inquiry Area	Description	Lincolnshire County Council and Lincolnshire Pension Fund responses.
		<p>levels, roles and responsibilities are defined and details how claims are dealt with and settled. Annual actuarial review takes place on the insurance fund to ensure its resilience & long term sustainability. Quarterly monitoring is in place and balances and claims are reviewed by the Head of Internal Audit & Risk Management. The actuary in report Oct 2020 recommended that £11.601M cover is needed; the insurance fund is currently £13.49m.</p>
Laws and Regulations [ISA 250.A15]	<p>Is the Council involved in any litigation, claims or assessments?</p> <p>What is management's assessment of such matters?</p> <p>Which litigation, claims and assessments involving the Council may have a material effect on the financial statements and/or may require disclosure in the financial statements?</p>	<p>Yes; there are a number of claims outstanding, but these are accounted for in the Insurance Fund.</p> <p>The value of claims pending is substantial, but not is above the materiality levels for the accounts of LCC and Lincolnshire Pension Fund.</p>
Accounting Estimates [ISA 540.8b]	Have there been changes in circumstances that may give rise to new or the need to revise existing accounting estimates?	<p>LCC Accounts: There are no material changes: a report is due to Audit Committee on 19 March 2021.</p> <p>Lincolnshire Pension Fund: In addition our accounting policies will be considered by the Pensions Committee on 18 March</p> <p>Accounting Estimates normally cover: Actuarial present value of promised retirement benefits and Fair Value estimates for unlisted assets. For 2019/20 this was expanded to include uncertainty around property valuations.</p>

Inquiry Area	Description	Lincolnshire County Council and Lincolnshire Pension Fund responses.
		<p>We anticipate for 2020/21 the additional estimate/uncertainty around property valuations will be removed.</p> <p>Accounting Policies: no changes required in 2020/21 for changes to accounting standards. We anticipate that we will revisit our policy on valuation on unquoted assets with the continuation of the extended audit sign off deadline.</p>
Related Parties [ISA 550.13ab]	<p>Who are the entity's related parties and what is the nature of the relationship between the Council and each related party?</p> <p>Are there any changes in related parties from the prior period?</p>	<ul style="list-style-type: none"> • These are set out in the 2019/20 statement of accounts and will be updated for our 2020/21. • Declarations from our Members and Senior Officers are collated at year end in accordance with the Code adaption of IAS24. • We have 4 subsidiary companies – Transport Connect Limited, Lincolnshire County Property Limited (not yet trading), Lincolnshire Futures Limited (not yet trading), and Legal Services Lincolnshire (Trading) Limited (not yet trading). These companies were set up to support service delivery. • Not anticipating any changes from prior period. <p>Lincolnshire Pension Fund: As per our 19/20 accounts (and the Council's) – no changes expected. Disclosure here includes:</p> <p>Relationship between the Pension Fund and the County Council (including: cost of administering the Fund, the Council as an employer in the Fund and the provision of Treasury Management by the Council). Declarations are also made by members of the Pensions Committee.</p>
Related Parties [ISA 550.13c]	Have there been any transactions with the identified related parties during the period, and if so, what is the type and purpose of the	<ul style="list-style-type: none"> • This will be identified and analysed following receipt of declaration forms from members and senior officers. • Details of all transactions are also recorded in the Register of Members' Interest and is available for public inspection (but may be restricted due to Covid-19), and online through the council's website.

Inquiry Area	Description	Lincolnshire County Council and Lincolnshire Pension Fund responses.
	transactions?	Lincolnshire Pension Fund: Pension Fund – Council Members of the Pensions Committee are required to complete a Pecuniary Interest Declaration and any additional declarations at each meeting of the Pensions Committee, other members of the Pensions Committee are invited to declare any interests at the start of each meeting.
Related Parties [ISA 550.14]	<p>What policies, procedures and controls has management established to</p> <ul style="list-style-type: none"> • identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework? • authorise and approve significant transactions and arrangements with related parties; and • authorise and approve significant transactions and arrangements outside the normal course of business. 	<p>Declaration of interest form is sent out to members and senior officers for return annually. This is checked against their declaration of interest published in the website. Discrepancy is investigated.</p> <ul style="list-style-type: none"> • Companies House is checked for directorship of executive members and senior officers to cross check their declaration. Any discrepancy is again investigated. • Since 2019/20, a declaration of interest at meetings can be accessed online to strengthen transparency. • Transactions are approved in accordance with the financial regulations. • Management is not aware of transactions and arrangements outside the normal course of business. • Investment in companies is made in accordance with the Capital Strategy, which is approved annually. • NFI – bi annual exercise data match of payroll data (staff and members) against supplier data. CFIT investigate undeclared conflicts of interest. <p>Lincolnshire Pension Fund - In addition the Pension Fund has its own Conflicts of Interest Policy.</p>



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

Report to:	Audit Committee
Date:	19 March 2021
Subject:	Counter Fraud Plan 2021/22

Summary:

This report provides the Committee with information on Counter Fraud and Anti-Corruption activities currently scheduled in the 2021/22 work plan.

Recommendation(s):

To review and approve the Counter Fraud Plan 2021/22.

Background

The Counter Fraud Plan for 2021/22 is designed to deliver a tough response to fraud committed against local authorities in Lincolnshire. The draft work plan, in Appendix A, is aligned to best practice guidance and addresses priorities highlighted in the Councils fraud risk assessments. Resource and contingency has been made available to respond to emerging fraud risks that result from Covid-19.

Conclusion

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

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

Consultation

a) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Counter Fraud 2021/22 Work 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 Dianne Downs, who can be contacted via dianne.downs@lincolnshire.gov.uk.

Counter Fraud

2021/22 Work Plan



Lincolnshire County Council
March 2021

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Developing the plan

Delivery and Focus Page 4

Delivering the plan

Appendices Page 5

A – Draft Counter Fraud Plan
B – Staff Contacts

The contacts at Assurance Lincolnshire are:

Lucy Pledge CMIIA, QIAL

Head of Audit and Risk Management

Lucy.pledge@lincolnshire.gov.uk

Dianne Downs FCMI, CMIIA

Team Leader - Audit

dianne.downs@lincolnshire.gov.uk

The Planning Process

Introduction

This report sets out proposed work of the Counter Fraud and Investigation Team for 2021/22. The aim is to give you a high level overview of the activities we are likely to cover during the year, with indicative scope for each theme. The draft plan gives you an opportunity to comment on the plan and the priorities that we have established.

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

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

Background

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

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

Lincolnshire Counter Fraud Partnership was established in 2015. This partnership is made up of all the local authorities and the Police in

Lincolnshire. Lincolnshire Council's and Lincolnshire Police have agreed to continue fund this initiative for 2021/22.

The Counter Fraud Plan 2021/22 has been developed to deliver a proportionate response to the risk of fraud for both Lincolnshire County Council and its partners in the Lincolnshire Counter Fraud Partnership. This reflects new risks emerging from the pandemic.

Developing the plan

In April 2020, the Government's Local Government Counter Fraud and Corruption Strategy - Fighting Fraud and Corruption Locally (FFCL) was refreshed. The Strategy is supported by the CIPFA's Code of Practice for Managing the Risk of Fraud, providing a blueprint for a tough response to fraud committed against local authorities.

The Council's counter fraud arrangements are designed to adhere to the principles and specific areas expected and identified in the CIPFA Code of Practice and response to recommendations from FFCL.

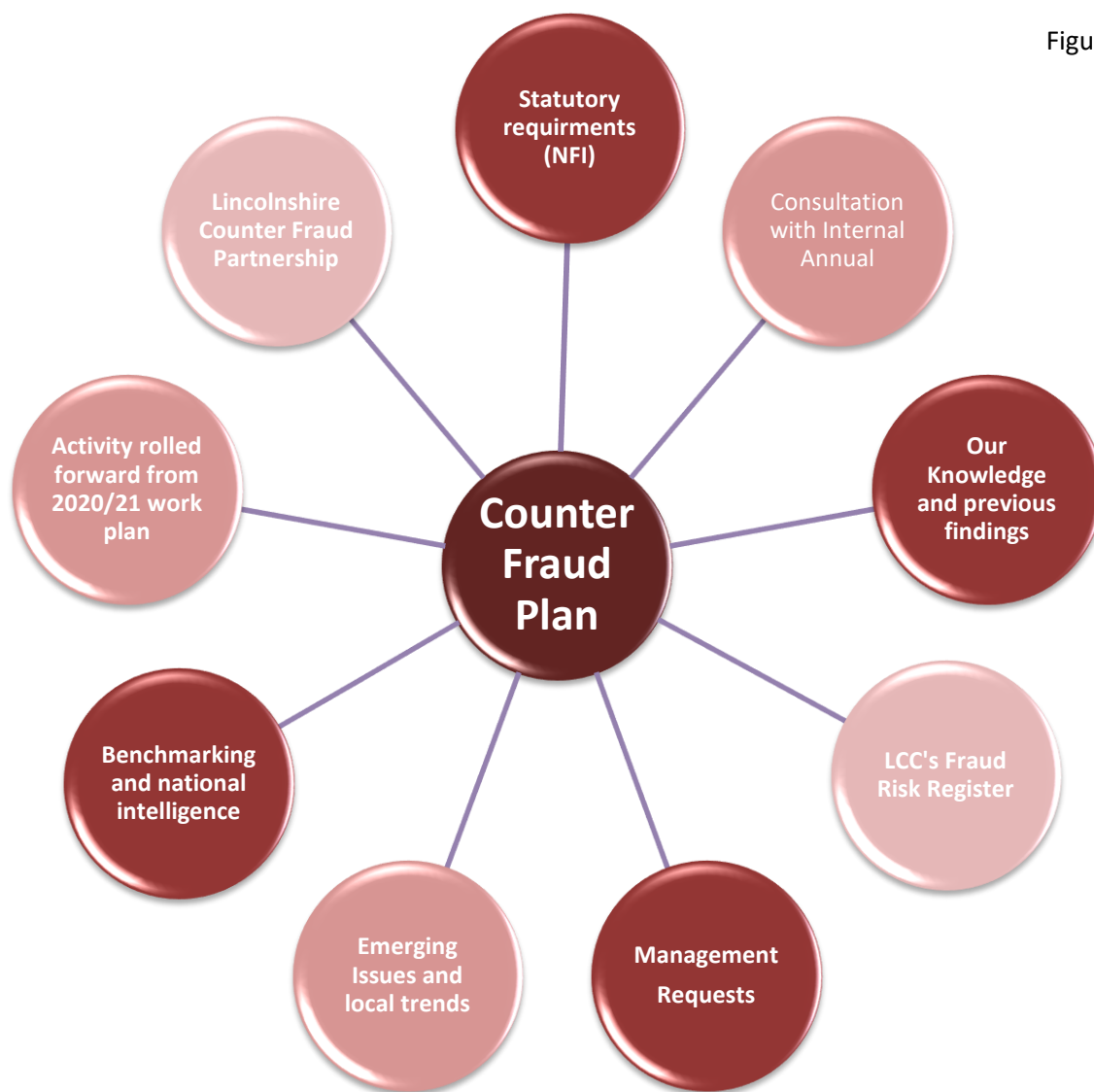
To ensure that the plan reflects key areas, we have aligned the 2021/22 Counter Fraud plan to the CIPFA Code's 5 key principles:

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

In 2021/22 there is a heavy focus on taking action. This includes continued pro-active work to prevent and detect fraud, and resource for investigation when fraud is suspected.

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

Figure 1



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

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

Our Work Plan sets out delivery – Appendix A

Delivery and Focus

Delivering the Plan

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

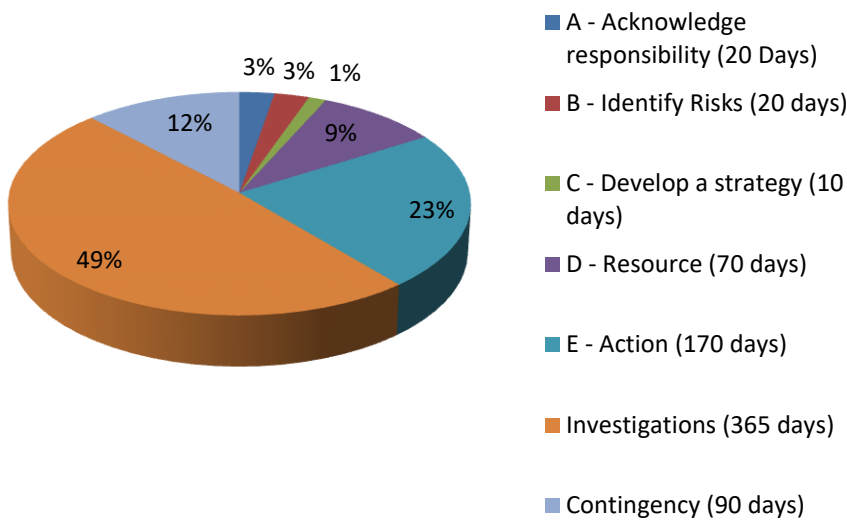
The plan identifies specific areas that will be

delivered, but also some unallocated contingency. The contingency allows for greater flexibility to respond to emerging risks and larger scale investigations.

This will be modified in accordance with investigative demands, emerging risks, requests from management and practical considerations around the timing of counter fraud activity.

The Council's Counter Fraud Plan is 745 days.

Allocation of Counter Fraud Resources



APPENDICES

Staff Resource

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

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

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

The team will be supported by specialists from Assurance Lincolnshire and our wider audit frameworks as and when appropriate and by our pool of Relief Conduct Investigators.

The mix of staff delivering our Counter Fraud plan is shown below:

Grade	2021/22 plan (Average Days)	Grade Mix %
Head of Corporate Audit & Strategic Risk Management	15	2%
Team Leader - Audit	90	12%
Principal Investigator	463	62%
Senior Investigator	177	24%
Totals	745	100%

APPENDICES

Appendix A – Counter Fraud Plan 2021/22

Specific step (from CIPFA Code of Practice)	Nature of work and Indicative Scope
CIPFA Code of Practice – Key Principle A : Acknowledge Responsibility	
<p>A1 - Acknowledge the threat of fraud and corruption</p> <p>A2 - Acknowledge the importance of a culture that is resilient to the threats of fraud and corruption</p> <p>A3 - Governing Body acknowledges its responsibility for the management of its fraud and corruption risks</p> <p>A4 - Governing Body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption</p>	<p>Member Training and Audit Committee Support</p> <p>Counter Fraud Annual Plan and Progress Reports to Audit Committee</p> <p>Lincolnshire Counter Fraud Partnership Plan and Reports for Lincolnshire Finance Officers Group</p>
20 Days (3%)	

Specific step (from CIPFA Code of Practice)	Nature of work and Indicative Scope
CIPFA Code of Practice – Key Principle B : Identify Risks	
<p>B1 - Fraud risks are routinely considered as part of risk management arrangements</p> <p>B2 - The organisation identifies the risks of fraud and corruption</p> <p>B3 - The organisation publishes estimates of fraud loss to aid evaluation of fraud risk exposures</p> <p>B4 – The organisation evaluates the harm to its aims and objectives</p>	<p>Horizon Scanning & Annual Self-assessment against Fighting Fraud and Corruption Locally.</p> <p>Benchmarking Activity – CFACT Tracker (annual survey), peer groups and trend analysis of LCC investigations</p> <p>Collaboration in assurance mapping process - Counter Fraud and Investigations, Audit and Risk teams</p> <p>Update of Fraud Risk Registers</p> <p>Fraud Risk Register – present report to Audit Committee</p> <p>Identify priority service areas for awareness training</p>
20 Days (3%)	

APPENDICES

Specific step (from CIPFA Code of Practice)	Nature of work and Indicative Scope
CIPFA Code of Practice – Key Principle C : Develop a Strategy	
<p>C1 - Governing Body formally adopts a counter fraud and corruption strategy to address identified risks</p> <p>C2 - Strategy includes the organisation's use of joint working or partnership approaches</p> <p>C3 - The strategy includes both proactive and responsive approaches:</p> <p>Proactive action:</p> <ul style="list-style-type: none"> • Develop counter fraud culture • Prevent fraud through implementation of robust internal controls • Use of techniques such as data matching • Deterring fraud attempts by publicising the organisation's anti-fraud and corruption stance and the actions it takes against fraudsters <p>Responsive action:</p> <ul style="list-style-type: none"> • Detecting fraud through data and intelligence analysis • Implementing effective whistleblowing arrangements • Investigating fraud referrals <p>Applying sanctions and seeking redress</p>	<p>Annual Counter Fraud Work Plan</p> <p>Strategy and Policy review/ refresh</p> <p>Update investigation practice notes</p> <p>Refresh Communications Strategy</p> <p>Feasibility study for establishment of a County wide data hub</p>
10 Days (1%)	

APPENDICES

Specific step (from CIPFA Code of Practice)	Nature of work and Indicative Scope
CIPFA Code of Practice – Key Principle D : Provide Resources	
<p>D1 - Annual assessment whether level of resource invested to countering fraud and corruption is proportionate to the level of risk</p> <p>D2 - The organisation utilises an appropriate mix of experienced and skilled staff</p> <p>D3 - The organisation grants counter fraud staff unhindered access to its employees</p> <p>D4 - The organisation has protocols in place to facilitate joint working and data and intelligence sharing</p>	<p>Lincolnshire Counter Fraud Partnership resource</p> <p>Whistleblowing facility – logging reports, referrals and follow up action</p> <p>LCC – Support and advice</p> <p>Engagement with national and regional best practice groups (including Midland Fraud Group) – sharing intelligence, CIPFA Standards and Fighting Fraud and Corruption Locally.</p> <p>Enhance data analytic training and capability</p> <p>E-Learning</p>
70 Days (9%)	

Specific step (from CIPFA Code of Practice)	Nature of work and Indicative Scope
CIPFA Code of Practice – Key Principle E : Take Action	
<p>E1 - The organisation has put in place a policy framework which supports the implementation of the Counter Fraud Strategy</p> <p>E2 - Plans and operations are aligned to the strategy</p> <p>E3 - Making effective use of initiatives to detect and prevent fraud, such as data matching or intelligence sharing</p> <p>E4 - Providing for independent assurance over fraud risk management, strategy and activities</p>	<p>Completion of work in progress from 2020/21 Counter Fraud Plan</p> <p>National Fraud Initiative–Processing & Reporting</p> <p>Promotion and Delivery of Communications Plan, targeted fraud awareness sessions and Fraud Clinics (Virtual delivery)</p> <p>Pro-active reviews on higher risk areas – linked to fraud risk assessment. Key priorities for 2021/22 are currently:</p> <ul style="list-style-type: none"> • Covid grants and support schemes • Procurement and contracts • Adult Social Care • Support for Internal Audit due diligence and key control testing. (Payroll & employees/ payments & creditors)

APPENDICES

Specific step (from CIPFA Code of Practice)	Nature of work and Indicative Scope
E5 - Report to the Governing Body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy. Conclusions are featured within the Annual Governance report	<ul style="list-style-type: none"> Liaison & intelligence sharing meetings with Information Assurance Teams (Cyber risks)
170 Days (23%)	
365 days for Investigations (49%)	

Additional work	Nature of work and Indicative Scope
Contingency	Other - emerging risks / expansion of planned work.
90 Days (12%)	
TOTAL – 745 DAYS	

Appendix B –STAFF CONTACTS

NAME	GRADE	EMAIL
Lucy Pledge	Audit and Risk Manager	Lucy.Pledge@lincolnshire.gov.uk
Dianne Downs	Team Leader- Audit	Dianne.Downs@lincolnshire.gov.uk
Donald Adams	Principal Investigator	Donald.Adams@lincolnshire.gov.uk
Matt Drury	Principal Investigator	Matt.Drury@lincolnshire.gov.uk
Gillian Martin	Principal Investigator	Gillian.Martin@lincolnshire.gov.uk
Ashley Simons	Senior Investigator	Ashley.Simons@lincolnshire.gov.uk

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

Report to:	Audit Committee
Date:	19 March 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

19 March 2021 – 10.00 am		
Item	Contributors	Assurances Required/ Sought
Statement of Accounts 2019/20 - Update	Sue Maycock (Head of Finance – Corporate)	
External Audit Strategy – Lincolnshire County Council 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.
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 2020/21 – Accounting Policies	Sue Maycock (Head of Finance – Corporate)	Confirm that the appropriate accounting policies are being applied and understand the impact of any material changes that affect the Council's or Pension fund accounts.
Internal Audit Progress Report	<p>Lucy Pledge (Head of Internal Audit and Risk Management)</p> <p>James Drury (Executive Director – Commercial)</p> <p>John Wickens (Assistant Director IMT and Enterprise Architecture)</p>	<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>

19 March 2021 – 10.00 am

Item	Contributors	Assurances Required/ Sought
Risk Management Progress Report - March 2021	Debbie Bowring (Principal Risk Officer)	Seek assurance that risk-related issues are being addressed.
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 2021/22	Dianne Downs (Team Leader – Audit)	On the overall effectiveness of the Authority's arrangements to counter fraud and corruption.

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	Seek assurance over the adequacy of the External Audit opinion on the financial statements and the Council's value for money arrangements. Ensure any issues / risks identified are being effectively managed.
Draft Internal Audit Annual Plan 2021/22	Lucy Pledge (Head of Internal Audit and Risk Management)	That the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion. Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year.
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. The Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion. Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year.

14 June 2021 – 10.00 am

Item	Contributors	Assurances Required/ Sought
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.
Review of Governance Framework and Development of the Annual Governance Statement 2020/21	Lucy Pledge (Head of Internal Audit and Risk Management)	<p>Confirm that the Annual Governance Statement reflects the Committee's understanding of how the Council is run and that any significant governance issues / risks have been identified / published.</p> <p>Constructively challenge the information and evidence being presented.</p> <p>Ensuring value for money assurance arrangements are reported on and assessing how this features in the Annual Governance Statement.</p> <p>Improving how the Council discharges its responsibilities for public reporting e.g. better targeting at the audience and plain English.</p>
Horizon Scanning	Lucy Pledge (Head of Internal Audit and Risk Management)	

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?
Approval of the Council's Annual Governance Statement 2020/21	Lucy Pledge (Head of Internal Audit and Risk Management)	Confirm that the final Annual Governance Statement accurately reflects the Committees understanding of how the Council is run and any comments made on the draft have been acted upon.
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.

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>

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.
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.

15 November 2021 – 10.00 am		
Item	Contributors	Assurances Required/ Sought
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>

Items to be programmed:

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