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County Offices
Newland
Lincoln
LN1 1YL

18 March 2022

Audit Committee

A meeting of the Audit Committee will be held on **Monday, 28 March 2022** in the **Council Chamber, County Offices, Newland, Lincoln LN1 1YL** at **10.00 am** for the transaction of business set out on the attached agenda.

Yours sincerely

Debbie Barnes OBE
Chief Executive

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

Councillors Mrs S Rawlins (Chairman), M G Allan (Vice-Chairman), S Bunney, P E Coupland, J L King, P A Skinner and A N Stokes

Non-Voting Added Members

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

AUDIT COMMITTEE AGENDA
MONDAY, 28 MARCH 2022

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

<u>Democratic Services Officer Contact Details</u>

Name: **Rob Close**
Direct Dial **07387 133753**
E Mail Address robert.close@lincolnshire.gov.uk

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

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

Contact details set out above.

Please note: This meeting will be broadcast live on the internet and access can be sought by accessing Agenda for Audit Committee on Monday, 28th March, 2022, 10.00 am (moderngov.co.uk)

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

Lincolnshire COUNTY COUNCIL Working for a better future

AUDIT COMMITTEE
9 FEBRUARY 2022

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

Councillors M G Allan (Vice-Chairman), S Bunney, P E Coupland, J L King and A N Stokes

Also in attendance: Mr A Middleton (Independent Added Member)

Councillor: M Whittington attended the meeting via Microsoft Teams as an observer

Officers in attendance:-

Debbie Barnes OBE (Chief Executive), Robert Close (Democratic Services Officer), Glen Garrod (Executive Director - Adult Care and Community Wellbeing), Michelle Grady (Assistant Director - Finance), Andy Gutherson (Executive Director - Place) and Lucy Pledge (Head of Internal Audit and Risk Management)

The following officers joined the meeting remotely via Teams:-

Debbie Bowring (Principal Risk Officer), Laura Bargh (Audit Officer), James Drury (Executive Director - Commercial), Matt Drury (Principal Investigator), Heather Sandy (Executive Director - Children's Services) and Ryan Stacey (Assistant Chief Fire Officer)

1 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor P A Skinner and Mr I Haldenby

2 DECLARATIONS OF MEMBERS' INTERESTS

There were no declarations of interest made at the meeting.

3 MINUTES OF THE MEETING HELD ON 15 NOVEMBER 2021

RESOLVED

That the minutes of the meeting held on 15 November 2021 be signed by the Chairman as a correct record.

4 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, particularly the impact to colleagues in social care and emergency services. Overall, staff had performed admirably and continued to be supported. The Council faced issued of labour shortages, however the willingness of Council staff to be redeployed where necessary allowed for continuity of essential activities. Despite the challenges faced by the Council, the combined assurance document continued to receive substantial assurance with a 4 per cent increase to green assurance and a 1 per cent increase to red assurance.

While responding to the Pandemic and ensuring day-to-day business activities were ensured, the Council continued to achieve the ambitions of its 10-year Corporate Plan. The transformation programme yielded benefits including improvements to Special Educational Needs Services (SEND) resulting in the Council being one of a small number of local authorities which wasn't overspending in its higher needs block. While transformation relating to placement for looked after children within local communities was still in its early stages, it looked promising. Smarter working arrangements had now been launched and colleagues were increasing populating Council Offices.

The Chief Executive also highlighted the risks faced by the Council including the safeguarding of children and adults, business continuity and resilience, which all saw increased assurance because of relaxed Covid-19 restrictions. An area of concern, however, was that of market supply and recruitment of staff because of increased average salaries and wider accessibility of occupations. A Council Workforce Development Board was commissioned to explore mitigation opportunities going forward.

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

- Support and shared working with other local authorities - Lincolnshire was a partner in practice for Children's Services, therefore, separately funded through a ringfenced grant enabling support to other areas of the country. Discussions were currently ongoing to offer support to North East Lincolnshire Council, similar to support offered to a number of other authorities. The Chief Executive was confident that the separate funding ensured Lincolnshire County Council's support wouldn't be to the detriment of its own service delivery. Recent initiatives identified a shared approach to the public health service with North Lincolnshire Council and North East Lincolnshire Council though a piloted Section 113 agreement which could be halted at any time. The Director of Public Health felt strongly that there was indeed capacity to deliver a shared service which would be advantageous to all parties and address the health inequalities currently encountered within the county.
- Smarter Working – Smarter working was launched at the end of January 2022; previous arrangements came under Covid-19 work from home guidance. Therefore, the data

available for analysis limited the effectiveness of a current evaluation. It was expected that, following six months' implementation, a review of the policy's impact would be a carried out with staff and unions. While appreciating that some staff couldn't exercise the primary function of their role from home, smarter working arrangements enabled completion of administrative activities remotely. The process to agree work hours and patterns with staff was undertaken through a dialogue with their managers, in line with the demand needs of their customer and community base. Furthermore, managers were encouraged to have supervisions
face to face. Productivity metrics indicated that the Council's staff performed well compared to other similar authorities. Additionally, the efficiencies virtual meetings offered through reduced travel times and costs contributed significantly to the productivity of smarter working. Virtual meeting also presented staff exceptional new staff engagement opportunities.

- Apprenticeships - Within the aspirations of the Corporate Plan, there was a strategic performance target to increase the number of apprenticeships. Challenges to increase the number of apprenticeships included capacity pressures of allocating 20 per cent of time to off the job development and the availability of apprenticeships for particular skills was not always sufficient. Future devolution prospects may allow for a more bespoke apprenticeship approach. The Council had 294 direct apprentices, on various levels, and supported 28 apprentices through the levy transfer scheme to other contractors and providers.
- Elective Home Education - The Council RAG rated families at the beginning of the Covid-19 Pandemic which allowed for closer working with schools, ensuring effective observation of vulnerable children. However, the increase in the number of children who were being electively home education was an area of concern and increased risk. Collaborative work was carried out with schools and frequent visits were undertaken to those children who were being home educated to ensure, as far as possible, children out of school were monitored in line with statutory guidance
- The Social Care Reform White Paper – Social care reform was identified as having the most significant cost implications for the Adult Services directorate due to the reform changes of fair rates of care for price differentials between private social care, which covered 50 per cent of the market in Lincolnshire, and state funded care. Public funded social care, not covered in the white paper, would be addressed though increased Council Tax revenue. Moving forward, the Council would be responsible for managing approximately 20,000 care account each year whereas it currently only managed 10,000. A number of programmes, within Adult Social Care and Finance, were being explored to effectively respond to reforms. The Council must also progress its digital programme to be well placed for future reforms and to ensure robust interdependence with other services and key partnerships.
- Net to gross payments - Substantial monthly progress continued to be made on the debt review programme. With the support of finance colleagues, the directorate had strengthened the existing recovery programme and improved the relationships with operational teams. Changes were made to the debt recovery method which transitioned from a transactionary approach to a more client focussed experience. All debt owing over £25,000, had already been completed ahead of schedule. By the end of March 2022, all debt owing over £15,000 would be completed. The Councils current

ongoing debt didn't far exceed that expected of an authority of this size. Other issues surrounding debt recovery included the Court of Protection, which accounted for £750,000 of the Council's debt, and unnecessary nominal debts which interfered with data. The move from a net payment system to a gross payment system placed the Council in a strong position in preparation for the white paper. All social care providers were contacted before Christmas 2021, 80 per cent had responded. The level of debt was minimal as 74 per cent of providers in Lincolnshire were small to medium enterprises. A new investment in IT, and agreement from the Department for Work and Pensions (DWP), enabled data sharing for financial assessments. Overall, the process for financial assessments had been streamline from 17 weeks to four weeks.

- Hospital Discharge Pathways – Pathway zero currently operated at 70 per cent discharge rate, 15 per cent below the national average, which put pressure on the other pathways. NHS colleagues were working to increase earlier discharge rates to meet the national average. Pathway one went through a peer review in in 2021 which identified seven core actions that, with CCG colleagues and an improvement director, were ongoingly progressed. It was expected that, by April 2022, not only will improvements have been made but the overall position would have been strengthened for winter 2023 and 2024.
- Overprescribing – An agreement had been reached with the four NHS organisations that currently employed Occupational Therapists (OTs) to reorganise those OTs to work collectively to mitigate the over prescription of equipment on discharge. The level of overprescription had since reduced dramatically which made a big difference on the pooled budget.
- Loss of adult social care staff – Prior to Christmas 2021, a dialogue with the Home Office enabled the Home Office to approach people who earn under £30,000 a year and permission to recruit from other European counties was offered. The Council currently needed approximately 230 home care workers to satisfy demand.
- Children's Social Care Lawyers – Recruitment of Children's Social Care Lawyers continued to prove significantly difficult due to the higher private salaries and often challenging and upsetting work.
- Public Sector Auditor Appointments (PSAA) – A decision was due to be taken by Council on 18 February 2022 to determine if the Council opted into the (PSAA) scheme as supported by the Audit Committee.
- Long Term Financial Resilience – The budget proposed to Council on 18 February 2022 made provision to address the volatility of inflation and increasing costs such as home to school transport and the adult care provision. There was an expectation by Government that price and demand increases were met by local Council tax provision. The Council benefited from a long-term savings strategy and a long-term financial resilience with use of reserves where necessary.
- £150 Rebate for Band A to D Council Tax – The Council wasn't expected to be affected by the £150 as the payment would be administered by the billing authority.
- Civil Parking Enforcement – During the Covid-19 Pandemic, civil parking enforcement had to be delivered very differently, as a consequence it was identified as a red risk. Changes in guidance for how to enforce parking was beginning to be received thus the risk related was expected to reduce.

- Place Overall Assurance Level - A number of factors contributed to an increase of eight per cent red risk which included risks related to capital projects, inflationary pressures, commercial pressures, supply chain pressures and Covid-19 related challenges. However, Covid-19 related challenges were decreasing recently. Inflationary pressures were largely out of the Council's control. The Council continued to engage effectively with the market and contractors to create as many efficiencies as possible to ensure that projects were delivered.
- Home to School Transport – The review undertaken by the Council sought to consider the procurement and contract management arrangements. Stakeholder engagement sessions with head teachers and parents would be undertaken within the review should any policy be proposed. There was a view to reach a stage where residents were taking ownership and responsibility of their own travel arrangements rather than being overreliant on the Council's facilities. Moreover, there was a financial saving attached to home to school transport, so efficiencies needed to be identified in that area.
- Waste Management – Waste arisings increased during the Covid-19 lockdown produced challenges. The market for recyclables had always been fairly volatile and could increase or decrease dependant on what materials were sought at the time. A trial of separate card and paper collection was initially conducted in Boston, then subsequently North Kesteven and was due to be rolled out into West Lindsey from April 2022. Separate card and paper collections proved to yield better quality materials at a higher value. As a consequence, each other district councils sought to initiate similar arrangements. The public reaction was generally positive particularly following education from the local authority. Furthermore, public were encouraged to reuse wherever possible. The Council worked with food producers to promote sustainable packaging and producers also faced similar pressure from supermarkets.
- Fly tipping - Fly tipping continued to be a problem, with anecdotal evidence suggesting that the appointments for Household Waste Recycling Centres (HWRC) promoted the use of fly tipping to discard of waste. However, generally, the material fly tipped suggested a commercial origin. District councils continued to work to resolve the issue. The cost burden and expectation of the local authority clearing fly tipped materials could create further problems.
- Tourism – Footfall had increase as a result of relaxed Covid-19 restrictions. International travellers would be depended on factors outside of the Council's control, however its tourism attractions were ready for increased demand. A large profile of activities was planned for Lincoln Castle over the summer to encourage return visitors.
- Children Missing from Education – Children absent from school over an extended period of time were designated as missing from education. Of the 500,000 identified as being absent from schools' registers, the Council wasn't aware of how many were in Lincolnshire because of the difficulty of tracking them throughout the county. There had been a rise in children absent from school registers without a replacement school being identified. This was particularly prevalent in communities of people from other countries and, during the Covid-19 Pandemic, many of those families choose to return to their country of origin while not always informing the authorities. Once all the opportunities the Council had to locate those children were exhausted, those children were passed onto a national team to determine the child's status. Children exiting

mainstream schools through exclusions had seen a significant decrease over recent periods in Lincolnshire. Moreover, there was a move for Children who had been registered as being electively home educated to inform the Council if they moved to other parts of the country.

- Supply Chains and Inflation (Children's Services) – While supply chain issues had been noted recently, the market was beginning to stabilise, and equipment was being effectively procured.
- Business World On – There wasn't currently a deadline date for the complete implementation of Business World On. To ensure efficacy, data from the current system was run through the new system in parallel to identify any errors. This would be undertaken three times, progressively yielding more accurate and efficient results. The Council were currently in the process of completing the second run, after which a live date should be able to be identified.
- The Move Away from Bespoke Systems – Moving forward, if the Council sought to implement any new systems, they would be cloud based and the use of 'off the shelf' products would be priorities. This may mean that the work practices of the Council could have to be altered to accommodate new systems. There was still some application that would require more dedicated and bespoke arrangement.
- Public Services Network (PSN) Compliance – Legacy software was currently impeding the Council's compliance to PSN, however significant progress was being made to resolve this. Some systems still needed to be maintained to support the running of the Council's services. The move to cloud based and 'off the shelf' systems would ensure responsibility would be with the product suppliers.
- Risk Based Fire Inspections – The number of people in the Fire and Rescue Service had increased through a recruitment process and the Service was now fully established. It took two years for those individuals to become fully qualified and experienced enough to take on a complete range of roles. Prior, inspections could be undertaken in lower risk premises, but in order to progress high risk inspections, greater experience was required. It was expected that the risk-based fire inspection would be completed this calendar year despite only having six months' full capacity. Furthermore, high-rise residential building auditing and risk-based inspection were allocated to the first and second halves of the year respectively. Additionally, care homes were also considered high risk because of the risk of Covid-19 outbreaks. As a result, care homes were put on a slippage beyond the Council's control rather than a 12-calendar month timescale.
- Succession Planning – A career pathway was created, particularly for the operational workforce, through earlier qualifications during their careers. Therefore, enabling staff to utilise their time on operational watches to promote an earlier completion of competence and experience level.
- Highrise Safety – It was appreciated that, while not immune, the scale of the risk faced by the Council was different to other authorities. There were approximately 19 high rise buildings within Lincolnshire. Moreover, medium rise buildings made come into scope for safety gateways. The regulations encompassed all residential high-rise buildings, including student accommodations and residential care facilities. Older buildings were retrofitted where appropriate with the support of Planning colleagues.

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.

5 DRAFT AUDIT COMMITTEE ANNUAL REPORT 2021/22

Consideration was given to a report which presented the proposed Annual Report of the Audit Committee for 2021/22 and sought approval for the Chairman to present this report to Council.

The Assistant Director – Finance confirmed that it was now a requirement for the external audit report to be attached to the Chairman's audit report was a new requirement in line with national guidance.

RESOLVED

That the Audit Committee Annual Report 2021/22 be presented to the Council for approval.

6 WORK PROGRAMME

The Assistant Director – Finance introduced the work programme which provided the Committee with core assurance activities currently scheduled for the 2022 work programme.

The Assistant Director – Finance clarified that work was being done to establish how the new deadline for accounts would be incorporated into the work programme, but a draft statement session was still planned with the Audit Committee in July.

RESOLVED

That the work programme be agreed.

The meeting closed at 12.50 pm

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

Report to:	**Audit Committee**
Date:	**28 March 2022**
Subject:	**External Audit Strategies – Lincolnshire County Council and Lincolnshire Pension Fund 2021/22**

Summary:

Our external auditors, Mazars LLP, present their 2021/22 audit strategy memoranda for both Lincolnshire County Council and the Lincolnshire Pension Fund. This covering report briefly summarises the content of these strategies.

Recommendation(s):

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

1. Background

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

1.2 The strategies each include 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.
- Audit fees.
- Auditor independence.
- Materiality.
- Communications with the Audit Committee.

1.3 The Lincolnshire County Council strategy also includes information on the audit of value for money.

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

2. Conclusion

2.1 The Audit Strategy Memoranda provide detail on how the external auditors plan to conduct this year's audit work. They provide members of the Audit Committee with an initial overview of the planned audit and an opportunity to ask questions about the strategies.

Consultation

a) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire County Council Audit Strategy Memorandum 2021/22 – Copy to follow
Appendix B	Lincolnshire Pension Fund Audit Strategy Memorandum 2021/22

Background Papers

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

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

Audit Strategy Memorandum

Lincolnshire Pension Fund

Year ending 31 March 2022

mazars

Contents

mazars

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

Mazars LLP
The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

24 February 2022

Dear Audit Committee Members

Audit Strategy Memorandum – Year ending 31 March 2022

We are pleased to present our Audit Strategy Memorandum for the Lincolnshire Pension Fund for the year ending 31 March 2022. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 6 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

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

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

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

Yours faithfully

Signed: CWaddell

Cameron Waddell

Mazars LLP

01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Lincolnshire Pension Fund (the Fund) for the year to 31 March 2022. 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.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

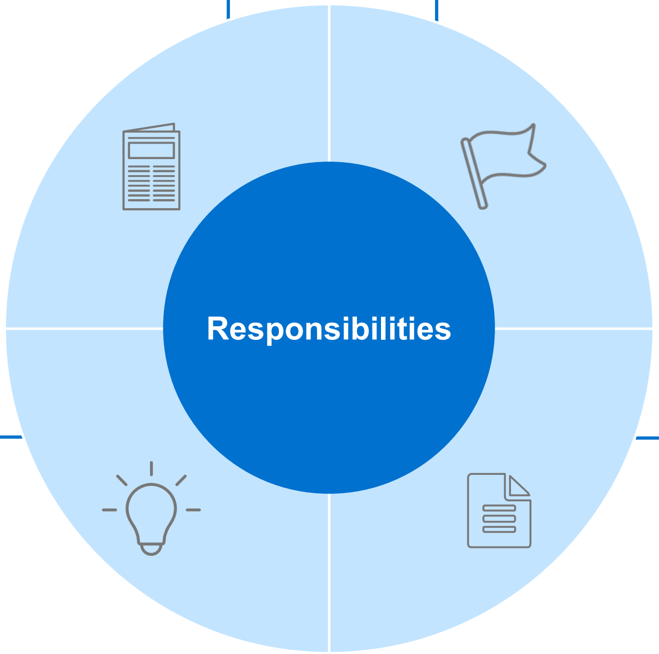
We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Audit Committee, as Those Charged With Governance, of their responsibilities.

The Executive Director of Resources is responsible for the assessment of whether is it appropriate for the Pension Fund to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

a) whether a material uncertainty related to going concern exists; and
b) consider the appropriateness of the Executive Director of Resources's use of the going concern basis of accounting in the preparation of the financial statements.

Consistency statement

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



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. Our audit, however, should not be relied upon to identify all such misstatements.

Wider reporting and 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. This would include an objection made to the accounts of the Pension Fund included in the administering authority's financial statements. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom

02

Section 02:

Your audit engagement team

2. Your audit engagement team

Cameron Waddell

Engagement Partner

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Telephone: 0781 375 2053.

John Pressley

Engagement Manager

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Telephone: 0790 998 0880

03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

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

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

Audit approach

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

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

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

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

3. Audit scope, approach and timeline

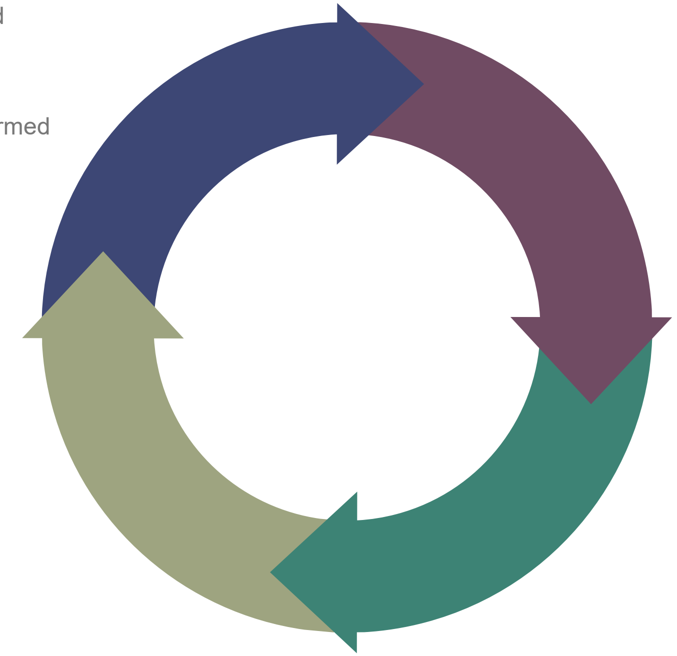
Page 24

Planning February

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

Interim March

- 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

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

Fieldwork July - September

- Receiving and reviewing draft financial statements
- Accounting Technical Services (ATS) review of 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.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

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

Item of account	Management's expert	Our expert
Disclosure notes on funding arrangements and actuarial present value of promised retirement benefits.	Barnett Waddingham	None

Service organisations

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

Items of account	Service organisation	Audit approach
The calculation and payment of pension benefits, assessment of funding levels based on existing pensioner data.	West Yorkshire Pensions, as the provider of pensions administration services to the Fund	We will review the controls operating at the Council over these transactions and carry out substantive testing of transactions occurring in the year.
Investment valuations and related disclosures Investment income and related disclosures	Investment Managers Custodian	Substantive testing of in year transactions and valuations applied to investments at the year end.

04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant 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 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.

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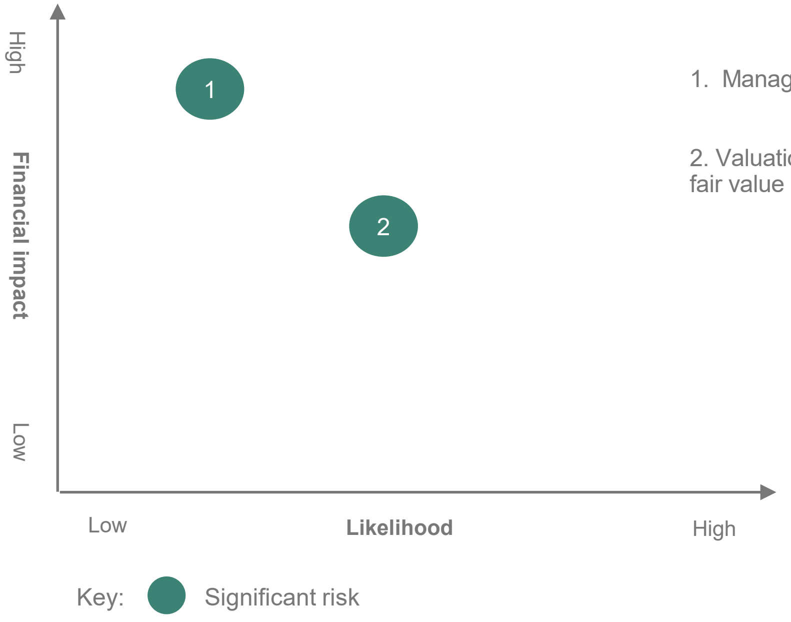
Standard risk

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 Pension Fund. We have summarised our audit response to these risks on the following pages.



1. Management override of controls
2. Valuation of investments within level 3 of the fair value hierarchy

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	**Management override of controls** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	●	○	○	We plan to address the management override of controls risk by performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

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4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	**Valuation of investments within level 3 of the fair value hierarchy** At 31 March 2021 the Pension Fund held investments which were not quoted on an active market with a fair value of £377.9 million, accounting for 13.7 per cent of the Fund's net investment assets. This included: Alternatives (£306.5 million), Property (£6.9 million), Infrastructure (£50.8 million) and Private Equity (£13.7 million). Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end. As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances for 2021/22 due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.	○	●	●	We plan to address this risk by completing the following additional procedures on a sample basis: • agree holdings from fund manager reports to the global custodian's report; • agree valuations included in the Pension Fund's underlying financial systems to the most up-to date supporting documentation at the time of audit including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation; • agree the investment manager valuations to audited accounts or other independent supporting documentation, where available; • where audited accounts are available, check that they are supported by an unmodified opinion; • review the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager, where required; and • where available, review independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Pension Fund's financial statements.

Other key areas of management judgement and enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. We have not identified any such judgements.

05

Section 05:

Fees for audit and other services

5. Fees for audit and other services

Fees for work as the Pension Fund's appointed auditor

Area of work	2021/22 Proposed Fee	2020/21 Actual Fee
Code Audit Work		
Scale fee[1]	£18,750	£18,750
Fee variations	TBC	£6,000[2]
Audit related fees		
Pension assurance letters to employer auditors	TBC	£11,200[3]

[1] This scale fee was initially set by PSAA in 2018.

[2] The additional audit cost in 2020/21 relates to enhanced procedures required due to increased regulatory expectations, primarily related to the audit of level 3 investments. This work is required on an annual basis so an additional fee will be required until the scale fee reflects the audit time needed.

[3] During the year we responded to requests received from employer body auditors to undertake a programme of work to provide assurance in respect of data held by the Fund, which is used by the actuary to calculate pension assets and liabilities for individual employers. It is expected that the Fund will recharge these fees to the relevant employers. This approach is in line with the PSAA Terms of Appointment, and the expectation within NAO's AGN01 General Guidance Supporting Local Audit.

Fees for non-PSAA work

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

06

Section 06:

Our commitment to independence

6. Our commitment to independence

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

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

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

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

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

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

No threats to our independence have been identified.

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

07

Section 07:

Materiality and misstatements

7. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £m
Overall materiality	29.3
Performance materiality	23.4
Trivial threshold for errors to be reported to the Audit Committee	0.8

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

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

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

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

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

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

Our provisional materiality is set based on a benchmark of asset values reported to the Pension Fund Committee as at 30 September 2021. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

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

7. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 1% of net assets. Based on asset values submitted to the Pension Fund Committee as at 30 September 2021 we anticipate the overall materiality for the year ending 31 March 2022 to be in the region of £29.3m (£27.4m in the prior year).

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

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £0.8m based on 3% of overall materiality. If you have any queries about this, please do not hesitate to raise these with Cameron Waddell.

Reporting to the Audit Committee

The following three types of audit differences above the trivial threshold will be presented to the Audit Committee:

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

A

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:

- Audit Strategy Memorandum;
- 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.
- 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.
- 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: • 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: • enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud.	Audit Completion Report and discussion at the Audit Committee. Audit planning and clearance meetings

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Appendix: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • 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.	Audit Completion Report
Significant findings from the audit including: • our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Committee in the context of fulfilling their responsibilities.	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
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.	Audit Completion Report

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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
Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern include: • 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

Cameron Waddell

Mazars

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Bank Chambers
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NE1 1DF

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

*where permitted under applicable country laws.

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

Report to:	**Audit Committee**
Date:	**28 March 2022**
Subject:	**Statement of Accounts 2021/22 – Accounting Policies**

Summary:

This report summarises:

- Changes to the Code of Practice on Local Authority Accounting which will be incorporated into the 2021/22 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 announced by the government in December 2021;

- The review of the Council's Accounting Policies for both the main financial statements and the Lincolnshire Pension Fund statements.

- The recent consultation by the Chartered Institute of Public Finance and Accounting (CIPFA) on time-limited changes to the Code of Practice to help alleviate current delays to the publication of audited financial 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 2021/22;

2. Note the amended deadlines of 31 July 2022 for the preparation of draft accounts, and 30 November 2022 for publication of the audited Statement of Accounts 2021/22;

3. Approve the Statement of Accounting Policies (Appendix A) to use in preparing the Council's accounts for the financial year ending 31 March 2022.

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 2022.

5. Note the contents of the government's guidance document on Measures to Improve Local Audit Delays, shown in full at Appendix C;

6. Note the CIPFA consultation on time-limited changes to the Code of Practice to help alleviate current delays to the publication of audited financial statements.

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 2021/22 (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 2021/22: Lincolnshire County Council

1.2 The Code of Practice for 2021/22 has introduced some revisions and clarifications to the accounting requirements for the 2021/22 Statement of Accounts. For the main accounts, the key changes are:

a) The accounting treatment of the Dedicated Schools Grant is confirmed following the introduction of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020. Where a local authority has a deficit in respect of its schools' budget, calculated in accordance with regulation 14, it shall charge this deficit to the Dedicated Schools Grant adjustment account. This Dedicated Schools Grant adjustment account shall be regarded as an unusable reserve. This Council is not expected to have a such a deficit for the 2021/22 accounts.

b) The Code refers Councils to certain paragraphs of International Accounting Standard (IAS) 1 Presentation of Financial Statements, with regards to estimation uncertainty. The standard sets out that where there is a major area of uncertainty about an estimation made, and that this may result in a material change to the carrying value of an asset or liability within the next financial year, details of the nature of the assets / liabilities and their carrying amounts as at the end of the reporting period shall be disclosed. Additional examples of disclosures that could be made include: the nature of the assumptions; the sensitivity of the carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity; the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected. Note 3 of our accounts covers estimation uncertainty, and the provisions of IAS 1 in this regard will be considered when preparing Note 3. The areas of estimation uncertainty are most likely to be property, plant and equipment valuations, pension liabilities, fair value measurements of financial assets and financial liabilities where these cannot be measured in an active market.

c) Changes to the Subsequent Measurement of Financial Assets and Financial Liabilities section of the Code have been made to reflect changes in the basis for determining the contractual cash flows, as a result of interest rate benchmark reform. The reform involves the replacement of some inter- bank offered rates with alternative benchmark rates. The valuations of our current financial instruments are not calculated with reference to the interest rate benchmarks which were the subject of these reforms so there is no impact of this on our accounts.

d) Confirmation that it is anticipated that the initial application of IFRS 16 Leases will be 1 April 2022, so will not be applicable for the 2021/22 accounts (see paragraphs 1.4 and 1.5 for subsequent information about this).

1.3 There will also be changes in accounting standards in the future, which may impact on the Council in the 2022/23 accounts. The Chartered Institute of Public Finance and Accountancy (CIPFA) is expected to publish a bulletin which will interpret any changes in accounting standards for the public sector. Once this is available, the impacts will be assessed and included in the 2021/22 Accounts in the disclosure notes for Accounting Standards that have been Issued but have not yet been Adopted (note 1 of the main accounts and note 2 of the Pension Fund accounts).

1.4 On 4 February 2022 CIPFA issued a consultation document proposing some time-limited changes to the Code of Practice for 2021/22. The proposals concerned two areas: the valuation of property, plant and equipment at 31 March 2022, and the implementation of the new leasing standard IFRS 16. With regard to the valuation of operational property plant and equipment, the main proposal was to allow the option to pause professional revaluation of these assets and instead create a valuation using appropriate published indices. For the leasing standard the proposal was to defer the implementation date (currently 1 April 2022) for a further year.

1.5 We have responded to this consultation and await the publication of a response and outcomes from CIPFA. If there are any changes to our Statement of Accounts following this, they will be highlighted at a future Audit Committee meeting.

Accounts and Audit Regulations 2015

1.6 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.

1.7 In December 2021 the Department for Levelling Up, Housing and Communities (DLUHC) published a guidance document about measures to improve local audit delays. This document is shown at **Appendix C** and covers measures aimed at both audit firms and preparers of accounts. It includes proposals for shorter term measures relating to accounting and audit requirements, as well as longer term measures to help stabilise the market and address supply issues.

1.8 This committee is asked to particularly note the following areas set out in the guidance:

- Section 2A – further funding to be provided to local bodies to help support costs relating to strengthening financial reporting, increased auditing requirements and the implementation of other Redmond Review recommendations.
- Section 2B – The Chartered Institute of Public Finance and Accountancy will publish strengthened guidance on audit committees by April 2022, followed by a consultation on this guidance.
- Section 2C – DLUHC to provide for targeted training events for audit committee chairs, to be delivered by the Local Government Association.

- Section 4B – the deadline for publishing audited accounts is to be extended to 30 November 2022 for the 2021/22 accounts and will then be 30 September for the following 6 years beginning with the 2022/23 accounts.
- Section 4, paragraph 55 – the deadline for preparing draft accounts will be 31 July 2022 and will then be 31 May for the 2022/23 accounts onwards.

1.9 At the time of writing this report, the Accounts and Audit regulations had not been amended to reflect the guidance set out above, but it is expected that they will be. We will continue to work to the 31 May deadline for preparing draft accounts and plan to publish these by 30 June 2022 so that they can be presented to the Audit Committee on 11 July 2022 alongside a training session on the accounts.

Statement of Accounting Policies

1.10 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.

1.11 Two changes have been made to the accounting policies for 2021/22 which impact on the main accounts and these are marked in ***bold italics*** in **Appendix A.** They are:

- Accounting Policy 4 Non-Current Assets - Property, Plant and Equipment. In the Disposal of Property Plant and Equipment section, the policy clarifies that the temporary flexibility to use capital receipts to fund revenue transformation costs has been extended by the government, but that we have not used this flexibility in the two reporting years shown in this Statement of Accounts.
- Accounting Policy 35 Accounting for Schools Income, Expenditure, Assets, Liabilities and Reserves. In the Reserves section new text has been added to say that any accumulated deficit on the dedicated schools grant (DSG) must be transferred to a Dedicated Schools Grant Adjustment Account, which is an unusable reserve. The policy also clarifies that currently we do not have a deficit.

1.12 There are no changes to the Code of Practice for 2021/22 which will have an impact on the Pension Fund Accounts, so no changes have been made to our accounting policies. The existing accounting policies are shown in **Appendix B**.

Conclusion

2.1 The amended accounting requirements, disclosures and timescales, as required by the Code of Practice and the Audit and Accounts Regulations, together with the DLUHC guidance published in December 2021, will be incorporated into the Statement of Accounts for 2021/22.

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

Consultation

a) 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 2021/22
Appendix B	Statement of Accounting Policies for LGPS Pension Fund financial statements 2021/22
Appendix C	Guidance Document on Measures to Improve Local Audit Delays, published by DLUHC December 2021

Background Papers

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

Document title	Where the document can be viewed
CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22	Executive Director of Resources

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

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APPENDIX A

Lincolnshire County Council - Statement of Accounting Policies

1. General Principles and Concepts

The Statement of Accounts summarises the Council's transactions for the financial year 2021-22 and the position at the year-end 31 March 2022. 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 2021-22 and 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 Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards, the RICS Valuation – Global Standards 2017 and RICS Guidance Notes.

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.

a) 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).

b) Depreciation

Depreciation is charged on all Property, Plant and Equipment assets with a finite life and is the systematic allocation of it's 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;
- 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 Land or Assets Under Construction.

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.

c) <u>Component Accounting for Property, Plant and Equipment</u>

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).

d) <u>Disposal of Property, Plant and Equipment</u>

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 on-going 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. ***There is a further 3 years extension from 2022/23. The Council did not use this flexibility in either 2020/21 or 2021/22 i.e. capital receipts have not been applied to fund revenue transformation expenditure in these years.***

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

e) 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. When 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 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 accounting 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 are 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 a 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 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 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 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 nationally 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 NHSPS in the year are treated as expenditure in the Children's Services and Adult Care and Community Wellbeing 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 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.

<u>The Local Government Pension Scheme (LGPS)</u>

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 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 or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of 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 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. ***Accumulated deficits must be held in a Dedicated Schools Grant adjustment account rather than being charged to the General Fund. The Dedicated Schools Grant adjustment account is an unusable reserve. There is currently no accumulated deficit relating to schools’ budgets funded by the Dedicated Schools Grant.***

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 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 and 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 cash flow 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.

<u>Financial Assets Measured at Amortised Cost</u>

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 cash flows of the instrument over its life, that will result in a smoothing effective interest rate that when discounted will bring back cash flows 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 Statement 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 services, 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 Financing and Investment Income and Expenditure line in 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.

<u>Expected Credit Loss Model – For Assets Measured at Fair Value through Other Comprehensive Income</u>

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.

Appendix B

Lincolnshire Pension Fund Significant Accounting Policies 2021/22

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. Any amounts due or payable in respect of trades entered into, but not yet completed at 31 March each year are accounted for as financial instruments held at amortised cost. 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.

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).

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Appendix C

Guidance

Measures to improve local audit delays

A new package of measures to support the improved timeliness of local audit.

From:

Department for Levelling Up, Housing and Communities

Published

16 December 2021

Applies to England

Contents

This publication sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market. These measures will help to ensure that audit provides transparency and accountability in local councils.

Context

1. The government's priorities for local audit are a strong and coordinated quality framework, a buoyant local audit market, and improved transparency and governance.
2. Local government audit plays a vital role in providing local authorities with accurate and reliable financial information to plan and manage their services and finances effectively. The timely completion of local audit also ensures local authority financial arrangements, including whether value for money is being achieved, are transparent to the taxpayer, and facilitates assurance for the public sector more broadly through the audit of the Whole of Government Accounts.
3. We remain committed to the principles of a locally-led audit regime, as embodied in the Local Audit and Accountability Act 2014 and have further demonstrated our commitment to this vision for the local audit market through our response to Sir Tony Redmond's independent review of local authority financial reporting and external audit. The government is also grateful for the support shown by stakeholders across the sector, who have been working with us to implement the Redmond Review recommendations.
4. However, challenges remain around the timeliness of local audit, one of the key issues highlighted by Sir Tony. In 2017/18 the deadline for issuing audit opinions was brought

forward from 30 September to 31 July. Since this point there has been a reduction in the number of local government audit opinions delivered on time, with significant reductions from 2018/19 onwards. This downward trend accelerated during the COVID-19 pandemic, with only 45% of 2019/20 audits completed by the extended deadline of 30 November 2020 and, most recently, only 9% of 2020/21 audits completed by the extended deadline of 30 September 2021.

5. As the National Audit Office (NAO) outlined in its 2020 report Timeliness of local auditor reporting on local government in England, a variety of complex factors are contributing to audit delays. Audit firms are struggling with a net loss of qualified staff, with many qualified accountants choosing to leave the audit sector entirely. For auditors that are choosing to stay within the profession, alternative audit opportunities are often perceived as more attractive than local audit, which is contributing a high turnover of staff within firms.

6. In addition, increasing workload and regulatory pressure on auditors have contributed to further delays. The NAO found that the additional requirements of new International Financial Reporting Standards (IFRS), along with increased expectations from the Financial Reporting Council (FRC) following high-profile corporate failures such as Carillion and Patisserie Valerie, had combined to produce a significant increase in audit work, particularly on asset and pensions valuations. In some cases, issues with the preparation of local authority accounts have led to delays in audits being signed off.

7. In the face of competing workload pressures, some local authorities have diverted staff resources away from completing working papers and preparing accounts, while the quality of processes within the finance functions of some local authorities has affected their preparedness for audit. These issues, have, understandably, been exacerbated by the impact of the COVID-19 pandemic.

8. Considering the complexity of the drivers behind audit delays, it is clear that a whole system response is needed, with local bodies, audit firms, regulatory bodies and code-setters working collectively to implement solutions across the sector.

9. The government is continuing to prioritise measures to improve timeliness and support capacity as part of our response to the Redmond Review. We laid new regulations on 21 October to provide greater flexibility to the appointing person through, for example, extending the deadline for setting fee scales so that they can reflect the most recent market conditions, and streamlining the fee variation process under certain circumstances. We are also providing £15 million additional funding to local bodies for 2021/22 to support with the implementation of recommendations following the Redmond Review and additional costs resulting from new audit requirements, including the new value for money reporting arrangements. In addition, we have extended the statutory deadline for publishing audited local authority accounts to 30 September from 31 July from 2020/21 for 2 years.

10. We recently consulted on proposals for the Audit Reporting and Governance Authority (ARGA), the new body being established to replace the Financial Reporting Council (FRC), to take on a systems leader role for local audit. Ensuring there is a strong system leader will help to ensure broader alignment across the system to respond to challenges within the market. However, while these changes will be beneficial in the longer-term, it is

clear that we need to go further in the short-term to address the stark deterioration in timeliness.

11. The government emphasised this point at a recent discussion of the Local Audit Liaison Committee on 21 September, where it was noted by members that, while in the past, ensuring the quality of the final audit had been the priority, timeliness had worsened to the extent it had become a quality issue.

12. This paper therefore sets out a series of additional measures committed to by government and other key stakeholders to support improved timeliness and the wider local audit market.

Section 1: Measures relating to audit firms and timely completion of audit

Summary of commitments

A. FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP

B. Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants

15. All stakeholders across the local audit market have a key role to play in helping to get timeliness back on track. That is why DLUHC has been engaging with audit firms since the summer to understand the issues that are affecting the stability of the market, including timeliness.

16. Most recently, the Minister of State for Levelling Up, Housing and Communities, Kemi Badenoch MP, met with audit firms to explore market issues and to emphasise the need for firms to work with government to get the timely completion of local audit back on track as quickly as possible. The FRC have also held discussions with audit firms to highlight the importance of clearing the backlog of delayed audits, and highlighted the issue when publishing its most recent Audit Quality Inspection.

Training and qualifications

17. Through our engagement with audit firms, we have heard that the capacity of firms is being limited by a lack of qualified, experienced auditors, a finding which was also highlighted in the NAO's report.

18. In response to Sir Tony Redmond's recommendations, we sought views in our technical consultation this summer on proposals for improving training and qualification support, and on the FRC's review of the Key Audit Partner (KAP) guidance. These proposals have been positively received by audit firms, as well as other respondents to the consultation, and we will respond to this as part of our formal consultation response in the new year.

19. In the interim, the capacity and capability working group is continuing to develop the proposals. This includes proposed updates to the KAP guidance, allowing new routes for experienced Registered Individuals (RI) to become KAPs and allowing the local audit

Recognised Supervisory Bodies greater discretion in determining the suitability of the experience gained by KAP applicants without a reduction in audit quality.

20. The FRC is planning to consult on its proposed KAP guidance updates in early 2022, seek approval through its internal governance procedures and will aim to publish the guidance in spring 2022.

21. CIPFA is progressing development of the new local audit training Diploma in local government financial reporting and management aimed at senior auditors and other levels of auditor. It will be designed to meet the technical training needs of experienced RIs, who have not met the full existing criteria for local audit experience. It will also meet the immediate recommendations from the Redmond Review, and in particular, support firms who may bid in the next opt-in procurement for local audit contracts managed by PSAA, given the desire to attract new entrants to the market who do not currently hold local audit contracts.

22. CIPFA is working with other stakeholders to continue to refine their proposal for a new technical advisory service in consultation with the industry. This service is expected to support on topics unique to the local government sector providing the local audit system with:

23. specialist technical advisory service to local auditors responding to difficult or complex audit queries

24. advice and guidance to auditors on how to respond to elector's objections

25. guidance on how and when to produce a public interest report

- advice on performance audit issues (for VfM reporting) and
- to address difficult, technical issues or audit judgements including judgements over how to respond to objectors or whether an issue identified meets the threshold for issuing a public interest report

26. This may be run as a digital platform utilising experienced personnel from the sector. We expect to provide further information on this in the New Year, subject to finalising the details with relevant partners, and considering the business case and appetite from firms, given it would be sustained by an audit firm-funded approach in the longer-term.

Section 2: Measures relating to local bodies and quality of accounts preparation

Summary of commitments

A. DLUHC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements.

B. CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory

c. DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs

25. As outlined in the sections above, although many local authorities prepare their accounts to a high standard within the statutory deadline, and generally do meet the deadline for providing draft accounts, there are instances where issues with the preparation and quality of local authority accounts contribute to delays in the auditor's opinion being issued.

26. We recognised that implementing the recommendations from the Redmond Review, and the new value for money elements of the Code of Audit Practice, would likely place greater pressure on local authority finance functions, especially in light of increased audit fees, and therefore are providing with £15 million of additional funding in the 2021/22 financial year to support local bodies to meet these new burdens.

27. On 26 November, Catherine Frances, Director General for Local Government, wrote to all local authority Section 151 Officers to emphasise the need for local bodies to work with audit firms as part of a system-wide response to clear the backlog of delayed audits.

Audit committees

28. The government is committed to supporting the improvement of audit committee arrangements and delivery of good practice in response to Sir Tony's recommendations through the development and production of strengthened guidance on audit committees. CIPFA is leading this work, with support and input from the LGA, PSAA, and others, and revised guidance will be published in spring 2022.

29. This guidance will emphasise the important role that audit committees have in ensuring that accounts are prepared to a high standard and that issues identified by audit firms are resolved swiftly. It will also include guidance on the appointment of independent members, who can often play a key part in ensuring the apolitical role of the audit committee. The government has recently consulted on whether the guidance, or the principle of audit committees themselves, should be made a statutory requirement, and will be setting out a response in due course, including the case for making independent members a statutory requirement.

30. The guidance will also allow content to be targeted at the different audiences given the role that audit committee members, those guiding and supporting the committee, and local body leadership teams all have in ensuring the processes work effectively.

31. Further, to strengthen the capability and skills of audit committee members, the Local Government Association, with support from DLUHC, will establish a number of targeted forums.

Ongoing financial support

32. The government will be going even further to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements.
33. As well as the £15 million provided for 2021/22, the government can confirm today it is providing local bodies with £15 million additional funding per annum for the next 3 years – totalling £45 million over the Spending Review period. This will provide local bodies with the certainty that they will be supported to implement the changes needed to respond to new auditing requirements and Redmond's recommendations.

Section 3: Proposed measures relating to accounting and audit requirements

Summary of commitments

A. NAO rolling over of amendments to 20/21 AGN 03 and 07 to allow for altering the timing of elements on the VfM arrangements work and enable more focus on fully delivering opinions on the financial statements
B. CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 22/23 Accounting Code and comply with IFRS and statutory accounting principles HMT to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 22/23 onwards
C. The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 21/22
D. Delaying implementation of standardised statements and associated audit requirements

34. It is important that local authority accounts and audits are focused on areas of greatest risk and concern to citizens. These should be transparent and accessible, while also being mindful of the need to ensure that they comply with International Financial Reporting Standards and Whole of Government Accounts requirements.
35. In our spring report, we highlighted that, given the fundamental capacity issues facing the audit sector, we wanted to work with partners to consider whether there were opportunities to reduce some of the accounting and audit requirements where these relate to areas of less risk to local bodies, as well as other options to assist timely delivery of audits.
36. Since then, we have been working with members of the liaison committee, audit firms and local bodies to consider this question, and have agreed a number of measures that should help ameliorate capacity pressures, and facilitate more timely completion of audited accounts.
37. **Code of Audit Practice and Auditor Guidance Notes.** To assist with the delivery of 20/21 audits, the NAO and FRC made amendments to guidance, including Auditor Guidance Notes 03 and 07, as well as the guidance note on going concern. The changes which

included altering the timing of elements of the VFM arrangements work, have allowed more focus on fully delivering opinions on financial statements.

38. Given the ongoing nature of delays, the NAO have proposed continuing these arrangements for as long as they are beneficial, including for at least 21/22 audits.

39. **Changes to the Accounting Code.** Local authority accounts are complex in that they are required to comply with both IFRS and statutory accounting principles. This effectively entails presenting two different forms of reporting in one set of accounts, which can be confusing to non-specialists. In recognition of this additional complexity, CIPFA/LASAAC agreed a project in June 2021 to improve the presentation of local authority accounts, which is intended to inform the development of the 22/23 Accounting Code.

40. Through engagement with relevant organisations, we have been advised that, in some cases, local authority accounts include some information that goes beyond what is necessary, leading to additional auditing work. We would therefore recommend local authorities consider CIPFA's guidance on streamlining the accounts, which provides practical suggestions on how accounts can strike a better balance between compliance with standards and providing clearer, simpler and more transparent information.

41. HM Treasury will be undertaking a thematic review of the valuation of non-investment property for financial reporting purposes in the public sector, including the long standing policy decision to hold such assets at valuation rather than historic cost. This will consider the benefits to users of the financial information and the associated costs. It will look to identify where burdens could be reduced without compromising the needs of users. It is intended that this will inform development of the Accounting Code from 22/23 onwards.

42. The government has also asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for operational property, plant and equipment revaluations under certain circumstances (this would not include investment properties). An evaluation of possible consequences (unintended or otherwise) will be undertaken before any new proposals are finalised in the new year.

43. **Standardised statement of service information.** In our original response to the Redmond Review, we accepted the recommendation to produce a new standardised statement of service information, that would help to improve the transparency and understandability of local authority financial reporting. While we remain committed to this, we are delaying implementation while audit timeliness issues are so severe, as we do not think it is the right time to introduce these new accounting and auditing requirements.

44. **Public Interest Entities.** Local authorities which have debt listed on the London Stock Exchange fall within the definition of a Public Interest Entity (PIE). The FRC place additional requirements on auditors for local authorities which are deemed PIEs. A local authority PIE audit therefore tends to require more resources in terms of finance, time and specialist staffing to produce the audit opinion. This is not necessarily as valuable as for a private sector PIE, given that enhanced levels of transparency and scrutiny already apply for local government financial reporting.

45. The government recently consulted on expanding the definition of a Public Interest Entity, although this did not propose expanding the number of local authorities included

in the definition. The government has noted representations from stakeholders on this question, including the additional burdens of extending the PIE definition to any further local authorities, and will confirm the position on this in the consultation response in due course.

Section 4: Longer-term measures to help stabilise the market and address long-term supply issues

Summary of commitments

A. PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24

B. Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 21/22 accounts, then 30 September for 6 years, beginning with the 22/23 accounts.

C. NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period

D. Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications

46. While the measures outlined in the sections above are designed to support improved timeliness in the short-term, it is clear that certain issues within the local audit market require a longer-term approach.

Procurement/ next appointing period

47. One such area concerns the procurement arrangements for local bodies, being managed by PSAA.

48. We have been working closely with PSAA since the Summer on their procurement strategy, which has been considered at key stages in its development by our new Liaison Committee. We are also currently finalising an updated Memorandum of Understanding between DLUHC and PSAA to reflect the interim system leadership arrangements, in line with the commitments we made in our spring report, while PSAA are currently accepting opt-in requests from local bodies ahead of their planned Invitation to Tender in April 2022.

49. PSAA published its updated procurement strategy in September 2021, which outlines their key objectives. These include encouraging existing suppliers to remain and creating opportunities for new suppliers to enter the market, encouraging prices which are realistic in the context of the current market, and encouraging existing suppliers to bid for new contracts. Further objectives include encouraging prices which are realistic in the context of the current market and supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery. Another key objective is to deliver audits that are of the required quality.

50. Specific proposals to achieve these objectives include the proposed 80/20 quality/cost evaluation methodology ratio, a proposed increase in the number of lots to somewhere between 7 and 11 with at least 2 further 'development lots', and the introduction of a new Dynamic Purchasing System.

Audit deadlines

51. We also recognise that the extent of ongoing changes in the local audit system is unhelpful to audit firms who are looking to plan for the next 5-year appointing period.
52. In March 2021 new regulations came in force to extend the deadline for publishing audited local authority accounts to 30 September from 31 July from 2020/21. We also extended the deadline for the preparation of draft accounts from 31 May to 31 July. We committed to review both these changes after 2 years.
53. In light of the extent of ongoing delays and capacity issues, a decision to revert to the previous deadline of 31 July for publishing audited accounts would be both unrealistic and counterproductive, especially as the backlog of delayed 2020/21 audits will likely have knock-on effects for future years. However, there are good reasons why an earlier deadline would be beneficial; elements of multiple central government departments' and arms-length bodies' accounts are subject to local audit (e.g. because they employ staff on local government pension schemes) and so extending the deadline risks the timely completion of those bodies' accounts, which in turn can delay the preparation of the Whole of Government Accounts.
54. Therefore, we will, subject to consultation, introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 21/22 accounts. Following this, to provide certainty for the next contract period under the procurement arrangements being managed by PSAA, the deadline will revert to 30 September for 6 years, until the end of the next appointing period. The intention is for this change to take effect for the 22/23 accounts and end once the 27/28 accounts have been completed. We will then review the deadline after this point.
55. In addition, subject to consultation, our intention is for the deadline for preparing draft accounts to revert to 31 May for the 22/23 accounts onwards. The extended deadline of 31 July will still apply for the 21/22 accounts. We are confident local authorities will be able to meet this requirement and believe reverting to an earlier deadline is important to minimise disruption to the Whole of Government Accounts.

Code of Audit Practice

56. We also recognise the importance of having clarity over the scope of audit in future years, given any future additional requirements would necessitate increased audit capacity. To provide greater certainty to local auditors, we have agreed with the National Audit Office (NAO) and FRC that, as part of their current Code setting responsibilities, the NAO will prepare for a re-laying of the Code of Audit Practice 2020 in parliament in the new year, so that it will apply for the whole of the next appointing period.

Industry-led workforce strategy

57. We hope that these measures will help to provide clarity and security ahead of the next procurement, as well as helping to ensure that all parties can play their part in getting audit timeliness back on track in the short term.
58. We also remain committed to resolving the issues in the longer-term, which our wider system leadership reforms should help to address, and we will publish our formal consultation response in the new year.
59. One of the priorities for the new system leader, being established in shadow form from spring 2022, will be to address the fundamental audit capacity issues.
60. To aid this, we are proposing that, following the outcome of the next local audit procurement, DLUHC will work with the new system leader and 1-2 of the successful audit firms to develop an industry-led workforce strategy, to consider the future pipeline of local auditors, and associated questions related to training and qualifications. This will form part of the new system leader's broader role in setting out the future priorities for the local audit system.

Section 5: Next steps

61. Following today's publication, we will continue to work closely with key partners across the audit sector, including local bodies and audit firms, to deliver on the measures above, in addition to outstanding commitments we made in our response to the Redmond Review.
62. As part of this work, we will be publishing our response to the technical consultation we carried out this summer, which will provide further detail on the future of systems leadership for local audit. Our consultation response will also update on a number of the commitments we have made today.

Published 16 December 2021

Lincolnshire COUNTY COUNCIL Working for a better future

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

Report to:	**Audit Committee**
Date:	**28 March 2022**
Subject:	**Internal Audit Progress Report**

Summary:

The purpose of this report is to:

- provide details of internal audit work completed up to 31st December 2021
- advise on progress on delivery of the internal audit plan
- rasie any other matters that may be relevant to the Audit Committee role.

Delivery is slightly behind plan - it has taken longer than anticipated to secure and mobilise additional resouces.

The plan has also been adjusted to reflect changes to risk profile / assurance needs.

Recommendation(s):

That the Auidt Committee consider the :

1. Outcome of internal audit work and the assurances given - identifying any actions that need to be taken to improve the control environment.

2. Progress and delviery of the internal audit plan - identifying any necessary actions that need to be taken.

Background

This paper covers the period 1st August 2021 to 31st December 2021 and reports on progress made in our audit plans.

Our progress report is attached in appendix A and shows:

- Reports issued
- Assurance opinions and outcomes from consultancy reviews, including a summary
- Benchmarking information in performance indicators
- Other matters of interest

Assurances Given
We have issued **1 high assurance** and **8 substantial assurance opinions,** along with the completion of **2 consultancy reviews**. We have also co-ordinated the Combined Assurance Report for the Corporate Leadership Team and Audit Committee.

The Business World project remains an area of assurance concern around successful delivery and implementation.

Delivery and Resources
We have completed 47% of the plan up to the 31st December 2021.

Building capacity & resilience remains a key issue facing the service. Whilst we are pleased to report that we have recently recruited three additional Auditors we have also had three full time Auditor resignations in March 2022 and at the time of writing this report are expecting the resignation of a part time Principal Auditor. We also continue to have a full time Principal Auditor on maternity leave and one on secondment – both expected to return later in 2022.

Resources are low – and whilst we have secured additional temporary resources with external contractors and a further recruitment is planned – the impact on the teams' availability to deliver cannot be underestimated. Given the mix of the remaining team there will be continuing mentoring, coaching and supervision demands.

Our workforce strategy of 'growing our own' auditors aims to build capacity and capability in the team in the long term. We are also working with the Finance Team to make the best use of graduate, work experience placements, continuing professional development. All aiming to attract and retain skilled workforce – showcasing our profession and that working in local government is a good career path and employer of choice.

Outstanding Recommendations
Follow up of outstanding recommendations shows that **74%** have been implemented – with 6% not yet due at this date.

Management responses established that the remaining 20% have been deferred for a number of reasons, including better aligning actions with ongoing service projects, changes in systems due to the shift to home-working arrangements and delays to the implementation of projects.

There are four audits with outstanding actions for which we originally reported a Limited or Low Assurance opinion:

- Cyber Security

  There are 2 outstanding actions for this audit. These have progressed, however, will not be fully implemented until LCC have completed the full migration to O365. Monitoring within Azure is very in-depth but until O365 if fully embedded there will continue to be gaps.

- ICT – Business Continuity & Disaster Recovery

  There are 2 outstanding actions for this audit. Progress is continuing but the project has been put on hold to focus resources around the critical Azure migration. Business Impact Analysis requires an overhaul due to the shift to remote working.

- ICT – Network Infrastructure

  There are 4 outstanding actions for this audit. Progress has been made in all areas but actions are not yet fully implemented. The post covid network needs to be revised to reflect the changes made to allow home working and this will allow significant simplification of Access Networks both wired and Wireless.

- Implementation of Mosaic Finance

  There is 1 outstanding action for this audit which is due to be completed in Feb/March 2022.

  We will continue to track these actions going forward and they will be picked up as part of the IMT follow up audit scheduled for 22/23.

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

Conclusion

None of the assurance opinions issued within the period reported were limited or low.

The Business World project remains an area of assurance concern around successful delivery and implementation.

Delivery is slightly behind plan compared to previous years – it has taken longer to secure and mobilise additional resources than anticipated.

Building capacity & resilience remains a key issue facing the service – with action(s) being undertaken to address this issue. It is a national issue for the profession – it is hard to recruit and retain skilled and experienced auditors.

Consultation

a) Risks and Impact Analysis

N/A

Appendices

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

Background Papers

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

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

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Internal Audit

Progress Report

Image Courtesy of the Official UK Puzzle Club

Lincolnshire County Council March 2022

Assurance LINCOLNSHIRE
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Lincolnshire COUNTY COUNCIL
Working for a better future

Contents

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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 bought 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 01st August 2021 to 31st December 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:
- Better Care Fund

Substantial:
- Bank Reconciliation
- Maintained school audits x 6
- LFR Governance Review

Audit reports at draft

- Transport Connect
- ICT Privileged Account Management
- HR Trade Union Facilities – Time (Consultancy)

Consultancy Reviews Completed:

- Pensions Administration
- Property Repairs and Maintenance Budgets

1
HIGH ASSURANCE

8
SUBSTANTIAL ASSURANCE

0
LIMITED ASSURANCE

0
LOW ASSURANCE

2
CONSULTANCY

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

The purpose of this report is to:

- Provide details of the audit work during the period 1st August 2021 to 31st December 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

Business World – Project Status RED*

The project is currently in the testing phase of the plan. The first Payroll Parallel Run took significantly longer than anticipated. The project also continues to face challenges with resources in payroll and the systems team as well as delays brought about by the recent system upgrade and the move to Azure, all of which has significantly impacted timelines. The planned go-live date is 31st March 2023.

To provide assurance on the business change aspect of the BW project we intend to complete a piece of audit work in this area during the first quarter of 2022/23.

Outstanding Recommendations
We follow up implementation of recommendations from previous audits to monitor progress. At the 31st December 2021 we found that:

- **74%** of the actions have been **completed**
- **6% not yet due** at this date.
- Management responses established that the remaining **20% have been deferred**. There were **5 High priority actions included within the 20% deferred.**

  The reasons include the need for decisions to be formally made and the impact of project delays and workloads. Full details can be found in Appendix 2 of this report.

Progress and Delivery
We have completed 47**%** of the plan up to the 31st December 2021 – this is behind plan.

A number of audits on the revised audit plan for 2021/22 are currently in the scoping phase, while others have been deferred until 2022/23. A list of those audits are detailed in Appendix 3.

- **Project red status definition –** Successful delivery of the project appears to be unachievable. There are major issues with the project scope, schedule, budget required, quality or benefits delivery, which do not appear to be manageable or resolvable. The project may need re-base-lining and or overall viability reassessment.

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period 1st August 21 to 31st December 2021
- Give an update on outstanding management actions from previous audits
- Raise any other matters that may be relevant to the Audit Committee role

Progress and delivery continues to be made difficult by the various pressures on Council teams, including resourcing issues and the on-going impacts caused by the pandemic. On-going staff capacity within our team has also continued to make progress difficult. We have had three members of staff leave the team since December, making planning and resourcing more challenging.

Whilst we are pleased to report that we have recently recruited three additional Auditors and have secured temporary resources with a further recruitment planned – the impact on the teams' availability to deliver cannot be underestimated. Given the mix of the remaining team there will be continuing mentoring, coaching and supervision demands. We also continue to have a full time Principal Auditor on maternity leave and one on secondment – both expected to return during 2022.

Our workforce strategy of 'growing our own' auditors aims to build capacity and capability in the team in the long term. We are also working with the Finance Team to make the best use of graduate, work experience placements, continuing professional development. All aiming to attract and retain skilled workforce – showcasing our profession and that working in local government is a good career path and employer of choice.

Changes to planned work

The continuing recruitment and retention challenges mean that there has been some changes to our planned audit activity to reflect changes in resources and risk. A significant amount of work has been undertaken to complete the External Internal Audit Assessment, enhance our performance reporting framework and develop appropriate coaching and mentoring arrangements for our new recruits. This has also impacted on resources available for direct audit delivery.

Work was also undertaken to develop the plan for South Kesteven District Council – who we commence working with on the 1st April 2022.

Changes to planned work is shown in Appendix 4.

High Assurance

Better Care Fund	Overall we can provide a high level of assurance around the management of the Better Care Fund and can confirm national conditions and requirements of the 20/21 Better Care Fund Policy Statement, issued December 2020, have been met. • Mandatory funding and additional contributions of £95.6m and £165.1m respectively have been verified and were agreed by the Health & Wellbeing Board, equating to a total pooled budget of £260.7m for 20/21. • The Clinical Commissioning Groups (CCG's) contribution to social care via the BCF, £136.7m, has been verified, and confirmed as exceeding the minimum expectation by NHS England/Improvement of £55.4m. • Planned spend of £24.2m on CCG commissioned out of hospital services for 20/21 has been verified and confirmed as exceeding the NHS England/Improvement minimum funding of £15.8m. • The HWB have been advised by the CCG and LCC of compliance with the national conditions and subsequent approval obtained. Confirmation of compliance to NHS England was evident.

Substantial Assurance

Bank Reconciliation	Our review of the bank reconciliation procedures found them to be well controlled and operating effectively. We have provided a substantial audit opinion because the move the Hoople Standard Solution will involve a change of process for the team. At this stage there is uncertainty about what impact this change will have on key controls in this area. We also noted one officer where access the bank reconciliation role needs to be removed. The team has been unable to action last years audit recommendation due to the change control freeze. We recommend that this is carried forward and monitored during the data migration process to the Hoople Standard Solution.
Maintained Schools	Our review of processes and procedures at 6 maintained schools confirmed that overall controls are in place and operating effectively. There were no key themes identified from the findings and recommendations reported across the 6 schools audited so far during 2022/23. The recommendations made included: • Improvements to governance processes; ensuring that approval and oversight by the governing body are clearly recorded within the minutes and that statutory information is included on the school website • Strengthening budget monitoring procedures; retaining copies of reports used and ensuring governors are presented with adequate detail • Reporting of budget forecast figures to the School’s Finance Team

Substantial Assurance

LFR – Governance Review	Overall, we can provide a substantial level of assurance around the effectiveness of LFR's governance arrangements, confirming that they are fit for purpose, legally compliant and fully documented within LCC's Constitution. Arrangements are consistent with the principles of the CIPFA/SOLACE Good Governance framework with assurance re governance arrangements reiterated in both LFR's Statement of Assurance and LCC's Annual Governance Statement.

Consultancy Reviews

Pensions Administration

In December 2021 we confirmed with Paul Wood, the Audit Manager at Bradford Metropolitan District Council (MDC), that there had been no changes to their processes in the following key areas:

Approach to audits and coverage
Sampling approach
Review and quality assurance processes

Based on our cumulative audit knowledge and experience we concluded his team's approach to these activities was sound and we could place assurance on them.

Our discussions confirmed that Covid-19 had not impacted on the delivery of the 2021/22 audit plan. Bradford MDC have been able to carry out their testing as normal since they have direct access to pension systems and therefore can usually test remotely and contact Pension Fund staff to resolve queries. Any issues they have come across have been resolved on a timely basis, so impacts have been minimal. The audit team has found that controls have been working as expected despite staff working from home.

Pension Administration Audits
We reviewed the assurance outcomes of the pension administration audits for the end of 2020/21 and 2021/22. They are:

Transfers In = Excellent
New Pensions & Lump Sums- Death Benefits = Excellent
Local Government Scheme Contributions = Good
Life Existence = Good
Purchase of Additional Pension = (Draft report Good)
Annual benefit statement = Excellent

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

Life existence report from the plan for 21-22 highlighted areas within the life certificate process which could be improved upon. This included an issue with quality Assurance procedures which had been found to affect Lincolnshire LGPS. Two High priority and agreed recommendations were made in this area. These actions have not yet been captured in the cycle of follow up reporting of agreed actions.

Consultancy Reviews

Pensions Administration

There is a process to follow up on High Priority recommendations until they are happy that they have been implemented or that an alternative/compensating control has been put in place or the recommendation is deemed no longer relevant for whatever reason that may be.

In the 19-20 report we noted a lower level of assurance for the accuracy of contributions recorded on member records. Issues raised could have impact on LGPS members. The follow up audit has now taken place. Progress has been made in achieving recommendations. There are areas which have been impacted due to delays in implementation of Phase 3 of the monthly posting project. These delays are due to disruption caused by the global pandemic. It is noted in the follow up that this project should address High Priority recommendations made as well as bringing additional benefits improving the overall control environment of Monthly postings process in its entirety.
The review is expected to be re-examined by internal audit in further detail once the project is fully implemented and deemed operational.

Conclusions

Following our conversations with WYPF audit provider we continue to place assurance on the robust nature of the audits completed by Bradford MDC. We are pleased to see that the audits continue to have positive assurance levels to date and that actions are implemented promptly. We will liaise with the Bradford MDC team to confirm that management actions are fully implemented within agreed timescales. We are happy to place reliance on this assurance over Pension Administration and plan to maintain our relationship with Bradford MDC. We will share future information and assurances to help support one another's audit work.

Property Repairs & Maintenance Budgets

Our review established that based on the information and documentation reviewed improvements have been made since the previous audit.

Budget Setting Procedures
In relation to works coming in over budget the following measures have been implemented:

- ✓ A review of budget setting processes for R&M projects was conducted and resulted in a revised process

Property Repairs & Maintenance Budgets

- ✓ The condition survey budget figure formed the basis for a budget on the programme. As an improvement, this figure is now reviewed and updated before works are tendered.
- ✓ If works come in over budget price, a meeting is conducted between LCC and the contractor. A tender report captures the reasoning with a recommendation as to whether the work is re-tendered or to proceed as planned. This is all recorded in Concerto.
- ✓ The budget is monitored monthly in meetings with the services' Finance Business Partner.

Reporting of Variations

We identified the following processes in place:

- ✓ There are now weekly and ad-hoc meetings with the external contractors and LCC management. These provide assurance through minutes and meeting notes that timely reporting of variations is happening proactively, and ensures that appropriate decision making, approval and corrective action can be taken.

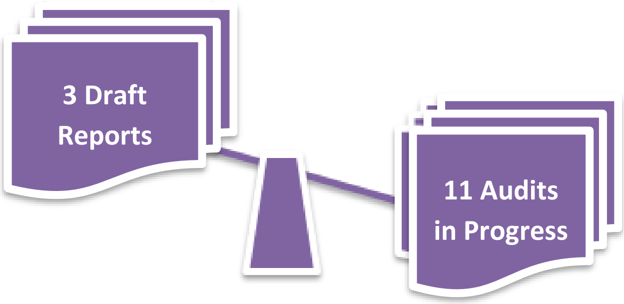
- ✓ There are also discussions about adding or removing items from the programme which is also captured and recorded with reasoning. Under the contract any issue that needs to be raised is done so through an Early Warning (EW) on Concerto which provides an audit trail.

- ✓ We also noted that there are minuted quarterly Board meetings that collate progress and issues identified, along with the actions being taken.

- ✓ Reporting is via the Joint Programme Board and also now quarterly to the Property Board.

- ✓ The Assistant Director Corporate Property has also now asked for the programme to be reported monthly at a corporate property budget meeting (Cost Control Meeting).

There is an annual budget of £2.5 million for non-schools capital works from the service core budget and £2.5 million for schools. This figure is static and has not changed over the last few years despite costs increasing due to factors such as inflation and the impact of Brexit on material cost and scarcity. We recommended that this budget is reviewed by the property team.



Audits in Progress

We have 11 audits at fieldwork stage:

- Safeguarding Adults
- Foster Carers – Recruitment & Retention
- Payroll
- Pensions Fund
- General Ledger
- Accounts Payable
- Accounts Receivable
- IMT Virus Protection / Malware
- IMT Follow Ups
- Burgh Le Marsh Primary School
- Financial Resilience

Other Significant Work

Grants

Grant audits work has been undertaken to ensure that funds have been used in line with grant conditions. Two grants (Bus Service Operators' grant and the Highways' grant for road maintenance) were signed off in the autumn of 2021.

Supporting Families Programme

Audits to support 4 grant claims for the Supporting Families Programme have so far been undertaken in 2021/22, with another small claim due in March 2022. We have reported no significant issues during the course of our work.

Business World Redesign

The BW Redesign Project has at present 4 critical risks:

- The payroll provider has recruited a team to support parallel payment runs (PPR) however there is a risk they do not have the sufficient knowledge regarding the data entry activities which need to be carried out
- Service Readiness - Lack of provider payroll engagement in PPR
- The provider have recruited a team to support PPR however there is a risk they do not have the sufficient knowledge around payroll, LCC and Business World to be able to carry out investigations
- The 'business as usual' cleanse activity is taking place within the live system by new employees with minimal experience of the system.

This has resulted in 'red status' for the project.

The project is in the Test Phase of the plan which includes a number of activities, including Functional Testing, Integrated

System testing (IST), User Acceptance Testing (UAT) and Payroll Parallel Run testing (PPR):

- Functional Testing is complete and was found to have no significant issues. This testing looks at the individual component parts of the system
- IST is complete and was found to have no significant issues. This testing looks at the individual component parts working together as one system
- UAT has been covered in 2 phases including a number of key areas such as Schools and Lincolnshire Fire & Rescue, the second phase is due to be completed in March. Results have been good on the overall build, there have been some areas of concern, particularly around reporting but the project continue to work with the services to understand the need and have a stringent change control process for anything where LCC cannot adapt and adopt
- PPR - The first of 3 PPR tests have now been completed over the 3 main payrolls (Corporate, Schools and Retained Fire) and payroll parallel run 2 is underway. PPR 1 took significantly longer than expected and areas such as absence and pension needed detailed review. Very few issues were reported with the build, the complexity came down to LCC's various term and conditions and the quality of the data in the system. Additional resource was applied and although has had an impact it is important this level of checking is undertaken to ensure payroll runs correctly in the future

Data quality – work continues to address the data quality issues in our current system with the most recent batch of corrections due to be completed by the end of February.

Alongside the correction of the data, HR are working with Serco to ensure new BAU processes are implemented to avoid future deterioration of data.

Data migration – on completion of UAT and the data quality work the project will carry out another migration exercise. This is where a copy of the data is taken from the existing system and migrated into the new Hoople build, the activity is the reconciliation of the data, in short, do they match. This will form the pre-requisite for the final stage of test – regression. Regression testing is the final activity in the test phase of the plan and is where the configuration (how the system is built) and the data come together for a final round of sense checks to ensure nothing has 'regressed'

The approach to training has been approved and the production of training and guidance material started

A detailed Change Management plan has been produced and will be driven forward by the appropriate service leads

The project continues to face challenges with resource shortages in payroll and the systems team

Recent additional activity concerning upgrading our existing system and the move to Azure has significantly impacted timelines

As the project has progressed past the original timeline additional complexities are brought into the plan impacting the overall implementation

Transformation Programme

We continue to attend all the Transformation Steering Board meetings and provide support to the programme as a member of the steering board and provide regular updates to the Audit Committee on progress.

Our work for 21/22 and 22/23 includes reviews to be agreed with the Transformation Team which will focus on key risks and issues. We will focus on key project delivery and the achievement of benefits and savings as key areas for assurance. Updates will be sought from all board members to ensure effective audit coverage continues.

Based on the status of a number of projects and the assurance rating following our assurance mapping exercise the Programme Governance Assurance is assessed as Green by the Transformation team and Programme Delivery is assessed as Amber, based on the BW Redesign being Red status and Educational Travel, Children in care, Smarter working and Business Analytics and Visualisation projects all being Amber status.

The only project in the programme to report a Red status is the BW Redesign Project. It is reported that overall the project is running behind plan, and the go-live date is under review. The Entec Si review of the project is complete and include recommendations for the project going forward. The planned go-live date is 31st March 2023.

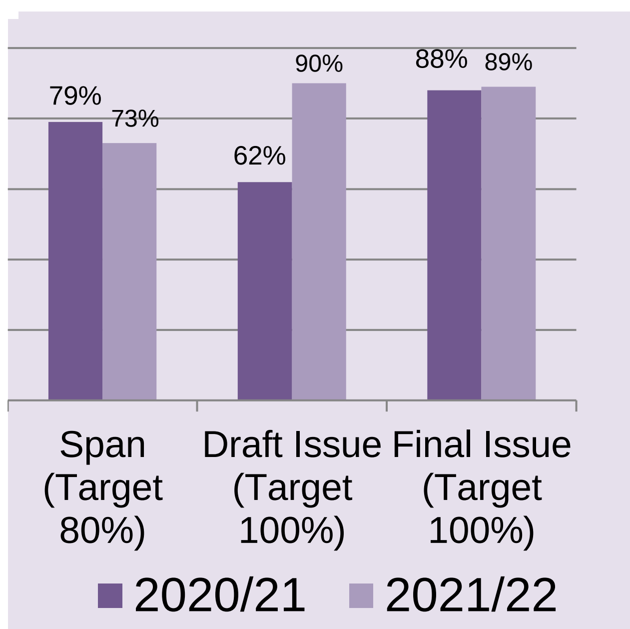
Benchmarking

Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date (up to 31st December 2021)

Performance on Key Indicators

Positive feedback has been received

Plan completed 47%



Other Matters of Interest

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

Audit Committees and Scrutiny Committees – Working Together

In June 2021 the Centre for Governance and Scrutiny (CfGS) produced a paper for councillors on audit committees and scrutiny committees on how member-level activity on audit, and councils' scrutiny functions, can work more closely. It focuses in particular on how scrutiny can contribute productively to the core functions of Audit committees.

The paper states that whilst Audit and Scrutiny require their own focus and resources, there will be matters of common interest where it makes sense to collaborate including:

- Action on mindset and culture
- Securing good governance
- Risk
- Value for money
- Wider policy issues, and the impact of council strategy on financial management

The report explores opportunities for collaboration within each of the areas listed above and provides practical examples of how it may work in practice.

The full report can be found using this link:
Audit committees and scrutiny committees: working together - Centre for Governance and Scrutiny (cfgs.org.uk)

Horizon Scanning – Challenges and Opportunities for 2022 (Mazars)

Mazars have published their annual horizon scanning report for 2022 which details some of the challenges and opportunities facing the public sector over the coming year. It highlights a number of new and emerging risks that councils and internal audit teams need to gain assurance over, with the significant change to working practices brought about by Covid-19. It details the main changes and impacts brought about by the pandemic under key headings including Finance, Council Services, IT, Environmental, social and Governance and Fraud issues. We have considered risks listed within the report along with business intelligence and outcomes from the combined assurance work when drafting the audit plan for 22/23. The report can be found using the following link:

Adobe Acrobat Document

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 31/12/21

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations: High	Medium	Low	Recs not due
Cyber Security	March 19	Limited	6	4	2	0	0	0
	There are two outstanding actions that relate to Network and Monitoring Strategy. Monitoring has improved since the initial audit in 2018 and the action has progressed 80%. LCC are still to decide if they want a managed Security Operations Centre. Monitoring within Azure is very in depth, but unless LCC are fully 0365 emersed, then there will still be gaps in our capabilities. These actions will continue to be traced and the action regarding networks will be followed up as part of the IMT follow up audit.							
Transformation	June 21	Amber/Green (Highlight report)	7	7	0	0	0	0
	The five remaining actions that were due have now been completed.							
Implementation of Mosaic Finance	March 21	Low	8	7	0	1	0	0
	One outstanding action with regards to documenting lessons learnt - A lessons learned log will be created and added to the project documents for Adult Care finance group. We will have it as an item on the next meeting 22nd February to ensure that the document is populated with lessons so far and that project leads are aware to update as they progress their projects.							
Good Governance Review - Ethics	Apr 19	n/a	13	12	0	1	0	0
	There is one outstanding action relating to updating the website with information on the Council's governance / ethical framework. This has been overtaken by the deployment of Office 365. Will need a rethink about creating a governance hub. It's not a priority as information is on the website but could be made more accessible.							
LSAB Peer Review	Dec 19	High	2	1	0	1	0	0
	There is one outstanding action with regards implementation of policy. The new policy and procdures are under construction, expected completion is by the summer of 2022							
Bank Reconciliation Key Control Testing	April 21	High	1	0	0	1	0	0
	There is one outstanding action with regards incorrect lodgement dates. Due to the freeze on change controls nothing can be done at present with regards changing the date on BW. This finding has been rolled forward as part of the 2022 audit.							

Tracker Report – all outstanding audit actions due 31/12/21

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations: High	Medium	Low	Recs not due
Counter Fraud Arrangements	Apr 19	Substantial	6	4	0	2	0	0
	Counter Fraud Strategy and Money Laundering Policies have been revised. Currently undergoing internal review.							
Financial Assessments	June 19	Substantial	3	3	0	0	0	0
	All actions are now completed							
Recruitment and Selection Checks	March 20	Substantial	12	12	0	0	0	0
	All actions are now completed							
Commercial Property	Jan 20	Substantial	6	6	0	0	0	0
	All actions are now completed							
LFR Grievance Process	June 20	Substantial	3	3	0	0	0	0
	All actions are now completed							
Treasury Management & Investment Strategy	Aug 20	High	2	0	0	2	0	0
	CIPFA published new Codes of Practice for TM and a New Prudential Code on 21st December 2021. Changes are substantial to TMPs and also they introduce the concept of IMPs to cover the Commercial Investment Arena. CIPFA has given us a soft launch on the changes so we have the next year to implement. Our existing TMPS , Treasury Policy and Financial Regs and Prudential Indicators will all need to be reviewed in light of the new codes and we envisage making this review a key target							

Appendix 2 Audit Tracker

Tracker Report – all outstanding audit actions due 31/12/21

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Carers Follow Up	Jan 2021	High	1	1	0	0	0	0
	The outstanding action has now been completed							
PPE Face Mask – Root Cause Analysis	Mar 21	Consultancy Review	5	5	0	0	0	0
	All outstanding actions have now been completed							
Payroll	Oct 21	Substantial	15	7	0	2	0	6
	There are outstanding actions which rely on the implementation of the Hoople standard including reinstating monthly reporting and guidance. There is also an outstanding action regarding checking the teacher's top up pension – the team are awaiting some information from TPS.							
Accounts Payable	Aug 21	Substantial	2	2	0	0	0	0
	Both actions are not fully implemented due to awaiting the outcomes of the BW redesign project. These relate to set up of users / user entitlement and guidance notes for staff							
ICT – Business Continuity & Disaster Recovery	Mar 21	Limited	2	0	2	0	0	0
	There are 2 outstanding actions - Project launch has been deferred due to allow resources to focus on the critical Azure migration program. LCC has now moved most of its critical systems from Sungard to Microsoft Azure hosting. (with the exception of Mosaic who' s recovery requirements form part of its contractual terms of hosting with Servelec) Cloud hosting changes the BC strategy fundamentally to one of high resilience and availability. Whilst Cloud does not affect the BIA as such, the shift to remote working has fundamentally changed the relative criticality of certain services and now BIA also requires a complete overhaul. The project has conducted tests involving moving loads between different geographies, and other tests involving the snapshot recovery techniques, which have all succeeded in demonstrating the tool sets.							

Appendix 2 Audit Tracker

Tracker Report – all outstanding audit actions due 31/12/21

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
	A Corporate program, which must also involve non IMT Resource will now be requested. LCC Corporate templates will be reviewed however ISO standards aligned industry templates are more typical used as they are common to all suppliers and 3rd parties involved and are requested in that form by 3rd parties							
ICT – Network Infrastructure	Mar 21	Limited	4	0	1	3	0	0
	Progress has been made and only a few remaining legacy OS now exist primarily awaiting the completion of Business Change elements, eg The Legal Team transferring to iCaseWorker away from the legacy system, Norwell. The Lifecycle management of Network devices is a rolling program and in 2022 our remote sites program will commence. The post covid network needs to be revised to reflect the changes made to allow home working and this will allow significant simplification of our Access Networks both wired and Wireless. The design work has delayed work commencing to ensure the investment is relevant to the councils needs and reflect the changing property portfolio which is being crystalised by the property team.							
General Ledger	Mar 20	Substantial	2	0	0	2	0	0
	There are 2 outstanding actions relating to cumulative reconciliations and leaver access. These have both been impacted by the delays to the BW project but will continue to be monitored going forward.							
Total			100	74	5	15	0	6

Appendix 3 2021/22 audit progress

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Supporting Families Grants	Review and validation of periodic claims for the Troubled Families programme.	12/04/21	12/04/21	On-going	4 out of 5 audits completed
ICT Privileged Access Management	Review to confirm that the allocation and use of privileged access rights is restricted and controlled.	06/05/21	28/06/21		Draft Report Stage
Maintained Schools	Delivery of internal audit to maintained schools that 'buy-back' our services. This covers key areas of governance and financial control.	12/10/21	12/10/21	On-going	6 out of 8 audits completed
Highways grant	To confirm compliance with Grant funding criteria	09/07/21	09/07/21		Completed
BSOG grant	To confirm compliance with Grant funding criteria	15/07/21	15/07/21		Completed
Adults Safeguarding response to Covid	Review how government guidance was been complied with and provide assurance that the Council has maintained robust safeguarding arrangements through the Covid 19 Pandemic.	18/08/21	18/08/21		Fieldwork stage
Trade Union Facility Time Review	Assurance that the raising, approving, recording and reporting of time taken off for trade union activities is operating as intended.	01/08/21	16/08/21		Draft Report
Transformation programme – Transformation Steering Board	Support and advice to the project overseeing the future Transformation developments	01/04/21	01/04/21		Ongoing work over the year

Appendix 3 2021/22 audit progress

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Payroll	Key financial system – testing and analytical review required to provide assurance that appropriate controls are working effectively and compliance with policy and legislation is maintained.	01/02/22	26/01/22		Fieldwork stage
Key Control Testing – General Ledger, Accounts Payable, Accounts Receivable, Pensions Administration, Bank Reconciliation	Testing and analytical review of key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements	13/12/21	23/12/21		Various stages of completed
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	22/06/21	22/06/21		Completed High
Property Repairs and Maintenance Budgets	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.	22/12/20	01/04/21		Completed
Foster Carers	To confirm that there are robust processes / checks over the recruitment of foster carers and that these processes are followed in practice.	28/01/22	28/01/22		Draft Report Stage

Appendix 3 2021/22 audits to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
IMT Cloud Hosted Services	Review recent instances of cloud/hosted services to establish the due diligence undertaken and the security deployed through that arrangement.	04/02/22	04/02/22		Fieldwork Stage
Transport Connect	Review of the Governance and oversight processes that are in place within Transport Connect to confirm that Members and Senior Management are aware of issues that may impact the Council and the company.				Draft Report Stage
LFR Expenses	To provide assurance around the effectiveness and efficiency of the employee expense reimbursement process at Lincolnshire Fire & Rescue Service, to ensure it is compliant with policies, procedures, and guidelines.	01/04/21	27/04/21	20/07/21	Completed Substantial Assurance
LFR Governance Review	Seeking assurance around the governance roles and processes in place within the Directorate.	26/10/21	26/10/21	09/02/22	Completed Substantial
Financial Resilience	Assurance that the medium term financial strategy supports financial resilience as the Council moves from pandemic arrangements to recovery and business as usual.	01/02/2022	01/02/2022		Fieldwork stage

Appendix 4 Status of other audits within the 2021/22 plan

AUDIT	PROGRESS / STATUS	INCLUDED IN 2022/23 PLAN	RATIONALE
ICT – Starters, Movers, Leavers	Deferred – agreed with management	Yes	Included in call off list for 2022/23
ICES Follow Up Audit	Deferred	No	Agreed that full audit to be delivered at a later date
Cross Cutting – Contract Management	Deferred – audit research and scoping undertaken	Yes	Scheduled for April – September 2022
Cross Cutting – Governance Review	Deferred due to Leadership & Culture project being undertaken through HR.	Yes	A review of governance processes is scheduled to be undertaken later in 2022/23
Economic Development	Currently in the scoping phase. Fieldwork will be completed throughout April	Yes	The original audit has been spilt into 2 separate audits (allocation of Covid business grants and capital project decision making) and will be rolled forward to the 2022/23 plan due to the timeframe for the work
Financial Assessments	**Currently in the scoping phase. Fieldwork is due to take place in April 2022**	**Yes**	**Audit in progress and will be rolled forward to the 2022/23 plan**
Grant Work – Post payment counter fraud	Currently in the scoping phase	Yes	This will be combined with the work on Economic Development and will be rolled forward to the 2022/23 plan due to the timeframe for the work

Appendix 4 Status of other audits within the 2021/22 plan

AUDIT	PROGRESS / STATUS	INCLUDED IN 2022/23 PLAN	RATIONALE
Grant Work – Post payment counter fraud	Currently in the scoping phase	Yes	This will be combined with the work on Economic Development and will be rolled forward to the 2022/23 plan due to the timeframe for the work

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

Report to:	**Audit Committee**
Date:	**28 March 2022**
Subject:	**Risk Management Progress Report - March 2022**

Summary:

The Committee is responsible for overseeing the effectiveness of the Counci'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 responsiblity 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 including the two new strategic risks.

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 2021.

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. This is demonstrated by the inclusion of two new risks and the changes to some of the risks within the register.

Activity on the action plan from the Governance review is nearly complete with only two actions outstanding, namely around decision making and a revised comms plan.

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
Appendix B	Strategic Risk Register - March 2022

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.

Risk Management

Progress Report – March 2022

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Contents

Appendices

Lincolnshire COUNTY COUNCIL Working for a better future

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

Progress on Governance review

Key actions completed / implemented since the last report in September 2021 are as follows;

- ✓ Continuation of reporting quarterly to CLT on risk management including high risks and issues relating to the pandemic which are reducing.
- ✓ Aligned the strategic risks to the Corporate Plan.
- ✓ Continuation of highlight reports produced from the Directorate Risk & Safety groups (DRSG) to the Corporate Risk & Safety Steering group (CRSSG) with key messages on both Risk Management and Health & Safety with no risks requiring escalation. This includes common themes that are discussed across the directorates.

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

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Key messages continued..

- ✓ Sharp Cloud, the risk management software system continues to be populated with all of Resources risk registers and is starting to be used for interactive updates. Particular focus has been on controls making them more measurable and directly relating to managing particular risks. The use of the wheel of control is helping to highlight key control areas.
- ✓ Work continues with supporting the Transformation Programme and projects and better sight of risk management.

There are only two remaining priorities outstanding which relate to decision making and updated comms plan. These will be worked through, and updates reported at the next committee.

Strategic risk register – See Appendix 1

Overall, the strategic risks continue to be managed pro-actively. We have reviewed the effectiveness of the control actions – focusing on those that can be measured such as KPIs, external sources etc. This will help us to measure their impact in managing the risk. In addition, there are **two new risks** to note on the strategic risk register: Number 11 – **Outstanding debt** and Number 12 – **Exit of Serco contract**. Further information on these and other risks are noted on the following pages.

There is a high level of awareness of current and emerging risks that could impact services, and this is completed by having discussions with risk owners and supporting officers on a regular basis.

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5 risks

SUBSTANTIAL ASSURANCE

Safeguarding Children - (1)

Safeguarding Children has moved to **substantial** assurance and an **improving** direction of travel (previously limited & static). This is due to majority of KPIs now being met and any outstanding, having plans in place.

Safeguarding Adults - (2)

No changes to **assurance levels** since last report (September 2021).

Resilience (Business Continuity) - (3)

No changes to **assurance levels** since last report (September 2021), however the upgrade to the IT system across the Emergency Planning service remains outstanding and is a watching brief.

Budget – LCC – (6)

No changes to **assurance levels** since last report (September 2021)

Serco Contract - NEW (12)

Exit of Serco contract ending is a new risk. It has been given a level of **substantial assurance** but will be monitored closely over the coming months.

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7 **risks**

LIMITED ASSURANCE

Market Supply – Adult Care - (4)	No changes to **assurance levels** since last report (September 2021).
Transformation Programme – (5)	No changes to **assurance levels** since last report (September 2021)
Recruitment / Staffing – (7)	**Ability to recruit & retain staff in high-risk areas** has moved to **limited assurance** and **deteriorating** direction of travel (previously substantial & improving). This is due to the issue around recruitment for the organisation which involves costs, not being able to fill posts, unsuccessful applicants and it being a wide issue across LCC. This is being addressed with several initiatives; however, these will take time to implement.
Strategic Contracts – (8)	No changes to **assurance levels** since last report (September 2021)

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LIMITED ASSURANCE CONTINUED

Cyber Security – (9)

No changes to **assurance levels** since last report (September 2021)

IT infrastructure – (10)

IT infrastructure has moved to **limited assurance** with an **improving direction of travel** (previously substantial & improving). This is due to several factors including staff shortages within IT, IT issues with slowness, lack of equipment and some issues with migration. These are all related to the BAU part of the risk. These are being addressed and with the new cloud platforms that have now been implemented, improvements are continuously being made.

Outstanding debt – NEW (11)

Recovery of income is a **new risk**. This is around securing recovery of income from a number of sources. This is primarily a risk within the **Adult Social Care** area, however, effects the **whole organisation**. There is a comprehensive 22-point action plan which is monitored regularly which will help with reducing this risk.

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Our Operational Risks

We work on a frequent basis with Directorate Risk & Safety Groups in identifying the top risks for each directorate.

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

We continue to work with services to redefine the controls where necessary to be more measurable and more aligned with other services.

Looking Forward

Over the coming months, we aim to:

- Report regularly to CLT for as long as is required with the red risks & issues
- Continue to work with services in getting either up to date risk registers or ensuring that they are aware of their operational risks and report to risk management on a regular basis
- Populate and use the new risk management software system Sharp Cloud to improve reporting.
- Revise and update the terms of reference for both the CRSSG and DRSG's to fall in line with current practices and requirements.
- Launch our risk management pages on the LCC intranet, Share Point which will include revised guidance.
- Launch the risk management strategy following review.

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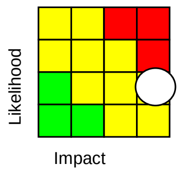
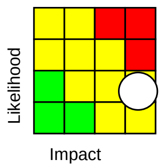
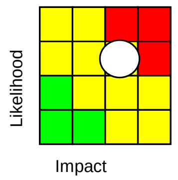
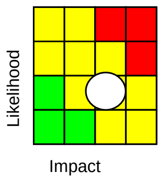
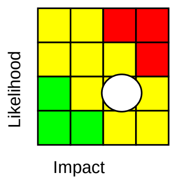
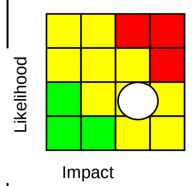
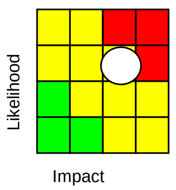
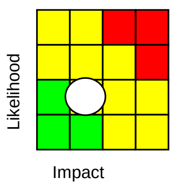
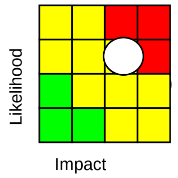
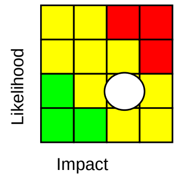
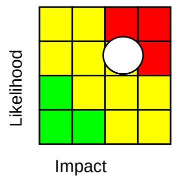
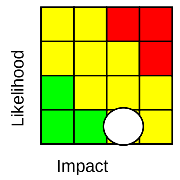
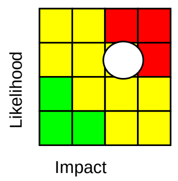
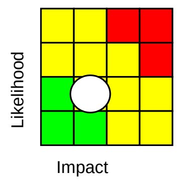
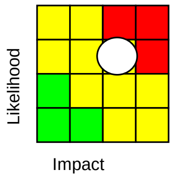
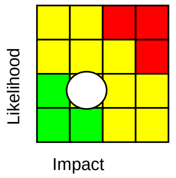
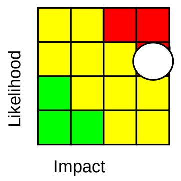
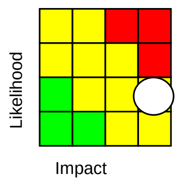
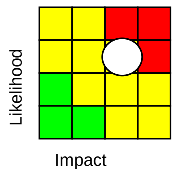
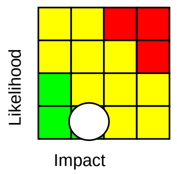
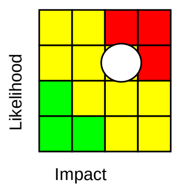
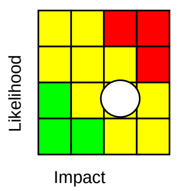
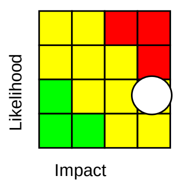
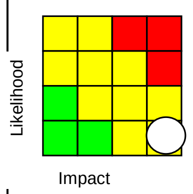
Strategic Risk Register
Version: 1.9
Reviewed: February 2022 (links to Corporate plan)
Owner: Chief Executive

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	Heather Sandy	Enable everyone to enjoy life to the full	**Safeguarding** Safeguarding children			Substantial	Improving	**Existing Controls** • 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 **New and Developing Controls**
2	Glen Garrod	Enable everyone to enjoy life to the full	**Safeguarding** Safeguarding adults			Substantial	Improving	**Existing controls** • 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 • The Team around the Adult Initiative • Quality practice audits • LSAB Prevention Strategy in place and embedded **New / Developing controls** • Number of safeguarding cases supported by an advocate • Concluded enquiries • Actions arising from the "Strategic Plan"
3	Andrew Crookham	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	Improving	**Existing controls** • Deliver Emergency Planning and Business Continuity training to Elected Members. • Email comms sent to tactical and strategic duty officers every week as a reminder of cover on the rotas. • Version 3 of the Corporate Business Continuity plan issued • 4 new projects managed through existing LRF protocols and funded by cabinet office. • As of September 2021, 90% of command-and-control training was delivered to LCC strategic, tactical and operational managers. • Multiagency debrief for Covid response and recovery have now been completed and recommendations added to the LRF tracker document. Interim operational review C19 National Foresight Group completed January 21 with recommendations being worked through • A further debrief on recovery completed which coincided with operation Silver Siren **New / Developing controls** • CCA integrated review • In preparation for Flood X (National exercise for 2022), plans to be reviewed before September 2022 • Pilot around LRFs which are looking at the Civil Contingencies Act with a view to this being updated • Ongoing development of training courses for commanders and LRFs • Looking at more resilience during national prolonged emergencies • Monitoring of LRF tracker document • County control upgrade complete, however IT to be implemented to a good standard
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** • Monitoring of CQC ratings, including comparison to other LA's • Delayed Transfer of Care (DToC) Performance • Loss of Provider Process (enacted where required) • Robust Contract Management of all Commissioned Services, including intervention work programme • Service Quality Review – multi agency response to high-risk provision • Home Based Reablement Service pilot to broaden eligibility • Additional payments relating to Covid-19 • Workforce Development Strategy Group (led by Justin Hackney) **New/Developing controls** • Development of the housing strategy including extra care development • New specification and contracts for Residential Care (commencing 1st April 2022) • Ongoing support in relation to Covid-19 Vaccinations • Assessment and monitoring of impact on Vaccination as a Condition of Deployment (VCOD) regulations – across all CQC registered activity • Carer attraction campaign – promoting Care as a career and development of branding

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	Executive Director responsible for Commercial Directorate	Create thriving environments	**Projects** Ability to deliver our Transformation programme			Limited	Improving	**Existing controls** ● Routine reporting to Overview & Scrutiny Management Board (OSMB) ● A number of key corporate projects are on the Transformation Programme. ● Dedicated SharePoint site with updated standardised project templates ● Implemented interim management structure to oversee the programme. ● Governance in place for strategic, tactical and operational project levels. **New and Developing** ● Developing a new Transformation Team to lead key areas of activity ● Priority projects being revised and reconsidered in line with Corporate Plan priorities ● Further governance arrangements being reviewed in line with corporate priorities to manage impact on corporate support services. ● Gateway review process being tested. ● Aligning transformation programme to Corporate Plan and Political Manifesto
6	Andrew Crookham	Provide good value Council services	**Budget - LCC** Funding and maintaining financial resilience			Substantial	Static	**Existing controls** ● 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 resilience. **New and Developing** ● 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 - Brexit, Shipping, material costs etc. ● Reform of Property Taxes ● Health & Social Care White Paper ● Fair funding Review ● Levelling Up White Paper
7	Andrew Crookham	Support high aspirations	**Recruitment / Staffing** Ability to recruit & retain staff in high risk areas			Limited	Deteriorating	**Existing controls** • Corporate Employee Health & Wellbeing strategy and enhanced corporate offer introduced during the Covid-19 pandemic • Listening and responding to employee feedback through Smarter Working surveys and staff engagement events informing corporate action • 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 **New / Developing controls** • 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 future delivery of services incl. - Developing an Attraction and Retention (A&R) framework, this and the wider A&R project is the top People Strategy priority. A&R initiatives within the framework have received CLT approval - Expansion of current enhanced health and well- being offer and launch of Mental Health First Aiders - Expansion to employee benefits e.g. salary sacrifice, green cars - Implementation 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 along with new managers guidance on Lincs2 learn and SharePoint - Producing resourcing analytics for quarters 1-3 and year to date, and further development of Resourcing Management Information in addition to Human Resources Management Information (HRMI) - Seeking funding for an additional resourcing post to support transformation of service delivery

8	Executive Director responsible for Commercial Directorate	Provide good value Council services	**Strategic contracts** Ensuring contracts and markets (other than adult care) are fit for purpose & are managed effectively			Limited	Static	**Existing controls** ● 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 ● Commissioning review (Sept 2020 - September 2021) **New / Developing controls** ● Developing reporting back to CLT ● Putting together a Contract Management Toolkit which promotes good practice ● Recruitment of Category Leads ● Commissioning Hub ● Overview plan completed, further action plan to be developed.

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	Executive Director responsible for Commercial Directorate	Provide good value Council services	**Cyber** The risk of a successful cyber-attack against the council with significant / critical impact			Limited	Improving	**Existing controls** ● 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 ● Unsupported Windows operating systems continue to be removed from our network ● Increasing coverage of Microsoft 365 security controls deployed in line with project deployment
10	Executive Director responsible for Commercial Directorate	Provide good value Council services	**IT** IT Infrastructure - ability to implement transformational aspirations and deliver BAU.			Limited	Improving	**Existing controls** ● 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 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 **New / Developing controls** ● 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 ● New device management strategy is being put into effect which reduces reliance on LCC infrastructure
11	Glen Garrod	Provide good value Council services	**Outstanding debt** Securing efficient and effective end-to-end processes for the recovery of income due to the Council			Limited	Improving	**Existing controls** ● Established systems are in place for raising invoices. ● Credit control procedures are in place, e.g. for issuing reminders. ● Escalation procedures are in place for pursuing overdue debts. ● Detailed monthly reports on debtors are provided to the Finance team. ● The annual audit of key controls will continue. **New & Developing** ● Implementation of a comprehensive 22-point action plan. ● Regular oversight and management of necessary improvements by ACCW Directorate Leadership Team ● A detailed audit is planned for 2023 to assess progress against the action plan
12	Executive Director responsible for Commercial Directorate	Provide Good value Council Services	**Serco Contract** Exit of Serco contract ending and transition into the new arrangements			Substantial	Static	**Existing controls** Existing controls ● Programme Director in place to lead of Implementation ● Full sessions and buy in from CLT / OSMB / Executive / Leader **New & Developing** ● Implementation of the programme / project plan with key milestone dates. ● Refresh governance arrangements and reporting lines ● Links with the Corporate programme optimisation and alignment to these functions

Issues log - July 2018

ID	Status	Priority	Issue / Description	Escalation neededY/N
1	Closed	Low	Maintenance of effective	No
2	Closed	Medium	Sucession planning, in	No
3	Work in progress	Medium	Increasing complexity of demand for ASC &	No
4	Closed	Low	GDPR	No
5	Closed	Low	Change in Leadership and	No
6	Closed	Low	Not being able to obtain adequate insurance	No

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Lincolnshire COUNTY COUNCIL Working for a better future

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

Report to:	**Audit Committee**
Date:	**28 March 2022**
Subject:	**Counter Fraud Plan 2022-23**

Summary:

This report provides the Committee with information on Counter Fraud and Anti-Corruption activities currently scheduled in the 2022-23 work plan.

Recommendation(s):

To review and approve the Counter Fraud Plan 2022-23

Background

The Counter Fraud Plan for 2022/23 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.

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 Work Plan 2022-23

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 Gary Douglas, who can be contacted on 01522 553689 or gary.douglas@lincolnshire.gov.uk.

Counter Fraud

2022/23 Work Plan

Lincolnshire County Council

March 2022

Assurance LINCOLNSHIRE
For all your assurance needs

Lincolnshire COUNTY COUNCIL
Working for a better future

Contents

The contacts at Assurance Lincolnshire are:

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Head of Audit and Risk Management

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Gary Douglas

Principal Investigator - CFIT

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The Planning Process

Introduction

This report sets out proposed work of the Counter Fraud and Investigation Team for 2022/23. 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 2022/23.

The Counter Fraud Plan 2022/23 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 2022/23 Counter Fraud plan to the CIPFA Code's 5 key principles:

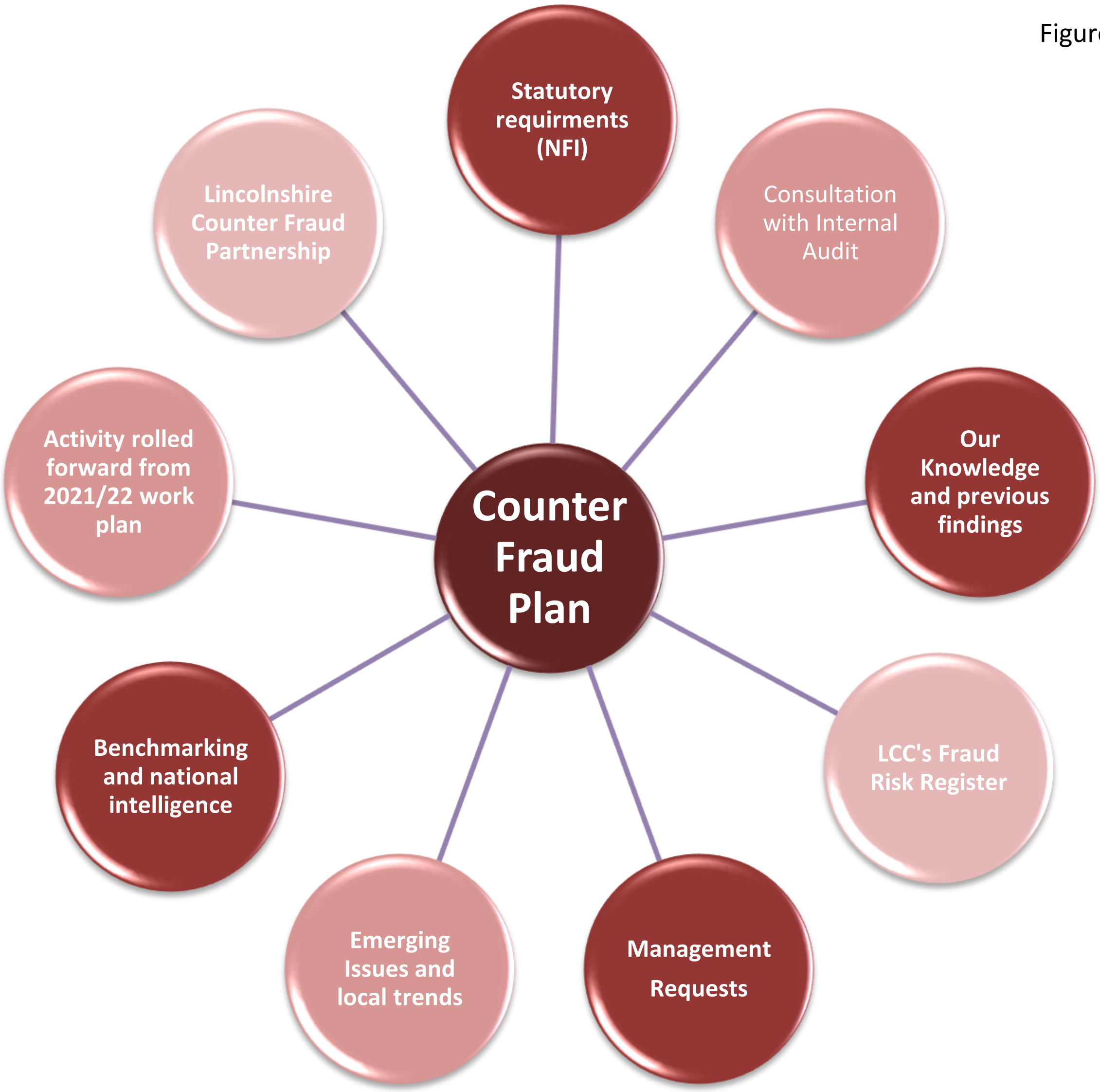
- Acknowledge responsibility
- Identify risks
- Develop Strategy
- Provide resources
- Take action

This includes continued pro-active work to prevent and detect fraud, and resource for investigation when fraud is suspected.

We will launch a County wide Anti-Fraud Poster and Leaflet campaign to all LCC staff and also launch our new Counter Fraud Hub which includes our E-Learning package. The Counter Fraud Hub will give staff information on how to report fraud, information on the Whistleblowing facility and contact details of Counter Fraud Team members.

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

Figure 1



We have prioritised our counter fraud 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
- make the best use of combined audit and counter fraud resources by aligning proactive counter fraud work with relevant audit areas eg procurement , payroll adult social care etc.

Our Work Plan sets out delivery Appendix A

Delivery and Focus

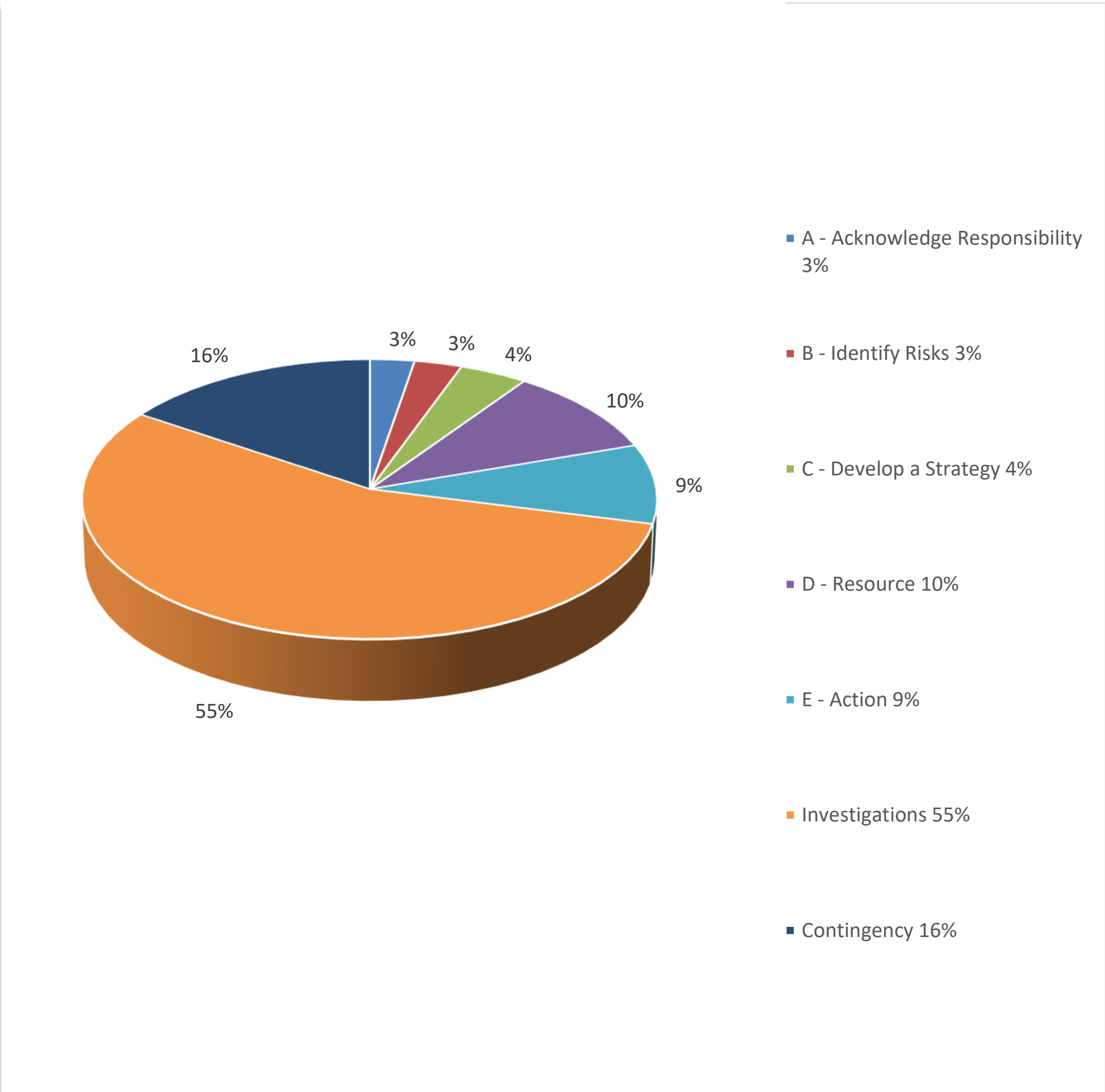
Delivering the Plan

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. 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 team has provision for three full time equivalent posts. The Council's Counter Fraud Plan is 523 days.

Allocation of Counter Fraud Resources



APPENDIX A – Counter Fraud Plan 2022/23

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

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

APPENDIX A – Counter Fraud Plan 2022/23

<table>
<tr><th>Specific step
(From CIPFA Code of Practice)</th><th>Nature of work and Indicative Scope</th></tr>
<tr><td colspan="2">CIPFA Code of Practice – Key Principle C : Develop a Strategy</td></tr>
<tr><td>C1 - Governing Body formally adopts a counter fraud and corruption strategy to address identified risks

C2 - Strategy includes the organisation's use of joint working or partnership approaches
C3 - The strategy includes both proactive and responsive approaches:

Proactive action:
• Develop counter fraud culture
• Launching of new Counter Fraud Hub & Fraud E-Learning
• 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
Responsive action:
• Detecting fraud through data and intelligence analysis
• Implementing effective whistleblowing arrangements
• Investigating fraud referrals

Applying sanctions and seeking redress</td><td>Annual Counter Fraud Work Plan 23/24

Strategy and Policy review

Update investigation practice notes

Fraud Communications Strategy

Launch of new Counter Fraud Hub and Fraud E-Learning (Q1/2022)

Use of Data Analysis process in identifying Fraud Risk.

Publication of LCC Whistleblowing arrangements</td></tr>
<tr><td colspan="2">21.5 Days (4%)</td></tr>
</table>

APPENDIX A – Counter Fraud Plan 2022/23

Specific step (From CIPFA Code of Practice)	Nature of work and Indicative Scope
CIPFA Code of Practice – Key Principle D : Provide Resources	
D1 - Annual assessment whether level of resource invested to countering fraud and corruption is proportionate to the level of risk D2 - The organisation utilises an appropriate mix of experienced and skilled staff D3 - The organisation grants counter fraud staff unhindered access to its employees D4 - The organisation has protocols in place to facilitate joint working and data and intelligence sharing	Lincolnshire Counter Fraud Partnership resource Whistleblowing facility – logging reports, referrals and follow up action LCC – Support and advice Engagement with national and regional best practice groups (including Multi Agency Intelligence Network (MAIN Lincs Police) & Midland Fraud Group) – sharing intelligence, CIPFA Standards and Fighting Fraud and Corruption Locally. Enhance data analytic training and capability Schools E-Learning (development and promotion Fraud Awareness E learning LCC Launch of new Counter Fraud Hub NSDC Fraud Risk workshop
53 Days (10%)	

Specific step (From CIPFA Code of Practice)	Nature of work and Indicative Scope
CIPFA Code of Practice – Key Principle E : Take Action	
E1 - The organisation has put in place a policy framework which supports the implementation of the Counter Fraud Strategy E2 - Plans and operations are aligned to the strategy E3 - Making effective use of initiatives to detect and prevent fraud, such as data matching or intelligence sharing E4 - Providing for independent assurance over fraud risk management, strategy and activities	National Fraud Initiative–Processing & Reporting for 2022/23 Promotion and Delivery of Communications Plan, targeted fraud awareness sessions and Fraud Clinics (Virtual delivery) Pro-active reviews on higher risk areas – linked to fraud risk assessment. Key priorities for 2022/23 are currently: • Procurement Card Review (across all Services) • Adult Social Care • Support for Internal Audit due diligence and key control testing. (Contract Management, Payroll & employees/ payments & creditors)

APPENDIX A – Counter Fraud Plan 2022/23

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	
48 Days (9%)	
290 days for Investigations (55%)	

Additional work	Nature of work and Indicative Scope
Contingency	Other - emerging risks / expansion of planned work.
81.5 Days (16%)	
TOTAL – 523 DAYS	

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Agenda Item 9

Lincolnshire COUNTY COUNCIL
Working for a better future

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

Report to:	**Audit Committee**
Date:	**28 March 2022**
Subject:	**Internal Audit Plan 2022/23**

Summary:

The risk based Internal Audit Plan, 2022/23 is presented to the Audit Committee for approval.

The annual plan aims to provide assurance across the high risk / priority areas of the Council. It takes into account the governance, risk, control and assurance arrangements - together with the requirements to provide a Head of Internal Audit opinion.

The plan sets out the rationale for the areas chosen and gives the Audit Committee the opportunity to discuss and endorse the areas of focus.

Recommendation(s):

That the 2022/23 Internal Audit Plan be approved - subject to any comments the Committee may have on the approach and areas of focus.

Background

We have developed our internal audit plan for 2022/23 considering the key risks and priorities of the Council. It is a statement of intent and is revised and updated regularly during the year to enable us to respond to changing assurance needs.

It details the activities for the first six months (April – September) and a call off list of audit areas for completion for the remainder of the year. The draft plan gives you an opportunity to comment on the planned audit areas and the priorities that we have established.

Having skilled and effective people remains at the heart of our workforce strategy. The team has provision for 23 full time equivalent posts – established to deliver both the County Council and external contracts internal audit plans.

Resources are low – and whilst we have recently appointed three new auditors, we have also had three resignations. We have secured additional temporary resources with external contractors and a further recruitment is planned. The impact on the teams' availability to deliver cannot be underestimated - given the mix of the remaining team there will be continuing mentoring, coaching and supervision demands alongside the delivery of audits to ensure sustainability of the service going forward. Our resource planning includes time for training & development, supervision, together with some contingency to enable us to respond to changing assurance needs.

Our workforce strategy of 'growing our own' auditors aims to build capacity and capability in the team in the long term. We are also working with the Finance Team to make the best use of graduate, work experience placements, continuing professional development. All seeking to attract and retain a skilled workforce – showcasing our profession and that working in local government is a good career path and employer of choice.

I am satisfied that the level and mix of resources (in-house and external) - together with the areas covered in the plan - will enable the Head of Internal Audit to be provided in 2023.

The plan includes information on our:

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

Appendix A – sets out the Internal Audit Annual Plan for 2022/23.

Assurance Lincolnshire Partnership

Whilst we have continued to experience recruitment and retention challenges, we are seen as a market leader locally and have been asked to support other Councils locally.

Through the Assurance Lincolnshire (an internal audit partnership where County Council and City of Lincoln audit teams work together) we have a number of external clients including:

- North Kesteven District Council
- West Lindsey District Council
- East Lindsey District Council
- South Holland District Council
- Boston Borough Council
- South Kesteven District Council
- Newark and Sherwood District Council
- Lincolnshire Schools & Academies

Internal Audit Charter

The Charter formally defines Internal Audit's purpose, authority and responsibility. It establishes Internal Audit's position within the Council and defines the scope of Internal Audit activities.

Appendix B - sets out our Internal Audit Charter.

Conclusion

The Corporate Leadership Team (CLT) is accountable for the Council's governance, risk and control environment – how well the council is run and oversight of the control culture operated.

The Audit Committee confirms that these arrangements are effective – ensuring improvement actions are implemented and providing an account to the Council each year on their governance, risk and control oversight.

Internal Audit play a key role in the assurance framework – providing CLT and the Audit Committee with independent insight on the effectiveness of the control environment and how well the assurance arrangement work in practice. The delivery of a risk-based audit Internal Audit Plan is essential to ensuring the probity and soundness of these systems.

Consultation

a) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Internal Audit Plan 2022/23
Appendix B	Internal Audit Charter 2022-25

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

2022/23 Plan

Lincolnshire County Council

Assurance LINCOLNSHIRE
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Lincolnshire COUNTY COUNCIL
Working for a better future

March 2022

Contents

The contact at Assurance Lincolnshire is:

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Head of Internal Audit and Risk Management

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Lucy.pledge@lincolnshire.gov.uk

The Planning Process

Introduction

This report sets out the Internal Audit Plan for 2022/23. It details the activities for the first six months (April – September) and a call off list of audit areas for completion for the remainder of the year. The draft plan gives you an opportunity to comment on the planned audit areas and the priorities that we have established.

Our dynamic approach to planning details audits required to be undertaken at a given point in time in order of priority – based on risk, significance and requirements to enable a robust Head of Internal Audit opinion. There are a number of 'must do' audits which are essential to the Head of Internal Audit opinion. We update our plan during the year – to reflect changing risk and assurance needs.

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

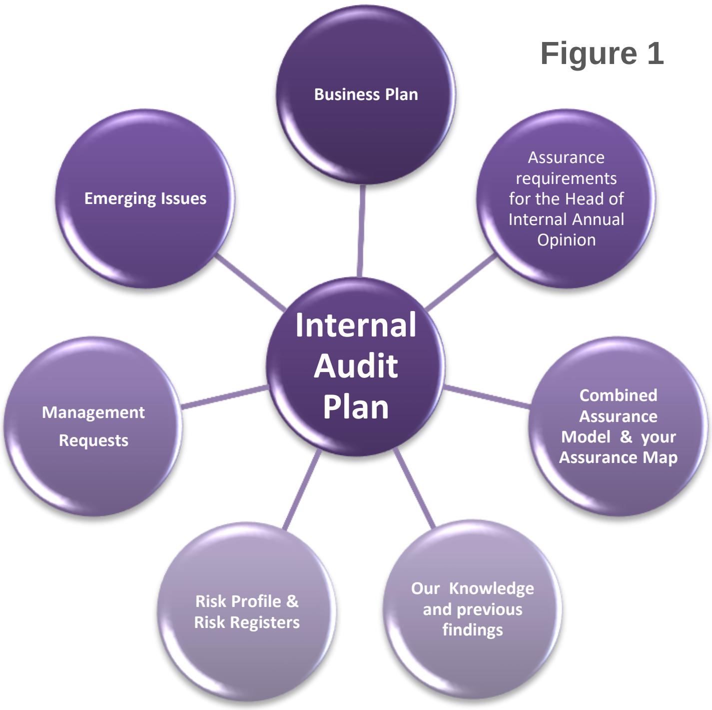
In Appendices A to E we provide for you information details of:

- **Appendix A** - Auditable Activities
- **Appendix B** - How the draft plan achieves the requirements of the Governance & Audit Committee and Head of Internal Audit
- **Appendix C** - Our Working Protocols and Performance
- **Appendix D** - Our Quality Assurance Framework

Developing the plan

The internal audit plan has been developed from the Council's Assurance Map – which was updated in February 2022 with input from the Management Board. **Figure 1** below also shows other key sources of information that help to inform the plan.

Figure 1



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

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

Updating the Plan

Through the year we will liaise with the Executive Directors and collect business intelligence that identifies emerging audits which will be included in the plan according to priority. The 2022 Assurance Map plays a key part in the annual review of the plan.

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

- Committee reports
- Investment and project proposals
- Project update reports
- Performance reports
- Key stakeholders
- Horizon scanning intelligence thorough professional networks

Resources

Having skilled and effective people remains at the heart of our workforce strategy. The team has provision for 23 full time equivalent posts – established to deliver both the County Councill and external contracts internal audit plans.

Building capacity & resilience remains a key issue facing the service. Whilst we are pleased to report that we have recently recruited three additional Auditors we have also had three full time Auditor resignations in March 2022 and at the time of writing this report are expecting the resignation of a part time Principal Auditor. We also continue to have a full time Principal Auditor on maternity leave and one on secondment – both expected to return during 2022.

Resources are low – and whilst we have secured additional temporary resources with external contractors and a further recruitment is planned – the impact on the teams' availability to deliver cannot be underestimated. Given the mix of the remaining team there will be continuing mentoring, coaching and supervision demands alongside the delivery of audits to ensure sustainability of the service going forward.

To respond to the unknown availability of resources as recruitment is undertaken, we have taken a prudent approach to planning audits in the first 6 months **(Appendix A).** As audit resources become available, reviews from the call off list will be identified for completion (**Appendix A).**

Whilst we have continued to experience recruitment and retention challenges, we are seen as a market leader locally and have been asked to support other Councils locally.

Through the Assurance Lincolnshire (an internal audit partnership where County Council and City of Lincoln audit teams work together) we have a number of external clients including:

- North Kesteven District Council
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- East Lindsey District Council
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- Boston Borough Council
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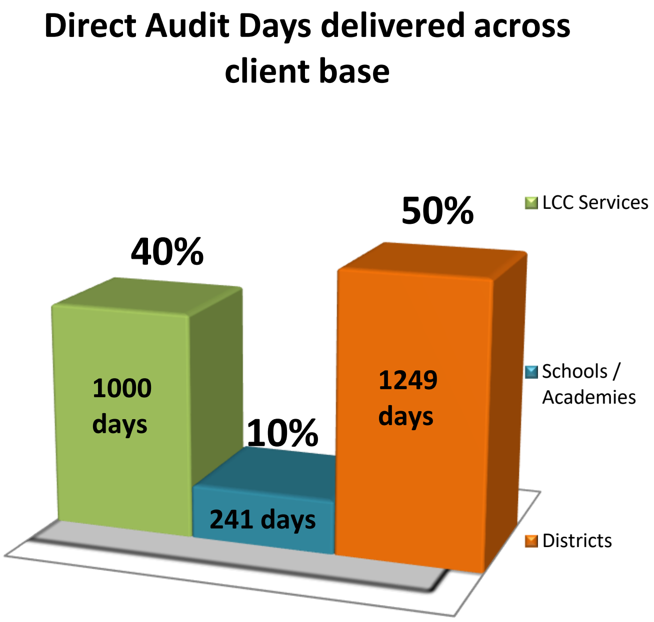
- Newark and Sherwood District Council
- Lincolnshire Schools & Academies



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Audit Focus for 2022/23

In the following section of the report, we provide information on key audit areas and the rationale for their inclusion in the audit strategy and plan.

Area	Reason for inclusion
Financial Governance	Providing assurance that key financial controls are in place and operating effectively during the year across all areas of the Council. This work provides the Section 151 Officer with a key element of his assurance that the Council has effective arrangements for the proper administration of its financial affairs. The areas of coverage and key controls to be tested will be agreed the Section 151 officer.
Governance & Risk	Providing assurance that key governance controls are in place and operating effectively. These cross cutting audits focus on the One Council approach and the Council's second line of assurance - corporate rather than service level systems. Areas proposed include: ▪ Corporate Plan - Success Framework and Performance Management ▪ Good Governance ▪ Contract Management ▪ Green Masterplan We will leverage assurance from other Internal Assurance Reviews undertaken on key projects (as appropriate).

Area	Reason for inclusion
Critical Activities	The combined assurance work undertaken in 2021/22 identified some critical activities where a potential audit would provide independent assurance over the effectiveness of risk management, control and governance processes. Working with management we will prioritise when audit work will be undertaken.
Project Assurance	There have been a number of critical projects identified by the Council. We will seek to provide assurance around their successful delivery (on-time – within budget – deliverables achieved and benefits realised). These will include: ▪ Business World Redesign ▪ Corporate Support Services Implementation ▪ Transformation Programme – benefit realisation
IMT	Technology and associated threats and opportunities continue to evolve at a pace. The effectiveness of IMT has a great impact on how well the Council works. We will seek to provide assurance that key controls comply with industry best practice and are operating effectively.
Follow Up	Where an audit receives a Limited or Low Assurance level we will carry out a follow up audit to provide assurance

Area	Reason for inclusion
	that the identified control improvements have been effectively implemented and the risks mitigated. Areas include - Debtors (deferred from 2021/22) - Mosiac (Internal Assurance Review and low assurance internal audit report). Working with management we also track the implementation of agreed management actions for **all** audit reports issued. Progress is reported to the Corporate Leadership Team and the Audit Committee.
Combined Assurance	Working with management we co-ordinate the levels of assurance across the Council's critical activities, key risks, projects and partnerships – producing a Combined Assurance Status report in February 2023.
Consultancy Assurance	At the request of management, we undertake specific reviews where they may have some concern or are looking for some advice on a specific matter or around governance, risk and controls for a developing system. Such reviews are not normally given an audit opinion, but we do track recommendations and report outcomes as part of our progress reports.

Annual Internal Audit Opinion

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

Appendix A – Dynamic Internal Audit Plan

These are the audits with the highest priorities corporately and for each Directorate. This is a dynamic plan subject to review and change based on the changing risks and priorities of the Council and any legislative changes – consequently we have designed a six month plan. We have also included fixed plan audits and fundamental must do areas. This year they may also be impacted by the new Corporate Plan. Audits will be undertaken in priority order subject to agreement with the client over scheduling and where applicable availability of specialist staff e.g ICT audits.

AUDIT TITLE	ASSURANCE BEING SOUGHT	INTERNAL AUDIT RISK ASSESSMENT	ASSURANCE MAP RAG RATING	INDEPENDENT ASSURANCE	LINK TO SRR	LINK TO CORPORATE PLAN	MANAGEMENT REQUEST
SIX MONTH PLAN – APRIL TO SEPTEMBER							
CROSS CUTTING CORPORATE REVIEWS							
Contract Management	To provide assurance that contracts are being effectively managed to ensure that projects are delivered to specification, on time and within budget.	72.2%	A	✓		✓	✓
Business World Redesign project – Business Change	Providing on-going advice and independent assurance around project management, process, risk and control.	69.4%	R	✓	✓	✓	✓
Follow Up Reviews	To follow up progress with management actions from Low or Limited audits completed in 2021/22.			✓			
ADULT CARE AND COMMUNITY WELLBEING							
Financial Assessments	Confirm improvements have been made in the Financial Assessments process following the implementation of the new policy and management actions.	69%	A	✓		✓	✓

AUDIT TITLE	ASSURANCE BEING SOUGHT	INTERNAL AUDIT RISK ASSESSMENT	ASSURANCE MAP RAG RATING	INDEPENDENT ASSURANCE	LINK TO SRR	LINK TO CORPORATE PLAN	MANAGEMENT REQUEST
CHILDREN'S SERVICES							
Maintained Schools	Delivery of internal audit to maintained schools that 'buy-back' our services. This covers key areas of governance and financial control (split across year).	36%	G	✓		✓	
COMMERCIAL							
IMT - Cloud Hosted Services	Review recent instances of cloud hosted services to establish the due diligence undertaken and the security deployed through that arrangement.	69%	G	✓		✓	
PLACE							
Economic Development – allocation of Business Grants	Review of business grants issued during the pandemic to ensure legitimate and used for purposes intended.	64%	G	✓		✓	
Economic Development – Capital Project Decision Making	Assurance around project governance and progress & delivery.	64%	G	✓		✓	
RESOURCES							
Debtors	Review the debtors' process, including any changes in the new finance system. To assess debt reporting governance and senior management oversight on debt levels and write offs. Coverage will include the impact of gross social care payments & recovery of contributions.	66.6%	A	✓	✓	✓	

AUDIT TITLE	ASSURANCE BEING SOUGHT	INTERNAL AUDIT RISK ASSESSMENT	ASSURANCE MAP RAG RATING	INDEPENDENT ASSURANCE	LINK TO SRR	LINK TO CORPORATE PLAN	MANAGEMENT REQUEST
Budget Management	To provide assurance on the processes operated to manage budgets across the Council.	66.6%	G	✓	✓	✓	
Risk Management	Assurance around the effectiveness of the Council's risk management arrangements and risk maturity.	58.3%	G	✓	✓	✓	✓
Call Off List 2022/23							
CROSS CUTTING CORPORATE REVIEWS							
Projects – Green Climate/Masterplan	To assess progress against the values and commitments that underpin the Green Masterplan	58.3%	A	✓		✓	
Recruitment and Retention	To review our ability to recruit and retain staff in line with the objectives of the Workforce Strategy (particularly the Attraction and Retention Strategy).	72.2%	A	✓	✓	✓	
Corporate Plan – Success and Performance *Must do*	To assess performance against the objectives within the Council's Corporate Plan (split across year)	66.6%		✓		✓	
Commercial Activities	To provide assurance around the Council's ability to deliver and undertake commercial activities	63.9%		✓	✓	✓	
Transformation Programme – Benefits	To provide on-going advice and assurance to the programme around the	61.1%	A	✓		✓	✓

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AUDIT TITLE	ASSURANCE BEING SOUGHT	INTERNAL AUDIT RISK ASSESSMENT	ASSURANCE MAP RAG RATING	INDEPENDENT ASSURANCE	LINK TO SRR	LINK TO CORPORATE PLAN	MANAGEMENT REQUEST
Realisation & Savings *Must do*	benefits realised and savings made						
Good Governance *Must Do*	To provide assurance around the operation of governance arrangements at the Council and how they support the Annual Governance Statement	55.6%		✓		✓	
Capital Projects – Financial Planning & Resilience *Must do*	Assurance that the plans around medium term financial strategy and planning supports financial resilience.	63.9%	G	✓		✓	
Procurement Card usage review	To review usage of procurement cards across the Council to ensure compliance with policy and to provide assurance around the risk of fraud	47.2%		✓		✓	✓
ADULT CARE AND COMMUNITY WELLBEING							
Integrated Care System	Review the effectiveness of the governance and accountability framework for the successful integration of health and social care.	50%		✓		✓	
Mental Health Services – 18 to 64	To provide assurance around services delivered by the external provider against the inherent risks and complexity of cases in this area	47.2%	A	✓		✓	
CHILDRENS							
Supporting Families Grant	Audit sign off as per the requirements of the grant (split across year)	58%	A	✓		✓	✓
COMMERCIAL							
ICT PSN Compliance/Cyber Security *Must do*	To assess compliance with PSN and to combine with a review of cyber security arrangements at the Council.	63.9%	R	✓		✓	

AUDIT TITLE	ASSURANCE BEING SOUGHT	INTERNAL AUDIT RISK ASSESSMENT	ASSURANCE MAP RAG RATING	INDEPENDENT ASSURANCE	LINK TO SRR	LINK TO CORPORATE PLAN	MANAGEMENT REQUEST
ICT PSI DSS	This review will provide independent assurance that the Council is compliant with the PCI DSS standard.	**63.9%**	**R**	✓		✓	
IMT – Starters, Movers and Leavers	To review the arrangements around staff changes (starters, movers and leavers) from an IMT perspective			✓			
ICT Patch Management	The review will focus on the patching of the Council's software to ensure that such software is kept up to date and safe against known exploits and provide independent assurance that the patch management process is operating effectively.	**50%**	**A**	✓		✓	
Asset Management: Software	Following on from the review of Software Asset Management undertaken in 2020/21, this consultancy review will examine the management and funding of business applications within the Council.			✓			
Physical and Environmental Security	Review to confirm that the allocation and use of privileged access rights is restricted and controlled.			✓			
ICT Governance	Review of the effectiveness of the Council's IMT service and associated governance structures – including: ▪ Corporate oversight			✓			

AUDIT TITLE	ASSURANCE BEING SOUGHT	INTERNAL AUDIT RISK ASSESSMENT	ASSURANCE MAP RAG RATING	INDEPENDENT ASSURANCE	LINK TO SRR	LINK TO CORPORATE PLAN	MANAGEMENT REQUEST
	▪ Roles and responsibilities ▪ Decision making – linking to associated strategies Which ensure the IT infrastructure / strategy supports and enables the achievement of corporate strategies and objectives.						
FIRE AND RESCUE							
HMICFRS – Action Plan implementation	To assess progress made against the HMICFRS Action Plan	**52.8%**		✓		✓	✓
Fleet Management	To follow up implementation of actions not completed following previous review	**50%**		✓		✓	✓
PLACE							
Civil Parking enforcement	To review arrangements in place for civil parking enforcement	**47.2%**	**R**	✓		✓	
RESOURCES							
HR - Apprenticeship	To consider the Council's approach as an employer provider of apprenticeships - including corporate approach and value for money	**58%**	**A**	✓		✓	✓
Insurance ***Must do***	To review the effectiveness of management of the Council's insurance arrangements – including claims handling and the sustainability of the insurance fund / risk appetite.	**52.8%**	**G**	✓		✓	✓
Key Financial Systems – key financial control testing ***Must do***	Testing and analytical review of key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements	**52.8%**	**G**	✓		✓	

AUDIT TITLE	ASSURANCE BEING SOUGHT	INTERNAL AUDIT RISK ASSESSMENT	ASSURANCE MAP RAG RATING	INDEPENDENT ASSURANCE	LINK TO SRR	LINK TO CORPORATE PLAN	MANAGEMENT REQUEST
Records Management	To assess progress made in records management since previous audit reviews conducted in this area.	44.4%	A	✓		✓	

Other Areas of Work	Details
Combined Assurance	Updating assurances on the Council's assurance map with senior managers and helping to inform planning and co-ordinate the annual status report.
Follow up of Recommendations	Audit Reports issued during 2021/22 where an audit opinion of Limited or Low may be followed to establish progress in implementing agreed management actions.
External Quality Assessment.	Implement any actions from the assessment of the internal audits service against professional standards to ensure compliance with best practice.
Advice & Liaison	Time for liaison with management to schedule audits and update the plan with emerging risks etc.
Annual Report	Collation of data and production of the Head of Audits annual opinion on the Council's Governance, Risk and Control framework
Annual Governance Statement	Support development of the AGS
Audit Committee	Production of reports to and attendance at Audit Committee
Work Force Development	Time to develop audit skills and competencies for our Apprentices and existing staff in a work environment with deliverable audits.

Audit Areas assessed but not included in the 2022/23 planning	
ADULT CARE	**CHILDRENS**
Hospitals	Safeguarding Regulated
Adult Frailty and Long Term conditions	Safeguarding Locality
Safeguarding Adults Board and Team	Early Years
Deprivation of Liberty Team	Early Help – Locality
Emergency Duty Team	Looked After Children - Education
Sexual Health Services	Home To School Transport
Adult Care Finance (Serco)	Youth Offending
Budget and Financial Management	Futures 4 Me
Mental Health including Suicide Prevention	Public Health
Digital Roadmap including Connect to Support Lincolnshire	Monitoring Performance – Schools and Academies
Healthwatch	Occupational Therapy Team
	Closing the Attainment Gap
COMMERCIAL	**RESOURCES**
Implementation of Mosaic Finance	Capital Programme
ICT Asset Management - Software	Accounts Closedown
ICT Programme Management	Internal Audit
ICT Governance	Legal – Childcare Internal Resourcing of Delivery
ICT Disaster Recovery and Business Continuity	People Strategy
Service delivery and Procurement	HR Services
ACCW Contract Management	SERCO HR admin, payroll and transactional services
Procurement	Talent, Resourcing & Learning
Network Infrastructure	Commissioned Services and Contract Management
ICT Physical and Environmental Security	Coroners
Transformation Programme	Registration and Celebratory Services
Network Asset Controls	Emergency Response
Incident Management	
Applications	
CORPORATE	**TRANSFORMATION PROGRAMME**
Media Management	Educational Travel
Internal Communications	Smarter Working
Engagement	Children in Care Transformation
Digital Engagement	Business Analytics and Visualisation
PLACE	**LINCOLNSHIRE FIRE AND RESCUE**
Economic Development	Prevention
Employment Skills and Adult Learning	Protection
Inward Investment	Response
Tourism	Risk Based Inspection Programme (Fire Protection)
Lincolnshire Infrastructure Strategy	Equality and Inclusion
Waste Management Strategy	Mental Health and Wellbeing
Lincolnshire Public Transport Network	
Network Management	
Events Management	
Highways 2020	
Highways Infrastructure	
Lincs Laboratory	
Design Services	
Archives	

Appendix B – Head of Internal Audit's Opinion

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

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

Our Internal Audit Strategy

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

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

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

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

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

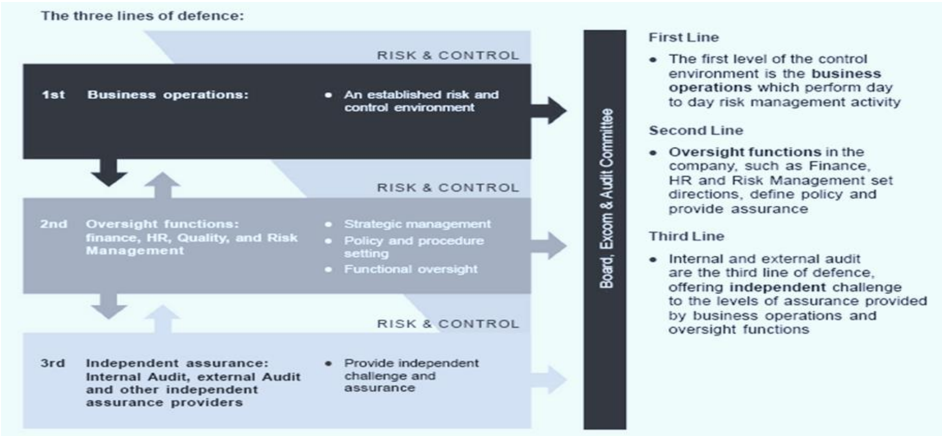
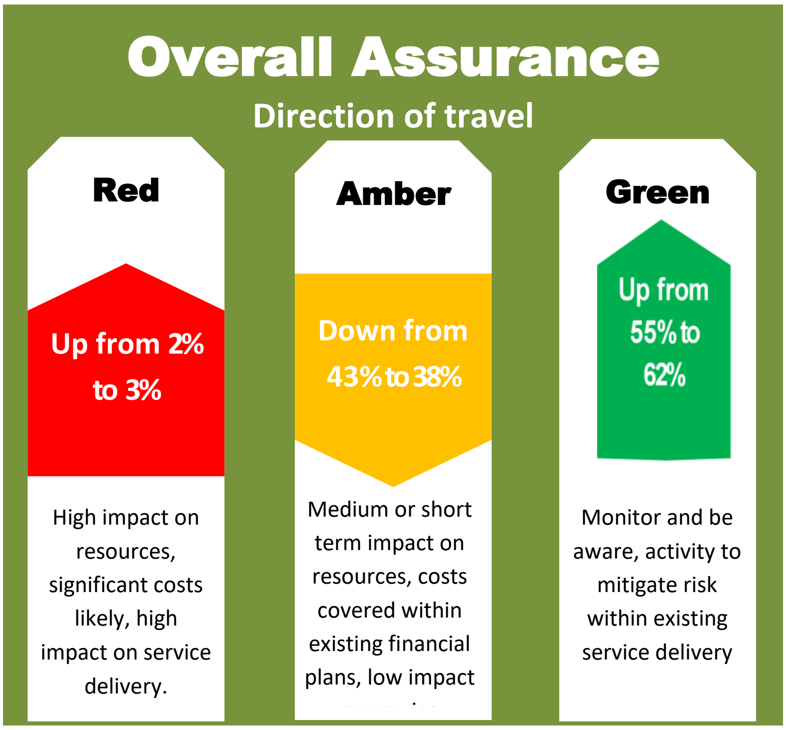


Figure 2 shows the overall percentage assurance levels on the Council's critical activities as at February 2022.

Our Internal Audit Strategy also seeks to co-ordinate our work with other assurance providers where we can. We liaise with External Audit to ensure the Council gets the most out of its combined audit resource – whilst recognising our different roles and remit.

Figure 2 – Combined Assurance Model



Appendix C – Working Protocols

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

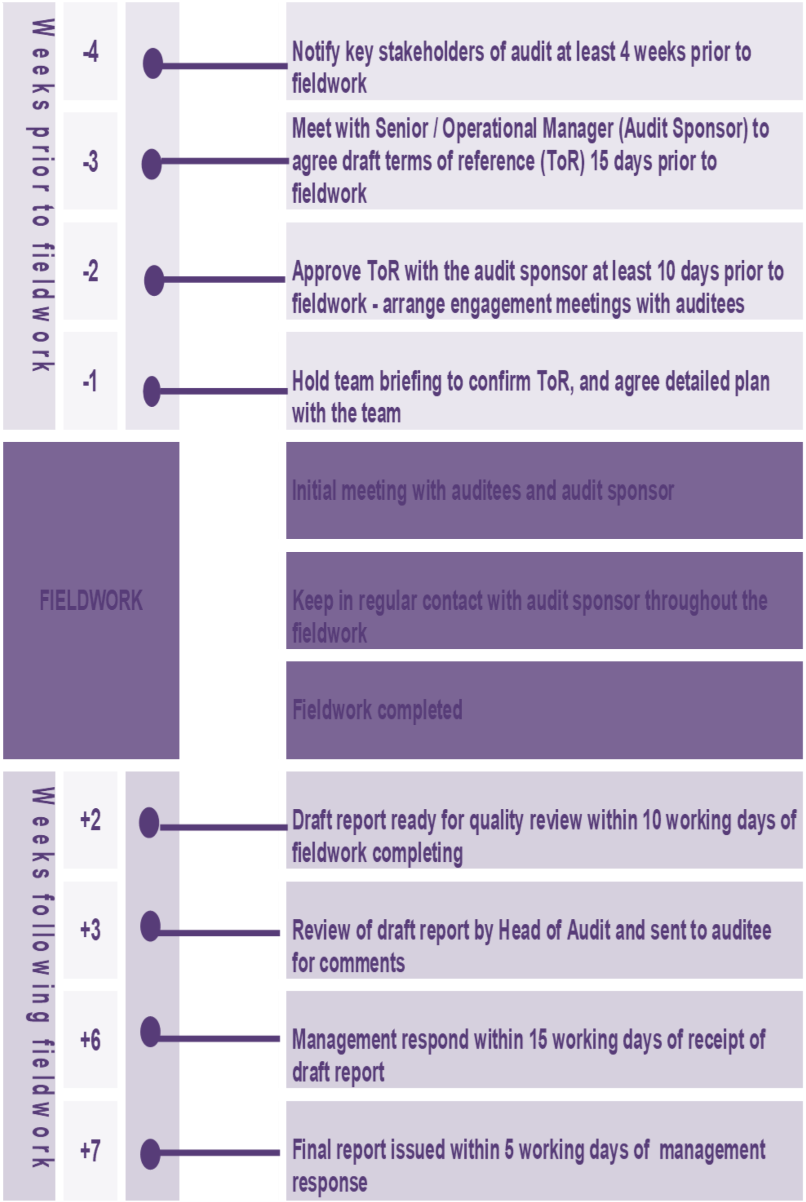
Our performance is monitored by the Section 151 Officer and the Audit Committee and measured against 3 key areas:

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

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

- Agreeing potential audit work for the forthcoming year
- Providing quarterly updates to evaluate progress and discuss activities and priorities for the next quarter.
- For individual audit engagements we hold planning meetings in person or via teams (our preference) by phone or email to discuss and agree the terms of reference and scope of our work.
- We keep you informed of key findings during the audit and upon conclusion we hold a debrief meeting in person or via teams to discuss our findings and any outstanding issues.
- We communicate the results of our audit work in a clear and concise way – securing management action where control improvements are needed.

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



Appendix D – Our Quality Assurance Framework

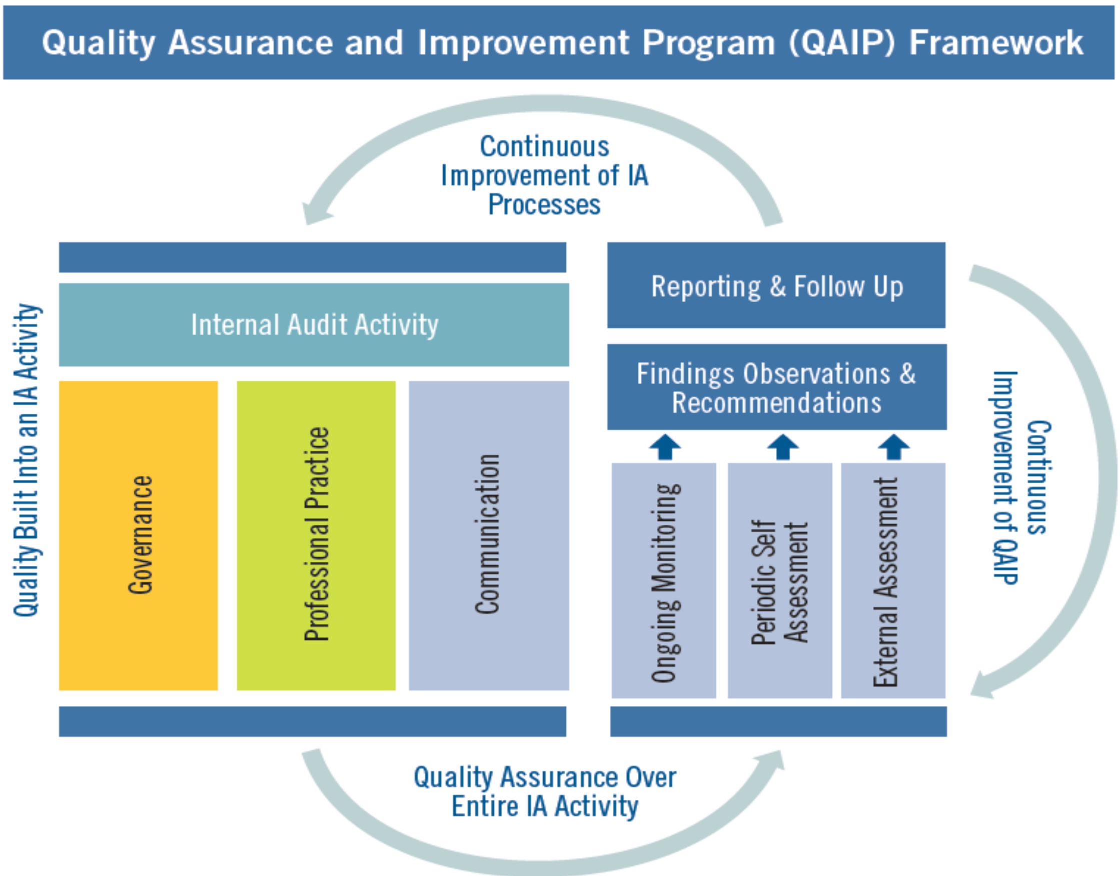
Quality is built into the way we operate – we have designed our processes and procedures to conform to best practice applicable to Internal Audit – in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

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

Our Quality Assurance Improvement Programme incorporates both the internal (self) and external assessments – this is a mandatory requirement and the Head of Audit reports annually on the results and areas for improvement. Our internal assessments must cover all aspects of internal audit activity. **The diagram below** shows how we structure our internal assessments to ensure appropriate coverage.

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

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



Assurance LINCOLNSHIRE
For all your assurance needs

Internal Audit Charter 2022-25

Our Mission

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight to our clients

The Council expects the Internal Audit service to achieve the mission statement through its overall delivery arrangements – this Charter sets out how this is done.

Internal Audit Charter

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Purpose of this Charter

This Charter formally defines Internal Audit's purpose, authority and responsibility. It establishes Internal Audit's position within the Council and defines the scope of Internal Audit activities.

Internal Audit's Purpose

Internal Audit provides an independent, objective assurance and consulting activity that is designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit also provides the Audit Committee with information necessary for it to fulfil its own responsibilities and duties.

Implicit in Internal Audit's role is that it supports the organisation's management to fulfil its own risk, control and compliance responsibilities.

Internal audit does not have responsibility for the prevention or detection of fraud and corruption. Internal Auditors should, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that a fraud or corruption may have been occurring. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Managing the risk of fraud and corruption is the responsibility of management

Internal Audit's Authority

There is a statutory requirement for the Council to have an internal audit of its governance, risk and control processes. The Accounts and Audit Regulations 2015, more specifically require that the audit takes into account the Public Sector Internal Audit Standards (**The Standards**) or guidance.

These Standards set the basic principles for carrying out internal audit in the public sector and provide criteria against which quality and performance can be evaluated. The Chartered Institute of Public Finance (CIPFA) have also developed an application note for the Standards – which sets out the proper practice for Internal Audit in local government.

Internal Audit derives its authority from these, from this Charter and from the Council's Constitution, specifically the Financial Regulations.

The Council's Section 151 Officer is required to ensure that the Internal Audit function is appropriately resourced and effective.

The Head of Internal Audit and Internal Audit staff are authorised to:

- Have unrestricted access to all the organisation's records, property, and personnel, management and elected members relevant to the performance of its engagements. Including those relevant to services provided in partnership or under contract with external organisations.
- Obtain the necessary assistance of the organisation's personnel in relevant engagements, as well as other specialised services from within or outside the organisation.

Internal Audit has no authority or management responsibility for any of its engagement subjects.

Internal Audit (and its auditors) will not make any management decisions or engage in any activity which could reasonably be construed to compromise its independence. Auditors are free from operational system involvement or influence.

Internal Audit Charter

Internal Audit's Responsibility

The Head of Internal Audit is responsible for all aspects of Internal Audit activity, including strategy, planning, performance, quality and reporting.

For each, the Head of Internal Audit will:

Strategy

- Develop and maintain an Internal Audit Strategy.
- Review the Internal Audit Strategy at least annually with management and Audit Committee.

Planning

- Develop and maintain an Internal Audit Strategy and risk based Internal Audit Plan.
- Engage with Management and consider the organisation's strategic and operational objectives and related risks in the development of the Internal Audit Plan.
- Review the Internal Audit Plan periodically with management to reflect changes in the risk environment and these changes are approved when significant.
- Present the Internal Audit Plan, including updates, to the Audit Committee for periodic review and approval.
- Prepare an Internal Audit Budget sufficient to fulfil the requirements of this Charter, the Internal Audit Strategy, and the Internal Audit Plan.
- Submit the Internal Audit Budget to the Audit Committee for review and approval annually.
- Coordinate with and (where relevant) provide oversight of other control and monitoring functions, including Risk Management, external audit.
- Consider the scope of work of the external auditors (and other assurance providers) for the purpose of providing optimal audit coverage to the organisation.
- The Head of Internal Audit should be consulted about significant proposed changes to the internal control system and the implementation of new systems - providing advice on the standards of controls to be applied. This need not prejudice the audit objectivity when reviewing systems at a later date.

In developing the Internal Audit Plan we also take account of the Council's assurance framework – using the Three Lines of Assurance (see below) which is obtained through our Combined Assurance work.

Internal Audit Charter

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Performance

- Implement and deliver the risk based Internal Audit Plan
- Maintain professional resources with sufficient knowledge, skills and experience to meet the requirements of this Charter, the Internal Audit Strategy and the Internal Audit Plan.
- Allocate and manage resources to accomplish Internal Audit engagement objectives.
- Engagements must be performed with proficiency and due professional care.
- Establish and maintain appropriate internal auditing procedures incorporating best practice approaches and techniques.
- Monitor delivery of the Internal Audit Plan against the Budget using appropriate performance indicators.
- Hold regular senior management / statutory officer liaison meetings.

Quality

- Establish a Quality Assurance Framework is to:
  - ✓ provide a system for monitoring and evaluating our effectiveness and conformance with the **Standards**.
  - ✓ ensure continuous improvement within the internal audit service.
  - ✓ ensure compliance with professional Standards, Code of Ethics and Council Codes of Conduct.
  - ✓ meet client expectations / demonstrate our importance to the business.
  - ✓ facilitate the Head of Audit's statement on conformance with the International Standards for the Professional Practice of Internal Auditing.
- Undertake annual assessment of the service and its compliance with the UK Public Sector Internal Audit Standards (the **Standards**) – with this assessment being undertaken through an external assessment at least every five years by a suitably qualified, independent assessor.
- Obtain regular feedback on the quality and impact of our work (added value).

The **Standards** are principles-focused and consist of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance. The ten **Core Principles** set out what we must do to be considered effective – all principles must be present and operating effectively to achieve our mission, they are:-

1. demonstrates integrity.
2. demonstrates competence and due professional care.
3. is objective and free from undue influence (independent).
4. aligns with the strategies, objectives and risks of the organisation.
5. is appropriately positioned and adequately resourced.
6. demonstrates quality and continuous improvement.
7. communicates effectively.
8. provides risk based assurance.
9. is insightful, proactive and future focused.
10. promotes organisational improvement.

Internal Audit Charter

Reporting

- Issue a report to management at the conclusion of each engagement to confirm the results of the engagement and the timetable for the completion of agreed management actions to be taken.
- Provide periodic reports to management and the Audit Committee summarising Internal Audit activities and the results of Internal Audit Engagements.
- Provide periodic reports to management and the Audit Committee on the status of agreed management actions taken in response to Internal Audit Engagements.
- Report annually to the Audit Committee and management on Internal Audit performance against goals and objectives including an annual assurance opinion on governance, risk and control.
- Report as needed to the Audit Committee on management, resource, or budgetary impediments to the fulfilment of this Charter, the Internal Audit Strategy, or the Internal Audit Plan.
- Inform the Audit Committee of emerging trends and practices in internal auditing.
- Provide results of the annual review on the effectiveness of internal audit (including outcomes of its Quality Assurance and Improvement programme to both the Management and the Audit Committee. This will include a statement on organisational independence of Internal Audit and conformance with the Code of Ethics. Any significant non-conformance must be included in the Annual Governance Statement.
- The Head of Internal Audit will meet informally in private with members of the Audit Committee or the Committee as a whole as required.
- Report as necessary any significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee or any response to risk by management that may be unacceptable to the organisation.

Internal Audit's Scope

The scope of Internal Audit activities includes all activities conducted by the organisation - Including those services provided in partnership or under contract with external organisations. There are no restrictions.

The risk-based Internal Audit Plan identifies those activities identified as the subject of specific Internal Audit engagements – helping to support the Head of Internal Audit opinion on governance, risk and control.

Assurance engagements involve the objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system or other subject matter. The nature and scope of the assurance engagement are **determined by Internal Audit**.

Consulting engagements are advisory in nature and are generally performed at the **specific request of management**. The nature and scope of consulting engagement are subject **to agreement with management** and should assist management in meeting the objectives of the organisation without undermining the key principles of independence and objectivity. Internal Audit should not assume management responsibility.

Consultancy engagements should only be performed where resources and skills exist and should focus on governance, risk and control – supporting the Head of Internal Audit annual opinion. They **should not** replace assurance engagements.

The Head of Internal Audit cannot give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control within their area of accountability. They should ensure that appropriate and adequate risk management, control systems, accounting records, financial processes and governance arrangements exist (the control environment), without depending on internal audit activity to identify weaknesses or control failures.

Internal Audit Charter

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For all your assurance needs

Independence and Internal Audit's Position within the organisation

To provide for Internal Audit's independence, the Head of Internal Audit reports directly to the Audit Committee (The Board) and the Corporate Leadership Team and the Chief Executive.

The Head of Internal Audit has free and full access to the Chair of the Audit Committee.

The Head of Internal Audit reports administratively to the Section 151 Officer who provides day-to-day oversight.

The appointment or removal of the Head of Internal Audit will be performed in accordance with established procedures.

Internal Audit service will have an impartial, unbiased attitude and will avoid conflicts of interest.

If the independence or objectivity of the Internal Audit Service is impaired, details of the impairment should be disclosed to either the Section 151 Officer, or the Chair of the Audit Committee, dependent upon the nature of the impairment.

The Internal Audit Service is not authorised to perform any operational duties for the organisation; initiate or approve accounting transactions external to the Internal Audit Service; or direct the activities of any organisation employee not employed by the Internal Auditing Service, except to the extent such employees have been appropriately assigned to Service or to otherwise assist the Internal Auditor.

Where the Head of Internal Audit is responsible for delivery of operational functions other than Internal Audit. External assurance is sought on these - overseen by the Section 151 Officer.

Constructive working relationships make it more likely that internal audit work will be accepted and acted upon – although the internal auditor does not allow their objectivity or impartiality to be impaired.

Audit Committee

The Audit Committee is a key component of the Council's governance framework providing an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. It provides independent assurance to the Council members of the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

For the purposes of the UK Public Sector Internal Audit Standards the Audit Committee performs the role of the 'Board'. The Audit Committee complies with CIPFA best practice standards through their terms of reference and work programme.

The Audit Committee will:

- Approve the internal audit charter.
- Approve the risk-based internal audit plan.
- Receive communications from the head of internal audit on internal audit activity's performance relative to its plan and other matters.

Internal Audit Charter

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Standards of Internal Audit Practice

Internal Audit will perform its work in accordance with the International Professional Practices Framework of the Chartered Institute of Internal Auditors, and further guided by interpretation provided by the Public Sector Internal Audit Standards (the **Standards**), the CIPFA Local Government Application note and the CIPFA publication on the "Role of the Head of Internal Audit". This Charter is a fundamental requirement of the Framework.

External Work

Assurance Lincolnshire provides internal audit services to a number of public sector external clients. Approval is sought from the Section 151 officer and the Audit Committee before entering into any significant engagement. The level and extent of external work is also reported in the approval of the audit plan and annual report.

The nature and extent of work for external clients is kept under review to ensure:

a) minimal impact on the audit work carried out for the Council, and;
b) there is no conflict of interest or impairment of independence arising from this work.

Approval and Validity of this Charter

This charter shall be reviewed in the event of changing best practice guidnance and approved by Management and by the Audit Committee as the Board of the organisation.

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