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County Offices
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17 March 2023

Audit Committee

A meeting of the Audit Committee will be held on **Monday, 27 March 2023** 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, 27 MARCH 2023

Item	Title	Pages
1	**Apologies for Absence**	
2	**Declarations of Members' Interest**	
3	**Minutes of the Audit Committee meeting held on 6 February 2023**	5 - 8
4	**Statement of Accounts 2022/23 - Accounting Policies** *(To receive a report from Sue Maycock (Strategic Finance Lead - Technical), which invites the Committee to approve the Statement of Accounting Policies, as detailed in the report)*	9 - 62
5	**External Audit Progress Reports - Lincolnshire County Council and Lincolnshire Pension Fund 2022/23** *(To receive a report from Mazars on the Council and Pension Fund External Audit for 2022/23)*	63 - 88
6	**Internal Audit Progress Report** *(To receive a report from Lucy Pledge, Head of Internal Audit and Risk Management, which provides the Committee with details of the audit work completed to March 2023)*	89 - 120
7	**Risk Management Progress report - March 2023** *(To receive a report from Lucy Pledge, Head of Internal Audit and Risk Management, which invites the Committee to consider the current status of the strategic risks facing the Council)*	121 - 136
8	**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)*	137 - 148
9	**CONSIDERATION OF EXEMPT INFORMATION** In accordance with Section 100 (A)(4) of the Local Government Act 1972, agenda item 10 has not been circulated to the press and public on the grounds that it is considered to contain exempt information as defined in paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended. The press and public may be excluded from the meeting for the consideration of this item of business.	
10	**Fraud Risk Register - update** *(To receive an exempt report from Lucy Pledge, Head of Internal Audit and Risk Management, which presents information on the Fraud Risk Register)*	149 - 158

Democratic Services Officer Contact Details

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

- Business of the meeting
- Any special arrangements

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, 27th March, 2023, 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
6 FEBRUARY 2023

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

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

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

Officers in attendance:-
Debbie Barnes OBE (Chief Executive), Andrew Crookham (Deputy Chief Executive and Executive Director - Resources), Andy Gutherson (Executive Director - Place), , Glen Garrod (Executive Director - Adult Care and Community Wellbeing), Heather Sandy (Executive Director - Children's Services), Lucy Pledge (Head of Internal Audit and Risk Management, Mark Baxter (Chief Fire Officer), Michelle Grady, (Assistant Director - Finance) and Thomas Crofts (Democratic Services Officer)

34 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor J King.

35 DECLARATIONS OF MEMBERS' INTEREST

There were no declarations of interest made at the meeting.

36 MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 14 NOVEMBER 2022

RESOLVED

That the minutes of the meeting held on 14 November 2022 be signed by the Chairman as a correct record.

37 COMBINED ASSURANCE REPORT

A report was submitted to the Committee on the Council's combined assurance status, with the Chief Executive and Executive Directors 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 provided an overall assurance level for the Council. The following matters were reported:

- The Council had experienced many pressures over the past 12 months, including increased demand in many Place based services, Children and Adults services; many health related services due to the pandemic; inflationary and cost-of-living pressures; and the increase of refugees, evacuees and migrants requiring settlement.

- The Government's financial settlement for 2022/23 was better than expected and has helped maintain service delivery and fund cost pressures .
- IT infrastructure was improving under the transformation programme and significant changes were underway in moving towards a cloud-based system, but more work to address capacity and capability was in progress
- The external audit report found good governance to be in place.
- Workforce markets had stabilised within social care. Work was underway to target international labour such as international university students, refugees, settled foreign nationals and foreign nationals struggling to move to the UK.
- Audits had found the Council's debt management to offer substantial assurances. Debts currently stood at £7-9 million.
- The backlog experienced by the Office of Public Guardian contributed to the Council's non secured debts and constituted a risk to the Council's financial situation.
- Pay inflation and fee rates were financial concerns for the coming year.
- Council contacts with SMEs in some areas had increased, which resulted in shorter-term contracts and greater administration. Short-term contracts also meant that many contract expiration dates would fall over the coming year, and fee increases were anticipated.
- The Council had been integrating services with the NHS via the newly established Integrated Care Board (ICB) and had established a good working relationship.
- There was a national shortage of public health nurses and social workers, and the Council had to take measures to remain a competitive employer in this area of work – prioritising flexibility and benefits.
- Costs had risen in the placement of children in care.
- Lincolnshire Fire and Rescue (LFR) had implemented an action plan for improvements in the protection function, business resilience and equality and diversity – with work underway to update policies and procedures alongside dedicated staff training and a culture review of accepted behaviours.
- LFR was facing challenges in staff retention.
- A business continuity plan had been specially devised to mitigate disruption to services as a result of industrial action in LFR.

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

- Medium-term contract inflation was anticipated with significant impacts on value for money. Risk management around value for money was a priority looking ahead over the next 2-4 years.
- Energy price inflation was anticipated to tail off in 2025.
- Social Workers had been employed by the Council via agencies to meet service needs due to adverse labour markets – with agency employed staff proving to be more costly.
- The flat rate pay settlement granted a greater proportional increase in pay to low grade posts within the pay spine.

- The Council did not currently use all of the apprenticeship levy, but had arrangements in place to increase uptake
- The Council's IT transformation was progressing in moving internal networks to a cloud-based system. IT services were to be brought in house at the end of the current contract with Serco to ensure greater control and integration.
- The new highways reporting systems ensure that previous reporting methods continued to exist alongside the new online tool. Reports had increased as a result of the implementation of the new system. The level of reporting presented a staff capacity issue.
- A business case had been drafted to aid joint working between the Council and the NHS under the ICB. Existing models were being investigated – including the Sommerset, Leeds and Northumbria models.
- The Healthy Minds initiative was being rolled out across schools throughout the county as well as greater support for SEND in mainstream educational settings.
- As the school system moved towards academisation, the Council was to take on a coordinator and influencer role as the education authority.
- Overall, the Council's risks had been reduced due to the Government's funding settlement, and the availability of Levelling-up and net zero grant monies. However, uncertainty remined concerning devolution and economic factors.
- Members welcomed the culture review underway in LFR and resolution to the previously existing leadership gap.
- It was clarified that on-call firefighters had to live within 5 minutes of the fire station, whether that be on foot or by vehicle.

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.

Cllr P Skinner gave apologies and left the meeting at this point.

38 DRAFT AUDIT COMMITTEE ANNUAL REPORT 2022

Consideration was given to a report which presented the proposed Annual Report of the Audit Committee for 2022 and sought approval for the Chairman to present this report to Council.

The Committee suggested that 'Independent Persons' be changed to 'Independent Added Persons' for clarity.

RESOLVED

That the Audit Committee Annual Report 2022 be presented to the Council for approval.

39 <u>WORK PROGRAMME</u>

RESOLVED

That the work programme be agreed.

The meeting closed at 12.42 pm

Lincolnshire COUNTY COUNCIL Working for a better future

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

Report to:	**Audit Committee**
Date:	**27 March 2023**
Subject:	**Statement of Accounts 2022/23 – Accounting Policies**

Summary:

This report summarises:

- Changes to the Code of Practice on Local Authority Accounting which will be incorporated into the 2022/23 Statement of Accounts for Lincolnshire County Council and the Lincolnshire Pension Fund;

- The broad requirements of the Accounts and Audit Regulations 2015, and the latest amendment to these regulations regarding reporting timescales;

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

Recommendation(s):

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

(1) Note the changes required to the Statement of Accounts from the Code of Practice 2022/23;

(2) Note the amended deadlines of 31 May 2023 for the preparation of draft accounts, and 30 September 2023 for publication of the audited Statement of Accounts 2022/23;

(3) Approve the Statement of Accounting Policies (Appendix A), the Accounting Policies within Disclosure Notes (Appendix B) to use in preparing the Council's accounts for the financial year ending 31 March 2023.

(4) Approve the Accounting Policies proposed not to be published (Appendix D) in the Council's accounts for the financial year ending 31 March 2023.

(5) Approve the Statement of Accounting Policies (Appendix C) to use in preparing the Local Government Pension Scheme (LGPS) Pension Fund accounts for the

financial year ending 31 March 2023.

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 2022/23 (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 2022/23: Lincolnshire County Council

1.2 The Code of Practice for 2022/23 has introduced some revisions and clarifications to the accounting requirements for the 2022/23 Statement of Accounts. For the main accounts, the key items are:

a) It is confirmed again that the provisions of IFRS 16 Leases must be implemented by local authorities in 2024/25. It is recognised that some authorities may wish to adopt the standard earlier, and a new guidance document covering the accounting requirements of IFRS16 has been published by CIPFA alongside the Code of Practice 2022/23. We intend to adopt the leasing standard from April 2024.

b) The Code confirms that the accounting treatment and disclosures required for infrastructure assets are currently provided in CIPFA Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution and this bulletin should be read alongside the Code guidance notes for local authorities with material infrastructure assets. The temporary solution, which allows us to omit the disclosure of gross value and accumulated depreciation of infrastructure assets, and also allows us to not account for the derecognition of replaced components for infrastructure assets where there is insufficient evidence to support the transaction, has not been adopted. This is because we have been accounting for the derecognition of infrastructure assets and believe that our disclosures are not misleading. We will continue to follow the Code of Practice in accounting for infrastructure assets, although we are clarifying our accounting policies relating to this area.

1.3 The Annual Improvements to IFRS Standards 2018-2020 includes a revision to IFRS 9 Financial Instruments, which clarifies an element of how a restructuring of debt should be accounted for, and this would come into effect in our 2022/23 financial year. We have not restructured any debt in 2022/23 so this amendment is not relevant for the 2022/23 Statement of Accounts but will be taken into account for any future debt restructuring.

1.4 The Annual Improvements to IFRS Standards 2018-2020 also includes a revision to IAS 16 Property, Plant and Equipment, which clarifies that if any items are sold in the course of preparing an asset for its intended use, then those sale proceeds cannot be deducted from the capital cost of bringing an asset into use but must instead be recognised as sale proceeds in the Comprehensive Income and Expenditure Statement. We do not have any instances of items being sold in these circumstances so this clarification is not relevant for our accounts.

1.5 There will also be changes in accounting standards in the future, which may impact on the Council in the 2023/24 accounts. The Chartered Institute of Public Finance and Accountancy (CIPFA) is expected to publish a bulletin which will interpret any future changes in accounting standards for the public sector. Once this is available, the impacts will be assessed and included in the 2022/23 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).

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 These regulations were previously amended to allow for longer timescales for the preparation, publication and audit of the accounts due to the impact of the Covid-19 pandemic. This additional leeway has now ended and the latest amendment to the regulations in 2022 reinstates the timescales which were in force prior to the pandemic.

1.8 The timescales for this year are as follows:

- The deadline for preparing draft accounts is 31 May for the 2022/23 accounts onwards.
- The deadline for publishing audited accounts is 30 September for the 6 years beginning with the 2022/23 accounts.

1.9 We are planning to present the draft Statement of Accounts 2022/23 to the Audit Committee on 19 June 2023 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 C** for consideration and approval by this Committee.

1.11 Two enhancements have been made to the accounting policies for 2022/23 which impact on the main accounts and these are marked in **bold** in **Appendix A.** They are:

- Accounting Policy 4 Property, Plant and Equipment. We've added a paragraph into this policy to clarify our approach to the derecognition of infrastructure assets. This is not a policy change but merely a clarification.
  Other changes have been made to the useful lives in section d depreciation part of the policy. We have expanded the table to include more types of infrastructure assets to reflect the best practice mentioned in CIPFA bulletin 12. We have not changed our useful lives, we have simply listed more types of infrastructure assets.
  We have been advised of improvements to how potholes are filled and as a result we have increased the useful lives for capital pothole filling from 1-3 years to 1-4 years.

1.12 There are no changes to the Code of Practice for 2022/23 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 C**.

1.13 Our accounting policies for 2022/23 have been reviewed as part of an exercise to streamline our Statement of Accounts. The concept of materiality has been considered and where transactions and balances are not deemed as material, the relevant policy has been removed. As our accounting policies are reviewed annually, we can reinstate any accounting policies that become material on a year by year basis.

1.14 For 2022/23 the following Accounting Policies will be removed from the Statement of Accounts. These policies are included in Appendix D and are proposed for approval by this Committee, which would allow them to be reinstated in the Statement of Accounts in either 2022/23 or future years if required:

- Donated Assets
- Inventories
- Contingent Assets
- Events after the Reporting Date (this would be reinstated if an event occurs)
- Exceptional Items
- Acquired and Discontinued Operations
- Section on the use of capital receipts to fund transformation projects (part of Property, Plant and Equipment)

1.15 The placement of accounting policies within the Statement of Accounts has also been reviewed and where it has been judged that further understanding and clarity can be enhanced by incorporating the policy within the relevant disclosure note, we have done so. The results are attached at **Appendix B** for consideration and approval by this Committee. We are liaising with External Audit to confirm that they have no issues with the changes proposed before the changes are implemented in the Statement of Accounts.

Conclusion

2.1 The amended accounting requirements, disclosures and timescales, as required by the Code of Practice and the Audit and Accounts Regulations will be incorporated into the Statement of Accounts for 2022/23.

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

Consultation

a) Have Risks and Impact Analysis been carried out?

No

b) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Statement of Accounting Policies for main financial statements 2022/23
Appendix B	Accounting Policies incorporated into Disclosure Notes 2022/23
Appendix C	Statement of Accounting Policies for LGPS Pension Fund financial statements 2022/23
Appendix D	Accounting Policies which are proposed not be published

Background Papers

Document title	Where the document can be viewed
CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2022/23	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

Our Accounting policies for 2022/23 have been reviewed as part of an exercise to streamline our Financial Statements. The concept of materiality has been considered and where transactions and balances are not deemed as material, the relevant Accounting Policy has been removed.

As our Accounting Policies are reviewed on an annual basis, we can reinstate any Accounting Policies that become material on a year by year basis. For 2022/23 the following Accounting Policies have been removed:

- Donated assets
- Inventories
- Contingent Assets
- Events after the Reporting Date
- Exceptional Items
- Acquired and Discontinued Operations

The placement of our Accounting Policies within our Financial Statements has also been reviewed and where it has been judged that further clarity can be achieved by incorporating the policy within the relevant Disclosure Note, we have done this.

This approach allows our significant Accounting Policies to remain together in one place where they can be referred to if required.

1. General Principles and Concepts

The Statement of Accounts summarises the Council's transactions for the financial year 2022-23 and the position at the year-end 31 March 2023. 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 2022-23 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).

De-recognition associated with depreciated historic cost assets
For assets subject to depreciation, which are carried at historic cost e.g. equipment and infrastructure assets, de-recognition takes place in the year after an asset has been fully depreciated. This represents the end of an asset's useful life. For infrastructure assets, no replacement of any part of an asset takes place before that component has reached the end of its useful life.

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-**4** years for capital pothole filling;
  - 6-12 years for carriageway **surface dressing** and slurry sealing;
  - **20 years for carriageways Primary Road Network (PRN) & Non PRN**
  - **20 years for Bus infrastructure**
  - **20 years for footways/cycleways**
  - **20 years for Public Right of Way (PROW)**
  - 20 years for street furniture;

- **20 years for Traffic Management**
- 40 years for street lighting, kerbs and drains;
- 60 years for major road structures **(i.e. sub base, underpasses)**;
- 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) Component Accounting for Property, Plant and Equipment

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

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

d) Disposal of Property, Plant and Equipment

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

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

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

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. 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.

7. 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.

8. 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.

9. 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.

10. 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.

11. 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.

12. 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.

13. 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.

14. 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.

15. 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).

16. 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.

17. 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.

18. 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.

19. 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.

20. Financial Instruments

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 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.

Financial Assets Measured at Amortised Cost

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

Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

- Secondary Certificates of Deposit and Bonds - are purchased at an amount different to par and hence a price premium is usually incurred on purchase. The price of the instrument is the amortised cost at initial measurement (its fair value) debited to Investments on the Balance Sheet. This price premium is factored into the 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.

<u>Expected Credit Loss Model – for Assets Measured at Amortised Cost</u>
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.

<u>Expected Credit Loss Model –For Assets Measured at Fair Value through Profit and Loss</u>
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.

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

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

Has credit risk increased significantly since initial recognition?

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

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

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

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

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

21. 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.

22. 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.

23. 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).

24. Accounting Policies now included within the relevant Disclosure Note

- Usable Reserves – within Note 12
- Unusable Reserves – within Note 13
- Heritage Assets – within Note 16

- Investment Properties – within Note 17
- Debtors – within Note 20
- Assets Held for Sale – within Note 21
- Cash and Cash Equivalents – within Note 22
- Creditors – within Note 23
- Provisions – within Note 24
- Private Finance Initiatives (PFI) and Similar Contracts – within Note 26
- Termination Benefits – within Note 37
- Contingent Liabilities – within Note 42

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APPENDIX B

Lincolnshire County Council - Accounting Policies within Disclosure Notes

NOTE 12. USABLE RESERVES

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

(TABLE)

NOTE 13. 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.

The following table summarises the Unusable Reserves held by the Council:

(TABLE)

NOTE 16. HERITAGE ASSETS

Heritage assets are **defined as** assets with historical, artistic, scientific, technological, geophysical or environmental qualities; that are held and maintained principally for their contribution to knowledge and culture.

The assets held by the Council which have been classed as Heritage Assets fall into three categories:

1) Windmills
The Council is responsible for four windmills: Alford Five Sail Windmill, Burgh le Marsh Windmill, Ellis Mill in Lincoln, and Heckington Windmill. All four windmills are operational, open to the public on a managed basis and usually staffed by volunteers. Each windmill provides value to the cultural heritage of the County, preserving unusual or even unique features such as Heckington Mill, which is the only surviving eight sailed mill in the country.

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.

2) Historic Buildings
The Council owns various historic buildings, the most famous of which is Lincoln Castle. The Castle was constructed by William the Conqueror on the site of a pre-existing Roman fortress. The Castle is open to the public and guided tours are available to give an insight into the history of Lincoln and Lincolnshire. Various cultural and entertainment events are also held at the Castle each year.
Also, the 12th century Temple Bruer Preceptory Tower, which was built to house the military order formed to guard the shrines of the Holy Land and protect pilgrims on the road. This site is managed by Heritage Lincolnshire on behalf of the Council.

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.

3) Collections
The Council owns and is responsible for more than three million items in its collections (held across libraries, museums and archives). These include physical and digital collections from all periods of Lincolnshire's history. **Collections include Fine Art Collection; the Tennyson Collection; Local Studies and Archive Collections; Lincolnshire Regiment, Militaria and Arms and Armour Collections; and Agriculture Collections.**

Many items are unique and of high cultural significance on a national or international scale (for example: the Tennyson collection, and the Bishops Rolls and Registers). Other items are of local interest for Lincolnshire.

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. Collections will be valued based on the insurance valuations held by the Council. Insurance valuations will be reviewed and updated on an annual basis.

The Council's collections bring a wealth of enjoyment and education to those living in Lincolnshire and beyond. The Council is legally obliged to protect significant elements of these collections but, importantly, their management and development ensures that the cultural heritage and life of the County are preserved for future generations and are available to the current generation.

The management and development of the collections is governed by the Council's Policy on Collection Management, which can be found on the Council's website in the Decision details area
http://lincolnshire.moderngov.co.uk/ieDecisionDetails.aspx?ID=350.

Depreciation is not charged on Heritage Assets.

a) Reconciliation of the carrying value of Heritage Assets held:

(TABLE)

(TABLE)

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.

b) Additions to Heritage Assets
There have been additions of £0.01m to Ellis Mill, £0.01m to Alford Windmill, £0.01m to Heckington Windmill and £0.05m to Burgh Le Marsh Windmill.

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). There have been no material disposals of Heritage Assets during 2021-22.

NOTE 17. 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.

For these purposes, the Council holds the County Farms estates and a small number of other general fund properties. The County Farms estate includes both freehold (owned by the Council) and leasehold (rented by the Council) properties.

a) Investment Properties Income and Expenditure

(TABLE)

There are no restrictions on the Council's right to the remittance of income for its investment properties. **Rental income 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.** The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.
Depreciation is not charged on Investment Properties.

b) Movement on Investment Properties

(TABLE)

(TABLE)

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

d) 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.

e) Revaluation Gains and Losses and Disposal of Investment Properties.
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.

f) Revaluations

The Council revalue investment properties annually to ensure that they are carried at fair value. All valuations are carried out by the Council's appointed Valuers - Savills (L&P Ltd) for the County Farms Estate and Kier Services for other general fund Investment Properties. Valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations are carried out as at 31 March each year to ensure all Investment Properties are carried at fair value at the Balance Sheet date.

g) Valuation Techniques Used to Determine Level 2 Fair Values for Investment Properties

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 approach for the other properties.

The market value approach takes into account the similar assets in the market, existing lease terms and rentals and market evidence, which comes from numerous sources. If there is more than one value available for the same property on different basis, the highest valuation figure is used. Included within the Fair Value Valuation Method on the County Farms assets, there are a number of ‘Special Assumptions’ that have been used, relating to the limitations and restrictions on sale. These assumptions apply to a proportion of the overall value and are unlikely to lead to a change in the estimated valuation.

The term and reversion approach takes into account the existence of an occupational lease, having regard to lease terms and conditions and assessing the Council's Valuer's opinion of the market rental value of each individual property, and then capitalising the market rent adopting a suitable yield, which again reflects the market evidence of property investment yields. This approach takes into account market circumstances and comparable market evidence.

NOTE 20. 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.

All figures included in the table below are shown net of impairment for doubtful debt.

(TABLE)

NOTE 21. 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.**

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

(TABLE)

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) 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.~~

NOTE 22. 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.

(TABLE)

NOTE 23. 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.

(TABLE)

NOTE 24. 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**

The County Council's accounting policy on provisions includes a de-minimis of £250k.

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.

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.

The below table shows an analysis of short and long term provisions:

(TABLE)

NOTE 26. PRIVATE FINANCE INITIATIVES (PFI) AND SIMILAR CONTRACTS

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

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.

Lincolnshire - Schools PFI Arrangement

a) Background
On 27 September 2001 Lincolnshire County Council entered into a 31 year PFI contract with Focus Education (Lincolnshire), for the construction and provision of seven fully serviced school premises across the county. The school sites were completed, and became operational, on a phased basis, as shown in the following table:

(TABLE)

The contractor is required to provide the school facilities to the specified standard (including school buildings and educational equipment). The school must operate within the policies of the Local Education Authority. The school facilities must be available and ready for use as a school during term time and the school day is specified as 8am to 7pm.

The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards.

The Council is required to pay compensation to the contractor if the contract is terminated early to cover: the senior debt, any redundancy costs incurred by the provider, and any future profit elements set out in the contractor's financial model.

The contract ends in 2032, at which time the school premises will transfer to the ownership of the Council at no further cost. The contract specifies the physical condition in which the premises must be transferred.

b) Property, Plant and Equipment Held under the PFI Contract
The table below shows the non-current assets held by the Council, and the movement in their values during 2021-22. These assets are included in the non-current assets shown in Note 15 Property, Plant and Equipment.

(TABLE)

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.

c. Liabilities Outstanding under the PFI Contract – Finance Lease Element
The following table shows the outstanding liability on the PFI Finance Lease, and the movement during 2021-22:

(TABLE)

d. PFI Contract Liabilities

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 following table shows a breakdown of the estimated contract costs over the remaining life of the PFI contract, split into the different elements of the total cost.

(TABLE)

NOTE 37. 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.

As a result of further reductions to local government funding, the Council is undertaking a review and reshaping of services. In 2021-22 the Council has incurred liabilities of £2.054m (£0.966m in 2020-21) in relation to termination benefits.

- £1.318m for redundancy payments (£0.619m in 2020-21); and
- £0.736m for pension strain (£0.347m in 2020-21).

Further information on termination benefits can be found in Note 36 on Exit Packages which details the number of exit packages and total cost over bands and Note 29 on Defined Benefit Pension Schemes which details the effect termination benefits have had on pensions in 2021-22.

NOTE 42. 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.

At 31 March 2022 the Council has the following material contingent liabilities:

Appendix C

Lincolnshire Pension Fund Significant Accounting Policies 2022/23

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) <u>Distributions from pooled funds</u>

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) <u>Changes in the net market value of investments</u>

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

<u>Fund account – expense items</u>

<u>d. Benefits payable</u>

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

<u>e. Taxation</u>

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).

<u>f. Management expenses</u>

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) <u>Administrative expenses</u>

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) <u>Oversight and Governance</u>

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) <u>Investment management expenses</u>

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 Morgan Stanley Investment Management Ltd (for the Private Markets Portfolio) 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 the most recent 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 are not produced by the manager at 31 March, then the latest available valuation is used, adjusted for purchases and sales which occur between the valuation date and 31 March.

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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Lincolnshire County Council - Accounting Policies which are proposed not to be published

1. 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.

2. 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.

3. 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.

4. 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.

5. 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.

6. 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.

Open Report on behalf of Andrew Crookham, Deputy Chief Executive & Executive Director – Resources

Report to:	**Audit Committee**
Date:	**27 March 2023**
Subject:	**External Audit Progress Reports – Lincolnshire County Council and Lincolnshire Pension Fund 2022/23**

Summary:

Our external auditors, Mazars LLP, present a planning update and progress reports for both Lincolnshire County Council and the Lincolnshire Pension Fund. This covering report briefly summarises the content of these reports.

Recommendation(s):

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

1. Background

1.1 Our external auditors, Mazars LLP, have prepared two reports which provide a planning update for the 2022/23 audit and a progress report on both the 2021/22 and 2022/23 audits. These reports cover Lincolnshire County Council's main accounts and the Lincolnshire Pension Fund's accounts. The purpose of the documents is to inform the Audit Committee of the current position regarding the audits for 2021/22 and 2022/23, and to set out some further planning information. The external auditors intend to bring their Audit Strategy Memoranda to the June Audit Committee meeting.

1.2 Members of this committee will be aware that there has been a delay to completing the audit of the 2021/22 accounts due to an accounting issue about infrastructure assets. This issue impacts on all authorities with material values of infrastructure assets. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued guidance on the matter in early January 2023 and has issued a bulletin (CIPFA Bulletin 12) which provides further guidance on how to deal with the issue in the 2021/22 accounts.

1.3 CIPFA Bulletin 12 provides a temporary solution (a statutory override to the Code of Practice requirements) for those authorities which have not been derecognising infrastructure assets when they are replaced. The solution allows for the disclosure of gross value and accumulated depreciation of infrastructure assets to be omitted from the accounts and allows for replaced components for infrastructure assets not to be derecognised where there is insufficient evidence to support the transaction.

1.4 We have chosen not to adopt the statutory override and continue to derecognise infrastructure asset components when they reach the end of their useful lives. We have also continued to disclose the gross value and accumulated depreciation of infrastructure assets. The external audit progress report for Lincolnshire County Council refers to this issue on page 7 and explains that it has impacted on the timescales for the 2022/23 audit.

1.5 The progress report for the Lincolnshire Pension Fund confirms that the 2021/22 audit is substantially complete and is now awaiting the completion of the Lincolnshire County Council audit for 2021/22.

1.6 Section two of Appendix A Lincolnshire County Council Audit Progress Report sets out the status of external audits. For the financial years which have already completed, it confirms that:

- The 2020/21 audit is complete except that Mazars are awaiting a decision from the National Audit Office about which authorities will be selected to undergo additional audit procedures relating to Whole of Government Accounts. When this has been resolved an Audit Certificate will be issued and the audit will be closed.
- The 2021/22 audit is not complete and there are two issues outstanding. Mazars need to complete the audit of infrastructure assets, as referred to earlier in this report, and they are awaiting instructions from the National Audit Office regarding Whole of Government Accounts. When these issues have been resolved, Mazars will issue an Audit Completion Report, an Audit Report (including the audit opinion), an Annual Auditors Report and the Audit Certificate. The audit will then be closed.

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

2. Conclusion

2.1 The external audit progress reports provide brief detail on the progress of both this year’s and last year’s audits. They provide members of the Audit Committee with an opportunity to ask questions of the External Auditors at the meeting.

3. Consultation

a) Risks and Impact Analysis

N/A

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire County Council Audit Progress Report – March 2023
Appendix B	Lincolnshire Pension Fund Audit Progress Report – March 2023

5. Background Papers

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

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

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Appendix A

Audit Planning Update and Progress Report

Lincolnshire County Council

Audit Committee March 2023

mazars

Audit Progress Update – Year ending 31 March 2023

Dear Committee Members,

We are pleased to present this Progress Report for the year ending 31 March 2023. The purpose of this document is to summarise the current position regarding the audit and to inform you as follows:

1. A reminder about our Engagement Responsibilities as your external auditor, including changes in the Audit Team
2. Position statement on the financial statement audit
3. Position statement on our work in relation to value for money arrangements at the Council
4. Recent national publications

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 at mark.surridge@mazars.co.uk.

Yours faithfully

Mark Surridge

Mazars LLP

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

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 County Council (the Council) for the year to 31 March 2023. 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.

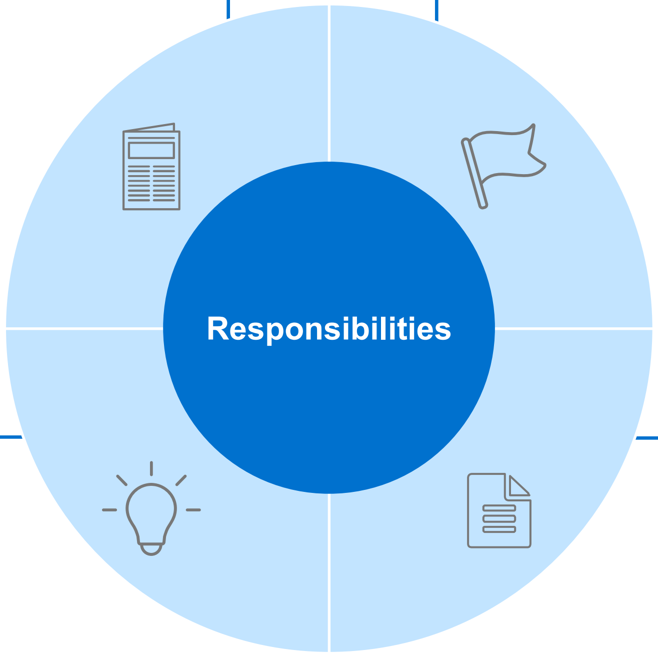
Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.



Value for money

We are also responsible for forming a commentary on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources.

Wider reporting and electors' rights

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

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

02

Section 02:

Financial Statement Audit

2. 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 activities 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 the risks identified.

Significant risk

Significant risks are those risks assessed as being close to the upper end of the spectrum of inherent risk, based on the combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. Fraud risks are always assessed as significant risks as required by auditing standards, including management override of controls and revenue recognition.

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:

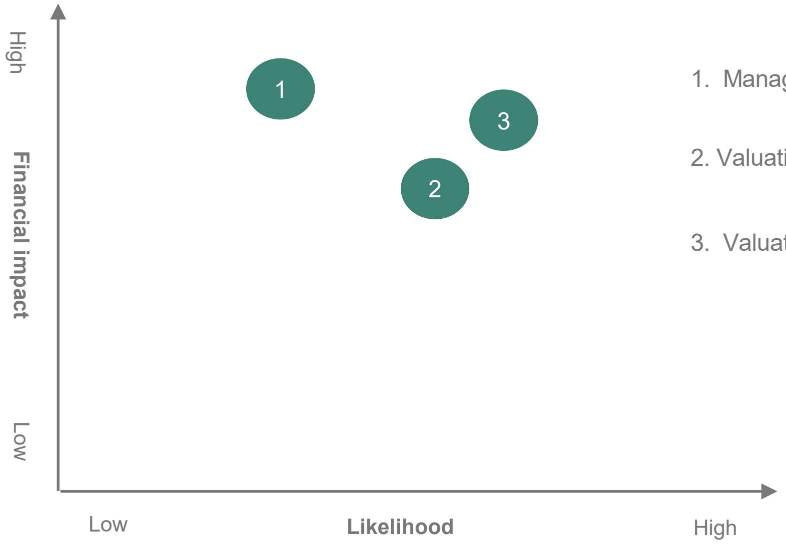
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

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 – March 2023

The summary risk assessment, illustrated in the table below, highlights those risks which we judged to be significant when planning the audit in March 2023:



1. Management override of controls
2. Valuation of the net defined benefit liability
3. Valuation of property, plant and equipment

Key: Significant risk

2. Audit scope, approach and timeline

Current Status - 2020/21 Audit

We presented our Audit Completion Report for 2020/21 to the September 2021 meeting and noted a number of areas of work as remaining outstanding at that point in time. On the 29th November 2021 we issued our Follow-up Letter to this report setting out our progress against these matters. We have summarised below the current position on the key elements of our work that still remain outstanding:

Whole of Government Accounts (WGA)

Whilst the National Audit Office has issued its auditor instructions for the 2020/21 WGA process, they are yet to decide on a sample of authorities to undergo additional audit procedures.

Audit Certificate

The Audit Certificate will be issued, and the audit formally 'closed', when the remaining stages set out above have been completed.

Current status – 2021/22 Audit

Audit Reporting

Our main reporting outputs from our work will continue to be:

- **Audit Completion Report** – summarising the outcome of our main accounts audit and expected audit opinion.
- **Audit Report** – encompassing our Audit Opinion on the financial statements and other required information.
- **Annual Auditor's Report** – including our Value for Money Commentary
- **Audit Certificate** – formally closing the audit

Financial Statements

We received the Council's draft financial statements on 6th July and our audit commenced on this date. Our work is progressing well although there are a small number of areas of work that still remain in progress, which we set out in the table below.

Audit area	Status	Description of outstanding matters
Infrastructure Assets NBV as at 31/03/22 = £670,494k	Incomplete	Accounting for infrastructure in local government has not historically been considered to be an area of significant audit risk, due to the inalienable nature of the assets and the use of a historical cost basis of accounting. However, concerns have been raised that some authorities are not applying component accounting requirements appropriately. The issue raised is in relation to the derecognition (removal of the carrying amount) of parts of infrastructure assets when replacement expenditure is undertaken. There are also related issues for the reporting of gross historical cost and accumulated depreciation. Infrastructure assets are one of the few categories of property, plant and equipment assets measured at historical cost. Normal custom and practice for infrastructure assets is that derecognition does not affect asset balances because the assets are expected to have been fully used up before the replacement expenditure takes place; this does require that assets are properly depreciated in line with the requirements of the Accounting Code. This issue arises in part because of limitations on historical information relating to when the assets were first recorded on balance sheets in the early 1990s, and where there have been transfers of assets because of local authority reorganisations. It is also extremely difficult to clearly identify the parts of the assets which are being replaced. A temporary solution was put in place via a statutory override with guidance released in January 2023. We asked the Council to review its fixed asset register for infrastructure assets and to ensure suitable records were in place to support the balance, including compliance with relevant accounting standards. Following this review, the Council has opted to not apply the statutory override and has decided to try and demonstrate they account for it properly. This has meant an additional amount of work to be undertaken by the audit team to gain the relevant assurances required in respect of the Council's Infrastructure asset balances included on their balance sheet. This causes a knock on effect delay to the 2022/23 financial audit.
Whole of Government Accounts (WGA)	Incomplete	NAO Group Instructions for local authority audits are not yet available and WGA returns and audit certificates cannot be issued at the present time.

2. Audit scope, approach and timeline

Current status – 2022/23 Audit

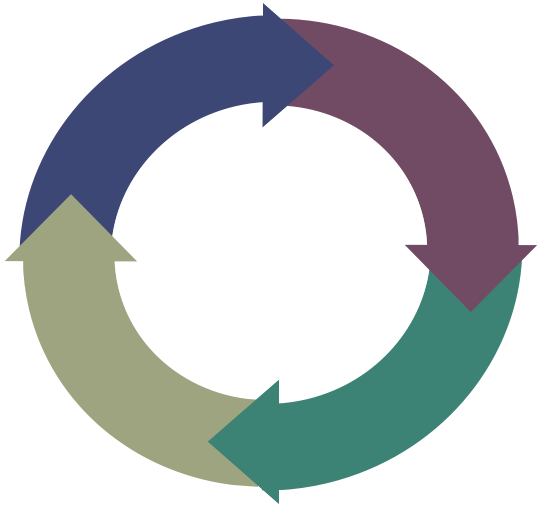
The delay to the 2021/22 audit impacts the timetable for reporting 2022/23. Whilst we intend to prioritise the completion of your audit to support effective system working and handover to a new auditor for 2023/24, there are clear consequences from these delays on our entire resource portfolio to contend with.

Planning and risk assessment **(February - March 2023)**

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Risk assessment analytical procedures
- Determination of materiality

Interim **(July 2023)**

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls and application controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary
- Initial value for money risk assessments



Completion **(November – December 2023)**

- Final review and disclosure checklist of financial statements
- Final quality control reviews
- Agreeing content of letter of representation
- Issuing Audit Completion Report to those charged with governance
- Reviewing subsequent events
- Signing the auditor's report
- Issuing the Annual Auditor's Report

Fieldwork **(July – October 2023)**

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Reviewing assurances provided by 3rd party service organisations
- Communicating progress and issues
- Clearance meeting
- Completing Value for Money (VFM) risk assessment

03

Section 03:

Value for money

3. Value for money

The framework for Value for Money work

We are required to form a view as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider. Our responsibility is to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

Specified reporting criteria

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

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

Our approach

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

Planning and risk assessment

Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and members

Additional risk-based procedures and evaluation

Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.

Reporting

We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.

Our commentary will also highlight:

- Significant weaknesses identified and our recommendations for improvement
- Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

A

National publications

National publications

	Publication/update	Key points
National Audit Office (NAO)		
1	Good practice in annual reporting	The NAO published an interactive guide that provides examples of good practice in annual reporting.
Department for Levelling Up, Housing and Communities		
2	Department consultation – public inspection of Category 1 authority accounts 2022/23	The Department for Levelling Up, Housing & Communities (DLUHC) is requesting views on the current deadline for category 1 authorities to make their draft accounts available for public inspection.

National Audit Office

1. Good practice in Annual Reporting – February 2023

The NAO has published an interactive guide that provides examples of good practice in annual reporting, drawing on examples from the public sector and other organisations shortlisted for the Building Public Trust Awards, which recognise trust and transparency in corporate reporting.

The guide draws on examples of good practice for annual reporting from organisations who are leading the way in this area. These examples are grouped by the sections of an annual report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

It also provides further examples where bodies have made their reports easier to understand with the use of graphics, clear and accessible language and signposting. The list is not definitive, but the NAO hopes it provides ideas for all bodies in both the public and private sector to think about as they plan their annual reporting for 2022-23.

NATIONAL PUBLICATIONS
Department for Levelling Up, Housing and Communities

2. Department Consultation on public inspection of Category 1 authority accounts 2022/23 – February 2023

In March 2021 The Accounts and Audit (Amendment) Regulations 2021 amended the requirements about when accounts must be made available for public inspection for the 2020/21 and 2021/22 accounts, and provided that the period for the exercise of public rights needed to commence on or before the first working day in August in the following financial year.

For 2022/23, the statutory requirement for category 1 authorities is to make accounts available for public inspection for a period that includes the first 10 working days of June, effectively requiring them to be published by 31 May at the latest.

The Government is minded for this deadline to remain in place, but is interested in hearing stakeholders views via a short consultation.

https://consult.levellingup.gov.uk/redmond-response-team/request-for-views-draft-accounts-deadline/

Mark Surridge,

Key Audit Partner

Mazars

2 Chamberlain Square

Birmingham

B3 3AX

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

*where permitted under applicable country laws.

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Audit Progress Report

Lincolnshire Pension Fund

February 2023

mazars

Contents

01

Section 01:

Audit Progress

1. Audit Progress

This report sets out progress on the external audits for 2021/22 and 2022/23. It also includes a summary of recent publications that the Pensions Board and Audit Committee may find useful.

2021/22 Audit

Our work on the 2021/22 audit is complete apart from our final checks on the version of the accounts that we will be giving our opinion on. As reported in our Audit Completion Report we anticipate issuing an unqualified opinion, without modification, on the financial statements. We also anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of Lincolnshire County Council. We will be giving our opinion alongside the opinion given on the Council's main accounts where the final elements of our audit are currently being completed.

2022/23 Audit

We have commenced our planning work for the 2022/23 audit year. We are liaising with the finance team and completing our normal procedures plus those required by ISA315 (revised) through February and March. We expect to present our Audit Strategy Memorandum (ASM) to the Audit Committee meeting on 19 June 2023. On the following page we set out our initial provisional timetable for our work on the financial statements. We will agree the specific timetable with the finance team as part of our audit planning discussions. We have set out below some initial thoughts and expectations based on our initial planning work.

Materiality

At this stage of our planning work we envisage materiality being broadly in line with the level we used in our 2021/22 audit work. We therefore expect to set a similar materiality threshold at 1% of net assets for 2022/23. Our initial assessment of performance materiality is that it will also be at the same level as 2021/22, i.e. 80% of overall materiality. We also intend setting a provisional specific materiality for the fund account using a benchmark of the higher of 10% of contributions receivable and 10% of benefits payable as we did for 2021/22. Should any circumstances arise as we finalise our planning that mean we revise these initial views we will report these in our ASM.

Identified risks

As previously mentioned we have not yet completed our planning work, however the previous year's risks (management override of controls and valuation of investments within level 3 of the fair value hierarchy) are likely to apply equally this year.

Audit progress

1. Audit Progress

Financial statements audit 2022/23

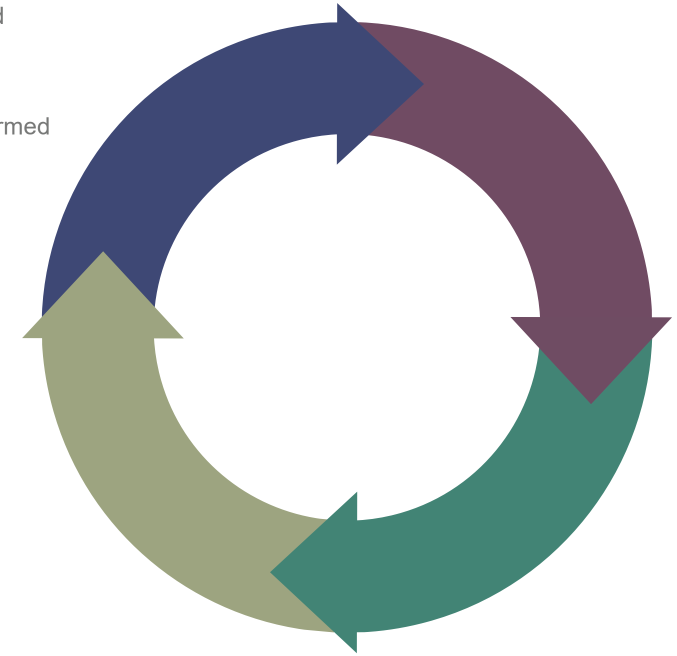
We intend to bring our Audit Strategy Memorandum to the Audit Committee meeting in June 2023. The timeline for the 2022/23 audit is set out below. We will update the Committee if these deadlines change over the course of the year.

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 November - December

- 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 - October

- 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

Contact

Mazars

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

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Open Report on behalf of Andrew Crookham, Deputy Chief Executive & Executive Director – Resources

Report to:	**Audit Committee**
Date:	**27 March 2023**
Subject:	**Internal Audit Progress Report**

Summary:

The purpose of this report is to:
- Provide details of the audit work completed to 1st February 2023.
- Advise on progress of the audit plan
- Raise any other matters that may be relevant to the Audit Committee

Recommendation(s):

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

Background

This paper covers the period 1st October 2022 to 1st February 2023 and reports on progress made in our audit plans.

Our progress report is attached in appendix A and shows:

- Reports issued
- Assurance opinions including a summary
- Performance indicators

- Other matters of interest
- Outstanding audit recommendations via our tracker report
- 2022/23 audit work to date
- Changes to the Plan

We have issued 3 substantial assurance opinions and 3 Consultancy reports, with a further 8 audits at draft report stage. We have 11 further audits at fieldwork stage. We have also completed reviews of 6 maintained schools during this period. All audits within the revised Internal Audit plan have commenced.

We have completed 83% of the audit plan for 2022/23. We operate a flexible planning approach with our audit plan updated quarterly based on risk and impact. We have made some changes to our audit schedule / plan following review and Senior Management requests.

Whilst our workforce strategy is showing results – staff changes / vacancies and the secondment of an experienced Principal Auditor to the BW project has impacted on our performance. Some audits have taken longer to deliver – we anticipate performance on timescales improving in 2023/24.

We are currently tracking 12 audits to monitor the implementation of agreed management actions. Of the 51 actions, 28 (55%) are completed and 16 (31%) are not yet due. Of the 7 outstanding actions (14%) there is 1 High priority and 6 that are Medium priority action outstanding. All outstanding actions related to areas with Substantial Assurance.

Appendix A – shows our Internal Audit Progress Report March 2023.

Conclusion

The audit plan has been revised to reflect current risk, priorities and requests for alternative reviews. All planned audits have commenced.

Delivery is behind plan due to a focus on induction and training of new members of staff. We expect performance to improve in 2023/24.

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 March 2023

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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Appendix A

Internal Audit

Progress Report

Lincolnshire County Council
March 2023

Assurance LINCOLNSHIRE
For all your assurance needs

Lincolnshire County Council
Working for a better future

Contents

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Matthew Waller – Audit Manager
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Introduction

The purpose of this report is to:

- Provide details of the audit work during the period 1 October 2022– 1 February 2023
- 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

Since our last update report presented to the Audit Committee in November 2022 we have completed the following audits:

Substantial:

- Microsoft Office 365 security
- Low Value Highways Insurance claims
- Economic Development – Allocation of Covid Grants

Consultancy:

- Mosaic Follow up (Abacus Payment System)
- LCC Procurement review (Kier tender)
- Ukrainian Settlement scheme

Audit reports at draft

- Recruitment & Retention (initial data analytics work only)
- Corporate Plan and Success Framework
- IT Payments systems (consultancy)
- Green Masterplan
- Good Governance review
- Economic Development – Capital Project Decision Making
- Adults Financial Assessments
- LFR Procurement card usage

0
HIGH ASSURANCE

3
SUBSTANTIAL ASSURANCE

0
LIMITED ASSURANCE

0
LOW ASSURANCE

3
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:

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Key Messages

Progress and Delivery

We continue to deliver assurance on the 2022/23 audit plan agreed at March Audit Committee. We have eight reports at draft stage and a significant number of other planned audits are underway. We have completed reviews of six maintained schools during this period. All audits within the revised Internal Audit plan have commenced and further detail can be found at Appendix 2.

Additional work requested through our liaison with Senior Management includes:

- Review of educational transport - To provide an independent review of single occupancy transport, eligibility compliance and SEN children in the County.

We have also deferred the review of Transformation Programme - Benefits Realisation. This is due to the ongoing work of the team to bring together both cashable and non cashable benefits into a more structured, reportable view. Oversight of progress of this work and programme is undertaken by both the Corporate Leadership Team and Executive. Our assurance work will be undertaken in late 2023/24 when it will provide more added value. We continue to attend the Transformation Board meetings to provide independent advice and support.

Whilst our workforce strategy is showing results – staff changes / vacancies and the secondment of an experienced Principal Auditor to the BW project has impacted on our performance. Some audits have taken longer to deliver – we anticipate performance on timescales improving in 2023/24.

Combined Assurance

We have worked with the senior leadership team to produce the annual combined assurance report. This process involved discussion and intelligence gathering across the Council and provides Members and Management with an overview of the Council's assurance across critical activities, key projects, key partnerships and key risks. This report was presented to Audit Committee on 6th February 2023 and will support the Head of Internal Audit's Annual Governance Statement and the development of the 2023/24 Internal Audit plan.

Staffing changes

We have had a recruitment exercise which has led to the successful recruitment of an Audit Manager, an Audit Principal and two Senior Auditors. All these roles will further enhance and develop the services quality, performance, capacity and capability to meet client needs and remain an effective forward-thinking service.

We are developing a number of our existing Senior Auditors and Audit Officers through the apprenticeship scheme which is paying dividends. We are also working with our Finance colleagues and engaging with the Local Government national graduate scheme.

Introduction

The purpose of this report is to:

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Key Messages

An experienced Principal Auditor has been seconded back into the BW project to support the implementation and assurance work for go-live in April 2023.

As you're aware Lucy Pledge will be leaving Assurance Lincolnshire on the 30th March 2023. She will be retiring from the role as Head of Audit and Risk Management having helped build the Assurance Lincolnshire partnership into the success it is today. Following a successful recruitment process, we are delighted to confirm that Claire Goodenough has been appointed as Head of Audit and Risk Management at the County Council – heading up the Assurance Lincolnshire Partnership. Claire has a good background of working within the public sector at a senior level and with the Institute of Internal Audit. Claire joined the team in January to enable a detailed handover. We hope you will all join us in welcoming Claire as she begins her Assurance Lincolnshire journey.

Changes to the Audit Schedule (plan)

We operate a flexible planning approach with our audit plan updated quarterly – based on risk and impact. We have made some changes to our audit schedule / plan. We have deferred the following audits to 2023/24:

- Contract Management
- Budget Management
- Capital Projects – financial resilience & decision making
- ICT PSN Compliance
- Payroll
- Transformation Programme – benefit reaslisation

We have added the following audits:

- Ukraine Refugee Settlement
- Procurement – Lessons Learned
- Education Transport
- Acquisitions & Disposals
- Payment Systems – Lessons Learned

The rationale for the changes is shown in **Appendix 3.** These changes will not adversely impact the Head of Internal Annual opinion.

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period 1 October 2022 – 1 February 2023
- 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

Outstanding Recommendations

We are currently tracking 12 audits to monitor the implementation of agreed management actions. Of the 51 actions, 28 (55%) are completed and 16 (31%) are not yet due.

Of the 7 outstanding actions (14%) there is 1 High priority and 6 that are Medium priority action outstanding. All outstanding actions related to areas with **Substantial Assurance.**

Progress has been made on the implementation of the overdue actions and we have received reasons why these have not been completed together with new completion dates – these are all by the 30th April 2023 at the latest.

(see **Appendix 4** for more detail.).

Substantial Assurance

Microsoft Office 365 Security

Overall, the arrangements for M365 security and configurations are adequate with some improvements needed in the application of controls to manage risks. The LCC M365 configuration was benchmarked against the CIS Microsoft 365 Foundations benchmark. We found no issues relating to:

- Application Permissions
- Data Management
- Email Security
- Storage

We found that some improvements could be made in the areas below:

Elements of Azure Active Directory that facilitate M365 authentication and authorisation

Although Council policy is to enforce Multifactor authentication (MFA) for all administrative accounts, it was not enforced by default for the various role types that are present in the available built-in directory administrative roles within M365. The benefit of MFA is that, when deployed, it will enhance the Council's security by requiring users to identify themselves by more than a username and password.

We also found that Guest accounts within the LCC M365 deployment (e.g. for external partners such as the NHS and other Local Authorities) do not have expiration dates applied and are not periodically reviewed according to best practice in order to ensure active accounts are still required.

Finally Password settings for mobile devices were not aligned to Council policy.

Auditing Capabilities

Microsoft 365 audit log search and mailbox auditing were enabled; however, at the time of fieldwork, built-in reports to support security and administration were not being reviewed as often as the guidance recommended. The review of audit log reporting can help security teams to identify and investigate potential security incidents.

Substantial Assurance

Low value Highways Insurance claims

Our review confirmed that the procedures followed to process low value claims is working well, resulting in an assurance opinion of Substantial.

Areas of strong governance and sound controls include:

- the Evo system mitigates human error, through automated workflows and tracking of the claim life cycle. Regular reports are produced to monitor claim progress and for oversight by the Insurance and Risk Manager.
- segregation of duties throughout the claims process, including review and authorisation to pay a claim from Legal Services.
- protection against fraudulent claims, through ensuring appropriate evidence is received, retained and actual on site checks are completed by the Highways team.
- allowance for work to be quality checked before the claim is awarded.

Our testing identified that the Insurance & Risk team were not always closing claims promptly. Claims that are repudiated should be closed 90 days after last contact with the claimant. This ensures that liability against the Insurance Fund is kept as up to date as possible.

We have suggested some minor improvements to further enhance the governance around the claims system in Legal Services.

Substantial Assurance

Economic Development – Allocation of Covid grants

Our review has confirmed effective processes were in place for the assessment and management of both the Business Recovery Grant and Digital Voucher Scheme.

Areas of effective control include:

- Criteria for both grant schemes are clearly outlined within guidance and provided to applicants and officers administering applications.
- Effective management oversight was in place to ensure compliance; management were involved in decision making and authorisation of individual applications where required.
- Adequate measures were in place for the authorisation of Business Recovery Grant payments, and no duplicate payments have been identified across either scheme
- Initial national fraud checks were carried out on applications across both schemes in conjunction with the Council's Fraud Team. In addition, a potential fraud was identified by the Economic Development Team during a review of applications, demonstrating the robustness of the application and assessment process. The case was promptly passed to the Counter Fraud & Investigations Team for investigation and has subsequently resulted in criminal proceedings.

We did identify some areas of improvement. We have recommended improving recovery action for a small number of applications that did not fulfil the full requirements of the Digital Voucher Scheme, and total £13k altogether. We also found that declarations of interest were not completed by members of staff validating and approving business grants. Staff were not reminded of the requirement or asked to make a declaration/sign a conflict of interest form stating whether they had any connections with any of the business owners in the area likely to make a claim. Finally we identified a lack of evidence around the separation of duty in the sign-off of some applications.

All actions have been agreed and will be followed up.

Consultancy Reviews

Mosaic Follow Up (Abacus Payment System)

Our follow up review confirmed positive steps have been taken in response to the audit report. The Mosaic Board has been replaced and responsibility for oversight now sits with the business change client – Adult Care. Project progress is reported to the Adult Care Finance Group, which monitors several interdependent Adult Care Finance projects. These new governance and reporting arrangements will provide greater oversight and monitoring of all ongoing interdependent Adult Finance projects, including better assurance around Mosaic delivery.

The project was also subject to an independent project health check assessment in October 2021 which gave a Delivery Capability Assessment (DCA) of Green / Amber. The health check, our recent discussions and document review has confirmed that the recommendations made by the Audit Team have been implemented. The health check made a small number of critical and essential recommendations which are being addressed in how the outstanding elements of the Mosaic project are now being delivered.

To deliver the remaining elements, an upgrade to Abacus is required and the implementation of a customer portal to allow Homecare providers to input their hours allowing payments through Mosaic. The target date for the portal implementation is currently 2023/24.

Risks around maintaining current processes are being managed and the necessary focus is being given to upgrading Abacus and responding to changing priorities within Adult Care services.

Our review has identified one recommendation to strengthen the governance and decision making process of the Adult Care Finance Group. We found that no formal minutes are currently being kept for their regular meetings. An Action Log is discussed at each meeting and updated. Whilst this is a useful monitoring tool, it is still important that minutes are kept to record the decisions made and who attended.

Consultancy Reviews

LCC Procurement Tender (Kier Review)

We were asked to provide independent insight and review surrounding the decision-making process on the tender process for the Lincolnshire Fire and Rescue service (LFR), Grantham station refurbishment - identifying any lessons learnt.

We made recommendations for suggested improvements in the Council's procurement and tendering arrangements. These included:

Effective working relationships and communications - Reviewing the effectiveness of the communication and engagement strategy in place in light of the tendering process and procedures being followed in practice.

Processes and decision making - review and produce a step by step, easy to follow, process (with a flow chart included), that can be interpreted by all Project Managers within the procurement process. This would ensure that all personnel are aware of the decisions making process and their responsibilities in the execution of the tendering process at all stages.

Systems - Create and improve protocols in the use of Concerto and Pro-Contract. As part of these protocols, a clear set of guidelines on when the system should be used and how to implement specific instructions.

Professional advice - The Council should ensure that the appropriate due diligence is undertaken for all key decisions in relation to all tendering projects prior to final decisions being made, so that decision makers are satisfied that all alternatives have been considered and fully assessed.

Training - That there is regular training of all staff involved within the tendering process and updates on changes to contracts. The council should ensure that all staff receive refresher training in the procurement process and application system operations.

Governance & Oversight – Review the way projects are monitored to help identify and manage any time critical events – building in appropriate planning / contingency.

Implementation of agreed management action will be tracked in the normal way.

Consultancy Reviews

Ukrainian Settlement Scheme

Our review of the Homes for Ukraine (HFU) process found robust controls, effective risk management and good partnership working in place.

Partnership Working
The HFU Scheme has involved establishing new processes and partnership arrangements at speed whilst managing an influx of refugees. We found that early involvement of specialist advice across the Council has helped formulate processes with good governance and oversight. Regular reporting is undertaken to Officers, Members at scrutiny committees, full Council by the Portfolio Holder and the wider Lincolnshire Chief Executive Group.

Availability of Sponsors and suitable accommodation
We found the Homes for Ukraine (HFU) team to be proactive and forward looking. We saw evidence of processes and communication with both hosts and guests to help sustain housing arrangements.

Safeguarding and Wellbeing
Within safeguarding and school placements, the records and processes we reviewed provide a clear framework for identifying concerns. The HFU team was also invited to present to the East Midland Regional Ukraine group on its safeguarding process which demonstrates a confident approach.

Integration and Education
The HFU team, with the support of commissioned partners, has developed a number of support packages to assist integration and maintain wellbeing which have been effective.

Financial Controls within use of grant funding by the Council
We verified strong control over grant finance with regular reconciliations and tight budget control. The HFU Team has worked closely with finance colleagues to identify appropriate qualifying expenditure and provide forecast and scenario planning to meet the changing needs of guests and hosts.

We have identified areas of improvement including completing the review of the HFU master data sheet and database options, continue to communicate processes across the partnership and maintain open discussion and undertake an impact assessment to obtain an understanding of the Councils future resource requirements

Consultancy Reviews

Ukrainian Settlement Scheme

We have identified areas of improvement including
- completing the review of the HFU master data sheet and database options
- continue to communicate processes across the partnership and maintain open discussion and undertake an impact assessment to obtain an understanding of the Councils future resource requirements

Implementation of agreed management action will be tracked in the normal way.

Audits in Progress

We have 11 audits at fieldwork stage:

- IMT follow ups – Business Continuity & Disaster Recovery / Network Infrastructure Security
- Acquisitions and disposals
- Debtors
- Key Controls – Accounts Payable
- Key Controls –Pensions Admin
- Key Controls – Pension Fund
- Key Controls – General Ledger
- ICT Network Infrastructure & security
- ICT Starters, movers, leavers
- Educational transport
- Insurance

Other Significant Work

Business World Redesign - update

The Business World Re-design continues to progress for an April 2023 go-live. Mandatory training has begun for system users across the Council, Schools and Lincolnshire Fire & Rescue, with specific training put in place for managers and budget holders.

Final testing has been carried out across HR, Finance, Payroll, Pensions and Income Management, with any issues identified being addressed and re-tested.

An extensive data cleanse programme has been in place over the past year, with regular reviews of data accuracy being an ongoing activity to ensure it is accurate for the final data migration and cut-over which begins on the 17th March.

The monthly project board has shifted to weekly meetings starting from the 2nd March where key delivery functions such as technical assurance, testing, data, training and go-live decision making/ associated risks will be held. The Risk Register is regularly reviewed, updated and red risks are presented to the Board. During March, progress and assurance for go-live will also be discussed with the Corporate Leadership Team and relevant political leadership will also be engaged.

As a contingency - the Council is maintaining the existing Business World system, so that if there are any issues prior to the planned go-live or during the initial implementation the Council is able to roll back to this legacy system.

A number of staff are also due to TUPE transfer to Hoople Ltd as part of the project. TUPE consultation is now complete and this remains on track for the affected staff to transfer to Hoople on the 1st April 23.

Payroll remains a key focus for the project. Following completion of 3 rounds of parallel run activity and additional testing, a Payroll Assurance Action Plan has been agreed to manage remaining activity and provide decision making milestones. Through an Internal Audit Principal secondment, expert Payroll knowledge has been added to the project to support data quality, testing and delivery.

Assurance work planned for 2023/24 includes Internal Audit attendance at the Transformation Board, to support delivery

Other Significant Work (cont.)

and provide advice and support, and Audit work to provide assurance on the key risks and issues of go live and successful delivery. Working with the project team, we will agree targeted work, based on the risks and assurance framework provided by the project team and our own assessments

Governance Group – Development of Annual Governance Statement 2023

We have commenced the annual review of the Council's governance framework and assurance arrangements - supporting the development of the Council's Annual Governance Statement. This involves:

- Evaluation of assurance framework – including outcomes of inspections, the Combined Assurance Status Report, risk intelligence and results of internal audit work.
- Interviews with key stakeholders including Executive Directors.
- Other assurance intelligence to help evaluate how well the Council's governance framework and assurance arrangements work in practice.

The Annual Governance Statement will be considered and approved by the Corporate Leadership Team prior to review by the Audit Committee at its June 2023 meeting.

The statement is signed by the Leader of the Council, Chief Executive and the Deputy Chief Executive & Director of Resources (the Council's Section 151 Officer).

Audit Committee Support

We continue to provide support to the Audit Committee – during this period we helped with the development of the Audit Committee Annual Report 2022 and continued exploration of joint working with Overview & Scrutiny Management Board.

Supporting Families

We continue to deliver regular review over the Supporting Families grant – quarters 1 2 and 3 are completed. No issues were reported.

Benchmarking

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

Performance on Key Indicators

Positive feedback has been received

Plan completed 83%

Other Matters of Interest

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

CIPFA Guidance for Audit Committees – updated October 2022

This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee's development. We will be looking to provide the Committee with training in the new financial year which will include providing the Committee with the key headlines of the guidance and benchmark current arrangements with this new best practice guidance.

https://www.cipfa.org/services/support-for-audit-committees

The Committee on Standards in Public Life publishes new report, 'Leading in Practice'

The independent Committee on Standards in Public Life has published 'Leading in Practice', a new report which shares examples and case studies gathered from public and private sector organisations on maintaining ethical organisational practices.

There is also an open letter from Committee Chair Lord Evans, to all public sector leaders, encouraging them to think about how they build and support a robust ethical culture. It includes 20 questions for leaders and others to reflect on.

Committee on Standards in Public Life

Thurrock Council- Funding gap and current position

The government has intervened to hand Essex County Council control of financial functions of Thurrock Council, amid concerns over debt levels.

Details of the authority's financial woes became clearer in November, when a £452m funding gap emerged in this year's budget due to the impairment of four assets and a significant increase to Minimum Revenue Provision in order to comply with the guidelines.

A best value inspection is being undertaken to review the governance, audit, risk management and overview and scrutiny at the unitary authority.
Essex to manage finances of Thurrock Council | Public Finance

Thurrock seeks £182m of exceptional support | Public Finance

Other Matters of Interest

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

Mazars Horizon Scanning 22-23

Every year Mazars produces a horizon scanning report which focuses on the expected upcoming challenges faced by Local Authorities. Some of the themes covered in the report include:

- Economic challenges - including the cost-of-living crisis
- Work force crisis - recruitment and retention
- Social housing - housing stock, consumer regulation and diverse tenant needs
- Political uncertainty - impact of the change in key leadership roles and government policy
- Sustainability - meeting Net Zero targets

This report will be considered as part of our audit planning for 2022/23.

See the link below for the report:
New and emerging areas of risks for Internal Heads of Audit - Mazars - United Kingdom

Appendix 1 Assurance Definitions

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.

Appendix 2 2022/23 audit progress

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Supporting Families 1	Review and validation of periodic claims for the Supporting Families programme.	20/06/2022	20/06/2022	24/06/2022	Completed
Substance Misuse Grant	To confirm compliance with Grant funding criteria	15/07/2022	15/07/2022	20/07/2022	Completed
BSOG Grant	To confirm compliance with Grant funding criteria	31/08/2022	06/09/2022	29/09/2022	Completed
Supporting families 2	Review and validation of periodic claims for the Troubled Families programme.	01/09/2022	20/09/2022	28/09/2022	Completed
Economic Development – Allocation of Covid Business grants	To confirm compliance with Grant funding criteria	22/09/2022	22/09/2022	06/03/2023	Completed
Mosaic Finance implementation – follow up (Abacus Payment system)	Follow up around the Low assurance report issued March 2021 to confirm implementation of management actions and progress	01/04/2022	14/04/2022	18/10/2022	Completed
LFR Procurement card usage	To provide assurance on the use of procurement cards across Lincolnshire Fire and Rescue service and compliance with the new policy and procedure documents.	01/02/2022	10/02/2022		Draft report, awaiting management response
Capital Project Decision Making process	To provide assurance around the decision-making process for capital investment projects, specifically focusing on the Market Deeping Business Centre.	01/06/2022	07/06/2022		Draft report

Appendix 2 2022/23 audit progress

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Allocation of Covid Business Grants	To provide assurance the Council has operated in line with grant conditions and that the process has been effectively managed and controlled. Post payment checks looking at indicators of fraud will also form part of this review.	01/04/2022	22/06/2022	06/03/2023	Completed
IMT follow up – Business Continuity & Disaster Recovery / Network Infrastructure Security	Follow up around two Limited assurance reports issued in 2021 to confirm implementation of management actions and progress	01/05/2022	17/05/2022		Fieldwork stage
Green Master Plan	To review the LCC Master Green Plan, including the Carbon action plan and the Sustainability, Climate Change and Environment Strategy to assess progress against underpinning values and Work will include a high level review of a sample of projects included in the Green master plan.	09/09/2022	09/09/2022		Draft report
Ukrainian Refugee Settlement	To provide an independent review and assurance over the arrangements in place to deliver the Homes for Ukraine Scheme. Our review will concentrate on the arrangements from Lincolnshire County Council's perspective.	15/08/2022	27/09/2022	20/02/2022	Consultancy Completed
Good Governance Review	Review of governance arrangements against the CIPFA Framework for Delivering Good Governance in Local Government (2016).	01/07/2022	01/07/2022		Draft report

Appendix 2 2022/23 audit progress

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Low Value Highways Insurance claims	To provide assurance that the processing of low value insurance highways claims is well controlled.	19/05/2022	19/05/2022	21/11/2022	Completed
Recruitment & Retention (data analytics)	Initial analysis and review of recruitment data across the Council in the last 2 years. To inform further Recruitment & Retention audit later in the year.	30/05/2022	06/06/2022		Draft report
Adults Financial Assessments	Confirm improvements have been made in the financial assessments process following the implementation of the new policy and management actions	11/04/2022	12/05/2022		Draft report
Corporate Plan & Success Framework	To assess performance against the objectives within the Council's Corporate.	21/09/2022	25/11/2022		Draft report
Procurement (Kier tender)	To review procurement arrangements.	12/07/2022	12/07/2022	05/12/2022	Completed
Acquisitions & Disposals	This audit has been requested by the Deputy Chief Executive & Executive Director of Resources. It seeks to provide some independent insight and assurance on the effectiveness of land and property asset disposals within the Council.	17/10/2022	17/10/2022		Fieldwork
Payment system – lessoned learned	Lessons learned exercise around contract management of Council's payment collection system.	20/09/2022	20/09/2022		Draft report
ICT – Microsoft Office 365 Security	To provide assurance that the design and implementation of the controls for managing Microsoft Office 365 are adequate to maintain the confidentiality, integrity and availability of data and meet organisational needs.	12/09/2022	12/09/2022	08/12/2022	Completed

Appendix 2 2022/23 audit progress

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
ICT – Starters, Movers & Leavers	The review will focus on providing assurance that the authority has appropriate arrangements in place to ensure that: • Only authorised users are enrolled promptly onto the network • The removal of access is undertaken without delay where access is no longer required				Planning
ICT – Network Infrastructure & Security	Tto assess the network architecture and design that remains on site to determine whether adequate security mechanisms are in place and operating effectively and provide assurance that the risks associated with network security are mitigated through appropriate security measures.				Planning
Insurance	To review the effectiveness of management of the Council's insurance arrangements – including claims handling and the sustainability of the insurance fund / risk appetite.				Being completed by an external body
Debtors	Review the debtors' process - 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.	09/01/2023	17/01/23		Fieldwork
Educational Transport	To be agreed	March 2023			Planning

Appendix 2 2022/23 audit progress

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Financial systems – key control testing	Testing and analytical review of key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements	February 2022	February 22		Fieldwork
BW implementation	To provide independent insight, advice and assurance on the implementation of the Hoople Standard version of BW, particularly around readiness for go-live in April 2023.				Planned Q4, deferred to next year
Supporting Families Q3 & Q4	Review and validation of periodic claims for the Supporting Families programme.	14/12/22	14/12/22	19/12/22	Q3 Completed
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.	October 2022	October 2022	December 2022	Completed

Appendix 3 Record of changes to the Internal Audit Plan 2022/23

Deferred Audits			
Audit	**Rationale**	**Change**	**Approval**
Contract Management	Activity covered in specific audits added to the Plan (see below). Will be included in 2023/24 plan – joint assurance and proactive counter fraud review.	Replaced	Lucy Pledge, HOS
Budget Management	Deferred based on current business risk and to accommodate alternative priorities. External consultant engaged to review Financial Management Code – this will provide an overview of assurance.	Deferred	Lucy Pledge, HOS
Capital Projects – Financial Resilience & Decision making	Deferred based on current business risk and to accommodate alternative priorities.	Deferred	Lucy Pledge, HOS
ICT PSN Compliance/ Cyber Security	ICT plan priorities revised – audit is included within ICT planning for 2023/24	Deferred	Lucy Pledge, HOS
Payroll	Client focus on BW go-live and parallel testing. Assurance work supporting BW project – the new system will be audited on 2023/24.	Deferred	Lucy Pledge, HOS
Transformation Programme – Benefits Realisation	Deferred due to ongoing work by the Transformation team. Internal Audit continue to attend the Transformation Board meetings.	Deferred	Lucy Pledge, HOS

Appendix 3 Record of changes to the Internal Audit Plan 2022/23

New Audits

Audit	Scope	Change	Approval
Ukrainian Refugee Settlement	To provide an independent review and assurance over the arrangements in place to deliver the Homes for Ukraine Scheme. Our review will concentrate on the arrangements from Lincolnshire County Council's perspective.	Review requested by Adult Care & Community Wellbeing and Public Health.	Lucy Pledge, HOS
Procurement Tender	Lessons learned exercise around the contract management and tendering process.	Review requested by the Deputy Chief Executive & Executive Director of Resources.	Lucy Pledge, HOS
Acquisitions & Disposals	It seeks to provide independent insight and assurance on the effectiveness of land and property asset disposals within the Council.	Review requested by the Deputy Chief Executive & Executive Director of Resources.	Lucy Pledge, HOS
Payment system – lessoned learned	Lessons learned exercise around contract management of Council's payment collection system.	Review requested by the Deputy Chief Executive & Executive Director of Resources.	Lucy Pledge, HOS
Educational Transport	To provide an independent review of single occupancy transport, eligibility compliance and SEN children in the County.	Review requested by the Chief Executive	Lucy Pledge, HOS

Appendix 4 Audit Tracker

Tracker Report – all outstanding audit actions due 31/01/23

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations: High	Medium	Low	Recs not due
Financial Resilience	May 2022	Substantial	4	2	0	2	0	0
	Financial Management code was presented to Committee on 26/09/22. An external review of the Council's financial resilience is underway and the results of this review will be presented to Audit Committee.							
Transport Connect	April 2022	Limited	12	12	0	0	0	0
	All recommendations have been implemented.							
Foster Carers	Aug 2022	Substantial	2	1	0	1	0	0
	Three strategy documents have now been combined into a single strategy around Foster Carer Marketing, Recruitment & Retention and is going through a review and approval process.							
ICT Virus Protection / Malware	Aug 2022	Substantial	5	2	0	0	0	3
	All recommendations were medium priority – the 3 not yet actioned are not due until later in the year.							
Payroll	Sept 2022	Substantial	8	2	0	1	0	5
	Majority of management actions are not due for implementation until the end of the year. One action which is in progress has been extended until 31.03.23. This is in respect of training on the new HR system.							
Microsoft Office 365 Security	Dec 22	Substantial	4	0	0	0	0	4
	Recommendations are not yet due							
Low value Highways Insurance claims	Nov 22	Substantial	1	1	0	0	0	0
	Action has been implemented							

Tracker Report – all outstanding audit actions due 31/01/23

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Treasury Management & Investment Strategy	Aug 2020	Substantial	2	1	0	1	0	0
	The update to Treasury Management Practices is now in progress and target date for completion is the end of the financial year.							
Better Care Fund (BCF)	Aug 2021	High	1	1	0	0	0	0
	On 6th December the Health and Wellbeing Board agreed to receive quarterly performance reports for the BCF, measures have been agreed and the first report is due March 28th. In addition to this monthly meetings are being put in place for further oversight of financials, performance and outcomes with an escalation route agreed if needed.							
ICT Privileged Access Management	May 2022	Substantial	6	4	1	0	0	1
	A number of technical projects are in progress which will strengthen password policies and are due for completion by 30/04/2023.							
Bank Reconciliation	March 2022	Substantial	3	1	0	1	0	1
	Outstanding actions are linked to work preparing for the implementation of Hoopla BW system. Additional system reports are required and can be requested post implementation. Current reporting continues in the meantime.							
General Ledger (key control testing)	June 2022	High	3	1	0	0	0	2
	Outstanding actions around control accounts and reporting are not due to be completed until implementation of the Hoopla BW solution.							
TOTAL			51	28	1	6	0	16

Lincolnshire COUNTY COUNCIL Working for a better future

Open Report on behalf of Andrew Crookham, Deputy Chief Executive & Executive Director – Resources

Report to:	**Audit Committee**
Date:	**27 March 2023**
Subject:	**Risk Management Progress report - March 2023**

Summary:

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

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

The Committee has 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 strategic risks are being managed.

Recommendation(s):

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

To make recommendations on any further scrutiny required in resepct of any of the risks with particular consideration to those with limited assurance.

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 2022.

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 changes to some of the risks within the strategic risk register.

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	Appendix A - Risk Management Progress Report Strategic Risk Register March 2023
Appendix B	Appendix B - Strategic Risk Register March 2023
Appendix C	Appendix C - Risk Management Audit Report 2022 Actions

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 Mandy Knowlton-Rayner, who can be contacted on 07398458542 or mandy.knowlton-rayner@lincolnshire.gov.uk.

Appendix A

Risk Management

Progress Report

March 2023

Lincolnshire
COUNTY COUNCIL
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Table of contents

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'* in line with the agreed risk appetite.
- The key strategic risks facing the Council.

It is also to provide assurance on the effectiveness of the Councils risk management arrangement.

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

Key Messages

Strategic Risk Register

Our strategic risks continue to be managed and monitored pro-actively. Risk controls continue to be identified as either measured or un-measured, allowing for an insight into their impact on the management of the risk it controls. Further work to embed measurable controls in the strategic risk management review process has been completed. The strategic risk register is attached at *Appendix 1.*

Key changes to the strategic risks are as follows:

- Inflation – The impact for this risk has moved from a 4 – Critical, down to a 3 – Major. This reflects the ongoing work to minimise the impact of inflation on the Council and its objectives.
- Market Supply, Adults – The direction of travel for this risk has been changed to Deteriorating, this reflects the national picture of external care providers and their workforce.
- Serco Contract – The impact for this risk has moved from a 4 – Critical, down to a 3 – Major. This is due to the extension of the IMT section of the contract.

Assurance Levels Comparison

September 2022	March 2023
7 Risks Substantial Assurance	8 Risks Substantial Assurance
6 Risks Limited Assurance	5 Risks Limited Assurance

Strategic Risk Register Updates

September 2022	March 2023
Safeguarding Children Substantial Assurance Improving Direction of Travel	Substantial Assurance Improving Direction of Travel - Continued substantial assurance around this risk, regularly evidenced by Ofsted reports.
Safeguarding Adults Substantial Assurance Improving Direction of Travel	Substantial Assurance Improving Direction of Travel - The risk is managed effectively; controls provide a good level of assurance.
Resilience – Business Continuity Substantial Assurance Static Direction of Travel	Substantial Assurance Static Direction of Travel - There continues to be a good level of assurance around the controls and the risk is being effectively managed.
Transformation Programme Substantial Assurance Improving Direction of Travel	Substantial Assurance Improving Direction of Travel - There have been further improvements to governance around this particular risk, the assurance level remains substantial.
Budget – LCC Substantial Assurance Static Direction of Travel	Substantial Assurance Static Direction of Travel - Continued substantial assurance due to ongoing work.
Serco Contract Substantial Assurance Static Direction of Travel	Substantial Assurance Improving Direction of Travel - A much improved risk due to the extension of the IMT aspect lowering the impact on the Council.
Outstanding Debt Substantial Assurance Improving Direction of Travel	Substantial Assurance Improving Direction of Travel - Good governance and procedures in place to lower outstanding debt amounts.
Inflation Limited Assurance Improving Direction of Travel	Substantial Assurance Improving Direction of Travel - This is an improved risk, with lower impact and substantial assurance. This is due to the work undertaken to mitigate the impacts on the Council. Inflation is now built into budget setting.

September 2022	March 2023
Recruitment / Staffing Limited Assurance Static Direction of Travel	 Limited Assurance Static Direction of Travel - This risk remains at limited assurance, despite ongoing work in hard to recruit and retain areas. Without this work, this risk would be at deteriorating direction of travel.
Market Supply – Adult Care Limited Assurance Static Direction of Travel	 Limited Assurance Deteriorating Direction of Travel - Nationally the care sector is volatile, this impacts on our ability to source adult care providers. Work is ongoing to improve this risk, including intervention, winter discharge funding distribution via grant agreement.
Strategic Contracts Limited Assurance Improving Direction of Travel	 Limited Assurance Improving Direction of Travel - No change to the assurance level for this risk. However, strategic contracts are now reported at CLT with metrics to highlight contractors facing difficulties.
Cyber Security Limited Assurance Improving Direction of Travel	 Limited Assurance Improving Direction of Travel – No change to the assurance level for this risk, however new controls have been added and work is ongoing
IT Infrastructure Limited Assurance Improving Direction of Travel	 Limited Assurance Following a recent appointment this risk and its associated controls are being given further consideration but it is considered the overall direction of travel is improving.

Sharpcloud

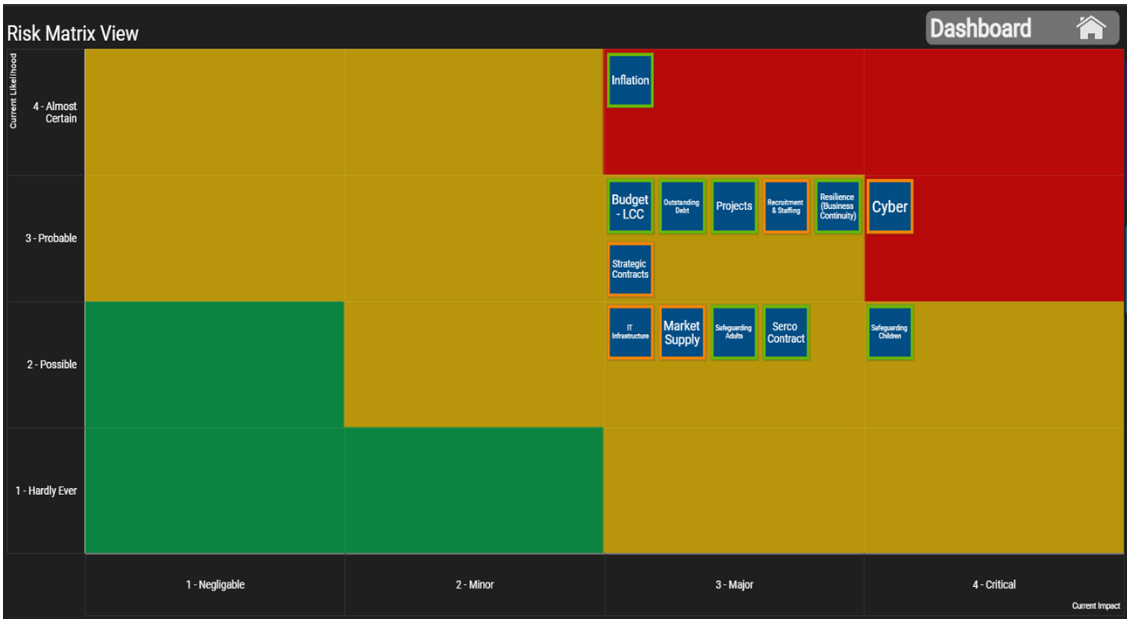
As part of our strive for continuous improvements in the way risk management is operated within the Council, following approval from the Corporate Risk and Safety Steering Group (CRSSG), we have purchased the Sharpcloud system to facilitate risk management recording and data insights across the Council. Sharpcloud is a cloud based, visual, interactive, data insight software system.

Sharpcloud currently holds the strategic risk register, directorate risk registers and multiple service risk registers from across the Council. Work is ongoing to add more services onto

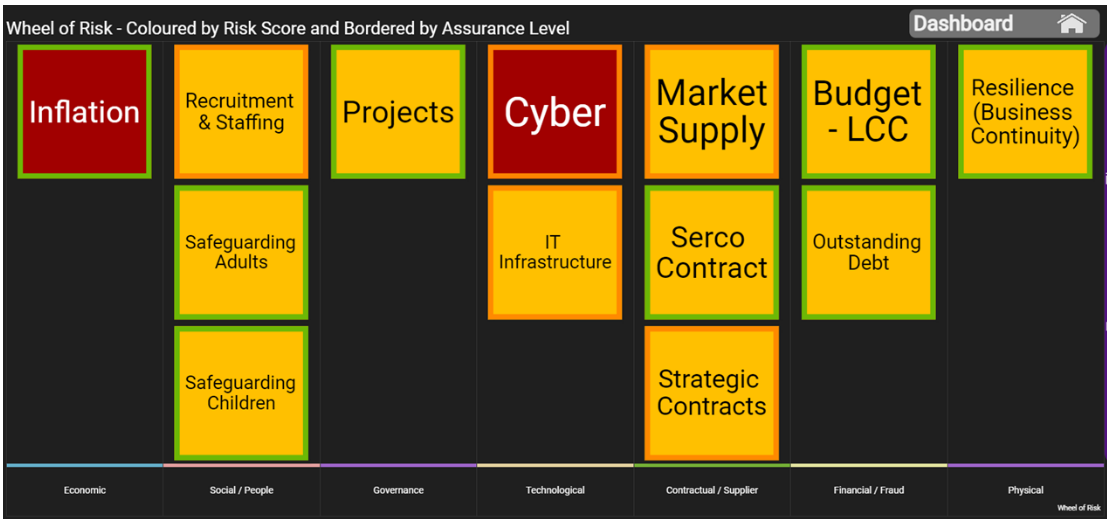
Sharpcloud, with a particular focus around the Adults and Place directorates next. Following a risk management bid at the CRSSG, we received approval to purchase an additional 40 Sharpcloud viewer licenses. These will allow users to review risk registers within Sharpcloud, further embedding risk management across the Council.

We will be providing training on the new system, Sharpcloud during the next few months which will then enable Committee members to directly view the risk data held on Strategic Risks. Below are some screenshots to give an example of how the data will be displayed in Sharpcloud. The strategic risk register has been used as the example.

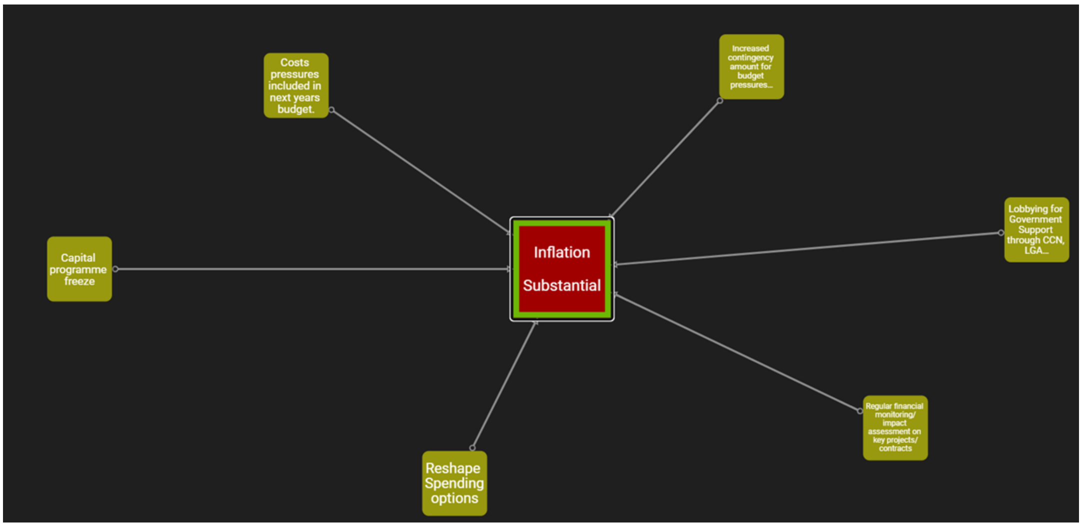
The risk matrix view, showing the risks plotted on our 4x4 risk matrix, bordered by their assurance status.



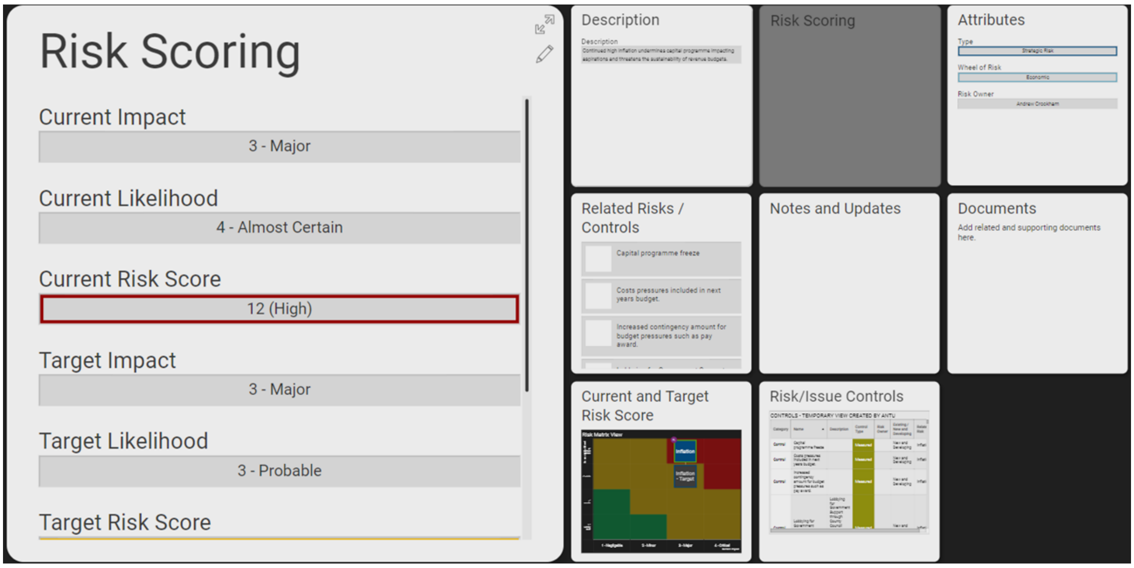
Risks plotted by their category of risk, coloured by their position on the risk matrix and bordered by their assurance status



An exploded view of the risk, surrounded by and related to its controls. Controls are coloured as dark green, so measured, light green is unmeasured. The risk is coloured by its position on the risk matrix and bordered by its assurance status.



Sharpcloud allows for further insights into items within it, whether risks or controls. Below is a screenshot of the information behind a risk.



Behind each risk are all the key attributes of the risk, its scores, target scores, assurance levels and direction of travel. It also lists all of the risks controls. It can also hold links, documents, pictures, videos and any other attributes. The hope is to store information related to the risks in here, as well as regular updates on the notes and updates section.

Sharpcloud Training

Sharpcloud training for audit committee will follow shortly. A useful demonstration of Sharpcloud can be found below:

[Enterprise Risk Management | SharpCloud]

Risk Management Audit Action Plan

The team continues to work on the action plan created as a result of the external risk management audit. A copy of the action plan can be found in *Appendix 2.*

These are the key updates:

- Horizon scanning is included at Corporate Risk and Safety Steering Group (CRSSG) and is now reported to Audit committee as part of the risk management progress report.
- A discussion was held at CRSSG and determined that current training was adequate, however further training for elected members will be set up and a training plan will be drawn up.
- Work is underway to review risk as part of overall performance reporting, with a view to accessing the data at source (Sharpcloud datapool). This is a corporate project.

Looking Forward

What we said	What we have done	What we are going to do
Implement and work through an action plan of recommendations following the recent risk management audit	Work on the risk management audit action plan has started, with some areas completed and the remainder planned (*Appendix 2*)	We will continue working through the risk management audit action plan.
Report regularly to CLT for as long as is required with the red risks & issues.	CLT agreed a separate report was no longer required. Red risks and issues now report to the Corporate Risk and Safety Steering Group (CRSSG) and will be escalated as required.	Take the first report for red risks and issues into the Corporate Risk and Safety Steering Group (CRSSG), at the next meeting in March 2023.
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.	The Resources directorate continues to report risk registers. Children's and Adult Care and Community Well-being have also began reporting risk registers. Work has began with the Place directorate.	We will work with the Place directorate to assist with risk registers across the services and assistant director areas. We will also assist in facilitation of a risk management session at the Place Directorate Leadership Team
Populate and use the new risk management software system Sharp Cloud to improve reporting.	Sharpcloud, a dashboard has been created, demonstrations and testing is beginning with various officers across the Council. All supplied risk registers are currently replicated on Sharpcloud.	Sharpcloud will continue to be developed and testing will continue, licenses will be allocated to allow further testing and feedback.

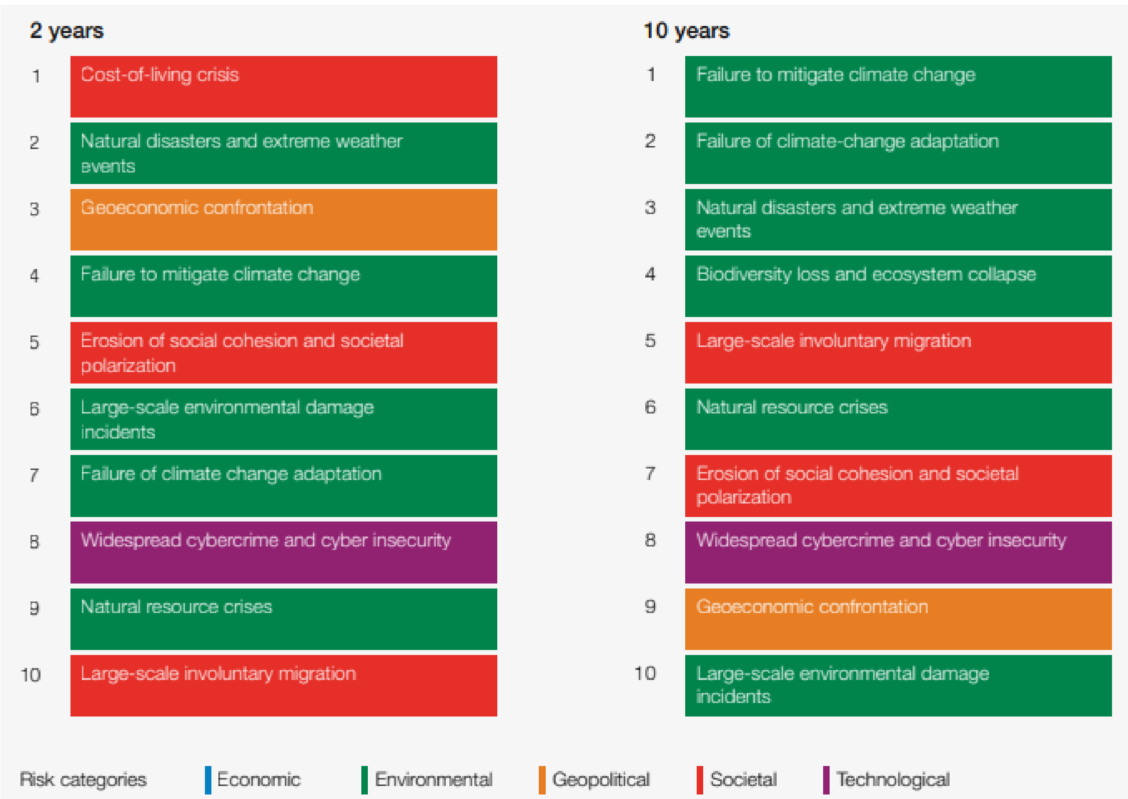
Horizon Scanning

To ensure that we keep aware of arising risks, we utilise our professional bodies, local relationships and relevant risk publications.

A current topic of interest is sustainability, linked to our Green Master Plan and our commitment to net zero in 2050. Nationally, sustainability is an area of risk which needs further exploration and whilst it has been considered as part of the latest risk review it needs to be explored further in line with the principles in our Green Master Plan to ensure any risks are appropriately identified.

As a further part of horizon scanning, we have reviewed the World Economic Forums Global Risk Report 2023 – Top Ten Risks. To summarise, five of the short term top ten risks are linked to the environment. For the long term top ten risks, six of these are environmental risks (extract below).

This further evidences the need for additional risk work in this area. As part of our risk reviews with directorates, we will explore this risk area further.



A link to the document can be found here:

[WEF_Global_Risks_Report_2023.pdf (weforum.org)]

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Name	Description	Category	Current Impact	Current Likelihood	Current Risk Score	Target Impact	Target Likelihood	Target Risk Score	Assurance Status	Direction of Travel	Control Type	Existing / New and Developing	Related Risk Copy	Risk Owner
IT Infrastructure	IT Infrastructure - ability to implement transformational aspirations and deliver BAU	Risk	3 - Major	2 - Possible	Medium	2 - Minor	1 - Hardly Ever	Low	Limited	Improving			IT Infrastructure	Andrew Crookham
Portfolio of remedial projects is progressing with all projects in the build stages		Control									Measured	Existing	IT Infrastructure	
Life Cycle Management	With quarterly life cycle reviews with Serco	Control									Measured	Existing	IT Infrastructure	
New device management strategy is being put into effect which reduces reliance on LCC infrastructure		Control									Measured	Existing	IT Infrastructure	
Ongoing removal of legacy hardware/software		Control									Measured	New and Developing	IT Infrastructure	
System Heat Map - Review of key systems		Control									Measured	New and Developing	IT Infrastructure	

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Appendix C

Assessment Category	Ref	Details of Recommendation	Action	Target Date	Complete
Strategy and Policy	R1	On page 5 of the Risk Management Strategy, the Council could consider adding an additional tab for All Employees just to reinforce the message that every employee has a role in identifying risk and informing line management in order to maximise safety and minimise the possibility of threat incidents arising at all levels.	Stategy will be reviewed at next update to take account of recommendations	Apr-23	
Strategy and Policy	R2	On page 7 of the Risk Management Strategy document, we recommend that under the “Key Decisions” heading, reference is made to include details of risk ownership when reporting risks associated with key decisions to the Executive	Stategy will be reviewed at next update to take account of recommendations	Apr-23	
Strategy and Policy	R3	Guidance on Partnership risks should be included in the intranet toolkit. Areas to be addressed within the expanded guidance could include, for example: definition of partnership; drivers, challenges and risks; assessing the need for partnership working; establishing the partnership; governance, operating the partnership; performance measurement and management; accountable body status and associated risks; the partnerships register (if required) and a partnership toolkit comprising a series of good practice checklists or guidance notes. See also R8	We recommend that the Council develops a corporate risk management training plan to provide targeted and appropriate training to each of the role levels identified in the Risk Management Strategy.	Sep-22	Complete
Leadership & Management		No recommendations			
People and Resources	R4	We recommend that the Council develops a corporate risk management training plan to provide targeted and appropriate training to each of the role levels identified in the Risk Management Strategy.	A discussion around training needs was held at CRSSGP August 2022. Current arrangements are deemed adequate however a training plan will be drawn up in January 2023.	Apr-23	
People and Resources	R5	We recommend that the Council considers making risk management training mandatory for middle managers and above.	A discussion around training needs was held at CRSSGP August 2022. Current arrangements are deemed adequate however a training plan will be drawn up in January 2023.	Apr-23	
People and Resources	R6	Ensure that all new Elected Members receive risk management training and that those who sit on the Audit Committee receive a more detailed level of training on risk assessment	Training of Audit Committee is to take place in January/Febraury 2023. Future training will be added to the training plan.	Jun-23	
People and Resources	R7	Provide a training module on risk assessment for Service Managers (and Senior Managers who require it}	A discussion around training needs was held at CRSSGP August 2022. Current arrangements are deemed adequate however a training plan will be drawn up in March 2023.	Apr-23	

People and Resources	R8	Consideration should be given to the development of a Partnership risks toolkit or at least a specific Toolkit title which offers a checklist of specific issues to consider when risk assessing partnership or collaborative working options for service delivery. This should be consistent with the guidance on good governance from CIPFA / SOLACE.	Consideration of need for this discussed at CRSSGP in August 2022 as very few true partnerships. Considered at this time no further work required.	Aug-22	Complete
Processes and Tools	R9	The Council should consider whether risk reporting should move to a quarterly cycle rather than the current six monthly process	Work is underway to review risk as part of overall performance reproting. This is part of a corporate project. Work is underway to gain further licences to enable access to data at source.	on-going	
Processes and Tools	R10	We recommend that the six-monthly reporting of risks and updated risk registers should also include a section on “horizon scanning” to ensure that there is an audit trail of consistent consideration of emerging risks and threats to the organisation.	Horizon scanning is reported through to Audit Committee. 1/4ly reporting to Directorates already takes place as part of the feedback to Directorate Groups. Work is underway how this can be incorporated into sharpcloud as part of the access to data at source.		Complete
Risk Handling		No recommendations			
Partnerships and Shared Risks	R11	We would recommend that a register is maintained of all partnership arrangement and collaborative working agreements to which the Council is party, perhaps maintained by Internal Audit as they will have a prime role in providing assurance on such arrangements.	Consideration of need for this discussed at CRSSGP in August 2022 as very few true partnerships. Considered at this time no further work required.		Complete
Outcomes and Delivery	R12	We recommend that the Council consider developing a risk management dashboard on Sharp Cloud so that risks and any outstanding action points relating to service areas and directorates be clearly and quickly shown together with direction of travel.	Work had already been started on this but was not available to view as part of the audit. Working with pilot group to refine information.	Apr-23	

Lincolnshire
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Open Report on behalf of Andrew Crookham, Deputy Chief Executive & Executive Director – Resources

Report to:	**Audit Committee**
Date:	**27 March 2023**
Subject:	**Work Programme**

Summary:

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

Recommendation(s):

1. To review and amend the Audit Committee's work plan ensuring it contains the assurance areas necessary to approve the Annual Governance Statement 2022.

2. Consider the actions identified in the Action Plan.

Background

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

Training and Development Programme

2. An important element of the Audit Committee's effectiveness is continuous training and development. This enables committee members to remain up to date on key issues, hot topics and any developments that impact on Audit Committee role and remit.

3. After discussion with the Chairman and Vice Chairman of the Audit Committee the following training and development programme is proposed.

Session One – A half day event – in person event at Lincoln (Date to be confirmed). Covering the following topics:

- **Effective Audit Committee** – CIPFA has issued some new guidance for Audit Committees. We propose to recap and run through any changes. We will also undertake an assessment of the effectiveness of the Committee – benchmarked against this best practice guidance.
- **Risk Management –** demonstration of new risk management software.

- **Horizon scanning** – picking up some of the big issues and risks facing public sector, how they potentially impact the governance and control framework of the council. Looking to develop the forward work plan – agenda items.

Webinars – Team meeting training events. 1 hour sessions on key elements of the Committee role and remit. Scheduled over 2023.

- **Risk management** – recap on how risks are managed – our risk appetite – how we gain oversight and assurance that our risk and issues are being effectively managed.
- **Counter Fraud** – recap on our approach our fraud risk register with horizon scanning from a fraud perspective.
- **Good governance and our assurance arrangements**. Propose a workshop with Overview Scrutiny Management Board on how our governance and assurance arrangements measure up against good practice and recent public interest reports.

4. **Lincolnshire Audit Committee Forum** – there's been a number of requests for this forum to be reinstated. This is where Lincolnshire Audit Committees meet to share their experience – bring out common themes and risks facing the public sector and how Audit Committees can help improve the governance, risk and control environment. We will look to arrange a meeting in 2023.

5. **Working with Overview & Scrutiny Management Board (OSMB)–** quarterly meetings held to discuss areas of common interest. Work programmes are shared and the Chairman of the Audit Committee attends (OSMB) as appropriate (depending on agenda items) and vice versa.

6. **Emerging Risks -** A verbal update / discussion on any emerging high-risk areas that the Committee may wish to consider for future agenda items.

7. **Action Tracker-** Appendix B – keeps track of actions agreed by the Committee and future potential agenda items.

Conclusion

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

Consultation

a) Have Risks and Impact Analysis been carried out?

No

b) Risks and Impact Analysis

N/A

Appendices

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

Background Papers

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

This report was written by Lucy Pledge, Head of Audit and Risk Management, who can be contacted on 01522 553692 or lucy.pledge@lincolnshire.gov.uk .

19 June 2023 – 10.00 am **Confirm timings for start of meeting – with a comfort break after the training??** **(9am Training)**		
Item	**Contributors**	**Assurances Required/ Sought**
Informal Statement of Accounts Training		
Draft Statement of Accounts 2022/23	Sue Maycock (Head of Finance – Corporate)	By asking questions (supported by independent advisor), confirm the integrity of the Council's financial statements prior to audit/publication. Improving how the Council discharges its responsibilities for public reporting e.g. better targeting at the audience and plain English.
Internal Audit Annual Report 2022/23	Claire Goodenough (Head of Internal Audit and Risk Management)	Gain an understanding of the level of assurances being provided by the Head of Internal Audit over the Council's governance, risk and internal control arrangements and why. To consider how well the Internal Audit Functions is performing: • Is it what you want – independent, objective and provide a knowledgeable view of how well the Council is being run? • Conforms to the Public Sector Internal Audit Standards? • Has an effective Quality Assurance framework? • Adequacy resourced – capacity and skills? • Successfully delivers results that make a difference in how well the Council is run?
Counter Fraud & Whistleblowing Annual Report	Claire Goodenough (Head of Internal Audit and Risk Management) Dianne Downs (Audit Manager)	On the overall effectiveness of the Authority's arrangements to counter fraud and corruption.

Item	Contributors	Assurances Required/ Sought
Information Assurance Annual Report 2022/23	David Ingham (Head of Information Assurance)	Gain an understanding of the level of assurances being provided by the Head of Information Assurance over the Council's information governance arrangements and why.
Monitoring Officer's Annual Report	David Coleman (Monitoring Officer)	Confirm compliance with the Council's code of conduct and constitutional arrangements – ensuring the lawfulness of decisions and promoting / maintaining high standards of conduct by officers and members.
Review of the Council's governance framework and assurance arrangements. Consider the draft Annual Governance Statement 2022/23.	Claire Goodenough (Head of Internal Audit and Risk Management)	Confirm that the Council's governance framework reflects good practice and its assurance arrangements are robust to ensure that policies, processes and procedures are operated as intended. Confirm that the Annual Governance Statement accurately reflects the Committees understanding of how the Council is run. Providing an accurate account to the public.
Internal Audit Plan 2022/23	Claire Goodenough (Head of Internal Audit and Risk Management) Dianne Downs (Audit Manager)	That the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion. Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year. Ensure that the Internal Audit Resource has sufficiently capacity and capabilities to maintain an effective internal audit function.
Counter Fraud Plan 2022/23	Claire Goodenough (Head of Internal Audit and Risk Management) Dianne Downs (Audit Manager)	On the overall effectiveness of the Authority's arrangements to counter fraud and corruption.

24 July 2023 – 10.00 am		
Item	**Contributors**	**Assurances Required/ Sought**
Internal Audit Progress Report – June 2023	Claire Goodenough (Head of Internal Audit and Risk Management) Dianne Downs (Audit Manager)	Gain an understanding of the level of assurances being provided by the Head of Internal Audit over the Council's governance, risk and internal control arrangements and why. The Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion. Confirm that the plan achieves a balance between setting out the planned work (must do's) for the year and retaining flexibility to changing risks and priorities during the year.
Update on the Council's Financial Resilience	Michelle Grady (Assistant Director – Finance) Sue Maycock (Head of Finance – Corporate)	Provide assurance that the Council's arrangements follow good practice - supporting financial resilience, sound financial management and VfM. Gain assurance on implementation of improvement actions identified through self assessment: • External Audit VFM self-assessment • CIPFA Financial Management Code • Grant Thornton Review – March / April 2023
25 September 2023 – 10.00 am		
Item	**Contributors**	**Assurances Required/ Sought**
Statement of accounts 2022/23 – Lincolnshire County Council & Pension Fund	Sue Maycock (Head of Finance – Corporate)	Ensure that the explanatory forward to the accounts help the public understand the authority's financial management of public funds. Consider the outcome of the External Audit and the appropriateness of management responses.

		Consider any concerns arising from the financial statements or from the

25 September 2023 – 10.00 am		
Item	**Contributors**	**Assurances Required/ Sought**
		audit that need to be brought to the attention of the Council.
Audit Completion Report 2022/23 – Lincolnshire County Council & Pension Fund	Representatives of Mazars	Consider the outcome of the External Audit and the appropriateness of management responses. Consider any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council Consider the proposed Value for Money Conclusion and any matters arising.
Counter Fraud Progress Report	Claire Goodenough (Head of Internal Audit and Risk Management) Dianne Downs – (Audit Manager)	Gain assurance that the Council has effective arrangements in place to fight fraud locally. Ensure that counter fraud resources are effectively targeted to the Council's key fraud risks.
Risk Management Progress Report – September 2023	Claire Goodenough (Head of Internal Audit and Risk Management) Mandy Knowlton-Rayner (Insurance & Risk Manager)	Seek assurance that risk-related issues are being addressed.
Approval of the Council's Annual Governance Statement 2021/22	Claire Goodenough (Head of Internal Audit and Risk Management)	Confirm that the final Annual Governance Statement accurately reflects the Committees understanding of how the Council is run.

13 November 2023 – 10.00 am		
Item	**Contributors**	**Assurances Required/ Sought**
Draft Audit Committee Annual Report 2023	Claire Goodenough (Head of Internal Audit and Risk Management)	Provide assurance that the Committee has adequately discharged its terms of reference and has positively contributed to how well the Council is run.
Internal Audit Progress Report – September / October 2023	Claire Goodenough (Head of Internal Audit and Risk Management) Dianne Downs (Audit Manager)	Gain an understanding of the level of assurances being provided by the Head of Internal Audit over the Council's governance, risk and internal control arrangements and why. The Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion. Confirm that the plan achieves a balance between setting out the planned work (must do's) for the year and retaining flexibility to changing risks and priorities during the year.
Strategic Risk – Deep Dive (Selected by the Committee)	Risk Owner	That risk management processes working effectively – with appropriate oversight and monitoring of control actions in place or being developed.
Fraud Risk Register	Claire Goodenough (Head of Internal Audit and Risk Management) Dianne Downs (Audit Manager)	Confirm that the Council's counter fraud activity is targeted and effective.
Horizon Scanning	Claire Goodenough (Head of Internal Audit and Risk Management)	To provide early signs of potentially important developments – identifying potential treats, risks, emerging issues and opportunities.

January / February 2024 – 10.00 am		
Item	**Contributors**	**Assurances Required/ Sought**
Combined Assurance Status Reports – 2023/24	Chief Executive, Executive Directors, and Chief Fire Officer	Understand the level of assurances being provided on the Council's critical systems, key risks and projects and how they link to the Committees role and remit and the Annual Governance Statement. Seeking assurance that they are working well and that any significant risk and issues are being actively managed.

March 2024 – 10.00 am		
Item	**Contributors**	**Assurances Required/ Sought**
External Audit Strategy – Lincolnshire County Council & Pension Fund 2023/24	Representatives of Mazars	Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.
Statement of Accounts 2023/24 – Accounting Policies	Sue Maycock (Head of Finance – Corporate)	Confirm that the appropriate accounting policies are being applied and understand the impact of any material changes that affect the Council's or Pension fund accounts.
Risk Management Progress Report - March 2024	Claire Goodenough (Head of Internal Audit and Risk Management) Mandy Knowlton-Rayner (Insurance & Risk Manager)	Seek assurance that risk-related issues are being addressed.
Counter Fraud Plan 2024/25	Claire Goodenough (Head of Internal Audit and Risk Management) Dianne Downs (Audit Manager)	On the overall effectiveness of the Authority's arrangements to counter fraud and corruption.

January / February 2024 – 10.00 am		
Item	**Contributors**	**Assurances Required/ Sought**
Internal Audit Plan 2024/25	Claire Goodenough (Head of Internal Audit and Risk Management) Dianne Downs (Audit Manager)	That the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion. Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year. Ensure that the Internal Audit Resource has sufficiently capacity and capabilities to maintain an effective internal audit function.
Internal Audit Progress Report – March 2024	Claire Goodenough (Head of Internal Audit and Risk Management) Dianne Downs (Audit Manager)	Gain an understanding of the level of assurances being provided by the Head of Internal Audit over the Council's governance, risk and internal control arrangements and why. Confirm that the plan achieves a balance between setting out the planned work (must do's) for the year and retaining flexibility to changing risks and priorities during the year. Is adequate to support the Head of Audit opinion.

Items to be programmed:

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

Appendix B - Audit Committee Action Plan 2023/24

Audit Committee Action Plan 2023/24			
Action	**Terms of Reference Outcome**	**Key Delivery Activities**	**When**

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Appendix A

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of the Local Government Act 1972.

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