

AUDIT COMMITTEE

Tuesday, 24 March 2020

6.00 pm

Committee Room 1, City Hall

Membership: Councillors None.

Substitute member: Councillor Pat Vaughan

Independent Member: None.

Officers attending: None.

A G E N D A

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2. Declarations of Interest	
<p>Please note that, in accordance with the Members' Code of Conduct, when declaring interests members must disclose the existence and nature of the interest, and whether it is a disclosable pecuniary interest (DPI) or personal and/or pecuniary.</p>	
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- Present:** Councillor Geoff Ellis (*in the Chair*)
- Councillors:** Thomas Dyer, Gary Hewson, Ronald Hills, Rebecca Longbottom and Pat Vaughan
- Independent Member:** Jane Nellist
- Apologies for Absence:** Councillor Laura McWilliams and Councillor Jackie Kirk

44. Confirmation of Minutes - 17 December 2019

RESOLVED that the minutes of the meeting held on 17 December 2019 be confirmed.

45. Declarations of Interest

Councillor Pat Vaughan declared a Personal Interest with regard to the agenda item titled 'Prudential Indicators 2019/20-2022/23 & Treasury Management Strategy 2020/21'.

Reason: His granddaughter worked in the finance section at the City of Lincoln Council.

46. Change to Order of Business

RESOLVED that the order of business be amended to allow Item No 4: Prudential Indicators 2019/20-2022/23 and Treasury Management Strategy 2020/21 to be considered before the remaining agenda items.

47. Prudential Indicators 2019/20-2022/23 & Treasury Management Strategy 2020/21

Sarah Hardy, Principal Finance Business Partner:

- a. presented a report for Audit Committee to scrutinise and recommend to the Executive for approval the adoption of the 15 statutory prudential indicators and 8 local indicators for the period 2019/20 to 2022/23, together with the 2020/21 Treasury Management Strategy, prior to being reported to Council for final approval
- b. referred to training undertaken prior to the start of this meeting in relation to Treasury Management in order to help members take an informed view on the contents of this report
- c. summarised the key prudential indicators which had been incorporated into the 2020/21 strategy; the projected capital expenditure would determine the capital financing or borrowing requirement, which would in turn determine the actual level of external borrowing taken and hence, cash balances available for investment
- d. reported on the methodology employed for selecting investment counterparties as detailed at paragraph 2.2 of the report

- e. advised that the strategy for 2020/21 had been prepared taking into account changes in the Prudential Code and Treasury Management Code
- f. outlined the operation of the Council's prudential indicators, its treasury function and its likely activities for the forthcoming year, incorporating the four key Council reporting requirements as follows:
 - Prudential and Treasury Indicators
 - Minimum Revenue Provision (MRP) Statement
 - Treasury Management Strategy
 - Investment Strategy
- g. referred to information provided at paragraph number 4.1.2 of the report in relation to Capital Expenditure and Financing, which would be broken down further between the General Fund and Housing Revenue Account as requested by members
- h. requested that Audit Committee review the content of the report and its associated appendices and recommend to Executive and Council for approval.

Members considered further the content of the report.

Members referred to paragraph 5.7 of the Treasury Management Strategy 2019/20 at Appendix 3 of the report, and queried what consideration was given to the criteria for investment counterparties in terms of choosing ethical companies and those that supported our policies.

Sarah Hardy, Principal Finance Business Partner referred to a weighted scoring system culminating in a series of colour coded bands which indicated the relative creditworthiness of counterparties, used by the council to determine the suggested duration for investments.

RESOLVED that:

1. The prudential indicators detailed in Section 4.1 and Appendix 1 of the report be recommended to Executive and Council for approval.
2. The Treasury Management Strategy (including the Treasury Management Prudential Indicators and the Investment Strategy) as set out in Section 4 and Appendix 3 of the report be recommended to Executive and Council for approval.
3. The revised MRP policy detailed in Appendix 2 of the report be recommended to Executive and Council for approval.
4. The revised Treasury Management Practices and Schedules detailed in Appendix 2 of the report be recommended to Executive and Council for approval.

48. Internal Audit Progress Report

John Scott, Audit Manager:

- a. presented the Internal Audit Progress Report to Audit Committee, incorporating the overall position reached so far and summaries of the outcome of audits completed during the period December 2019 to January 2020, as detailed at Appendix A
- b. highlighted that Audit Committee held the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan as a key requirement of public sector internal audit standards
- c. detailed the content of the report covering the following main areas:
 - Progress Against the Plan
 - Summary of Audit Work
 - Implementation of Audit Recommendations
 - Current Areas of Interest Relevant to the Audit Committee
- d. detailed audit work completed and a final report issued in respect of:
 - Housing Rents (Substantial)
 - Recruitment (Substantial)
- e. highlighted consultancy work completed during the period in relation to Fire Risk - High Rise Blocks
- f. advised that following members observations and comments at the last meeting of Audit Committee a recommendation follow up protocol was presented at Appendix 3 of his report for consideration and comments
- g. reported on an audit report at draft stage in respect of Licensing which was with management for approval
- h. reported on work in progress in relation to:
 - Treasury Management
 - Payroll
 - ICT Anti-Malware Arrangements
 - Sports Pitches Improvements
 - Homelessness
 - Efficiency Savings
 - Housing Allocations (Choice Based Lettings)
 - Western Growth Corridor
 - Partnerships (Consultancy)
 - De Wint Extra Care Facility
 - Project Management
- i. reported on other work ongoing in the following areas:
 - Combined Assurance Map Update
 - Audit Strategy and Plan 2020/21
 - Bribery/Whistleblowing Policy Review
 - NFI Completion
 - Tenancy Fraud

j. highlighted the following audits being prepared for Quarter 4:

- Performance Management
- Website Security
- IT Combined Assurance
- Governance/Risk Management
- Economic Development/Growth
- Office 365 Project (may be deferred)
- Counter Fraud Training (Consultation)
- Fraud Health Check
- Money Laundering Risk Assessment
- Identity Fraud

k. detailed other matters of interest in relation to

- Planning Guidance
- Business Rates Avoidance Survey Report 2019

l. highlighted performance against a range of indicators, with good achievement secured in respect of Audit KPI's to date

m. detailed the contents of the Audit Plan Schedule at Appendix 4 of the report

n. requested members' consideration of the report.

Members discussed the content of the report in further detail, commenting as follows:

- Question: Were rent collection figures worse or better with the introduction of Universal Credit?
- Response: Rent collection performance figures were on target so far for the financial year 2019/20. Performance indicators had been slightly revised to take into account Universal Credit. These figures would be presented to Performance Scrutiny Committee in due course.
- Question: It was noted that 28% of tenants paid their housing rents by direct debit. How did the remaining tenants settle their accounts?
- Response: A high proportion of housing rent accounts were settled by card payment. The council's current policy was not to make an administration charge for this. The service endeavoured to encourage payment by direct debit wherever possible as the cheapest method for the council.
- Question: Had the planned audit of ICT Mobile Office 365 been deferred?
- Response: The new system was still in the first part of the trial period, a consultant had been taken on board to assist with its implementation. Performance Scrutiny Committee would receive regular updates throughout.
- Question: It was noted that the Local Government Association estimated that around 1% of total business rates income was lost to business rates avoidance each year. Could examples be given of this across our city?
- Response: There were ways to avoid business rates which were not considered to be fraudulent. For example, letting the premises to charities, premises used for storage which could then claim back business rate charges.
- Question: How many times in a month had the target rent not been applied to new tenants if not previously charged?

- Response: There had been 300 new tenancies of which the rents of 102 had been reviewed. There had been only two instances that hadn't been moved to the target rent and the rent lost had been 'negligible'. The difference in the increase in rent had been just pence.

RESOLVED that the contents of the report and continuation of further monitoring arrangements be noted.

49. Audit Committee Work Programme

John Scott, Audit Manager, presented a report to inform members of Audit Committee on the work programme for 2019/20 as detailed at Appendix A.

RESOLVED that the contents of the Audit Committee work programme 2019/20 be noted.

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SUBJECT: ANNUAL GOVERNANCE STATEMENT MONITORING

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

LEAD OFFICER: HEATHER GROVER, PRINCIPAL POLICY OFFICER

1. Purpose of Report

1.1 To present a progress update on the area identified as a 'significant governance issue' as set out in the 2018/19 Annual Governance Statement (AGS).

2. Executive Summary

2.1 The Audit Committee has a role to review the Council's governance arrangements including the production of the Annual Governance Statement.

This report provides details of the monitoring arrangements for the significant internal control issue raised in the latest AGS.

3. Background

3.1 Monitoring of the 2018/19 AGS Issue

The updates on the significant issue identified within the 2018/19 AGS are included within **Appendix A**

This is monitored by the Service Manager's Group and overseen by Corporate Leadership Team as well as monitored at Audit Committee.

4. Summary of Findings

There is now just one significant issue remaining – which is considered, by the responsible officer to be red.

“The IT Disaster Recovery plan is not sufficiently aligned with the Business Continuity plans that are currently in place for restoring key services, in terms of IT needs”

A plan of action to cover this issue has been agreed between the Emergency Plan Manager (LCC Emergency Planning Officer), the Business Continuity Manager (Chief Finance Officer) and the IT Service Manager (Business Development and IT Manager). Key actions to date:

- The first stage to review the schedules within the current Business Continuity Plans to ensure they are still relevant has now been completed.
- Currently an exercise reviewing the critical services is underway – the

estimated is now to be agreed as priority work on business continuity plans in response to Covid-19.

- A procurement exercise has been completed on reviewing and updating the IT infrastructure, which will enhance Disaster Recovery significantly once the solution is implemented in 2020. We are currently working with the supplier to develop an installation plan.
- As part of the investigative work for the new infrastructure – it has been established that there is currently insufficient power available at Hamilton House (back up site) to implement the new infrastructure fully. Officers are currently developing actions to mitigate and establish whether there is any risk of additional costs as a result. The electrical work required has now been established and needs to be scheduled. In addition, the server room will be reconfigured to improve security and environmental conditions. This is also being scheduled.

The full review of the IT DR plan will commence once the new infrastructure is in place.

5. Strategic Priorities

This report does not focus specifically on any of the four Vision 2020 priorities, but does contribute significantly towards the High Performing Services aspect which underpins these aspirations.

6. Organisational Impacts

6.1 Finance (including whole life costs where applicable)

There are no direct financial implications arising as a result of this report.

6.2 Legal Implications including Procurement Rules

There are no direct legal implications arising as a result of this report.

6.3 Equality, Diversity & Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

There are no direct Equality and Diversity implications arising as a result of this report.

7. Risk Implications

7.1 (i) Options Explored - N/A

(ii) Key Risks Associated with the Preferred Approach N/A

8. Recommendation

8.1 Audit Committee is asked to note the report and consider whether any of the following options are relevant :

- Report and make recommendations to the Executive if appropriate.
- Refer any matter under review they feel appropriate to the relevant Portfolio Holder, Scrutiny Chair or Committee.
- Accept the report and continue to monitor arrangements.

Key Decision

No

Do the Exempt Information Categories Apply?

No

Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?

No

How many appendices does the report contain?

One

List of Background Papers:

None

Lead Officer:

Heather Grover, Principal Policy Officer,
Ext. 3326

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**Quarterly summary of progress with AGS risk action
To Audit Committee: 24th March 2020**

Significant current issues from 2018/19 to focus on in 2019/20.

The risk actions below were identified in the 2018/19 AGS review. Progress will continue to be made in 2019/20, monitored and driven forward by the Service Managers Group and reported to Audit Committee quarterly.

Please note that as part of the last AGS it was determined that:

- Information Management – progress towards delivering compliance to GDPR has been deemed sufficiently progressed enough to remove

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	What actions will be taken over the coming months	What progress have we made against each action	RAG Status
<p>The Disaster Recovery plan in place for IT arrangements</p> <p>Matt Smith Jaclyn Gibson</p>	<p><i>The IT Disaster Recovery plan is not sufficiently aligned with the Business Continuity plans that are currently in place for restoring key services, in terms of IT needs</i></p> <p>Actions agreed:</p> <ol style="list-style-type: none"> 1. The EP & BC Officer is to review current schedules with the Service Managers – June 2019 2. BC group to re-assess which services are defined as “critical Services” – September 2019 3. Significant investment in the IT infrastructure to be approved by Exec to upgrade live and DR sites – December 2019 4. Review of the IT DR plan to be completed by June 2020 5. Alignment between the new ITDR and BC recovery plans to be implemented by October 2020 	<ol style="list-style-type: none"> 1. Desktop review of current BCP’s completed. 2. Review of critical services has commenced, still awaiting completion of assessments from all service areas (a number are still outstanding and were anticipated to be finalised in February) – estimated completion date is now to be agreed as priority work on business continuity plans in response to Covid-19 is being undertaken. 3. Procurement exercise now complete. Will enhance DR significantly once solution is implemented. Working with supplier on installation and migration <p>As part of the investigative work for the new infrastructure – it has been established that there is currently insufficient power available at Hamilton House (back up site) to implement the new infrastructure. Officers are currently developing actions to mitigate and establish whether there is any risk of additional costs as a result. The electrical work required has now been established and needs to be scheduled. In addition, the server room will be reconfigured to improve security and environmental conditions. This is also being scheduled.</p>	<div style="background-color: red; color: white; text-align: center; width: 40px; height: 40px; margin: 0 auto;">R</div>

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SUBJECT: EXTERNAL AUDIT ENQUIRIES 2019/20 STATEMENT OF ACCOUNTS

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

LEAD OFFICER: COLLEEN WARREN, FINANCIAL SERVICES MANAGER

1. Purpose of Report

1.1 To inform members of the External Auditor's requirement for the provision of information regarding the Council's approach to dealing with fraud, litigation, laws and regulations as part of their audit of the Council's Statement of Accounts for 2019/20 and to allow members to comment on the response related to 'Those Charged with Governance'.

2. Enquiries for those Charged with Governance

2.1 As part of the annual approach taken by the Council's external auditors, Mazars, they seek responses to a range of inquiries concerning the Council's approach and reporting arrangements for a number of key areas, in particular related to themes surrounding fraud, litigation, laws and regulations together with some areas specific to the accounts such as related parties and estimates used in the accounts. The responses to these provided by officers will inform the approach taken by Mazars to the audit of the 2019/20 Statement of Accounts.

2.2 In addition to the enquiries made to officers Mazars also require a response to a number of enquiries relating to the arrangements for identifying, responding to and managing risks around fraud from 'those charged with governance'. Details of the specific inquiries and a proposed response to each is provided in Appendix A for members to review and comment on ahead of agreeing the final version for submission to Mazars.

3. Strategic Priorities

3.1 There are no significant impacts arising as a direct result of this report.

4. Organisational Impacts

4.1 There are no direct legal implications arising as a direct result of this report.

4.2 There are no direct financial implications arising from this report.

5. Recommendations

5.1 That the Audit Committee receive, and comment upon, the enquiries for those charged with governance for the 2019/20 Statement of Accounts.

Key Decision No

Key Decision Reference No.

Do the Exempt Information Categories Apply No

Call In and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply? No

Does the report contain Appendices? Yes

If Yes, how many Appendices? One

List of Background Papers: None

Lead Officer: Colleen Warren, Financial Services Manager
Telephone: 01522 873361
Email: colleen.warren@lincoln.gov.uk

Appendix A

The International Standards on Auditing (ISA), specifically ISA 240 “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements” and ISA 250 “Consideration of Laws and Regulations in an Audit of Financial Statements”, requires auditors to perform certain procedures to obtain an understanding of the entity and its environment, including the entity’s internal control. These procedures include making appropriate inquiries of management and others within the organisation, for the purpose of obtaining information for use in identifying the risks of material misstatement due to fraud and other issues.

The purpose of this document is to record Those Charged With Governance’s assessment against these requirements.

NAME OF INTERVIEWEE : AUDIT COMMITTEE

DATE OF INTERVIEW :

Inquiry Area	Description	Response
Fraud [ISA 240.20]	How do those charged with governance (TCWG) exercise oversight of management's processes for identifying and responding to the risk of fraud in the Council and the internal control that management has established to mitigate these risks?	Management and the Audit Committee receive 6 monthly updates on counter fraud activity and fraud outcomes (through a fraud and error update report). The audit committee have received a training presentation on counter fraud/fraud awareness (December 17) and further training guidance in late 2018 followed up in March 2019 Fraud e-learning has been rolled out across Directors, AD’s and service managers. There is a corporate fraud risk register presented to management and the Audit Committee in December 2019 Periodic reporting and review by the Audit Committee of counter fraud policies. Regular updates on the Internal Audit Plan and reports are provided to management and the Audit Committee. There is a clear reporting mechanism for any suspected fraud to be reported to the Council.

Inquiry Area	Description	Response
Fraud [ISA 240.21]	<p>Are TCWG aware of or have they identified any instances of actual, suspected or alleged fraud within the Council? This includes instances of misconduct or unethical behaviour related to financial reporting or misappropriation of assets.</p> <p>Where TCWG are aware of such instances how have these been addressed?</p>	<p>No – not financial reporting or misappropriation of assets. Instances of fraud have been identified, primarily in the following areas:</p> <ul style="list-style-type: none"> - Tenancy Council Tax single persons discount - Housing benefit <p>These have been investigated and actioned as appropriate (e.g. penalty, discounts removed, DWP referral, police referral etc.)</p>
Fraud [ISA 240.21]	<p>What are the views of TCWG about fraud risks at the Council?</p>	<p>As with any large and complex organisation there are a range of fraud risks and emphasis on reducing fraud risk is continuous. The results of the NFI, internal audit work and reported fraud show some low value frauds.</p> <p>Management and the Audit Committee is kept up to date with fraud risks through updates on the fraud risk register, counter fraud, internal audit and other ad hoc reports.</p> <p>Fraud risks are acknowledged in key areas. Members and officers are aware of these and the risks are managed through established processes.</p>

Inquiry Area	Description	Response
Laws and Regulations [ISA 250.15]	How do you gain assurance that all relevant laws and regulations have been complied with?	<p>The Council is governed by all national legislation, regulation and EU law.</p> <p>The Council's core functions are set out in the Constitution and associated policies and procedures, which reflect the legal and regulatory framework within which it operates.</p> <p>Directorates and Managers are responsible for identifying and complying with the legal and regularity framework.</p> <p>Advice is obtained from the Council's legal service as required</p> <p>All Committee reports have legal implications assessed, reported and these are reviewed by Legal</p> <p>All the necessary training for members and officers completed so all are aware.</p> <p>Internal audit have undertaken an "emerging legislation" audit/review in the past.</p>

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**SUBJECT: EXTERNAL AUDIT – AUDIT STRATEGY MEMORANDUM
2019/20**

DIRECTORATE: CHIEF EXECUTIVE & TOWN CLERK

REPORT AUTHOR: JACLYN GIBSON, CHIEF FINANCE OFFICER

1. Purpose of Report

- 1.1 To receive and comment upon the External Audit – Audit Strategy Memorandum for 2019/20.

2. Background

- 2.1 The External Audit – Audit Strategy Memorandum describes the External Auditor’s (Mazars LLP) approach in delivering the financial statements audit work for City of Lincoln Council along with their approach to value for money (VFM) work for 2019/20. The document also highlights significant audit risks and areas of key judgement as well as providing details of the audit team. The Council’s external auditor will be in attendance at the meeting to take the Committee through the reports.

3. Strategic Priorities

3.1 High Performing Services

There are no direct implications for the Council’s strategic priorities. The external audit of the Council’s financial statements is a statutory requirement and as such contributes towards the fitness for purpose of the Council’s governance arrangements.

4. Organisational Impacts

4.1 Finance (including whole life costs where applicable)

The Audit fee is included within section 6 of the Audit Strategy Memorandum (Appendix A to this report). The fee includes work on the VFM conclusion and the audit of the financial statements. The Audit Fee of £36,332 is in accordance with the scales fees set by the PSAA. Separate agreement will be reached with Mazars regarding the additional fee in relation to the EU PIE classification and additional work required in response to regulatory recommendations.

A separate procurement process has been undertaken in order to engage Mazars in relation to the Housing Benefits Subsidy Return 2019/20 at a fee of £6,600 (subject to inflation). A further process will be undertaken for the Housing Pooling Return 2019/20.

4.2 Legal Implications including Procurement Rules

There are no direct legal implications. The External Auditor is required to satisfy themselves that the Council's accounts comply with statutory requirements and that proper practices have been observed in compiling them.

5. Risk Implications

5.1 There are no specific risk implications arising as a direct result of this report. The Audit Strategy Memorandum sets out the key risks, as identified by the External Auditor, relevant to the audit of the financial statements.

6. Recommendation

6.1 Members should note and comment on the External Audit – Audit Strategy Memorandum 2019/20.

Is this a key decision? No

Do the exempt information categories apply? No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply? No

How many appendices does the report contain? One

List of Background Papers: None

Lead Officer: Jaclyn Gibson, Chief Finance Officer
Telephone (01522) 873258

Audit Strategy Memorandum

City of Lincoln Council

Year ending 31 March 2020





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1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks, key audit matters and other key judgement areas
5. Value for Money
6. Fees for audit and other services
7. Our commitment to independence
8. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

Appendix C – Extended auditor’s report

This document is to be regarded as confidential to City of Lincoln Council. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance by the Council. 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.

Members of the Audit Committee
City of Lincoln Council
City Hall
Beaumont Fee
Lincoln
LN1 1DD

27 February 2020

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for City of Lincoln Council for the year ending 31 March 2020.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

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

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07875 974 291 .

Yours faithfully



Mark Surridge

Director, Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of City of Lincoln Council (the Council) for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Value for Money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Reporting to the NAO

We are required to issue an assurance statement to the National Audit Office confirming the income, expenditure, asset and liabilities of the Council.

Electors' rights

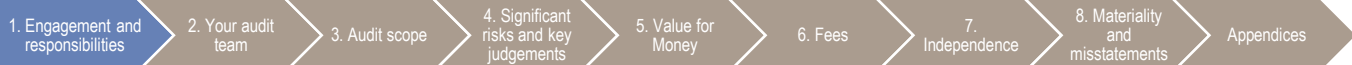
The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit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

Our audit does not relieve management, as those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

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

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified Full Council as those charged with governance, with our reporting going via the Audit Committee.



2. YOUR AUDIT ENGAGEMENT TEAM



Mark Surridge
Director and Engagement Lead

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



Jon Machej
Manager

E-Mail: jon.machej@mazars.co.uk
Tel: 0115 964 4782



Kizzy Atkins
Assistant Manager

E-Mail: kizzy.atkins@mazars.co.uk
Tel: 0115 964 4791

In addition, an engagement quality control reviewer (EQCR) has been appointed for this engagement.

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

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

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

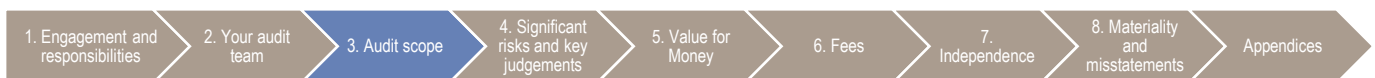
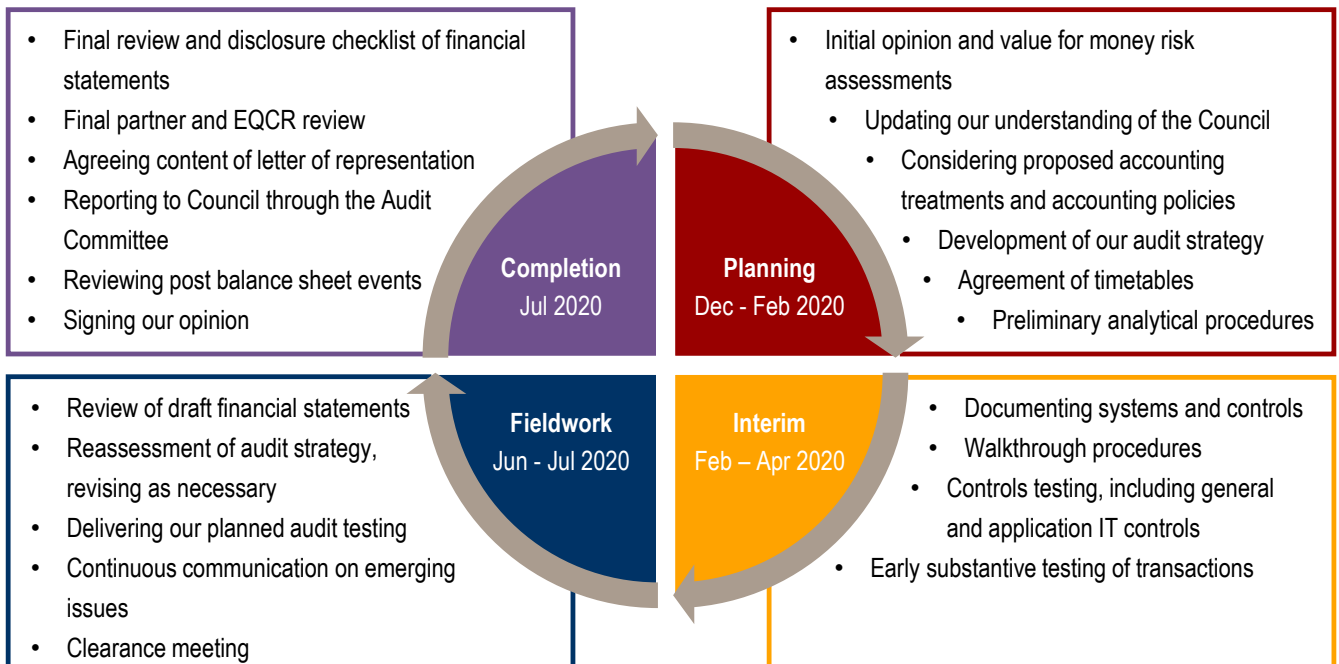
Audit approach

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

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

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

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



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

We are not planning to rely on the work on internal audit, but should we do so, we would evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account. We discuss our use of experts further in respect of independence in section 7.

Items of account	Management's expert	Our expert
Defined benefit liability	Hymans Robertson <i>Actuary for Lincolnshire Pension Fund</i>	PwC <i>Consulting actuary appointed by NAO</i>
Property, plant and equipment	District Valuer Services <i>External valuation specialist</i> Paul Clifton <i>The Council's internal valuer</i>	Not applicable
Business rate appeals provisions	InformCPI <i>External rating specialist</i>	Not applicable
Financial instrument disclosures	Link Asset Services <i>Treasury management advisors</i>	Not applicable

Public interest entities

Some types of audits require additional considerations, such as public interest entities (PIEs). PIEs are those bodies as defined by the Financial Reporting Council's Ethical Standard, including those holding listed debt. As the Council holds debt (less than our materiality level set out in this document) listed on the London Stock Exchange, it is classed as a Public Interest Entity. This results in:

- additional acceptance and engagement considerations (see further considerations in section 7);
- enhanced quality control requirements; and
- additional enhanced audit report requirements.

These requirements are not included in the scale fee set by Public Sector Audit Appointments and therefore will result in additional audit fees.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Service organisations

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

Items of account	Service organisation	Audit approach
Pension cost (cost of services) Net interest on defined benefit liability Re-measurements of the net defined benefit liability (OCI) Net pension liability	Lincolnshire Pension Fund <i>The IAS 19 pension entries that form part of the Council's financial statements are material and are derived from actuarial valuations. The process of obtaining these is co-ordinated by and uses information held and processed by the service organisation.</i>	We will review the controls operating at the Council over these transactions to gain an understanding of the services provided by the service organisation. Where we conclude that we do not have a sufficient understanding of the services provided by the service organisation we will seek to obtain assurance by using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.

4. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS

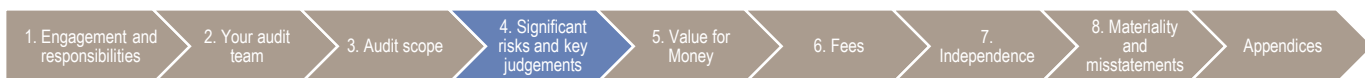
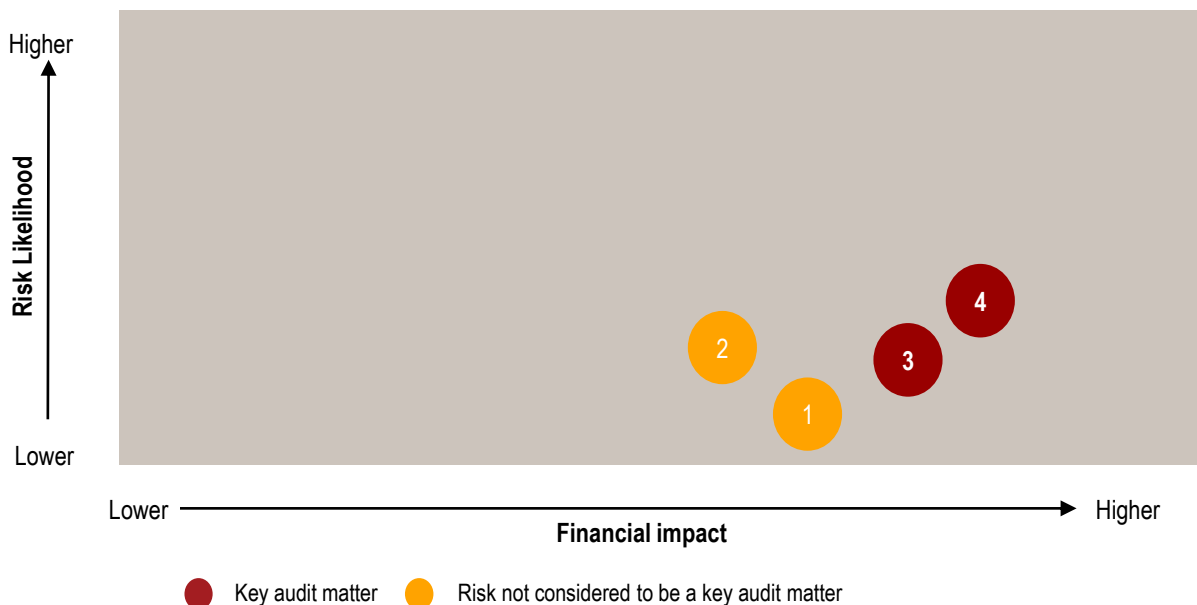
Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

- Significant risk** A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.
- Enhanced risk** An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
 - other audit assertion risks arising from significant events or transactions that occurred during the period.
- Standard risk** This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

Key audit matters

Key audit matters are defined as those matters that, in our professional judgment, are of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

It is important that you understand and have opportunity to discuss with us why something is being communicated as a key audit matter and the way this is described. The summary risk assessment, illustrated below, highlights those risks which we deem to be significant, key audit matters and other enhanced risks. Our audit response to each of these risks is outlined on the table on the following page.



4. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS (CONTINUED)

Specific identified audit risks and planned testing strategy

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Council through the Audit Committee.

Significant risks

	Description of risk	Fraud	Error	Judgement	Expected KAM	Planned response
1	<p>Management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	●	●	-	We plan to address the management override of controls risk through performing tailored tests over significant accounting estimates, journal entries and identified significant transactions that are outside the normal course of business or judged to be otherwise unusual.
2	<p>Revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition although, based on the circumstances of each audit, this is rebuttable.</p> <p>Having considered the factors for revenue recognition and the Council's revenue streams, we have concluded that this can be rebutted with the exception of fees and charges. In this respect we believe the risk is focused on the year-end balance sheet and in particular the existence and accuracy of debtors, specifically those that relate to useable reserves, are material, and are subject to manual intervention and/or significant estimation.</p> <p>This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>	●	●	●	-	<p>We will evaluate the design and implementation of controls to mitigate the risk of material manual debtors being recognised in the wrong period. In addition, we will test such debtors to ensure that they are supported by sufficient and appropriate evidence and have been accounted for correctly.</p> <p>Our audit approach will also incorporate a range of other substantive procedures, including:</p> <ul style="list-style-type: none"> • testing from receipts pre and post year-end to ensure revenue has been posted to the correct period; and • testing journals.

4. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS (CONTINUED)

Description of risk	Fraud	Error	Judgement	Expected KAM	Planned response
<p>3 Valuation of property, plant and equipment, investment properties and assets held for sale</p> <p>The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (PPE), investment properties and assets held for sale.</p> <p>The Council employs valuation experts to provide information on valuations, because there is a high degree of estimation uncertainty associated with the (re)valuations of PPE, investment properties and assets held for sale due to the significant judgements and number of variables involved.</p>	-	●	●	●	<p>In relation to the valuation of property, plant & equipment, investment properties and assets held for sale we will:</p> <ul style="list-style-type: none"> critically assess the Councils' valuers scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; consider whether the overall revaluation methodology used by the Councils' valuers are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; assess whether valuation movements are in line with market expectations by reference to alternative sources of valuation data to provide information on regional valuation trends; critically assess the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; and critically assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Councils' valuers.

4. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS (CONTINUED)

	Description of risk	Fraud	Error	Judgement	Expected KAM	Planned response
4	<p>Valuation of net defined benefit liability</p> <p>The financial statements contain material accounting entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	-	●	●	●	<p>In relation to the valuation of the Council's defined benefit pension liability we will:</p> <ul style="list-style-type: none"> critically assess the competency, objectivity and independence of the Lincolnshire Pension Fund's Actuary, Hymans Robertson; liaise with the auditors of the Lincolnshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PwC, the consulting actuary engaged by the National Audit Office; and agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.



5. VALUE FOR MONEY

Our approach to Value for Money

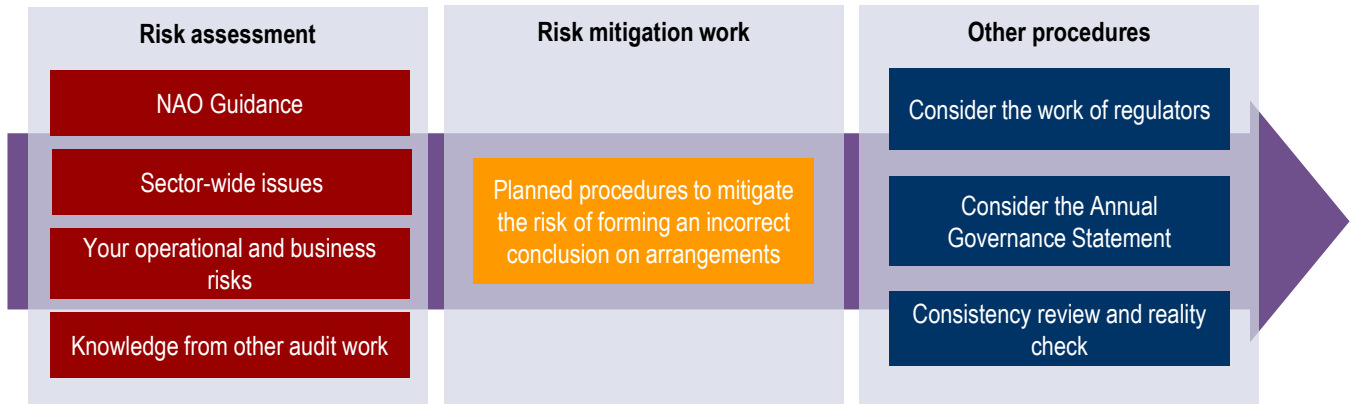
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria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

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are provided set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake is provided below:



Significant Value for Money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a significant Value for Money (VFM) risk exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For the 2019/20 financial year, we have not identified any significant risks to our VFM conclusion. We will continually assess whether any matters come to our attention through the course of our audit that lead us to conclude that a risk to our VFM conclusion does exist and where any such risk is identified, these will be reported to Council through the Audit Committee as part of our Audit Completion Report.



6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we expect to need to reflect the scale fee set by PSAA as communicated in our fee letter of 24 April 2019 and other matters listed below:

Service	2018/19 fee	2019/20 fee
Code audit work	£36,332	£36,332
Additional work to reflect the cost of audit work on the revised financial statements following a changes to pension liabilities to take account of the McCloud adjustment	£750	Not expected to reoccur
Additional work to reflect the cost of audit work on the revised financial statements in respect of the Council's prior period adjustment	£1,017	Not expected to reoccur
Additional work to reflect the Council's designation as a Public Interest Entity	£5,000	To be agreed
Additional work in response to regulatory recommendations to increase level of audit work on defined benefit liability schemes.	-	To be agreed
Additional work in response to regulatory recommendations to increase level of audit work on the valuation of property plant and equipment.	-	To be agreed
Total	£43,099	To be agreed

In common with all local government external auditors we are required to carry out additional procedures which were not expected when fees were set.

Public interest Entity

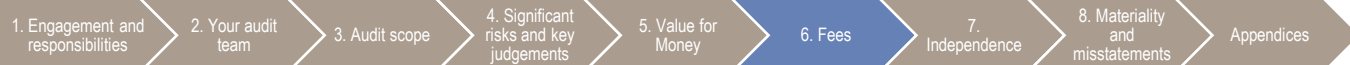
Designation as an EU Public Interest Entity (EU PIE) The new European Union (EU) statutory audit legislation came into effect for all financial years starting on or after June 17, 2016. The new Public Interest Entity (PIE) definition includes organisations with transferable securities listed on EU regulated markets and governed by the law of an EU member. City of Lincoln Council had £560,780 of listed debt as at 31 March 2019. As a result of this listed debt, the Council falls under the definition of an EU PIE. In particular there are additional requirements at both the planning and the reporting stages of the audit, culminating in the longer-form audit report.

Regulatory recommendations

We continually strive to maintain high standards of audit quality. One mechanism for doing this is to consider the outcome of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers. In particular we are planning increases in the level of work we do on:

- defined benefit pension schemes; and
- valuation of property, plant and equipment

We will discuss the driving factors with Council officers and the audit fee for 2019/20 will be revisited to reflect the increased level of work that was not considered when the scale fee was set. Any agreed additional fee is also subject to detailed scrutiny by the PSAA as part of the approval process.



6. FEES FOR AUDIT AND OTHER SERVICES

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Service	2018/19 fee	2019/20 fee
Assurance Services: Housing Benefit Subsidy Return	£6,600	£6,600 *
Assurance Services: Housing Pooling Return	£3,250	To be agreed

* - These fees are subject to a CPI uplift based on the rate at 1 April 2020 (capped at 2.5%),

7. OUR COMMITMENT TO INDEPENDENCE

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

We have not made arrangements for any of our activities as auditor to be conducted by another firm that is not a Mazars' member firm. In section 4 we have outlined the experts that we intend to use as part of our audit. We will write to these experts seeking confirmation of their independence and will report this within our Audit Completion Report.

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

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

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

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

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

Principal threats to our independence and identified associated safeguards are set out below:

Area of work	Safeguards and commentary
Assurance Services: Housing Benefits Subsidy return	<p>We have considered threats and safeguards as follows:</p> <ul style="list-style-type: none"> • Self Review: The work does not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars; • Self Interest: The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis; • Management: The work does not involve Mazars making any decisions on behalf of management; • Advocacy: The work does not involve Mazars advocating the Council to third parties; • Familiarity: Work is not deemed to give rise to a familiarity threat given this piece of assurance work used to fall under the Audit Commission / PSAA certification regimes and was the responsibility of the Council's appointed auditor; and • Intimidation: The nature of the work does not give rise to any intimidation threat from management to Mazars.
Assurance Services: Housing Pooling return	

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



8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold (£'000s)
Overall materiality	£1,800
Performance materiality	£1,350
Trivial threshold for errors to be reported to Council through the Audit Committee	£54

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

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

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

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

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

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

Our provisional materiality is set based on a benchmark of 2018/19 total gross expenditure at the surplus/deficit on provision of services level. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to Council through the Audit Committee.

We consider that total gross expenditure at the surplus/deficit on provision of services level remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We have set a materiality threshold at 1.5% of the benchmark based on the 2018/19 audited financial statements.



8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on the 2018/19 audited financial statements we anticipate the overall materiality for the year ending 31 March 2020 to be £1,800,000 (£1,523,000 in the prior year).

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

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our second year of audit, we have cumulative audit knowledge about the Council's financial statements, and that we identified a number of non-complex errors in the prior year. We have therefore set our performance materiality at 75% (increased from 55% last year) of our overall materiality being £1,350,000.

As with overall materiality, we will remain aware of the need to change this performance materiality level through the audit to ensure it remains to be set at an appropriate level.

Specific items of a lower materiality

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

Item of account	Specific performance materiality (£'000s)
Senior officers' remuneration	£5,000*
Members' allowance and expenses	£60,000
External audit costs	£14,000
Termination payments	£60,000

* - Reflecting movement from one salary band to another

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to Council through the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £54,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Surridge.

Reporting to Council through the Audit Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to Council through the Audit Committee.

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



APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance	Audit Strategy Memorandum Engagement letter
The planned scope and timing of the audit including any limitations, specifically including with respect to key audit matters	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant. 	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> • Enquiries of the audit committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud. 	Audit Completion Report Discussion at Audit Committee Audit planning and clearance meetings
Significant matters arising during the audit in connection with the entity’s related parties including, when applicable: <ul style="list-style-type: none"> • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity. 	Audit Completion Report
Significant deficiencies in internal controls identified during the audit	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report



APPENDIX A – KEY COMMUNICATION POINTS (CONTINUED)

Required communication	Where addressed
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Board of Directors or the Audit Committee in the context of fulfilling their responsibilities. 	<p>Audit Completion Report</p>
<p>Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.</p>	<p>Audit Completion Report Audit Committee meetings</p>
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements. 	<p>Audit Completion Report</p>
<p>Reporting on the valuation methods applied to the various items in the annual [or consolidated] financial statements including any impact of changes of such methods</p>	<p>Audit Completion Report</p>
<p>Identification of each key audit partner involved in the audit</p>	<p>Audit Strategy Memorandum</p>
<p>Communication in respect of any arrangements for any of our activities as auditor to be conducted by another firm</p>	<p>Audit Strategy Memorandum and/or Audit Completion Report as appropriate</p>

APPENDIX A – KEY COMMUNICATION POINTS (CONTINUED)

Required communication	Where addressed
Description of nature, frequency and extent of communication with the Audit Committee and other relevant bodies including dates of meetings	Audit Strategy Memorandum
Description of distribution of tasks among the auditors where more than one auditor has been appointed	Audit Strategy Memorandum
Description of methodology used, including which categories of the balance sheet have been directly verified and which categories have been verified based on system and compliance testing, including an explanation of any substantial variations compared to the previous year	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Disclosure of quantitative level of materiality applied to the audit, any specific materiality levels applied to particular classes of transactions, account balances or disclosures, and qualitative factors considered when setting materiality	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Explanation of judgements about events or conditions identified during the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty, and provide a summary of all guarantees, comfort letters, undertakings of public intervention and other support measures that have been taken into account when making a going concern assessment	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Reporting on significant deficiencies including whether or not the deficiency in question has been resolved by management	Audit Completion Report

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Financial reporting changes relevant to 2019/20

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

Financial reporting changes in future years

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

APPENDIX C – EXTENDED AUDITOR’S REPORT

Basis of requirement for an extended auditor’s report

We are required to issue an extended auditor’s report on the Council’s 2019/20 financial statements under ISA (UK) 700 ‘Forming an Opinion and Reporting on Financial Statements’. This is required as the Council meets the definition of a Public Interest Entity as a result of it having debt that is listed on an EU regulated market.

Layout of the extended auditor’s report

The extended auditor’s report for 2019/20 is expected to follow the format and structure outlined below, assuming that no emphasis of matter or qualification is required.

Paragraph heading	Summary of key content
Opinion	What we have audited and our opinion thereon.
Basis for opinion	Confirmation: <ul style="list-style-type: none"> that the audit is undertaken under the ISAs (UK) of our independence including with the FRC’s Ethical Standard regarding sufficiency and appropriateness of audit evidence obtained to provide a basis for our opinion.
Conclusions relating to going concern	Reporting by exception on the Council’s: <ul style="list-style-type: none"> use of the going concern basis of accounting disclosure of any material uncertainties
Key audit matters	Definition of key audit matters. Clarification that these matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and that we do not provide a separate opinion on these matters. For each key audit matter identified: <ul style="list-style-type: none"> a description of the most significant assessed risk(s) of material misstatement a summary of our response to those risks key observations arising with respect to those risks including clear reference to relevant disclosures in the financial statements, where relevant.
Our application of materiality	Explanation of how we applied the concept of materiality in planning and performing the Council’s audit. The overall materiality threshold for the Council’s financial statements as a whole.
An overview of the scope of our audit	Overview of the scope of the audit, including an explanation of how the scope addressed each key audit matter and was influenced by our application of materiality.
Other information	Responsibilities of the Chief Finance Officer and of the auditor for other information included in the Narrative Report.



APPENDIX C – EXTENDED AUDITOR’S REPORT

Paragraph heading	Summary of key content
Responsibilities of the Chief Finance Officer for the financial statements	Cross reference to the Statement of Chief Finance Officer's Responsibilities.
Auditor's responsibilities for the audit of the financial statements	Explanation of the 'reasonable assurance' objective of the audit Cross-reference to our responsibilities for the audit on the FRC's web-site
Matters on which we are required to report by exception	Report in the public interest under section 24 of the Local Audit and Accountability Act 2014. Recommendation under section 24 of the Local Audit and Accountability Act 2014. Exercise of any other special powers of the auditor under the Local Audit and Accountability Act 2014.
Value for Money arrangements conclusion	Our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
Basis for conclusion	Overview of the scope of our value for money work.
Responsibilities of the Council for arrangements for securing economy, efficiency and effectiveness in its use of resources	Sets out the Council's responsibilities.
Auditor's responsibilities in relation to review of arrangements for securing economy, efficiency and effectiveness in the use of resources	Sets out the auditor's responsibilities, derived from the Local Audit and Accountability Act 2014.
Other matters which we are required to address	Confirms that we have not carried out any prohibited non-audit services and that we remain independent on the Council. Confirms that our audit opinion is consistent with the Audit Completion Report.
Use of the audit report	Sets out who we are reporting to and what the report may be used for.
Audit certificate	Sets out that we have completed the audit of the Council in accordance with the Local Audit and Accountability Act 2014.

SUBJECT: INTERNAL AUDIT RECOMMENDATION FOLLOW UP

REPORT BY: AUDIT MANAGER

LEAD OFFICER: JOHN SCOTT, AUDIT MANAGER

1. Purpose of Report

1.1 To present an update to the Audit Committee, on outstanding recommendations and recommendations over 12 months old.

2. Executive Summary

2.1 The report provides members with more information on older audit recommendations and the ability at the meeting to request managers to provide further feedback.

3. Background

3.1 Audit recommendations are reviewed by Audit Committee with each progress report and members were concerned with the length of time some agreed actions were taking to implement. It was agreed that a separate report of recommendations older than 12 months would be provided and managers would attend for the very oldest reports.

3.2 Audit Recommendations

3.3 The attached Appendix (A) provides details of the relevant audits, outstanding recommendations / agreed actions and detailed current position / explanation from the service manager.

Depending on the response received Members may wish to receive further updates in future.

4. Organisational Impacts (nb. Finance, Legal and E & D sections below are mandatory, others to be completed only where there is an impact)

4.1 Finance (including whole life costs where applicable)

There are no direct financial implications arising as a result of this report.

4.2 Legal Implications including Procurement Rules

There are no direct legal implications arising as a result of this report.

4.3 Equality, Diversity & Human Rights (including the outcome of the EA attached, if required)

There are no direct E and D implications arising as a result of this report.

5. Recommendation

5.1 Audit Committee is asked to review the attached Appendix and review responses received both in writing and at the meeting.

Key Decision No

Do the Exempt Information Categories Apply? No

Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply? No

How many appendices does the report contain? One

List of Background Papers:

Lead Officer: Audit Manager Telephone 873321



City of Lincoln Council



Audit Recommendations

March 2020

Recommendations Update (at March 2020)

Reports that are over 2 years old (under the Follow Up protocol these recommendations will no longer be monitored by IA and Audit Committee)

Management have been notified of the new protocol and advised to continue monitoring these actions via DMTs.

Audit Area	Date	Assurance	No of Recs	Implmntd	Outstanding (extended or overdue)	Comments / Progress
ICT Mobile Devices	Mar 16	Substantial	6	5	1 High	Identify mobile IT assets not connected to the network. Extended to March 2020 Officers previously attended Committee
Responsive Repairs	Jun 17	Substantial	6	5	1 Medium	Take photos of repairs – linked to software upgrade Extended to March 2020 Officers previously attended Committee
Boultham Park Refurbishment	Jun 17	High	2	1	1 Medium	Complete revised partnership agreement Extended to February 2020 Officers previously attended Committee.
IT Disaster Recovery	Oct 17	Substantial	18	17	1 Medium	Ensure that the next BCP desktop exercise includes the IT DR plan Extended to March 2020 Note that IT DR is being monitored as an AGS issue
Code of Corporate Governance	Oct 17	Substantial	6	5	1 Medium	Refresh of Asset Management Plan Extended to Dec 2020 Officers previously attended Committee.
IT Applications	Nov 17	Substantial	6	5	1 Medium	Review the agreement arrangements for MyInfo Extended to March 2020 Officers previously attended Committee

Tenancy Services	Jan 18	Substantial	11	3	2 High 6 Medium	<p>Consider a permanent transfer of the Voids team to Tenancy Services (High)</p> <p>Develop pre-tenancy processes to improve sustainability (High)</p> <p>Review the way forward for service standards</p> <p>Obtain & store photographic ID evidence and check at sign up and the 3 week visit</p> <p>Undertake a Tenancy Fraud risk assessment</p> <p>Undertake pro-active counter fraud work (in progress)</p> <p>Update the fraud policy / strategy and train staff</p> <p>Extended to March 2020</p> <p>Officers previously attended Committee (twice)</p>
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Reports that are between 1 and 2 years old

Audit Area	Date	Assurance	No of Recs	Implmntd	Outstanding (extended or overdue)	Not Yet Due	Comments / Progress
HMO Licensing and Hazards	Jun 18	Limited	20	16	3 High 1 Medium		<p>Condition monitoring process (High) Gas certificate renewal process (High) Hazard monitoring process (High) Licence expiry monitoring process Extended Follow up completed & reported to Audit Committee in December 2019 (officer attended) Actions extended to March 2020</p> <p>Awaiting Update</p>
Risk Management	Jul 18	Substantial	8	7	1 Medium		<p>Periodic review of partnership risk registers Extended to August 2020 This is linked to current work to update the Partnership register. Officers attending</p>
Commercialisation	Oct 18	Substantial	4	1	3 Medium		<p>The CFO has advised that the TFS programme has changed focus and this area is no longer a priority. The recommendations will be marked as superseded but can be resurrected in the future.</p>
IT Applications	Oct 18	Limited	8	1	1 High 6 Medium		<p>Update & circulate System Administrator guidance (High) Extended to April 2020 (agreed) The other actions have been followed up by IA (in July 2019) and a further follow up will take place in December. Good progress in general. Officers attending</p>

Malware / Anti-virus	Nov 18	Substantial	9	6	2 High 1 Medium	<p>User training around IT security (including Malware) for induction and an annual update for all users (High). Some technical issues. Extended to July 2020 (agreed)</p> <p>Device control software & encryption project (High). Extended May 2020 (agreed)</p> <p>Ensure IT policies and guidance / procedures (sitting below the main IT security policy) are appropriate and up to date. Policies now in draft. Extended to October 2020 agreed</p> <p>Officers attending</p>
Transport Hub	Dec 18	Substantial	3	2	1 Medium	<p>Formal project closure & post implementation review Due December 2019</p> <p>Extended to August 2020 (agreed)</p> <p>Officers attending</p> <p>Awaiting defects liability period end and evaluation reports to DfT and GLLEP</p>

Reports that are less than 1 year old

Audit Area	Date	Assurance	No of Recs	Implmntd	Outstanding (extended or overdue)	Not Yet Due	Comments / Progress
Fees & Charges	Apr 19	Substantial	3			3 Med	Recommendations due March 2020 Update requested.
Information management	June 19	Substantial	16	15	1 Medium		Extended to June 2020
Procurement OJEU & Framework	July 19	Substantial	4	3	1 Medium		Extended to September 2020 This is linked to a current LPMM review, which may be completed by September 2020.
Housing Rents	Dec 19	Substantial	4	1	1 High 2 Medium		High is due June 20. Mediums are due March 2020 & July 2020
Recruitment	Dec 19	Substantial	7	6		1 High	
Licensing	Feb 20	Substantial	7			7 Med	NYD recs are; 2 due March 2020 – Awaiting update 3 due July 2020 1 due Jan 21 1 due Apr 21

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SUBJECT:	INTERNAL AUDIT PLAN – 2020/21
DIRECTORATE:	CHIEF EXECUTIVE AND TOWN CLERK
REPORT AUTHOR:	JOHN SCOTT, AUDIT MANAGER

1. Purpose of Report

1.1 The Internal Audit Section works to an annual plan which is agreed by the Audit Committee and Senior Management.

2. Background

2.1 The plan has been developed using a combination of:

- the Council's Combined Assurance Model
- an assessment of risk - based on the significance and sensitivity of key activities
- consultation with Senior Management
- issues raised by the Audit Committee

3. Internal Audit Plan 2020/21

3.1 Using the Combined Assurance Model helps streamline and avoid duplication of effort where assurances can be drawn from other sources. The Combined Assurance Model provides coverage of all areas – not just those from Internal Audit.

3.2 Our planning work takes into account the relative risks of the activity. We take account of combined assurance outcomes. We also undertake cyclical work on due diligence areas particularly around financial and governance systems.

3.3 Internal Audit continues to have the right to conduct its own assurance activity freely and independently to meet its role and remit – even if there appears to be a good level management or alternative assurance in place.

3.4 Attached is the draft internal audit plan for 2020/21– Appendix A.

3.5 We have consulted with management over the draft audit plan.

3.6 The Internal Audit Plan should focus on the key risks facing the Council and is adequate to support the Head of Audit opinion. The plan should achieve a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year. This is undertaken through a regular review of any changing activity and risks. The audit resources are sufficient and compare adequately with others. We use external auditors / consultants as required to fill any gaps - mainly ICT security specialists.

3.7 The internal audit plan, together with our combined assurance work, enables us to provide an annual internal report and opinion around governance, risk and control.

4. Strategic Priorities

4.1 High Performing Services

The internal audit service and plan contributes to the Council's strategic priorities, by helping to manage risk and achieve its objectives.

5. Organisational Impacts

5.1 Finance (including whole life costs where applicable)

There are no changes to resources and the planned days remain the same as 2019/20

5.2 Legal Implications including Procurement Rules

The Accounts and Audit Regulations require a local authority to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.

6. Recommendation

6.1 Audit Committee is asked to agree the draft plan, identifying any amendments which it considers appropriate.

Is this a key decision? No

Do the exempt information categories apply? No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply? No

How many appendices does the report contain? One

List of Background Papers: None

Lead Officer: John Scott, Audit Manager
Telephone (01522) 873321

Internal Audit Progress Report



City of Lincoln Council
March 2020

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- 1 Limited Assurance Reports
- 2 Assurance Definitions
- 3 Audit Recommendations
- 4 2019/20 Audit Plan to Date

John Scott - Audit Manager (Head of Internal Audit)
john.scott@lincoln.gov.uk

Paul Berry – Principal Auditor
paul.berry@lincoln.gov.uk

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

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

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period February to March
- Advise on progress with the 2019/20 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

During the period we have finalised four assurance reviews.

Progress against the revised Audit Plan progress is 87%, against a target of 92%.

Assurances

The following audit work has been completed and a final report issued;

- Treasury Management – High
- Payroll - High
- Licensing – Substantial

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.



High Assurance

Treasury Management is an important part of the overall financial management of the Council's affairs. Previous audits in 2015 and 2017 on traditional TM activities gave high assurance and following the Council's decision to adopt a commercial approach to generate new income streams this audit has examined TM activities linked to property / commercial investments.

Current commercial investments are spread across differing sectors (car park, tourism, retail park); all the agreements include rent reviews. Risks associated with each proposal were identified and alternative options explored if the tenant should go into liquidation.

CIPFA have recently published a new Financial Management Code. Guidance notes that accompany it have been delayed so a full assessment against it will be undertaken in 20/21. The first full year of compliance with the code is 2021/22.

We found that;

- Commercial investments & property acquisitions (former council houses) have been bought in accordance with approved strategies / policies and authorised at the correct level.
- A minimum net yield has been set for the return on investments; this has been revised from 4% to 5-8% following the introduction of the Commercial Property Investment strategy in March 2019.
- Proposals for the purchase of investment properties include estimated costs of borrowing and identified annual net income; all agreements include rent reviews at fixed points.
- The return on investment properties is being reported in the Capital Strategy
- Long term borrowing is in accordance with the strategy; loans have been secured with the PWLB at favourable rates and prior to the 1% increase.
- Minimum Revenue Provision has been considered as part of each property investments; the method of calculation has been reviewed and approved by external audit.

We did not identify any areas requiring improvement and no recommendations have been made.

Treasury Management

High Assurance

The objective of the audit was to review the operation and management of the payroll processing service level agreement with NKDC to ensure that a timely, accurate and complete payroll service is delivered.

We found that;

- There is a good separation of duties
- Access to the I-Trent system for staff in HR and Payroll is appropriate, however there needs to be a formal process to record authorisation of users by the manager – this will be put in place
- The Authorised Signatory schedule (which includes payroll documentation) needs to be refreshed and this will be facilitated by Internal Audit.
- A robust process is in place for changing bank account details to manage the risk of fraudulent requests
- The processing timetable is being adhered to so that payments are made on the correct date
- Detailed testing found that;
 - Standing data is correct
 - Additional payments and starters and leavers are supported by authorised documentation and accurately input
 - An independent officer authorises the BACS file to be processed
- There is an up to date SLA in place and delivery of the service is monitored at periodic liaison meetings
- The SLA was extended in 2018 to include pension administration and this is operating as expected
- The SLA contains requirements to handle data in accordance with the requirements of the Data Protection Act 2018 and General Data Protection Regulations and processes are in place (at COLC & NKDC) to comply with these requirements. Data handling isn't discussed at SLA liaison meetings but this will be introduced going forwards.

Payroll

Substantial Assurance

Licensing is an important statutory service for the Council and its residents, helping to ensure that relevant activities and businesses are licensed. The Licensing team that ensure that licensed individuals and businesses conform to the legal conditions and requirements of the license awarded.

We found that systems and controls on the whole are operating effectively.

There is an established staff structure with experience across licensing and enforcement processes. A Licensing committee is in place, along with sub-committees with a clear delegation of functions agreed. The Statement of Licensing Policy is updated so that it can be taken into account when considering applications.

Time is spent by officers at the beginning of the process offering advice to ensure all relevant information is captured and conditions set.

Enforcement is currently reactive rather than proactive. It was agreed that proportionate enforcement action will be taken and a strategy will be developed.

Licensing

Safeguarding is a key element of the licensing process. We found that the service has robust application controls in place which provide assurance that only bona fide driver and vehicle applications are processed. Despite the varied controls, safeguarding will always be an area of risk due to the impact of any one incident. The service are aware of the risk and have learnt lessons from others both nationally and locally.

Formal complaints are captured within the council complaints process, however we found that informal complaints are not consistently captured on the APP system. These will be logged more consistently on the software in future.

Individual officers specialise in areas of licensing. For transparency and appropriateness it was agreed supervisors would complete more formal quality control of license processing. Also any conflicts of interests (if they arise) would also be clearly documented.

In terms of performance measures consideration will be given to developing more meaningful KPI's for the service and an annual report for the Licensing Committee.

Other work

Audit Recommendations

A review of recommendations due and overdue has been undertaken and a Recommendation Follow Up report is attached as a separate item.

Work in Progress

- Sports Pitches improvements
- Homelessness
- Efficiency Savings
- Housing Allocations (Choice Based Lettings)
- Western Growth
- Partnerships (Consultancy)
- De Wint Extra Care Facility
- Performance Management (PIMS)
- ICT Assurance Map
- Governance / Risk Management
- ICT Anti-Malware

Other work

- Combined Assurance Map update – the Map has been refreshed and is presented as a separate report
- Audit Strategy and Plan 2020/21 – a Draft Plan has been produced and is presented as a separate report
- Bribery / Whistleblowing Policy review – in progress
- NFI completion - Ongoing
- Tenancy fraud – Ongoing
- Money Laundering risk assessment – in progress

Work to start in Quarter 4

- Counter fraud training (continuation)
- Fraud Health check

Audit Plan changes

The Growth audit will be completed in 20/21 – timing

Work on the Refuse / Recycling contract is not currently required

The allocations for Brexit and Reactive Investigations have been reduced.



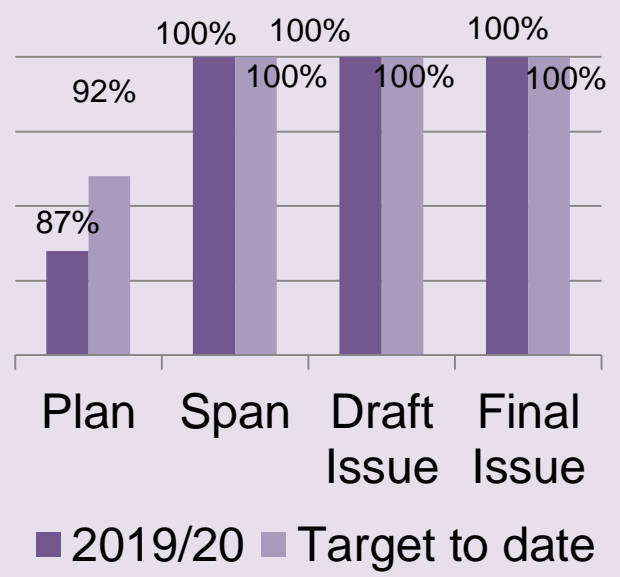
Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators

100%

Rated our service Good to Excellent

Good achievement of Audit KPI's to date



CIPFA Financial Management Code 2019

CIPFA have updated their financial management code for UK Local Authorities to acknowledge the pressures of a tightening fiscal landscape. The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code therefore for the first time sets the standards of financial management for local authorities. The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

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

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

The first full year of implementation of the CIPFA FM code is from 21/22 and that an assessment against the requirements of the code will be undertaken during 20/21 with an action plan developed if necessary to ensure compliance.

The Redmond Review

The Redmond review is an independent review to determine whether the requirements of the Local Audit and Accountability Act 2014 are being fulfilled. It will look to test the assurance processes in place with regard to the value for money arrangements together with financial resilience in local councils and the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England.

A consultation exercise was undertaken in late 2019 and the consultation paper can be found at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/850638/Redmond_Review_Call_for_Views_-_Extended.pdf

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.

A Recommendation Follow Up report is attached as a separate item.

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Chief Executive – Critical Activities					
Recruitment	Internal promotions and external recruitment	Q1	June	Dec	Completed Substantial
Treasury Management	Investments & borrowing	Q2	Nov	Feb	Completed High
Efficiency Savings	Programme & project arrangements	Q4	Feb		In progress
Payroll	Risk Based Audit	Q3	Nov	Mar	Completed High
Scrutiny	Scrutiny committee operation & Member training	N/A			Deferred to 20/21
Apprentice scheme	Financial arrangements	N/A			Deferred to 20/21
Housing & Regeneration – Critical Activities					
Housing ASB	Advice work – budgets	Q1	April	June	Completed
Rental income	Risk Based Audit, to include Universal Credit impacts	Q2	July	Nov	Completed Substantial
Housing Allocations	New Build allocations process	Q2			PIR done – no longer required
Housing Repairs	Interaction between reactive repairs & planned maintenance	N/A			Deferred to 21/22
Homelessness	Implementation of the Homeless Reduction Act	Q3	Nov		In progress
Housing Strategy	Implementation of the Housing Strategy including links with Major Development	N/A			Deferred to 20/21
Housing Allocations	Accuracy and processing arrangements on the new IT system	Q4	Jan		In progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Communities & Environment – Critical Activities					
Sport & Leisure pitches	Contract and operation review	Q2-4	June		In progress
Private Sector Housing follow up	Follow up of 17/18 HMO audit plus Private Sector Housing in general	Q2	Oct	Nov	Completed
Community Safety	Licensing	Q3-4	Oct	Feb	Completed Substantial
Performance management	Operation of the new PM system	Q4	Feb		In progress
Major Developments – Critical Activities					
Growth & Regeneration	Strategies, investment, partnerships, infrastructure	Q4			Deferred to 20/21
Financial & Governance					
Counter Fraud	Fraud Strategy actions	Q1-4			In progress
Counter Fraud	Tenancy Fraud data matching	Q1-4			In progress
Counter Fraud	NFI data matching	Q1-4			In progress
Counter Fraud	Friends against Scams	Q1-2			Complete
Counter Fraud	Fraud Training	Q4			In progress
Counter Fraud	Identity fraud	Q4			May defer to 20/21
Welfare Reform	UC rollout and Welfare Advice	N/A			Deferred Q1 20/21
Counter Fraud	Fraud risk register update	Q3			Complete
Counter Fraud	Counter Fraud healthcheck	Q3-4			May defer to 20/21
Counter Fraud	Money Laundering risk assessment	Q4			

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
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Financial & Governance (cont'd)

Counter Fraud	6 & 12 month reports	July 19 Dec 19			12 mth report in July 19 Completed
Counter Fraud	Policy reviews	Q3-4			Anti-bribery – complete Whistleblowing – Feb

Governance & Risk

Governance	Key controls for annual assurance	Q4	Feb		In progress
Risk Management	Key controls for annual assurance	Q4	Feb		In progress

Information Management & Technology

ICT	Assurance mapping and plan	Q1-2			Completed
ICT	IT assurance map follow up and Strategy actions	Q4	Feb		In progress
ICT	Anti-Malware arrangements	Q3	Oct		Draft report
ICT	New Website	Q4			Health Check
ICT	Mobile Working/Office 365 Pilots	Q4			Likely move to 20/21

Projects

Western Growth	Programme governance and project management	Q4	Jan		In progress
De Wint Court	Project and contract 72 arrangements	Q4	Jan		In progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Consultancy / VFM / No opinion work					
Emerging Legislation	Preparation for new and emerging legislation & policy (merged with 18/19 work)	Q1		May	Completed Full assurance
Brexit	Assist with risk and control issues as part of working group	Q1	Q1	Q4	In progress
Refuse & Recycling	Procurement arrangements	Q4			No longer required
Other work					
2018/19 audits	Complete audits from previous year	Q1	April	Dec	Completed
Annual IA report	Report for 2018/19	Q1	April	May	Completed
Housing allocations	Serious offenders risk assessment	Q1	June	June	Completed
De Wint project	Risk management support	Q1-4	April		Ongoing
Follow up	Review progress on audit recommendations	Q1-4			Ongoing
Advice, Management	Advice & management, reactive investigations	Q1-4			Ongoing
Combined Assurance	Update the assurance map	Q3-4	Dec		In progress
IA Strategy & Plan	New Plan for 2020/21	Q4	Jan		In progress
Housing Benefit Subsidy					
2018/19 Subsidy claim	2018/19 HB Detailed testing on behalf of External Audit	Q1-2	May	July	Completed

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SUBJECT: INTERNAL AUDIT PROGRESS REPORT

REPORT BY: AUDIT MANAGER

LEAD OFFICER: JOHN SCOTT, AUDIT MANAGER

1. Purpose of Report

1.1 To present the Internal Audit Progress Report to the Audit Committee, incorporating the overall position reached so far, and summaries of the outcomes of audits completed during the period.

2. Executive Summary

2.1 The report highlights progress against the audit plan.

3. Background

3.1 A key requirement of public sector internal audit standards is that Internal Audit should report progress periodically to those charged with governance. The Audit Committee has within its terms of reference the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan. The latest progress report for 2019-20 is attached as the appendix to this report.

3.2 Internal Audit Progress Report

3.3 The Internal Audit progress report attached (Appendix A) covers the following areas :-

- Progress against the plan
- Summary of Audit work
- Implementation of Audit recommendations
- Current areas of interest relevant to the Audit Committee

4. Organisational Impacts (nb. Finance, Legal and E & D sections below are mandatory, others to be completed only where there is an impact)

4.1 Finance (including whole life costs where applicable)

There are no direct financial implications arising as a result of this report.

4.2 Legal Implications including Procurement Rules

There are no direct legal implications arising as a result of this report.

4.3 Equality, Diversity & Human Rights (including the outcome of the EA attached, if required)

There are no direct E and D implications arising as a result of this report.

5. Recommendation

5.1 Audit Committee is asked to note the content of the latest Internal Audit Progress Report for 2019-20 and consider whether any of the following options are relevant:-

- Report and make recommendations to the Executive if they feel it appropriate.
- Refer any matter under review they feel appropriate to the relevant Portfolio Holder, Scrutiny Chair or Committee.
- Seek responses from Officers on matters arising (written or verbal) to be submitted to the next Audit Committee on any of the issues raised within this report or associated Appendices. Members may further wish to request the presence of the relevant Managers at the meeting to explain performance / specific issues.
- Accept the report and continue to monitor arrangements.

Key Decision No

Do the Exempt Information Categories Apply? No

Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply? No

How many appendices does the report contain? One

List of Background Papers:

Lead Officer: Audit Manager Telephone 873321

Internal Audit Progress Report



City of Lincoln Council
March 2020

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- 1 Limited Assurance Reports
- 2 Assurance Definitions
- 3 Audit Recommendations
- 4 2019/20 Audit Plan to Date

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

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

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period February to March
- Advise on progress with the 2019/20 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

During the period we have finalised four assurance reviews.

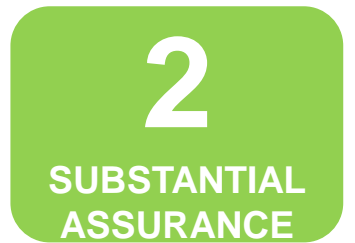
Progress against the revised Audit Plan progress is 87%, against a target of 92%.

Assurances

The following audit work has been completed and a final report issued;

- Treasury Management – High
- Payroll - High
- Licensing – Substantial
- Project Management - Limited

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.



High Assurance

Treasury Management is an important part of the overall financial management of the Council's affairs. Previous audits in 2015 and 2017 on traditional TM activities gave high assurance and following the Council's decision to adopt a commercial approach to generate new income streams this audit has examined TM activities linked to property / commercial investments.

Current commercial investments are spread across differing sectors (car park, tourism, retail park); all the agreements include rent reviews. Risks associated with each proposal were identified and alternative options explored if the tenant should go into liquidation.

CIPFA have recently published a new Financial Management Code. Guidance notes that accompany it have been delayed so a full assessment against it will be undertaken in 20/21. The first full year of compliance with the code is 2021/22.

We found that;

- Commercial investments & property acquisitions (former council houses) have been bought in accordance with approved strategies / policies and authorised at the correct level.
- A minimum net yield has been set for the return on investments; this has been revised from 4% to 5-8% following the introduction of the Commercial Property Investment strategy in March 2019.
- Proposals for the purchase of investment properties include estimated costs of borrowing and identified annual net income; all agreements include rent reviews at fixed points.
- The return on investment properties is being reported in the Capital Strategy
- Long term borrowing is in accordance with the strategy; loans have been secured with the PWLB at favourable rates and prior to the 1% increase.
- Minimum Revenue Provision has been considered as part of each property investments; the method of calculation has been reviewed and approved by external audit.

We did not identify any areas requiring improvement and no recommendations have been made.

Treasury Management

High Assurance

The objective of the audit was to review the operation and management of the payroll processing service level agreement with NKDC to ensure that a timely, accurate and complete payroll service is delivered.

We found that;

- There is a good separation of duties
- Access to the I-Trent system for staff in HR and Payroll is appropriate, however there needs to be a formal process to record authorisation of users by the manager – this will be put in place
- The Authorised Signatory schedule (which includes payroll documentation) needs to be refreshed and this will be facilitated by Internal Audit.
- A robust process is in place for changing bank account details to manage the risk of fraudulent requests
- The processing timetable is being adhered to so that payments are made on the correct date
- Detailed testing found that;
 - Standing data is correct
 - Additional payments and starters and leavers are supported by authorised documentation and accurately input
 - An independent officer authorises the BACS file to be processed
- There is an up to date SLA in place and delivery of the service is monitored at periodic liaison meetings
- The SLA was extended in 2018 to include pension administration and this is operating as expected
- The SLA contains requirements to handle data in accordance with the requirements of the Data Protection Act 2018 and General Data Protection Regulations and processes are in place (at COLC & NKDC) to comply with these requirements. Data handling isn't discussed at SLA liaison meetings but this will be introduced going forwards.

Payroll

Substantial Assurance

Licensing is an important statutory service for the Council and its residents, helping to ensure that relevant activities and businesses are licensed. The Licensing team that ensure that licensed individuals and businesses conform to the legal conditions and requirements of the license awarded.

We found that systems and controls on the whole are operating effectively.

There is an established staff structure with experience across licensing and enforcement processes. A Licensing committee is in place, along with sub-committees with a clear delegation of functions agreed. The Statement of Licensing Policy is updated so that it can be taken into account when considering applications.

Time is spent by officers at the beginning of the process offering advice to ensure all relevant information is captured and conditions set.

Enforcement is currently reactive rather than proactive. It was agreed that proportionate enforcement action will be taken and a strategy will be developed.

Licensing

Safeguarding is a key element of the licensing process. We found that the service has robust application controls in place which provide assurance that only bona fide driver and vehicle applications are processed. Despite the varied controls, safeguarding will always be an area of risk due to the impact of any one incident. The service are aware of the risk and have learnt lessons from others both nationally and locally.

Formal complaints are captured within the council complaints process, however we found that informal complaints are not consistently captured on the APP system. These will be logged more consistently on the software in future.

Individual officers specialise in areas of licensing. For transparency and appropriateness it was agreed supervisors would complete more formal quality control of license processing. Also any conflicts of interests (if they arise) would also be clearly documented.

In terms of performance measures consideration will be given to developing more meaningful KPI's for the service and an annual report for the Licensing Committee.

Other work

Audit Recommendations

A review of recommendations due and overdue has been undertaken and a Recommendation Follow Up report is attached as a separate item.

Work in Progress

- Sports Pitches improvements
- Homelessness
- Efficiency Savings
- Housing Allocations (Choice Based Lettings)
- Western Growth
- Partnerships (Consultancy)
- De Wint Extra Care Facility
- Performance Management (PIMS)
- ICT Assurance Map
- Governance / Risk Management
- ICT Anti-Malware

Other work

- Combined Assurance Map update – the Map has been refreshed and is presented as a separate report
- Audit Strategy and Plan 2020/21 – a Draft Plan has been produced and is presented as a separate report
- Bribery / Whistleblowing Policy review – in progress
- NFI completion - Ongoing
- Tenancy fraud – Ongoing
- Money Laundering risk assessment – in progress

Work to start in Quarter 4

- Counter fraud training (continuation)
- Fraud Health check

Audit Plan changes

The Growth audit will be completed in 20/21 – timing

Work on the Refuse / Recycling contract is not currently required

The allocations for Brexit and Reactive Investigations have been reduced.



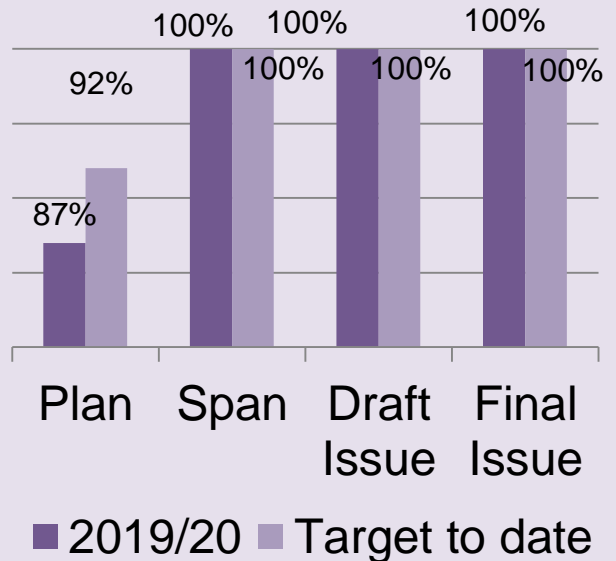
Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators

100%

Rated our service Good to Excellent

Good achievement of Audit KPI's to date



CIPFA Financial Management Code 2019

CIPFA have updated their financial management code for UK Local Authorities to acknowledge the pressures of a tightening fiscal landscape. The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code therefore for the first time sets the standards of financial management for local authorities. The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

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

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

The first full year of implementation of the CIPFA FM code is from 21/22 and that an assessment against the requirements of the code will be undertaken during 20/21 with an action plan developed if necessary to ensure compliance.

The Redmond Review

The Redmond review is an independent review to determine whether the requirements of the Local Audit and Accountability Act 2014 are being fulfilled. It will look to test the assurance processes in place with regard to the value for money arrangements together with financial resilience in local councils and the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England.

A consultation exercise was undertaken in late 2019 and the consultation paper can be found at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/850638/Redmond_Review_Call_for_Views_-_Extended.pdf

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.

A Recommendation Follow Up report is attached as a separate item.

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Chief Executive – Critical Activities					
Recruitment	Internal promotions and external recruitment	Q1	June	Dec	Completed Substantial
Treasury Management	Investments & borrowing	Q2	Nov	Feb	Completed High
Efficiency Savings	Programme & project arrangements	Q4	Feb		In progress
Payroll	Risk Based Audit	Q3	Nov	Mar	Completed High
Scrutiny	Scrutiny committee operation & Member training	N/A			Deferred to 20/21
Apprentice scheme	Financial arrangements	N/A			Deferred to 20/21
Housing & Regeneration – Critical Activities					
Housing ASB	Advice work – budgets	Q1	April	June	Completed
Rental income	Risk Based Audit, to include Universal Credit impacts	Q2	July	Nov	Completed Substantial
Housing Allocations	New Build allocations process	Q2			PIR done – no longer required
Housing Repairs	Interaction between reactive repairs & planned maintenance	N/A			Deferred to 21/22
Homelessness	Implementation of the Homeless Reduction Act	Q3	Nov		In progress
Housing Strategy	Implementation of the Housing Strategy including links with Major Development	N/A			Deferred to 20/21
Housing Allocations	Accuracy and processing arrangements on the new IT system	Q4	Jan		In progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Communities & Environment – Critical Activities					
Sport & Leisure pitches	Contract and operation review	Q2-4	June		In progress
Private Sector Housing follow up	Follow up of 17/18 HMO audit plus Private Sector Housing in general	Q2	Oct	Nov	Completed
Community Safety	Licensing	Q3-4	Oct	Feb	Completed Substantial
Performance management	Operation of the new PM system	Q4	Feb		In progress
Major Developments – Critical Activities					
Growth & Regeneration	Strategies, investment, partnerships, infrastructure	Q4			Deferred to 20/21
Financial & Governance					
Counter Fraud	Fraud Strategy actions	Q1-4			In progress
Counter Fraud	Tenancy Fraud data matching	Q1-4			In progress
Counter Fraud	NFI data matching	Q1-4			In progress
Counter Fraud	Friends against Scams	Q1-2			Complete
Counter Fraud	Fraud Training	Q4			In progress
Counter Fraud	Identity fraud	Q4			May defer to 20/21
Welfare Reform	UC rollout and Welfare Advice	N/A			Deferred Q1 20/21
Counter Fraud	Fraud risk register update	Q3			Complete
Counter Fraud	Counter Fraud healthcheck	Q3-4			May defer to 20/21
Counter Fraud	Money Laundering risk assessment	Q4			

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
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Financial & Governance (cont'd)

Counter Fraud	6 & 12 month reports	July 19 Dec 19			12 mth report in July 19 Completed
Counter Fraud	Policy reviews	Q3-4			Anti-bribery – complete Whistleblowing – Feb

Governance & Risk

Governance	Key controls for annual assurance	Q4	Feb		In progress
Risk Management	Key controls for annual assurance	Q4	Feb		In progress

Information Management & Technology

ICT	Assurance mapping and plan	Q1-2			Completed
ICT	IT assurance map follow up and Strategy actions	Q4	Feb		In progress
ICT	Anti-Malware arrangements	Q3	Oct		Draft report
ICT	New Website	Q4			Health Check
ICT	Mobile Working/Office 365 Pilots	Q4			Likely move to 20/21

Projects

Western Growth	Programme governance and project management	Q4	Jan		In progress
De Wint Court	Project and contract 90 arrangements	Q4	Jan		In progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Consultancy / VFM / No opinion work					
Emerging Legislation	Preparation for new and emerging legislation & policy (merged with 18/19 work)	Q1		May	Completed Full assurance
Brexit	Assist with risk and control issues as part of working group	Q1	Q1	Q4	In progress
Refuse & Recycling	Procurement arrangements	Q4			No longer required
Other work					
2018/19 audits	Complete audits from previous year	Q1	April	Dec	Completed
Annual IA report	Report for 2018/19	Q1	April	May	Completed
Housing allocations	Serious offenders risk assessment	Q1	June	June	Completed
De Wint project	Risk management support	Q1-4	April		Ongoing
Follow up	Review progress on audit recommendations	Q1-4			Ongoing
Advice, Management	Advice & management, reactive investigations	Q1-4			Ongoing
Combined Assurance	Update the assurance map	Q3-4	Dec		In progress
IA Strategy & Plan	New Plan for 2020/21	Q4	Jan		In progress
Housing Benefit Subsidy					
2018/19 Subsidy claim	2018/19 HB Detailed testing on behalf of External Audit	Q1-2	May	July	Completed

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AUDIT COMMITTEE**24 MARCH 2020**

SUBJECT: IAS19 – ASSUMPTIONS USED TO CALCULATE PENSION ENTRIES IN THE 2019/20 STATEMENT OF ACCOUNTS

REPORT BY: CHIEF EXECUTIVE AND TOWN CLERK

LEAD OFFICER: LAURA SHIPLEY, PRINCIPLE FINANCE BUSINESS PARTNER (REVENUE)

1. Purpose of Report

- 1.1 To allow the committee to consider the assumptions the pension fund actuary proposes to use in preparing IAS19 figures for inclusion in the 2019/20 Statement of Accounts.

2. Background

- 2.1 IAS19 is the accounting standard for pension costs, which deals with the accounting requirements for retirement benefits. It is based on the simple principle that an organisation should account for retirement benefits when it is committed to give them.
- 2.2 To calculate the costs of earned benefits for inclusion in the Statement of Accounts, the scheme actuaries use assumptions to reflect expected future events. Assumptions used lead to best estimates of future cash flows that will arise under the scheme liabilities.
- 2.3 The Council will use the calculated costs and the underlying assumptions, based upon the advice of the actuary of the Lincolnshire County Council Pension Fund in preparing the Statement of Accounts for 2019/20.

3. Financial Assumptions

- 3.1 A briefing note prepared by Hymans Robertson, the pension fund's appointed actuary, is attached at Appendix A. The key assumptions are highlighted in the following paragraphs.
- 3.2 Inflation rate – this allows for the effect of inflation and is derived from yields available on fixed interest and index linked government bonds.
- 3.3 Discount Rate – allowing for the effect of inflation on the liabilities in the scheme, derived from a corporate bond yield curve constructed from yields on high quality bonds.
- 3.4 Pension increase – this is linked to Consumer Price Index (CPI), (which is approximately 0.9% below Retail Price Index (RPI)).

3.5 Salary growth – this is set relative to the derived RPI/CPI assumption at the reporting date, using the same methodology as the most recent actuarial funding valuation.

4. Demographic Assumptions

4.1 Demographic assumptions typically try to forecast when benefits will come into payment and what form these will take. For example, when members retire, how long they will survive and whether they will exchange some of their pension for tax free cash.

4.2 Demographic assumptions as at 31 March 2020 will be based on the market conditions as at 31 December 2019.

5. Financial Implications

5.1 Statutory provisions require the General Fund and HRA balance be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated in accordance with IAS19. This means that the accounting entries are reversed and replaced with the amount paid to the pension fund in year, therefore ensuring there is no impact to the Council Tax payer.

6. Significant Policy Impacts

6.1 There are no significant policy impacts arising as a direct result of this report.

7. Organisational Impacts

7.1 There are no organisational impacts arising as a direct result of this report.

8. Recommendations

8.1 That Audit Committee approve the IAS19 assumptions the pension fund actuary proposes to use in preparing IAS19 figures for inclusion in the 2019/20 Statement of Accounts.

Key Decision	No
Key Decision Reference No.	N/A
Do the Exempt Information Categories Apply	No
Call In and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
Does the report contain Appendices?	Yes
If Yes, how many Appendices?	1
List of Background Papers:	None
Lead Officer:	Laura Shipley, Principle Finance Business Partner (Revenue) Telephone: 01522 873307 Email: laura.shipley@lincoln.gov.uk

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Accounting Assumptions



Take control early, it's your call!

From listening to LGPS employers, we understand the importance of the pension figures disclosed in your accounts. The figures disclosed can have a material impact on your ability to carry out your normal business function.

The pension figures, in both the balance sheet and revenue account, are heavily dependent on the choice of assumptions. Crucially, as directors of the organisation, it is your responsibility to set assumptions that best reflect the characteristics of your organisation.

Your options

1 Enhanced Service

For employers who wish to take control of the figures disclosed in their pension accounts, using the enhanced service would allow your organisation to:

- Receive an employer specific assumptions paper covering the assumptions key to your organisation, what changes to assumptions could be made, and the estimated financial impact on your accounting disclosures. This would be based on information you provide about future expected pay growth and recruitment plans.
- Arrange a face-to-face meeting or a call with an Actuary to discuss the accounting assumptions and how these impact on your organisation's accounting figures.
- Receive provisional FRS102 / IAS19 figures in advance of the reporting date, giving an early indication of how your assets and obligations have developed and can also help inform the assumption setting exercise.

Engaging directly with the Actuary preparing your FRS102 / IAS19 report is typically more cost-effective than seeking third party advice.

For more information about our enhanced service, please [click here](#) or call one of our accounting specialists - Craig Alexander on 0141 566 7843, Tom Hoare on 0141 566 7991 or Adrian Loughlin on 0141 566 7591.

2 Basic Service

For employers who are happy to adopt the default assumptions, appropriate for an average LGPS employer with your liability profile, we will prepare the standard accounting report for the standard fee.

Briefing note

Local Government FRS102 / IAS19

February 2020

“ You choose assumptions appropriate for your organisation ”

As the actuary to the LGPS fund in which you participate, we provide a set of default accounting assumptions for a ‘typical LGPS employer’ which can be amended to be more appropriate for your organisation.

The accounting assumptions adopted are ultimately the responsibility of your organisation’s directors (or equivalent) based on actuarial advice.

We therefore strongly recommend that you consider the suitability of the default assumptions to your specific organisation. It is up to you to determine how to proceed with the choice of assumptions given the relative importance of the LGPS accounting figures to your organisation’s own circumstances.

The value placed on the liabilities for accounting purposes (the defined benefit obligation) is heavily dependent on the assumptions adopted. The assumptions you choose to adopt will drive:

1. your **accounting balance sheet at the year-end date**; and
2. your **profit and loss cost for the year following the year-end date**.

For example, adopting a lower salary increase assumption than our default assumption may better reflect your own organisation’s forecasts. This change would lower the value placed on the defined benefit obligation (and improve the accounting balance sheet position).

If you wish to take control of your accounting disclosures, please get in touch with us as soon as possible.

The remainder of this briefing note sets out the rationale behind the setting of our default principal accounting assumptions. The approach to our default assumption setting applies to all accounting disclosures (unless otherwise stated) and is discussed in advance with the National Audit Office, Audit Scotland and Wales Audit Office.

Discount Rate

Both FRS102 and IAS19 state that the discount rate used to place a value on the liabilities should be determined by reference to market yields on high quality corporate bonds at the reporting date. In addition, the currency and term of the high quality corporate bonds used to set the discount rate should be consistent with the currency and term of the liabilities.

Corporate bond yield curve

Government bond yield curves are updated and available on a daily basis from the Bank of England. It is therefore relatively easy to identify a spot yield on Government bonds at any duration and at any date. Unfortunately, a similarly accessible corporate bond yield curve is not so readily available.

We have adopted an approach to setting the discount rate whereby a “Hymans Robertson” corporate bond yield curve is constructed based on the constituents of the iBoxx AA corporate bond index.

Weighted average duration

The discount rate should reflect the ‘term’ of the benefit obligation. We have interpreted ‘term’ to be the weighted average duration of the benefit obligation. This is broadly defined as ‘*the weighted average time until payment of all expected future discounted cashflows, determined based on membership and the financial and demographic assumptions at a particular time*’. The shorter the duration, the more ‘mature’ the employer.

With increased divergence of LGPS employers, the weighted average durations of individual employers can be materially different. It is therefore not appropriate for all employers to adopt the same financial assumptions for accounting purposes. Our default assumption approach sets out 3 separate discount rates (and corresponding RPI/CPI inflation assumptions) for employers who fall into each duration category below:

Weighted average duration at most recent actuarial valuation	Duration category
Less than 17 years	Short
Between 17 and 23 years	Medium
More than 23 years	Long

Retail Prices Inflation (RPI)

This assumption is typically derived from yields available on fixed interest and index linked government bonds, and should be consistent with the derivation of the discount rate.

We use a market implied inflation curve over a range of maturities. Cashflow weighted single RPI rates are derived from the market implied inflation curve that recognise the weighted average duration of each corresponding duration category defined above.

Pension Increases (CPI)

The pension increase assumption is set in line with our default Consumer Prices Index (CPI) assumption. As a market in CPI linked bonds does not exist, we need to estimate the long-term gap between RPI and CPI to derive a CPI assumption for accounting purposes. Our estimate is based on analysis of past and emerging future trends in the gap between these indices. When setting a CPI assumption, we also take account of the Bank of England’s long-term rate of CPI inflation of 2% p.a.

Based on the above approach, our proposed default assumed RPI-CPI gap is 0.9% p.a. for 31 March 2020 (noting this is a slight reduction from the 2019 accounting exercise where 1.0% was used).

Salary growth

Our default assumption for salary growth is set relative to the derived RPI/CPI assumption at the reporting date using the same methodology as the 2019 actuarial funding valuation for the LGPS fund(s) in which you participate. Further details on the salary growth assumption can be found in the 2019 actuarial valuation reports, which will be publicly available on each LGPS fund's website from 1 April 2020.

Longevity assumptions

Our default longevity assumptions for the 2020 accounting exercise are in line with those adopted by your LGPS fund(s) for the 2019 funding actuarial valuation.

Other demographic assumptions

These include assumptions for commutation, withdrawal, ill-health early retirements, etc. We gathered data on recent experience of LGPS funds in order to set appropriate demographic assumptions for the 2019 actuarial valuation. Our default approach will be to use the same demographic assumptions for accounting purposes as at the 2019 funding actuarial valuation. Collectively, these demographic assumptions are intended to be best estimate.

Indicative default assumptions (based on market conditions as at 31 December 2019)

The following table shows our default financial assumptions at 31 December 2019, based on the above methodology. Our default assumptions used for the 31 March 2019 exercise are also shown for comparison purposes.

Please note that bond yields can be particularly volatile and it is the observed bond yields at the actual year-end date that will be used to set our default assumptions. Therefore, the actual default assumptions at 31 March 2020 could be significantly different from the indicative assumptions below which are based on *market conditions as at 31 December 2019*.

Duration category	31 March 2019		31 December 2019	
	Discount rate	RPI (CPI)	Discount rate	RPI (CPI)
Short	2.4%	3.5% (2.5%)	2.0%	3.3% (2.4%)
Medium	2.4%	3.5% (2.5%)	2.0%	3.2% (2.3%)
Long	2.5%	3.4% (2.4%)	2.1%	3.2% (2.3%)

* The indicative assumptions at 31 December 2019 allow for the proposed RPI-CPI gap of 0.9%.

Appendix

Impact of the 31 March 2019 English and Welsh formal actuarial valuations

Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. The formal valuations for English and Welsh LGPS Funds will be concluded by 31 March 2020.

The accounting balance sheet position as at 31 March 2020, and the projected charge to the P&L for 2020/21, are therefore based on this new roll forward from the 2019 formal valuation. This differs to the balance sheet position as at 31 March 2019 and the charge to the P&L for 2019/20, which were based on a roll forward from the 2016 formal valuation. **This 'step change' can lead to sizeable asset and liability 'remeasurement experience' items in the reconciliation of the balance sheet from 31 March 2019 to 31 March 2020.**

For accounting purposes, we project forward the results from the most recently completed formal valuation: we only allow for certain elements of experience since the formal valuation date, such as actual investment return, estimated contributions paid, estimated benefit outgo, actual early retirements and actual outsourcings/bulk transfers when advised to do so by the employer. As such, the accuracy of the accounting projection declines over time. We would normally expect our projection to be within +/-2% of the underlying position for each year of projection. However, greater differences are possible, particularly if there have been volatile financial market movements or significant membership changes.

The asset and liability 'remeasurement experience' items arise because in the accounting roll-forward we cannot recognise all possible elements of experience, and these are recognised in the formal valuation calculations. **In effect, our accounting figures are "re-calibrated" every three years following each formal valuation.** For example;

- Actual level of salary (or pension) increases – e.g. lower than expected salary growth over the previous inter-valuation period would lead to a positive liability 'experience' item (i.e. lower past service liabilities).
- Outsourcings / Bulk transfers – where the employer has chosen, due to materiality, not to recognise outsourcings and bulk transfers in their accounting position, the impact of these will be included in the asset and liability 'experience' items.
- Membership movements (new entrants, withdrawals, ill health retirements, transfers etc) – any movements different to those assumed within the previous formal valuation will contribute positively or negatively to the asset and liability 'experience' items.

In line with the accounting standards, the liability 'experience' item is identified separately in the reconciliation, however the asset 'experience' item is included in the re-measurement 'return on assets' item shown in Other Comprehensive Income (OCI). In non-valuation years, the 'return on assets' item reflects the difference between actual return over the year and the expected return (recognised in the P&L as the interest income on assets). At first glance, the 2019/20 'excess return on assets' item may appear unusual but this is likely to be due to the inclusion of any asset 'remeasurement experience' from the 2019 formal actuarial valuation 'step-change'.

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SUBJECT:	STATEMENT OF ACCOUNTING POLICIES 2019/20
DIRECTORATE:	CHIEF EXECUTIVE AND TOWN CLERK
LEAD OFFICER:	COLLEEN WARREN, FINANCIAL SERVICES MANAGER

1. Purpose of Report

- 1.1 To present to the Audit Committee the Council's accounting policies which are to be used to prepare the 2019/20 Statement of Accounts.

2. Background

- 2.1 Under the Accounts and Audit (England) Regulations the Council must comply with proper practice. Proper practice is defined as the Code of Practice on Local Authority Accounting (the Code), which is based on International Financial Reporting Standards (IFRS). The Council produces its financial statements on this basis.

- 2.2 The Statement of Accounts will be subject to external audit review.

3. Accounting Policies

- 3.1 Under Financial Procedure Rules the Chief Finance Officer is responsible for selecting the Council's accounting policies, including any changes to these policies and ensuring they are applied accurately and consistently. The accounting policies are presented to this committee as the committee charged with governance and with specific responsibility for reviewing the statement of accounts (including consideration of whether appropriate accounting policies have been followed).

- 3.2 Each year as part of the development of the Statement of Accounts the content of the accounting policies is reviewed to ensure that they reflect the requirements of the Code and remain relevant to the Council.

- 3.3 The accounting policies for the 2019/20 Statement of Accounts are detailed in Appendix 1. There have been no changes to the accounting policies in 2019/20.

- 3.4 Members are reminded that, by statute, the preparation of draft accounts has to be completed by 31st May and the audited statements need to be published by 31st July following the relevant year end.

4. Strategic Priorities

- 4.1 There are no specific impacts on the Council's strategic priorities arising as a result of this report.

5. Organisational Impacts

5.1 Finance

There are no financial implications arising as a direct result of this report. The report reflects the way financial information is presented in the Council's Statement of Accounts.

5.2 Legal Implications including Procurement Rules

There are no legal or procurement implications arising as a direct result of this report.

6. Recommendations

6.1 That Audit Committee review and note the Accounting Policies to be used for the 2019/20 Statement of Accounts.

Is this a key decision? No

Do the exempt information categories apply? No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply? No

How many appendices does the report contain? One

List of Background Papers: None

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1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Statement of Accounts has been prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 7 of the Accounts and Audit Regulations 2015.

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

2. Accruals of Income and Expenditure

The revenue accounts of the Council are maintained on an accruals basis meaning that activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods or services is recognised in accordance with the terms and conditions of the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3. 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 investments that mature within three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

4. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively i.e. in the current and future years affected by the change and do not give rise to prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

5. Charges to Revenue for Non-Current Assets

Service revenue accounts, central support services and trading accounts are charged with the following amounts to reflect the cost of holding non-current assets during the year:

- depreciation of the assets used by the service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which losses can be written off
- amortisation of intangible assets used by the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. This is referred to as the Minimum Revenue Provision (MRP) and Voluntary Revenue Provision (VRP). The Council's policy on MRP is approved by Council in March each year as part of the Treasury Management Strategy. Depreciation, revaluation and impairment losses and amortisation are replaced by the MRP and VRP, by way of an adjusting transaction between the Capital Adjustment Account and the General Fund Balance in the Movement in Reserves Statement, for the differences between the two.

6. Council Tax and Non-Domestic Rates

The Council (as the billing authority) acts as an agent, collecting council tax and non-domestic rates (NDR) on behalf of Lincolnshire County Council and Lincolnshire Police (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, all share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payment due under the statutory arrangements will not be made, the asset is written down and a charge made. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

7. Employee Benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements or time off in lieu, earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which employees take the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy, and are charged on an accruals basis to

the appropriate service segment or, where applicable, to a corporate service segment for non-distributed costs in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs of restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to relevant accounting standards. In the Movement in Reserves Statement, transfers are required to and from the Pensions Reserve to remove 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.

Post-Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Lincolnshire County Council. This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme.

The liabilities of the Lincolnshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the protected 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 forecasts of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate determined by the pension scheme actuary (based on the yield of UK Government Bonds plus a 'credit spread' allowance to reflect the extra risk involved in using AA corporate bond yields).

The assets of the Lincolnshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value.

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

- 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 Non Distributed Costs

- Net interest cost 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.
- Re-measurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - 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 Local Government 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 Council 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 Pension 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.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

8. Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

9. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and carried at their amortised cost. Annual charges for interest payable are shown in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, and 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.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable, with accrued interest due within one year shown under short term borrowings; and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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. The Council has a policy of spreading the gain or loss over the unexpired life of the original loan. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge 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.

Financial Assets

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

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income

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).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and carried 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, with interest receivable within one year shown under short term investments and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, occasionally the Council may make loans to other parties (e.g. voluntary organisations) at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement 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, 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 the Financial Instruments Adjustment Account in the Movement in the 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.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Authority.

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.

The Council has a number of loans to local organisations. It may not have reasonable and verifiable information to support the measurement of lifetime losses on individual loans without undue cost or effort to support the measurement of lifetime expected losses. It has therefore assessed losses for the portfolio on a collective basis.

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

- Group 1 – Commercial investments in line with treasury management policy including counterparties that have external credit ratings of A or better. Loss allowances will be assessed on a group basis using the simplified approach of collective assessment.
- Group 2 – Loans to related parties. Loss allowances for these loans are assessed on an individual basis and / or an individual borrower basis.
- Group 3 – Money Market funds. Loss allowance will be assessed on market value of the investment in the fund.

Financial Assets measured at fair Value through Profit and Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices in active markets for identical assets – the market price
- Other instruments with fixed and determinable payments in active markets for identical assets – discounted cash flow analysis

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

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

Any gains and losses that arise on 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.

10. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where material amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses, if material, are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

11. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Business Improvement Districts

A Business Improvement District (BID) scheme applies across the whole of the Council. The scheme is funded by BID levy paid by non-domestic ratepayers. The Council acts as a principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable development for the Authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure, however a proportion of the charges may be used to fund revenue expenditure

12. Intangible Assets

Intangible assets are assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences). Expenditure on intangible assets is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council for a period of more than one year.

Internally generated intangible assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of the Council's website is not capitalised as the website is primarily intended to promote or advertise the Council's services.

Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost.

Intangible assets are amortised over their useful life and charged to the relevant service lines in the Comprehensive Income and Expenditure. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are

therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

13. Interests in Companies and other Entities

Councils are required to produce Group Accounts to include services offered to Council Tax payers by organisations other than the Council itself but in which the Council has an interest. There are a number of criteria set out by which the Council must determine whether the value of the company and the Council's interest is significant enough for Group Accounts to be produced. The Council has complied with the Code of Practice on Local Authority Accounting, and while it has identified a company over which it has joint control, it has concluded that the company does not meet the criteria that would require consolidation into the Council's accounts on materiality grounds.

14. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using either the FIFO or weighted average costing formula.

Long term contracts are accounted for on the basis of charging the Surplus and Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

15. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services.

Investment properties are measured initially at cost and subsequently at fair value, based on the highest and best use value of the asset. Investment properties are not depreciated but are re-valued annually according to market conditions to ensure that they are held at the highest and best use value on the Balance Sheet date. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income and Expenditure line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

16. Joint Operations

Joint Operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- Its assets, including its share of any assets held jointly.
- Its liabilities, including its share of any liabilities incurred jointly.
- Its revenue from the sale of its share of the output arising from the joint operation.
- Its share of the revenue from the sale of the output by the joint operation.
- Its expenses, including its share of any expenses incurred jointly.

17. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A financing charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution (Voluntary Revenue Provision - VRP) is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by the VRP in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefiting from use of the leased asset. Charges are made on a straight-line basis over the term of the lease, even if this doesn't match the pattern of payments.

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain and loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a long-term lease debtor in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipt Reserve in the Movement in Reserves Statement. Where the amount due in relation to the leased asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of 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 in the Movement in Reserve Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

18. Overheads and Support Services

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

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

Assets that have physical substance and are held for use in the supply of services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant or Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. Repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between 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. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- Investment properties and surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

For non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. However, in exceptional circumstances, gains may be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to services.

When decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance, up to the amount of the accumulated gains.
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are reviewed at each year-end for evidence of reductions in value i.e. impairment. Where impairment is identified, 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.

When impairment losses are identified, they are accounted for as follows:

- Where there is a balance in the revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance, up to the amount of the accumulated gains.
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and Other buildings – straight-line allocation over the useful life of the property as estimated by the Valuer
- Vehicles, plant, furniture and equipment – straight-line allocation over the useful life of each class of asset

Where an item of property, plant or equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

In relation to Council Dwellings, depreciation is based on the Existing Use Social Housing Value (EU-SHV) on the components, deemed to be land and buildings.

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

20. Heritage Assets

The Council holds a number of Heritage Assets, which can be grouped into the following categories:

- Civic Insignia
- Art and Sculptures
- Musical Instruments
- Vehicles

- Ancient Monuments and War Memorials
- Miscellaneous

These are not held in a single collection but in a number of appropriate locations, where they are considered to contribute to increasing the knowledge, understanding and appreciation of the Council's history and local area.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

- **Civic Insignia**

The collection of civic insignia includes the Mayor's and Sheriff's badges and chains of office, mace and ceremonial swords. These items are reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are subject to periodic reviews by a specialist valuer. The civic insignia are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

- **Art and Sculptures**

This category includes paintings and a number of public art works such as statues and sculptures. Where a valuation is available e.g. an insurance valuation, the asset is reported in the balance sheet at this valuation. However, for a number of public art sculptures and statues, no cost or valuation information is available and consequently, these assets are not recognised in the balance sheet. Where artworks are recognised, they are deemed to have indeterminate lives and the Council does not consider it appropriate to charge depreciation.

- **Musical Instruments**

The Council holds a Steinway grand piano at the Drill Hall and a Stradivarius violin, which is on loan to the Halle orchestra. These items are reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are subject to periodic reviews by a specialist valuer. The instruments are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

- **Vehicles**

The Council holds one diesel locomotive as a heritage asset. This is reported in the Balance Sheet at insurance valuation which is based on market values. The insurance valuations are subject to periodic reviews by a specialist valuer. The vehicle is deemed to have indeterminate life as it is not in operation but is on display; hence the Council does not consider it appropriate to charge depreciation.

- **Ancient Monuments and War Memorials**

This category includes various roman ruins and ancient structures and four war memorials. The Council does not consider that reliable cost or valuation information can be obtained for the items in this category. This is because of the nature of the

assets held and the lack of market values. Consequently, these assets are not recognised in the Balance Sheet.

- **Miscellaneous**

This category includes any other assets which are being held for their contribution to knowledge and culture but do not readily fall into the above categories. One example is the collection of Books of Remembrance held at the City crematorium. These items are reported in the Balance Sheet at either cost or insurance valuation where material. No depreciation is charged on these assets.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's accounting policies on impairment. The Council may occasionally dispose of heritage assets which are unsuitable for public display or to an appropriate body which will ensure the asset is maintained and displayed within a suitable collection e.g. to a museum or historical trust. The proceeds of such items are accounted for in accordance with the Council's accounting policy on disposal of Property, Plant and Equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

21. Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus and Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from the disposal (if any) are credited to the same line in the Comprehensive Income and

Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are transferred to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of assets is fully provided under separate arrangements for capital financing. Amounts are transferred to the Capital Adjustment Account in the General Fund Balance in the Movement in Reserves Statement.

22. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that the reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits.

23. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

24. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

25. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income.

26. Fair Value

The Council measures some of its non-financial assets, such as surplus assets and investment properties, and some of its financial instruments at fair value at the end of each reporting period. 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 transaction to sell the asset or transfer the liability 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.

The Council measures the fair value of an asset or liability on the same basis that market participants would use when pricing an asset or liability (assuming they were acting in their economic best interest).

When measuring the fair value of a non-financial asset, the Council takes into account a 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 appropriate valuation techniques, which takes into account the three levels of inputs to valuations for fair value assets:

- Level 1 – quoted prices in active markets for identical assets or liabilities that the Council can assess 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.

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SUBJECT: COMBINED ASSURANCE REPORT

DIRECTORATE: AUDIT MANAGER

REPORT AUTHOR: JOHN SCOTT, AUDIT MANAGER

1. Purpose of Report

- 1.1 By grouping different sources of assurance in a single model we provide the basis for Senior Management and the Audit Committee to gain a better understanding of the organisation's assurance status.

2. Inquiries for Those Charged with Governance

- 2.1 The report provides an overview of assurance across the Council. It combines assurance opinions provided by management, corporate assurance systems (such as performance), other external/third party assurance and Internal Audit. The Combined Assurance Report is produced annually and the current report covers the period 2019/20.

- 2.2 The report is attached at Appendix A.

The report details the methodology that was used and provides assurance across critical services, projects and risks. The report includes details of any amber or red assurances.

The report also feeds into the assurances considered for the Annual Governance Statement, informs the Internal Audit Plan and Annual Internal audit report.

3. Organisational Impacts [

- 3.1 There are no direct financial impacts.
- 3.2 There are no direct legal impacts.

4. Recommendation

- 4.1 That Audit Committee note and comment upon the Combined Assurance report.

Is this a key decision?	No
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	One
List of Background Papers:	None

Lead Officer:	John Scott, Audit Manager Telephone (01522) 873258
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Combined Assurance Status Report 2019/20



**City of Lincoln Council
February 2020**

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Director's & Heads of Service Key Messages

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Strategic Director - Housing and Investment Page 10

Major Developments Director Page 12

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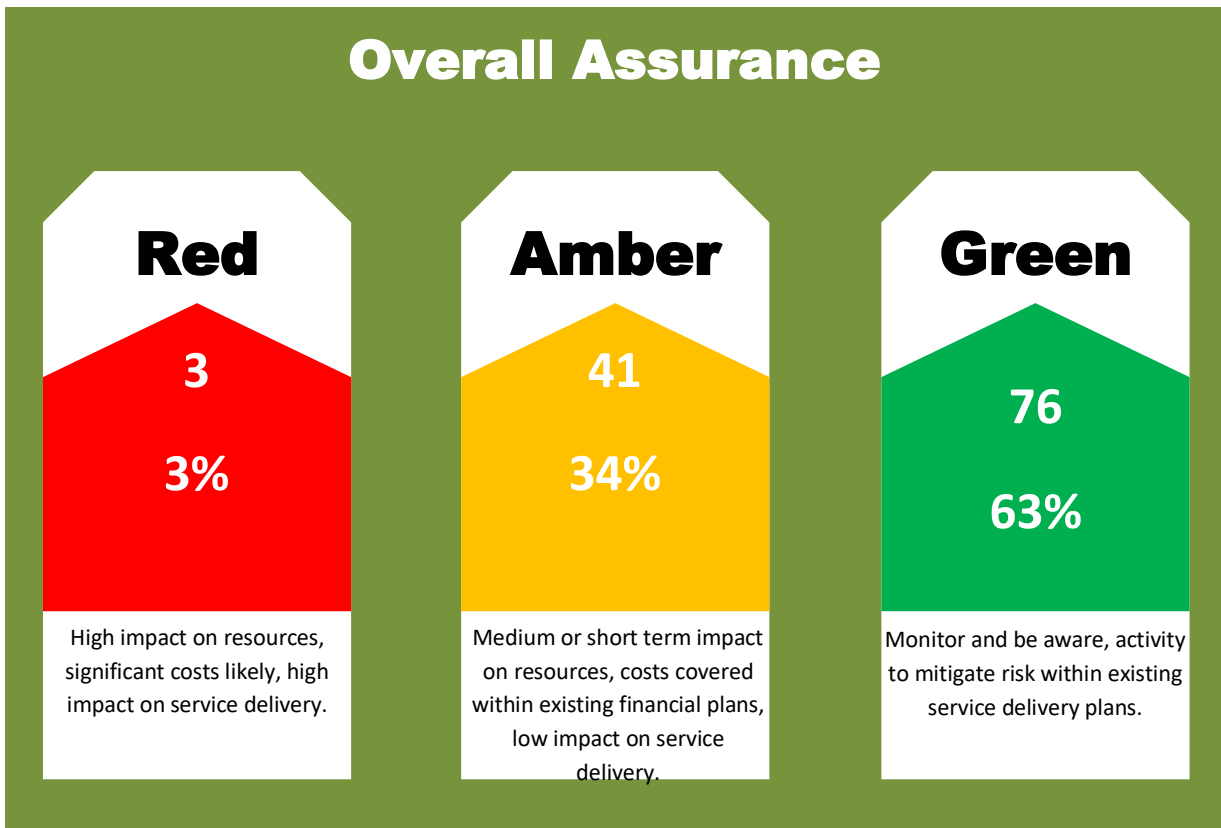
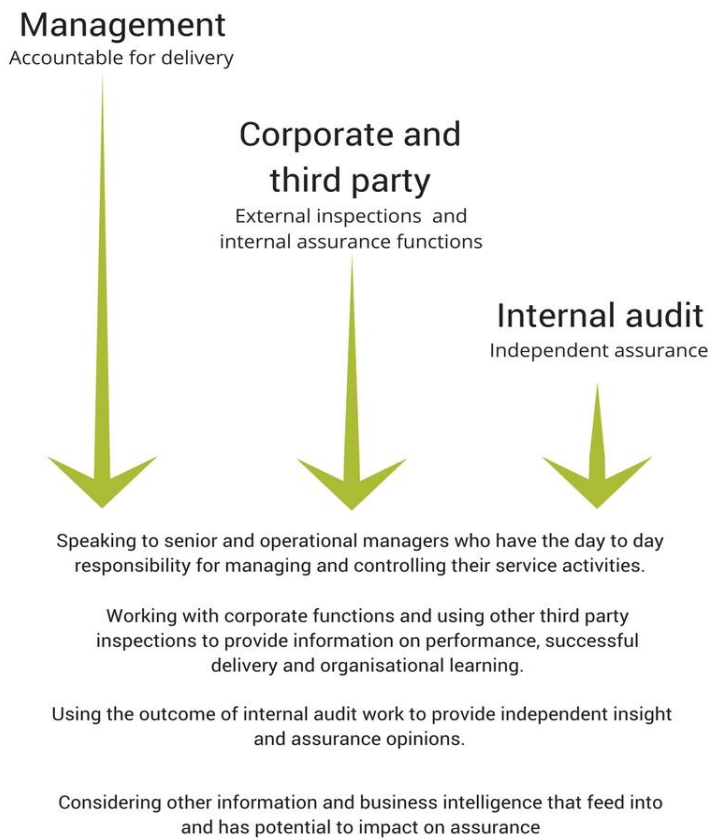
Overview of Assurance

Combined assurance is a structured means of identifying and mapping the main sources and types of assurance in the council and coordinating them to best effect.

It enhances risk management by providing an effective and efficient framework of sufficient, regular and reliable evidence of assurance on organisational stewardship and management of major risks to the Council's success.

We do this using the 3 lines of defence model.

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



Chief Executive's Summary

We thank our internal audit team (part of Assurance Lincolnshire) for helping to facilitate the Council's latest Combined Assurance Report and also the Council's management for providing their input into the process.

The report is valuable in highlighting aspects of Council business that are operating well, while also identifying other areas that require greater focus and/or some level of intervention. It also provides assurance to management that there are "no surprises" where further work is required.

Plans are in place to manage and mitigate any Amber or Red assurances. In terms of overall "combined" assurance there are 63% services designated green, 34% amber and 3% red. The Council's key service functions and critical activities are generally operating well. Where there are issues we are, or have, proactively managed these risks and more detail is included within the body of the report under each Directorate.

The findings represent a comprehensive view of our assurance position across our services, critical systems, governance processes, ICT, key projects, and risk analysis.

The report illustrates that our three lines of defence governance model is operating effectively. There are a range of assurance mechanisms in place to monitor finance, performance, projects, and risk.

There is effective financial control however ongoing pressures around Council funding and budgets has required a further increase in the level of savings/income to be achieved.

A new performance system was implemented from the start of 19/20 and is working well, providing up to date and clear performance information to management and members. There is a good overall level of performance within the current context of on-going financial pressures and rising customer expectations.

Management have a good awareness of how their services are performing, are able to identify potential issues and most importantly, are proactive in implementing remedies or raising to senior management the need for such action. It is important to understand where performance is changing and take action at the right time and in the right way.

Project management systems are being updated with a view to ensure greater efficiency and effectiveness whilst maintaining compliance and good governance in projects. Project reporting continues to be aligned to the Vision 2020 / Vision 2025 strands. There is currently a review of corporate project /programme management (the Lincoln Project management model).

The Council has a range of partners and delivers many of its services and objectives through effective partnerships with appropriate governance arrangements. We have recently updated our guidance and are currently refreshing our partnership registers.

We acknowledge the benefit in having independent assurance to review our operations and as well as internal and external audit, we have engaged with a number of organisations in the past to help provide this assurance such as the LGA Peer review, and other bodies that provide assurance.

During 2019/20 a significant range of activity across the Council was undertaken as part of the final year of Vision 2020. Some key projects have been successfully delivered as part of Vision 2020 included; Lincoln Transport Hub, Lincoln Community Lottery, New Council Homes Delivery, Rogue Landlords Scheme, Investment at Birchwood Leisure Centre, Boutham Park Regeneration, City Centre Intervention Team etc.

During 2019/20 work commenced on the new Vision 2025 strategic plan covering 2020-2025. This sets Council's vision for the future of the City, it's strategic priorities and core values. This new vision will be launched at the Council's Growth Conference in March 2020

Day to day service delivery has been conducted to a high standard. The Council is responding positively to a range of challenges with greater efficiency, innovation in service delivery, creativity in seeking new sources of income, and

seeking to establish a “One Council” philosophy with the customer right at the heart of everything we do.

Customer satisfaction levels, for example customer services, housing repairs and complaints handling are all high. Complaint numbers are also falling.

Member development is an important area and as well induction, a longer-term training programme has been devised to provide on-going development opportunities for Members.

For risk management – we have continued support via Assurance Lincolnshire which is working well, and helps to support our strategic and operational risk management as well as for projects.

In conclusion, despite good progress, there are challenges ahead; not least funding arrangements for the Council. We continue to address these and other areas in a positive manner, and always with the customer at the heart of everything we do

Strategic risks

Good risk management is part of the way we work. It is about taking the right risks when making decisions or where we need to encourage innovation in times of major change – balancing risk, quality, cost and affordability.

This put us in a stronger position to deliver our goals and provide excellent services.

Our Strategic Risk Register is regularly reviewed and our risks are being effectively managed.

Risk	Risk rating	Level of assurance	Direction Of Travel
1.Failure to engage & influence effectively the Council's strategic partners, council staff and all stakeholders to deliver against e.g. Council's Vision 2020/2025.	Amber	Substantial	=
2.Failure to deliver a sustainable Medium term Financial Strategy (that supports delivery of Vision 2020 (Council plan))	Red	Substantial	=
3.Failure to deliver the Towards Financial Sustainability Programme whilst ensuring the resilience of the Council	Amber	Substantial	=
4.Failure to ensure compliance with statutory duties / functions and appropriate governance arrangements are in place,	Amber	Limited	=
5.Failure to protect the local authority's vision 2020 due to changing structures and relationships in local government and impact on size, scale and scope of the Council	Red	Substantial	=
6.Unable to meet the emerging changes required in the Council's culture, behavior and skills to support the delivery of the council's future Vision and the transformational journey to one Council approach	Amber	Limited	=
7.Insufficient levels of resilience and capacity exist in order to deliver key strategic projects & services within the Council	Red	Limited	=
8.Decline in the economic prosperity within the City Centre	Amber	Limited	=
9.Failure to mitigate against the implications for the Council following the outcome of Brexit	Amber	Substantial	=



Risk	Risk rating	Level of assurance	Direction Of Travel
10.Failure to deliver key strategic projects i.e <ul style="list-style-type: none"> • WGC • New build project • Crematorium • Dewint Court 	Amber	Substantial	=
Key	Assurance		
High / Red	Low level of confidence over the design and operation of controls, performance or management of risk		
Medium / Amber	Medium level of confidence over the design and operation of controls, performance or management of risk		
Low / Green	High level of confidence over the design and operation of controls, performance or management of risk		

Chief Executive's Directorate

Key Services and delivery areas:-

City Solicitor
 Legal; Electoral Services; Democratic Services Procurement; Human Resources; Workbased Learning / Apprentice scheme; Civic and International partnerships

Chief Finance Officer
 Finance and Accountancy; Exchequer; Risk Management; Internal Audit; Property Services Revenues and Benefits;

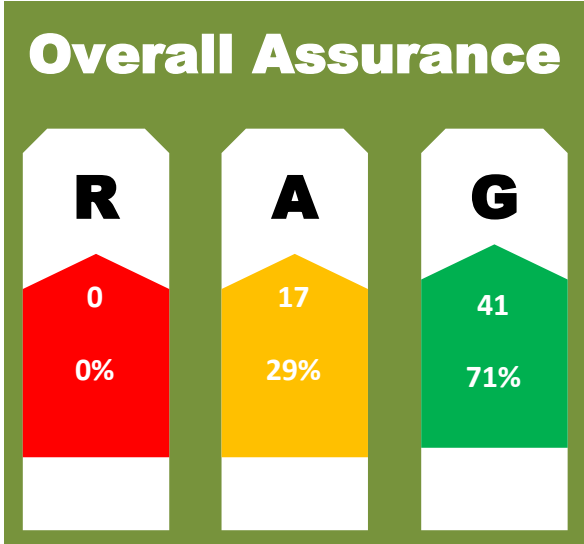
Strategic Development*
 Corporate Planning; Corporate Governance Performance management; Consultation and Community engagement; Communications; Customer Services; ICT / Information Governance*

**Some of these service areas currently report into other Directors – DCE and DHI*

Amber
Members/Member Development
Ethical governance – including standards, values and behaviours (officers and members)
Human Resources
Work Based learning
Finance and Accounting
Creditors
Savings targets
Counter Fraud
Facilities Management
Corporate Asset management planning (property/land)
Business continuity
Programme / Project Management (Corporate /Vision 2020)
Partnership Governance
Data Protection / Information Management
Business Development and ICT (three areas)

Directorate Red Risks

Failure to provide capacity to service areas to respond to requirements of ongoing service delivery and support to the Towards Financial Sustainability Programme and major projects, whilst acknowledging impact of the Programme on the Services themselves



Critical Activities

Red
None

CX Key Directorate messages

City Solicitor

Members/Member Development
 Succession planning is required for long standing members – work around this is ongoing

Ethical governance – including standards, values and behaviours (officers and members)
 Work is ongoing around the One Council - Organisational Development Pillar – programme for 2020. LGA new member code of conduct due summer 2020. This is also recognised in the Strategic risk register (SRR) and has limited assurance due to the actions still to complete.

Human Resources

Delivering on the One Council – Organisational Development programme, Lincoln Way (staff charter) and Lincoln Leader model. This is also recognised within the strategic risk register.

Work Based learning

Financial budget pressures continue - to review charging model to internal clients

Partnership Governance

Partnership guidance has been refreshed and register is under review against this revised guidance. Assurance reporting to CMT due March 2020.

Chief Finance Officer

Finance and Accounting

Following the 18/19 external audit, work is underway to improve the final account processes and production of high quality working papers.

Creditors

Project to improve percentage of purchase orders used is currently being progressed.

Savings targets

Level of savings has increased as part of revised MTFs, development of programme to achieve increased targets is currently underway.

Counter Fraud

Resource limitations continue to be an issue, however available resources are maximized through use of partnership working and projects/outsourcing to deliver results

Facilities Management

Existing stock condition surveys for corporate assets are due for updating.

Corporate Asset management planning

Existing Corporate Asset Management Plan requires updating.

Business continuity

Improvements to IT fail over site are currently being implemented to provide further Business Continuity resilience. This is also recognised within the strategic risk register and is an HPS (High Performing Services) action

Strategic Development

Programme / Project Management (Corporate /Vision 2020)

Project Management Framework currently being reviewed, draft revised model currently being tested.

Business Development and ICT

A new and significant upgrade to the IT Infrastructure is now in place and being tested. Services will be migrated by end of 2019/20. This will also improve resilience linked to our IT DR planning once secondary infrastructure is completed.

For IT security the (external) Public Services Network (PSN) assessment has been submitted. There are some known issues which need to be addressed. This is considered a significant risk until new measures have been put in place.

In terms of IT maintenance and development a programme was developed as part of ICT strategy to ensure resources were appropriately applied to projects. Overview of progress will be monitored through the One Council Technology Pillar. Recent turnover of staff being addressed through training/recruitment.

Information Management:

Further progress has been made with more work to do on contracts and asset registers. The Internal Audit report in 2019/20 has given the area substantial assurance

In terms of the Red Directorate risk around resources further mitigation includes the development of further business cases within the TFS Programme and a PIR review of Senior Management to be conducted in 19-20.

Director's Key Messages

Strategic Director - Communities and Environment

Key Services and delivery areas:-

Assistant Director Communities and Street Scene

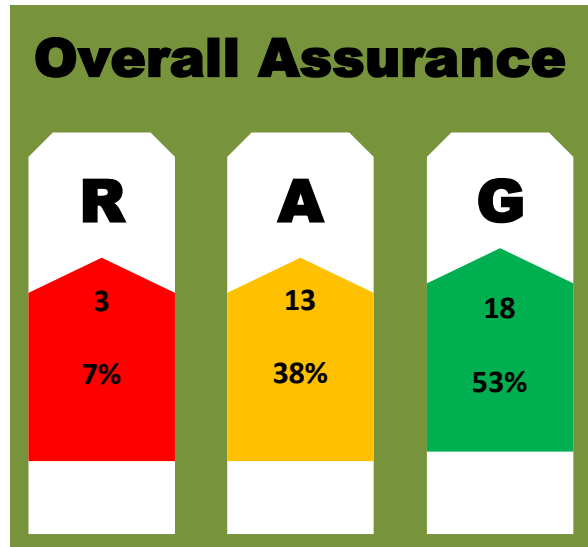
CCTV
Parks & Open Spaces & Allotments
Street Cleansing, Grounds Maintenance, Waste collection and recycling
Car Parks
Bus Station
Allotments

Assistant Director Health and Environment services

Environmental Protection
Food safety
Public Protection Anti-social Behaviour;
Licensing
Leisure Centres
Recreation
Bereavement Services
Events
Health & Safety
DFG / Decent Homes
Private sector housing
Regeneration
Emergency Planning

Planning Manager

Planning
Building Control



Critical Activities	
Red	
	Bereavement Services
	Private Sector Housing DFG
	Housing standards and HMO's
Amber	
	Parks & Open Spaces & Allotments
	Waste collection, street cleansing, grounds (3)
	Strategic Waste management
	Non-operational land
	Public Protection Anti-social Behaviour
	Community Centres
	Visitor Information
	Events (Incl Christmas Market)
	Events and Culture
	Drill Hall
	Emergency Planning

Directorate Red Risks	
	Private sector housing unable to deliver statutory duties and planned objectives:

The operational risks below focus on those areas of concern. Beyond those we have a large array of projects and service delivery that are operating well with limited risk exposure.

In each case below, there are departmental working groups and action plans in place to address the issues. Senior management have clear visibility of these issues and are actively driving them to a successful outcome.

Health and Environment services

Bereavement services

We have a well-regarded bereavement service but there are risks around the project for crematorium development which are being managed.

Private Sector Housing - DFG

It is still a challenge to ensure budget is spent in-year for disabled facilities (DFG) We are looking at ways to improve

Housing standards and HMO's

HMO license changes have been implemented however budgeted income for housing in multiple occupation is not as expected IT system and processes are improving though there are still some issues to resolve. Some properties may not be registering that should be and investigation work will be completed. Staff resources have also had an impact.

The Trusted landlord scheme is in place as is a new grants scheme – Housing Assistance Policy

We will also review the delivery programme for Rogue Landlords Project.

Communities and Street Scene

Parks & Open Spaces & Allotments

For Parks & Open Spaces & Allotments there are environmental pressures/ requirements in Grounds Maintenance work, maintenance budget pressures, staff resource & qualifications. These are being addressed

Boultham park restoration has been a very successful project – there are some residual issues with the project/contract which are being addressed.

Waste collection, street cleansing, grounds maintenance.

Operational waste collection and recycling is working well but there are some current contract uncertainties. This is being managed through a procurement project.

Strategic Waste management

For Strategic Waste management the Government direction is not clear yet for example food waste collection. Across the County there are pressures on facilities / contractors to process what is collected which is causing some uncertainty.

Non-operational land

Non-operational land - still amber due to possible environmental agenda pressures

Public Protection Anti-social Behaviour

Resourcing issues within the public protection team has meant that we have not made as much progression on priorities. Managing the risk

Community Centres

St Giles Community Centre – play area and Multi- Use Games Area renovation will be completed by Spring 2020. Financial pressures are also being managed

Visitor Information

After several years' management of the tourist information centre is being brought back in – house. The project is on track and risks are being managed.

Events and culture (Incl Christmas Market)

Looking ahead to make the Christmas Market more commercially viable.

Funding levels are being considered for events/culture plus public conveniences

Emergency Planning

Emergency Planning - Silver/Gold rotas are being developed to ensure sufficient capacity

Leisure

Leisure centre are operationally “green” assurance. Birchwood Leisure centre renovation – the project has been a great success however there are some final project /contract issues to resolve.

Director's Key Messages

Strategic Director - Housing and Investment

Key Services and delivery areas:-

AD Housing

Tenancy Management
Homelessness/Rough Sleeping
Housing Solutions
Housing Business Support Services

AD Investment

Housing Repair Services
Housing Investment (Planned Maintenance)

AD Housing Investment and Strategy

Housing Investment (New Build)
Housing Strategy
Sincil Bank Regeneration
Safety Assurance
Caretaking
Fleet management

Housing Complaints
Housing Investment
Safety Assurance

Directorate Red Risks

Failure to comply with the Control of Asbestos Regulations 2012 in the management of the Council's stock of housing

Failure to maintain and support IT systems for the Housing service

Risks remain relatively low and work continues to undertake a range of mitigating measures to maintain this position. The very nature of the department's wide and varied services will always lead us to be susceptible to risk; we continue to be vigilant and always look to learn from our failures and the feedback we receive.

Housing Voids

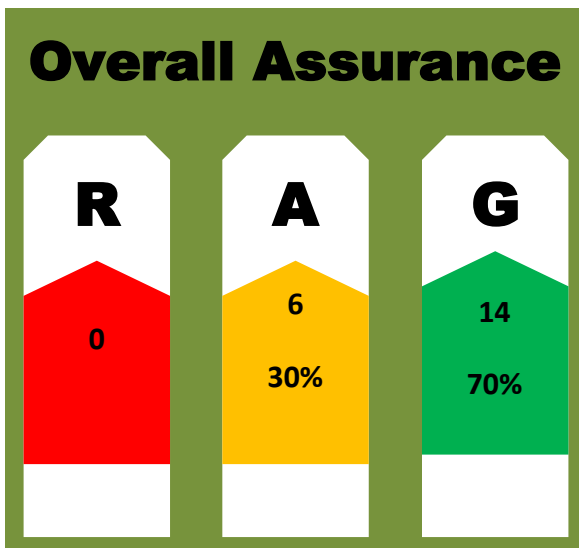
In terms of managing our housing voids more work is required around the quality of the customer experience and help ensure Tenancy sustainment. We need to ensure tenants have the information they need and minimise the number of (applicant) refusals.

Housing Allocations

Housing allocations service is improving. Further progress can be made - quality checks are in place and the backlog improving significantly. There are now additional staff resources within the team.

Safeguarding

We are compliant with respect to safeguarding but there is service impact – hence the requirement to review safeguarding requirements and resources needed. CMT have commissioned a review into the resourcing requirements in these areas.



Critical Activities

Red
None
Amber
Void Management
Choice Based Lettings / Housing Allocations
Safeguarding

Complaints

Housing Complaints are increasingly complex. Service and targets will be reviewed as the Housing complaints target is more challenging than the corporate target.

Housing Investment

Sub-contractor problems linked to housing investment resulted in some delivery issues earlier in the year but additional resources have been put in place so targets should be achieved by the year-end. Some properties are not at the 'Decent Homes' standard but these will all be addressed by 31/3/20. Work is also ongoing to increase the level of stock surveys, which should be in place shortly.

Safety Assurance

For safety assurance responsible officers are taking on the role formally. Extensive work has been completed around housing fire safety and the fire safety action plan where very good progress has been made. Training is a key part of this. Other areas are part of a safety assurance review in 20/21

Our red risk around safety assurance is being mitigated through this further review work.

Our Directorate red risk around ICT is being mitigated by exploring system application options.

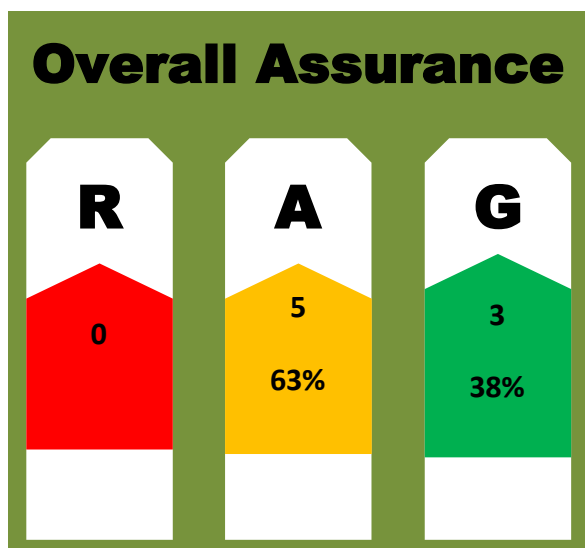
Major Developments Director

Key Services and delivery areas:-

Growth Strategy & Town Investment Plan (Town Deal)
 Western Growth Corridor
 New Build Housing
 City Centre Vibrancy
 Transport/travel
 Energy/Climate Strategy

 Place Marketing
 Partnership working

Critical Activities
Red
None
Amber
City Centre Vibrancy
Energy/Climate
Western Growth
New Build housing
Transport/Travel



Directorate Red Risks	
None	

Energy/Climate
 Report completed setting out baseline and emerging road map to 2030 – improvement in emissions locally however resources remain an issue to delivery. This should be addressed through the recruitment of an Energy/Climate Change Manager and consultancy expertise.

City Centre Vibrancy
 Building on success of the Transport Hub and Cornhill Quarter. Focus is now on Cornhill, Market and City Square. All projects beyond kiosk demolition require external funding or alternative delivery mechanism. Feasibility process underway for all schemes to ensure readiness if/when funding becomes available. Opportunity through Town Fund and/or LEP support.

Western Growth Corridor
 Leading on the development and delivery of the City’s largest SUE, working in partnership with private sector landowner, Lindum, via a Delivery Agreement. The immediate focus for this work is to secure planning permission and delivery of phase 1a; securing funds and a delivery mechanism for infrastructure to unlock the wider site and ensuring a sustainable & innovative approach to the development.

New Build Housing
 Delivering housing in line with the local development plan and Vision 2020/25. Immediate focus is on the delivery of Markham House, demolition and review of masterplan for QER and advancing a high quality, viable scheme for Rookery Lane. This is in addition to a smaller sites pipeline. Due to the complexities involved in major development projects (particularly at QER), it will take time to deliver a high quality scheme

Transport/Travel

Transport identified as a key priority for the Town Deal Programme. The emerging LTS will inform approach to delivery and priorities for the Town Investment Plan will be identified, with CoL as a key partner.

End of report

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SUBJECT: WHISTLEBLOWING POLICY AND GUIDANCE

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: JOHN SCOTT, AUDIT MANAGER

1. Purpose of Report

1.1 To update the Whistleblowing policy and guidance.

2. Executive Summary

2.1 The Council's current whistleblowing policy has been updated to reflect changes in personnel and other external links and has been re-formatted to make the presentation shorter and clearer. There have been no material changes to the content.

3. Background

3.1 The Council's whistleblowing policy is part of range of counter fraud policies which are reviewed every two years (or sooner if required).

3.2 A Whistleblower is generally a term used for a person who works in or for an organisation and raises an honest and reasonable concern about a possible fraud, crime, danger or other serious risk that could threaten colleagues, service users, customers, members of the public or the success and reputation of the organisation.

3.3 UK law protects employees from dismissal, harassment or victimisation if such treatment occurs as a result of having made a whistle-blowing disclosure considered to be in the public interest. If workers bring information about a wrongdoing to the attention of their employers or a relevant organisation, they are protected in certain circumstances under the Public Interest Disclosure Act 1998. This is commonly referred to as 'blowing the whistle'. The law that protects whistleblowers is for the public interest - so people can speak out if they find malpractice in an organisation. Blowing the whistle is more formally known as 'making a disclosure in the public interest'.

4. Policy and Guidance

4.1 The content of the Whistleblowing policy and guidance remains largely unchanged with the exception of personnel changes, external links and presentational changes to help improve understanding.

5. Organisational Impacts

5.1 Finance (including whole life costs where applicable)

There are no financial implications

5.2 Legal Implications including Procurement Rules

There are no direct legal implications; however the policy helps ensure compliance with UK law.

5.3 Equality, Diversity & Human Rights (including the outcome of the EA attached, if required).

There are no changes to the existing Equality Impact Assessment.

6. Recommendation

6.1 That Audit Committee approve the updated policy and guidance.

Is this a key decision?

No

Do the exempt information categories apply?

No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?

No

How many appendices does the report contain?

One

List of Background Papers:

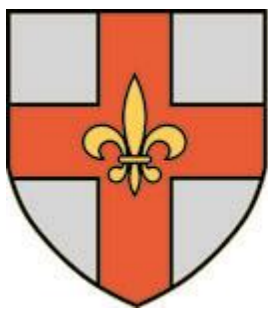
None

Lead Officer:

John Scott, Audit Manager
Telephone (01522) 873321

CITY OF LINCOLN COUNCIL

Whistleblowing Policy And Guidance



CITY OF
Lincoln
COUNCIL

Whistleblowing Policy

Control

Owner / Policy Lead Officer: John Scott Audit Manager / Claire Burroughs Human Resources Manager

Responsible Officer: City Solicitor (Monitoring Officer)

Consultation: Audit Committee

Date: December 2019

Review Arrangements: Every two years

Sept 2013 Version 1.01

July 2015 Version 1.02

September 2015 Version 1.03

December 2017 Version 1.04

March 2020 Version 1.05

Introduction

1. A Whistleblower is generally a term used for a person who works in or for an organisation and raises an honest and reasonable concern about a possible fraud, crime, danger or other serious risk that could threaten colleagues, service users, customers, members of the public or the success and reputation of the organisation. This reporting is sometimes called whistleblowing. You should take prompt action to raise concerns if you believe something is wrong.

The Whistleblowing law is contained in the Public Interest Disclosure Act 1998 (PIDA – amended by the Enterprise and Regulatory Reform Act 2013). Public bodies, such as this Council, are required to have a Whistleblowing policy and to ensure that workers are not victimised or dismissed for raising their concerns internally, or subjected to any other detriment.

2. We want you to feel that it is safe and acceptable to tell us about your concerns so that we can investigate and take action as soon as possible. We want to assure you that there is no reason to remain silent; your decision to talk to us may be difficult but, if you believe what you are saying is true, you have nothing to fear as you are following the Council's Code of Conduct and helping to protect colleagues, the users of our services and the residents of Lincoln.

3. We will not tolerate any harassment or victimisation of whistleblowers and we will take action to protect those who raise concerns. UK law protects workers* from dismissal, harassment or victimisation if such treatment occurs as a result of having made a qualifying whistle-blowing disclosure considered to be in the public interest. *A worker is someone with a contract or other arrangement to do work or services such as an employee or an agency worker.*

4. Qualifying disclosures are disclosures of information where the worker reasonably believes that one or more of the following matters is either happening, has taken place, or is likely to happen in the future.

- A criminal offence , for example fraud
- The breach of a legal obligation
- A miscarriage of justice
- A danger to the health and safety of any individual
- Risk of or actual damage to the environment
- Deliberate attempt to conceal any of the above - you believe someone is covering up wrongdoing

You can also report suspected fraud or corruption (which could be a breach of a legal obligation)

5. If a worker is going to make a disclosure it should be made to the employer first, or if they feel unable to use the organisations procedure the disclosure should be made to a prescribed person (see paragraph 40), so that employment rights are protected. Workers who 'blow the whistle' on wrongdoing in the workplace can claim unfair dismissal if they are dismissed or victimised for doing so.

Scope

6. You can also use our whistleblowing reporting arrangements if you are contractor, supplier, partner or member of the public. Protection however only applies to our workers. You may have concerns or information which you think we should know about or look into. You should, however, normally follow the Corporate Complaints process if your concern is about a particular service that we have provided you. Members of the public who raise concerns are not legally protected by PIDA, so we do offer the option for the person making the allegations to withhold their identity at the time concerns are raised.

7. Our Whistleblowing arrangements do not replace the following:

- Corporate Complaints Procedure
- Disciplinary Policy
- Grievance Policy
- Dignity at Work Policy
- Child Protection Safeguarding reporting
- Adult Care Safeguarding reporting
-

These policies and reporting procedures should be used where applicable. Our Whistleblowing arrangements are not intended to give you a further opportunity to pursue a grievance or complaint once you have exhausted the relevant employment procedures.

Protection and Confidentiality

8.. You are protected in law from harassment and bullying when you raise a legitimate concern. We will not tolerate any harassment or victimisation (including informal pressure) and we will take action to protect you when you raise a concern believed to be in the public interest. We will take disciplinary or corrective action should anyone attempt to victimise the whistleblower or prevent concerns being raised.

You shouldn't be victimised if you report something. This means that your job and opportunities for future promotion or training shouldn't be put at risk because you've raised a real concern, as long as you do this in the proper way.

If you're instructed to cover up a wrongdoing, the person who tells you to do this is committing a disciplinary offence. If you're told not to raise or follow up any concern, even by a person in authority such as a manager, you shouldn't agree to stay silent. You should report the matter following this guidance.

9. We will respect your confidentiality as far as we can but there are times when we cannot guarantee this, for example, where if the whistleblowing relates to a criminal offence or if there are child protection or adult safeguarding issues. You must say straight away if you do not want anyone else to know it was you who raised the concern.

10. You will not have a say in how your concern is dealt with. The Council (or the prescribed person) can keep you informed about the action they've taken, but they cannot give you much detail if they have to keep the confidence of other people.

11. If we proceed to a formal investigation we may require you to give evidence along with other workers and witnesses; we are, in some circumstances, able to do this without disclosing the identity of the whistleblower. A statement from you may also be required as part of criminal or disciplinary proceedings – this depends on the nature of the concern.

12. If you ask us to treat the matter in confidence we will do our utmost to respect your request however, it is not possible to guarantee confidentiality. We will attempt to ensure the whistleblower's identity is not disclosed to third parties. If the information you provide includes personal information about another person, then that person may be entitled to access it under subject access provisions of the Data Protection Act. The whistleblower's identity will not be disclosed unless the law allows or compels us to do so. If we are in a position where we cannot maintain confidentiality and so have to make disclosures we will discuss the matter with you first.

If your whistleblowing disclosure results in an internal investigation and you provide a witness statement under that process, your statement may be used for disciplinary purposes. This means your statement may be given to the subject as part of a disciplinary hearing. A worker subject to the disciplinary process can also ask to see personal information held about them at any time under the subject access provisions of the Data Protection Act – this may include information within your statement. If it is possible to provide access to personal information within your statement without revealing any information about you, we will do so.

If your statement is not required for disciplinary purposes it will be:

- held confidentially on our case file (until the case file is destroyed after 7 years)
- released only with your consent or a Police / Court Order

The Council:

- does not expect you to give us your consent – this is your decision alone – but we are required by law to ask you
- does not need a reason should you choose to refuse the request

If you find yourself the subject of a whistleblowing disclosure and a decision is made to investigate, the Council will follow the appropriate employment procedure: dignity at work, grievance or disciplinary. This means you will have all the rights contained in that procedure, such as, the opportunity to respond to the allegation and representation at the investigatory interview.

It may be that our investigations do not confirm your allegation. We take all concerns seriously and can assure you that no action will be taken against you if you have raised a concern in the genuine belief that it is, or may be, true

Anonymous allegations

13. We do not encourage anonymous reporting as the concerns are more difficult to investigate and are generally less powerful. We would like you to put your name to the allegations whenever possible and remind you of the protection we can provide if we know who you are.

14. Anonymous whistleblowing referrals will be considered at the discretion of the officers handling the concern.

Untrue/false allegations

15. If we find that you have maliciously made a false allegation we will take action against you and you will not be eligible for protection under the law.

How to raise a concern

16. If a worker is not sure whether or not to raise a concern through this policy, they should discuss the issue with their line manager or Human Resources, or one of the reporting officers below.

We encourage you initially to raise your concerns internally. Make it clear that you are raising your concerns under the Council's whistleblowing arrangements. Any matter raised will be investigated thoroughly, promptly and confidentially, and we will provide feedback on actions taken. Before you make any complaint, make sure that you follow the proper procedures, for example, filling in incident forms where necessary. In any case, write down the full details of the incident and keep a copy.

The law doesn't say you have to have hard evidence, although any information that you have would be useful. However you must not start any fact finding or investigations yourself.

You can report the matter to the following people (or discuss if you are in any doubt about what you should do):

If you are a worker/employee you can report to the following Council officers:

Audit Manager 01522 873321

Email: john.scott@lincoln.gov.uk

Human Resources Manager 01522 873856

Email: claire.burroughs@lincoln.gov.uk

Chief Financial Officer 01522 873258

Email: jaclyn.gibson@lincoln.gov.uk

You should also consider telling your line manager (service manager) so they are aware.

You should declare whether you have a personal interest in the issue at the outset. If your concern falls more properly within grievance or other policies you will be advised.

You can also use the City of Lincoln's confidential PO Box or email address

Write to:

City of Lincoln Council

PO Box 747

Lincoln

Email: whistleblowing@lincoln.gov.uk

If you are not a Council worker you can contact the Council's confidential freephone whistleblowing number on **0800 0853716**

19. The Investigations Team, who report directly to the Head of Internal Audit & Risk Management at Lincolnshire County Council, operate this dedicated reporting line during normal working hours (9am to 5pm). If you call this number out of hours you can leave a message on the

answer phone which is located in a secure area. *This is a shared whistleblowing number used by all Lincolnshire Councils under a partnership arrangement.*

20. Concerns are better submitted in writing with information on background names, copies of any documents, dates and places (where possible).

You can email: whistleblowing@lincolnshire.gov.uk

You can write to:
Lincolnshire local authorities
PO Box 640
Lincoln
LN1 1WF

Council workers may also use these reporting lines if they wish.

Safeguarding Children and Vulnerable Adults

23. If your concerns relate to safeguarding children and vulnerable adults please see the Safeguarding section on City People and the Council's website (Safeguarding children and adults) and report accordingly.

Representation

25. The whistleblower may take advice, for example from their trade union and / or professional organisation, or legal adviser, in respect of their concerns before or after it is raised. However, care is needed to ensure that this will not result in a breach of confidentiality or the disclosure of exempt information.

26. The whistleblower will be allowed to be accompanied to any meeting in respect of the concern, for example by a trade union representative, and/or professional body provided that they are not connected to any person under investigation. The Council has the right to expect any person accompanying or advising the complainant to maintain the confidentiality of the case.

27. Staff can also invite their trade union representative or a work colleague to raise a concern on their behalf.

How we will respond

28. Our response and the investigation route will depend on the nature of the concern raised. Our response will depend on the nature of the concern raised and may be:

- advice only
- resolved by agreed action without the need for investigation
- investigated internally (by management, Investigations Team or other independent investigators)
- referred to the relevant safeguarding team (child protection or vulnerable adults)
- referred to the Police, if a criminal matter
- referred to the external auditor
- the subject of an independent inquiry

The officer receiving the whistleblowing allegation will notify the Audit Manager to include the disclosure on the central register.

30. We may carry out initial enquiries in order to protect individuals or workers and those accused of wrongdoing. We will use the results of these enquiries to decide whether a detailed investigation is needed and if so, what form it should take. If urgent action is required this will be taken before we start any investigation.

31. We will acknowledge your whistleblowing disclosure within 5 working days. Within the next 10 working days we will write and explain how we propose to deal with the matter. The whistleblower will be:

- given an estimate of how long it will take to provide a final response
- told if initial enquiries have been made
- told if further investigation is required, and if not, why not (where appropriate)
- given details of support mechanisms
- advised of the investigating officer (where appropriate)
- advised how they will be informed of progress

32. The amount of contact between you and the Officer considering your whistleblowing disclosure will depend on the nature of the concerns raised. For example, if further investigation is required, the investigator may need to seek additional information from you.

33. If a meeting is necessary, this can be held off site if you prefer. If you are a worker you will have a right to be accompanied – this will be a union representative or work colleague (not involved in the area where the concern exists). If you are not a worker you may wish to bring a friend with you – a neutral venue can be arranged, where required.

34. We will help with any difficulties you may experience as a result of raising a concern – we will, for example, provide advice if you are required to give evidence for criminal or disciplinary proceedings. Sometimes whistleblowers have counter-allegations made against them. The Council has a duty to investigate any concerns that it receives and that will apply in these circumstances. However this will not detract from the principles, as set out in this policy, which govern how the Council will respond to whistleblowers. The over-riding objective will be to establish the truth.

35. Records will be retained of all work carried out and actions taken to address the concerns raised by the whistleblower, including the investigator's case file, where relevant. All files will be held securely and confidentially

36. At the end of our investigations we will provide feedback to the whistleblower subject to our internal policies and procedures and legal constraints but we do recognise the importance of providing you with assurances that the matter has been dealt with properly.

37. Don't forget:

- You should NOT investigate the matter yourself.
- Do not alert those suspected of being involved.
- Do not approach or accuse individuals.
- Do not tell anyone other than the designated persons mentioned in this policy.
- Do not undertake searches.

38. Any records and documents in your possession should be retained and kept securely to prevent alteration or loss.

Taking the matter further

39. If you are not comfortable with the lines of reporting above or if you feel that your concerns have not been dealt with properly or received a satisfactory response, you can inform the Council's Monitoring Officer/City Solicitor, of your concern, her contact details are:

Telephone number: 01522 873323

Email: carolyn.wheater@lincoln.gov.uk

Postal address: City Solicitor, , City of Lincoln Council, City Hall, Beaumont Fee, Lincoln, LN1 1DB.

You may also refer your concern about how the whistleblowing case has been dealt with to the Local Government Ombudsman – they generally do not take any action until the matter has been dealt with internally first. They can be contacted at:

The Local Government Ombudsman
PO Box 4771
Coventry, CV4 0EH
Tel. 0300 061 0614 (Local Government Ombudsman – Advice Team)

40. There might be cases where your concerns are so serious, or involve the most senior officers in the Council, that you want to complain directly to an external person or body (known as a prescribed person or prescribed body). You may feel that the internal investigation is not satisfactory.

Before you report a matter externally you should be sure that:

- the matter is serious and justifies bypassing internal procedures, or
- there is a reasonable belief that evidence might be destroyed, or
- you would be subject to detrimental treatment, or
- it is reasonable to disclose the information to the person concerned.

You should have reasonable suspicions that one or more of the following has occurred:

- that a criminal offence has been committed, is being committed or is likely to be committed
- that a person has failed, is failing or is likely to fail to comply with any legal obligation or statutory duty
- that a miscarriage of justice has occurred, is occurring or is likely to occur
- that the health or safety of any individual has been, is being or is likely to be endangered
- that the environment has been, is being or is likely to be damaged
- that information (relating to any of the above) is being or is likely to be deliberately concealed

The legislation sets out a number of bodies to which qualifying disclosures may be made. These include HM Revenue & Customs, the Health and Safety Executive, the Environment Agency, the

Serious Fraud Office. A full list of “prescribed people and bodies” can be found on the government website – www.gov.uk/whistleblowing.

If you decide to blow the whistle to a prescribed person rather than the Council, you must make sure that you have chosen the correct person or body for your issue.

Disclosures relating to local authorities can be made to the external auditor of the relevant authority or the Comptroller and Auditor General.

You can contact the Council’s external auditors at:

Mazars
Park View House
58 The Ropewalk
Nottingham
NG1 5DW

To make a disclosure to the Comptroller and Auditor General, please contact the National Audit Office (see Comptroller and Auditor General below).

Contact them about the proper conduct of public business, value for money, fraud and corruption in relation to the provision of public services.

The Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
London
SW1W 9SP

Tel: 020 7798 7999

Website: www.nao.org.uk/contact-us/whistleblowing-disclosures/

41. A key source of information about whistle blowing is Protect which is an independent authority of public interest whistle blowing. Their contact details are

Their contact details are found at <https://protect-advice.org.uk>

42. You should only make disclosures to non-prescribed bodies (e.g. to the media, and non-prescribed regulators) if, in addition to the tests above, they are reasonable in all the circumstances and they meet one of the following three preconditions:

- you reasonably believe that you would be victimised if you raised the matter internally or with a prescribed regulator;
- you reasonably believe a cover-up is likely and there is no prescribed regulator; or
- you have already raised the matter internally or with a prescribed regulator.

End of policy

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SUBJECT: AUDIT COMMITTEE WORK PROGRAMME 2020/21

REPORT BY: AUDIT MANAGER

LEAD OFFICER: JOHN SCOTT, AUDIT MANAGER

1. Purpose of Report

1.1 To provide details of the Audit Committee work programme for 2020/21.

2. Executive Summary.

2.1 The Audit Committee approves a work programme each year and monitors progress.

3. Details

3.1 The proposed work programme is attached at Appendix A. The frequency of meetings has been reviewed and is considered appropriate for 2020/21.

4. Organisational Impacts

4.1 Finance

There are no direct financial implications arising as a result of this report.

4.2 Legal Implications including Procurement Rules

There are no direct legal implications arising as a result of this report.

4.3 Equality, Diversity & Human Rights

There are no direct E and D implications arising as a result of this report.

5. Recommendation

5.1 Audit Committee is requested to comment and agree the work programme for 2020/21.

Key Decision	No
Do the Exempt Information Categories Apply?	No
Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
How many appendices does the report contain?	One
List of Background Papers:	None
Lead Officer:	Audit Manager Telephone 873321

AUDIT COMMITTEE AUDIT WORK PROGRAMME FOR 2020/21

Appendix A

Meeting dates	Audit Items	Training (Suggested)	Comments
11 June 20	<ul style="list-style-type: none"> • Internal Audit Progress report • Statement of Accounts (Draft) • Annual Governance Statement (Draft) • Annual Internal Audit Report • External Audit Progress report • Information Governance update report • Risk Management Annual Update • Audit Committee Work Programme 	<ul style="list-style-type: none"> • Local Government Financial Statements explained • Annual Governance Statement/Corporate Governance (Part of Meeting) 	
23 July 20	<ul style="list-style-type: none"> • 12 month Fraud and Error report • Audit recommendations report • Statement of Accounts / Annual Governance Statement (Final) • Annual Governance Report / Auditors Report (External Audit) • Review of the effectiveness of Internal Audit and Audit Committee • Audit Committee terms of reference review 	<ul style="list-style-type: none"> • Audit Committee effectiveness 	

<p>24 Sept 20</p>	<ul style="list-style-type: none"> • Internal Audit progress report • Annual Complaints report • Audit recommendations report • Information Governance Update • Annual Governance Statement update report • Fraud policy review • Audit Committee Work Programme • Financial Management Code / Financial Resilience 		
<p>15 Dec 20</p>	<ul style="list-style-type: none"> • Audit recommendations report • Internal Audit progress report • Six Month Fraud and Error report • Annual Governance Statement - monitoring • Audit Committee Work Programme • Counter fraud policies • Fraud risk register • Terms of Reference review - Internal Audit (Audit Charter) • Annual Audit Letter (External Audit) 	<ul style="list-style-type: none"> • Counter Fraud (Via e-learning) • Lincolnshire Audit Committee Forum (TBC) 	

<p>2 Feb 21</p>	<ul style="list-style-type: none"> • Internal Audit Progress report • Treasury management policy and strategy (consultation prior to approval by Council) • Audit Committee Work Programme • Information Governance update 	<ul style="list-style-type: none"> • Treasury Management 	
<p>23 Mar 21</p>	<ul style="list-style-type: none"> • Internal Audit Progress report • Audit recommendations report • Combined Assurance report • Annual Governance Statement –update report • Internal Audit Strategy and Plan 20-21 • Risk Management Strategy / annual report • Statement on Accounting Policies • External Audit Inquiries – 19/20 Statement of Accounts (those charged with governance) • IAS19 – Assumptions used to calculate pension entries in the Statement of Accounts and Audit Regulations • External Audit plan • Audit Committee Work Programme 		

A private meeting between the Audit Committee and internal and external audit managers can be arranged outside of the meeting agenda times.