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AUDIT COMMITTEE

Tuesday, 23 March 2021 | **6.00 pm** | **Virtual Meeting**

Membership:	Councillors Geoff Ellis (Chair), Laura McWilliams (Vice-Chair), Thomas Dyer, Gary Hewson, Jackie Kirk, Rebecca Longbottom and Bill Mara
Substitute member(s):	Councillors Pat Vaughan
Independent Member:	Jane Nellist
Officers attending:	Paul Berry, Democratic Services, Jaclyn Gibson, Heather Grover, John Scott and Colleen Warren

A G E N D A

To join this virtual meeting please use the below link:

https://zoom.us/j/91317357942?pwd=SitieVlkTzlJLytOL0V2YmE1SmFGUT09
Passcode: 122241

Alternatively, please join the meeting via telephone by calling 0330 088 5830 using the following ID:

Webinar ID: 913 1735 7942
Passcode: 122241

Present:	Councillor Geoff Ellis *(in the Chair)*
Councillors:	Laura McWilliams, Thomas Dyer, Gary Hewson, Jackie Kirk, Rebecca Longbottom and Bill Mara
Independent Member:	Jane Nellist
Apologies for Absence:	None.

85. Confirmation of Minutes - 15 December 2020

RESOLVED that the minutes of the meeting held on 15 December 2020 be confirmed.

86. Declarations of Interest

No declarations of interest were received.

87. Prudential Indicators 20-21 - 2023/24 and Treasury Management Strategy 2021/22

Sarah Hardy, Principal Finance Business Partner:

a. presented a report for Audit Committee to scrutinise and recommend to Council for approval the adoption of the 15 statutory prudential indicators and 8 local indicators for the period 2020/21 to 2023/24, together with the 2021/22 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 2021/22 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 Council for approval.

Members considered further the content of the report.

Question: Referred to the Key Prudential Indicators table in paragraph 2.1 of the report and asked if the difference in total between 2020/21 and 2021/22 was due to the Western Growth Corridor?

Response: No it related to all of the schemes within the capital programme not just the Western Growth Corridor.

Question: Was the 2.3million in capital receipts guaranteed income to the Council?

Response: It was an estimated figure based on what we would expect the assets to sell for in the current market.

Question: How had the situation with the Travel Lodge affected any of the borrowing repayments?

Response: There had been no impact on repayments.

RESOLVED that:

1. The prudential indicators detailed in Section 4.1 and Appendix 1 of the report be recommended to 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 Council for approval.

3. The revised MRP policy detailed in Appendix 2 of the report be recommended to Council for approval.

4. The revised Treasury Management Practices and Schedules detailed in Appendix 4 of the report be recommended to Council for approval.

88. 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 2020 to January 2021, 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. invited committees questions and comments

Question: Asked for clarification on the consultancy work.

Response: Clarified that it was in depth internal work not external consultancy work. The Rogue Landlord Scheme would be looked at alongside management to see what lessons could be learned.

Question: Referred to the national fraud figures and commented that it would interesting to compare the national figure to the Lincoln figures to provide context.

Response: Yes a comparison could be provided in the Fraud and Error report which would be brought to committee in May or June.

Question: The HRA had recently changed the way that it worked to area by area, have you been requested to complete an audit to see how it functions?

Response: Yes it would be considered as part of the plan for 2021/22.

RESOLVED that the report be accepted and the monitoring arrangements be continued.

89. Audit Committee Terms of Reference

John Scott, Audit Manager:

a. presented a report to obtain comments on the Audit Committee terms of reference as part of an annual review.

b. advised that the Audit Committee terms of reference were based on best practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and the Audit Committee was also referenced within the Public Sector Internal Audit Standards.

c. referred to the current terms of reference attached at Appendix A of the report and advised that there were no suggested changes at the current time.

d. invited committees questions and comments

Question: It had been agreed previously that a qualified accountant needed to be on the committee. Did this need to be reflected in the Terms of Reference?

Response: It had been raised previously and agreed that it was best practice but the committee did not want it to be mandatory as part of the Terms of Reference.

RESOLVED that the Audit Committee terms of reference be noted

90. Internal Audit Charter

John Scott, Audit Manager:

a. presented the Internal Audit Charter for annual review .

b. advised that the current Charter was approved by the Audit Committee and Council in December 2019. There had been no new national guidance since then and no changes were suggested at this time.

c. invited committees questions and comments.

The committed considered the contents of the report.

RESOLVED that the current Charter be noted.

91. Audit Committee and Internal Audit Review of Effectiveness

John Scott, Audit Manager:

a. presented a report to provide details of the review of effectiveness of the Audit Committee and Internal Audit, and obtain agreement in terms of the composition of a member review group to carry out this task

b. advised that it was good practice undertake regular reviews of effectiveness of internal audit and the audit committee against terms of reference, standards and guidance.

c. advised that both internal audit and the audit committee had recently updated their terms of reference and these were reviewed again in February 2021.

d. advised that Internal Audit was subject to a formal assessment against audit standards in October 2016, and there would be no further assessment later in 2021.

e. requested nominations for the formation of a review group in February/March to report back to Audit Committee June 2021, consisting of the Audit Committee Chair, Independent Member, plus any other member who may wish to be included, with assistance from the Chief Finance Officer and Audit Manager

f. requested member's consideration of the report, and agreement on the composition of the review group.

RESOLVED that the composition of the Review Group be agreed as follows:

- Councillor G Ellis – Chair
- Councillor L McWilliams – Vice Chair
- Councillor Tom Dyer

- Jane Nellist, Independent Member

92. Audit Committee Work Programme

John Scott, Audit Manager:

a. presented a report to inform members of Audit Committee on the work programme for 2020/21 as detailed at Appendix A of the report.

b. advised that the frequency if meetings had been reviewed and revised to take into account impacts relating to the pandemic and was considered appropriate for 2020/21.

RESOLVED that the contents of the Audit Committee work programme 2020/21 be noted.

93. Fraud Risk Register

John Scott, Audit Manager:

a. presented a report to provide Audit Committee with an updated fraud risk register for consideration.

b. explained that the Audit committee had a responsibility within its terms of reference to monitor the Councils anti-fraud and anti-corruption arrangements including an assessment of fraud risks.

c. referred to paragraph 4 of the report and detailed the following:

  - Highest risks
    i. High Amber risks
    ii. Other Amber risks with “possible” likelihood or “major” impact
  - New Risks
  - Removed risks
  - Changes in risk score
  - Mitigation/Actions
    i. Council Tax
    ii. IT/ Data/ Cyber fraud
  - Links to CIPFA Fraud and Corruption tracker 2019

d. advised that the CIPFA survey showed that Council tax fraud represented 78% of the identified instances of fraud with an estimated value of £30.6m followed by disabled parking concession (Blue Badge scheme) and housing frauds represented 10% and 5% of the total cases of UK public sector fraud, respectively.

e. invited members questions and comments

Question: Referred to risk 15 in relation to Council Tax and asked in relation to Houses in Multiple Occupation what approach did the Council take to prove that they were students ?

Response: A response would be sought from the relevant team and circulated to members.

Question: Referred to risk 23 in relation to Elections and asked if any risks had been identified in relation to Covid-19?

Response: A piece of work had been commissioned where a risk assessment would be completed for each of the processes including the count, postal votes and at each of the polling stations.

Question: There had recently been an increase in the number of telephone scams going around, did this risk need to be reassessed?

Response: That risk could be reviewed and discussed and then reported back to committee.

RESOLVED that the fraud risk register be noted.

94. Exclusion of the Press and Public

RESOLVED that the press and public be excluded from the meeting during consideration of the following item(s) of business because it is likely that if members of the public were present there would be a disclosure to them of ‘exempt information’ as defined by Section 100I and Schedule 12A to the Local Government Act 1972.

95. Fraud Risk Register PART B

Minute number 93 included details of the discussion associated with this item.

(Only Appendix A Fraud Risk Register was contained here as exempt information.)

AUDIT COMMITTEE **23 MARCH 2021**

SUBJECT:	**INTERNAL AUDIT PROGRESS REPORT**
REPORT BY:	**AUDIT MANAGER**
LEAD OFFICER:	**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 2020-21 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 The Audit Committee is asked to note the content of the latest Internal Audit Progress Report for 2020-21 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:	*none*
Lead Officer:	Audit manager Telephone 873321

Internal Audit
Progress Report

City of Lincoln Council
March 2021

For all your assurance needs

Contents

John Scott - Audit Manager (Head of Internal Audit)
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Introduction

The purpose of this report is to:

- Provide details of audit work during the period January – March 2021
- Advise on progress with the 2020/21 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

In this period we have completed two assurance reviews, updated the Combined Assurance Report and produced a draft 2021/22 Audit Plan.

Audit Plan completion at the end of February is 80% against the target of 80%* (Extended to 30th April)

20/21 planned work will continue to the end April 2021 – this has been accounted for in the completion figure above. This is due to impact of covid on the teams resources and also capacity of organisation to undertake some audits. The 21/22 audit is reduced as a result and is covered elsewhere on the agenda.

Assurances

Two assurance reviews have been completed in this period;

Covid Assessment – Substantial Assurance
Council Tax key controls - High Assurance

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.

1
HIGH ASSURANCE

1
SUBSTANTIAL ASSURANCE

0
LIMITED ASSURANCE

0
LOW ASSURANCE

0
CONSULTANCY

High Assurance

Council Tax key controls

We found that;

- All payment methods continue to operate with appropriate controls in place.
- Reasons for deferred payments are recorded and adjustment notices detailing the revised payment schedule are issued to the bill payer.
- Changes to payment instalments are correctly re profiled in accordance with the revised procedures.
- Rejected direct debits are promptly actioned and reversed; control totals ensure rejected direct debits between banking records and the council tax system agree.
- There is a process in place to guard against fraudulent refunds; refunds are reconciled and appropriately authorised.
- Division of duties exist to guard against fraudulent transactions / errors in processing.

One recommendation was made to consistently complete the refund reconciliation spreadsheet for NKDC.

Following the first lockdown, it was found that some taxpayers had failed to make any payments towards their current year's liability. To avoid placing additional financial pressure on residents who are already struggling financially, both Councils agreed to adopt a more flexible approach regarding the collection of any missed payments.

Both Councils initially engaged with residents by issuing "soft reminders" which reinforced their shared ethos "stay in touch not in debt" and also provided signposts to help and advice. Formal Council tax reminder notices were issued in batches from September onwards.

Taxpayers have been encouraged to set up direct debits and additional payment options have been introduced to enable arrears to be reduced and affordable payment plans to be put in place. Where taxpayers are facing genuine hardship, payment of current year bills can be extended to May 2021.

The closure of magistrate courts due to the pandemic has meant that the opportunity to obtain Liability Orders against taxpayers who continuously failed to make any payment has been diminished, with only two court dates being allocated during 2020/21 – in December 2020 and January 2021.

Substantial Assurance

Covid Assessment

A review has been undertaken, with Assistant Directors and selected service managers using a Covid risk register compiled by IA, to assess whether the lockdown had any detrimental impact on the Council's risk and control environment and any changes had been appropriately considered and managed.

We found that there have been no detrimental impacts on the Council's risk and control environment. Although we haven't found any areas requiring further work or improvement, we are unable to award High assurance due to the relatively limited nature of the work that has been undertaken.

Assistant Directors were generally able to give a Red-Amber-Green rating for their risks in our Covid risk register. No areas were rated as Red and only a few were rated as Amber – Towards Financial Sustainability, HR Policies, Kier contract, Trees, Leisure contract, Environmental Health, Licensing, Business recovery in the private sector, CT and NNDR income, NNDR Payment Holiday, HB payments, CTS hardship Funds and Self-Isolation payments. An Amber rating is not a concern and all areas have been assessed again as part of the update of the Combined Assurance Map that has just been completed.

From a functional perspective we have been assured that processes and controls are operating without any changes, other than staff being at home rather than in the office or operating in accordance with Covid safe working practices. Everyone acknowledged the significant amount of work done by the IT section at the start of the lockdown to allow home working to happen.

All AD's identified potential risks around staff wellbeing and performance management. These are all being considered at a corporate level so haven't been explored further as part of this review.

We identified a small number of potentially significant risk areas;

a) Compensation claim to the Government for income losses (Amber risk)
b) Use of Procurement Cards (Amber risk)
c) Supplier Support
d) Security of data and documentation obtained in the course of providing the Befriending Service and processing Business Grants & Self-Isolation Payments (Amber risk)

Substantial Assurance

Covid Assessment (cont'd)

These risks have been discussed further with appropriate service managers and assurances have been given that they are being appropriately managed, so no further work is considered necessary.

Responsibility for the data collected for Business Grants, Self-Isolation payments and the Befriending Service sits with specific Information Asset Owners. To ensure that it is being safely stored and disposed of (when appropriate) it has been agreed that the annual IAO checklist will make specific reference to data collected for Covid-related purposes, and this area may be subject to further audit review in the future.

IT related risks have not been examined as part of this audit as a separate ICT Assurance audit was completed in December which provided R-A-G assurance over a number of areas. Areas which require attention have been included in an IT risk register which will be monitored by CLT, or are part of existing projects monitored through the Technology Board.

The Council's 2019/20 Annual Governance Statement contains a new significant governance issue linked to the impact of Coronavirus on the Council. Progress with significant governance issues is tracked through an established process which is regularly reported to Audit Committee (see elsewhere on this agenda).

Other work

<u>Work in Progress</u>

- Western Growth – fieldwork stage..
- NNDR – fieldwork stage
- Debtors key controls – fieldwork stage
- Creditors key controls – fieldwork stage
- Accountancy key controls – fieldwork stage
- Housing Benefits & Council Tax Support – fieldwork stage
- ICT - Microsoft 365 – fieldwork stage
- ICT - Programme and project management – terms of reference agreed
- Governance & Risk – being prepared

The following pieces of work have been moved into 21/22 at the request of management, due to work priorities;

- All Weather Pitches (Consultancy)
- Rogue Landlord PIR (Consultancy)
- Health & Safety Risk Assessments

<u>Other work</u>

- Combined Assurance

The annual process to refresh the Council's Combined Assurance Map and produce a Report has been completed. The Report is presented as a separate item.

- 2021/22 Audit Plan

A Draft Plan has been produced and is presented as a separate item.

<u>Non-Audit Work</u>

The team are no longer involved in processing Business Grants.
Advice and guidance will continue to be provided in this, and other areas, where required.

Benchmarking

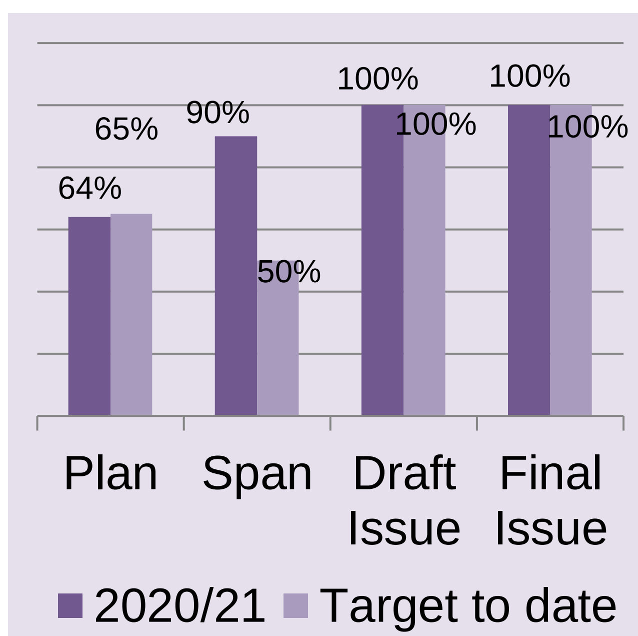
Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators (2020/21)

100% Rated our service Good to Excellent

80% Plan Completed

Achievement of Audit KPI's to date



Other matters of interest

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

Annual Governance Statement

CIPFA have just issued new guidance to assist officers with the completion of the 2021 AGS

Local government and the EU

Guidance to help local councils adapt to new rules after Brexit.
Ministry of Housing Communities and Local Government

Assurance Definitions

High	Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.
Substantial	Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance. There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.
Limited	Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.
Low	Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

Appendix 3 Audit Recommendations

An update is provided in a separate report.

Appendix 4 2020/21 Audit Plan Progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Covid-19 Assurance (NEW)	Determine any impacts on the risk & control environment.	Sept 20	Sept 20	Feb 21	Substantial
Finance & Accounting	Budgetary control key controls	Mar/April 21	Feb 21		In progress
Creditors	Risk Based Audit	January 21	Feb 21		In progress
Debtors	Risk Based Audit	January 21	Mar 21		In progress
Business Continuity / IT Disaster Recovery	Follow up of 2017/18 audit	See comment			IT DR project will complete in August 2021; audit delayed until 21-22
NNDR	Risk Based Audit	Nov 20	Dec 21		In progress
Council Tax	Key Controls	Nov 20	Oct 20	Feb 21	High
Housing Benefit & CTS	Risk Based Audit	Mar 21			
Partnerships	Annual assurance report to Audit committee (Report scheduled June or July 2021)	Feb 21			Advice during 20-21. Allocation also included in 21-22
ICT 1	IT security - Combined Assurance follow up	Dec 20	Dec 20	Jan 21	Completed
ICT 2	Office 365	Jan 21	Jan 21		In progress
ICT 3	Programme management	Jan 21			Start date to be agreed
De Wint Court	Risk management support	-			Ongoing Risk Man support
Health & Safety	Risk assessment	Mar 21			Delayed until 21/22

Appendix 4 2020/21 Audit Plan Progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Growth & Regeneration	Town Deal Governance	Jan 21			Delayed until 21/22
Western Growth	Risk based audit (project management)	Oct 20	Oct 20		In progress
Counter Fraud	NFI Risk Register update Strategy update Strategy action plan	Oct 20 Jan 21 Mar 21 Mar 21			In progress Completed Revised strategy to be completed but reported June 21 to AC
Governance	Annual assurance work	Apr 21			
Risk Management	Annual assurance work	Apr 21			
Combined Assurance	2020/21 report	Nov 20	Nov 20	Mar 21	Completed
Annual Internal Audit Report	2019/20 report				Completed
IA Strategy & Planning	2021/22 Audit Plan	Feb 21	Feb 21	Mar 21	Completed
<u>Additional Work</u>					
Rogue Landlord Project	Post Implementation Review	Oct 20	Oct 20		Completion delayed until 21/22
Self Isolation Payments	Advice & support				Completed
Local Restrictions Support Grant	Assist the Business Cell with grant processing				Completed Spotlight/NFI support ongoing

Item No. 4

AUDIT COMMITTEE **23 MARCH 2021**

SUBJECT:	**INTERNAL AUDIT RECOMMENDATION FOLLOW UP**
REPORT BY:	**AUDIT MANAGER**
LEAD OFFICER:	**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 The Audit Committee is asked to review the attached Appendix and review responses received.

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

For all your assurance needs

City of Lincoln Council

Audit Recommendations

March 2021

<u>Reports that are over 2 years old</u> (under the Follow Up protocol these recommendations will no longer be monitored by IA and Audit Committee). They are still available to management on the recommendation tracker.

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)	**Not Yet Due**	**Comments / Progress**
HMO Licensing and Hazards	Jun 18 Follow up review: Dec 19	Limited	20	20			The 4 remaining recommendations have been implemented.
IT Applications	Oct 18	Limited	8	1	1 High 6 Medium		Update & circulate System Administrator guidance (High) Extended to December 2020 <u>Mar 2021 update</u> BDITM to complete – target date Mar 21
Malware / Anti-virus	Nov 18	Substantial	9	7	1 High 1 Medium		Device control software management (High) Extended to December 2020 <u>Mar 2021 update</u> Rolling out devices over next few months. -configuration complete. Aiming to get all devices out by end September 21. Revised IT Security Policy (Med) Extended to September 2021
Transport Hub	Dec 18	Substantial	3	2	1 Medium		Formal project closure & post implementation review Extended to August 2021

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
Information management	June 19	Substantial	16	15	1 Medium		Assist IAOs to review access to their network drives <u>Update March 2021</u> Exploring new options for doing this. Extended to September 21
Housing Rents	Dec 19	Substantial	4	3	1 High		The possibility of producing a report from UH which flags up new tenancies not at the target rent will be looked into. (High) <u>Update March 2021</u> Very close to completion, requires some further work. Moved to April 2021

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
Licensing	Feb 20	Substantial	7	3	4 Med		Delayed due to COVID Some actions moved to September 2021 Pro-active licensing spot checks completed; conflicts of interest system updated and an annual report completed (verbal update).
ICT Anti-Malware	Mar 20	Substantial	10	1	7 (1 High)	1 (High 1 (Med)	March 21 Update Review the wording on the alert (computer message) – Implemented Due to responses for Covid and new ways of working, other aspects of the ICT Service have been prioritised. Rollout of new devices, along with the supporting infrastructure has been the priority; this will also help with improving the overall security risk to the Authority by removing some legacy issues with outdated equipment and gain some advantages from global-leading security. A risk register for ICT has also been developed and will be monitored through Corporate Leadership Team. Projects are underway across a range of the higher risk areas to maintain and improve security. Whilst ICT services by their nature are subject to potential attack, there are no highly significant issues caused by the outstanding actions. The Authority continues to provide solutions to monitor and protect against a range of threats. Work is ongoing to address the remaining actions. • IT security training – extended to June 21 due to license issues

							• Agree minimum compliance standards for suppliers – started. Extended to June 2021. • Review incident reporting arrangements (out of hours) – pending review • Security policy linked to mobile device management. Extended September 21 • Review web filtering arrangements – currently obtaining advice. Extended to September 2021 • Review (software) policy areas - currently obtaining advice. September 2021 • Smartphones and Tablets - review the (security) policy. Extended to September 2021 • Complete a briefing note/guidance and training for other IT officers relating to Alien Vault – extended to September 21 • Consider the business requirement for access to file types. Currently obtaining advice. Extended to September 2021 • Review and update the Incident management policy/procedure - Extended September 2021 • Ensure that any configuration changes to the AV solution (and other pertinent security controls) are subject to careful consideration and documented (change control. Review the current change management policy/protocol and also benchmark to other local authorities. Extended to September 2021. Re-circulate the current change-control guidance
De Wint Court project management	Jul 20	Substantial	6	6			The outstanding recommendation has been implemented.

Housing Allocations	Aug 20	Substantial	4	2		2	Introduce and document a sample quality check across all assessors (Jan 2021) (<u>March 21 Update</u> There has been a delay due to a system upgrade extension requested to 1/4//21 Annual review of applications <u>March 21 Update</u> More complex than anticipated so requested further extension. 30/6/21
Homelessness	Aug 20	Substantial	2	1	1		Document retention - workflow (Med) Due Dec 2020 <u>Update March 2021</u> The Workflow system has recently been upgraded and additional work is now required to address this. Extended to June 21

External Audit Recommendations

Audit Area	Date	Assurance	No of Recs	Implmntd	Outstanding (extended or overdue)	Not Yet Due	Comments / Progress
ISA 260 Report	Nov 20	N/A	3	1		2	1) Remind all staff (service managers) to promptly notify IT for all leavers. Revisit protocols and processes to ensure there is an appropriate control in place to capture any non-notified leavers on IT systems. The Council will remind all managers to ensure that appropriate IT forms are filled into remove leavers from all systems (High)

							<u>Management response</u> Completed. Reminder has been issued; all current disabled IT access is under review (ongoing) 2) Asset Valuation inputs. The Council should perform an annual reconciliation of key valuation inputs prior to providing information to the nominated valuer. Management response (Med) <u>Management response</u> The Council will consider undertaking a review in 20/21. 3) The Council should review its approach to the calculation of its debt impairment to ensure that this accords with the requirements of IFRS 9 and the CIPFA Code. Management response (Med) <u>Management response</u> To be considered as part of the 2020/21 reporting cycle. <u>December 2020 update</u> These two areas will be 20/21 year end exercises so will be covered April 21 as part of the closedown process.

Item No. 5

AUDIT COMMITTEE **23 MARCH 2021**

SUBJECT:	**COMBINED ASSURANCE REPORT**
DIRECTORATE:	**AUDIT MANAGER**
REPORT AUTHOR:	**AUDIT MANAGER**

1. Purpose of Report

1.1 To present to Members the Combines Assurance Status Report for 2020/21, for comment.

2. Combined Assurance

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 2020/21.

2.2 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.

2.3. 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.

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

2.5 The report is attached at Appendix A.

2.6 Despite the impact of Covid-19 on the Council and the changes in services, systems, processes etc that it has had to make the overall levels of assurance are broadly consistent with previous years with a combined assurance of 63% services designated green, 36% amber and 1% red. Further detail of the assurance levels and the actions being taken to address those amber and red assurance areas is included in the attached report.

3. Organisational Impacts

3.1 There are no direct financial impacts

3.2 There are no direct legal impacts

4. Recommendation

4.1 The 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

Combined Assurance Status Report 2020/21

City of Lincoln Council
March 2021

Assurance LINCOLNSHIRE
For all your assurance needs

Contents

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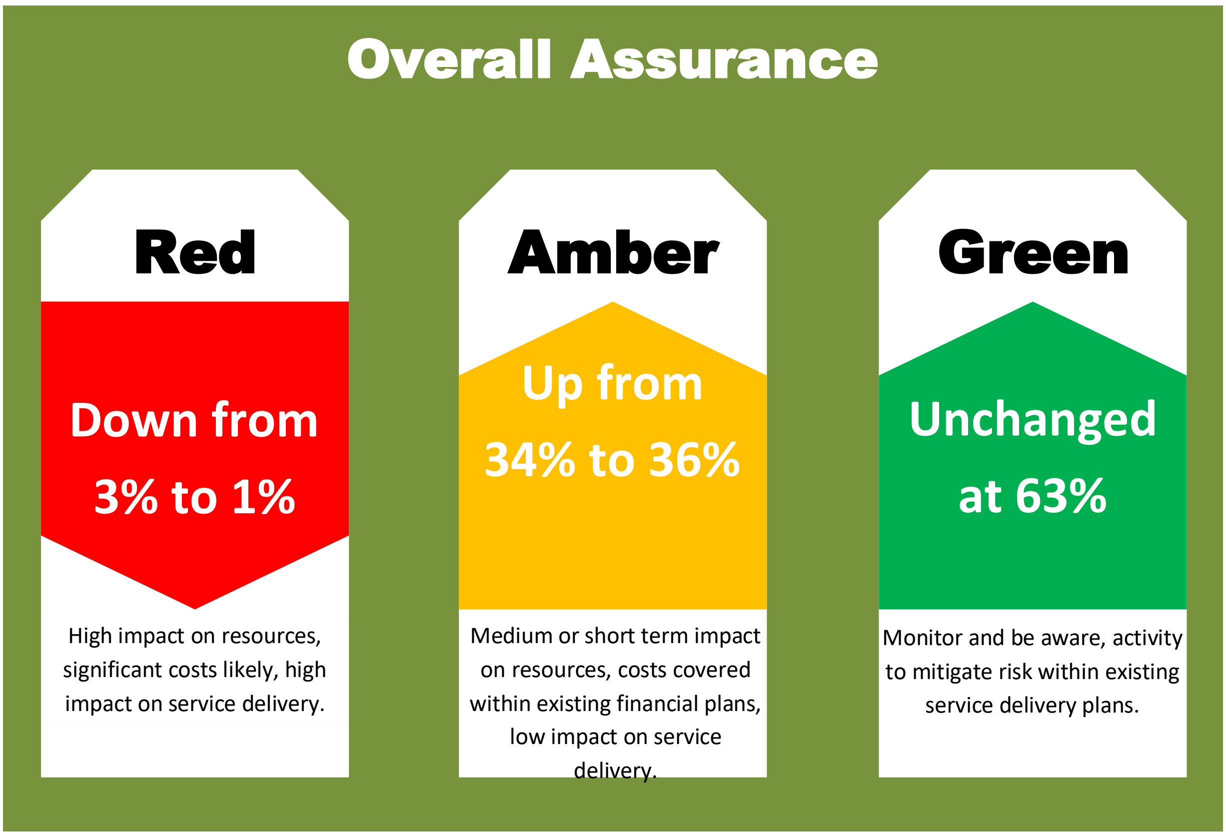
Overview of Assurance

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.



Chief Executive's Summary

City of Lincoln Council, like all other businesses, has had to make dramatic changes as a result of the lockdown resulting from the COVID-19 pandemic, not only to ensure that we kept our critical services functioning, but also like councils across the country, to deliver a community leadership role for our city in this time of crisis.

We thank our internal audit team (part of Assurance Lincolnshire) for helping to facilitate the Council's latest Combined Assurance Report and also all the council's officers for providing their input into the process during these difficult times.

We acknowledge the benefit in having independent assurance to review our operations and as well as internal and external audit.

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, 36% amber and 1% red.

The Council's key service functions and critical activities are generally operating well whilst some officers were redeployed elsewhere to support our communities and implement government guidelines during the pandemic. 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.

We have a good awareness of how their services are performing, are able to identify potential issues and most importantly, are pro-active in implementing remedies. It is important to understand where performance is changing and take action at the right time and in the right way.

The Council has a range of partners and delivers many of its services and objectives through effective partnerships with appropriate governance arrangements.

During 2020-21 work commenced on the new Vision 2025 strategic plan covering 2025-2030.This sets the Council's vision for the future of the City, it's strategic priorities and core values.

This new vision was to be launched at our Council's Growth Conference in March of last year but due to the pandemic, we have deferred this launch until a more suitable time.

Project monitoring and reporting continues to be aligned via our Vision theme strands.

The Council is responding positively to a range of challenges with greater efficiency, innovation in service delivery via use of technology, 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.

We have continued support via Assurance Lincolnshire for monitoring of risk management which continues to work well and helps to support our strategic and operational risk management as well as for projects.

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.

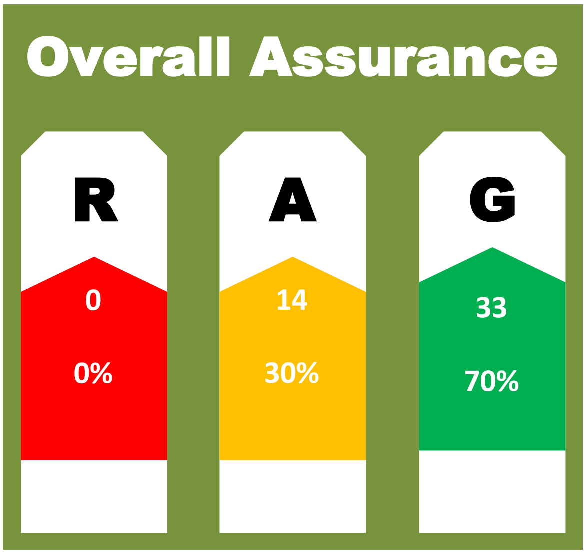
Risk	Risk rating	Level of assurance	Direction Of Travel
1.Failure to engage & influence effectively the Council's strategic partners, council staff and all stakeholders to deliver against e.g. Council's Vision 2020/2025.	Amber	Substantial	=
2.Failure to deliver a sustainable Medium term Financial Strategy (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	Red	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 2025 due to changing structures and relationships in local government and impact on size, scale and scope of the Council	Amber	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	Red	Limited	=
9.Failure to mitigate against the implications for the Council following the outcome of Brexit	Amber	Substantial	=

Strategic Risks

Risk	Risk rating	Level of assurance	Direction Of Travel
10.Failure to deliver key strategic projects.	Amber	Substantial	=
11.Failure of the Council's key partners and contractors to remain sustainable and continue to deliver value for money	Red	Substantial	New
12.Failure to work in partnership to sustain support to vulnerable residents' post COVID19.	Amber	Substantial	New
13.Failure to put in place safe working practices and social distancing measures to protect officers and service users.	Amber	Substantial	New
14.Failure to comply with current safeguarding legislation and procedures.	Red	Not scored	New
15.Failure to meet the Council's PREVENT duties.	Amber	Not scored	New

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



Key service areas

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

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

Other
Communications; Customer Services

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
Amber
Members / Member Development
Elections & Registration
Ethical governance (values, behaviours, ethics & culture)
Legal
Freedom of Information / Subject Access Requests
Work Based learning
Facilities Management
Corporate Asset Management
Business continuity
Financial Resilience
Partnership Governance
Internal Audit
Counter Fraud
Training & Employment

Key Messages

CX Directorate has a mix of frontline and support services, all of which have been impacted by the Covid19 pandemic. Customer Services, including the Welfare Team, together with both the Revenues and Benefits teams have supported some of the City's most vulnerable residents, with Communications getting messages out to staff and residents about what the council is doing to provide help and support during the pandemic. At the start of lockdown new services had to be quickly established and back office staff from Democratic and Electoral Services, Policy, Central Support Services, Procurement, Civic and Twinning and Audit came forward to work with other teams to provide immediate help. Financial Services worked under difficult circumstances to successfully deliver the year end accounts as well as assisting in a time of severe financial strain. Working from home has been a big challenge for some, both physically and mentally, and the HR team have worked tirelessly to provide guidance to managers and support to staff to ensure their wellbeing, with additional remote support for apprentices from WBL. Throughout the year Property Services, including the Facilities Management team have ensured City Hall and Hamilton House are safe and 'Covid clean' environments to work in and Legal Services have continued their vital behind the scenes work to provide legal support, advice and guidance as required." All of this new and additional work has been undertaken whilst also trying to maintain the 'day job'. There has undoubtedly been some impact on service delivery, performance, and project delivery throughout the year however levels of assurance in the Directorate remain in line with previous years. Set out below are those 'Amber' areas of assurance where further work is required:

Members / Member Development
Training and development are taking place but succession planning needs addressing.

Elections and Registration
Staff resource and ensuring the safe delivery of the polls is a significant issue.

Ethical Governance (values, behaviours, culture for Members & staff)
There are some areas for improvement.

Legal
High demand with new areas of law has resulted in re-prioritisation at times and pressure on the team to ensure expectations are managed in the authority.

Freedom of Information / Subject Access Requests
Not always able to meet performance requirements due to workload and priorities in service areas

Work Based learning
Financial budget pressures continue and Covid impacted significantly on the work of the team.

Facilities Management
Existing stock condition surveys for corporate assets are due for updating, these are scheduled to be undertaken during 2021/22.

Corporate Asset Management
Existing Corporate Asset Management Plan is overdue for an update.

Business continuity
BC plans require updating in light of the impact of Covid19 on working practices / processes as well as to reflect the IT DR plan once completed.

Financial Resilience
Whilst the Council has a balanced MTFS there still remains a significant level of financial risk and uncertainty to future income forecasts due to the ongoing financial impact of Covid19 and future national funding reforms.

Partnership Governance
Whilst a governance assurance process has been developed this is not yet fully in place, with implementation delayed due to the impact of the Covid19 pandemic.

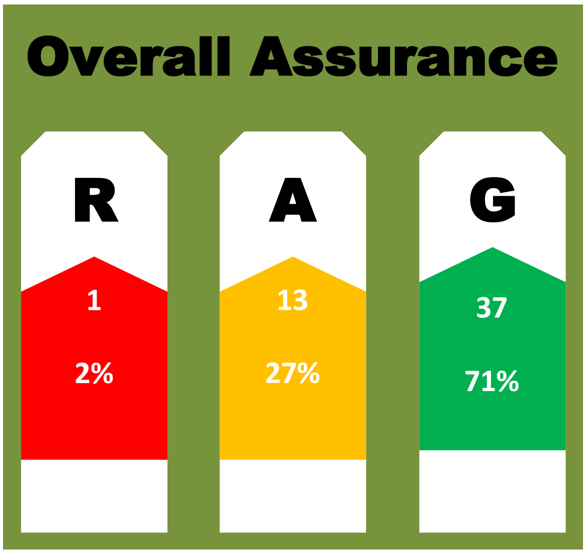
Internal Audit
The Annual Audit Plan was reduced during 20/21 as officer resource was redirected towards priority Covid19 response work, primarily supporting the business support grants function. Whilst the number of days was reduced sufficient audit work has still been completed to allow the Internal Audit Manager to provide the required assurances for the year.

Counter Fraud
As in previous years, limited resources inhibit the delivery of enhanced counter fraud work, however minimum levels of work are undertaken and partnership working with the LCFP is maximised.

Training & employment support
Lack of funding may impact on ability to deliver.

Director's Key Messages

Strategic Director - Communities and Environment



Directorate Red Risks
Managing Member expectations
Impact on changes in Government legislation (Planning, Waste)
Staff redundancies – risk to skills gap
Impact of managing expectations as services are cut
Impact of Unitary bid on staff

Critical Activities
Red
Leisure Centres
Amber
Performance Management Framework
Service Planning
V2025 Programme
Strategic Waste management
Public Protection Anti-Social Behaviour
Public Conveniences
CCTV
Non-Operational Land
Bus Station
Corporate Health & Safety
Vulnerable resident support networks
Central Market
Christmas Market
Place Based Marketing

Key service areas

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

AD 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

AD Planning
Planning; Building Control; Heritage

Other
Corporate Planning; Corporate Governance Performance management; Consultation and Community engagement

Key Messages

In line with authority overall, the impact of Covid 19 has been fundamental within the directorate. Staff have been amazingly flexible and been redeployed to support the wider city's response to the pandemic – be it supporting Covid testing centres, supporting the befriending service, or modifying services so they can still be delivered in some form.

As the directorate with many of the key income generating streams, the impact of the pandemic has been significant. Whilst the Government's Income Compensation Scheme has assisted in meeting some of the deficit created, work is now on going to plan for 21/22 and ensuring income streams are maximised where possible, as the recovery commences.

Strategic Risks

Given the financial challenges of the Council, some services will come under pressure to deliver savings, the requirement / levels of which are as yet unknown. Against that background, so as to take a cautious approach, several service areas have been listed as Amber, as they MAY either directly or indirectly be affected by saving requirements. As any requirements / impacts are not yet clear, and for this reason they have some element of risk attached, making them score Amber at this point.

And finally, we continue to maintain a very close dialogue with our contracted out service providers and are implementing innovative financial arrangements to not only safeguard the authority but also to safeguard their ongoing financial viability too. This has been appreciated and recognised particularly by our Leisure provider who has been especially hit by the multiple lockdowns.

Leisure Centres
Covid has severely impacted on operations and the financial health of the operator, although there are no specific concerns on the immediate viability of the operator.

Performance Management Framework
Covid impacted on planned improvements.

Service Planning
Suspended due to Covid but to restart in 21/22.

V20205 Programme
Due to Covid the new programme wasn't progressed as resources were diverted to tackling Covid19.

Strategic Waste management
Resource issues may impact on the ability to meet changes required by the Lincolnshire Waste Partnership and the Government. Timetable remains uncertain. If / when food waste or green waste changes are formally requested by government this will need strategic and operational work. We will need to review resources required as the government timetable is clarified.

Public Protection Anti-Social Behaviour
Covid has impacted on performance as resources have been diverted.

Public Conveniences
Service review requires some significant changes in service.

Bus Station
Possible risks caused by transition of day to day operational management contract having just been let. It will require settlement to make this a Green. However, from the tender proposal, the service meets our requirements.

Corporate Health & Safety
The additional workload created by Covid has impacted on normal work streams.

Vulnerable Resident Support Networks
Capacity within the team to deliver

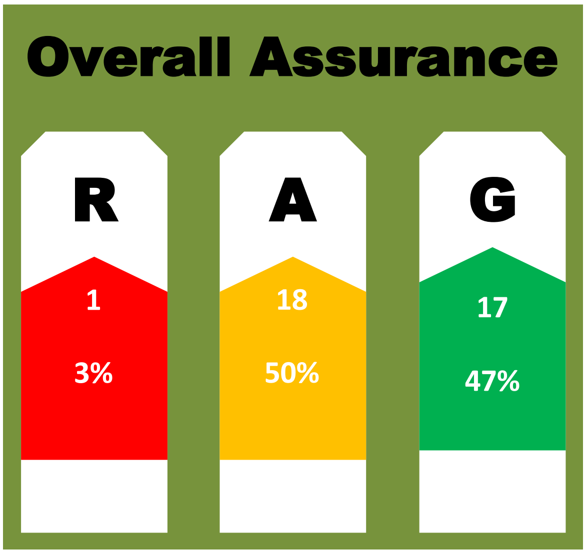
Central Market
Covid has impacted on income and with the proposed re-modelling of the market, ongoing engagement with stall holders is essential.

Christmas Market)
Covid has caused the cancellation of the 2020 Market.

Place Based Marketing
Covid may impact on delivery by the Visitor Information Centre and Visit Lincoln (under a service level agreement).

Director's Key Messages

Strategic Director - Housing and Investment



Directorate Red Risks
Failure to maintain and support IT systems for the Housing service

Critical Activities
Red
Lincare / Emergency Control Centre
Amber
Information Management
Council House Rent Collection
Resident Involvement
Sincil Bank Regeneration
Void Management
Safeguarding
Housing Finance & 30 year Business Plan
De Wint Court
Planned Maintenance
Safety Assurance
Gas Servicing
Electrical Testing
Stores
ICT Infrastructure & Assets
IT Security
ICT Maintenance / System Administration
ICT Application implementation & business development
IT Support

Key service areas

AD Housing
Tenancy Management; Homelessness / Rough Sleeping; Housing Solutions; Housing Business Support Services, Elderly Services, LINCARE, Voids, Leaseholder

AD Investment
Housing Repairs; Planned Maintenance; Fleet management, Housing Investment, contract management, Stores

AD Housing Investment and Strategy
Housing Strategy & new build, Sincil Bank Regeneration; Safety Assurance, Next Steps Programme, Resident Involvement, Buyback programme

Other
ICT, Information Governance, Business Development, Web Services, Data Security, Safeguarding

Key Messages

The Directorate continues to provide vital housing services despite the issues created by the pandemic. As we move into the recovery phase these services will become even more vital as the government's support packages unwind and the impact on the economy begins to be revealed. We will continue to try and improve the quality of our stock and to be the landlord of choice, we will focus on sustaining tenancies and providing shelter to the most vulnerable in our community. We will add to our stock where we can, to try and mitigate the impact of the Right to Buy regime which has a profound impact on our ability to provide people family homes at affordable rent. We have now developed a new housing strategy which details how the council aims to respond to the housing pressures in the city and to ensure the housing needs of the community are met. We will continue to improve our repairs and investment processes and try and improve the environment that our tenants live in. We will work alongside colleagues in DCE to respond to anti-social behaviour and make our estates safe places. Working alongside Corporate H&S our Safety Assurance team will ensure our workforce operate safely and that our tenants are afforded the highest standards of health and safety whilst enjoying their homes.

Lincare / Emergency Control Centre
The service is delivering but there are significant financial uncertainties.

Information Management
Work is continually required to maintain and improve awareness and resource is limited.

Council House Rent Collection
Arrears are increasing because of a freeze on enforcement action.

Resident Involvement
The housing white paper calls for increased resident involvement. We will review and implement changes to our resident engagement structures to ensure compliance and best practice.

Sincil bank Regeneration
The restrictions resulting from covid-19 have affected engagement delivery. Staff have continued to engage on a wider basis delivering befriending services and Covid testing sites with community promotion.

Void Management
Improvements required to process properties quicker.

Safeguarding / Protecting Vulnerable People
Training is completed but still developing and embedding some new procedures, close to green.

Housing Finance & 30 year Business Plan
Following stock condition profiling Business Plan will need to be reviewed. The Housing White Paper indicated a review of the decent homes standard which will be reflected in the Business Plan review.

De Wint Court Project
The rebuilding of De Wint Court as a new Extra Care facility is progressing well. Potential effects of covid have not emerged yet but may have a future impact. Delivery is controlled through the Lincoln Project Management Model.

Planned Maintenance
Long term contract is ending, and works will be suspended prior to new contractors being appointed. Targets are not being achieved.

Safety Assurance
Good progress has been made in Asbestos Asset Register. The upcoming Building Safety Bill and Fire Safety Bill will require changes to processes. Wider programme of Fire Risk Assessments to be implemented

Gas Servicing
Covid has impacted on access to properties.

Electrical Testing
Covid has impacted on access to properties.

Stores
Current contractor being replaced which may cause some disruption

ICT Infrastructure & Assets
Infrastructure refresh at HH nearing completion. Asset database and licensing control require further work.

IT Security
PSN outstanding. IT Security policies require finalising. IT Security training to develop and roll out.

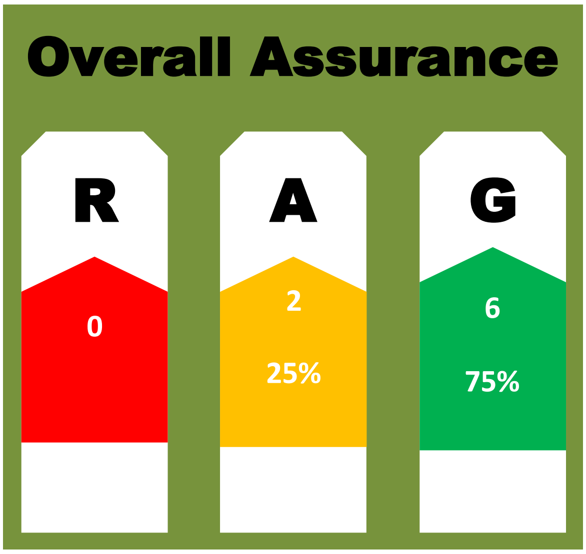
ICT Maintenance / System Administration / Support
The team is currently engaged in many projects across a number of areas. Capacity is therefore somewhat stretched and options to alleviate this will be considered.

ICT Application implementation & business development
The ICT and Application Strategies are currently being reviewed, to help future strategic direction.

ICT Resources
As with all Local Government, resources for replacement infrastructure and desktop equipment are currently under pressure.

Director’s Key Messages

Strategic Director - Major Developments



Key Services and delivery areas

AD Growth
New Build / New homes; Town Deal; Economic Recovery; Infrastructure; Place Based Marketing; Western Growth Corridor; Energy / Climate; Funding; Tourism

Directorate Red Risks	
	There are none.

Critical Activities
Red
None
Amber
New build / new homes
Economic Recovery
Infrastructure
Western Growth Corridor
Energy / Climate
Tourism

Overview/Commentary
The Directorate is leading on a major programme of work to support economic recovery and the long-term growth of the City. This is in addition to leading on the covid-19 business response.

This is a broad programme of work which ranges from economic development to the delivery of major housing and commercial development. The scale of the programme, relative to resource is a key challenge for a small Directorate. To help manage this challenge, the team is working to maximise external funding opportunities as well as collaborating with external partners and other internal services.

Delivery Detail
Alongside a major programme of regeneration and development, the Major Development Directorate continues to lead on the Covid Business Support response through a ‘One Council approach’ with Business Services, Revenues and Benefits, Audit, Policy, Finance and Environmental Health. This work is to administer the Government’s Business Support Grant schemes and ensure businesses receive the grants they are entitled to, to enable them to continue and be in a good position during the recovery period. Remote working has largely worked well for the team and will provide a strong basis for working in the future.

The Team has continued to develop the following Council’s Vision 2025 priority ‘Let’s Drive Inclusive Economic Growth’ Projects. Progress and delivery are viewed as even more relevant and necessary to support the City’s economic recovery, as well as supporting the Greater Lincolnshire and County Economy Recovery Plan objectives.

Delivery of Western Growth Corridor – work has progressed to support the requirement of the planning process and future delivery (subject to consent). This includes detailed design to support the required infrastructure work to unlock Phase 1a, technical work to support a green delivery plan and future funding proposals.

Growth Strategy and Lincoln Investment Plan
This has been developed over the last twelve months through the Town Board to support the

Director's Key Messages

Town Fund Bid and was completed and a bid submitted for £25m at the end of October 2020. Lincoln Town Deal Board – City of Lincoln Council sets out the potential projects to support economic growth proposed for delivery by a range of partners including the City Council. A decision is expected on 3rd March 2021. We will then have a further period of 12 months to develop detailed business cases to unlock funds for specific projects within this Plan. This is a positive programme for the City but resource to deliver is currently constrained due to the ongoing requirement to lead on the Covid business response. As part of the Economic Recovery Plan and in addition to Town Fund, the team is working on a programme of support, utilising 'Additional Restrictions Funding' to provide additional help to businesses and the high street more generally. The team is working with external partners to support delivery, maximise efficiency and release the internal team to manage the Town Deal.

Centre Vibrancy: Cornhill Square. Phase 1 has been completed with removal of the old visitor information kiosk. Funding has been secured for the wider public realm works through the Town Deal (Accelerated Fund) and this second phase of work commenced on 11 Jan and is due for completion in the summer.

City Centre Vibrancy: Central Market & City Square and Tentercroft Street. Both projects are part of the Town Fund bid. Detailed survey and design works have been undertaken in support of the Central Market proposals, with consultation now underway. Further market analysis and design work are being undertaken to support the Tentercroft Street proposals, with support from Homes England.

Becoming a Digital City; Initial work was commissioned in March 2020 for consultants to work with local partners to identify the opportunities and priorities for driving the digital agenda in Lincoln. This has informed the objectives and priorities within the Lincoln Investment Plan and wider infrastructure and investment opportunities.

Transport Task Force and Transport Strategy - Lincoln Transport Strategy has been adopted for the period 2020-2036 and will inform the current review of the County Transport Plan.

In addition to the Economy 2025 projects the team have also supported delivery of the 'Lets delivery quality Housing' aspirations in terms of increasing net Council house numbers and provision of new homes. This includes the provision of 5 new affordable homes at Swift Gardens, the demolition of the Views in preparation for longer-term redevelopment at Queen Elizabeth Road and detailed proposals for the development of 42 affordable homes at Rookery Lane, to commence in summer 2021 (subject to planning consent).

The Directorate also continues to lead on the administering the Climate Change Commission partnership and development of a Carbon reduction road map in support of the 'Lets address the Challenge of Climate Change' objective.

<u>New Build / New Homes</u>
Some projects are off target.

<u>Economic Recovery</u>
Capacity issues to deliver work required.

<u>Infrastructure</u>
Capacity issues to deliver work required.

<u>Western Growth Corridor</u>
Planning process may delay the delivery of Phase 1a.

<u>Energy / Climate</u>
Challenging programme of works to deliver.

<u>Tourism</u>
Partnership working requires improvement.

Key Messages

Key Projects

The Council's Project Management framework was updated in 2019/20 and a further review planned for 2020/21 was postponed.

Projects continue to be delivered but the corporate monitoring and assurance framework has not been operating during 2020/21.

Large projects will have a project board and all projects will have finance input as required.

Formal monitoring and reporting will resume in 2021/22.

Key Partnerships

The Partnership register and guidance was updated in 2019/20.

The corporate monitoring and assurance framework was not operating during 2020/21.

The register and assurance process will be reviewed again in early 2021/22.

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Item No. 6

AUDIT COMMITTEE **23 MARCH 2021**

SUBJECT:	**ANNUAL GOVERNANCE STATEMENT MONITORING**
REPORT BY:	**CHIEF EXECUTIVE'S**
LEAD OFFICER:	**HEATHER GROVER, PRINCIPAL POLICY OFFICER**

1. Purpose of Report

1.1 To present a progress update on the areas identified as 'significant governance issues' as set out in the 2019/20 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.

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

3. Background

3.1 **Monitoring of 2019/20 AGS issues**

3.2 The updates on the significant issues identified within the 2019/20 AGS are included within **Appendix A.**

3.3 These are monitored by the Service Manager's Group and overseen by Corporate Leadership Team as well as monitored at the Audit Committee.

4 Summary of findings

4.1 Of the three significant issues, one is considered by the responsible officer to remain red.

4.2 **The Disaster Recovery plan in place for IT arrangements**
"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"

4.2.1 This issue was carried forward from the previous AGS and has one action remaining. The delay has been in part due to the pandemic, and in part due to the need to construct a purpose-built facility. Whilst this has been largely completed there remain some technical compatibility issues which are currently being worked on to find options to resolve these issues.

4.3 Two new significant issues were identified for the first time in the 2019/20 AGS, the first of which is considered by the responsible officer to turn green from amber, and the second to remain amber.

4.4 **Review of impact of Coronavirus on the council's service delivery and embedding new ways of working for staff**

"COVID-19 has had a significant impact on the council's budget resulting in the need to undertake a comprehensive review of how and what services are delivered ensuring our statutory requirements are met. The council was already undertaking a pilot to enable more agile working and with the lockdown the council fast tracked this approach and the council now needs to review the effectiveness of working conditions for staff and members and look to the future. The issue is that we will need to ensure that as the council develops its different approaches to service delivery and new ways of working it ensures governance is at its heart, recognising that governance arrangements may need to adapt and change in order that they remain fit for purpose in the new world."

4.4.1 One of two significant issues which is a direct result of the pandemic. Whilst we had already launched and were developing the One Council approach, the pandemic accelerated the need to do this and work has been undertaken to understand what our future workforce and workspace needs are.

4.4.2 As part of our annual review of our local Code of Corporate Governance we are currently reviewing our governance arrangements in line with the way we are currently working and plans for the future. We recognise that governance arrangements may need to adapt and change further in order that they remain fit for purpose and procedures for timely review of documents and processes are included within the code.

4.4.3 This issue is considered to be at green status.

4.5 **Vision 2025 needs to be re-profiled and communicated to a wider audience in the light of COVID-19**

"The strategy was adopted but there was no formal public launch due to COVID-19. The council's response to the pandemic was to proactively divert resources to tackle the emergency and all projects and programmes that could be paused/had not already commenced were stopped in a planned way. Tackling the emergency situation and resulting recovery phase has been a long process due to the prevalence of COVID-9 nationally and there is now a need to review Vision 2025 in light of COVID-19, re-profile the commitments in the strategy and then communicate it widely.

4.5.1 This is the second issue which has arisen as a result of the pandemic. Our strategic plan, Vision 2025 was approved in February 2020 and due to be launched in March 2020. However, due to the pandemic not only was the launch delayed, but many of the projects within the plan have had delayed starts, been put on hold or in some cases needed complete review. Good progress has been made on this issue since the last update, although there has been a further delay due to the longer effect of Covid-19.

4.5.2 This issue is considered to be at amber status.

5. Strategic Priorities

This report does not focus specifically on any of the five Vision 2025 priorities but does contribute significantly towards One Council 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 The 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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Appendix A

Quarterly summary of progress with AGS risk action to Audit Committee: March 2021

Significant current issues from 2019/20 to focus on in 2020/21

The risk actions below were identified in the 2019/20 AGS review. Progress will continue to be made in 2020/21, monitored and driven forward by the Service Managers Group and reported to Audit Committee quarterly.

Significant issues carried forward from 2019/20 – There was one significant governance issue monitored during 2019/20 which still remains as an issue for monitoring during 2020/21:

- **The Disaster Recovery plan in place for IT arrangements**

Two new significant issues identified from 2019/20 – In terms of new significant governance issues the following two additional issues have been identified:

- **Review of impact of Coronavirus on the council's service delivery and embedding new ways of working for staff**
- **Vision 2025 needs to be re-profiled and communicated to a wider audience in the light of COVID-19**

	What actions will be taken over the coming months	What progress have we made against each action	RAG Status
The Disaster Recovery plan in place for IT arrangements **Matt Smith** **Jaclyn Gibson**	*The Disaster Recovery plan in place for IT arrangements is not sufficiently aligned with the Business Continuity plans that are currently in place for restoring key services in terms of IT needs.* Actions agreed: 1. Review of the IT DR plan to be completed by **June 2020** 2. Alignment between the new ITDR and BC recovery plans to be implemented by **October 2020 - revised to December 2021**	Whilst significant progress has been made on the project, it has experienced some delays in order to construct a purpose-built facility and also been impacted by the pandemic. All equipment is now installed awaiting final configuration and will shortly be complete. The ICT team has started looking at options to simplify and shorten the invocation process, and document in a revised plan. The revised plan will also take into account the ongoing requirement for remote/agile working and is intended to be in place by June 2021.	R

	What actions will be taken over the coming months	What progress have we made against each action	RAG Status
		There have been some technical compatibility issues and IT are working with two suppliers to find options for resolving these issues. In addition, increased workload from other IT projects may mean that the review of the DR plans will be delayed. Review of DR plan to be completed by December 2021.	
Review of impact of Coronavirus on the council's service delivery and embedding new ways of working for staff **Carolyn Wheater**	*COVID-19 has had a significant impact on the council's budget resulting in the need to undertake a comprehensive review of how and what services are delivered ensuring our statutory requirements are met. The council was already undertaking a pilot to enable more agile working and with the lockdown the council fast tracked this approach and the council now needs to review the effectiveness of working conditions for staff and members and look to the future. The issue is that we will need to ensure that as the council develops its different approaches to service delivery and new ways of working it ensures governance is at its heart, recognising that governance arrangements may need to adapt and change in order that they remain fit for purpose in the new world.* Actions agreed: 1. Roll out new workstyles and technology by **December 2021** in phases 2. Service delivery plans to be reviewed and aligned to new ways of working by **March 2021** 3. Annual review of Code of Corporate Governance in **March 2021**	Work has been undertaken to understand what our future workforce and workspace needs are, and five new workstyles have been identified and developed. Working with Assistant Directors, each role has been matched to a workstyle which broadly define our workforce and the work areas needed. A new digital platform – SharePoint has been developed to support employees and Managers for information to be shared and easily accessed. The technology rollout has commenced to support individual needs and workspace in pilot areas. Human Resources are supporting the roll out to support the cultural shift and supporting service reviews. As part of our annual review of our local Code of Corporate Governance we are currently reviewing our governance arrangements in line with the way we are currently working and plans for the future. We recognise that governance arrangements may need to adapt and change further in order that they remain fit for purpose and procedures for timely review of documents and processes are included within the code. Whilst there are some minor tweaks to reflect this in the code, no major changes are required. The most significant change is the addition of a small number of new processes	G

	What actions will be taken over the coming months	What progress have we made against each action	RAG Status
		set up to manage the work we are doing to aid recovery of the city from the pandemic.	
Vision 2025 needs to be re-profiled and communicated to a wider audience in the light of COVID-19 **Pat Jukes**	*The strategy was adopted but there was no formal public launch due to COVID-19. The council's response to the pandemic was to proactively divert resources to tackle the emergency and all projects and programmes that could be paused/had not already commenced were stopped in a planned way. Tackling the emergency situation and resulting recovery phase has been a long process due to the prevalence of COVID-9 nationally and there is now a need to review Vision 2025 in light of COVID-19, re-profile the commitments in the strategy and then communicate it widely.* Actions agreed: 1. Re-profile commitments in the strategy through the development of the Year 2 Annual Delivery Plan (ADP) – by **March 2021** 2. Communicate the revised strategy – **March 2021 – revised to July 2021**	In the second half of 2020/21, focus has moved to how we are restarting the process of delivering towards our strategic aims in 2021/22. Due to the financial and resource effects of the Covid-19 impact, we are not in a place to completely pick up where we were, so a new plan has been developed with the following key assumptions in order of priority: i. Remobilisation of critical and then other services ii. Agreed projects to deliver financial savings projects to be progressed iii. Key legacy projects from previous years to be completed iv. One Council projects that will kick start new ways of working to be progressed v. Key projects from the Vision 2025, that need to commence in 2021/22 vi. New service projects that do not affect the ability of achieving the first five criteria and contribute towards key goals vii. All other projects to be delayed for consideration in Year 3-5 delivery plan (accepting Vision 2025 has a five year span) Detailed proposals are being developed with guidance and oversight from Leadership and Portfolio Holders before final approval by Executive Committee.	**A**

Item No. 7

AUDIT COMMITTEE **23 MARCH 2021**

SUBJECT:	**DRAFT INTERNAL AUDIT PLAN – 2021/22**
DIRECTORATE:	**CHIEF EXECUTIVE**
REPORT AUTHOR:	**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

3. **Internal Audit Plan 2021/22**

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 and 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 2021/22– 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. Audit Plan resources

4.1. As part of the Council's Towards Financial Sustainability Programme the level of Internal Audit resources has reduced since 2020/21, contributing an annual saving of £17,870 to the target. The new annual planned days are now 300 days reducing form 400 days which still represents a "good" level of audit resource for an authority of this size and allows the Head of Internal Audit sufficient resources to comply with standards and provide an appropriate annual opinion. This includes work across key financial systems, other governance and due diligence areas as well as critical systems, ICT and counter fraud. A comparison across twelve Lincolnshire and Nottinghamshire Districts found average days at 245, with a high of 360. Lincoln were fifth highest.

Planned audit days in 21-22 are 275 as April is being used to complete some 2020-21 work delayed due to Covid and Covid related related support. The service continues to provide internal audit days through the Assurance Lincolnshire partnership for which the Council receives income to help achieve the internal audit agreed net budget.

5. Organisational Impacts

5.1 Finance (including whole life costs where applicable)

The changes to resources and the planned days are outlined in the report above at paragraph 4

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 The 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

Draft 2021/22 Plan

City of Lincoln Council

March 2021

Contents

The contacts at Assurance Lincolnshire are:

John Scott

Audit Manager (Head of Internal Audit)

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Paul Berry

Principal Auditor

Paul.berry@lincoln.gov.uk

The Planning Process

Introduction

This report sets out the Internal Audit Plan as at 1st April 2021. The plan details the activities to be audited and the indicative scope for each audit. The draft plan gives you an opportunity to comment on the plan and the priorities that we have established.

Our audit plan delivers assurance within agreed resources of 275 days, covering the period May 21 to March 22 (11/12ths). Due to the impact of Covid the 20-21 plan was extended into April 21.

The plan may be amended throughout the year to reflect changing assurance needs.

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

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

Developing the plan

The internal audit plan has been developed using various sources including our external intelligence, local knowledge and the meetings held with Assistant Directors and the Senior Leadership Team as a whole. **Figure 1** shows the key sources of information that has helped inform the plan.

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

- **Significance** - how important is the activity to the Council in achieving its objectives, key plans and in managing its key risks. We look at both financial loss and strategic impact.

- **Sensitivity** - how much interest would there be if things went wrong and what would be the reputational and political impact.

- **Level of Assurance –** we assess the current level of assurance evaluating reliability and contribution to the Head of Internal Audit annual opinion on governance, risk and control.

- **Time**– when it will happen (this will determine when the best time to do the Audit is).

Figure 1 – Key sources of information

Updating the Plan

Through the year we will collect business intelligence that identifies emerging audits which could be included in the plan according to priority.

The primary source of business intelligence will be the regular liaison meetings between our team and the nominated liaison contact, other sources of intelligence will include:-

- Committee reports
- Key stakeholders
- Risk registers
- Officer groups

Delivery and Focus

Delivering the Plan

The audit plan has been developed to enable us to respond to changes during the year. Whilst every effort will be made to deliver the plan, we recognise that we need to be flexible and prepared to revise audit activity – responding to changing circumstances or emerging risks. The plan is therefore a statement of intent – our liaison meetings with senior management will enable us to firm up audit activity during the year.

The aim is to deliver the audits included in the plan in accordance with the schedule which will be devised once the plan is agreed. The schedule will be drawn up following liaison with the various auditees and Assistant Directors. Resources will then be allocated accordingly to the audits at the specified times. It is therefore important that any changes required to the audits or the schedule are notified to Internal Audit as soon as possible to avoid abortive time being spent on audits and for us to reallocate resources.

The Council's Internal Audit Plan is **275 Days.** The core team who will be delivering your Internal Audit plan are:

Head of Internal Audit / Audit Manager
John Scott

Principal
Paul Berry

Auditor
Karen Atkinson

Audit Focus for 2021/22

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

The impact of Covid on the public sector has been unprecedented. We have carried out some assurance work in this area during 2020/21 and although the Plan doesn't contain an allocation for further work in 21/22 it is flexible to take account of this and other evolving risks.

Appendix A outlines the various audits to be undertaken within each area. Appendix B contains those areas which we have not been able to include in the plan, but management may wish to consider whether they should be included.

Area	Reason for inclusion
Financial Governance	Providing assurance that key financial controls are in place and operating effectively during the year across all areas of the Council. This work provides the Section 151 Officer with a key element of his assurance that the Council has effective arrangements for the proper administration of its financial affairs.
Governance & Risk	Providing assurance that key governance controls are in place and are operating effectively. These cross cutting audits focus on the Council's second line of assurance - corporate rather than service level systems.
Critical Activities	Our discussions with Assistant Directors identified some critical activities where a potential audit would provide independent assurance over the effectiveness of risk management, control and governance processes.

Area	Reason for inclusion
Project Assurance	There are a number of critical projects identified by the Council.
ICT	Technology and associated threats and opportunities continue to evolve at a pace. The effectiveness of ICT has a significant impact on how well the Council works. We will seek to provide assurance that key controls comply with industry best practice and are operating effectively.
Follow Up	In accordance with our follow up protocol we will carry out follow up work when any High priority recommendations are implemented to provide assurance that identified control improvements have been effectively implemented and the risks mitigated. Working with management we also track the implementation of agreed management actions for all audit reports issued.
Combined Assurance	Working with management we co-ordinate the levels of assurance across the Council's critical activities, key risks, projects and partnerships – producing a Combined Assurance Status report in the early part of 2022.
Consultancy Assurance	At the request of management, we undertake specific reviews where they may have some concern or are looking for some advice on a specific matter or around governance, risk and controls for a developing system. Such reviews are not normally given an audit opinion.

Annual Internal Audit Opinion

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

Appendix A – Internal Audit Plan 2021/22

Our proposed planned audits are listed below.

Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Financial Governance						
Medium Term Financial Strategy	To provide assurance that assumptions, reserve levels, etc, are appropriate and there is integration with other strategic documents.	R	G	✓		
Income	Review income controls in key areas to ensure all income due is being collected.	N/A	N/A			
Value for Money	To provide assurance on VFM arrangements across the Council to support External Audit's annual commentary in line with the new code of practice and the CIPFA Financial Code.	N/A	N/A			
Governance and Risk						
Brexit	Provision of advice to the Brexit Working Group.	N/A	N/A	✓		
Performance Management	To provide assurance that the revised PM Framework enables the Council's performance to be effectively monitored.	A	A			
Partnership Governance	Consultancy / advice to assist in providing assurance for management and Audit Committee	A	A	✓		
Corporate Governance	Consultancy / advice to assist in a review of the Corporate Governance Code	A	G			
Counter Fraud	Consultancy / advice work on strategy, training, NFI, money laundering, identity fraud	A	A			
Safeguarding	Protecting Vulnerable People / Safeguarding compliance review	R	A	✓		✓
Critical Activities						
Leisure Centres	To provide assurance that appropriate contingency planning is being undertaken for the possible failure of the current provider.	R	R	✓		
Planned Maintenance	To provide assurance on the closedown of the current contract and the establishment of new arrangements.	R	A	✓		
Visitor Information Centre	To provide assurance on the operation of a new service.	A	G			
Economic Recovery	Consultancy / advice on the provision of business grants	R	A	✓		

Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Elections & Electoral Registration	Review of 2021 expenses claim plus maintenance of the electoral register.	A	A			
Housing Repairs	To provide assurance on the operation of the new repairs process and the void repairs process	R	G			
Stores	To provide assurance on the changeover of contractor.	A	A			
Health and Safety	Risk assessment processes (brought fwd from 20-21)	A	A			
Programme / Project Assurance						
Town Deal	To provide assurance that appropriate governance, programme and project management arrangements are in place.	R	G	✓		
Western Growth Corridor	To provide assurance that appropriate partnership governance and programme management arrangements are in place for the construction of Phase 1a.	A	A	✓		
Rogue Landlord	Consultancy work relating to the PIR (brought forward)	n/a	n/a			✓
ICT						
ICT	Scope to be confirmed but likely to be assets, security, projects, IT DR	A	A			
Follow-up						
Follow-ups	Follow-up of recommendations made for the progress report and on a sample basis.	N/A	N/A			
Combined Assurance						
Combined Assurance	Updating the assurance map and completing the Combined Assurance report.	N/A	N/A			
Days		**177**				

Grand Total	Total
HB Subsidy Testing	**45**

Total Internal Audit Days	275

Non-Audit	
External Quality Assessment	
Advice and liaison	
Annual Report	
Audit Committee	
Review IA Strategy and Planning	
Days	**53**

Appendix B –Areas not included in the current plan

These are the areas which are not on the plan but are important.

Auditable Areas	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Critical Activities						
New build / new homes / Housing Strategy		R	A			
Business Continuity		R	A			
Corporate Asset Management		R	A	✓		
CCTV		R	A			
Housing Finance / Business Plan		R	A			
Void Management		R	A			
Crematorium project		R	A			
Christmas Market		R	A			
Information Management		R	A			

Appendix C – Head of Internal Audit's Opinion

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

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

Our Internal Audit Strategy

It is important that the Internal Audit function focusses its work on what matters most to you – providing insight, assurance and added value to the Council. Whilst we have a plan in place this is flexible and may be changed during the year enabling greater flexibility and responsiveness – ensuring each piece of work is the right one, delivered at the right time. The plan is therefore more dynamic and responsive – essential for an effective Internal Audit service.

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

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

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

We have identified the level of assurances in place by using the "Three lines of assurance" model – See **Figure 2.**

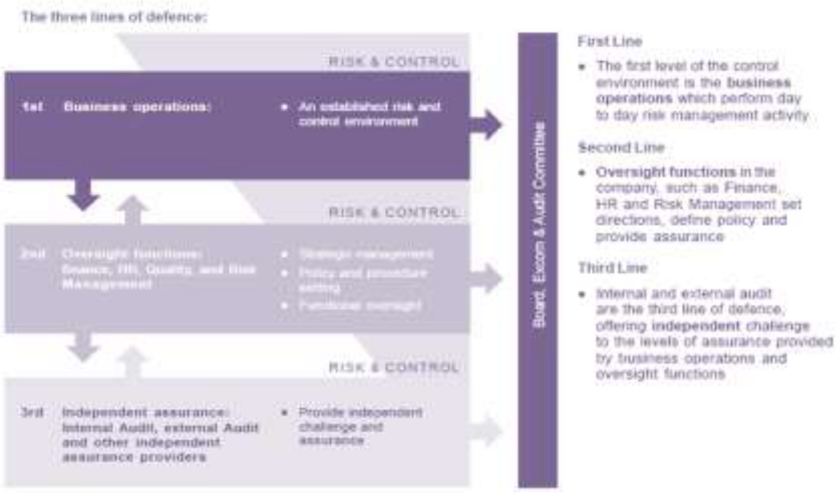


Figure 2 – The three lines of defence

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

Appendix D – Working Protocols

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

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

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

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

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

Weeks prior to fieldwork	-4	Notify key stakeholders of audit at least 4 weeks prior to fieldwork
	-0-4	Meet with Director or Business Manager (Audit Sponsor) to agree draft terms of reference (TOR) and obtain approval
Fieldwork		Initial meeting with auditees and audit sponsor
		Keep in regular contact with audit sponsor throughout the fieldwork
		Fieldwork completed
Weeks after fieldwork	+2	Draft report ready for internal review within 10 working days of fieldwork completing
	+3	Internal review
	+4	Draft issued within 5 working days of review
	+7	Closure meeting and Management response within 15 days of receipt of draft report
	+9	CMT review of draft
	+10	Final report issued within 5 days of management response

Appendix E – Our Quality Assurance Framework

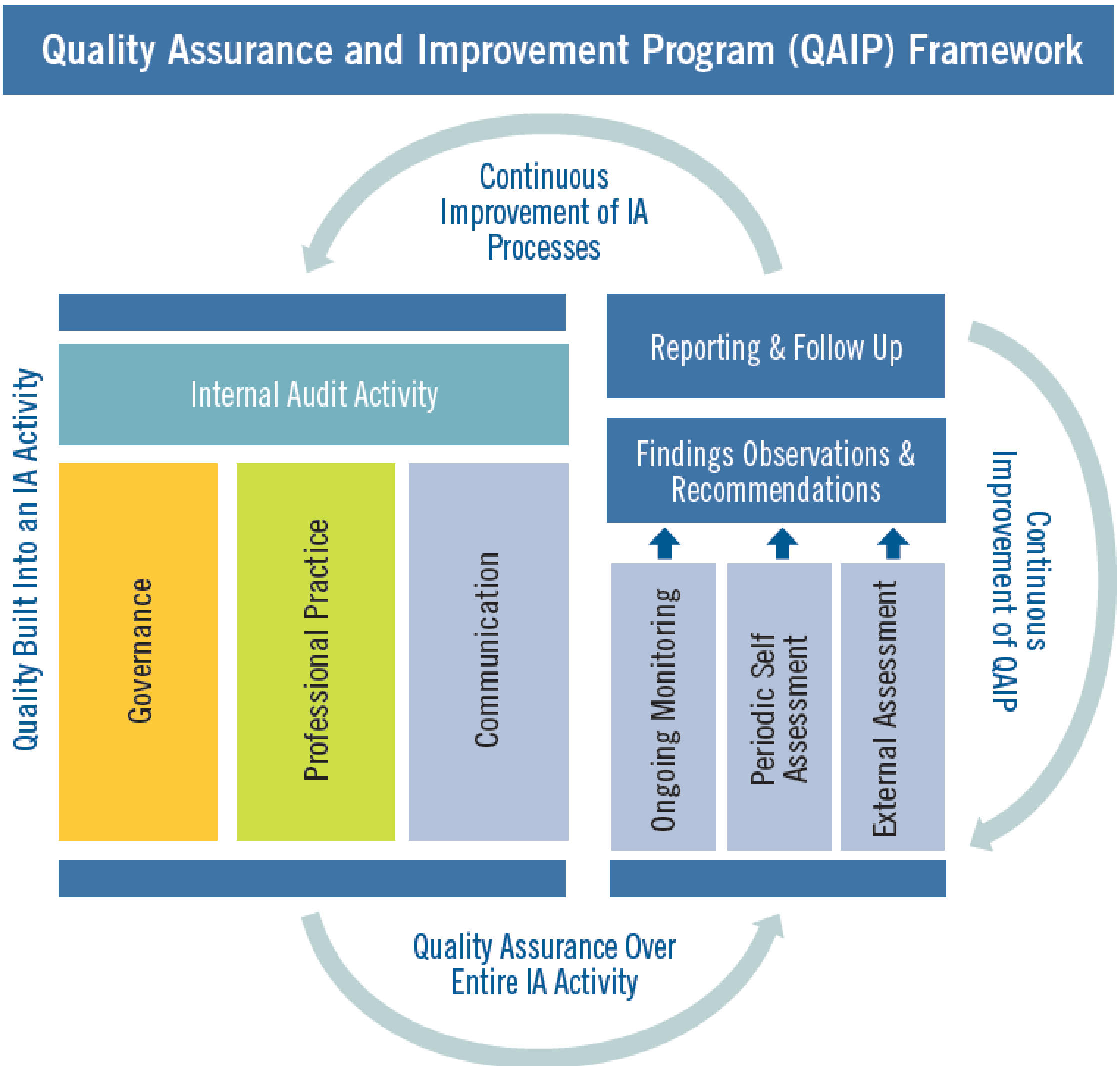
Quality is built into the way we operate – we have designed our processes and procedures to conform to best practice applicable to Internal Audit – in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

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

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

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

Our Internal Audit Charter sets out the nature, role, responsibilities and authority of the Internal Audit service within the Council – this was approved by the Audit Committee and was reviewed in 2019 (and 2020) following the planned revision of the CIPFA Local Government Application Note.



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Item No. 8

AUDIT COMMITTEE **23 MARCH 2021**

SUBJECT:	**STATEMENT OF ACCOUNTING POLICIES 2020/21**
REPORT BY:	**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 2020/21 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 the 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 2020/21 Statement of Accounts are detailed in Appendix 1. There have been no changes to the accounting policies in 2020/21 other than some wording adjustments (highlighted in the Appendix).

3.4 Members are reminded that, by statute, the preparation of draft accounts have to be completed by 31st May and the audited statements need to be published by 31st July following the relevant year end, however MHCLG are currently consulting on proposed amendments to the Accounts and Audit Regulations 2015 to move the date to 30th September for a period of 2 years for the accounts 20/21 and

21/22 due to the Covid-19 pandemic. The consultation for this closes on the 1st March and a verbal update will be given at the committee meeting if the proposed extension has been confirmed.

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 in 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 the Audit Committee review and note the Accounting Policies to be used for 2020/21 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

Lead Officer: Colleen Warren, Financial Services Manager
Telephone (01522) 873361

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 the present value of a defined benefit obligation resulting from employee service in the current period – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- Past service cost – the change in the present value of the defined benefit obligation for the employee service in prior periods, resulting from a plan amendment or a curtailment and any gain or loss on settlement – 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.

<u>Business Improvement Districts</u>

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.

<u>Community Infrastructure Levy</u>

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.

<u>The Council as Lessee</u>

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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Item No. 9

AUDIT COMMITTEE **23 MARCH 2021**

SUBJECT:	**EXTERNAL AUDIT ENQUIRIES 2020/21 STATEMENT OF ACCOUNTS**
REPORT BY:	**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 2020/21 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 2020/21 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 2020/21 Statement of Accounts.

Key Decision	No
Key Decision Reference No.	
Do the Exempt Information Categories Apply	No
Call In and Urgency: I s 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

ENQUIRIES OF THOSE CHARGED WITH GOVERNANCE

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 :

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 previously received a training presentation on counter fraud/fraud awareness and further training guidance. Fraud e-learning has been rolled out across Directors, AD's and service managers. This will be refreshed in 21-22 and rolled out again There is a corporate fraud risk register presented to management and the Audit Committee 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]	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. Where TCWG are aware of such instances how have these been addressed?	No – not financial reporting or misappropriation of assets. Instances of fraud have been identified, primarily in the following areas: - Tenancy Council Tax single persons discount - Housing benefits These have been investigated and actioned as appropriate (e.g. penalty, discounts removed, DWP referral, police referral etc.)
Fraud [ISA 240.21]	What are the views of TCWG about fraud risks at the Council?	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. Management and the Audit Committee is kept up to date with fraud risks through updates on the fraud risk register, counter fraud arrangements, internal audit and other ad hoc reports. Fraud risks are acknowledged in key areas. Members and officers are aware of these and the risks are managed through established processes.

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?	The Council is governed by all national legislation, regulation and EU law. 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. Directorates and Managers are responsible for identifying and complying with the legal and regularity framework. Advice is obtained from the Council's legal service as required All Committee reports have legal implications assessed, reported and these are reviewed by Legal Training for members and officers is provided, and updates issued through Netconsent where appropriate to track training. The Council's Principal Policy officer researches and provides a monthly "horizon scanning" document for management which includes upcoming key changes to laws and regulations as well as other government initiatives Internal audit have undertaken an "emerging legislation" audit/review in the past

Item No. 10

AUDIT COMMITTEE **23 MARCH 2021**

SUBJECT:	**IAS19 – ASSUMPTIONS USED TO CALCULATE PENSION ENTRIES IN THE 2020/21 STATEMENT OF ACCOUNTS**
REPORT BY:	**CHIEF EXECUTIVE AND TOWN CLERK**
LEAD OFFICER:	**LAURA SHIPLEY, PRINCIPAL 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 2020/21 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 2020/21.

3. Financial Assumptions

3.1 A briefing note prepared by Barnett Waddingham, 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, to provide a best estimate of the ultimate cost of providing benefits, 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 CPI, (which is approximately 0.9% below 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 2021 will be based on the market conditions as at 31 December 2020.

5. Treatment of Settlement and Curtailments

5.1 Amendments to IAS19 require that when determining past service cost or gain or loss on settlement that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event.

5.2 All relevant events will be remeasured on this basis, subject to materiality.

6. Financial Implications

6.1 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.

7. Significant Policy Impacts

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

8. Organisational Impacts

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

9. Recommendations

9.1 That the Audit Committee approve the IAS19 assumptions the pension fund actuary proposes to use in preparing IAS19 figures for inclusion in the 2020/21 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, Principal Finance Business Partner – Revenue Telephone: 01522 873307 Email: laura.shipley@lincoln.gov.uk

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Accounting reporting as at 31 March 2021

Employer briefing note pre-accounting date

Barnett Waddingham LLP

5 February 2021

Contents

Accounting reporting as at 31 March 2021

Many LGPS employers, in particular local authorities and other public sector employers, prepare accounting disclosures as at 31 March each year and these may be in accordance with the IAS19 or FRS102 standard, depending on the employer.

This note outlines some of the changes to the key financial assumptions that are used in preparing the IAS19 and FRS102 accounting numbers since the last reporting date as well as information on asset performance over the period.

This note complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

Unless requested otherwise, we prepare our reports based on our standard approach. We therefore recommend employers discuss this note with their auditors to check that the standard approach is appropriate.

How has the accounting position changed?

As we will not know the assumptions that will be adopted for accounting disclosures until 31 March 2021, we have utilised the latest market statistics available. The following analysis uses market statistics as at 31 January 2021. **It is very likely that market conditions at 31 March 2021 will be different**

As LGPS Funds are usually invested in a range of asset classes, the performance of the assets may be quite different from that of the accounting liabilities (which are linked to corporate bonds, as set out below) and so the results can be very volatile from year to year.

This note discusses our recommended assumptions for the exercise, however the responsibility for setting assumptions ultimately belongs to the employer and, therefore, if an employer was to request alternative assumptions then we would be happy to use these in producing our report. The assumptions in this report are the standards that we intend to use unless instructed otherwise. We believe that these assumptions are likely to be appropriate for most employers but we have not consulted with each employer in setting these.

The change in the balance sheet position over the year is mainly dependent on the answers to three key questions and this report is split into these three sections:

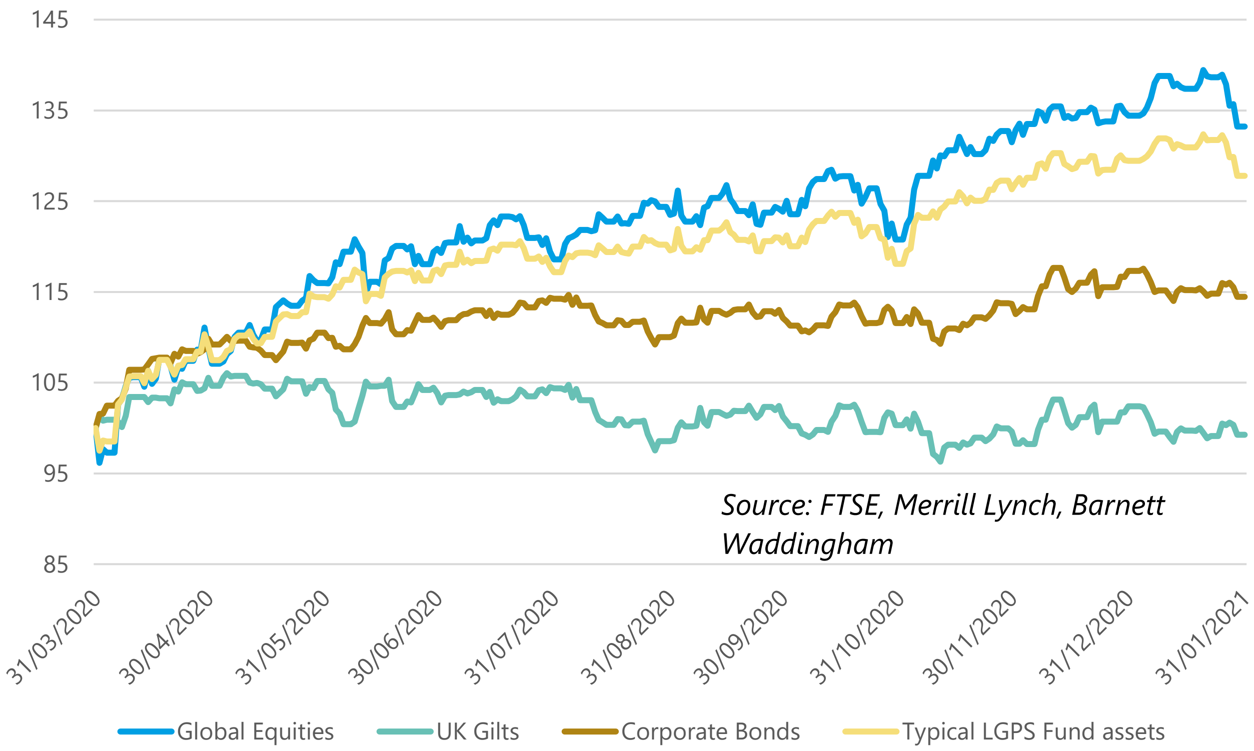
- What were asset returns for the twelve months to 31 March 2021?
- What were corporate bond yields as at 31 March 2021?
- What were market expectations of inflation as at 31 March 2021?

We appreciate that some of the terminology in this report may not be familiar and therefore we would recommend also reading our Glossary and FAQs document for a more detailed explanation on some of the jargon used here. This document has been circulated with this briefing note but please get in touch with the Fund if you would like a copy.

Please let your usual Barnett Waddingham contact know if you have any queries.

Asset returns

The following chart plots returns from the major asset classes since 31 March 2020 alongside the return that would have been achieved by a Fund invested 75% in global equities, 20% in corporate bonds and 5% in gilts.



Asset performance has been strong since 31 March 2020. Based on market indices to 31 January 2021 and the asset allocation outlined above, a typical LGPS Fund might have achieved a positive return of around 28% for the period from 1 April 2020 to 31 January 2021, but this could vary considerably depending on each Fund's investment strategy.

If Fund returns have been around this level, asset returns will have been higher than the discount rate assumed at the previous accounting date. If the actual return for the year is higher than the previous discount rate, this will lead to an actuarial gain on the assets; decreasing the accounting deficit.

However, the overall position is also influenced by the effect of market movements on the assumptions used to place a value on the defined benefit obligation. This is discussed in the next section.

Changes to financial assumptions

The key financial assumptions required for determining the defined benefit obligation under either accounting standard are the discount rate, linked to corporate bond yields, and the rate of future inflation. These assumptions are discussed below.

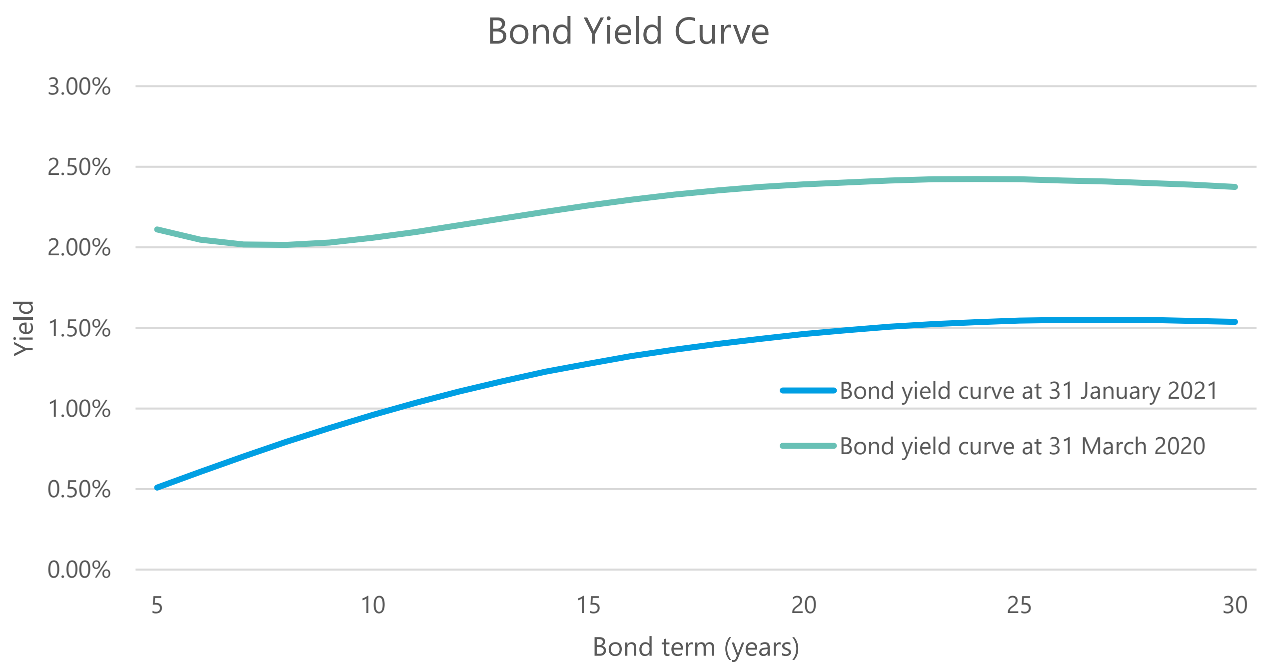
Discount rate

Under both the FRS102 and IAS19 standards the discount rate should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The approach we adopted to derive the appropriate discount rate at the previous accounting date is known as the Single Equivalent Discount Rate (SEDR) methodology. We intend to adopt the same approach for assumptions used for accounting disclosures at 31 March 2021.

We use sample cashflows for employers at each duration year (from 2 to 30 years) and derive the single discount rate which results in the same liability value as that which would be determined using a full yield curve valuation (essentially each year's cashflows has a different discount rate). This discount rate is known as the SEDR. In carrying out this derivation we use the annualised Merrill Lynch AA rated corporate bond yield curve and assume the curve is flat beyond the 30 year point.

The standard assumptions set for an employer will be based on their individual duration. For example, an employer with an estimated liability duration of 13 years will adopt assumptions consistent with those derived using the 13 year cashflows.

The below graph shows the bond yield curve at the last accounting date along with the yield curve at 31 January 2021:



These curves reflect the yields that underlie the SEDR calculations and are not the estimates of the standard discount rate assumption. Sample SEDR assumptions are set out in the table below.

You will see that the bond yield at 31 January 2021 is lower than at 31 March 2020 at all terms. As a result, the discount rate assumed for employers will be lower than that assumed at the previous accounting date. All else being equal, a lower discount rate will result in a higher value being placed on the defined benefit obligation.

Sample SEDRs are set out in the table below based on market conditions at 31 January 2021 with the equivalent 31 March 2020 SEDRs also shown for comparison:

Duration (years)	31 January 2021	31 March 2020
10	1.25%	2.30%
15	1.35%	2.35%
20	1.45%	2.35%
25	1.50%	2.35%

Assumptions are rounded to the nearest 0.05%.

The below table sets out the estimated effect of the change in discount rate assumed based on the same sample durations:

Duration (years)	Estimated effect of change in discount rate on employer's liabilities
10	Increase of 11%
15	Increase of 16%
20	Increase of 19%
25	Increase of 23%

The actual effect of the change in the discount rate assumption will depend on each employer's membership and the assumption to be adopted this year compared to last year.

Inflation expectations

Whilst the change in corporate bond yields is an important factor affecting the valuation of the liabilities, so too is the assumed level of future inflation as this determines the rate at which active members' CARE benefits and deferred and pensioner members' benefits increase.

IAS19 suggests that in assessing future levels of long-term inflation we should use assumptions that would result in a best estimate of the ultimate cost of providing benefits whilst also giving consideration to the gilt market (in line with general price levels) to give us an indication of market expectation. FRS102 simply refers to a best estimate of the financial variables used in the liability calculation.

Pension increases in the LGPS are expected to be based on the Consumer Prices Index (CPI). As there is limited market information on CPI-linked assets, to derive our CPI assumption we first make an assumption on the Retail Prices Index (RPI) then make an adjustment.

Retail Prices Index (RPI) assumption

Similar to the SEDR approach described above we intend to adopt a Single Equivalent Inflation Rate (SEIR) approach in deriving an appropriate RPI assumption.

The SEIR adopted is such that the single assumed rate of inflation results in the same liability value (when discounted using the yield curve valuation described above) as that resulting from applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield curve is assumed to be flat beyond the 30 year point and the BoE implied inflation curve is assumed to be flat beyond the 40 year point.

Following a recent review of the market, and in particular noting the muted market reaction to the likely alignment of RPI with CPIH from 2030, our view is that gilt-implied inflation rates are currently distorted by supply and demand factors at medium and longer terms. We have therefore allowed for an Inflation Risk Premium (IRP) of 0.4% each year beyond 2030. This results in an overall IRP of 0.0% p.a. - 0.3% p.a. depending on the term of the liabilities. This differs from our standard assumption at the previous accounting date where no allowance for an IRP was made.

Consistent with the SEDR approach, assumptions are rounded to the nearest 0.05% and we intend to use sample cashflows for employers at each duration year (from 2 to 30 years) in deriving the assumptions for employers.

Sample RPI assumptions are set out in the table below based on market conditions at 31 January 2021, with the equivalent 31 March 2020 SEIRs (based on our standard derivation at that time) also shown for comparison:

Duration (years)	31 January 2021	31 March 2020
10	3.15%	2.90%
15	3.00%	2.80%
20	2.85%	2.70%
25	2.80%	2.65%

Difference between RPI and CPI

In March 2019, the UK Statistics Authority proposed changing the way that RPI is calculated; specifically that the calculation methodology should be aligned with the CPIH, the Consumer Prices Index including owner occupiers' housing costs. Consent was sought from the government and, following a consultation on whether the change could take place before 2030, in November 2020 the Chancellor announced that he will not provide consent for reform prior to 2030, meaning the proposed alignment of RPI to CPIH will take effect from 2030 at the earliest.

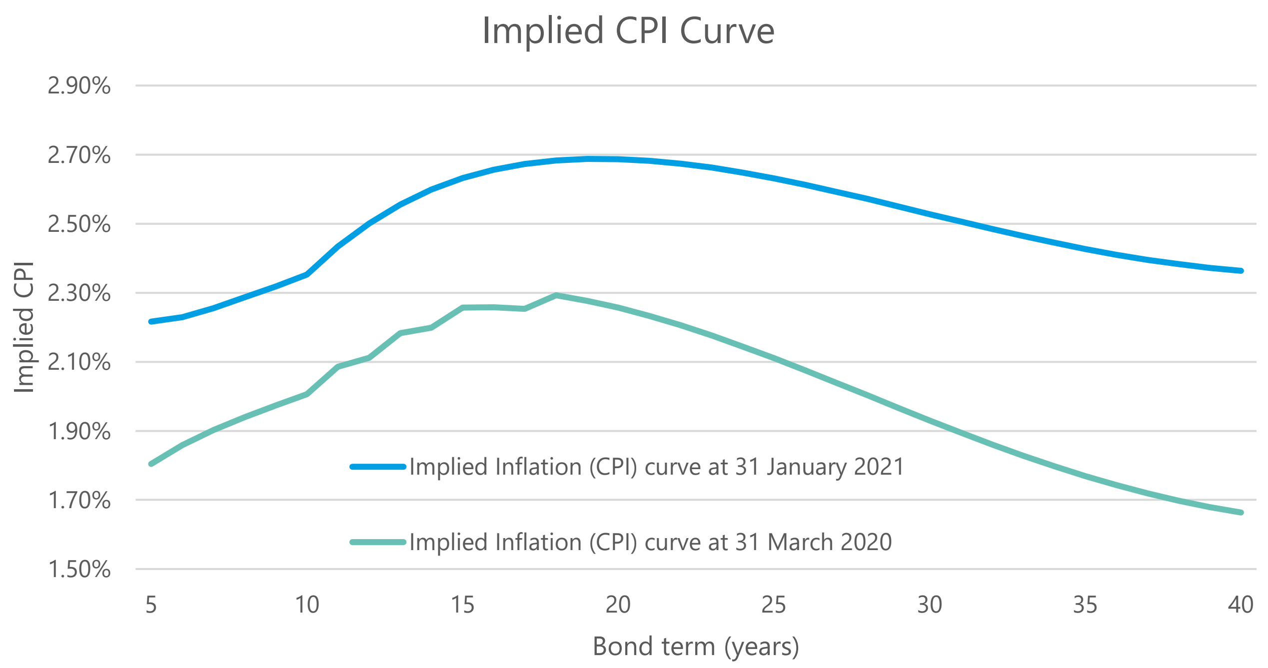
It is expected that RPI will be on average 1.0% p.a. lower than it would have otherwise been from 2030 as a result, bringing RPI inflation in line with CPIH (and CPI) from that date. We have therefore considered how this potential change and the market's reaction to the announcement affects the difference between market implied RPI and CPI inflation.

At the last accounting date we noted that the market had already started to react to this potential change and reduced our assumed gap between to the two inflation measures to 0.8% p.a. – 1.0% p.a. for terms between 10 and 30 years.

Following the November 2020 announcement, we believe the proposed reform of RPI inflation is now fully priced into the market (although noting the apparent muted reaction allowed for through the IRP we have introduced). We have therefore assumed that the annual increase in CPI inflation will be 1.0% p.a. lower than the market implied increases in RPI for each year prior to 2030, and will be in line with RPI inflation thereafter. This results in an assumed gap between the two inflation measures of 0.25% p.a. – 0.90% p.a. depending on the term of the liabilities (for terms ranging from 30 years down to 5 years).

Consumer Prices Index (CPI) assumption

The resulting implied CPI curve at 31 January 2021 is shown below along with the implied CPI curve at the last accounting date for comparison:



These curves reflect the yields that underlie the SEIR calculations and are not the estimates of the standard CPI inflation assumption. Sample SEIR assumptions are set out in the table below.

Using a similar approach described above to calculate the SEIR for our RPI assumption, we have calculated a single equivalent rate of CPI increase that results in the same liability value as would be calculated by applying the above implied CPI curve.

As shown above, the implied CPI curve at 31 January 2021 is higher at all terms. As a result, the level of future pension increases will be higher than that assumed at the previous accounting date, particularly for employers with longer liability durations since this is where the greatest difference in the curves are. If the pension increase assumption is higher than at the previous accounting date, all else being equal, this will result in an increase in the value of employers' liabilities.

The below tables set out the assumed pension increase (CPI) assumptions at sample durations, as well as the estimated effects due to the change in the inflation assumption from last year's standard assumption to this year's:

Duration (years)	31 January 2021	31 March 2020
10	2.55%	1.90%
15	2.50%	1.95%
20	2.45%	1.90%
25	2.50%	1.85%

Duration (years)	Estimated effect of change in inflation on employer's liabilities
10	Increase of 7%
15	Increase of 8%
20	Increase of 11%
25	Increase of 17%

The actual effect of the change in pension increase assumption will depend on the assumption to be adopted this year compared to last year.

Due to the nature of SEDR and SEIR methodology, the assumptions derived are dependent on the sample cashflows used and as a result different cashflows of similar liability durations may result in alternative assumptions. Therefore, another actuary replicating the same approach set out above may derive different assumptions from those set out above. Reasonableness checks have been carried out on the cashflows used.

Salary increases

Although future benefits are not linked to final salary, benefits accrued up to 31 March 2014 will continue to be linked to the final salary of each individual member. Therefore we still need to set an appropriate long-term salary increase assumption.

Where an employer has requested a bespoke salary increase assumption last year, if still appropriate, we will continue the same salary increase assumption at 31 March 2021. For all other employers, we will adopt the standard approach set out below.

For English Funds, our standard assumption remains consistent with the 2019 actuarial valuation. This means assuming that salary increases are in line with CPI plus 1.0% p.a. with no additional allowance for a promotional salary scale.

For Scottish Funds, we intend to use the salary assumption consistent with the 2020 actuarial valuation. This means assuming that salary increases are in line with CPI plus 1.0% p.a. with no additional allowance for a promotional salary scale. This is consistent with the standard approach last year, with the exception that there is now no additional allowance for promotional salary increases as this is assumed to be incorporated in the long term salary increase assumption.

The salary increase assumption is the assumption that employers are most likely to request a specific approach for in line with their own expectations and we are happy to discuss this as required. In particular, we understand that announcements made by the Chancellor as part of the November 2021 spending review in relation to future public pay increases may affect the expected salary increases of some employers who require accounting reports at 31 March 2021. If employers believe that their salary increases in the long term or short term will differ from our standard assumptions, we would be happy to adopt alternative assumptions. However, please note that bespoke financial assumptions will incur additional fees.

Bespoke financial assumptions

As mentioned above, the responsibility for setting assumptions ultimately belongs to the employer and therefore if an employer was to request alternative assumptions then we would be happy to use these in producing our report. The approaches described above are the standard approaches we will adopt to derive financial assumptions, however, we are happy to advise individual employers on the range of assumptions they may be able to adopt.

As part of this advice we are able to provide employers with a deficit modeler which provides an indication of the impact of any changes to their accounting position.

If you would like more information on the options available to employers regarding bespoke assumptions please feel free to contact publicsector@barnett-waddingham.co.uk or your usual Barnett Waddingham contact. However, please be aware that both requesting and receiving advice on bespoke assumptions will incur additional fees.

Mortality assumption

The key demographic assumption is the mortality assumption and there are two main steps in setting this assumption:

- Making a current assumption of members' mortality (the base mortality); and
- Projecting these current mortality rates into the future, allowing for further potential improvements in mortality. Future members' mortality is almost impossible to predict and therefore there is a lot of judgement involved and we naturally have to refine our view on this over time.

The mortality assumptions adopted for Funds' triennial funding valuations were best estimate assumptions and we will, therefore, be using the same assumptions as standard for accounting. As part of the valuation, analysis was carried out by our specialist longevity team to assess the best estimate mortality assumption based on each Fund's experience and industry knowledge.

For Scottish Funds, our standard approach is to update the mortality assumption to be based on those adopted for the Fund's 2020 actuarial valuation. In most cases, this will mainly be an update to the base mortality assumption and an update to the CMI_2019 projections model.

For English Funds, our standard approach is to adopt the same assumption as that adopted at the last accounting date. For most employers, this is a base mortality assumption in line with the Fund's 2019 actuarial valuation, projected in line with the CMI_2018 Model published by the Continuous Mortality Investigation (CMI).

Please note that the CMI are due to publish their updated CMI_2020 Model in March 2021. We will review this model once available and will provide an update on our standard approach if required.

Other levers

2020 valuation update (Scottish Funds)

The results for each employer in Scottish Funds will incorporate the results of the 2020 valuation, which could have a positive or negative effect. The effect will depend on how experience over the intervaluation period has differed from that assumed.

Service accrued over the period

The change in employers' deficits will also be affected by the difference in the cost of benefits accrued over the period and the level of contributions paid by the employer and employees.

The service cost accrued over the year is based on the assumptions at the start of the period, i.e. at the previous accounting date. Employers' contributions may consist of contributions towards funding any deficit as well as funding the cost of benefits being accrued on an ongoing funding basis. These contributions are likely to have been calculated using different assumptions than under IAS19/FRS102 and may therefore differ from the service cost calculated for the period.

Depending on the membership profile of the employer; the cost of benefits accrued over and above the level of contributions paid may have a more significant effect on the level of deficit than the change in financial assumptions and investment performance.

Allowance for actual pension increases

We will be incorporating actual pension increase experience up to 31 March 2021 into our accounting disclosures as standard this year. Actual pension increases since the last full valuation have been less than previously assumed and we would recommend that this experience is allowed for.

This is our standard approach as we understand pension increase experience is being considered more often as part of auditor reviews. Please note that additional fees will be incurred to incorporate the actual pension increase experience and therefore the employer should opt out of this standard approach if they do not want these additional calculations to be carried out.

Treatment of settlements and curtailments

Employers accounting under the IAS19 standard

On 7 February 2018, the International Accounting Standards Board (IASB) issued amendments to the IAS19 standard which now requires that when determining any past service cost or gain or loss on settlement that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. This applies for all accounting periods starting on or after 1 January 2019 and therefore will apply for the year to 31 March 2021 accounts.

Common events for LGPS employers that this amendment may apply to include outsourcings and unreduced early retirements.

The amendment complicates the accounting disclosure as additional calculations are required to determine the cost before and after each event, and to rebase the standard roll forward approach on updated assumptions based on each event date. The amendment does, however, note that the extra remeasurement does not need to be applied where the application of that remeasurement is immaterial. The assessment of materiality will be subject to each employer and auditor's discretion. We can provide additional information to help assess materiality but we cannot conclude whether an event is material or not.

Our default approach for IAS19 reports will be to assume that all events are material and therefore will adopt the approach set out in the IAS19 amendment. We will provide each administering authority with a summary of the events we are aware of and these will be communicated to each employer. If the employer does not want to treat all the events in this way then we would strongly recommend the employer reviews these events with their auditor in advance of the preparation of their report.

Unless instructed otherwise we will proceed with our default approach and please note that additional fees will apply, details of which can be provided by the administering authority.

Employers accounting under the FRS102 standard

We note that the FRS102 standard is silent on the treatment of settlements and curtailments, and in particular there is no explicit requirement to adopt a similar approach to that set out above for the IAS19 standard.

Therefore, our default approach for FRS102 reports is to not remeasure the net defined benefit liability at the event date, and this is consistent with the approach at the last accounting date.

We are happy to adopt an approach in line with that set out above for the IAS19 reports if requested by the Employer, but please note that that will incur additional charges.

McCloud/Sargeant judgement

If an allowance was already made for McCloud at a previous accounting date in an employer's IAS19/FRS102 report then no explicit adjustment will be made in our results this year. Our standard approach unless requested otherwise was to include allowance for McCloud so we expect most employers this year will fall under this category.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published. We do not believe there are any material differences between the approach underlying our estimated allowance and the proposed remedy. A more detailed analysis at this stage would require a significant volume of member data which is not yet available. Therefore, we do not intend to make any further adjustment in light of the ongoing consultation at the accounting date.

If no allowance has been made, then our default approach will be to include an allowance this year based on GAD's analysis (further details can be found in Appendix 3) and the individual assumptions and membership profile of the employer. The effect on the employer's liabilities will be shown as a past service cost.

This will be the default approach unless employers opt out.

In order to reduce the chance of having to revise any reports we recommend that employers engage with their auditors in advance of their year-end to make them aware of our intended approach.

Please contact the administering authority of the Fund to confirm the relevant fees.

Goodwin case

We do not intend to make any adjustments to accounting valuations at 31 March 2021 as a result of the Goodwin case. Please see Appendix 4 for further details.

Impact of Lloyds judgement on past transfer values

The latest news on the Lloyds Banking Group court case involved a ruling that, in cases where a member exercised their right to a transfer value out of the scheme, the trustee had the duty to make a transfer payment that reflects the member's right to equalised benefits and remains liable if an inadequate transfer payment had been paid.

It is not yet known if, or how, this will affect the LGPS. We await further guidance from CIPFA and MHCLG on this. Our standard approach currently is to make no allowance to reflect this judgement.

Overall expected results

What does this all mean when we bring it all together?

The first caveat is that no employer is average and so any prediction of what might apply to an average employer will not apply to every, or possibly any employer.

The effect of the changes in the financial assumptions on an employer's liabilities are dependent on the assumptions adopted as well as the specific duration of the employer's liabilities. Typically, employers with greater liability durations are more sensitive to changes in financial assumptions as benefits will be paid over a longer term. The table below describes the estimated effects for employers with liability durations of exactly 10, 15, 20 and 25 years:

Duration (years)	Estimated effect of change in financial assumptions on employer's liabilities
10	Increase of 18%
15	Increase of 26%
20	Increase of 33%
25	Increase of 44%

Based on market conditions at 31 January 2021, employers of all durations would see an increase in the value of the defined benefit obligation. In addition, the value of liabilities will increase with interest accumulated over the year.

However, there will be other factors affecting the change in an employer's accounting position including (but not limited to) the effects of:

- For Scottish funds, updating to the 2020 valuation results
- Any updates to the demographic assumptions (in particular for Scottish funds, updating to be in line with those adopted for the 2020 valuation)
- Fund asset performance
- Employer cashflows, in particular the difference in the cost of benefits accrued over the period and the level of contributions paid by employers and employees

Appendix 1 - Auditor views

It should be highlighted that auditors continue to look for greater accuracy in the roll forward approach used to calculate employers' results. This includes the approach used to determine each employer's share of fund assets at the accounting date and roll forward employers' liabilities.

Asset roll forward

Given the tight timescales for employers to submit their final accounts we appreciate that it is not always possible to wait until a fund's net asset statement at the accounting date is available to begin producing accounting disclosures. As a result, we request details of funds' assets at the most recent date available and, for the remaining period, we assume that returns are in line with relevant market indices.

In order to reduce the chance of having to revise any reports we recommend that employers engage with their auditors and the administering authority of the fund as early as possible to ensure they are comfortable with the information being used to calculate results.

Liability roll forward

To calculate the value of employers' liabilities we carry out a full valuation of membership data at least every three years (as part of the triennial valuation). We then 'roll this forward' to each subsequent accounting date, allowing for the actual cashflows paid into and out of the fund in respect of the individual employer.

In addition we allow for any curtailments as a result of unreduced early retirements we are made aware of. Similarly we allow for any settlements we are made aware of such as those resulting from outsourcings or bulk transfers.

We do not, as standard, allow for actual inflation experience between full member valuations. The effect of actual experience compared to what was assumed is typically included within the experience item when full valuations are incorporated into accounting disclosures.

However, if employers wish us to allow for actual inflation experience over the inter-valuation period we would be happy to do so. It should be noted that this does fall outside the scope of what is covered in our standard report fee and will therefore incur additional fees.

Appendix 2 - Adjustments to fees

The Fund will communicate fees to employers however we would like to make you aware that there may be additional fees if there are particular features or events for an employer which need to be taken into account.

As examples of this:

- where an employer chooses their own assumptions;
- if there are additional calculations to be carried out if a surplus is revealed;
- when there are any staff transfers/movements to allow for;
- allowance for actual inflation experience;
- if additional disclosures are required;
- an employer asks to receive their report by a particular deadline; or
- if auditors ask queries following receipt of the report.

Please get in touch with the Fund for further information on fees.

Appendix 3 – Supreme Court ruling in McCloud/Sargeant case

Background

Two employment tribunal cases were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination.

On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published.

Government Actuary's Department (GAD) impact analysis

The Scheme Advisory Board, with consent of the Ministry of Housing, Communities and Local Government (MHCLG), commissioned GAD to report on the possible impact of the McCloud/Sargeant judgement on LGPS liabilities, and in particular, those liabilities to be included in local authorities' accounts as at 31 March 2019. This followed an April 2019 CIPFA briefing note which said that local authorities should consider the materiality of the impact. This analysis was to be carried out on a "worst-case" basis, (i.e. what potential remedy would incur the highest increase in costs/liabilities). The results of this analysis are set out in GAD's report dated 10 June 2019.

Although GAD were asked to carry out their analysis on a "worst-case" basis, there are a number of other potential outcomes to the case which would potentially inflict less cost to the Employer. For example, the solution proposed by the Government would only apply the underpin to all members who were active on 31 March 2012. This would have less impact than GAD's scenario (which also includes any new joiners from 1 April 2012).

IAS19/FRS102 requires us to place a best estimate value on liabilities and costs. Consistent with the approach we adopted for the McCloud impact estimates made last year, we will adjust GAD's estimate to include only members that were active on 31 March 2012. This is in line with that proposed in the Government's consultation.

GAD's analysis compared the cost of the old pre-2014 final salary scheme with the new CARE scheme. The key parameter in assessing this cost is the assumed level of future salary increases in excess of CPI. GAD considered the following two scenarios:

1. Salaries increase at CPI plus 1.5% – on this scenario GAD assessed the average cost of implementing their worst-case scenario to be 3.2% of active liabilities at 31 March 2019 and the impact on service cost (i.e. the cost of benefits accruing) to be 3.0% of active payroll.

2. Salaries increase at CPI plus 0% p.a. – on this scenario GAD assessed the average cost to be less than 0.1% of active liabilities at 31 March 2019 and the impact on service cost to be less than 0.1% of payroll.

For the purpose of our impact estimate we will make an allowance to reflect each employer's own salary increase assumption.

Appendix 4 – Goodwin case

Background

Following a case involving the Teachers' Pension scheme, known as the Goodwin case, differences between survivor benefits payable to members with same-sex or opposite-sex survivors have been identified within a number of public sector pension schemes. As a result, the Government have confirmed that a remedy is required in all affected public sector pension schemes, which includes the LGPS.

As this has just recently been announced, we do not yet have an accurate indication of the potential impact this may have on the value of employers' liabilities or the cost of the scheme. Any indication of cost at this stage will only be a rough estimate as in a lot of cases, funds will not have this information or data to hand. It is our understanding that the Government Actuary's Department (GAD) is undertaking a review to assess the potential impact on public sector pension schemes, which we expect will be minimal for LGPS funds.

Intended approach for accounting exercise

Although we do not yet have the results of GAD's review, it's our expectation that the impact on the value of LGPS liabilities as a whole, and for the majority of employers participating in the LGPS, will not be material. However, it's possible that the impact on individual employers may vary depending on their specific membership profile; although any cases resulting in a significant impact are likely to be few and far between.

For employers who are receiving accounting disclosures at 31 March 2021, we do not currently intend to make an allowance for the potential impact of this decision. We do not yet have enough information to make an accurate estimate of the potential impact on employers' liabilities.

Indication of potential impact

The Goodwin case affects male survivors (of female members) by extending the applicable service back from 1988 back to 1978. This only impacts the amount to be paid to widower survivor benefits coming into payment after 2005. A typical fund might expect that widowers' benefits in payment represent around 0.5% of their liability profile, however this may vary at employer level.

For these widowers to be affected, the original female member would need to have pre-88 service, which is now 32 years ago. Given the average age of pensioners typically around 70 and the average member's service may be around 10 years, we expect there are very few members who will be affected by this change. If we assume even 10% meet this criteria then the impact might be 0.5% x 10% x pre 88 benefit / total benefit.

Even if the pre 88 benefit was 50% of the total (which is unlikely) then the impact would be 0.025%. There are necessarily a number of estimates and assumptions here and so this is purely to illustrate that we believe that the impact is very small and not material for the vast majority of employers.

However, as noted above, we understanding that GAD is undertaking a review of the potential impact of this decision, which may provide a more accurate assessment of the effect on employers' accounting positions.

Item No. 11

AUDIT COMMITTEE **23 MARCH 2021**

SUBJECT:	**EXTERNAL AUDIT PROGRESS REPORT**
DIRECTORATE:	**CHIEF EXECUTIVE AND TOWN CLERK**
REPORT AUTHOR:	**JACLYN GIBSON, CHIEF FINANCE OFFICER**

1. Purpose of Report

1.1 To present the External Audit Progress Report to Audit Committee.

2. Executive Summary

2.1 This report provides Audit Committee with an update on progress in delivering responsibilities of the External Auditors.

3. Background

3.1 The External Auditor provides periodic update reports to the Audit Committee. Mazars are currently appointed as the Council's External Auditor.

4. External Audit Progress Report

4.1 The External Audit progress report attached (Appendix A) covers the following areas:

- Audit Progress
    - 2019/20 Audit
    - 2020/21 Audit
    - Code of Audit Practice – value for money in use of resources
- National Publications

4.2 External Audit will be in attendance at the meeting to present the progress report.

5. Strategic Priorities

5.1 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.

6. Organisational Impacts

6.1 Finance (including whole life costs where applicable)

The Audit fee for 2019/20 as included within the Audit Strategy Memorandum, previously presented to this Committee, was £36,332, set in accordance with the scale fees set by the PSAA. The fee includes work on the VFM conclusion and the audit of the financial statements. Further separate agreement will be reached with Mazars regarding the additional fee in relation to scope changes caused by updated audit quality expectations and scope changes caused by Covid19. Estimates of these additional costs are in the range of £15,750 - £28,500.

6.2 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.

6.3 Equality, Diversity and 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

7. Risk Implications

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

8. Recommendation

8.1 Audit Committee is asked to note the content of the latest External Audit Progress 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:	Jaclyn Gibson, Chief Finance Officer Telephone (01522) 873258

Audit Progress Report

City of Lincoln Council

8 March 2021

mazars

1. Audit Progress
2. National Publications

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01

Section 01:

Audit Progress

Audit Progress

Purpose of this report

This report provides the Audit Committee for its 23 March 2021 meeting with an update on progress in delivering our responsibilities as your external auditors.

The report also includes at Section 2 for your information a summary of recent reports which we believe are relevant to your responsibilities.

Audit progress

<u>2019/20 Audit</u>

Our audit of the 2019/20 financial statements has continued and at the date of this report is close to completion. We will provide the Audit Committee with a verbal update on the latest position at the 23 March 2021 meeting. We will provide the Committee with an updated Audit Completion Report, with the completed audit findings, when we issue our audit opinion, and at the same time issue our Audit Certificate which will formally close the 2019/20 audit. Our 2019/20 Annual Audit Letter will be issued shortly after the closure of the audit and will be the final communication from us on the year's audit. The Annual Audit Letter will summarise our findings for the year and confirm the final 2019/20 audit fee.

There is still work in progress on the 2019/20 Housing Benefit Subsidy Claim. We expect to complete this work and issue the required assurance report by the 31 March 2021 deadline.

<u>2020/21 Audit</u>

We have commenced our audit planning for the 2020/21 audit and will present our Audit Strategy Memorandum (ASM) to the next Audit Committee meeting. We have continued to hold regular discussions with the finance team and these help us to keep up to date with emerging issues that may impact on our external audit.

At this stage we expect the profile of the Significant Audit Risks to be similar to that set out in our 2019/20 ASM, but we will say more on that at the Committee's next meeting. The consultation on the timetable for the 2020/21 financial statements' publication and audit has recently been carried out and we will confirm the specific dates for the detailed audit work with officers and set them out in the ASM.

The scope of the Audit and our audit responsibilities are set out in the 2020 Code of Audit Practice. The only significant change on the previous Code is in relation to our responsibilities relating to the Value for Money Conclusion. We say more on this on the next page.

Audit Progress (continued)

External audit work on the Council's arrangements to deliver value for money in its use of resources

We reported during 2019/20 that the National Audit Office (NAO) had updated their Code of Audit Practice and that this new Code applies from 2020/21. The new Code changes the work that auditors will be required to do, and the related reporting, on Councils arrangements to deliver value for money in their use of resources.

The changes to the reporting requirements means that from 2020/21 we will no longer include a value for money conclusion in our Financial Statements Audit Report. We will report our commentary on the Council's arrangements to deliver value for money in a new Auditor's Annual Report (which replaces the Annual Audit Letter). The NAO Code requires that where auditors identify weaknesses in Council's arrangements they should report recommendations to the Council promptly through the year.

In carrying out our work we will comply with the NAO's guidance on value for money work, which identifies that the work must have regard to the following specific criteria:

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

The new Code requirements represent a significant change to the focus and reporting of our value for money conclusion work.

NAO's guidance to auditors is publicly available through the following link.

https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2019/12/AGN-03-Auditors-Work-on-Value-for-Money-Arrangements.pdf

NAO has still to confirm some of its specific guidance regarding the approach and reporting of this work, and our risk assessment of the Council's arrangements and any likely significant weaknesses is in progress.

We will keep the Audit Committee up to date on our progress as we complete our audit work.

02

Section 02:
National Publications

National Publications

	Publication/update	Key points	Page
CIPFA			
1	**Code of Practice on Local Authority Accounting in the United Kingdom: Disclosure Checklist for 2020/21 Accounts**	2020/21 Disclosure checklist	9
2	**Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for 2020/21 Accounts**	2020/21 Code Guidance Notes	9
3	**Service Reporting Code of Practice for Local Authorities 2021/22**	2020/21 SeRCOP Guidance	9
4	**Guidance for Head of Internal Audit Annual Opinions 2020/21**	Guidance	10
5	**A Guide to Local Authority and Public Sector Asset Management**	Step-by-step guide	10
6	**Planning to Deliver Good Value in Demand-led Services (social care)**	Good practice framework	10
7	**Fraud and Corruption Tracker**	CIPFA's latest information has been published.	11
8	**Consultation on stronger Prudential Code**	CIPFA is consulting on the Prudential Code, including proposals to strengthen the requirements for commercial investments.	11
9	**CIPFA Bulletin 06 – Application of the Good Governance Framework 2020/21**	Provides updated guidance and takes into account the introduction of the CIPFA Financial Management Code 2019 during 2020/21.	11
National Audit Office			
10	**Local auditor reporting application**	Data on local auditor reporting presented through an interactive map	12

National Publications

	Publication/update	Key points	Page
MHCLG			
11	**Local authority financial reporting and external audit: government response to the Redmond review**	MHCLG's response to Sir Tony Redmond's independent review	13
12	**Consultation on Amendments to the Accounts and Audit Regulations 2015**	MCHLG has consulted on its proposed changes to the accounts publication deadline for 2020/21 and 2021/22.	13
Financial Reporting Council			
13	**Local Audit Inspections**	FRC Audit Quality report	14

NATIONAL PUBLICATIONS
CIPFA

1. Code of Practice on Local Authority Accounting in the United Kingdom: Disclosure Checklist for 2020/21 Accounts, January 2021

The 2020/21 version of the disclosure checklist has been updated to reflect the reporting requirements introduced by the 2020/21 Code of Practice. This annual publication is for finance practitioners in local authorities and external audit agencies and firms in England, Scotland and Wales.

The checklist is in the form of a series of questions. If the answer to any question is no, then a justification for departing from the Code should be given and potentially disclosed in the accounts, where the impact of departures is material.

https://www.cipfa.org/policy-and-guidance/publications/d/disclosure-checklist-202021-print

2. Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for 2020/21 Accounts, January 2021

This edition of the Guidance Notes provides detailed guidance on the key accounting changes introduced by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) 2020/21, and includes amendments to implement amendments to accounting standards, reference to arrangements for the application of accounting standards arising as a consequence of the UK's withdrawal from the EU and legislative amendments. The example financial statements have also been updated to reflect these changes.

https://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-guidance-notes-202021-print

3. Service Reporting Code of Practice for Local Authorities 2021/22, January 2021

Modern local government is constantly developing and adapting to its current economic climate. Transparency initiatives, performance and best value regimes are evolving in expectation of the government becoming more sophisticated.

SeRCOP is reviewed annually to ensure that it develops in line with the needs of local government, transparency, best value and public services reform.

In England, SeRCOP is given legislative backing under the Local Government Act 2003. In Scotland SeRCOP's Service Expenditure Analysis (SEA) and guidance is used by the Scottish Government as the basis for specifying the requirements of the Local Financial Returns (LFRs).

https://www.cipfa.org/policy-and-guidance/publications/s/service-reporting-code-of-practice-for-local-authorities-202122

NATIONAL PUBLICATIONS
CIPFA

4. Guidance for Head of Internal Audit Annual Opinions 2020/21, November 2020

The annual opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control is a requirement of the Public Sector Internal Audit Standards (PSIAS). It is an important source of assurance that supports a local government body’s annual governance statement.

If sufficient assurance is not available from internal audit work completed and other sources of assurance that the head of internal audit may seek to place reliance on then they should publish a limitation of scope to explain the position and impact on the annual opinion. The guidance sets out the steps heads of internal audit, together with the leadership team and audit committee, should take.

To further support the guidance CIPFA held a free webinar on 15 December.

https://www.cipfa.org/policy-and-guidance/standards/guidance-for-head-of-internal-audit-annual-opinions-202021

5. A Guide to Local Authority and Public Sector Asset Management, November 2020

This step by step guide to asset management in the public sector has been produced by CIPFA Property. It takes the reader on the asset management journey, from the development of strategic asset management policies and strategies designed to deliver corporate objectives through to the development, implementation, challenge and review of asset management practices and portfolios.

https://www.cipfa.org/policy-and-guidance/publications/a/asset-management-in-the-public-sector-a-practitioners-guide

6. Planning to Deliver Good Value in Demand-led Services (social care), November 2020

Several local authorities successfully deliver good value in these areas, and this publication draws on their experience and best practice. It sets out a three step framework, based on a number of essential elements that recognise the challenges involved. This framework emphasises the importance of business partnering and ensuring plans reflect reality to enable improved operational and financial resilience.

https://www.cipfa.org/policy-and-guidance/publications/p/planning-to-deliver-good-value-in-demand-led-services-social-care

NATIONAL PUBLICATIONS
CIPFA

7. Fraud and corruption Tracker, February 2021

The latest CIPFA Fraud and Corruption Tracker (CFaCT), which includes local government data between 1 April 2019 and 31 March 2020, provides a baseline illustration about the prevalence of grant fraud in the public sector, just before unprecedented levels of COVID-19 grant funding for councils were released by the government in March of last year. The report follows previous warnings from the National Crime Agency and other law enforcement bodies of an increase in cases related to suspected COVID-19 grant fraud. Valued at an estimated loss of £36.6m, the report reveals only 161 instances of grant fraud occurred in 2019/20.

The report also shows that council tax continued to be the largest area of identified fraud for councils, with more than 30,600 cases totalling £35.9m in 2019/20. This year, 32% of respondents also stated their organisation had been a victim of a Distributed Denial-of-Service (DDOS)/hacking attack in the last 12 months, a 5% increase from the previous year. Survey respondents also expressed concern about councils' inability to tackle usual areas of fraud due to resource being re-directed into the processing and review of COVID-19 business grants.

https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/grant-fraud-represented-less-than-of-uk-public-sector-fraud-pre-pandemic

8. CIPFA consults on a stronger Prudential Code, January 2021

CIPFA has launched a consultation on proposals to strengthen the Prudential Code, following growing concerns over local government commercial property investments. The Prudential Code is a professional code of practice that aims to ensure local authorities' financial plans are affordable, prudent and sustainable. To date, the provisions in the Code have not prevented a minority of councils from taking on disproportionate levels of commercial debt to generate yield. The proposed changes are intended to prevent future misinterpretations of the Code and strengthen the necessary regard to its provisions to protect local decision making and innovation. The consultation will be open for 10 weeks and responses must be submitted by 12 April 2021.

https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-consults-on-stronger-local-government-prudential-code

9. CIPFA Bulletin 06, Application of the Good Governance Framework 2020/21, February 2021

This bulletin covers the impact of the continuing COVID-19 pandemic on governance in local government bodies and the requirements of the Delivering Good Governance in Local Government Framework 2016 CIPFA and Solace (the Framework). It also takes into account the introduction of the CIPFA Financial Management Code 2019 (FM Code) during 2020/21.

https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-06-application-of-the-good-governance-framework-202021

National Audit Office

10. Local auditor reporting application, December 2020

The local auditor reporting application presents the opinions of local auditors on local public bodies' financial statements and conclusions on whether they have proper arrangements in place to secure value for money. The data is presented through an interactive map which allows users to explore auditor reporting for nine different types of local body and two different audit years. The interactive map also contains pop-ups to enable users to access further information about the body, such as the local auditor's report or annual audit letter.

https://www.nao.org.uk/other/local-auditor-reporting-application/

NATIONAL PUBLICATIONS
MHCLG

11. MHCLG's response to Sir Tony Redmond’s independent review, December 2020

The response of the Ministry of Housing, Communities and Local Government to Sir Tony Redmond’s Independent review into the oversight of local audit and the transparency of local authority financial reporting. The Redmond Review made 23 recommendations relating to the quality, timeliness and sustainability of local audit, and the transparency of local authority accounts. The department has grouped its response into 5 themes, which are summarised in Annex A to the response.

Amongst the responses MHCLG confirmed that they intend to amend existing regulations to extend the deadline for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years). At the end of this period they will review whether there is a continued need to have an extended deadline.

They also confirmed that they did not intend to create an Office of Local Audit and Regulation (OLAR) stating in their response that they “do not wish to re-create the costly, bureaucratic and over-centralised Audit Commission”. They added that they “will commit to explore the full range of options as to how best to deliver Sir Tony’s finding that a ‘system leader’ is required. This will include close consideration of whether existing bodies could take on this function.”

https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review

12. MHCLG’s Consultation on amendments to the Accounts and Audit Regulations 2015, February 2021

MCHLG has consulted on its proposed changes to the accounts publication deadline for 2020/21 and 2021/22.

The draft regulations includes provisions, at regulation 2 to change the publication deadline for principal authorities from 31 July to 30 September as proposed in recommendation 10 by the Redmond review, but for 2 years - 2020/21 and 2021/22. The intention is for the amended deadline to be reviewed after that period when it will be clearer as to whether the audit completion rate has improved.

The draft regulations also enable principal bodies to publish their draft accounts for inspection, linked to the later publication deadline, by removing the fixed period for public inspection, to say instead that the draft accounts must be published on or before the first working day of August. This will allow authorities and audit firms more flexibility to schedule their audits in line with the later publication deadline but, importantly, will not prevent them from being signed off earlier. This mirrors the approach taken in the Accounts and Audit (Amendment) (Coronavirus) Regulations 2020.

MCHLG’s consultation closed on 1 March 2021.

NATIONAL PUBLICATIONS
Financial Reporting Council

13. Major Local Audits – Audit Quality Inspection, October 2020

The framework for the inspection of local audit work

Responsibility for the inspection of local audit work is now with the Financial Reporting Council (FRC) for 'major local audits' (those with annual expenditure which exceeds £500m) and the ICAEW for those bodies which do not meet the major local audit definition. As part of their inspection of major local audits for the 2018/19 financial year, the Audit Quality Review (AQR) team of the FRC reviewed two of our major local audits and found these to require significant improvements in respect of our audit of the financial statements. The same reviews indicated that our work on value for money arrangements for those audits was of a good standard. Our non-major local audits for 2018/19 were not subject to inspection by the ICAEW.

Our response to the FRC's findings

We are committed to delivering high-quality audits to all of our clients and have responded robustly to the AQR's findings. Our Local Audit Quality Plan incorporates the risks to audit quality identified from a range of sources and identifies that actions we have put in place, or are taking, to mitigate these risks. Our Audit Quality Team is responsible for the maintenance of the plan which is also subject to oversight and scrutiny from the firm's Audit Board.

In addition, we have undertaken a detailed root cause analysis project to identify and understand the drivers of poor audit quality in some of our local audit work. This has focused on all local audits where the need for improvement or significant improvements have been identified either through external inspections or our programme of internal quality monitoring reviews.

We have taken steps to respond to the AQR's specific findings in relation to our work in the following areas of the audit:

- Testing the valuation of property assets;
- Exercising appropriate oversight of group audits, including the direction, supervision and review of the work of component auditors; and
- Document judgements made as part of the audit process, specifically those in relation to our testing of income and expenditure.

We have also strengthened our standard procedures in relation to the audit of net defined benefit pension liabilities arising from our clients' membership of local government pension schemes.

The FRC's report on its inspection findings in relation to the quality of major local audits for the year ended 31 March 2019, can be found here. This also includes our detailed response to their findings on our financial statement audits.

Financial Reporting Council

13. Major Local Audits – Audit Quality Inspection, October 2020 (continued)

What this means for the Council

As outlined above, we take the weaknesses identified by the FRC extremely seriously, and our response to the improvement areas has been robust. It is clear that on areas of the audit such as the valuation of property assets (including investment properties) and the audit of defined benefit pension liabilities, we must do more to meet the regulator’s expectations. This is means the time we spend on these areas of the audit will increase and the level of challenge we apply in auditing these areas will also increase. Your finance team and your experts will have seen the increase in the scope and scale of work we have undertaken in 2019/20 in terms of the granularity and depth of testing and changes to our sample sizes in a number of key areas.

Going forward, our response and the increase in the challenge we make, is likely to include the engagement of our own experts (for example, property valuation experts) to fully consider the methodologies and judgements applied by the Council’s own experts. There will be consequential effects on the fee that we are likely to request from the Council to undertake the audit.

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

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Item No. 12

AUDIT COMMITTEE **23 MARCH 2021**

SUBJECT:	**THE CIPFA FINANCIAL MANAGEMENT CODE**
DIRECTORATE:	**CHIEF EXECUTIVE AND TOWN CLERK**
REPORT AUTHOR:	**JACLYN GIBSON, CHIEF FINANCE OFFICER**

1. Purpose of Report

1.1 To inform Members of the new CIPFA Financial Management Code which is applicable in shadow form during 2020/21 with compliance expected from 2021/22.

1.2 To present to Members an initial assessment that has been carried out of the Council's assessed level of compliance compared to the Standards contained within the Financial Management Code and the associated actions arising to ensure compliance.

2. Executive Summary

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

2.2 This situation changed when, in December 2019, Chartered Institute of Public Finance and Accountancy (CIPFA) published its Financial Management code (FM Code) to provide guidance for good and sustainable financial management in local authorities. It has been produced to assist local authorities in demonstrating their financial sustainability through a set of standards of financial management.

2.3 The standards have different practical applications according to the size and different circumstances of individual authorities and their use locally should reflect this. The principle of proportionality applies to the FM Code and reflects a non-prescriptive approach to how each standard is met.

2.4 The COVID-19 crisis has seen local authorities placed under extreme pressure to respond to the needs of their communities by providing services and support to an unprecedented extent. Understanding these pressures, the CIPFA Financial Management and Governance Panel has considered these changes against workload, reprioritisation and resource issues facing local authority staff. It concluded that while the first full year of compliance with the FM Code can remain as 2021/2022, it can do so within a more flexible framework where a proportionate approach is encouraged. In practice this is likely to mean that adherence to some parts of the Code will demonstrate a direction of travel.

3. Background

3.1 In response to recent concerns (even before COVID-19) around financial resilience of Councils, CIPFA has introduced a new FM Code as part of a package of measures that it is putting in place. These measures have been driven by the exceptional financial circumstances faced by local authorities, having revealed concerns about fundamental weaknesses in financial management. In particular there have been a small number of high-profile failures across local government which threaten stakeholders confidence in the sector as a whole.

3.2 The FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities.

3.3 CIPFA acknowledges the additional extraordinary burdens being faced by local authorities due to COVID-19 and has reflected on the extent to which it is appropriate to introduce a new FM Code at the current time. In February 2021 they provided clarification on compliance with the code to reflect COVID-19 pressures. This stated:

Much of the existing Code requirements are based on statutory responsibilities, the timescales for which CIPFA is not able to influence. The Code does, however, allow for both flexibility and a proportionate approach:

"The manner in which compliance with the FM Code is demonstrated will be proportionate to the circumstances of each local authority."

and that:

"Financial management standards are to be guided by proportionality."

CIPFA concluded that while the first full year of compliance can remain as 2021/2022, it can do so within a more flexible framework where a proportionate approach is encouraged. In practice this is likely to mean that adherence to some parts of the Code will demonstrate a direction of travel.

4. The Financial Management Code

4.1 The Code focuses on value for money, governance and financial management styles, financial resilience and financial sustainability. The Code identifies the risks to financial sustainability and introduces an overarching framework of assurance which builds on existing financial management good practice. The Code has been designed on a principles-based approach which will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable. The six principles of good financial management are:

- **Organisational Leadership** Demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.

- **Accountability** Based on medium term financial planning, driving the annual budget process, supported by effective risk management, quality supporting data and whole life costs.

- **Transparency** At the core of financial management, using consistent, meaningful and understandable data, reported frequently, with evidence of periodic officer action and elected member decision making.

- **Professional Standards** Promoted by the leadership team, with adherence evidenced.

- **Assurance** Recognised as an effective tool, mainstreamed into financial management, including political scrutiny and the results of both external audit, internal audit and inspection.

- **Long-Term Sustainability** At the heart of all local services' financial management processes, evidenced by the prudent use of public resources.

4.2 In turn the Code is structured around 7 areas of focus:

- The Responsibilities of the Chief finance officer and Leadership Team
- Governance and Financial Management Style
- Long to Medium Term Financial Management
- The Annual Budget
- Stakeholder Engagement and Business Plans
- Monitoring Financial Performance
- External Financial Reporting

Each of these areas is supported by a set of guidance standards against which Councils should be assessed. CIPFA's expectation is that authorities will have to comply with all the financial management standards if they are to demonstrate compliance with the FM Code and to meet its statutory responsibility for sound financial administration and fiduciary duties to taxpayers, customers and lenders.

4.3 Although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities. The Code recognises that some organisations have different structures and legislative frameworks. Where compliance with this code is not possible adherence to the principles is appropriate.

4.4 The Council's external auditors will from 2021/22 have regard to the FM Code and will be looking to ensure that the Council is meeting the Code. Furthermore, CIPFA guidance issued in February 2021 stated that the Council's Annual Governance Statement for 2020/21 should include the overall conclusion of the assessment of the organisation's compliance with the principles of the FM Code. Where there are outstanding matters or areas for improvement, these should be included in the action plan.

4.5 Each local authority must demonstrate that the requirements of the FM Code are being satisfied. However, the FM Code is not expected to be considered in isolation and accompanying tools will form part of the collective suite of evidence to demonstrate sound decision making and a holistic view is taken.

4.6 Demonstrating this compliance with the FM Code is a collective responsibility of Elected Members, the Chief Finance Officer and the Corporate Leadership Team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the Section 151 Officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management.

4.7 As a first step towards ensuring that the Council meets the Code in 2021/22 the Chief Finance Officer has produced a draft Self-Assessment against the Code, as attached at Appendix A. The Self-Assessment will be continually reviewed and refined.

4.8 The completion of this Self-Assessment has identified a range of further actions required, the majority of which were already planned areas of work for 2021/22, as follows:

Standard	Action Required	Responsible Officer	Timescale
B	To continue to support professional development	CFO	Ongoing
C	Review of Financial Procedure Rules	CFO	Mar-22
C	Review of Contract Procedure Rules	Procurement Manager	Mar-22
D	Undertake a review of the Code of Corporate Governance	Policy Unit/CFO /CS/IAM	Jul-21
D	Undertake an external quality assessment of Internal Audit	CFO/IAM	Mar-22
E	Implementation of Finance Business Partnering approach	FSM	Mar-22
F	Development of MTFS to include specific reference to scenario testing	CFO	Jan-22
H	Assess implications of changes to The Prudential Code	FSM	TBD
L	Consider use of Citizens Panel for budget consultation	CFO/ Policy Unit	Dec-21
N	Annual reporting of key partnerships to Audit Committee.	IAM	Sept-21
O	Consider if other major balance sheet items can be made more visible in quarterly reporting.	FSM	Mar-22

As set out above these areas for improvement will be included in the Annual Governance Statement and progress monitored through the Audit Committee.

5. Strategic Priorities

5.1 Compliance with the FM Code will contribute to sound decision making. This will support the Medium Term Financial Strategy, enabling Members to monitor progress against Vison 2025 in a timely manner to ensure resources are allocated in line with the strategic priorities of the Council.

6. Organisational Impacts

6.1 Finance

The Chief Financial Officer (Section 151 Officer) has the Statutory Responsibility (supported by the Corporate Leadership Team and Elected Members) for ensuring compliance with the FM Code.

6.2 Legal Implications including Procurement Rules

CIPFA's intention is that the FM Code will have the same scope as the Prudential Code for Capital Finance in Local Authorities, so although the FM Code does not have legislative backing, it applies to all local authorities. In addition to its alignmet with the Prudential Code the FM Code also has links to the Treasury Management in the Public Sector Code of Practice and Cross Sectoral Guidance Note and the annual Code of Practice on Local Authority Accounting in the United Kingdom. In this way the FM Code support authorities by re-iterating in one place the key elements of these statutory requirements.

6.3 Equality, Diversity and 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

7. Risk Implications

7.1 (i) Options Explored

There are no alternative options available.

7.2 (ii) Key risks associated with the preferred approach

If compliance with the CIPFA Financial Management Code is not demonstrated, the Council's financial sustainability could be brought into question which in turn could result in a negative impact on its reputation with stakeholders.

8. Recommendation

8.1 Members note the publication of the FM Code and that the first year, 2020/21, is a shadow year where local authorities are able to demonstrate that they are working towards full implementation which, for the first full year of compliance, will be 2021/22.

8.2 Members reviews the initial assessment that has been carried out, as attached at Appendix A, of the Council's assessed level of compliance compared to the Standards contained in the FM Code and the resulting actions required.

8.3 Members note that progress against the actions identified will be monitored by the Committee through Annual Governance Statement monitoring process.

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 Telephone (01522) 873258

Ref	Description	Pages of Code	Detail	CFO assessment and actions required
Responsibilities of the Chief Finance Officer and Leadership Team				
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money	17/18	The authority has a clear and consistent understanding of what value for money means to it and its leadership team. There are suitable mechanisms in place to promote value for money at a corporate level and at the level of individual services. The authority is able to demonstrate the action that is has taken to promote value for money and what it has achieved.	The Council has clear accountability and arrangements to deliver value for money. The Council has a Value for Money Statement that was refreshed in February 2021. This sets out why VFM is important and what the Council's approach to ensure delivery of VFM is, this includes: • VFM is a key part of any business case submitted and all decision-making groups take decisions with a focus on VFM. • Performance Scrutiny Committee reviews service and financial performance (against cost, performance, and satisfaction) on a quarterly basis and uses its remit to periodically review key (off target) services. • Policy Scrutiny ensures that any changes to policy with financial aspects delivers VFM as part of the proposal – e.g. restructures, retention of discretionary services etc. • The Annual Governance Statement focuses on all aspects of governance, but critically on processes around VFM in service provision • Lincoln Project Management Model – this compulsory method of managing projects within the council contains key templates for financial assessments and risk management • The MTFS delivers a robust financial plan through a rigorous budget setting process. One of the key objectives of the MTFS is to provide cost effective services which demonstrate value for money.

				• The performance framework includes, regular monitoring of Vision 2025 projects to ensure that the key aims of the council are progressed to budget, timescales, and outcomes.
				• The performance framework includes regular service monitoring of detailed performance trends covering:
				  ○ Performance measures – e.g. throughput, time taken and outstanding work
				  ○ Volumetric measures to add contextual background data
				  ○ Customer satisfaction - feedback through satisfaction monitoring and complaints and compliments monitoring
				  ○ Quarterly Dashboard summarising all aspects of performance within the VFM chain
				• Communication of VFM to customers and staff through a variety of channels.
				• Delivering excellent customer service which is a key component of VFM.
				
				External Audit provide a VFM assessment in which they have determined that “in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”.
				
				Our last Peer Challenge review conducted by LGA, including a review of financial processes. The initial review led to a glowing report, with minimal suggested improvements. We are however monitoring all aspects to ensure we maintain standards with a follow up review to be arranged within the next two years.

				The council has a strong record of identifying and delivering efficiency savings with clarity about any impacts on services. Annual savings of c£9m have been delivered over the past decade. **ACTION REQUIRED - NONE**
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	18/19	In summary this Statement requires that the CFO: • Is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest. • Must be actively involved in, and able to bring influence to bear on, all material business decisions • Must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively. • Must lead and direct a finance function that is resourced to be fit for purpose. • Must be professionally qualified and suitably experienced.	The Chief Finance Officer post is a key member of the Corporate Leadership Team, reporting to the Chief Executive. She is actively involved in, and does influence, all material business decisions. The CFO personally leads on the MTFS and ensures that all risks are considered and detailed as part of the MTFS, in conjunction with the other members of the senior leadership team (Executive Members and Corporate Leadership Team). She is ACCA qualified with significant experience of local government finance. Continuing professional development is undertaken as required by her accounting body. There are contracts in place for specialist financial advice (technical accounting, treasury management, financial management & planning and taxation) The CFO through the Finance team provides the financial reporting and monitoring to the Corporate Management Team and Members, with the Treasury Management reporting going through Audit Committee and Council as prescribed in the CIPFA Prudential Code and the CIPFA Treasury Management Code.

				The Finance Team is suitably resourced with appropriately qualified staff, and is fit for purpose. This team includes 3 qualified accountants, 1 part qualified accountant and 4 qualified accounting technicians and 3 part qualified accounting technicians. All officers undertake continuing professional development as required by their accounting bodies. **ACTION REQUIRED – TO CONTINUE TO SUPPORT PROFESSIONAL DEVELOPMENT - ONGOING**
Governance and Financial Management Style				
C	The leadership Team demonstrates in its actions and behaviours responsibility for governance and internal control.	21	The leadership team espouses the Nolan principles. The authority has a clear framework for governance and internal control. The leadership team has established effective arrangements for assurance, internal audit and internal accountability. The leadership team espouses high standards of governance and internal control. The leadership team nurtures a culture of effective governance and robust internal control across the authority.	The leadership exhibit the Nolan principles of public life. There are Financial Procedure Rules which are subject to a full review on a 3-yearly basis, the last review was in 2018, these go to Audit Committee and then Full Council for approval. There are also separate Contract Procedure Rules, also subject to Audit Committee and Full Council approval. Both documents are clear about the respective authorisation limits for authorisation of contracts and the subsequent commitment/incurrence of expenditure. The Contract Procedure Rules are due to be refreshed in light of the Procurement Green Paper. The Council's Audit Committee has an independent member as well as Councillor representation. The committee considers all aspects of audit activity and the regulatory framework including corporate governance, as part of it's Terms of Reference. All Committees have separate Terms of Reference.

				There is a Code of Conduct for Members which is overseen by the Ethics and Engagement Committee and was last updated in January 2021. In addition there is a Code of Conduct for Officers. The authority has in place a clear framework for governance and internal controls through it's Code of Corporate Governance. There are effective arrangements for assurance, internal audit and internal accountability. Any areas of concern raised through those arrangements are managed robustly and transparently. The leadership team espouses high standards of governance and internal control and communicates these clearly to all staff. There is a culture of effective governance and robust internal control. Internal audit is used to bring focus to any areas of concern and to ensure that standards remain high. **ACTION REQUIRED: REVIEW OF FINANCIAL PROCEDURE RULES AND CONTRACT PROCEDURE RULES – MARCH 2022**
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).	22	The authority of aware of the provisions of the CIPFA Delivering Good Governance Framework. The authority has sought to apply the principles, behaviour and actions set out in the Framework to its own governance arrangements.	There is a strong internal audit function which produces reporting and recommendations across all functions. This is subject to external review every 5 years and the last review (2016) concluded that there were no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity, nor any significant areas of partial non-compliance". The next external review is due in 2021/22.

			The authority has in place a suitable code of governance.	The Council's Code of Corporate Governance, comprehensively reviewed in 2017, is refreshed annually. The last update took place in April 2019, with the 2020 review has been delayed due to the COVID-19 pandemic. A more comprehensive review will be undertaken in 2021 to take account of any potential longer-term changes arising from the impact of COVID-19. The Framework recommends that a local code of governance is developed and reported against annually. The Council's Annual Governance Statement details how the Council has complied with its own Code of Corporate Governance over the preceding year and meets the statutory requirements with areas of concern reported and monitored. Internal Audit have assessed their compliance against the Public Sector Internal Audit Standards and reported this Audit Committee in December 2018. The 2020 review has been delayed due to the COVID-19 pandemic and will now be reported in June 2021. The Head of Internal Audit (Internal Audit Manager) has also assessed themselves against the latest CIPFA document The Role of the Head of Internal Audit 2019, and is in line with the requirements. **ACTION REQUIRED:** **1. UNDERTAKE A COMPREHENSIVE REVEW OF THE CODE OF CORPORATE GOVERNANCE - JULY 2021** **2. UNDERTAKE EXTERNAL QUALITY ASSESSMENT OF INTERNAL AUDIT – MARCH 2022**

E	The financial management style of the authority supports financial sustainability	22/23	Strong financial management is assessed against a hierarchy of 1. delivering accountability, 2. supporting performance 3. enabling transformation. Need to perform well at each level before moving to the next. This is broadly linked to economy, efficiency and effectiveness.	Achieving stage 1 of the hierarchy. The Council has an effective framework of financial accountability through: • Member delegations which include financial responsibilities; • Officer delegations which include financial responsibilities; • Financial Procedure Rules which set out financial responsibilities for Directors, Assistant Directors Budget Managers and all employees of the Council and all Members. Achieving stage 2 of the hierarchy. The Council has an effective performance management framework in place including, performance measures, volumetric measures, customer satisfaction, monitoring of key strategic projects, quarterly performance reporting, quarterly dashboard across all aspects of performance within the VFM chain. The Finance Team have implemented a Finance Business Partnering approach, although full role out has been delayed due to the COVID-19 pandemic. Working towards stage 3 of the hierarchy. There are many examples of financial management supporting Transformation specifically in relation to key strategic projects, but further work required towards acting as an enabler. **ACTION REQUIRED: IMPLEMENTATION OF FINANCE BUSINESS PARTNERING ACTION PLAN – MARCH 2022**
Long to Medium Term Financial Management				

F	The authority has carried out a credible and transparent financial resilience assessment	26	The authority has undertaken a financial resilience assessment. That assessment tested the resilience of the authority’s financial plans to a broad range of alternative scenarios. The authority has taken appropriate action to address any risks identified as part of the assessment	The Council has reviewed the CIPFA Financial Resilience index and reviewed whether it is comfortable with the areas that the index flags as more concerning, given the specific natures of Lincoln as an authority. Reference is made to this in the MTFS. Areas highlighted as potential concerns in the latest published version of the CIPFA resilience index (this was based on data published in 2020, and has not yet been updated for the latest index published in February 2021 – it should though be noted this presented an improved position, albeit pre COVID-19) were reviewed deemed to not be a cause of concern. The Council had, as stated in the MTFS clear reasons for it’s use of reserves during the period covered by the index. There has not been an independent assessment of the local authority’s financial resilience other than the CIPFA index and the annual external audit. In the MTFS there are some illustrative figures about how changes in key assumptions about inflation, interest rates etc would impact on the budget, but these do not cover all key variables or the longer-term impact. The pre-cursor report to the main MTFS sets out more detail on the key variables and the impact of changes in the underlying budget assumptions. The MTFS also includes a financial risk register which is used as a guide to the maintenance of a prudent level of general balances. **ACTION REQUIRED – DEVELOPMENT OF MTFS 2022-2027 TO INCLUDE SPECIFC REFERENCE TO SCENARIO TESTING – JANUARY 2022**

G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	26	The authority has a sufficiently robust understanding of the risks to its financial sustainability. The authority has a strategic plan and long-term financial strategy that addresses adequately those risks. The authority reports effectively to the leadership team and to members its prospects for long-term financial sustainability, the associated risks and the impact of these for short- and medium-term decision making.	The Council produces a 5-year MTFS and a 30-year Housing Business Plan incorporating revenue and capital models using a range of assumptions for economic factors and service related factors. The current high levels of uncertainty around future funding for local government, and the legacy impacts of COVID-19, make producing a meaningful long term plan very challenging. This risk to financial planning is clearly set out in the MTFS and has been communicated to the Leadership Team and Members. The MTFS also includes a risk assessment of the key financial risks the Council faces over the 5-year period. The risks modelled include the level of inflation, the council tax base, the business rates base, pay inflation, interest rates as well as service income, housing rents/voids, and a range of capital implications e.g. cost overruns. The pre-cursor report to the main MTFS sets out in more detail changes in key variables since the development of the previous Strategy and the impact of these on the budget and likely budget gap. Further, more, detailed reports are provided to the Corporate Management Team as part of the budget development. The Council has a robust approach to risk management with Strategic and Directorate Risk Registers, with clear lines of escalation, supported by specific project and programme risk registers. The Council's Vision 2025 contains a range of projects and programmes, not all of which are financially resourced. The MTFS is very clear on this and specifically in relation to the larger scale capital

				investments emphasises the need to seek external partner contributions or grant support. In addition, the MTFS includes a specific earmarked reserve to support the roll out of some of the projects. **ACTION REQUIRED - NONE**
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	26/27	The authority is aware of its obligations under the Prudential Code. The authority has prepared a suitable capital strategy. The authority has a set of prudential indicators in line with the Prudential Code. The authority has suitable mechanisms for monitoring its performance against the prudential indicators that it has set.	The Council is aware of its obligations under the Prudential Code and has assessed itself as compliant with those obligations. Like the Financial Management Code, there are many areas of compliance where the guidance allows for the Council to decide what an appropriate fit is; and there is not a single way to be compliant. The Council has a 5- year Capital Strategy (The Code suggests up to 20 but the authority has judged that 5 years is a reasonable period over which to have meaningful plans) and within that prudential indicators are set in line with the Code. The Capital Strategy sets out the high level plans, with individual decisions made about investments or capital schemes through separate reports to members. The Council also has a 30-year Housing Business Plan which includes a 30-year capital investment programme. This plan is usually reviewed on a 3-5 year basis and is next due for a refresh in 2021. Individual financial modelling of capital schemes covers a longer term frame, typically over the asset life and is factored into investment decisions. There are effective mechanisms in place to monitor performance against the code, with 6-monthly reporting to the Performance Scrutiny Committee and the Executive on the performance against the

				prudential indicators which the Council has set for itself through the strategy. Previous commercial investments were undertaken in line with the Council's Commercial Property Investment Strategy and funded through prudential borrowing. In line with updated requirements the Council has no plans for further debt for yield schemes. **ACTION REQUIRED – ASSESS IMPLICATIONS OF ARISING FROM CHANGES IN THE PRUDENTIAL CODE (ONCE CONSULTATION COMPLETED) – DEPENDENT ON FINAL PUBLICATION**
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans	27	The authority has in place an agreed medium term financial plan. The medium-term financial plan consistent with and integrated into relevant service plans and its capital strategy. The medium-term financial plan has been prepared on the basis of a robust assessment of the relevant drivers of cost and demand. The medium-term financial plan has been tested for resilience against realistic potential variations in key drivers of cost and demand.	The Council has in place an agreed 5-year MTFS. This plan is consistent with the capital strategy and refreshed annually to reflect relevant strategic priorities, commitments, underlying assumptions and emergent issues and to agree future savings targets. This ensures that the Council always has a 5-year balanced budget, allowing for sufficient time to time to plan and deliver any required savings. The development of service budgets is Directorate led. Cost drivers and demand are considered within each directorate and used to form the basis of pressures identified and mitigations/savings put forward. The detail of the analysis of cost drivers is not contained specifically in the MTFS but forms part of the internal budget setting process, though reference is made to particularly large changes in the narrative and in the financial planning report seen as the pre-cursor to the main MTFS. The MTFS is the best assessment of each Directorate of what their demand pressures will be.

				Although the plan is set on a rolling 5-year basis, there is the opportunity annually to revisit plans where the latest data indicates that there have been material changes to assumptions, as demonstrated in recent years. The Council undertakes an annual service plan process at an Assistant Director level (although the process for 2020/21 was not fully completed due to COVID-19). These service plans are driven by to both the Council's Vision (Annual Delivery Plans) and the MTFS in terms of the delivery of key projects but also into the MTFS in relation to specific savings programme required to be delivered. **ACTION REQUIRED - NONE**
The Annual Budget				
J	The authority complies with its statutory obligations in respect of the budget setting process	29	The authority is aware of its statutory obligations in respect of the budget-setting process. The authority has set a balanced budget for the current year. The authority is likely to be able to set a balanced budget for the forthcoming year. The authority is aware of the circumstances under which it should issue a Section 114 notice and how it would go about doing so.	The Council understands its obligation in respect of the budget-setting process and has set a balanced budget for the current year, and the four following years. The Council's MTFS process is designed to deliver a full five- year balanced budget each year. The authority is aware of the circumstances under which it should issue a section 114 notice and how it would go about doing so. This includes latest guidance issued by CIPFA in light of COVID-19. **ACTION REQUIRED - NONE**
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on	29/30	The authority's most recent budget report includes a statement by the CFO on the robustness of the estimates and a statement of	The most recent budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.

	the adequacy of the proposed financial reserves.		the adequacy of the proposed financial reserves. The report accurately identifies and considers the most significant estimates used to prepare the budget, the potential for these estimates to be incorrect and the impact should this be the case. The authority has sufficient reserves to ensure its financial sustainability for the foreseeable future. The report sets out the current level of the authority's reserves, whether these are sufficient to ensure the authority's ongoing financial sustainability and the action that the authority is taking to address any shortfall.	The budget report sets out the detail of estimates in terms of key estimates e.g. business rates, council tax grants, housing rents, specific grans, fees and charges etc. It does not set out specific service assumption details and the impact of variations in those. The Council currently has sufficient reserves, which ensures its sustainability for the foreseeable future. This position has though been impacted by COVID-19 with the required use of reserves (earmarked and general balances in 2022/23 and 2023/24) whilst a savings programme is delivered. These reserves include general balances as well as a Vision 2025 reserve, Invest to Save reserve and Business Rates Volatility reserve. Reserve and the Business Rates Windfall Reserve. The authority has a prudent approach to what is needed to manage risks. The report sets out the current level of the authority's reserves, the sufficiency of them and the plans for the use of reserves in the future and a requirement to ensure reserves are replenished over the period of the MTFS through achievement of the savings programme. **ACTION REQUIRED - NONE**
Stakeholder Engagement and Business Plans				
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget.	31	The authority knows who its key stakeholders are. The authority has sought to engage with key stakeholders in developing its long-term financial strategy, its medium term financial plan and its annual budget.	The Council is aware of who its key stakeholders are. The Council does limited formal engagement with residents on its medium term financial strategy and annual budget, other than online, with limited public response. There is engagement with representatives of local businesses on an annual basis (although limited at present due to COVID-19).

			The authority has assessed the effectiveness of this engagement. The authority has a plan to improvement its engagement with key stakeholders.	The Council's view is that widespread engagement with the public on council spending is hard for residents to engage with in a meaningful way, and is not effective in influencing the budget plans. Engagement is therefore focussed on development of the Council's Vision document through consultation with residents, businesses and other organisations with a stake in the city. Engagement with residents/service users is conducted in line with individual service changes proposed within the budget, as part of the development and delivery of those proposals, rather than detailed engagement on the whole budget. This allows the engagement to be more targeted to affected groups and ensures that the engagement is meaningful. **ACTION REQUIRED – CONSIDER POTENTIAL TO USE CITIZENS PANEL OR WIDER E-PANEL FOR CONSULTATION ON BUDGET PROPOSALS – DECEMBER 2021**
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	31/32	The authority has a documented option appraisal methodology that is consistent with the guidance set out in IFAC/PAIB publication 'Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal'. The authority offers guidance to officers as to when an option appraisal should be undertaken. The authority's approach to option appraisal includes appropriate techniques for the	The Council does not currently have a consistent process for undertaking and documenting option appraisals. These are undertaken on a case-by-case basis, influenced by the scale of investment and also the requirements of external funders, e.g. green book requirements. For all projects these covers as a minimum the 5-year MTFS period and for larger scale investment these are usually based on a whole life cycle basis. In considering a number of development projects the Council also undertakes a development appraisal from a commercial developer perspective to assess overall

			qualitative and quantitative assessment of options. The authority's approach to option appraisal includes suitable mechanisms to address risk and uncertainty. The authority reports the results of option appraisals in a clear, robust and informative manner that gives clear recommendations and outlines the risk associated with any preferred option(s).	scheme viability, as well as financial modelling from a LA perspective. Senior members of the Finance Team are involved in the preparation of all financial modelling with key input from the service area leading on delivery. Property Services and the Major Developments Team also play a key role in the development of scheme viability assessments and external support is also commissioned as required. The Council's project management framework is clear that that there are no major investments or service changes without developing a business case including an options appraisal and project initiation documents. These are reviewed and managed through DMTs and project/ programme/ visions boards, and ultimately inform decision making reports to members. These contain both quantitative evaluation of costs and benefits and qualitative evaluation of fit to service objectives and outcomes for residents/service users. The project documentation includes an evaluation of risk and uncertainty and the extent that this can be mitigated for given options. Reports for decision set out the outcomes of these business case/option appraisals with clear recommendations and risk. Risks from agreed options are then managed through the corporate risk management approach. **ACTION REQUIRED – NONE**
Monitoring Financial Performance				

N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial	33	The authority provides the leadership team with an appropriate suite of reports that allow it to identify and to correct emerging risks to its budget strategy and financial sustainability. The reports cover both forward- and backward looking information in respect of financial and operational performance. There are mechanisms in place to report the performance of the authority's significant delivery partnerships. The reports are provided to the leadership team in a timely manner and in a suitable format. The leadership team is happy with the reports that it receives and with its ability to use these reports to take appropriate action	Quarterly financial monitoring reports are provided to Directorate Management Teams, Corporate Management Team, Performance Scrutiny and the Executive, which identify significant variances and corrective actions being taken. The reports cover the position to date and the forecast for the remainder of the financial year. It also includes progress against savings targets and planned use of/contributions to earmarked reserves. Quarterly reporting is also provided in respect of the Council's basket of key operational performance indicators. Reporting to officers is periodically 1-month after the quarter end with reporting to Members in the following two weeks, which creates a time lag. Financial information, forecasts are available on a more regular basis and accessible by budget managers, this would highlight significant variances earlier. Services will compile performance information on a more regular basis and where relevant highlight the impacts of these. There are mechanisms established to report the performance of the authority's significant delivery Partnerships. However, these are not yet operating sufficiently. The register and assurance process will be reviewed again in early 2021/22. The leadership team are happy with the reports it receives and with its ability to use these reports to take appropriate action. **ACTION REQUIRED – THE PARTNERSHIP REGISTER AND ASSURANCE PROCESS TO BE REVIEWD AND SIGNIFICANT PARTNERSHIPS TO**

				BE REPORTED TO MEMBERS AS PER COMMITTEE TOR – SEPTEMBER 2021
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	33	The authority has identified the elements of its balance sheet that are most critical to its financial sustainability. The authority has put in place suitable mechanisms to monitor the risk associated with these critical elements of its balance sheet. The authority is taking action to mitigate the risk identified. The authority reports unplanned use of its reserves to the leadership team in a timely manner. The monitoring of balance sheet risks is integrated into the authority's management accounts reporting processes.	The Council has historically considered its reserves position, investments and borrowing, and debt levels as most critical and therefore reporting is currently only made on these elements of the balance sheet. Forecast use/contribution of/to reserves is reported on a quarterly basis to the Corporate Management Team, Performance Scrutiny and the Executive. This highlights any changes to planned use/contribution to balances as well as movements in budgeted contributions to/from earmarked reserves. This then feeds into any MTFS refresh, along with intelligence about key risks. Borrowing and investments are reported to Performance Scrutiny Committee and the Executive on a 6-monthly basis as part of the Treasury Management reporting. Prudential Code requirements are adhered too to provide the risk management of treasury activity. The level of arrears for Council Tax, Business Rates, Housing Benefit Overpayments and Former Tennant Arrears are reported to the Performance Scrutiny Committee on an annual basis. In addition, key service areas are provided with arrears information as part of account management meetings. Housing Rent arrears are reported to Performance Scrutiny and the Executive on a quarterly basis. Other assets and liabilities are not routinely reported on.

				Officers are currently reviewing if other major balance sheet items can be made more visible in quarterly financial reporting. **ACTION REQUIRED - CONSIDER IF OTHER MAJOR BALANCE SHEET ITEMS CAN BE MADE MORE VISIBLE IN QUARTERLY FINANCIAL REPORTING – MARCH 2022**
External Financial Reporting				
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom	35	The authority’s leadership team is aware of the CFO’s responsibilities in terms of the preparation of the annual financial statements. The authority’s CFO is aware of their responsibilities in terms of the preparation of the annual financial statements. These responsibilities are included in the CFO’s role description, personal objectives and other relevant performance management mechanisms. The authority’s financial statements have hitherto been prepared on time and in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.	The authority’s leadership team and the CFO are aware of the CFO’s responsibilities in terms of the preparation of the annual financial statements. These responsibilities form part of the CFO’s role description and personal objectives. The authority’s financial statements have been prepared on time and in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom, and have been consistently given an unqualified opinion by external auditors. **ACTION REQUIRED - NONE**
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions		The authority’s leadership team is provided with a suitable suite of reports on the authority’s financial outturn and on significant variations from budget. The information in these reports is presented effectively.	The presentation of the final outturn position to the Corporate Management Team and Executive compares the outturn to the revised budget and explains the reasons for any key variances from budget. The report sets out the impact of these variances on general balances and earmarked reserves and makes proposals for further contributions to/or from these.

			These reports are focused on information that is of interest and relevance to the leadership team. The leadership team feels that the reports support it in making strategic financial decisions.	The report also sets out the impact of key variances on the MTFS/future years budgets and any mitigating action being taken. These reports focus on material issues, which require action or awareness from the leadership team and therefore are appropriately focused. The leadership team agreed that the reports support it in making strategic financial decisions. **ACTION REQUIRED – NONE**

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Item No. 13

AUDIT COMMITTEE **23 MARCH 2021**

SUBJECT:	**MONEY LAUNDERING POLICY**
DIRECTORATE:	**CHIEF EXECUTIVE**
REPORT AUTHOR:	**AUDIT MANAGER**

1. Purpose of Report

1.1 To obtain comments on and approve the updated Anti-Money Laundering policy.

2. Executive Summary

2.1 The Council's Anti-Money Laundering policy was last updated in 2018 and the latest version provides some minor updates.

3. Background

3.1 Whilst local authorities aren't specifically covered by the money laundering regulations, it is good practice to adopt a suitable policy and ensure that the main requirements are adhered to, including reporting suspected cases of money laundering.

4. Changes to the policy

4.1 There are a few minor changes to the policy, which just provides some additional clarification for policy users and the policy also refers to the latest Money Laundering Regulations 2019 (MLR 2019).

4.2. The MLR 2019 changes include various new requirements including:

- an expanded definition of "tax advisers" that come within scope of the Regulations.
- additional requirements relating to Customer Due Diligence checks; and
- a new requirement to report discrepancies on the register at Companies House.

4.3. The policy also includes

- more detail on the types of activities that are regulated
- further guidance on customer due diligence checks
- further details on some of the new 2019 regulations
- further guidance on possible signs of Money Laundering

5. Organisational Impacts

5.1 Finance (including whole life costs where applicable)

There are no direct financial implications.

5.2 Legal Implications including Procurement Rules

There are no direct legal implications

6 Recommendation

6.1 That the Audit Committee review and approve the latest version of the policy.

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

Anti-Money Laundering Policy Statement and Procedures

Version Control

Owner / Policy Lead Officer	Carolyn Wheater
Location	City Hall, Beaumont Fee, Lincoln
Consultation	Audit Committee / Executive
Date	February 2021
Review Arrangements	Every two years (Owner/Policy Lead Officer and Audit Committee)

Introduction

City of Lincoln Council is committed to prevent the Council and its employees being exposed to money laundering, to identify the risks where it may occur, and to comply with legal and regulatory requirements, especially with regards to reporting suspected cases.

Key Message

The key message of this Policy is that if you suspect that money laundering activity may be taking place or proposed in relation to anything you are dealing with you should immediately disclose those suspicions to the Council's Money Laundering Reporting Officer. If the suspicion involves a proposed transaction (e.g. the sale of property or a significant cash receipt) you should not proceed with the transaction without approval from the Money Laundering Reporting Officer You should defer the transaction in such a way as not to alert anyone else to your suspicions. If you believe you cannot reasonably do so, you should immediately contact the Money Laundering Reporting Officer or the Council's Monitoring Officer (see below for contact details). There are two forms to complete (Appendix A and B depending on circumstances) but in the first instance you should contact the deputy MLRO for advice.

Key Points

- The Council is committed to the prevention, detection and reporting of money laundering
- All employees should be vigilant for signs of money laundering
- An employee who suspects money laundering activity should report this promptly to the Money Laundering Reporting Officer **(Use form Appendix B)**
- The Council will not accept payments in cash that exceed £2,000.

Although Local Authorities are not legally obliged to apply the Money Laundering Regulations 2007 (as amended by the Money Laundering (Amendment) Regulations 2012 and updated by the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 and 2019 (the regulations), the Council is bound by the provisions of the Proceeds of Crime Act 2002 and the Terrorism Act 2000 (as amended by the Anti-Terrorism and Security Act 2001 and the Terrorism Act 2006 and the Counter-Terrorism Act 2008). It is good practice to comply with the main measures of the Regulations as part of corporate governance arrangements. As such this policy ensures compliance.

The Sanctions and Anti-Money Laundering Act 2018 is also now law and enables the UK to maintain the status quo after it leaves the EU in the areas of sanctions and anti-money laundering

On 10 January 2020, the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulation 2017 were updated by the Money Laundering and Terrorist Financing (Amendment) Regulations 2019. The Amendment Regulations contain changes brought in by the EU's Fifth Money Laundering Directive. The MLR 2019 ensures that arrangements continue as we leave the EU.

The changes include various new requirements including:

- an expanded definition of "tax advisers" that come within scope of the Regulations;
- additional requirements relating to Customer Due Diligence checks; and
- a new requirement to report discrepancies on the register at Companies House.

The new regulations affect existing "regulated" businesses; some of the broader requirements are included within this policy.

What is money laundering?

There are two main types of offences which may be committed:

- Money laundering offences.
- Failure to report money laundering offences.

The main types of money laundering offences are:

- Acquiring, using or possessing criminal property,
- Handling the proceeds of crimes such as theft, fraud and tax evasion,
- Being knowingly involved in any way with criminal or terrorist property,
- Entering into arrangements to facilitate laundering criminal or terrorist property
- Investing the proceeds of crime in other financial products

- Investing the proceeds of crimes through the acquisition of property/assets
- Transferring criminal property.

Money laundering is the process where criminals attempt to hide and change the true identity of the proceeds of their crime so that they appear legitimate. The various stages are termed placement, layering and integration:

- placement – 'dirty money' is placed directly into the financial system

- layering – the proceeds are then moved through a series of financial transactions, making it harder to establish their origin

- integration – the money launderer creates a legitimate explanation for the source of the funds allowing them to be retained, invested into the legitimate economy or to acquire assets

A person commits a criminal offence under the Proceeds of Crime Act 2002 by:

- Section 327: concealing, disguising, converting, transferring criminal property or removing it from the UK

- Section 328: entering into or becoming concerned in an arrangement which he/she knows or suspects facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person

- Section 329: acquiring, using or possessing criminal property

Criminal property is any property which is or represents benefit from criminal conduct.

Criminal conduct is any conduct constituting a criminal offence in the UK[1] and includes for example tax evasion, fraudulent expenses and benefits claims.

The money laundering offences are aimed by legislators at criminals and their associates, but any person can be caught by the offences if they suspect money laundering and either become involved with it in some way or do nothing about it. It is not necessary to have benefitted in any way to be guilty of the offences.

The key requirement for Council employees is to promptly report (Sec 337 Disclosure) any suspected money laundering activity to the Council's Money Laundering Reporting Officer.

While the risk to the Council of contravening the legislation is low, it is important that all employees are familiar with their responsibilities; serious criminal sanctions can be imposed for breaches of the legislation.

[1] It therefore includes an act committed outside the UK but which, if it took place in the UK would be a criminal offence

The Money Laundering Regulations require appropriate systems of internal control to prevent money laundering and terrorist financing. There must be management controls in place to help identify possible attempts to launder money or fund terrorism, so that appropriate action to prevent or report it can be taken.

Systems of internal control should help identify unusual or suspicious transactions or customer activity and should include:

- Identification of relevant responsibilities under this Protocol.
- Provision of information to relevant persons on suspected money laundering and terrorist financing risks
- Training of relevant employees on the legal and regulatory responsibilities for money laundering and terrorist financing controls and measures
- Measures to ensure that money laundering and terrorist financing risks are taken into account in the day to day operations of the organisation.

Scope

This Policy applies to all employees of the Council and sets out the required procedures which should be followed for reporting suspicions of money laundering activity to enable the Council to comply with its legal obligations.

This Policy is consistent with all other Council policies including the Counter Fraud Policy and the Whistle-blowing Policy.

Failure by an employee to comply with the procedures set out in this Policy may lead to disciplinary action being taken against them.

The Money Laundering Reporting Officer (MLRO)

The nominated Disclosure Officer (MLRO) in the City Council is:

Angela Andrews
Chief Executive
City of Lincoln Council
City Hall
Beaumont Fee
Lincoln
LN1 1DB
Tel: 01522 873292
E-mail: angela.andrews@lincoln.gov.uk

The authorised Deputies are:

Carolyn Wheater
City Solicitor
Telephone 01522 873323
E-mail: carolyn.wheater@Lincoln.gov.uk

Jaclyn Gibson
Chief Finance Officer
Telephone 01522 873323
E-mail: jaclyn.gibson@Lincoln.gov.uk

The Legal Section is available to give advice as required.

Reporting Procedures

Protected Disclosure

Section 337 of the Proceeds of Crime Act 2000 protects employees from liability under any other legislation (e.g. Data Protection Act) when they report suspected money laundering. The conditions are that the information or other matter:

- came to his/her notice in the course of their trade, profession, business or employment and
- causes him/her to know or suspect or gives reasonable ground to know or suspect that another person is engaged in money laundering and
- the disclosure is made to a constable, a customs officer or the nominated MLRO

Any employee who knows or has reasonable grounds to suspect that any person is engaged in money laundering activity should report their suspicion immediately to the MLRO or her Deputy.

The only exception to this rule is if the employee is a professional legal adviser and the information has come to their attention in privileged circumstances in which case the employee should report the matter immediately to the City Solicitor. The City Solicitor will promptly evaluate any disclosure to determine if it should be reported to the MLRO.

When reporting to the MLRO include details of:

a) Full details of the people involved e.g. name, date of birth, address, company names, directorships, phone numbers, etc.
b) Full details of their / your involvement:
c) The types of money laundering activity involved
d) The dates of such activities
e) Whether the transactions have happened, are ongoing or are imminent
f) Where they took place
g) How they are undertaken
h) The (likely) amount of money / assets involved
i) Why, exactly, you are suspicious

You should also enclose copies of any supporting documentation.

The employee must follow any subsequent directions of the MLRO. No further enquiries into the matter or any further steps in any related transaction may be taken without authorisation from the MLRO. Under no circumstances should you voice any suspicions to the person(s) you suspect of money laundering.

The MLRO will consider the need for disclosure, based on the facts as well as any consent from NCA to any ongoing or imminent transactions. Details of any liaison with the NCA will be recorded.

The MLRO must promptly report[2] the disclosure to the National Crime Agency (NCA) via the NCA website at [http://www.nationalcrimeagency.gov.uk.gov.uk/.](http://www.nationalcrimeagency.gov.uk.gov.uk/)

Proposed transactions

When a Section 337 disclosure concerns a proposed act or transaction that is a suspected offence under sections 327 – 329, anyone, knowing or suspecting money laundering who is then involved in the act or transaction is guilty of the same criminal offence unless:

- He / She has made a Section 337 Disclosure and
- appropriate consent has been given

After the MLRO has made the disclosure to NCA, they will inform within 7 days if appropriate consent is given for the act or transaction to proceed. If after 7 days NCA do not contact the MLRO, appropriate consent is deemed to be given.

All instructions from NCA (or relevant law enforcement agency) issued at any time following a Section 337 Disclosure must be followed.

Prejudicing an Investigation

A Section 337 disclosure is strictly confidential. There must be no disclosure or other indication to the person suspected of money laundering. The matter must not be discussed with anyone else or any action taken that may jeopardise confidentiality that a report has been made to the MLRO. Notes must not be made on client files or records that a disclosure has been made.

Any documentation or evidence concerned with the disclosure should be retained in original form for any subsequent money laundering investigation.

Failure to comply with these requirements could amount to a criminal offence of Prejudicing an Investigation. Section 342 – if a person:

- makes a disclosure (to any other person) likely to prejudice the investigation

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[2] It is a Criminal Offence - Section 332 – for the MLRO to fail to disclose to NCA unless he / she has a reasonable excuse for not doing so. A preliminary evaluation which establishes that money laundering is not or has not taken place is a reasonable excuse.

- falsifies, conceals, destroys or otherwise disposes of or permits the falsification, concealment, destruction or disposal of documents which are relevant to the investigation

If any disciplinary action is proposed HR must be informed.

General Procedures

Cash payments

No payment to the Council will be accepted in cash if it exceeds £2,000. Cash is defined as including notes, coins or travellers' cheques in any currency. If officers wish to accept amounts greater than this, then prior approval is required from the MLRO or Deputy. A standard form must be completed. (Form attached Appendix A)

- Cash payments between £1,000 and £2,000 can be accepted through the relevant Assistant Director or Manager. Officers should be satisfied as to the identity of the individual concerned. Be vigilant to any regular cash payments of this size which together exceed £2,000.

Identification of new Clients and Due Diligence

Employees should be wary of situations where funds flow through the authority from sources with which it is not familiar. Where the authority is forming a new business relationship and/or is considering undertaking a significant one-off transaction with a new client, evidence of the identity of the prospective client should be obtained before proceeding.

The money laundering policy and guidelines should also be considered in context of the Council's existing customer identification procedures which are well established in several service areas.

The Council does undertake activities that may be considered, under the Money Laundering Regulations, to be regulated, however it does not undertake these activities "by way of business", and therefore would not normally be expected to undertake due diligence in respect of any clients to whom it provides these services. The types of activities that are regulated are:

- Credit and Financial institutions,
- Legal, Auditors, Accountants and Tax Advisers,
- Trust of Company service providers
- Estate Agents
- Casinos,
- High value dealers i.e. dealing in goods of any description whenever a transaction involves accepting a total cash payment of more than €10,000

However, it is good practice that wherever the Council does enter into such activities with a third party then due diligence checks should be actioned before the establishment of a relationship/transaction with the third party.

Undertaking customer due diligence checks can take a number of forms. HM Revenues and Customs have issued "core guidance" in this area. Consideration should be given to taking one or more of the following, where applicable:

- Confirming the identity of the client via documentation, data or information obtained from a reliable and independent source, e.g. passport, and/or position within an organisation, where appropriate.
- Obtaining confirmation from Companies House as to the registration details of the Company and details of the Company business.
- Seeking electronic verification, e.g. performing credit checks.
- Obtaining confirmation to regulated industries bodies (e.g. in the case of accountants, checking to CCAB certified bodies).
- Requesting copies of financial statements.
- Requesting details of interests and beneficial ownerships – with reference to the latter this is any individual who holds more than 25% of the shares, voting rights or interest in a company, partnership or trust.
- Obtaining information on the purpose and intended nature of the business relationship.

Examples of other available internal information that may be considered relevant are:

- Reviewing other transaction patterns and volumes
- The length of any business relationship involved
- The number of any one-off transactions and linked one-off transactions
- Any identification evidence held

It is good practice to have either:

- one government document which verifies either name and address or name and date of birth or

- a government document which verifies their full name and another supporting document which verifies their name and either their date of birth or address

Where it is not possible to obtain such documents consider the reliability of other sources and the risks associated with the client.

Where the new client is not present or a third party is acting in their absence, additional evidence of identity should be sought to verify the client's credentials.

Additional due diligence requirements for Finance and Legal employees.

In addition to the disclosure procedure referred to above, those employees providing certain financial and legal services (i.e. “relevant business”) must also comply with the customer identification procedure, ‘due diligence’ and the record keeping procedures.

Where a client transaction is being processed through a third party legal or financial firm, the Council can place reliance on that firms due diligence procedures in relation to money laundering. The Council will need to undertake the appropriate client identification procedure. For example you may rely on due diligence undertaken by those regulated by the FSA or supervised by a listed professional regulator e.g. the Solicitors Regulation Authority.

There are various levels of ‘due diligence’

The Regulations require due diligence to be carried out on a risk sensitive basis, so that:

- ‘Simplified due diligence’ is required where there is a low risk of money laundering. For example, if a company is listed on the stock exchange a company search and evidence of the listing would suffice;

- ‘Enhanced due diligence’ for those with a high-risk status, for example remote transactions where the customer is not physically present to be identified would require additional appropriate documents to be requested

- The ‘beneficial owner’, the individual that ultimately owns or controls the customer or on whose behalf a transaction or activity is being conducted, should be identified

- The business relationship should be scrutinised throughout its existence and not just at the beginning.

Some of the new 2019 regulations that should be noted around due diligence include:

- Regulation 19 (2019) means that (relevant) businesses need to carry out a money laundering risk assessment of new products, business practices, or technologies before they implement them. For Councils it is useful to consider the risks of money laundering on any new services.

- regulation 30(a) sets out a requirement to check trust and company beneficial ownership registers before establishing a business relationship, and to report any discrepancies found to companies house

- regulation 33 sets out requirements to apply enhanced due diligence, explains what a ‘relevant person’ is, and what ‘being established’ means

In all cases, where due diligence is required, evidence of the customer identification and record of the relationship/transaction should be retained for at least five years from the end of the business relationship of transaction(s). The records that must be kept are:

- A copy of, or references to, the evidence of the identity obtained under the customer due diligence requirements in the Regulations,
- The supporting evidence and records in respect of the business relationships and occasional transactions which are the subject of customer due diligence measures or ongoing monitoring,
- A copy of the identification documents accepted, and verification evidence obtained,
- References to the evidence of identity,
- Transaction and business relationship records should be maintained in a form from which a satisfactory audit trail may be compiled, and which may establish a financial profile of any suspect account or customer.

If satisfactory evidence of identity is not obtained at the outset of the matter, then the business relationship or one-off transaction(s) cannot proceed any further.

The customer identification procedure **must** be carried out when the Council is carrying out ‘relevant business’ and:

- Forms a business partnership with a customer,
- Undertakes a one-off transaction (including a property transaction or payment of a debt) involving payment by or to a customer of 15,000 Euro (approximately £12,000) or more,
- Undertakes a series of linked one-off transactions involving total payment by or to the customer(s) of 15,000 Euro (approximately £12,000) or more,
- It is known or suspected that a one-off transaction, or a series of them, involves money laundering.

This must be completed before any business is undertaken for that customer in relation to accountancy, procurement, audit and legal services with a financial or real estate transaction.

In the above circumstances, employees must:

- Identify the person seeking to form the business relationship or conduct the transaction (an individual or company),
- Verify their identity using reliable, independent sources of information,
- Identify who benefits from the transaction,
- Monitor transactions to make sure they are consistent with what you understand about that person or country
- Understand the source of their funds,
- Ensure there is a logical reason why they would want to do business with the Council.

This applies to existing customers, as well as new ones, but identification evidence is not required for matters entered into prior to 1 March 2004

In relation to external bodies the MLRO will maintain a central file of general client identification evidence regarding the external organisations to which Finance and Legal Services provide professional services.

Details of due diligence checks (where these are undertaken) should be recorded (Appendix C provides a template) and retained for a minimum of 6 years, with an electronic copy of every customer due diligence record being retained by the client department and the MLRO to meet the requirements of the regulations and in case of inspection by the relevant supervising body.

The records need to be maintained in a format where they can be easily recovered by the client department

Any checks undertaken should remain proportionate to the risks of the individual business and the relationship. Under Money Laundering Regulations, businesses should undertake a risk based approach to “customer due diligence". Risks must be assessed before the appropriate level of due diligence can be applied. Additional checking may need to be performed if the person is not physically present to be identified, or they are politically exposed, by virtue of holding a prominent public function.

The amount of due diligence required is linked to the type and value of transaction being undertaken, however services need to know the identity of the individual they are dealing with and where their funds are coming from. The process of “knowing your customer” (KYC) is also fundamental in ensuring that the Council can comply with the data protection legislation.

Most areas of the Council currently have in place adequate processes to ensure that they know their customers. There is enhanced checking in key areas such as property transactions, benefits claims, employment checking, and council house tenancies as well as several other areas.

There is also now an ongoing legal obligation to check the identity of existing clients and the nature and purpose of the business relationship with them at appropriate times. One option to review these matters might be to do so as part of the ongoing monitoring of the business arrangements, as is usually provided for in the Terms of Business Letter, Service Level Agreement or other written record, as well as scrutinising transactions as they occur, paying particular attention to complex or unusually large transactions, unusual patterns of transactions and/or unexpected transactions, etc.

Possible signs of Money Laundering

It is not possible to give a prescriptive guide to spot money laundering, but the following signs might raise concern:

- concerns about honesty, integrity, identity or location of the client
    - New customers with high value transactions such as selling property to individuals or businesses, renting out property to individuals or businesses, entering into other lease agreements, undertaking services for other organisations.
- Customers who we think are acting dishonestly or illegally such as people paying for Council services who do not provide details about themselves or people making odd or unusual requests for payment arrangements
- secretive e.g. refuses to provide information without a reasonable explanation.
    - Housing benefit claimants who have sums of money entering into / out of their bank account (even if we do not award them benefit, we should still consider money laundering implications)
    - People buying or renting property from the Council who may not want to say what it is for
    - People receiving grant funding who refuse to demonstrate what funding was used for
- attempt a payment of substantial sum of cash (see limits) for example large debt arrears paid in cash
- Payment of lower cash sums where cash is not the normal means of payment,
- transaction which appears uneconomic, inefficient or irrational
- illogical third-party transactions – unnecessary routing of funds from third parties or through third party accounts
- requests for the Council to pay seemingly unconnected third parties in respect of goods / services provided to the Council
- illogical involvement of unconnected third-party funds - receipt of business payments (rent, business rates) in settlement from seemingly unconnected third parties instructions for payments to an unexpected source/third party
- no payment demanded even though good / service has been provided
- significant overpayments and subsequent request for refund
- refunds following the cancellation or reversal of an earlier transaction
- no obvious legitimate source of funds
- unusual request for client account details
- poor business records or internal accounting controls
- In respect of property transactions, i.e. where we receive a payment in for a property, money should only be accepted from a conveyancers/ solicitor's bank account and not from persons directly
- However, this does not include payment of legal fees, which can be received directly from an individual
- sudden and unexpected termination of lease agreements
- Movement of funds overseas, particularly to a higher risk country or tax haven, requests for the Council to pay in foreign currencies or overseas for no apparent reasons
- Unusual transactions or ways of conducting business, without reasonable explanation,
- requests to purchase Council assets / land with no apparent purpose
- requests to rent Council property with no apparent business motive

- Requests for release of customer account details other than in the normal course of business,
- Transactions at substantially above or below fair market values, or tender for a contract which is suspiciously low
- Poor business records or internal accounting controls,
- A previous transaction for the same customer which has been, or should have been, reported to the MLRO,
- Lack of 'traceability' of persons involved,
- Individuals and companies that are insolvent yet have funds.
- Queries from other companies regarding legitimacy of customers
- Council receiving correspondence / information on behalf of other companies
- Requests for grant funding / business support indicates third party not supported by financial information
- Companies tendering for contracts unable to provide proper financial information / information provided raises concerns
- Property transactions where the Council is dealing with several different parties

Guidance and Training

In support of the policy and procedure, the Council aims to:

- make all employees aware of the requirements and obligations placed on the Council and on themselves as individuals by the anti-money laundering legislation and
- give training to those most likely to encounter money laundering
- provide specific due diligence guidance
- provide guidance relating to the consideration of disclosure by the MLRO

Further Information

Further information can be obtained from the MLRO and the following sources:

- www.nationalcrimeagency.gov.uk
- "Combating Financial Crime" – CIPFA
- www.opsi.gov.uk (Home Office) –Money Laundering Regulations 2007 (as amended by the Money Laundering (Amendment) Regulations 2012) The Proceeds of Crime Act 2002 (as amended by the Serious Organised Crime and Police Act 2005) and the Terrorism Act 2000 (As amended by the anti-terrorism, crime and security Act 2001)

Appendix A

Anti-Money Laundering Approval form – cash payments in excess of £2000

Required Information	**Responses (to be filled in by an Officer)**
Name and address of person attending City Hall	
Date attending	
Name and address of person the payment relates to (and account numbers)	
Value £	
Purpose of payment	
Reason for cash payment	
I confirm that relevant identification checks have been completed	Officer Name: Yes/No (delete as applicable)
Approval sought from the MLRO (or deputy)	Yes/No (delete as applicable)
Name (MLRO)	
Date	
Agreed / Not agreed	Agreed / Not agreed (delete as applicable)

Copy to be retained in Directorate and a copy provided to Carolyn Wheater.

Appendix B

Confidential

Report to Money Laundering Reporting Officer **regarding money laundering**

Reporting Officer

From: ………………………………………….
[insert name of employee]

Directorate: Ext/Tel No:

Details of suspected offence:

Name(s) and address(es) of person(s) involved:
[if a company/public body please include details of nature of business]

Nature, whereabouts, value and timing of activity/property involved:
[Please include full details eg what, when, where, how. Please also include details of current whereabouts of the laundered property, so far as you are aware. Continue on a separate sheet if necessary]

Nature of suspicions regarding such activity:
[Please continue on a separate sheet if necessary]

Has any investigation been undertaken (as far as you are aware)?
[Please circle]

Yes / No

If yes, please include details below:

Have you discussed your suspicions with anyone else?
[Please circle]
Yes /No

If yes, please specify below, explaining why such discussion was necessary:

Have you consulted any supervisory body guidance re money laundering? (e.g. the Law Society) *[Please circle]*
Yes/ No

If yes, please specify below:

Do you feel you have a reasonable excuse for not disclosing the matter to NCA? (e.g. are you a lawyer and wish to claim legal professional privilege?)
[Please circle]

Yes/No

If yes, please set out full details below:

Are you involved in a transaction which might be a prohibited act (under sections 327- 329 of the 2002 Act or section 18 of the 2000 Act) and which requires appropriate consent from NCA?
[Please circle]

Yes/No

If yes, please enclose details below:

Please set out below any other information you feel is relevant:

Signed:………………………………………… **Dated**:…………………………………

Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence, which carries a maximum penalty of 5 years' imprisonment.

The following part of this form is for completion by the MLRO

Date report received: ……………………………………………

Date receipt of report acknowledged:

………………………………….

Consideration of Disclosure:
Action plan:

Outcome of consideration of disclosure:

Are there reasonable grounds for suspecting money laundering activity?

Do you know the identity of the alleged money launderer or the whereabouts of the property concerned?

If there are reasonable grounds for suspicion, will a report be **made to NCA?** *[Please circle]*

Yes / No

If yes, please confirm date of report to NCA:

……………………………..

and complete the points below:

Details of liaison with NCA regarding the report:

Notice Period: ……..……………………….. to ………………………..

Moratorium Period: …………………….. to ……………………..…

Is consent required from NCA to any ongoing or imminent transactions which would otherwise be prohibited acts?

Yes/No

If yes, please confirm full details below

Date consent received from NCA:……………………………..

Date consent given by you to employee:………………………

If there are reasonable grounds to suspect money laundering, but you do not intend to report the matter to NCA, please set out below the reason(s) for nondisclosure:

[Please set out any reasonable excuse for non-disclosure]

Date consent given by you to employee for any prohibited act transactions to proceed:

Other relevant information:

-End-

Appendix C

Record of Due Diligence Checks Completed

Date: Completed by:

Brief outline of the business transaction?

Parties involved?:

Due Diligence checks completed:

Reliance on third party (due diligence):

Outcome:

Item No. 14

AUDIT COMMITTEE **23 MARCH 2021**

SUBJECT:	**INFORMATION GOVERNANCE UPDATE**
DIRECTORATE:	**CHIEF EXECUTIVE AND TOWN CLERK**
REPORT AUTHOR:	**DATA PROTECTION OFFICER (DPO)**

1. Purpose of report

1.1. To update committee on Information governance/management progress. This includes monitoring of the council's compliance with data protection legislation including the General Data Protection Regulation (GDPR) now incorporated into UK law as (UK GDPR) and the Data Protection Act 2018 (DPA).

2. Background of reporting

2.1. Reports are submitted on a bi-annual basis the last report being provided to committee in September 2020.

2.2. Resources continue to be utilised in the governance arrangements surrounding the increased sharing of data required in the response to the pandemic. This is in addition to ensuring the council's 'business as usual' data protection compliance. This has included necessary changes to the council's customer Privacy notice, Pre-existing conditions staff survey, Befriending service, Clinically Extremely Vulnerable list, Business support grants, Community testing, Staff lateral testing and Covid-19 self-isolation payments.

2.3 'Business as usual' compliance for the council includes:

- monitoring and delivering data protection training;
- reviewing processes, guidance and policies;
- reviewing existing and drafting new contracts, privacy notices and data sharing agreements;
- advising on Data Protection Impact Assessment's (required when processing data which may result in a high risk to individuals privacy rights);
- processing and responding to data protection requests such as Subject Access Requests;
- urgent reactive and remedial work including data breach management, which is subject to strict legal time limits (72 hours for reports to the Information Commissioner's Office- the UK data protection regulator);
- responding to increased data protection queries from staff due to awareness and sharing during the pandemic.

3. Information Governance (IG) risk register

3.1 The following risks are highlighted for comment: Policies, Training, Contracts, Brexit and UK GDPR.

4 **Training**

4.1 Data protection training is a legal requirement under data protection laws. The Information Commissioner's Office recommends training is renewed at least every 2 years and preferably annually for an organisation such as the council. The council have agreed to renew training annually.

4.2 All new starters receive data protection training on induction. Staff without access to IT systems and who do not normally handle personal data sign a low risk form. This form sets at the basic data protection principles which must be followed when processing any personal data and explains what a data breach is and how to report it within the council. Training for all staff is due for renewal for 2021 and will be deployed again via e learning and low risk forms.

5. Policies

5.1 The Information management policies were due for general review in June 2020. These polices have now been reviewed as there was a short delay due to the response to the pandemic.

5.2 The review has concluded in minor changes to these policies, mainly relating to accessibility requirements and recent changes relating to Brexit and UK GDPR. The IG Working group has approved the policies and agreed that they will not require formal approval by Policy Scrutiny or Executive Committee.

5.3 The council has also drafted a separate policy for Special category, Criminal Offence data and Sensitive law enforcement processing. This policy is a legal requirement under data protection legislation although it has only been separated out from the existing Data Protection Policy for ease of reference and clarity.

5.4 All staff and members will receive an electronic alert shortly through net-consent to inform them of the policy review and requesting that they read and accept the 'Data Protection and Subject Access Request staff summary sheet' regarding the council's Data Protection Policy.

6 **Contracts, Brexit and UK GDPR**

6.1 From 1 January 2021, the EU GDPR was adopted into UK law by section 3 of the EU Withdrawal Act 2018 (EUWA 2018) and the Data Protection, Privacy and Electronic Communications (Amendments etc.) (EU Exit) Regulations 2019 (Implementing Regulations). Organisations based in the UK must comply with this version of the GDPR (UK GDPR) when processing personal data.

6.2 At the same time, a bridging mechanism was agreed that allows the continued free flow of personal data from Europe to the UK from the end of the transition period until adequacy decisions come into effect, for up to 6 months.

6.3 Unless the EU Commission makes an adequacy decision during this period (due to expire June 2021) the UK will become a third country in terms of EU GDPR and transfers into the UK to the council from EEA suppliers would need to be subject to safeguards such as standard contract clauses.

6.4 The council have already carried out preparations to identify applicable processing which is limited. However early indications are that adequacy is likely to be obtained for the UK as the European Commission has already published its draft UK adequacy decisions which are subject to a non-binding opinion from the European Data Protection Board (EDPB) and formal approval by the EU member states.

7. Implementation of Office 365

7.1 In June 2020, all council email accounts were migrated and upgraded to Microsoft Office 365. Full use of the Office 365 suite including Microsoft Teams and SharePoint is being rolled out to staff with appropriate training currently.

7.2 Office 365 will make improvements to information management in terms of tools relating to retention, security, data leakage and access control as well as compliance with information requests such as Freedom of Information and Subject Access Requests.

7.3 The IG team have been assisting in the completion of a Data Protection Impact Assessment in relation to the implementation of Office 365. The completion of this assessment is mandatory for this type of processing of personal data and the assessment assists in identifying any privacy risks and records the council's mitigation of these risks.

8 Increase in remote working

8.1 As a result of the pandemic more staff have been working remotely although this had been the aim of the council prior to the pandemic as part of our 'One Council' approach. This has presented new data protection challenges. Staff have been issued with communications and guidance relating to protecting council data whilst working remotely and the council's usual policies and procedures have remained applicable.

8.2 The council continue not to have seen a significant increase in personal data breaches during the pandemic despite the substantial increase in remote working under short notice/ emergency circumstances. This is a credit to the hard work of all staff and delivery of this technology by the IT team.

9. Annual Governance Statement (AGS)

9.1 The AGS status for Information Governance was downgraded from Red to Amber due to progress made in the implementation of the GDPR. IG has since been removed from the AGS although remains to be 'watching item' to be monitored by High Performing Services group.

10. Strategic Priorities

10.1 <u>High performing services</u>

This work ensures that staff are high performing in their collection and processing of customer's data. It also assists to ensure that the council is trusted to deliver the services, and ensures compliance.

11. Organisational Impacts

11.1 Finance (including whole life costs where applicable)

There are no financial implications arising from this report, as the resources will come from existing budgets.

11.2 Legal Implications including Procurement Rules

There are no legal implications arising out of this report.

11.3 Equality, Diversity and 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 is no impact arising from this report regarding these issues.

12. Recommendation

12.1 To note the content of the report and provide any comment

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?	No
List of Background Papers:	None
Lead Officer:	Data Protection Officer, Sally Brooks

Item No. 15

AUDIT COMMITTEE **23 MARCH 2021**

SUBJECT:	**AUDIT COMMITTEE WORK PROGRAMME**
REPORT BY:	**AUDIT MANAGER**
LEAD OFFICER:	**AUDIT MANAGER**

1. Purpose of Report

1.1 To provide details of the Audit Committee work programme for 2021/22.

2. Executive Summary.

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

3. Main report

3.1 The proposed work programme is attached at Appendix A. The frequency of meetings has been reviewed and is considered appropriate for 2021/22.

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 The Audit Committee should comment on and agree the work programme for 2021/22.

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

Meeting dates	Audit Items – Revised Agenda	Training (Suggested)
10 June 20	• Annual Internal Audit Report • Annual Governance Statement (Draft) • Internal Audit Progress report • External Audit Progress report • Risk Management Annual Update • Counter Fraud Policies – Fraud Strategy • Review of effectiveness (IA/Audit Committee) • Audit Committee Work Programme • Annual Counter Fraud report • EQA report (approach) • Audit recommendations •	• 3rd June 5:30 pm Audit Committee • Training, Member Development • Audit Committee effectiveness (general audit committee training and knowledge/skills)
22 July 20	• External Audit Progress report • Internal Audit Progress report (19/20) • Audit Committee Work Programme • Partnership Governance • Statement of Accounts (Draft)* **May be the September meeting.*	Local Government Financial Statements explained (in advance of the meeting)

23 Sept 20	• **Internal Audit progress report** • **Annual Complaints report** • **Information Governance Update** • **Counter Fraud policies** • **Audit Committee Work Programme** • **Internal Audit Plan 20-21**	**Counter Fraud (e-learning)**
14 Dec 20	• **Statement of Accounts (including Annual Governance Statement) (Final) –** • **External Audit – Audit Completion report (ISA 260 and Letter of Representation)** • **Assessment of Going Concern Status- move to September for now.** • **Six month Counter Fraud report** • **Code of Corporate Governance (update)** • **Audit Committee Work Programme** • **Internal Audit progress report** • **Annual Governance Statement - monitoring** • **Audit Committee Work Programme** • **Fraud risk register** • **Audit recommendations report**	•
1 Feb 22	• **Internal Audit Progress report** • **Treasury management policy and strategy (consultation prior to approval by Council)** • **Counter fraud policies** • **Terms of Reference review - Internal Audit (Audit Charter)** • **Terms of Reference review – Audit Committee** • **Audit / Audit Committee effectiveness** • **Audit Committee Work Programme** • **CIPFA Financial Management Code Assessment**	• **Treasury Management**

22 Mar 22	• **Internal Audit Progress report** • **Audit recommendations report** • **Combined Assurance report** • **Annual Governance Statement –update report** • **Internal Audit Strategy and Plan 22-23** • **Risk Management Strategy / annual report** • **Statement on Accounting Policies** • **External Audit Inquiries – 20/21 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 update report** • **Information Governance update** • **Audit Committee Work Programme** • **EQA final report**	

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

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Item No. 16

AUDIT COMMITTEE **23 MARCH 2021**

SUBJECT:	**REDMOND REVIEW INTO THE OVERSIGHT OF LOCAL AUDIT AND THE TRANSPARENCY OF LOCAL AUTHORITY FINANCIAL REPORTING**
DIRECTORATE:	**CHIEF EXECUTIVE AND TOWN CLERK**
REPORT AUTHOR:	**JACLYN GIBSON, CHIEF FINANCE OFFICER**

1. Purpose of Report

1.1 To provide the Audit Committee with a summary of the Redmond Review into the effectiveness of local audit and the transparency of local authority financial reporting, the recommendations made to the Government, along with the Government's response and the potential implications for the Council.

2. Executive Summary

2.1 On 8 September 2020 the Government published the results of an independent review, led by Sir Tony Redmond, into the effectiveness of local authority financial reporting and audit. Local authority accounts are complex and the review highlights a number of potential weaknesses with the current local audit framework and makes recommendations to address these.

2.2 The Review identified four key themes for change:

- Local Audit Arrangements
- Current Fee Structure for External Audit
- Governance Arrangements
- Transparency and reporting.

2.3 The Review contains 23 recommendations over four categories:

- External Audit Regulation
- Financial Resilience of local authorities
- Smaller Authorities Audit Regulation (Not Applicable to the City Council)
- Transparency of Financial Reporting

2.4 The response of the Ministry of Housing, Communities and Local Government (MHCLG) was published on the 17th December 2020. Whilst some recommendations have been agreed, others are being considered further with a full response to be made by spring 2021.

2.5 This briefing note summarises the key findings and recommendations within the report, as well as potential implications for the Council.

3. Background

3.1 In July 2019, MHCLG commissioned a review of the arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the Local Audit and Accountability Act 2014. Sir Tony Redmond was appointed to undertake the review due to his experience in the Local Government sector and former role as President of the Chartered Institute of Public Finance and Accountancy (CIPFA).

3.2 A Call for Views was launched in September 2019 and received 156 responses and more than 100 interviews were carried out. The report arising from the review was published on 8th September 2020.

3.3 The Review was carried out in the context that Local Government in England is responsible for 22% of total UK public sector expenditure making it essential that local authority financial reporting is of the highest level of transparency to allow taxpayers to understand how their money is being spent. The Review examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It also considered whether the current means of reporting the Authority's annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound.

3.4 The key findings of the review, summary of recommendations, Government's response and potential implications for the Council are set in this report.

4. Key Findings and Recommendations of the Review and MHCLG Response

4.1 The key findings of the Review can be summarised into four themes:

- **Local Audit arrangements** – The most significant finding is the lack of coherence in local audit arrangements including in the approach to procuring audit services. There were serious concerns regarding effectiveness of local audit which is in part due to the current fee structure

- **Current Fee Structure** – The Review estimated that the cost of External Audit is 25% less than it should be and as a result the quality of auditors has reduced. There is also concern auditors do not have the experience or knowledge of local authorities. Evidence was considered that 40% of local authority audits were not completed by the 31 July deadline for 2018/19.

- **Governance arrangements** – The Review questioned whether Audit Committees understand the issues to question and challenge in an effective way and noted that there are relatively low number of independent Audit Committee members and little communication between Audit Committee and inspectors with no formal exchange of views. There seems to be no real relationship between Audit Committee and Full Council with very few audit reports going to Council. The Review questions the role of three statutory officers (Head of Paid Service, Monitoring Officer and Section 151 Officer) in relationship to Audit and in particular whether they engage with auditor together on an informal or formal basis. The Review noted that Internal Audit is not currently utilised effectively by External Audit as the Audit code of practice does not require them to liaise with the Internal Audit function. The

Review also noted that there is not always sufficient expertise amongst staff involved in completing the year end accounts process.

- **Transparency and reporting** – The Review concluded that the current arrangements do not enable the general public to understand the statement of accounts and found that more can be done to improve the transparency of what local authorities do. Consideration was given to simplifying the accounting framework for local government accounts, however this was not considered appropriate in the context of local authorities becoming more commercial in their operations.

4.2 The Review Recommendations are set out in full at Appendix 1. The Review contains 23 recommendations, of which 4 apply only to smaller authorities with does not include the City Council.

4.3 External Audit Regulation

The central recommendation of the Review is for the creation of a new body, the Office of Local Audit and Regulation (OLAR), to manage, oversee and regulate local audit with the following key responsibilities:

- procurement of local audit contracts;
- producing annual reports summarising the state of local audit;
- management of local audit contracts;
- monitoring and review of local audit performance;
- determining the code of local audit practice; and
- regulating the local audit sector.

4.4 The review also focusses on the sustainability of the external audit market, the skills within the audit team and the level of audit fees. It concludes that the local audit market is very fragile and that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. With 40% of audits failing to meet the required deadline for report in 2018/19, there is a serious weakness in the ability of auditors to comply with their contractual obligations. The report therefore recommends that an increase in fees is considered and the 30 September deadline for audit completion reinstated, rather than 31 July.

4.5 Public Sector Audit Appointments (PSAA) was incorporated by the Local Government Association in 2014 and has been specified by MHCLG as an 'appointing person' under provisions of the Local Audit and Accountability Act 2014. PSAA appoints external auditors to local authorities and is responsible for the statutory function of setting audit fees, including the current practice of agreeing fee variations for additional audit work. It is recommended that the responsibilities of this body be discharged by the OLAR which will set a fee structure that will 'ensure that adequate resources are deployed to meet the full extent of local audit requirements' and that the quality of the audit will 'be consistent with the highest standard of audit within the revised fee structure.'

4.6 A number of other recommendations are made in this category, including that, where appropriate, external audit should use the work of Internal Audit to support their conclusion. The report recognizes that internal auditors are much closer to the business than external audit, providing a ‘rich source of knowledge’ and work which focuses on governance and service delivery matters.

4.7 It is also recommended that the external auditors should report to Full Council annually in September in addition to the current practice of reporting to Audit Committees. They should report to all members on risks identified and conclusions reached in a transparent and understandable format to reduce the risk that a majority of elected members may not be sighted on serious governance or financial resilience issues.

4.8 Other recommendations included:

- Formalising the facility for the Chief Exec, Monitoring Officer and Chief Finance Officer to meet with the Key Audit Partner at least annually, and;
- Appointing at least one suitably qualified independent member to the Audit Committee

4.9 In their response the Government agreed that the external auditor be required to present an annual audit report to a Full Council meeting, irrespective of whether the accounts have been certified. The Government response noted that many local authorities feel existing reporting arrangements to audit committees are sufficient, however they felt that presentation to Full Council is an important opportunity for potential risks or concerns to be escalated in a timely way and that this should be best practice.

4.10 The Government have agreed to work with key stakeholders such as CIPFA, the NAO and the LGA to ensure that, where appropriate, new guidance is issued which addresses the recommendations relating to meetings between chief officers and the external auditor and the appointment of an independent member(s) to audit committees. They also agreed work with CIPFA, the National Audit Office and the LGA on strengthening engagement between external and internal audit.

4.11 The Government have accepted the recommendation to review the current fee structures in local audit, to provide greater flexibility to meet audit firms' costs. An additional £15m will be allocated to local authorities to help fund additional costs arising from the change in audit fees next year.

4.12 The Government has also recognised that next year will be particularly challenging as audit firms seek to catch-up after the significant Covid-19 related delays this year and trying to return to a 31st July deadline to audit the 2020/21 accounting period would be unrealistic. Hence, they have agreed in the moving of the audit deadline to 30th September for local authorities for the next two years and to keep this under review, but without committing to a permanent change.

4.13 However, the Government have not agreed with the recommendation to create the new OLAR, stating that it is not currently persuaded that a new arms-length body is required. It added that unless there is an exceptional reason for a new body, the Government will look to explore new options. The response said: “The creation of a strong system leader for local audit, especially in the form of a new body, would entail significant structural reform”.

4.14 <u>Financial Resilience of Local Authorities</u>

Under the current regulations there is no specific responsibility for auditors to provide an opinion on whether a local authority is financially sustainable. The review recommends that MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained and that key concerns relating to service and financial viability be shared between Local Auditor and Inspectorates including Ofsted, Care Quality Commission and HMICFRS prior to completion of the external auditor's Annual Report.

4.15 The Review considers a number of possible frameworks for assessment including CIPFA's Pillars of Financial Resilience and the Financial Management Code of Practice (FM Code). Although not prescribed in the formal recommendation, the review notes that MHCLG could give the FM Code statutory status and require local authorities to report on compliance with the Code in their Annual Governance Statement with auditors expected to report on material breaches.

4.16 The Government responded that they will also work with the Department for Health and Social Care, the Department for Education, the Home Office and the NAO to support the sharing of key information between inspectorates and external auditors,

4.17 <u>Transparency of Financial Reporting</u>

The review recommends the development of a new 'Summarised Accounts' or 'Simplified Statements' that are prepared on the budget setting basis and reconcilable to the Council Tax Requirement. These accounts would:

- include a standardised statement of service information and costs, perhaps based on the statutory Service Reporting Code of Practice (SERCoP)
- be reconcilable to the Statutory Accounts
- be subject to audit.

4.18 The objective of creating these additional statements is to increase transparency and, as a short stand-alone document, would be accessible to taxpayers and service users. There may also be an opportunity to remove some of the existing statements and disclosures within the statement of accounts that reconcile the outturn position, funding position and IFRS accounting basis, although it is noted that the work to complete the reconciliation would still need to be undertaken.

4.19 The Government has agreed with the need for a new standardised statement summarising council accounts and said it would work closely with CIPFA to consult on the content of this.

5. Implications arising from the Review

5.1 The Review's recommendations and the Government's response to them are set out in detail in Appendix A. However, it should be noted that the Council is not considered a smaller authority for audit and accounts purposes, so recommendations in this area do not apply to this Council (recommendations 14, 15, 16 and 23).

5.2 The recommendations are likely to directly impact the Council in the following ways:

- Increased external audit fees; (an additional £15m will be allocated to local authorities to help fund additional costs arising from the change in audit fees in 2021/22).

- An annual report being submitted to Full Council by the external auditor;

- The production of additional statutory financial information (although this may be offset by a removal of other disclosures following a review by the Local Authority Code Board); and,

- An extension to audit deadlines (2-year extension currently in place)

- Introduction of a governing body to manage, oversee and regulate

- A review of governance arrangements and accounting codes;

- Ensuring local auditors are provided with the requisite skills and training and statute be amended to ensure audit firms with these skills are not excluded from bidding from local authority work; and,

- That External Audit recognises that Internal Audit work in appropriate circumstances.

6. Strategic Priorities

6.1 There are no direct implications for the Council's strategic priorities. The external audit of, and production 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.

7. Organisational Impacts

7.1 Finance (including whole life costs where applicable)

Whist it is not clear how these recommendations may impact on audit fees, the Government have announced additional funding of £15m in 2021/22 to help fund additional costs arising from the change in audit fees.

The additional work recommended on financial reporting is not anticipated to require additional resourcing as it is expected this could be managed within existing resources.

7.2 Legal Implications including Procurement Rules

The statutory framework within which local authority audits are conducted is set out in the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015.

At this stage, the report only sets out recommendations to the Government and has no legal standing. Some of the recommendations will require amendments to primary legislation if adopted.

The council will need to ensure it complies with any changes to the codes of practice and legislation as these arise.

7.3 Equality, Diversity and 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

8. Risk Implications

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

9. Recommendation

9.1 The Audit Committee note the update on the Redmond Review and potential implications for the Council.

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

Summary of MHCLG's response to the recommendations made by the Redmond Review

Action to support immediate market stability (recommendations 5, 6, 8, 10, 11)

Recommendation	MHCLG Response
5. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.	**Agree**; we will work with key stakeholders to deliver this recommendation
6. The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.	**Agree**; we will look to revise regulations to enable PSAA to set fees that better reflect the cost to audit firms of undertaking additional work
8. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.	**Part agree**; we will work with the FRC and ICAEW to deliver this recommendation, including whether changes to statute are required
10. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.	**Part agree**; we will look to extend the deadline to 30 September for publishing audited local authority accounts for two years, and then review
11. The revised deadline for publication of audited local authority accounts be considered in consultation with NHSI(E) and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.	**Agree**

Consideration of system leadership options (recommendations 1, 2, 3, 7, 13, 17)

Recommendation	MHCLG response
1. A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit with the following key responsibilities: -procurement of local audit contracts - producing annual reports summarising the state of local audit - management of local audit contracts - monitoring and review of local audit performance	**We are considering these recommendations further** and will make a full response by spring 2021.

Recommendation	MHCLG response
- determining the code of local audit practice - regulating the local audit sector	
2. The current roles and responsibilities relating to local audit discharged by the: - Public Sector Audit Appointments (PSAA) - Institute of Chartered Accountants in England and Wales (ICAEW) - FRC/ARGA - The Comptroller and Auditor General (C&AG) to be transferred to the OLAR	**We are considering these recommendations further** and will make a full response by spring 2021.
3. A Liaison Committee be established comprising key stakeholders and chaired by MHCLG, to receive reports from the new regulator on the development of local audit.	**We are considering these recommendations further** and will make a full response by spring 2021.
7. That quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.	**We are considering these recommendations further** and will make a full response by spring 2021.
13. The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters.	**We are considering these recommendations further** and will make a full response by spring 2021.
17. MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.	**We are considering these recommendations further** and will make a full response by spring 2021.

Enhancing the functioning of local audit, and the governance for responding to its findings (recommendations 4, 9, 12, 18)

Recommendation	MHCLG response
4. The governance arrangements within local authorities be reviewed by local councils with the purpose of: - an annual report being submitted to Full Council by	**Agree**; we will work with the LGA, NAO and CIPFA to deliver this recommendation

Recommendation	MHCLG response
the external auditor - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee - formalising the facility for the CEO, Monitoring Officer - Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.	
9. External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.	**Agree**; we will work with the NAO and CIPFA to deliver this recommendation
12. The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.	**Agree**; we will work with the LGA, NAO and CIPFA and other key stakeholders to deliver this recommendation, including whether changes to statute are required
18. Key concerns relating to service and financial viability be shared between local auditors and inspectorates including Ofsted, Care Quality Commission and HMICFRS prior to completion of the external auditor's annual report.	**Agree**; we will work with other departments and the NAO to deliver this recommendation

Improving transparency of local authorities' accounts to the public (recommendations 19, 20, 21, 22)

Recommendation	MHCLG response
19. A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts.	**Agree**; we will look to CIPFA to develop a product through consultation with local government. We will work with CIPFA to deliver this recommendation
20. The standardised statement should be subject to external audit.	**Agree**; we will work with CIPFA, the LGA and the NAO to deliver this recommendation
21. The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities.	**Agree**; we will work with the LGA and CIPFA to deliver this recommendation

Recommendation	MHCLG response
22. CIPFA/LASAAC be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.	**Agree**; we will look to CIPFA to deliver this recommendation

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