

AUDIT COMMITTEE

Tuesday, 22 March 2022

6.00 pm

Committee Rooms 1-2, City Hall

Membership: Councillors Rebecca Longbottom (Chair), Helena Mair (Vice-Chair), David Clarkson, Thomas Dyer, Gary Hewson, Rosanne Kirk and Calum Watt

Substitute member(s): Councillors Pat Vaughan

Independent Member: Jane Nellist

Officers attending: Paul Berry, Sally Brooks, Democratic Services, Jaclyn Gibson, Andrea Ripley, Amanda Stanislawski. and Colleen Warren

A G E N D A

| SECTION A | Page(s) |
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| 1. Confirmation of Minutes - 1 February 2022 | 3 - 8 |
| 2. Declarations of Interest | |
| Please note that, in accordance with the Members' Code of Conduct, when declaring interests members must disclose the existence and nature of the interest, and whether it is a disclosable pecuniary interest (DPI) or personal and/or pecuniary. | |
| 3. Next Steps Accommodation Project - Homes England Compliance Audit Results | 9 - 16 |
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| 17. Information Governance Update | 211 - 214 |
| 18. Exclusion of Press and Public | 215 - 216 |

You are asked to resolve that the press and public be excluded from the meeting during the consideration of the following item(s) because it is likely that if members of the press or public were present, there would be disclosure of 'exempt information'

SECTION B

| | |
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| 19. Information Governance Update | 217 - 226 |
| 20. Partnership Governance | 227 - 258 |

- Present:** Councillor Rebecca Longbottom (*in the Chair*)
- Councillors:** David Clarkson, Thomas Dyer, Gary Hewson and Rosanne Kirk
- Independent Member:** Jane Nellist
- Apologies for Absence:** Councillor Helena Mair and Councillor Calum Watt

51. Confirmation of Minutes - 14 December 2021

RESOLVED that the minutes of the meeting held on 14 December 2021 be confirmed.

52. Matters Arising

The Chair referred to minute 41 and asked if the unqualified audit opinion had been issued on 31st January 2021.

Jaclyn Gibson, Chief Finance Officer advised that there had been a slight delay with issuing the unqualified audit opinion, it was currently going through final checks and balances and would hopefully be issued by 15th February 2022. An email would be circulated to members of the Audit Committee to confirm that the unqualified audit opinion had been issued.

53. Declarations of Interest

Councillor Vaughan declared a Personal Interest in minute 54 as his Grand Daughter worked in the Finance Section at City of Lincoln Council.

54. Prudential Indicators 21-22 - 2024/25 and Treasury Management Strategy 2022/23

Sarah Hardy, Principal Finance Business Partner:

- a. presented a report for Audit Committee to scrutinise and recommend to the Executive for approval the adoption of the 15 statutory prudential indicators and 8 local indicators for the period 2021/22 to 2024/25, together with the 2022/23 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 2022/23 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 2022/23 had been prepared taking into account changes in the Prudential Code and Treasury Management Code as detailed at paragraph 2.3 of the report.
- 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. requested that Audit Committee review the content of the report and its associated appendices and recommend to Executive and Council for approval.
- h. invited questions and comments

The committee discussed in detail the arrangements that had been put in place for the Treasury Management training and suggestions were made to hold virtual training at a time that was not immediately before Audit Committee. Officers responded that consideration would be given to when and how training sessions could be delivered in future.

The Chair referred to another District Councils Treasury Management Strategy which included a paragraph in relation to investing in Environmental, Social and Governance (ESG) and asked if something similar could be included in the City of Lincoln Council Treasury Management Strategy. Officers responded that whilst the Council would like to make this statement, in practice it would be difficult to achieve. A balance was needed between investing in ESG and the Councils finances. The committee further commented that it was important to recognise ESG and should be considered going forward. Officers agreed that this would be investigated and to find out how it could be implemented and evidenced and to understand the affect that this would have on the Councils finances. This would be considered and options would be proposed in next year's Treasury Management Strategy.

RESOLVED that:

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

55. Audit Recommendations - Licensing (Verbal Report)

Francesca Bell, PPASB & Licensing Service Manager gave the following update on outstanding Licensing audit recommendations.

- Management felt that an operational enforcement strategy was not required as this would be duplication. There was already a overarching directorate enforcement policy, also each licensing function had a policy which included enforcement.
- A formal quality control system had been partially implemented which included sampling, team meetings, and one to one meetings with management. This would be formalised through policy notes.
- Improved software was required to develop more meaningful KPI's and a consistent approach to logging complaints. A new system would be piloted which would allow data reports to be pulled from the system

Members of the committee asked the following questions and received relevant responses:

Question: Asked how the new system had been approached.

Response: We were approached by the company and asked to test the software at no cost to the council.

Question: Asked if the Council would be using the national database for taxi drivers.

Response: The National Database for Taxi and Private Hire Licence Revocation and Refusals would be implemented shortly.

RESOLVED that the update be noted.

56. Internal Audit Progress Report

Paul Berry, Principal Auditor:

- 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 2021 to January 2022, 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
 - Current areas of interest relevant to the Audit Committee
- d. invited members' questions and comments

Question: Asked for clarification on the Charterfields Board in relation to the Western Growth Corridor.

Response: The Charterfields Board was an officer board which was identified as the delivery board in the delivery agreement, for the Western Growth Corridor development, between the Council and the other landowner. It consisted of four representatives from the Council and four representatives from Lindums.

Question: Asked what resources were at risk in relation to the Western Growth Corridor.

Response: The audit report was referring to risks in relation to internal staffing capacity, but that steps would be taken to increase administrative and project management resources if required.

Question: Asked for information on the communication strategy in relation to the Western Growth Corridor.

Response: Communication would be done with residents in relation to work on the development and then specific marketing of the homes when they were ready to be sold.

Question: Further asked how the communication with residents would be done.

Response: The communication and engagement plan would be developed ahead of phase 1a of the development.

Question: Referred to the work undertaken by external audit firms and asked if this work would continue and if the Audit Manager would be replaced.

Response: The external audit firm was used to complete a set amount of work which would be completed by the end of March 2022 and further work would not be needed next year. The Audit Manager had been appointed and would start on 21st February 2022.

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

57. Review of Code of Corporate Governance 2022

Jacyln Gibson, Chief Finance Officer:

- a. presented a report to inform Audit Committee of the outcome of a review of the Code of Corporate Governance
- b. confirmed that City of Lincoln Council adopted a new Code of Corporate Governance in March 2017 and agreed to undertake an annual review to ensure it remained current
- c. advised that Internal Audit and Corporate Policy undertook a full assessment of the Council's governance framework commencing March 2021 through a review of the Council's Code of Corporate Governance (policies and processes) and its use in the review process to develop the Annual Governance Statement to identify any significant issues, or other areas that may require monitoring
- d. reported that apart from a few minor wording changes to reflect that Covid-19 activities were still ongoing, there were no further changes required at this time and it was proposed the next review should be in February 2023.

RESOLVED

1. that the review of the Code of Corporate Governance 2022 be noted
2. that there were no significant changes to the Code of Corporate Governance 2022 be noted
3. that the next review date for the Code of Corporate Governance of February 2023 be agreed

58. Audit Committee Work Programme

Jaclyn Gibson, Chief Finance Officer:

- a. presented a report to inform members of the Audit Committee on the work programme for 2021/22 as detailed at Appendix A of the report.
- b. referred to paragraph 3 of the report and highlighted the changes to the work programme.
- c. advised that the Audit Committee Terms of Reference was attached at Annex A of the report for information.
- d. referred to paragraph 4 of the report and gave an overview of the learning and development plan to support members in the delivery of their roles.

RESOLVED that the contents of the Audit Committee work programme 2021/22 be noted.

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SUBJECT: NEXT STEPS ACCOMMODATION PROJECT - HOMES ENGLAND COMPLIANCE AUDIT RESULTS

DIRECTORATE: HOUSING AND INVESTMENT

REPORT AUTHOR: ANDREA RIPLEY – HOUSING STRATEGY OFFICER

1. Purpose of Report

1.1 This report requests the Audit Committee to note the result of the Homes England Compliance Audit for the Next Steps Accommodation Programme (NSAP) which took place during Q2 of 2021/22.

2. Background

2.1 The Council is currently under contract with Homes England (HE) to deliver several schemes via grant funding.

2.2 The annual Compliance Audit programme provides assurance that the Council has met all of HE’s requirements and funding conditions; and has properly exercised its responsibilities as set out in HE’s Capital Funding Guide (CFG).

2.3 On 24 June 2021, HE advised the Council that a compliance audit scheme had been opened for a scheme/property delivered as part of NSAP.

2.4 As set out in the standardised terms by HE, the Council was required to appoint an independent auditor to undertake the compliance audit. On the 15th July 2021 the Audit Committee approved the audit to be completed by the Council’s external auditor Mazars.

2.5 All requested paperwork was submitted via the Mazars online portal by the Housing Strategy and Investment Team within the required timescale for assessment. This was then submitted to HE to moderate the audit to ensure consistency.

3. Audit Results

3.1 On the 17 January 2022, Homes England issued the Audit report to confirm a successful Green rating. The report confirmed that the scheme met all requirements with zero breaches and also had no areas for improvement. Compliance Audit Report included for reference as per appendix 1.

3.2 HE Audit Compliance guidance states that the Audit Report and any recommendations are to be acknowledged by cabinet members / committee. After the committee has met, the following details have to be updated on HE compliance Audit System:

- Date that the committee met;

- To certify that the committee has given their acknowledgement to the report and any recommendations; and
- To certify that the committee has given their agreement to any action plan to address any breaches (if applicable).

4. Strategic Priorities

4.1 Let's deliver quality housing

Currently, the Council is under contract with HE to receive capital grant funding for De Wint Court, Rookery Lane and RSAP. Without this funding the Council would not be able to deliver these schemes.

5. Organisational Impacts

5.1 Finance

As stated above, the annual Compliance Audit programme provides assurance that the Council has met all of the HE's requirements and funding conditions and has properly exercised its responsibilities as set out in HE's CFG.

5.2 Legal Implications including Procurement Rules

The Council's contract (known as a grant agreement) with HE requires grant funded schemes to be subject to annual Compliance Audit.

5.3 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

Equality and Diversity has been considered as part of developing this report and there are no implications.

6. Risk Implications

No risks applicable as the audit received a green rating with zero breaches and zero recommendations for improvement.

7. Recommendation

- ##### **7.1**
- For Audit Committee to acknowledge and note the successful Green rating for Audit compliance as per 3.2 of this 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? 1

List of Background Papers: None

Lead Officer:

Andrea Ripley
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Compliance Audit Report – 2021/22

32UD – City of Lincoln Council

| | |
|---|----------------------------|
| Final Grade | Green - Meets requirements |
| Independent Auditor Organisation | Mazars |
| Independent Auditor Name | Jon Bennett |

Report Objectives and Purpose

Compliance Audits check Provider compliance with Homes England's policies, procedures and funding conditions. Standardised checks are made by Independent Auditors on an agreed sample of Homes England schemes funded under affordable housing programmes. Any findings, which may be a result of checks not being applicable to the scheme or an indication of procedural deficiency, are reported by the Independent Auditor to both the Provider and Homes England concurrently. The Homes England Lead Auditor reviews the findings and records those determined to be 'breaches' in this report. Breaches are used as the basis for recommendations and final grades for Providers. Grades of green, amber or red are awarded; definitions are provided on page 2 of this document.

Further information is available at: <https://www.gov.uk/guidance/compliance-audit>.

Provider's Acknowledgement of Report

The contents of this report should be acknowledged by your Board's Chair or equivalent. Confirmation of this acknowledgement should be recorded in the IMS Compliance Audit System by your Compliance Audit Lead on behalf of your Board's Chair or equivalent. Online acknowledgement should be completed within three calendar months of the report email notification being sent.

Confidentiality

The information contained within this report has been compiled purely to assist Homes England in its statutory duty relating to the payment of grant to the Provider. Homes England accepts no liability for the accuracy or completeness of any information contained within this report. This report is confidential between Homes England and the Provider and no third party can place any reliance upon it.



Compliance Audit Grade Definitions

| | |
|--------------------|--|
| Green Grade | No high or medium severity breaches identified, although there may be low breaches identified. The Homes England audit report will show that the provider has a satisfactory overall performance but may identify areas where minor improvements are required. |
| Amber Grade | One or more medium severity breaches identified. The Homes England audit report will show that the provider has failed to meet some requirements but has not misapplied public money. The provider will be expected to correct identified problem(s) in future schemes and current developments. |
| Red Grade | One or more high level severity breaches identified, the Homes England audit report will show that the provider has failed to meet some requirements and there has been a risk of misapplication of public funds. |

Compliance Audit Grade and Judgement

| | |
|--------------------------|---|
| Final Grade | Green - Meets requirements |
| Judgement Summary | On review of the evidence provided, the outcome of the audit has shown the provider has complied with all the programme requirements and guidance. A GREEN grade has been assigned and no breaches were identified. |

Scheme/Completions details

| Scheme ID/ Completion ID | Address/Site ID | Scheme type |
|-------------------------------------|--|--|
| 1016985 | 63 Hermit Street (NSA)Hermit Street, LN5 8EF | Next Steps Accommodation - Capital |



Audit Results

| | |
|--|---|
| Number of Schemes/Completions Audited | 1 |
| Number of Breaches Assigned | 0 |
| Number of High Severity Breaches | 0 |
| Number of Medium Severity Breaches | 0 |
| Number of Low Severity Breaches | 0 |

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SUBJECT: ANNUAL GOVERNANCE STATEMENT MONITORING

REPORT BY: CHIEF EXECUTIVE'S

LEAD OFFICER: PAT JUKES, BUSINESS MANAGER, CORPORATE POLICY

1. Purpose of Report

1.1 To present a progress update on the areas identified as 'significant governance issues' as set out in the 2020/21 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 2020/21 AGS issues

3.2 The updates on the significant issues identified within the 2020/21 AGS are summarised 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 two significant issues, the first – "the IT Disaster Recovery plan alignment with current Business Continuity plans" remains at an amber status, but the second the " Vision 2025 needs to be re-profiled and communicated to a wider audience in the light of COVID-19" has been reduced to a green status as all the key work is completed.

4.2 The IT Disaster Recovery plan alignment with current Business Continuity plans

"The current IT Disaster Recovery plan needs to be reviewed to ensure that there is clarity of how, what and when we can recover all critical systems. This will enable us to create clear and workable links to the critical service business continuity plans"

This issue falls into two separate actions – the first relating to the completion of the updated ITDR plan and the second being the review of the Business Continuity plans to match what we are able to achieve in terms of recovery.

- 4.3 As reported before Christmas, the Hamilton House secondary data centre is now operational, further details of which can be found in the template attached **(Appendix A)**. and work has now started on reviewing the IT Disaster Recovery plan.

It was initially hoped to have a DRAFT DR plan by the end of March 2022, but delays caused by shortages of resources have meant that this will be pushed back by 6 months to September 2022.

The level of progress made led to a downgrade from RED status to AMBER status last quarter, but it remains at amber for this period.

- 4.4 Each year all Business Continuity plans are reviewed to ensure they meet the current environment – this year there is a full-scale review underway to reflect the changes in working practices. It is highly likely that some of the older requirements from the critical services plans will have changed following the actions taken during 2020/21 relating to many officers' ability to work from home rather than need alternative office accommodation.

Business continuity plans will be revised throughout 2021/22 so that they are in a position to be linked to the new ITDR when it is completed.

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

“Plans for rolling out Vision 2025 were deferred due to the pandemic onset. Vision 2025 is published on the web, but to date there has been no formal launch. In addition a review of where and how the current Vision offers support in the area of ‘Health’ to the people of Lincoln has been requested, which may impact the roll out timing”

- 4.6 At the time of writing the last quarterly report, the plan had been to develop an Annual Delivery Plan for the year 2022/23. However, since that point Members have reconsidered this and asked instead that a full mid-term review of the Vision 2025 was carried out.

This has now been completed and the proposals were presented at an all-member seminar in February 2022 and consulted on with the general public. Since that point Executive and Council have approved the proposals, which means that the only action remaining is to decide on the publication route for the review.

The level of progress made led to a downgrade from RED status to AMBER status last quarter and to a further downgrade to GREEN status from this report.

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 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: Pat Jukes, Business Manager Corporate Policy
Pat.jukes@lincoln.gov.uk

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Summary of progress with AGS risk action to Audit Committee: March 2022

Significant current issues from 2020/21 to focus on in 2021/22

The risk actions below were identified in the 2020/21 AGS review. Progress will continue to be made in 2021/22, monitored through the Assistant Directors Group and the Service Managers Forum, driven forward by the relevant Service Managers and reported to Audit Committee.

Significant issues carried forward from 2020/21 – There were two significant governance issues monitored during 2020/21 which still remain as issues for monitoring during 2021/22, although both have been updated to reflect the current environment

- :
- **The IT Disaster Recovery plan alignment with current Business Continuity plans**
 - **Vision 2025 needs to be re-profiled and communicated to a wider audience**

There were no new significant issues identified from 2020/21

21

| | What actions will be taken over the coming months | What progress have we made against each action | RAG Status |
|--|---|---|------------|
| <p>The IT Disaster Recovery plan alignment with current Business Continuity plans</p> <p>Matt Smith – BDIT Manager (IT)</p> <p>Jaclyn Gibson – CFO (BC)</p> | <p><i>The current IT Disaster Recovery (DR) plan needs to be reviewed to ensure that there is clarity of how, what and when we can recover all critical systems. This will enable us to create clear and workable links to the critical service business continuity plans</i></p> <p>IT actions agreed</p> <ol style="list-style-type: none"> 1. Finish the final aspects of the Hamilton House recovery centre – by August 2021 <ol style="list-style-type: none"> a. all servers to be fully functional 2. Refresh the ITDR plan – September 2022 <ol style="list-style-type: none"> a. Review priority of services to be brought back on-line b. Consider ongoing agile working requirements | <p>IT actions:</p> <ol style="list-style-type: none"> 1. All servers are now replicated to Hamilton House secondary data centre • Disaster Recovery is now operational at Hamilton House • Specific Cyber-attack insurance is being procured • Many systems are now hosted off site in the cloud especially email and Microsoft suite of documents - so customers can now contact us in the event of our legacy systems hosted on site failing. Our IT strategy is to move further to cloud hosting - reducing the DR implications on site | A |

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| | <ul style="list-style-type: none"> c. Focus on the legacy services still held at City Hall. Does the full service need to be up and running at speed, or just elements of it? d. Decisions on how we could simplify the invocation process e. Documentation completed and action plan in place <p>3. Working with BC Plans – September 2022</p> <ul style="list-style-type: none"> a. review options for alternative storage (in cloud) and appropriate costings <p>Business Continuity actions agreed – September 2022</p> <ul style="list-style-type: none"> 1. Review all BC plans in light of the published ITDR plan | <ul style="list-style-type: none"> • The only outstanding action is to review individual business continuity plans for services (see next point), to ensure the scope and scale of recovery matches the capacity of the Disaster Recovery Plan <p>2. Initial consideration has been made into next stages, and the review of the DR plan. This may involve some investment, and options will be developed in conjunction with existing suppliers</p> <p>February 2022 - ICT are continuing to develop the DR response including ongoing work on:</p> <ul style="list-style-type: none"> • Citrix portal accessible from DR site • Replacement/upgrade of firewalls to provide additional resilience <p>Next stages will be looking at VPN resilience, increasing internet connectivity at secondary site and making files more accessible to users</p> <p>Business Continuity Actions:</p> <p>We are still reviewing which of the services are deemed as critical, this work was put on temporary hold over the winter period due to the Omicron effect, as staff in service areas were busy responding to service delivery pressures.</p> <p>We will then use this to ensure those services that remain critical have their BCP's reviewed as part of the annual process and for those which are identified as now being critical, when previously they were not, have a BCP developed</p> | |
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| | | <p>We are now in a position to pick this up again and plan to have the work completed by March 2022, so that BCP's are refreshed as part of the normal cycle for 22/23</p> <p>This will be further supplemented in Sept 2022 when we align with the new ITDR plan.</p> | |
| <p>Vision 2025 needs to be re-profiled and then communicated to a wider audience</p> <p>Pat Jukes – Business Manager, Corporate Policy</p> | <p><i>Plans for rolling out Vision 2025 were deferred due to the pandemic onset. Vision 2025 is published on the web, but to date there has been no formal launch. In addition a review of where and how the current Vision offers support in the area of 'Health' to the people of Lincoln has been requested, which may impact the roll out timing.</i></p> <p>Actions agreed:</p> <ol style="list-style-type: none"> 1. Complete the draft Annual Delivery Plan – December 2021 (COMPLETE) 2. All members seminar to review the ADP proposals – January/February 2022 (COMPLETE) | <p>ACTIONS:</p> <ol style="list-style-type: none"> 1. A review of how the Vision 2025 plan could provide positive impacts on the health of residents of Lincoln was completed in Aug 2021. <p>Following the results of the above, Executive members took the decision that rather than produce a one-year annual delivery plan, there was to be a mid-term review of the whole Vision 2025 to allow members to incorporate the new findings into the Vision – and allow reprioritisation according to residents' needs.</p> <ol style="list-style-type: none"> 2. The commitments that were in progress or planned were reviewed at Portfolio level and suggestions for further activity put forward by each PH and summarised to Leadership. <p>This formed the base for the development of the mid-term Vision 2025 review and a new 3-year delivery plan, which was developed in DRAFT over the Dec/January period</p> | <p>G</p> |

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| | <p>3. Formal review and approval of the Vision 2025 Mid-term review and DP at Scrutiny and Exec – 21st February 2022 (COMPLETE)</p> <p>4. Consider the most appropriate launch/media communications and action- March 2022</p> | <p>Consultation with residents, business, VCS was conducted from 18th January to 14th February.</p> <p>This was then presented at:</p> <ul style="list-style-type: none"> • Labour Group seminar held on 27th January, • All Members seminar held on 3rd February, <p>3. The proposed mid-term review was sent to Policy Scrutiny Committee on 15th February 2022 and recommended on to Exec.</p> <p>Executive approved the review on 21st February</p> <p>Full council approved and signed off the Vision 2025 mid-term review on 23rd February 2022</p> <p>4. Now that the plan is approved, Communications are considering the most appropriate strategy for launching it in March 2022</p> <p>CMT are currently working with Portfolio Holders to finalise prioritisation of projects and those prioritised for 2022/23 will feature in Service Plans for next year.</p> | |
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SUBJECT: INTERNAL AUDIT PROGRESS REPORT

REPORT BY: CHIEF EXECUTIVE AND TOWN CLERK

LEAD OFFICER: AMANDA STANISLAWSKI , 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 2021-22 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
- Current areas of interest relevant to the Audit Committee

4. Organisational Impacts

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

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 E and D implications arising as a result of this report.

5. Recommendation

5.1 The Audit Committee is asked to review and comment on the content of the latest Internal Audit Progress Report 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: Amanda Stanislawski, Audit Manager Telephone 873321

Internal Audit Progress Report



**City of Lincoln Council
March 2022**



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- 1 Limited / Low Assurance Reports (None)
- 2 Assurance Definitions
- 3 Audit Recommendations
- 4 2021/22 Audit Plan

Amanda Stanislowski – Audit Manager (Head of Internal Audit)

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Paul Berry – Principal Auditor

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

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan. ¹

Introduction

The purpose of this report is to:

- Provide details of audit work during the period January – March 2022
- Advise on progress with the 2021/22 Plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

We have one audit at draft report stage and six in progress and have completed 81% of the revised Plan (days) as at the end of February. This is slightly below the target of 91%. The Audit Manager is now in post and we have procured additional resources to cover the time lost through the vacancy and are on track to complete the Plan by the end of April.

Draft and final reports are all being issued in accordance with the performance targets.

We have finalised four audits to date all of which have not met the 2 month span indicator. There are a number of reasons for this including completion of other priority work and delays in receiving information. We are working on a plan of action to improve this going forward.

We continue to provide advice and assistance on Business Grants and have an advisory role on the group looking at the payment of the £150 energy support payment (Council Tax Rebate).

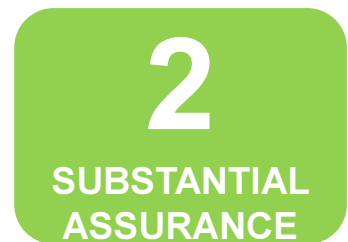
The assessor has completed his External Quality Assessment of Internal Audit and we await his report and feedback.

Assurances

Two assurance reviews have been completed;

- Lincoln Visitor Information Centre – Substantial assurance
- Safeguarding – Substantial 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.



Substantial Assurance

Lincoln Visitor Information Centre

Lincoln Visitor Information Centre (LVIC) was brought back under Council management on 1st April 2020, after having been run by Lincoln Big since 1st April 2010, and an audit has been undertaken to provide assurance on the administrative processes in place.

General day to day administration was found to be working well, and the staff we spoke to had a good understanding of the processes that need to be in place when handling income and safeguarding stock as well as a genuine commitment to ensuring that LVIC provides a high quality service, promoting Lincoln as a tourist destination and welcoming visitors to the City..

A risk assessment of the LVIC premises was undertaken in Nov 2019 by a member of the Health & Safety Team, and all staff have undertaken mandatory Data Protection training.

A small number of recommendations were made, including;

- Confirming if a discount for staff inherited from Lincoln BIG should continue
- Developing a business plan for the enhancement of the services offered
- Formalising data sharing arrangements when undertaking joint events

Substantial Assurance

Safeguarding encompasses a range of legal duties and responsibilities designed to protect people's health, wellbeing, and human rights,

The Council has a range of statutory duties to carry out in relation to safeguarding and promoting the wellbeing of individuals and communities.

This audit was requested by the Safeguarding Champion to provide assurance on how the Council's Safeguarding and Protecting Vulnerable People (PVP) processes worked during 2020 and 2021 with particular emphasis on whether remote and agile working has had any detrimental impacts on the fulfilment of those statutory duties.

We did not find any evidence that there has been a detrimental impact on the Council's Safeguarding and PVP processes during 2020 and 2021 when most staff were working away from the office. There are also no anticipated impacts from the Council's move to permanent agile working.

Visits to the public and tenants have reduced and are now gradually being increased. The Council's duty is to only act on what it sees or is advised about rather than to actively look.

Remote working has improved liaison with partners and there is higher attendance at multi-agency meetings. A working group will be set up to look at whether there are impacts on staff wellbeing as there is reduced contact with colleagues to allow experiences to be shared.

An up to date Safeguarding Policy is in place which defines roles and responsibilities, plus processes and guidance .

A training and development programme ensures that all staff receive training appropriate to their role on a rolling basis.

An effective structure is in place to ensure that information and issues are circulated and reported to management and members.

There is a comprehensive safeguarding area on City People. This has now been replaced by the Hub and work has started to set this up as the reference point for safeguarding information to be completed as soon as possible.

Safeguarding

Substantial Assurance

A recent light touch review by the Lincolnshire Safeguarding Children Partnership found 96% compliance. The gaps are being addressed and will be in place over the next year.

The Strategic Risk Register contains a risk for compliance with Safeguarding and Prevent requirements together with a number of mitigating actions. The risk rating has recently been amended to Amber, having previously been Red.

Some recommendations have been made;

- Consider if the role of the deputy Safeguarding Officers provides a sufficient level of cover.
- Create an Improvement Plan to record all actions and allow them to be formally monitored.
- Develop the way forward for recording safeguarding referrals on an IT system, which would allow data to be consistently captured and interrogated.

**Safeguarding
(continued)**

Other work

Audits in Progress

- Income – fieldwork in progress
- Rogue Landlord – report being agreed
- Town Deal – fieldwork in progress
- Planned Maintenance – fieldwork in progress
- Performance Management – fieldwork in progress
- IT Programme & Project Management – fieldwork in progress
- Medium Term Financial Strategy – fieldwork in progress

Other Audit work

- Election Claims – Three elections were held in May 21 and the expenses claims have been completed and reviewed. An Advice Note has been issued.
- Counter Fraud
 - National Fraud Initiative – work is ongoing on matches received and new data required
 - Fraud Policy / Strategy review – completed July 21
 - Anti-bribery Policy update – completed Dec 21
 - Whistleblowing Policy update – completed Mar 21
 - Money Laundering risk assessment – in progress
 - Fraud Risk Register update – completed Jan 22
 - Scam awareness – work undertaken as required
 - Lincolnshire Counter Fraud Partnership liaison – ongoing
- Business Grants
 - Assistance is given as required

Amendment to the Audit Plan

The IT DR audit (which will be undertaken by external IT consultants) has been moved to Q2 2022/23 as the project needs to be more advanced to make the audit worthwhile.

At the Plan review in December 21 the MTFs audit was removed but this has now been reinstated to use the days available from removing the Leisure and H&S risk assessments audits.

Audit work undertaken for Assurance Lincolnshire

Two audits are in progress – BBC Key Controls and ELDC General Ledger.

Benchmarking



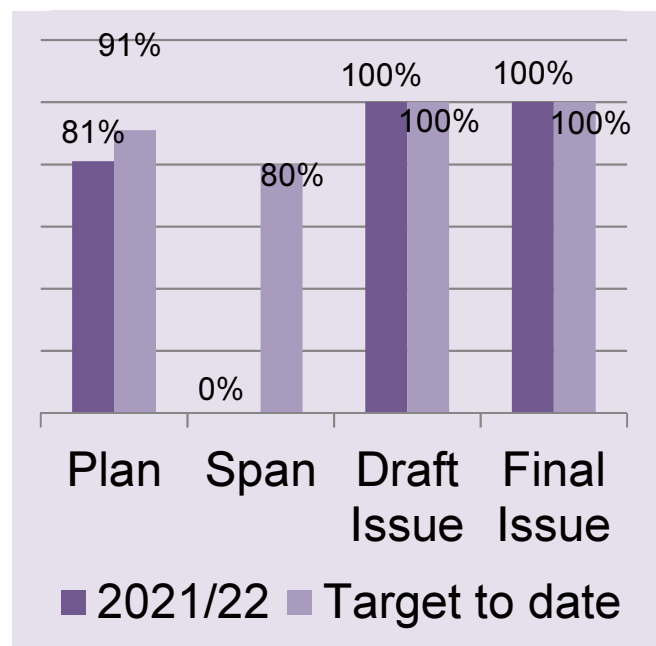
Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators

Rated our service Good to Excellent

81% revised 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.



Public Sector Audit Appointments update February 2022

Procurement of Audit Services

Procurement of audit services for local government bodies has commenced. The aim is to enable independent auditor appointments to all of the local bodies that opt in to PSAA's national scheme for the five-year period spanning audits of the financial years 2023/2024 to 2027/2028. The procurement is designed to encourage and support the development of a more sustainable market for local government audit services. Interested suppliers are invited to submit a completed selection questionnaire by 18 March 2022. Shortlisted potential suppliers will be invited to submit tenders by noon on 11 July 2022. Contract award is expected during August 2022 to enable auditor appointments to bodies by 31 December 2022.

Emergency proposals for an update of the 2021/22 Accounting Code of Practice

The Chartered Institute of Public Finance and Accountancy and the Local Authority (Scotland) Accounts Advisory Committee (CIPFA/LASAAC) has issued an 'exceptional consultation' covering emergency proposals to update the 2021/22 accounting Code and potential changes to the 2022/23 Code, and responses must be provided by 3 March.

CIPFA/LASAAC considered a range of options, and has decided to explore two approaches:

- an adaptation to the Code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (although the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation; and
- deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022/23 code to implement that standard.

There are none.

High

Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.

The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.

Substantial

Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.

Limited

Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.

The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.

Low

Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

A recommendation update is presented to this Committee as a separate item.

Appendix 4

2021/22 Audit Plan Progress

| Audit | Scope of Work | Start Planned date | Start Actual date | End Actual date | Status/ Rating |
|--|---|---|-------------------|-----------------|--------------------------------|
| Annual IA Report | Audit opinion & coverage for 2020/21 | Q1 | May | June | Completed |
| Partnership Governance | Consultancy to assist in providing assurance for management & Audit cttee | Removed as part of Dec 21 Plan review - no IA input required. | | | |
| Housing Benefit Subsidy | Detailed testing on behalf of External Audit | Q1-2 | May 21 | Sept 21 | High assurance |
| Housing Benefit & CTS | Assurance that HB, CTS, DHP & CTS Hardship Fund are administered correctly | Q1 | May 21 | Sept 21 | High assurance |
| Leisure Centres | Assurance that appropriate contingency planning is being undertaken | To be undertaken by external specialists. | | | |
| Planned Maintenance (being undertaken by Julia Raftery Consulting Ltd) | Assurance on the closedown of the Kier contract and the establishment of new arrangements | Q4 | Jan | | In progress |
| Elections | Review of the 2021 expenses claims | Q2 | May 21 | Feb | Completed. Advice Note issued. |
| Safeguarding | Review of Protecting Vulnerable People processes during Covid | Q2 | Sept 21 | Jan 22 | Substantial assurance |
| Visitor Information Centre | Assurance on the operation of the service | Q2-3 | Aug 21 | Feb 22 | Substantial assurance |
| Western Growth Corridor | Assurance on partnership governance and programme management arrangements for Phase 1a | Removed as part of the Dec 21 plan review as the project has not progressed to Phase 1a. Included within the 2022/23 plan | | | |
| Rogue Landlord | Consultancy work on the PIR | Q3-4 | Dec 21 | | Report being agreed |
| Health & Safety | Risk assessment processes | Removed as new process not yet in place | | | |
| Income | Assurance on income controls in key areas | Q3 | Oct | | In progress |

Appendix 4

2021/22 Audit Plan Progress

| Audit | Scope of Work | Start Planned date | Start Actual date | End Actual date | Status/ Rating |
|---|---|---------------------------------------|--|-----------------|--|
| Stores | Assurance on the changeover of contractor | Q4 | | | To be undertaken by Julia Raftery Consulting Ltd |
| Combined Assurance | Update the assurance map and produce a 2022 Combined Assurance report | Q4 | Dec 21 | Mar 22 | Completed |
| IA Strategy & Planning | Produce a 2022/23 Audit Plan | Q4 | Jan 22 | Mar 22 | Completed |
| Town Deal (being undertaken by Julia Raftery Consulting Ltd) | Assurance on governance, programme & project management arrangements | Q4 | Jan 22 | | In progress. |
| ICT – Programme & Project Management | Assurance on general project management plus specific projects for PSN and IT security training | Q4 | Feb 22 | | In progress |
| ICT – Disaster Recovery | Assurance on IT DR planning, incident response & infrastructure resilience | Q4 | Postponed to Q2 2022/23 as the project needs to be more advanced to make the audit worthwhile. | | |
| Medium Term Financial Strategy | Assurance that assumptions, reserve levels, etc are appropriate and there is integration with other strategic documents | Q4 | Mar 22 | | In progress |
| Performance Management (being undertaken by Julia Raftery Consulting Ltd) | Assurance that the revised PM Framework enables the Council's performance to be effectively monitored. | Q4 | Feb 22 | | In progress |
| Housing Repairs | Assurance on the operation of the new repairs process and the void repairs process | Removed as part of Dec 21 Plan review | | | |

SUBJECT: INTERNAL AUDIT RECOMMENDATIONS FOLLOW UP

REPORT BY: CHIEF EXECUTIVE AND TOWN CLERK

LEAD OFFICER: AMANDA STANISLAWSKI, AUDIT MANAGER

1. Purpose of Report

1.1 To present an update to the Audit Committee on outstanding recommendations.

2. Executive Summary

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

3. Background

3.1 It was agreed that audits over 12 months and 24 months would be separated and managers would also attend for the very oldest reports. There would be no continued monitoring by the Audit Committee after 24 months.

3.2 Audit recommendations

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

4. Organisational Impacts

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

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 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 responses.

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: Amanda Stanislawski, Audit Manager, Telephone 873321



City of Lincoln Council



Audit Recommendations

March 2022

Recommendations over 2 years old

| Audit Area | Date | Assurance | No of Recs | Implmntd | Outstanding (extended or overdue) | Not Yet Due | Comments / Progress |
|----------------------|--------|-------------|------------|----------|-----------------------------------|-------------|---|
| Malware / Anti-virus | Nov 18 | Substantial | 9 | 9 | 0 | 0 | Final (High priority) recommendation to update the IT Security Policies has been implemented. A new set of documents was approved by Policy Scrutiny Committee and Executive in February 2022. |
| Transport Hub | Dec 18 | Substantial | 3 | 3 | 0 | 0 | Final recommendation implemented. |
| Licensing | Feb 20 | Substantial | 6 | 4 | 2 | 0 | <p>One recommendation has been implemented.</p> <p>The final two recs require improved software to deliver efficiently. The Council is part of a pilot to develop a new system – target extended to Jun 22;</p> <ul style="list-style-type: none"> • Develop more meaningful KPIs • Establish a consistent process for logging issues / complaints onto APP <p>Officers attended Audit Committee 1st February 22. A recommendation to develop an operational enforcement strategy will not be implemented as proactive enforcement work is now being done.</p> |
| ICT Anti-Malware | Mar 20 | Substantial | 9 | 7 | 2 (1 High) | 0 | <p>Two recommendations completed. Outstanding recommendations are;</p> <ul style="list-style-type: none"> • Set minimum compliance standards for remote access by suppliers (High priority). Extended to Sept 22 (from Dec 21) – due to a new framework. • Review and update the Incident management policy / procedure. Being done as part of an East Midlands IT group. Extended to Sept 22 (from Mar 22) as progress regionally is slower than expected. |

Recommendations older than 1 year but less than 2 years

| Audit Area | Date | Assurance | No of Recs | Implmntd | Outstanding (extended or overdue) | Not Yet Due | Comments / Progress |
|---------------------|--------|-------------|------------|----------|-----------------------------------|-------------|---|
| Housing Allocations | Aug 20 | Substantial | 4 | 3 | 1 | 0 | Annual review of applications. Extended to March 22. Progress is being made and once an implementation plan is agreed the target date will be extended further. |
| Homelessness | Aug 20 | Substantial | 2 | 1 | 1 | 0 | Ensure compliance with document retention & disposal requirements. Work is ongoing to determine how this can be done on the workflow system. Extended to September 22 (from March 22) due to other priorities. |
| Covid-19 | Feb 21 | Substantial | 1 | 1 | 0 | 0 | Recommendation implemented. |

45

Recommendations less than 1 year old

| Audit Area | Date | Assurance | No of Recs | Implmntd | Outstanding (extended or overdue) | Not Yet Due | Comments / Progress |
|-----------------|---------|-------------|------------|----------|-----------------------------------|-------------|---|
| Risk Management | May 21 | Substantial | 1 | 1 (High) | 0 | 0 | Recommendation implemented. |
| Office 365 | May 21 | Substantial | 6 | 5 | 0 | 1 | Retention & disposal work (review DLP policies for Exchange Online and SharePoint Online content). Due Mar 22. This will be extended – new date tbc. |
| Creditors | June 21 | High | 1 | 0 | 0 | 1 | Review and approve authorising officers on Agresso. Staff resources have caused delays, but work is in progress. Extended to March 22. An update has been requested and is awaited. |

| Audit Area | Date | Assurance | No of Recs | Implmntd | Outstanding (extended or overdue) | Not Yet Due | Comments / Progress |
|--------------------------------------|-------------|------------------|-------------------|-----------------|--|------------------------|---|
| Accountancy | June 21 | High | 1 | 0 | 0 | 1 | Implement a six-monthly review of system users. Staff resources have caused delays. Extended to March 22. An update has been requested and is awaited. |
| Debtors | June 21 | High | 1 | 1 | 0 | 0 | Recommendation implemented. The recommendation was to monitor low value invoices to see if there are more efficient ways to collect the income. Some improvements have been made and there is better awareness, but further improvements are unlikely. |
| Western Growth Corridor (governance) | July 21 | Substantial | 5 | 4 | 1 | 0 | Four recommendations implemented. The outstanding recommendation is regarding the maintenance of risk registers and presenting them to appropriate Boards. A way forward will be agreed with management and a new target date set. |
| Visitor Information Centre | Jan 22 | Substantial | 7 | 2 | 0 | 5 | Two recommendations implemented. Not Yet Due recommendations are due end March (2 – both are in progress) and end May (3). |
| Safeguarding | Jan 22 | Substantial | 5 | 1 | 0 | 4 | One recommendation implemented by target date. Not Yet Due recommendations are due end March (2), end April (1) & end September (1). |

Recommendation Follow Up protocol (approved by Audit Committee 6th February 2020)

Internal Audit will;

- Record recs on the tracker held in Authority Wide
- Monitor target dates monthly and obtain updates where the rec is due within 1 month
- Agree extensions to target dates
- Review evidence for High priority recs implemented
- Undertake detailed follow up work on all recs in Limited / Low assurance audits 12mths from the report date
- Liaise with Directorates to ensure that;
 - They are able to obtain recommendation data from the tracker
 - Recommendations are being monitored at least 6 monthly via DMT's
 - Portfolio Holders are aware of overdue recommendations
- Advise Service Managers Team and Assistant Director Group that Audit Committee are not happy with the number of recs overdue and the time being taken to implement them

Audit Committee will;

- Receive recommendation update reports at alternating meetings, which mainly focus on High priority recommendations
- Receive verbal updates from service managers where there are outstanding recommendations 12mths from the report issue date
- Receive a 12mth update on Limited / Low assurance audits
- Receive an update on audits where there are outstanding recommendations 24mths from the report issue date – these recommendations will no longer be followed up and management will be advised that they will be accepting the risk

Directors will;

- Approve extensions where the audit recommendation has not been implemented within 12 months (Head of service / Manager will get approval) and this will form part of the 12-month review at Audit Committee.

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SUBJECT: COMBINED ASSURANCE REPORT

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: AMANDA STANISLAWSKI, AUDIT MANAGER

1. Purpose of Report

1.1 To present to Members the Combined Assurance Status Report for 2021/22, 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 2021/22.

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 65% services designated green, 32% amber and 3% 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: Amanda Stanislowski, Audit Manager
Telephone (01522) 873321

Combined Assurance Status Report 2021/22



**City of Lincoln Council
March 2022**

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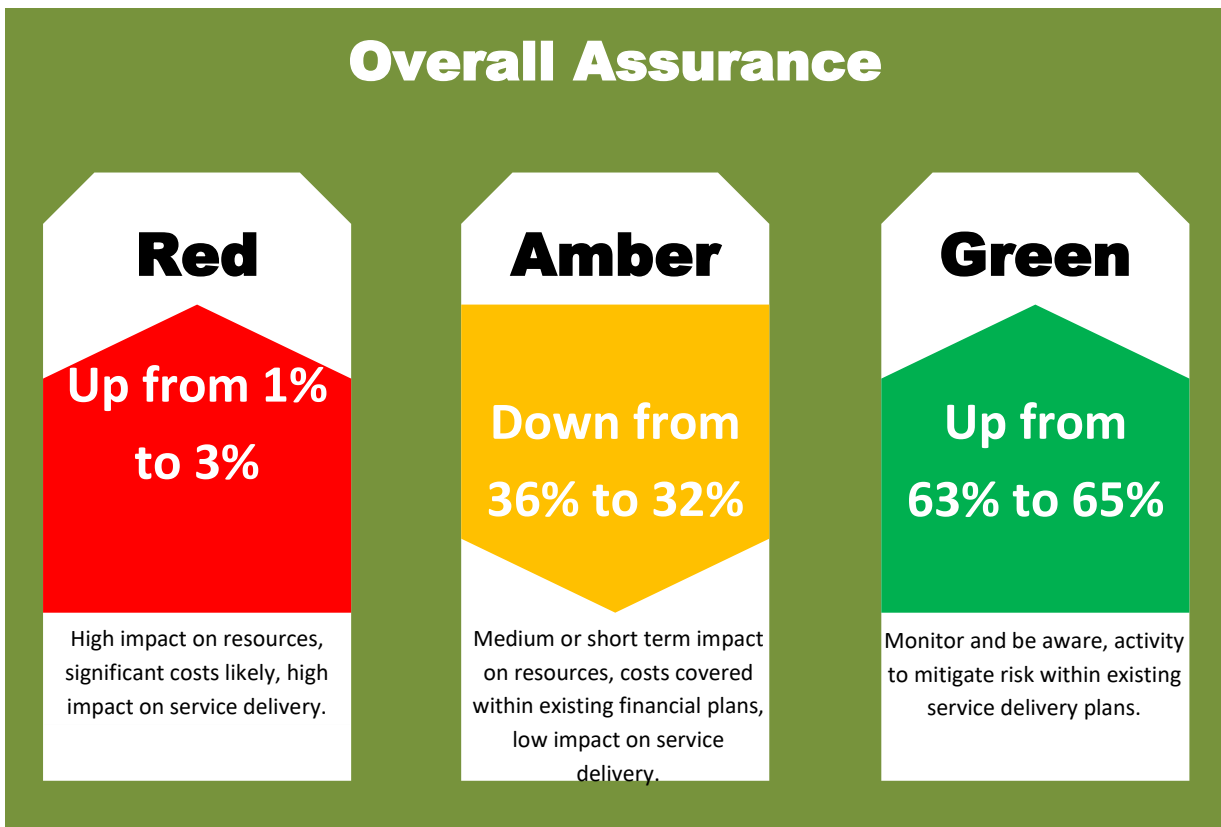
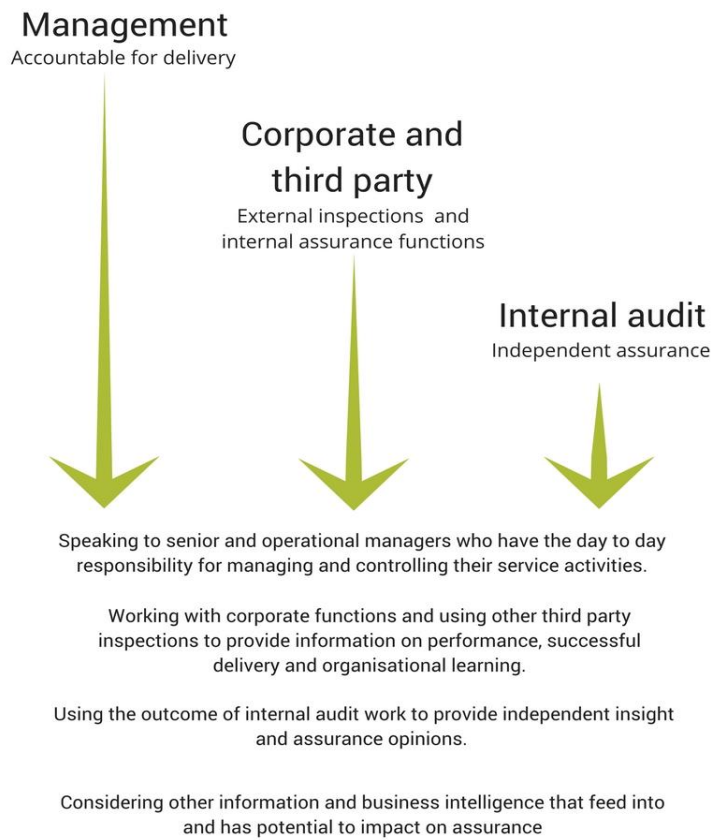
Overview of Assurance

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

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

We do this using the 3 lines of defence model.

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



Chief Executive's Summary

City of Lincoln Council has had to make significant changes as a result of the COVID-19 pandemic, not only to ensure that we kept our critical services functioning, but also like councils across the country, to ensure we support our communities.

We have seen most services recover to a 'new' normal. As well as business as usual we are still facing some additional demands from customers, trying to restore income streams and the need to help the High Street recover.

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 this time of recovery for the city of Lincoln.

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 65% services designated green, 32% amber and 3% red.

The Council's key service functions and critical activities are generally operating well and where there are issues, we are, or have, proactively managed these risks - 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 are effective financial controls 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 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 in place.

As we move towards 2022/23 and onwards, focus is now firmly on the process of delivering our strategic aims.

Whilst vision 2025 was approved in February 2020, due to the onset of the Covid-19 pandemic the launch at the Council's Growth Conference was deferred.

As the council moves back to a "new" business as usual situation, a mid-term review on the proposals in the original vision 2025 has been undertaken.

This sets the Council's vision for the future of the city, its strategic priorities and core values. The five existing priorities and their aspirations have not changed as it was determined that they still meet the needs of the city and our residents. As part of this review, the effect of Covid-19 on the health of our residents has been considered and as a result, a new focus on physical and mental health has also been incorporated.

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

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.

The Council is continuing positively with innovation in service delivery via use of technology, creativity in seeking new sources of income and moving forward with our “One Council” philosophy with the customer right at the heart of everything we do.

Strategic risks

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

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

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

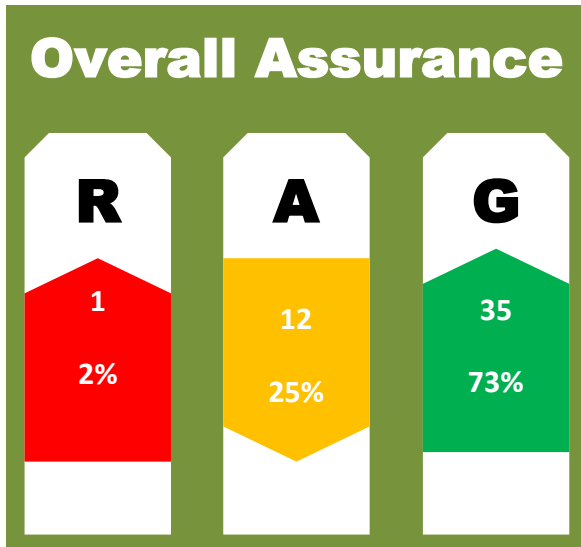
| Risk | Risk rating | Level of assurance | Direction Of Travel |
|---|-------------|--------------------|---------------------|
| 1.Failure to engage & influence effectively the Council’s strategic partners, council staff and all stakeholders to deliver against e.g. Council’s Vision 2020/2025. | Amber | Substantial | = |
| 2.Failure to deliver a sustainable Medium Term Financial Strategy (that supports delivery of Vision 2025 (Council plan)) | Red | Substantial | = |
| 3.Failure to deliver the Towards Financial Sustainability Programme whilst ensuring the resilience of the Council | Amber | Substantial | = |
| 4.Failure to ensure compliance with statutory duties / functions and appropriate governance arrangements are in place, | Amber | Limited | = |
| 5.Failure to protect the local authority's vision 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, behaviour 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 | Substantial | = |
| 9.Failure to deliver key strategic projects | Amber | Substantial | = |

Strategic Risks

| Risk | Risk rating | Level of assurance | Direction Of Travel |
|--|---|--------------------|---------------------|
| 10.Failure of the Council’s key partners and contractors to remain sustainable and continue to deliver value for money | Red | Substantial | = |
| 11.Failure to put in place safe working practices and social distancing measures to protect officers and service users. | Green | Substantial | = |
| 12.Failure to protect the vulnerable in respect of the Council’s PREVENT duties and compliance with safeguarding legislation and procedures. | Red | Substantial | = |
| 13.Failure to mitigate against the risk of a successful cyber-attack against the Council with significant / critical impact. | Red | Limited | 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 | | |

Director's Key Messages

Chief Executive



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

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

Key Messages

CX Directorate has a mix of frontline and support services, many of which continue to be impacted by the Covid19 pandemic.

Customer Services, including the Welfare Team, together with both the Revenues and Benefits teams have continued to support some of the City's most vulnerable residents and have delivered a number of financial support schemes on behalf of the Government, e.g Test and Trace Support Payments, Household Support Fund, Business Rates reliefs, as well as providing their day to day services.

Communications have continued to provide vital messages to staff and residents about what the council is doing to provide help and support during the pandemic and the impacts on service delivery. This is in addition to the media work arising from the return of the Christmas Market and the planning determination for Western Growth Corridor.

Directorate Red Risks

Failure to provide strategic and managerial capacity to respond to requirements of ongoing service delivery and strategic projects

Director's Key Messages

In the midst of the pandemic the Elections Team ensured the safe delivery of the polls for three separate elections, ensuring that the whole event was Covid secure. The Democratic Team have worked to ensure that the Council's democratic processes have been undertaken in a secure manner with the return of face to face committee meetings in 2021.

The Civic Team has also returned to face-to-face events during 2021, with a new Mayor and a full itinerary.

Whilst 2020 saw the majority of staff working from home, 2021 saw the implementation of new ways of working and a return to the office for all staff. This was enabled by the Human Resources Team developing new policies and protocols and providing guidance to managers and support to staff, with a focus on staff wellbeing. The WBL Team have continue to support apprentices and have now recruited a number of new apprentices who are back working in the workplace.

Throughout the year the Facilities Management team have ensured City Hall has remained a safe and 'Covid clean' environment to work and visit and have supported the return to the office and new ways of working.

Legal Services, Financial Services, Procurement, Internal Audit and Property Services have continued their vital behind the scenes work to provide professional support, advice and guidance as required to a range of new schemes, projects and policies, including the significant capital schemes undertaken by the Housing and Major Developments Directorates.

Due to the ongoing presence of Covid19, 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 'Red' and 'Amber' areas of assurance where further work is required:

Members / Member Development

Training and development are taking place but succession planning needs addressing. Initial work has been undertaken on this, but some

work is still required from the members side and Democratic Services, this is therefore ongoing.

Elections and Registration

Staff resource and ensuring the safe delivery of the polls is a significant issue. Planning for the elections is still in accordance with the current covid risk assessments.

Ethical Governance (values, behaviours, culture for Members & staff)

Some areas of improvement are needed, refreshing the member code of conduct in line with new national model plus training. Culture is being addressed through the OD pillar and the ongoing roll out/refresh of the Lincoln Way. Values are being addressed through training and recruiting through a value based recruitment model.

Legal

There is some significant pressure on legal services with reduced capacity in the solicitors in the team. There are a number of complex development and housing projects which require legal resource and is causing capacity issues. In addition, there has been a significant increase of employment disputes which require legal resource.

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 remain, and work is to be undertaken to see how we can utilise the team externally.

Facilities Management

Existing stock condition surveys for corporate assets are due for updating, although proactive work continues to address repair and maintenance issues.

Corporate Asset Management

Existing Corporate Asset Management Plan is overdue for an update.

Business continuity

Whilst services have been effectively operating under 'live' BC plans since 2020 they now require updating to reflect the impact of Covid19

Director's Key Messages

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 future national funding reforms.

Partnership Governance

A governance assurance process is place with assessments for key partnerships due to be completed imminently.

Counter Fraud

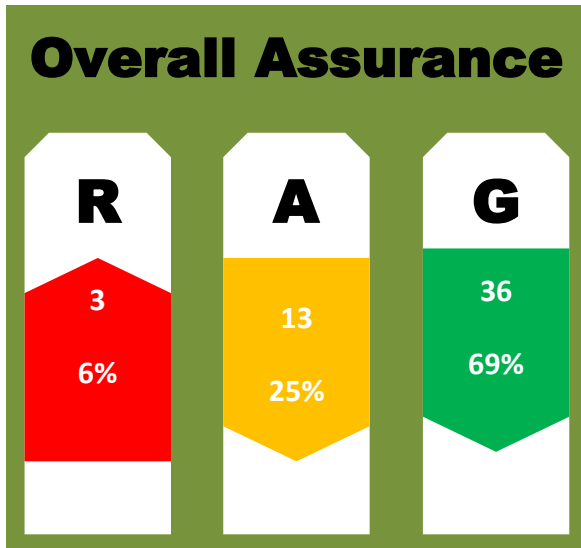
As in previous years, limited resources inhibit the delivery of enhanced counter fraud work, however minimum levels of work are undertaken and partnership working with the LCFP is maximised.

Training & employment support

Lack of funding is impacting on ability to deliver.

Director's Key Messages

Strategic Director - Communities and Environment



| Directorate Red Risks | |
|-----------------------|---|
| | Managing internal and external stakeholder expectations |
| | Impact on changes in Government legislation (Planning, Waste) |
| | Staff redundancies – risk to skills gap |

| Critical Activities | |
|---------------------|---|
| Red | Leisure Centres |
| | Strategic Street Scene Management |
| | Tree management |
| Amber | Performance Management Framework |
| | Service Planning |
| | Public Protection Anti-Social Behaviour |
| | Licensing |
| | Public Conveniences |
| | CCTV |
| | Non-Operational Land |
| | Bus Station |
| | Corporate Health & Safety |
| | Housing Standards |
| | Bereavement Services |
| | Christmas Market |
| | Lincoln Christmas Lights |

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

The impact of Covid 19 continues to impact on the work of the directorate with the focus now on tackling backlogs of inspections.

The directorate manages many of the key income generating streams for the authority and last year we reported on the negative impact of the pandemic on this income. It is pleasing to note that in 21/22 we have seen income streams achieve their forecast figures and hence not place a pressure on the MTFS. Whilst these income streams are much lower than pre-covid, the recovery has been strong across almost all areas of income generation. These income streams support mainstream service delivery so are hugely important to the council.

We continue to face a number of challenges within the directorate – the need to maintain ageing leisure facilities, resourcing the requirements of the Environment Act 2021 and

Director's Key Messages

preparatory work on new street scene contracts. 2022/23 resources are being re-aligned to help address all these issues.

Leisure Centres

Covid has impacted on operations and the financial health of the operator. YLC pool operations are restricted whilst roof repairs are undertaken. YLC shares the site with an academy which has expressed a desire to revisit the existing contractual arrangements between our two organisations.

Strategic Street Scene Management

New Street scene contracts are required to start in Sept 2026. These are large and complex contracts, with associated documentation that needs a full review at strategic and operational levels. Resources have been allocated from the 2022/23 MTFs process for a three year period to commence the work required, and this will be reviewed again each year as part of budget setting. Contractors have advised that they now require a minimum 18 months for mobilisation, and longer for pricing, which shortens the preparation time significantly. The timetable is a risk itself, but there is also uncertainty of the demands from the emerging Environment Act 2021 and other local policies (such as paper and card implementation), all adding to the risks of this high value contract. This work is considered to constitute a high risk for the Council.

Tree management

The City Council's tree stock does not receive routine inspection. The resources available are prioritised to deal with issues responsively. Some initial, limited, funding is being used currently to set up and trial an inspection programme, and the findings from this will be used to suggest the resources required for a sustainable system. As sustained funding is not yet in place it is considered that it constitutes a high level of risk for the council. When funding is allocated and a programme developed and commenced (based on highest risk trees first) it is the view of H & S that this is considered a reasonable and proportionate response, as all trees cannot be inspected at once. However, whilst there are high numbers of trees in the city requiring a first inspection, it is likely that the physical risks may remain for some years.

Performance Management Framework
Further developments have been delayed but the core strategic measures are still regularly reported to Members and portfolio holders.

Service Planning

This was suspended in 21/22 but will restart in 22/23.

Public Protection Anti-Social Behaviour

Covid has impacted on performance due to limited opportunities to engage clients and increased demand on the service, but performance is starting to improve once again.

Licensing

Covid impacts and additional work now restrictions have been lifted. The service is trialling new software to assist in streamlining systems to make work flow faster.

Public Conveniences

The savings programme has required staffing reductions that reduce the service's resilience. Covid has also had an impact on this. As such, until a suitable period has been completed, it is recommended that this service is operating with a medium level of risk.

CCTV

The savings programme has required staffing reductions that reduce the service's resilience. Covid has also had an impact on this. A trial period has been completed, but as the city continues to return to a fuller programme of leisure activity both daytime and in the evening, it is recommended that this service is operating with a medium level of risk, until this resilience is fully tested.

Non Operational Land

The council has land holdings that are not, for a variety of reasons, in active management so decisions need to be taken to either dispose of them, or resource their management for safety and biodiversity. This is under consideration currently and a budget has now been made available to cover resolving any health and safety risks emerging from the now planned six monthly inspections.

Bus Station

The management of the bus station is under contract to Stagecoach. It is known that Stagecoach have suffered under covid

Director's Key Messages

restrictions, and are now impacted very significantly by staffing shortages, resulting in many cancelled services. The effect on the bus station is that they are struggling to fulfil their contractual obligations, leading to more incidents of customer dissatisfaction and increasing interventions by council staff. We are actively managing this situation and more latterly there has been an improvement.

Corporate Health & Safety

The additional workload created by Covid has impacted on normal work streams, but a plan is in place to catch up on backlogs.

Housing Standards

There is a backlog of visits / inspections because of Covid, and a plan is now in place to address this over the next few months.

Bereavement Standards

Capital works have increased capacity but there are staff shortages. Two new members of staff have been recruited and are being trained, which will address this.

Christmas Market

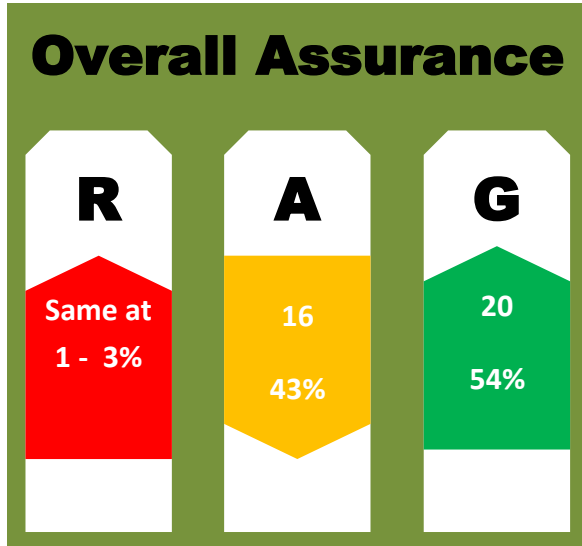
Uncertainties caused by Covid. The 2021 market was very well attended and hopefully sustained visitor numbers in 2022 will be a good barometer to assess how we move back onto the 10 year development plan for the market.

Lincoln Christmas Lights

A review will commence in 22/23 to see if there is a more cost effective way of delivering the lights in the city whilst still maintaining a beautiful display.

Director's Key Messages

Strategic Director - Housing and Investment



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

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

Housing Strategy

De Wint Court

Planned Maintenance

Safety Assurance

Housing Business Support Services

Fleet

Stores

ICT Infrastructure & Assets

IT Security

ICT Maintenance / System Administration

ICT Application implementation & business development

Key Messages

We continue to operate housing services in a challenging environment. As well as the ongoing impacts of Covid19 we are still seeing the impact of Brexit. No direct support has been provided by government for LA Housing Services. Shortages of materials and labour still exist and are restricting delivery.

We continue to try to enhance the standard of our stock and improve our day-to-day repairs service with the customer at the centre. Our Scheduled Repairs pilot continues and is showing some very positive signs in terms of customer satisfaction, productivity and reducing our carbon footprint.

We continue our new build programme to enhance stock numbers and to try and mitigate the impact of the Right to Buy regime. New general needs properties will be delivered directly at Rookery Land and our flagship De Wint Court development will be complete in early March, which will add an additional 70 extra care units to our sheltered housing stock.

Director's Key Messages

New fleet will be delivered in the new financial year which will improve our ability to respond to customers but also drive down journey costs whilst reducing our impact on the environment. Major investment will return during the year as we continue to strive to enhance our own housing standards, more local contracts will be awarded which will hopefully see us keeping the Lincoln pound in the local economy. Rents will remain as low as possible as the Council tries to limit the impact of rising household costs for its tenants.

Our Housing Strategy has been refreshed, as has the 30 year Business Plan. Further work on these key strategies will continue in the coming year.

We will invest more in sustaining tenancies, we have now recruited dedicated officers for the purpose, and we will work closely with DCE colleagues in trying to eliminate ASB and manage its impact on our communities.

Lincare / Emergency Control Centre

The service continues to deliver but staff shortages and significant financial uncertainties means we will review the operating model to ensure sustainability of the service going forward.

Information Management

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

Council House Rent Collection

Arrears increased at the start of the pandemic due to several factors including a freeze on enforcement action. Restrictions have now been lifted arrears and this, coupled with changing work practices and enhanced support packages, have seen collection levels above target despite the continued issues in relation to universal credit.

Resident Involvement

Work is progressing to implement the requirements of recent new legislation, but this may be impacted by vacancies in the short term. A new Resident Involvement Manager is in the process of recruitment. The team have been brought into the wider Housing Strategy Team, giving it more resilience and embedding its work in the Housing Strategy delivery.

Sincil Bank Regeneration
Covid has delayed project delivery, however resident parking proposals are progressing and plans for new homes and redevelopment at Hermit Street are progressing to planning stage.

Void Management

Void numbers are higher than we would normally expect to see at this time. There are a multitude of reasons for this, some related to Brexit and others to the pandemic. A raft of improvement measures has been instigated and the numbers, in the process, are rapidly reducing. Pressure on the general housing need continues to cause resourcing issues.

Housing Strategy

The Housing Strategy has been refreshed and the focus of the team now needs changing. Work plans are being developed to focus on strategic requirements as set out in the Housing Strategy and will be reflected in the Service Plan.

De Wint Court Project

Project is progressing well but there could still be some minor issues that delay practical completion. However, practical completion of the project is anticipated to be at the beginning of March, within the original timescale and cost envelope.

Planned Maintenance

The Council's long term contract has come to an end, and contracts are in place for urgent works. Detailed procurement work is underway for new packages of work that will enhance the stock and improve housing standards.

Safety Assurance

No process / compliance issues but the manager post is vacant. An interim manager is in place whilst a permanent replacement is recruited. Safety Assurance will look to encompass wider compliance requirements resulting from legislation.

Housing Business Support Services

The service continues to operate effectively and is supporting other areas of the council. The major challenge is the replacement of the Directorate IT platform that has needed attention for several years. This work is underway, and an extensive procurement exercise has begun.

Director's Key Messages

Fleet

Production delays may possibly impact on the delivery of new vehicles.

Stores

National shortages of some materials plus contractor performance requires improvement in some areas.

ICT Infrastructure & Assets

Asset database and licensing control require further work.

IT Security

PSN outstanding. New IT Security policies need to be rolled out.

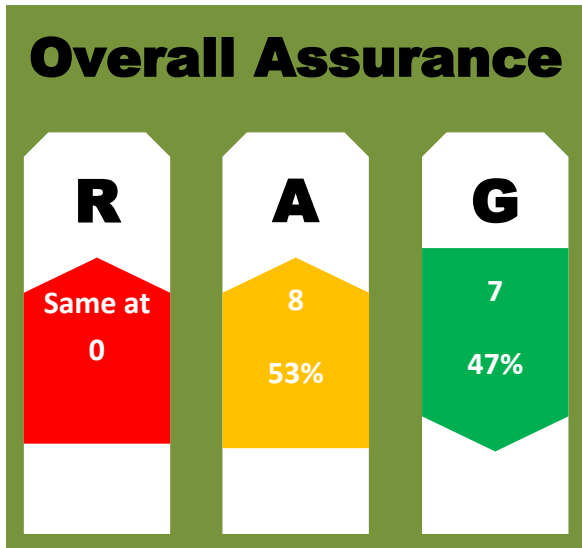
ICT Maintenance / System Administration / Support

The team is currently engaged in a number of projects across several areas. Capacity is therefore stretched.

ICT Application implementation & business development

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

There are none

Amber

- New build / new homes
- Economic Recovery
- Infrastructure
- Place Based Marketing
- Western Growth Corridor
- Lincoln Climate Commission (Net Zero Lincoln)
- Sustainable Warmth Programme
- Tourism (Visitor Economy)

Key Messages

Overview / Commentary

The Directorate is leading on a major programme of work to support economic recovery, the long-term growth of the city and addressing climate change impacts. 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, to co-developing and implementing Lincoln's carbon reduction action plan. 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. Planning consent was achieved on 12 January 2022 and work to enable a start on site later in 2022/23 is well underway. A range of detailed reviews, delivery planning and work

Director's Key Messages

programming is being undertaken, including a full community engagement strategy.

Growth Strategy and Lincoln Investment Plan. This has been developed over the last 2 years through the Town Board to support the Town Fund Bid. A bid for £25m was submitted at the end of October 2020 and £19m was awarded in March 2021 – a further Levelling Up bid was submitted in June 2021 for £25m but was unsuccessful.

Lincoln Town Deal Board. As the accountable body and secretariat for the Town Fund, the Council has been working with Town Deal projects to develop detailed business cases to unlock funding for delivery. Currently, all projects are scheduled to complete the business plan process by the end of March 2022. 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 Small Business Support team have also been successfully supporting businesses within the workspaces and the wider economy. The whole team is working with external partners to support delivery and maximise opportunities to aid Lincoln's recovery.

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 was completed in Summer 2021 to create a multi-functional events space.

City Centre Vibrancy: Central Market & City Square and Tentercroft Street. The Central Market project has achieved planning consent and final details and a construction contract are being negotiated to enable works to begin in May 2022. Further market analysis and design work are being undertaken to support the Tentercroft Street proposals, with support from Homes England, before further detailed designs and business plan work starts later in 2022.

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. 2021/22 has seen investment to improve physical digital infrastructure, with work starting across the city by several commercial companies.

Transport Task Force and Transport Strategy. Lincoln Transport Strategy has been adopted for the period 2020-2036 and has informed the new Lincolnshire Transport Plan and Bus Service Improvement Plan.

In addition to the Economy Vision 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 starting on site in Summer 2021 with the development of 42 affordable homes at Rookery Lane.

The Directorate also continues to lead on addressing the Challenge of Climate Change. As well as working corporately to implement the Council's own carbon reduction plan, the team facilitate and work with partners through the Lincoln Climate Commission to implement the carbon reduction road map. The Council won a national award in 2021 for the success of its work in improving its own environmental management processes and delivery. The Lincoln Climate Commission website has also been well received and used.

New Build / New Homes

Some projects have been delayed as a result of sector challenges and capacity / changes within the wider team.

Economic Recovery

Capacity issues to deliver work required.

Infrastructure

Capacity issues to deliver work required.

Place Based Marketing

Covid has impacted on delivery.

Western Growth Corridor

Phase 1a to start but lots of risks to be managed.

Director's Key Messages

Lincoln Climate Commission

Challenging programme of works to deliver and slightly behind.

Sustainable Warmth Programme

Work is on schedule but need to recruit a project manager.

Tourism

Partnership working requires improvement.

Key Messages

Key Projects

The Council's Project Management framework is fit for purpose.

Projects continue to be delivered but the corporate monitoring and assurance framework has again not been operating during 2021/22. It is planned to resume in 2022/23.

Large projects will have a project board and all projects should have risk and financial management processes in place.

Key Partnerships

Key partnerships have been identified and partnership governance assessments are being undertaken.

SUBJECT: FRAUD RISK REGISTER – ANNUAL REVIEW

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: AMANDA STANISLAWSKI, AUDIT MANAGER

1. Purpose of Report

1.1 To provide Audit Committee members with an update on the fraud risk register.

2. Executive Summary

2.1 As part of the Council's fraud strategy a counter fraud risk register is maintained, and members are requested to consider this annual update.

3. Background

3.1 The Audit committee has a responsibility within its terms of reference to monitor the Council's anti-fraud and anti-corruption arrangements including an assessment of fraud risks.

3.2 This review was a light touch exercise following an-depth review in January 2021.

4. Risk register

4.1 The Fraud Risk Register contains 27 risks - none are Red, 14 are Amber and 13 are Green.

The risks and risk levels are;

| Risk No | Description | Rating | Likelihood | Impact |
|----------------|---|---------------|-------------------|---------------|
| 1 | Contracting / contract management | Green | Possible | Minor |
| 2 | Procurement | Amber | Possible | Minor |
| 3 | Creditor Payments | Amber | Hardly Ever | Major |
| 4 | Income Collection | Green | Hardly Ever | Negligible |
| 5 | Debt management | Green | Hardly Ever | Minor |
| 6 | Money Laundering | Green | Hardly Ever | Negligible |
| 7 | BACS / Cheques | Green | Hardly Ever | Minor |
| 8 | Payroll / employees | Green | Hardly Ever | Negligible |
| 9 | Treasury management / investments | Amber | Possible | Minor |
| 10 | Property, land & equipment | Amber | Hardly Ever | Major |
| 11 | Grants (Housing, Economic Support, Covid) | Amber | Possible | Minor |
| 12 | False Accounting | Green | Possible | Minor |
| 13 | IT / Data / Cyber Fraud | Amber | Possible | Critical |
| 14 | Insurance | Amber | Hardly Ever | Minor |
| 15 | Council Tax | Amber | Probable | Minor |

| | | | | |
|----|--|-------|-------------|------------|
| 16 | Business Rates | Green | Hardly Ever | Minor |
| 17 | Council Tax Support Scheme | Amber | Possible | Minor |
| 18 | Housing Benefits | Amber | Possible | Minor |
| 19 | Housing | Amber | Possible | Minor |
| 20 | Development Management | Green | Hardly Ever | Minor |
| 21 | Theft / Asset misuse | Green | Possible | Negligible |
| 22 | Refund fraud | Green | Hardly Ever | Negligible |
| 23 | Election fraud | Amber | Hardly Ever | Major |
| 24 | Bribery & Corruption | Amber | Hardly Ever | Major |
| 25 | Scams | Amber | Possible | Minor |
| 26 | Identity fraud | Amber | Possible | Minor |
| 27 | Fraud (forgery / falsification / non-disclosure / abuse of position) | Green | Hardly Ever | Minor |

4.2 No risks have been added or removed.

4.3 There have minor changes to current and target risk scores for two risks;

- Risk 13 – IT / Data / Cyber Fraud. The risk remains Amber (with a Critical Impact) but the target Likelihood score has changed from Hardly Ever to Possible as the Business Development Information Technology Manager feels that the likelihood score can never be reduced.
- Risk 21 – Theft / Asset misuse. The risk remains Green (with a Negligible Impact) but the current Likelihood score has changed from Hardly Ever to Possible as the Chief Finance Officer feels that there is an increased opportunity for loss due to working from home.

4.4 Mitigations are in place for all risks.

Some of the main mitigations for the two highest risks are:

13 - IT / Data / Cyber fraud

- New IT security policies approved and being rolled out in 2022
- Cyber security refresher training for all staff in 2021/22
- Completion of Anti-malware audit recommendations
- IT risk register (risk and mitigation review)
- Public Sector Network (PSN) compliance
- Cyber essentials
- IT Disaster Recovery project ongoing

15 - Council Tax

- The Lincolnshire Counter Fraud Partnership is leading on the introduction of a continuous rolling review. This was due to start during 2021/22 but has been delayed until the second half of 2022/23.

4.5. CIPFA Fraud and Corruption tracker

CIPFA provide a national picture of public sector fraud and corruption activity to help local authorities identify and implement mitigating actions.

The key findings from the latest exercise in 2020 were;

- For local authorities in the UK, the total value of fraud identified and prevented in 2019/20 is approximately £239.4m.
- Council tax continues to be the largest area of identified fraud for councils, with more than 30,600 cases totalling £35.9m in 2019/20
- The two highest perceived fraud risk areas for 2019/20 are again procurement and council tax Single Person Discount.
- 32% of respondents 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.
- In 2019/20 – prior to the COVID-19 grant disbursement – grant fraud represented just 0.3% of the total identified instances of fraud in the UK's local government sector. Valued at an estimated loss of £36.6m, the report reveals only 161 instances of grant fraud occurred in 2019/20.

All the above areas are monitored and considered for review by Internal Audit and the Lincolnshire Counter Fraud Partnership.

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 note and comment on the updated fraud risk register.

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? None

List of Background Papers: None

Lead Officer: Amanda Stanislawski, Audit Manager
Telephone (01522) 873321

SUBJECT: DRAFT INTERNAL AUDIT PLAN – 2022/23

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: AMANDA STANISLAWSKI, AUDIT MANAGER

1. Purpose of Report

1.1 To comment on and approve the Internal Audit Plan for 2022/23.

2. Background

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

2.2 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 2022/23

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 considers 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 2022/23– 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. The annual planned days are 313, which 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.

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 plan can be delivered within existing resources. There is already a budget in place for funding the IT audit work to be carried out by a specialist contractor.

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 proposed 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: Amanda Stanislowski, Audit Manager
Telephone (01522) 873321

Internal Audit

Draft 2022/23 Plan



City of Lincoln Council

March 2022

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The contacts at Assurance Lincolnshire are:

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Principal Auditor

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The Planning Process

Introduction

This report sets out the Internal Audit Plan as at 1st April 2022. 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 313 days, covering the period April 22 to March 23. This includes 300 days of internal resource and 13 days specialist IT resource.

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.

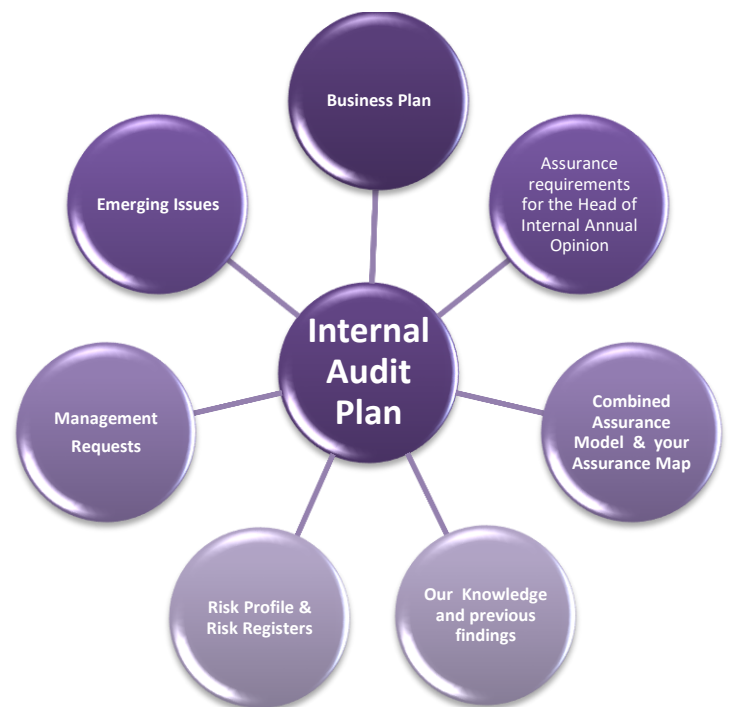
We have prioritised our audit work taking account of the impact an activity will have on the Council if it fails. The criteria for determining priority are:

- **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 **313 Days**. The core team who will be delivering your Internal Audit plan are:

Head of Internal Audit / Audit Manager
Amanda Stanislawski

Principal
Paul Berry

Auditor
Karen Atkinson

Audit Focus for 2022/23

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 previously carried out some assurance work in this area and the plan contains an allocation for post Covid work in 22/23.

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 | <p>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.</p> <p>Working with management we also track the implementation of agreed management actions for all audit reports issued.</p> |
| 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 2023. |
| Consultancy Assurance | At the request of management, we undertake specific reviews where they may have some concern or are looking for some advice on a specific matter or around governance, risk and controls for a developing system. Such reviews are not normally given an audit opinion. |

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 2022/23

Our proposed planned audits are listed below.

| Audit Area | Assurance Sought | Assurance Map RAG Rating Risk | Internal Audit Risk Assessment | Strategic Risk Register | Corporate Priority | Management Request |
|---|---|----------------------------------|-----------------------------------|----------------------------|-----------------------|-----------------------|
| Financial Governance | | | | | | |
| Property/Plant and equipment (Asset Control) | Review of the processes in place to ensure that the assets register held by accountancy is accurate. Looking at - additions and disposals, valuations and reconciliation of the register – Key control review. | G | N/A | | | |
| Insurance | Processes in place ensure that the responsibility for insurance is clearly defined and sustainable, adequate cover is in place, compliance with internal procedures and claims are dealt with promptly. | G | N/A | | | |
| General Ledger - Journals, Control Accounts and suspense accounts | Review to ensure that there are controls in place to ensure that journals made are appropriately, control accounts are reconciled, and suspense accounts cleared promptly – Key control | G | N/A | | | |
| Income - Bank Rec | Processes in place ensure that bank reconciliations are carried out promptly, accurately, reviewed and any discrepancies are rectified – Key control | G | N/A | | | |
| Governance and Risk | | | | | | |
| Organisational Development | To provide assurance that there is an effective workforce plan in place which meets the changing needs of the council in order to serve its communities. To consider the demographic and skills of staff and to ensure that key risks have been identified. | A | 12 | ✓ | | |
| Health & Safety | Risk assessments process | A | 11 | | | ✓ |
| Staff Wellbeing | Review of the impact of changes to working practices on staff and action being taken. Covering areas such as homeworking, health and safety and the impact on sickness, grievances, turnover. | N/A | N/A | ✓ | | |
| Counter Fraud | NFI, strategy, policy, health check, partnership, training, money laundering, identity. | A | 10 | | | |
| Electoral Registration | Review of the maintenance of the electoral register. | A | 9 | | | |

| Audit Area | Assurance Sought | Assurance Map RAG Rating Risk | Internal Audit Risk Assessment | Strategic Risk Register | Corporate Priority | Management Request |
|--|--|----------------------------------|-----------------------------------|----------------------------|--------------------|-----------------------|
| Critical Activities | | | | | | |
| Housing Strategy and New build / new homes | The Council has a plan in place that includes the delivery of new homes which is realistic and adequately resourced. There are processes in place which ensure that any conditions of funding are adhered with. | A | 13 | | ✓ | |
| Economic Recovery - Post Covid | Work to be carried out on the Covid related grants - potential to look at third party providers, possible frauds, lessons learned. | A | 13 | ✓ | ✓ | |
| Corporate Asset Management | There is an up-to-date Strategic Asset Management plan in place which is appropriately communicated. | A | 12 | ✓ | | |
| CCTV | Review of the processes in place to ensure that the service complies with the regulatory requirements, is appropriately resourced and has processes in place for maintaining and sharing information in response to incidents. Equipment is maintained and secure. | A | 12 | | | |
| Fleet | Review to ensure that the fleet is procured and managed in accordance with the policies and procedures. There are controls in place to ensure that fuel and consumables are used on council fleet vehicles and policies on private use of fleet vehicles are in place. | A | 12 | | | |
| Christmas Market | There are plans in place setting out the aims and objectives for the market measuring its performance. Processes are in place for the secure collection of income and procurement of goods and services to support the operation of the market. | A | 12 | | | |
| Climate Change | Review of the Councils climate action plan to ensure that it links to the Councils vision and aspirations, sets clear targets for achievement and is embedded within the Council. | A | 12 | | ✓ | |
| Members | Review of the processes in place to ensure that Members receive the resources (kit & expenses) and development required including their responsibilities and communication especially via social media (Code of Conduct). | A | 11 | | | |

| Audit Area | Assurance Sought | Assurance Map RAG Rating Risk | Internal Audit Risk Assessment | Strategic Risk Register | Corporate Priority | Management Request |
|--------------------------------------|--|----------------------------------|-----------------------------------|----------------------------|--------------------|-----------------------|
| De Wint Court | To review the proposed arrangements in place for the Rent, allocations, staffing and other income in respect of De Wint Court . | A | 11 | | | |
| Housing Repairs | To provide assurance on the operation of the new repairs process and the void repairs process | G | 13 | | ✓ | |
| Programme / Project Assurance | | | | | | |
| Housing IT | System Implementation Gateway reviews | R | 10 | | | |
| Western Growth Corridor | To provide assurance that appropriate partnership governance and programme management arrangements are in place for the construction of Phase 1a. | A | 11 | ✓ | | |
| ICT | | | | | | |
| IT DR | Assurance on IT DR planning, incident response & infrastructure resilience | G | N/A | ✓ | | ✓ |
| IT Asset Management | Review of the processes and policies in place regarding the control of IT assets (Including mobile devices) including asset management, responsibility, use and the security of the devices to protect against unauthorised use, access to information and loss of assets. | A | N/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 | | 230 | | | | |

| Non-Audit | |
|---------------------------------|-----------|
| Advice and liaison | |
| Annual Report | |
| Audit Committee | |
| Review IA Strategy and Planning | |
| Days | 48 |

| Grand Total | Total |
|----------------------------------|--------------|
| HB Subsidy Testing | 35 |
| Total Internal Audit Days | 313 |

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 | Assurance Map RAG Rating Risk | Internal Audit Risk Assessment | Strategic Risk Register | Corporate Priority | Management Request |
|--------------------------|--|----------------------------------|-----------------------------------|----------------------------|-----------------------|-----------------------|
| IT Operations Security | To ensure appropriate security / process arrangements in line with policy/strategy and good practice. Areas to be determined at the start of the audit. | A | | | | |
| Housing Rents | To review the processes in place which ensure that voids are managed effectively reducing the loss of income. Rent is charged correctly to the correct people, collected promptly, accounted for accurately and arrears are managed effectively in accordance with policies. | A | 10 | | | |
| Contract Management | To review the processes in place for managing contracts throughout the Council. | CPR - G | N/A | | | |
| Business Continuity | Review of the lessons learned from the pandemic ensuring that these have been incorporated into the arrangements and plans going forward. | A | 12 | | | |
| Sincil Bank Regeneration | Project delivery | A | 11 | ✓ | | |
| City Infrastructure | Arrangements in place to manage and implement the infrastructure plans within the City (Links in with the Lincolnshire Transport Plan and Strategic Infrastructure Development Plan) | A | 11 | | | |
| Tourism | Review of the arrangements in place for improving the visitor economy. | A | 11 | ✓ | | |
| Parking | Review of the Income collection processes and the strategy. | G | 11 | | | |
| Emergency Planning | Review of the lessons learned from the pandemic ensuring that these have been incorporated into the arrangements and plans going forward. | G | 11 | | | |

| Auditable Areas | Assurance Sought | Assurance Map RAG Rating Risk | Internal Audit Risk Assessment | Strategic Risk Register | Corporate Priority | Management Request |
|------------------------------------|--|----------------------------------|-----------------------------------|----------------------------|-----------------------|-----------------------|
| Housing Assistance | Review of the processes in place for Disabled Facilities Grants, Decant Homes and Security Grants. | G | 11 | | | |
| HRS IT | Review of the implementation of the changes to the system. | R | 10 | | | |
| Procurement | Procurement is undertaken in accordance with legislation and Council policy. Use of Procurement cards is controlled and monitored. | G | 9 | | | |
| Strategic Street Scene Man | Assurance over the arrangements in place over the re-tendering of the contract. | R | 9 | | | |
| Elections & Electoral Registration | Annual review of expenses claims plus maintenance of the electoral register | A | 9 | | | ✓ |

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**.

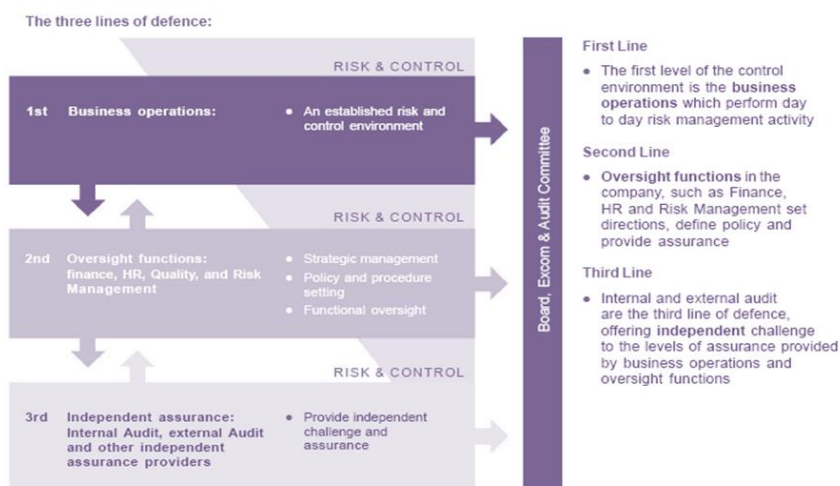


Figure 2 – The three lines of defence

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.

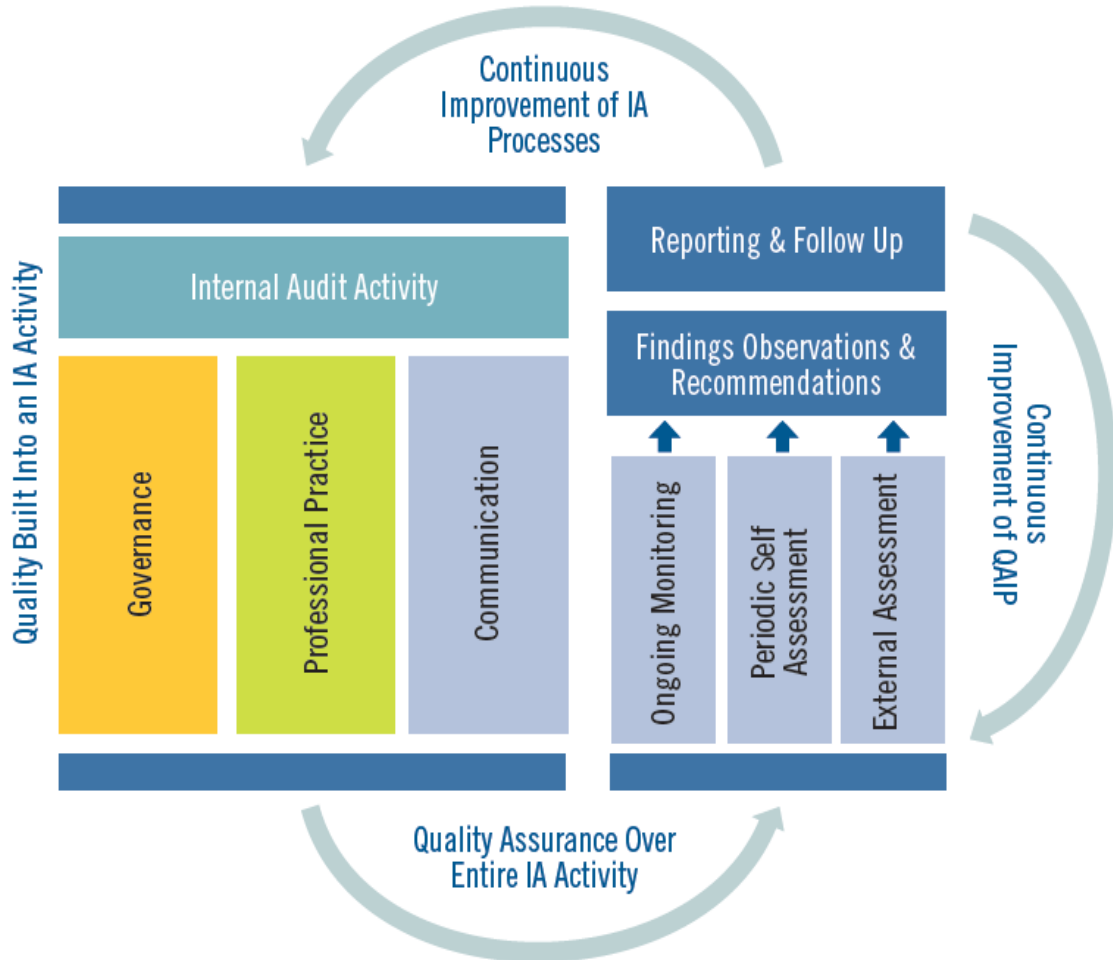
Our Quality Assurance Improvement Programme incorporates both the internal (self) and external assessments – this is a mandatory requirement and the Head of Audit reports annually on the results and areas for improvement. Our internal assessments must

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.

Quality Assurance and Improvement Program (QAIP) Framework



| | |
|----------------------|---|
| SUBJECT: | STATEMENT OF ACCOUNTING POLICIES 2021/22 |
| 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 2021/22 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 are reviewed to ensure that they reflect the requirements of the Code and remain relevant to the Council. There are no material changes in the 2021/22 Code that impact on any of the current Accounting Policies.

4. Strategic Priorities

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

5. Organisational Impacts

- 5.1 Finance

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

5.2 Legal Implications including Procurement Rules
There are no legal or procurement implications arising as a direct result of this report.

5.3 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.

Due to the nature of the report, no specific Equality Impact Analysis is required.

6. **Risk Implications**

6.1 There are no specific risk implications arising from this report.

7. **Recommendations**

7.1 That the Audit Committee review and note the Accounting Policies to be used for 2021/22 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.

Business Improvement Districts

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

Community Infrastructure Levy

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

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

12. Intangible Assets

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

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

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

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

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

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

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

13. Interests in Companies and other Entities

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

14. Inventories and Long Term Contracts

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

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

15. Investment Property

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

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

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

16. Joint Operations

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

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

17. Leases

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

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

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

The Council as Lessee**Finance Leases**

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

18. Overheads and Support Services

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

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

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income

line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

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

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

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

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

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

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

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

Impairment

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

estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

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

20. Heritage Assets

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

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

- Ancient Monuments and War Memorials
- Miscellaneous

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

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

- **Civic Insignia**

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

- **Art and Sculptures**

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

- **Musical Instruments**

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

- **Vehicles**

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

- **Ancient Monuments and War Memorials**

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

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

- **Miscellaneous**

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

Heritage Assets – General

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

21. Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

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

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

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

22. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

23. Reserves

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

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

24. Revenue Expenditure Funded from Capital under Statute

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

25. VAT

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

26. Fair Value

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

- In the principal market for the asset or liability or

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

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

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses appropriate valuation techniques, which takes into account the three levels of inputs to valuations for fair value assets:

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

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| | |
|----------------------|---|
| SUBJECT: | EXTERNAL AUDIT ENQUIRIES 2021/22 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 2021/22 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 2021/22 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 Finance
There are no financial implications arising as a direct result of this report. The report reflects the way financial information is presented in the Council’s Statement of Accounts

4.2 Legal Implications including Procurement Rules
There are no legal or procurement implications arising as a direct result of this report.

4.3 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.

Due to the nature of the report, no specific Equality Impact Analysis is required.

5. Risk Implications

5.1 There are no specific risk implications arising from this report.

6. Recommendations

6.1 That the Audit Committee receive, and comment upon, the enquiries for those charged with governance for the 2021/22 Statement of Accounts.

Key Decision No

Key Decision Reference No.

Do the Exempt Information Categories Apply No

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

Does the report contain Appendices? Yes

If Yes, how many Appendices? One

List of Background Papers: None

Lead Officer: Colleen Warren, Financial Services Manager
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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.

| 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? | <p>Management and the Audit Committee receive 6 monthly updates on counter fraud activity and fraud outcomes (through a fraud and error update report). Although due to resource capacity a 6-month update was not provided in 2021/22.</p> <p>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 22-23 and rolled out again.</p> <p>There is a corporate fraud risk register presented to management and the Audit Committee.</p> <p>Periodic reporting and review by the Audit Committee of counter fraud policies, during 2021/22 the Counter Fraud Strategy/Policy and Anti Bribery Policy has been reviewed.</p> <p>Regular updates on the Internal Audit Plan and reports are provided to management and the Audit Committee.</p> |

| Inquiry Area | Description | Response |
|-----------------------|--|---|
| | | There is a clear reporting mechanism for any suspected fraud to be reported to the Council. |
| Fraud [ISA 240.21] | <p>Are TCWG aware of or have they identified any instances of actual, suspected or alleged fraud within the Council? This includes instances of misconduct or unethical behaviour related to financial reporting or misappropriation of assets.</p> <p>Where TCWG are aware of such instances how have these been addressed?</p> | <p>No – no financial reporting or misappropriation of assets.</p> <p>Instances of external fraud have been identified, primarily in the following areas:</p> <ul style="list-style-type: none"> - Tenancy Council Tax single persons discount - Housing benefits <p>These have been investigated and actioned as appropriate (e.g. penalty, discounts removed, DWP referral, police referral etc.)</p> |
| Fraud [ISA 240.21] | What are the views of TCWG about fraud risks at the Council? | <p>As with any large and complex organisation there are a range of fraud risks and emphasis on reducing fraud risk is continuous.</p> <p>The results of the NFI, internal audit work and reported fraud show some low value frauds.</p> <p>Management and the Audit Committee is kept up to date with fraud risks through updates on the fraud risk register, counter fraud arrangements, Internal Audit and other ad hoc reports.</p> <p>Fraud risks are acknowledged in key areas. Members and officers are aware of these and the risks are managed through established processes.</p> |

| Inquiry Area | Description | Response |
|--------------------------------------|---|--|
| Laws and Regulations [ISA 250.15] | How do you gain assurance that all relevant laws and regulations have been complied with? | <p>The Council is governed by all national legislation, regulation and EU law.</p> <p>The Council's core functions are set out in the Constitution and associated policies and procedures, which reflect the legal and regulatory framework within which it operates.</p> <p>Directorates and Managers are responsible for identifying and complying with the legal and regularity framework.</p> <p>Advice is obtained from the Council's Legal Services as required.</p> <p>All Committee reports have legal implications assessed, reported and these are reviewed by Legal.</p> <p>Training for members and officers is provided, and updates issued through Netconsent where appropriate to track training.</p> <p>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.</p> <p>Internal Audit have undertaken an "emerging legislation" audit/review in the past</p> <p>All contentious/strategic decisions made by the Council are in consultation with the CS/CFO and/or they sit on the boards of all larger projects.</p> |

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AUDIT COMMITTEE**22 MARCH 2022**

SUBJECT: IAS19 – ASSUMPTIONS USED TO CALCULATE PENSION ENTRIES IN THE 2021/22 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 2021/22 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 2021/22.

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 1.0% 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 2022 will be based on the market conditions as at 31 January 2022.

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. Strategic Priorities

7.1 There are specific implications for the Council's Strategic Priorities.

8. Organisational Impacts

8.1 Finance

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

8.2 Legal Implications including Procurement Rules

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

8.3 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

Due to the nature of the report, no specific Equality Impact Analysis is required.

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 2021/22 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? | One |
| 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 2022

Employer briefing note pre-accounting date

Barnett Waddingham LLP
10 February 2022



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Executive summary







This briefing note is addressed to employers participating in the LGPS and details our standard approach to the 31 March 2022 accounting exercise. It sets out our recommended assumptions along with key changes since the previous accounting date and information about what employers need to do. This document has been prepared in advance of the accounting date based on our proposed approach, and will be updated after the accounting date to reflect updated market information at the accounting date. This document is based on market conditions up to 31 January 2022.

This briefing note assumes a previous accounting date of 31 March 2021. For employers whose previous accounting date was not 31 March 2021, this briefing note provides a summary of our recommended assumptions for 31 March 2022 only; should a summary of the key changes since an employer-specific previous accounting date be required then please let us know. Additional fees will apply.

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

How has the balance sheet changed over the year?

The change in the balance sheet position over the year is dependent on the following key variables. In the table below we detail the approximate impact and each of these variables is discussed in more detail in this briefing note:

| Variable/assumption | Impact on balance sheet? | Comments |
|--|---|--|
| Asset returns |  | Asset returns have been higher than the discount rate assumed at the previous accounting date. |
| Discount rate |  | Discount rates have increased which will improve the balance sheet position. |
| Inflation |  | Inflation expectations have increased which will worsen the balance sheet position. |
| Allowance for actual pension increases |  | The 2022 pension increase is higher than previously assumed which will worsen the balance sheet position. |
| McCloud |  | Most employers have already made an allowance for McCloud in their previous disclosures. |
| Overall |  | Overall, we expect the balance sheet position to improve slightly compared with last year for most employers. |

Please note that these general principles are based on an average employer in an average fund with a duration of 20 years. The actual effect of the change in these variables and assumptions will depend on each employer's individual circumstances.

As a participating employer, what do I need to do?

The assumptions set out in this report are the standards that we intend to use unless instructed otherwise. We therefore recommend employers discuss this note with their auditors and agree whether the standard approach is appropriate. The salary increase assumption, for example, is often tailored by the employer to reflect their anticipated pay increase awards.

ACTION: The employer must let the fund know if they want to adopt a different approach or set of assumptions. To assist in this decision, we can provide employers with a deficit modeller which provides an indication of the impact of any changes to their accounting position.

How much will my IAS19/FRS102 report cost?

The fund will communicate fees to employers. There may be additional fees if there are particular features or events for an employer which need to be taken into account including:

- 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.

Where can I get further information?

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.

ACTION: Please get in touch with the fund or your usual Barnett Waddingham contact if you have any queries.

Assets

Asset performance

Asset returns can be very volatile from year to year and will vary by LGPS fund.

A typical LGPS fund might have achieved a return of around 8% for the period from 31 March 2021. This is based on a fund investing 75% in equities, 5% in gilts and 20% in corporate bonds. This could vary considerably depending on each fund's investment strategy.



If the actual asset return for the Fund over the year is higher than the previous discount rate, this will lead to an actuarial gain on the assets; improving the overall position.

How are my assets valued?

To calculate the asset share for an individual employer, we roll forward the assets allocated to each employer at the latest valuation date allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the fund by and in respect of the employer and its employees.

Valuation of the employer's liabilities

To value the employer's liabilities at 31 March 2022, we roll forward the value of the liabilities calculated for the latest full funding valuation using financial assumptions compliant with IAS19 and FRS102.

The full actuarial valuation involved projecting future cashflows to be paid from the fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated value of liabilities as at 31 March 2022 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2022 should not introduce any material distortions in the results provided that the actual experience of the employer and the fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

As required under the IAS19 and FRS102 accounting standards, we have used the projected unit credit method of valuation.

Financial assumptions

The key financial assumptions required for determining the defined benefit obligation for accounting are the discount rate, linked to high quality corporate bond yields, and the rate of future inflation.

We set out our standard approach to the derivation of these assumptions and possible outcomes using market conditions at 31 January 2022.

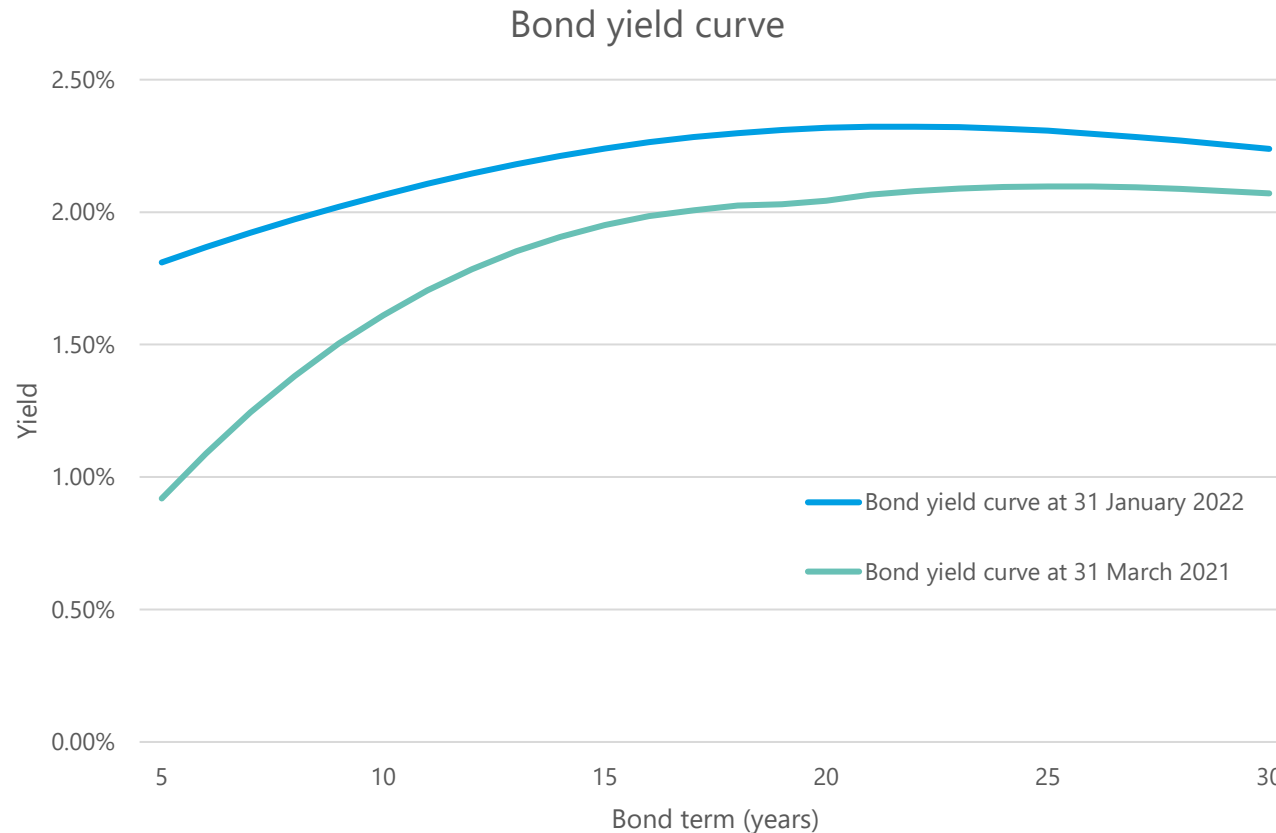
Discount rate

Under both the IAS19 and FRS102 standards the discount rate should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. Our standard approach to derive the appropriate discount rate is known as the Single Equivalent Discount Rate (SEDR) methodology.

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). 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 2022:



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 overleaf.

You will see that the bond yield at 31 January 2022 is higher at all terms than at 31 March 2021. As a result, the discount rate assumed for employers will be higher than that assumed at the previous accounting date.

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All else being equal, a higher discount rate will result in a lower value being placed on the defined benefit obligation and an improvement in the overall position.

Sample SEDRs are set out in the table below based on market conditions at 31 January 2022 with the equivalent 31 March 2021 SEDRs also shown for comparison. It also sets out the estimated effect of the change in discount rate assumed based on the same sample durations:

| Duration (years) | Discount rate | | Estimated impact of change on liabilities |
|------------------|-----------------|---------------|---|
| | 31 January 2022 | 31 March 2021 | |
| 10 | 2.15% | 1.80% | Decrease of 3% |
| 15 | 2.20% | 1.95% | Decrease of 4% |
| 20 | 2.25% | 2.00% | Decrease of 5% |
| 25 | 2.25% | 2.05% | Decrease of 5% |

Assumptions are rounded to the nearest 0.05%.

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.

Comparison to previous accounting date

This approach is the same as the previous accounting date.

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 the 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. 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 (Consumer Prices Index with Housing) 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% at medium and longer terms (from 10 years). This results in an overall IRP of between 0.0% p.a. and 0.3% p.a. depending on the term of the liabilities (for terms ranging from 2 years up to 30 years).

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 2022, with the equivalent 31 March 2021 SEIRs (based on our standard derivation at that time) also shown for comparison:

| Duration (years) | RPI | |
|------------------|-----------------|---------------|
| | 31 January 2022 | 31 March 2021 |
| 10 | 3.80% | 3.45% |
| 15 | 3.60% | 3.35% |
| 20 | 3.40% | 3.20% |
| 25 | 3.35% | 3.15% |

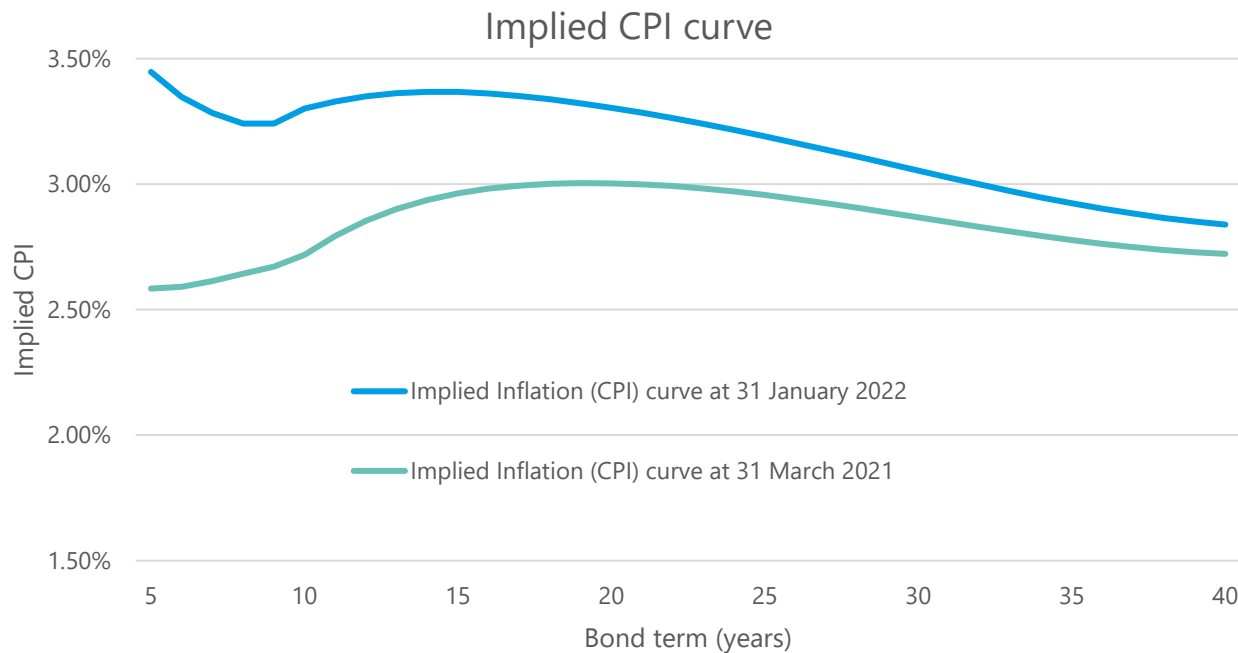
Difference between RPI and CPI

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 of the proposed alignment of RPI to CPIH (and CPI) from that date. 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 between 0.25% p.a. and 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

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 implied CPI curve.

The resulting implied CPI curve at 31 January 2022 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 overleaf.

As shown in the graph, the implied CPI curve at 31 January 2022 is higher at all terms. As a result, the assumed level of future pension increases will be higher than that assumed at the previous accounting date, particularly for employers with lower liability durations since this is where the greatest difference in the curves are.



All else being equal, a higher pension increase assumption will result in a higher value being placed on the defined benefit obligation and a worsening in the overall position.

The tables below 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) | CPI | | Estimated impact of change on liabilities |
|------------------|-----------------|---------------|---|
| | 31 January 2022 | 31 March 2021 | |
| 10 | 3.25% | 2.85% | Increase of 4% |
| 15 | 3.15% | 2.85% | Increase of 4% |
| 20 | 3.05% | 2.80% | Increase of 5% |
| 25 | 3.05% | 2.85% | Increase of 5% |

Assumptions are rounded to the nearest 0.05%.

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

Comparison to previous accounting date

This approach is the same as the previous accounting date.

Salary increases

Where an employer has requested a bespoke salary increase assumption last year, if still appropriate, we will continue the same salary increase assumption adopted at the last accounting date. For all other employers, we will adopt the standard approach which is in line with the latest actuarial valuation. For more information please see the latest valuation report.

ACTION: The employer must let the fund know if they want to adopt a different salary increase assumption. Please note that bespoke financial assumptions will incur additional fees.

Comparison to previous accounting date

This approach is the same as the previous accounting date.

Overall impact of changes to financial assumptions

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: based on assumptions derived as at 31 January 2022:

| Duration (years) | Estimated effect of change in financial assumptions on employer's liabilities |
|------------------|---|
| 10 | No change |
| 15 | Increase of 1% |
| 20 | No change |
| 25 | No change |

Based on market conditions at 31 January 2022, most employers will see the value of their defined benefit obligation remain broadly stable. However, the value of liabilities will increase with interest accumulated over the year.

ACTION: We are also happy to use bespoke financial assumptions. The employer must let the fund know if they want to adopt any different financial assumptions and we would suggest that these are agreed in advance with the employer's auditors.

Please note that any bespoke financial assumptions will incur additional fees.

Additional requirements

Experience items allowed for since the previous accounting date

Experience items arise due to differences between the assumptions made as part of the roll forward approach and actual experience. This includes (but is not limited to) assumptions made in respect of salary increases, pension increases, mortality, and member transfers. Any experience items accounted for will be observed in the asset and/or defined benefit obligation reconciliation tables in the appendices in the individual employer's report.

Allowance for actual pension increases

Our standard approach is to include actual pension increase experience up to the accounting date. The impact will come through as an experience item.



The 2022 pension increase is higher than previously assumed which will result in a higher value being placed on the defined benefit obligation and a worsening in the overall position. The impact may differ depending on the employer's previous assumption and if an employer has not previously allowed for actual pension increases up to 2021.

ACTION: 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.

Accounting modeller

Employers have an option to purchase our accounting modeller to help inform their decision on the financial and demographic assumptions used to produce their IAS19 or FRS102 pensions accounting report. For example, the modeller allows employers to change the 31 March 2022 assumptions to bespoke assumptions and see the impact this would have on the closing position as at 31 March 2022 and also on the Profit and Loss projections for the year to 31 March 2023. We would be happy to provide further information on the modeller features and the associated fees if required.

Valuation of unfunded benefits

Employers may need to include the value of unfunded benefits for their accounts. For these employers, they have the option of adopting a roll forward approach or carrying out a full valuation of their unfunded benefits. If a full valuation approach is required, we will request member data from the Fund in order to value the unfunded liabilities. If a roll forward approach is required, then an estimate of the unfunded liability will be calculated using the estimated liabilities at the previous accounting date.

ACTION: Our default approach is to carry out a roll forward of the unfunded liabilities from the last accounting date. We would be happy to provide further information and the associated fees around the full valuation of unfunded benefits if required.

Demographic assumptions

Our standard approach is to use demographic assumptions in line with the latest actuarial valuation. For more information please see the latest valuation report. For the assumptions as at 31 March 2022, we propose adopting the CMI_2020 model, further details of which are set out below.

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.

Base table mortality

The base table mortality assumptions adopted for the funds' latest triennial funding valuations were best estimate assumptions and we will, therefore, be using the same assumptions, as standard for accounting.

Future improvements to mortality

To project future improvements in mortality, we use a model prepared by the Continuous Mortality Investigation Bureau (CMI). The CMI update their model on an annual basis, incorporating the latest mortality data in the national population.

At the last accounting date, unless an employer opted out, we updated the demographic assumptions to use the CMI_2020 Model.

The CMI are due to publish their updated CMI_2021 Model in March 2022. We do not propose to update our standard approach to use the CMI_2021 Model as we do not expect this to have a significant impact on the value of the liabilities for those employers who adopted our standard approach last year.

ACTION: The majority of employers updated their disclosure last year to use the CMI_2020 Model. For these employers, our standard approach is to continue with this assumption this year.

For any employers who did not update to use the CMI_2020 Model, our standard approach will be to update the mortality assumption to use CMI_2020 with a 2020 weight parameter of 25%. Please let us know if you would like to opt out of this approach.

We are also happy to use bespoke demographic assumptions. The employer must let the fund know if they want to adopt a different mortality assumption and we would suggest that these are agreed in advance with the employer's auditors.

Please note that any bespoke demographic assumptions will incur additional fees.

More information on the CMI_2020 model and our rationale for moving to this model is contained in Appendix 1.

Other considerations

McCloud/Sargeant judgements

There are currently uncertainties in relation to LGPS benefits due to the McCloud and Sargeant judgements. Remedial regulations are expected in 2022 and uncertainty over the benefit changes proposed for the LGPS will remain until these have been finalised.

Impact on liabilities

The McCloud remedy may impact the value of the liabilities in respect of accrued benefits and therefore an allowance may need to be included in an employer's report.

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.

Please see [FAQs](#) for further details.

ACTION: If no previous allowance has been made, then our standard approach will be to include an allowance this year based on the Government Actuary's Department's analysis (further details can be found in the [FAQs](#)) 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. Please let the fund know if you do not want an allowance to be made.

Impact on projected service cost

Where the cost of McCloud has been allowed for in an employer's report, this includes an allowance in the Current and Projected service cost in respect of the benefits members accrue each accounting period. The McCloud remedy is expected to only apply to benefits accrued up to 31 March 2022, and therefore an adjustment is required to the Projected service cost from 1 April 2022 so that no further allowance for the McCloud remedy is made. This will then feed through to the Current service cost in employers' 31 March 2023 reports.

ACTION: If a previous allowance for McCloud has been made, then our standard approach will be to adjust the projected service cost from 1 April 2022 to ensure that no further allowance for the McCloud remedy is made. This work is required to ensure your figures correctly reflect the McCloud remedy and therefore we do not expect employers to opt out of this work.

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

Settlements and curtailments

Employers accounting under the IAS19 standard

When determining any past service cost or gain or loss on settlement IAS19 requires that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. Common events for LGPS employers that this may apply to include outsourcings and unreduced early retirements.

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 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.

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.

ACTION: 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 that they engage with their auditor in advance of the preparation of their report to understand their materiality limit and establish which events fall outside of this.

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.

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 this will incur additional charges.

Please see [FAQs](#) for further details.

Impact of COVID-19

Employers may wish to consider whether it is appropriate to make an allowance for their actual member mortality experience over the accounting year. This would require a full valuation of updated membership data and would incur additional fees. We would encourage employers to discuss with their auditors whether they believe this approach is appropriate based on the employer's specific experience.

Our standard approach is to continue with a roll forward approach in calculating the liabilities, rather than carry out a full valuation of member data. This means that mortality experience is estimated through the benefits paid out to members. The difference between this estimate and the employer's actual mortality experience will then be incorporated once the next actuarial valuation of the fund is complete.

Any impact on service cost due to the Coronavirus Job Retention Scheme will be reflected in the report based on the payroll information we are provided with. We request information relating to unreduced early retirements each year from the administering authority and any redundancies we are made aware of as part of this are included as a curtailment where applicable.

Unless specified in the employer's report, we are not aware of any other events relating to COVID-19 that are to be allowed for in the employer's accounting results. For example, there have been no changes to funding agreements or suspension of payment of individual member transfer values.

Consideration of the mortality assumption in light of COVID-19 is set out earlier in this note.

Goodwin case

We do not intend to make any adjustments to accounting valuations as a result of the Goodwin case. Please see [FAQs](#) for further details.

Guaranteed Minimum Pension (GMP) equalisation and indexation

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 DLUHC on this. Whilst no guidance nor data is available, our standard approach currently is to make no allowance to reflect this judgement. Please see [FAQs](#) for further details.

GMP Indexation Consultation response

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found [here](#).

Our standard assumption for GMP is that the fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we assume that the fund will be required to pay the entire inflationary increase. Therefore, our assumption is consistent with the consultation outcome and we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome. Please see [FAQs](#) for further details.

Associated risks of participating in a defined benefit scheme

In general, participating in a defined benefit pension scheme means that an employer is exposed to a number of risks:

| Risk | Comment |
|---------------------------|--|
| Investment risk. | The fund may hold investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long term, the short-term volatility can cause additional funding to be required if a deficit emerges. |
| Interest rate risk | The fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way. |
| Inflation risk | All of the benefits under the fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation. |
| Longevity risk. | In the event that the members live longer than assumed a deficit will emerge in the fund. This may be mitigated by a longevity insurance contract if held by the fund. There are also other demographic risks. |
| Regulatory risk. | Regulatory uncertainties could result in benefit changes to past or future benefits which could result in additional costs. |
| Orphan risk | As many unrelated employers participate in each fund, there is an orphan liability risk where employers leave the fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers in that fund. |

All of the risks above may also benefit an employer e.g. higher than expected investment returns or employers leaving the fund with excess assets which eventually get inherited by the remaining employers.

For further details on the funding strategy please see the relevant LGPS fund's latest Funding Strategy Statement.

Appendix 1 CMI_2020

Background

The COVID-19 pandemic has led to a sharp increase in reported deaths in the general population, with the number of deaths in 2020 being significantly higher than deaths reported in other years. There were around 73,000 more deaths in the UK from the start of the pandemic to 1 January 2021 than if mortality rates were similar to those experienced in 2019.

Our view is that the pensioner mortality experience will continue to be heavier over both the short and medium term as a result of the pandemic. The short term view is based on having already seen excess deaths continue since the start of 2021. In the medium term (2-10 years), mortality rates could be expected to be higher (than would otherwise have been the case) possibly due to future waves of coronavirus, but more significantly the effects of economic contraction and the long-term health implications of lockdowns are expected to produce heavier mortality.

CMI_2020 model

The CMI have made a material change to CMI_2020 (compared to previous versions) due to the impact of abnormal mortality data in 2020. This change introduces a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results. The CMI have confirmed the core value of this parameter will be 0% (i.e. no allowance for 2020 mortality data). However, the CMI encourages users to consider the parameter in detail before adopting a certain value, and not to take the core values as the CMI's "recommendation".

Changing the 2020 weight parameter has a material impact on projected mortality improvements from 2020. Placing a higher weight on data for 2020 leads to materially lower future mortality improvements as you would expect. However the impact of the 2020 weight parameter on future mortality improvements "dissipates" over time, with the effect completely disappearing by 2040.

Our view is that the overall outlook for best-estimate future mortality improvements looks more negative than implied by the core CMI_2020, with the adverse consequences of the pandemic seeming to outweigh the positive ones.

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:
- the 2020/21 audit and assurance work;
 - the 2021/22 audit planning process; and
 - a summary of recent relevant reports and publications for information
- 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 and VFM conclusion 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 2020/21 is £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; additional fees in relation to the Council's status as an EU Public Interest Entity; additional work required on property valuations and the net pension liability valuation; and additional testing as a result of new auditing standards.

To support implementation of the Redmond review recommendations, MHCLG is providing local authorities with £15 million in additional funding in 2021/22. This is intended to support affected local bodies to meet the anticipated rise in fees for 2020/21 audits, driven by new requirements on auditors and to enable local authorities to develop standardised statements of service information and costs. The Council's allocation has been announced as £18,729.

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

There are no specific equality, diversity and human rights issues arising as result of this report.

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

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External Audit Progress Report

City of Lincoln Council

153
Audit Committee March 2022



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 Committee's February 2022 meeting with updates on:

- the 2020/21 audit and assurance work;
- the 2021/22 audit planning process; and
- recent relevant reports and publications for your information (Section 2).

2020/21 Audit

The 2020/21 accounts work is at the final stages of external quality review and we expect to issue the audit opinion and the draft Annual Auditor's Report (including the Value for Money commentary) by the end of March. There are no additional accounts audit matters to report to the Committee and no matters of concern to highlight in relation to the Council's arrangements for securing Value for Money.

The 2020/21 Assurance work (the auditor reports on the Council's Pooling of Housing Capital Receipts Return and the Housing Benefits Claim) is complete and our findings reported by the deadlines to the relevant Government departments (DLUHC and DWP respectively). There are no matters arising from that work that we need to bring to the Committee's attention.

In line with the national position we have not yet issued the Audit Certificate for 2020/21, which formally closes the audit. The Department and the National Audit Office have still not confirmed their requirements, and do not expect to do so now before July 2022. This affects all audits and we will update the Committee when this has been clarified.

2021/22 Audit

We will share our formal 2021/22 Audit Strategy Memorandum with the Committee at a future meeting. At this stage we do not expect any significant changes to the audit risk profile and the overall audit approach required under the NAO Code of Audit Practice, and we have not identified any significant changes to the financial reporting requirements under the 2021/22 CIPFA Accounting Code. The operating and financial environment for Councils continues though to be challenging and its important our audit plan is properly tailored to the risks and issues. We have continued to update our planning and our interim audit visit, including our normal system walkthroughs and any early substantive testing, is arranged for March 2022. Mazars held their annual Local Government Accountant's workshops in February 2022, which were attended by members of the Council's finance team. We will follow up any specific issues with management

We have not identified any specific significant concerns from the value for money risk assessment to date. The scope of the assessment is largely unchanged through the latest NAO guidance and the work carried out in 2020/21, helped by the management self assessment with supporting evidence, provides a good platform for the 2021/22 assessment. We are continuing to carry out desk top procedures to update our assessment and will report any matters arising if required. The Financial Stability theme is as expected an area where we expect at all Councils to have to continue to keep our assessment up to date, given amongst other things the continuing uncertainty over future funding and cost pressures.

02

Section 02: **National publications**

National publications

| | Publication/update | Key points |
|---|--|---|
| Chartered Institute of Public Finance and Accountability (CIPFA) | | |
| 1. | Emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 Code | CIPFA published a consultation on emergency proposals for the update of the 2021/22 (and 2022/23) Code. They were aimed at improving the completion rates for publication of audited accounts and include: <ul style="list-style-type: none"> • delaying the implementation of IFRS 16 for at least 1 year, so the implementation date would now be 1 April 2023 at the earliest; and • allowing for an optional pause of the property revaluation cycle. |
| Department for Levelling Up, Housing and Communities | | |
| 2. | Measures to improve local audit delays and accounts and audit timetable confirmed | DLUHC announced a new package of measure to support the improved timeliness of local audit. These included additional funds and an extension of the deadline for publishing accounts. |
| 3. | The council tax rebate 2022-23 – billing authority guidance | Guidance to billing authorities on administering the council tax rebate to support households with the rising cost of living. |
| National Audit Office (NAO) | | |
| 4. | AGN/03 – Auditor’s work on Value for Money Arrangements – Updated Guidance | NAO has updated its guidance and confirmed there are no significant changes to the expected approach or timetable. |
| 5. | Framework to review portfolios | This framework provides a structured, flexible approach to reviewing models. It is intended to aid those commissioning or undertaking analysis of a model with the aim of determining whether the model is robust and reasonable. |
| 6. | Good Practice in Annual Reporting | This sets out our good practice principles for good annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area. |
| Mazars | | |
| 7. | Horizon Scanning – Challenges and Opportunities for the Public Sector in 2022 | Mazars has issued its annual Horizon Scanning document setting out for Management and Internal Auditors the topics for consideration in improvement and Internal Audit plans. |
| 8. | Local Government Accountants’ Workshop 2022 | Mazars has held its annual workshops with clients in relation to the key issues for this year’s accounts and audit. |

NATIONAL PUBLICATIONS

CIPFA

1. Emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 Code, February 2022

CIPFA LASAAC has issued an exceptional consultation on time limited changes to the code to help alleviate delays to the publication of audited financial statements. Only 9% of local authority accounts in England met the audit publication deadline of 30 September 2021. The consultation closed on 3 March 2022.

In December 2021, the Department of Levelling-up Housing and Communities asked CIPFA LASAAC to consider ways in which the code may ameliorate this crisis position. CIPFA LASAAC considered this request and has issued this exceptional consultation, which explores two possible changes that might be made as an update to the 2021/22 code and to the agreed position in the 2022/23 code. After considering a wide range of options CIPFA LASAAC decided to explore two approaches:

- an adaptation to the code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation

159 deferring the implementation of IFRS 16 *Leases* for a further year and reversing the planned changes to the 2022/23 code to implement that standard.

The consultation also shows the wide range of options that CIPFA LASAAC considered, which includes some which the board considered were outside of its terms of reference.

<https://www.cipfa.org/policy-and-guidance/consultations/emergency-proposals-for-update-of-202122-and-202223-codes>

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities

2. A new package of measures to support the improved timeliness of local audit, December 2021

This publication sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market. The measures include:

- Steps to increase the number of auditors with skills to carry out the work;
- Additional funding to support increases in audit fees; and
- Extension of the audit deadlines to 30 November 2022 and 30 September for 2023 onwards.

https://www.gov.uk/guidance/measures-to-improve-local-audit-delays?utm_medium=email&utm_campaign=govuk-notifications&utm_source=81365e1a-e6b1-4c1b-bce1-b5ef8fafef6f&utm_content=daily#section-4-longer-term-measures-to-help-stabilise-the-market-and-address-long-term-supply-issues

🏠 A new package of measures to support the improved timeliness of local audit, February 2022

The government has announced a package of support known as the Energy Bills Rebate to help households with rising energy bills, worth £9.1 billion in 2022-23. This includes:

- A £200 discount on their energy bill this autumn for domestic electricity customers in Great Britain. This will be paid back automatically over the next 5 years.
- A £150 non-repayable rebate for households in England in council tax bands A to D, known as the Council Tax Rebate.
- £144 million of discretionary funding for billing authorities to support households who are in need but are not eligible for the Council Tax Rebate, known as the Discretionary Fund.

This guidance covers the operation and delivery of the Council Tax Rebate and Discretionary Fund. The Department for Business, Energy and Industrial Strategy will separately set out details on the energy bill discount scheme in a consultation in the spring.

Funding will be paid to billing authorities in March 2022. Funding for the Council Tax Rebate will be based on the number of eligible properties recorded in the 2021 council tax base statistics.

<https://www.gov.uk/government/publications/the-council-tax-rebate-2022-23-billing-authority-guidance/support-for-energy-bills-the-council-tax-rebate-2022-23-billing-authority-guidance>

NATIONAL PUBLICATIONS

National Audit Office

4. AGN/03 – Auditor’s work on Value for Money Arrangements – Updated Guidance, December 2021

NAO has updated its guidance and confirmed there are no significant changes to the expected approach or timetable for 2021/22 audits.

The guidance can be seen at this link: <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

5. Framework to review portfolios, January 2022

Government broadly defines a portfolio as the programmes, projects and wider work required to meet a common objective. A portfolio differs from a programme, where all activities need to be delivered to achieve the end goal, as there can be choices over the activities undertaken. Our work across government has touched on portfolios brought together to achieve high-profile objectives, such as achieving net zero carbon emissions by 2050 or modernising the justice system. Through this work we have seen the value of portfolio thinking in helping prioritise activities to meet a strategic objective. Portfolio thinking can improve the chances of success by bringing everything together to translate objectives into activities and make effective decisions. It can help to reinforce:

• a shared understanding of an objective across decision-makers, practitioners and stakeholders to bring together the activities that can achieve it;

- a whole system and longer-term perspective to help understand the totality of change required to meet an objective;
- an understanding of the aggregate risk, to then assess this against the risk appetite and tolerance of an organisation; and
- complete and comparative information to help consider all the activities within the portfolio and make effective decisions.

<https://www.nao.org.uk/report/framework-to-review-portfolios/>

6. Good Practice in Annual Reporting, January 2022

This sets out our good practice principles for good annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area.

Our guide draws on examples of good practice from within each of the six sections of an Annual Report: Strategy, Risk, Operations, Governance, Measures of success, Financial performance, External factors

<https://www.nao.org.uk/report/good-practice-in-annual-reports/>

NATIONAL PUBLICATIONS

Mazars

7. Horizon Scanning – Challenges and Opportunities for the Public Sector in 2022, December 2021

Mazars has issued its annual Horizon Scanning document setting out for Management and Internal Auditors the topics for consideration in improvement and Internal Audit plans.

The document states that as the economy and society move into an endemic state of virus management, local authorities have found themselves in an unenviable position. They must balance pre-COVID-19 service demand within a new normality that has exacerbated the need for public services, along with an emptying high street, hybrid working, environmental awareness, and increased personal debt. Balancing the budget has never been more challenging, nor is internal audit so critical to an organisation's resilience. This year's Horizon Scanning report breaks down the assurance requirements of a local authority into five categories:

1. financial resilience,
2. council services,
3. IT,
4. Environmental, Social and Governance (ESG) considerations; and
5. fraud.

Within these headings the report has broken down the detail and shared considerations for internal audit plans.

The guidance can be seen at this link: <https://www.mazars.co.uk/Home/Industries/Public-Social-Sector/Transforming-your-organisation/Horizon-Scanning/Internal-audit-planning-Financial-considerations>

NATIONAL PUBLICATIONS

Mazars

8. Local Government Accountants' Workshops, February 2022

Mazars has held its annual workshops with clients in relation to the key issues for this year's accounts and audit.

The topics included:

- External Audit Market and reforms – updating attendees on the issues being faced and the steps being taken to strengthen the arrangements.
- Audit delivery 2020/21 – an update on the delivery of 2020/21 audits nationally.
- PSAA procurement – an update on the process for the letting of the 5 year contracts for 2023/24 onwards.
- 163 2021/22 timetable – an update on the timetable set out in the regulations, the current proposals and likely timetable.
- CIPFA emergency proposals 2021/22 and 2022/23 – an update on the CIPFA proposals regarding IFRS16 deferral and pause PPE valuations and the possible implications.
- MRP regulations – an update on the proposed changes which are designed to address the Government's concerns over the reasonableness of the policies being applied.
- PPE and Investment Property Valuations – an update on the common areas of concern and issues for audit focus.
- Estimation and judgements – an update on the impact of the new auditing standard and issues for audit focus.
- Expected Credit Loss – a reminder of the expectations under IFRS9 and common areas of concern.
- IFRS16 Preparations – a reminder of the key issues for clients to consider as part of the preparations for the implementation of the accounting standard.

Slides from the workshop were provided to attendees and additional copies can be provided if needed.

Contact

Mazars

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

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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 report to the Audit Committee the Council's assessment for 2021/22 against the Standards contained within the CIPFA 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.

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 acknowledged the additional extraordinary burdens faced by local authorities due to Covid19 and reflected on the extent to which was appropriate to introduce a new FM Code for 2021/22. It concluded that while the first full year of compliance would remain as 2021/2022, this would be within a more flexible framework where a

proportionate approach would be 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, from 2021/22 now 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 should now 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. The Council's Annual Governance Statement for 2020/21 was prepared on this basis.
- 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.

2020/21 Assessment

- 4.7 A self-assessment against the code was prepared in February 2021, which identified a range of actions to be undertaken to move towards full compliance. An update against these actions is provided below:

| Action Required | Timescale | Progress |
|---|-----------|--|
| To continue to support professional development | Ongoing | ONGOING – where required officers have achieved relevant CPD requirements of professional bodies. |
| Review of Financial Procedure Rules | Mar-22 | IN PROGRESS – due to be reported to Audit Committee in June 22 |
| Review of Contract Procedure Rules | Mar-22 | OUTSTANDING – delayed as pending publication of Govt |

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| | | Procurement Green Paper |
| Undertake a review of the Code of Corporate Governance | Jul-21 | COMPLETE |
| Undertake an external quality assessment of Internal Audit | Mar-22 | COMPLETE |
| Implementation of Finance Business Partnering approach | Mar-22 | IN PROGRESS – progress slower than planned due to staffing pressures and covid related work. |
| Development of MTFS to include specific reference to scenario testing | Jan-22 | COMPLETE |
| Assess implications of changes to The Prudential Code | TBD | OUTSTANDING – revised guidance issued, full compliance required by 2023/24 |
| Consider use of Citizens Panel for budget consultation | Dec-21 | COMPLETE |
| Annual reporting of key partnerships to Audit Committee. | Sept-21 | COMPLETE |
| Consider if other major balance sheet items can be made more visible in quarterly reporting. | Mar-22 | IN PROGRESS – progress slower than planned due to staffing pressures and covid related work. |

4.8 2021/22 Assessment

The initial 2020/21 assessment has now been updated for the actions completed and in progress above and in light of other developments during 2021/22, this has resulted in an updated self-assessment, as attached at Appendix A. The actions arising from this updated assessment (which incorporates those outstanding from 2020/2) are as follows:

| Standard | Action Required | Responsible Officer | Timescale |
|----------|---|---------------------|-----------|
| B | To continue to support professional development | CFO | Ongoing |
| C | Review of Financial Procedure Rules | CFO | Jun-22 |
| C | Review of Contract Procedure Rules | Procurement Manager | Mar-23 |
| D | Undertake Assessment against HIA requirements | Audit Manager | Sept-23 |

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| D | Assess outcome of external quality assessment of Internal Audit and develop action plan | CFO/IAM | May-22 |
| E | Implementation of Finance Business Partnering approach | FSM | Mar-23 |
| H | Implement revised MRP policy, if required by DHLUC | FSM | Mar-23 |
| H | Implement revised reporting requirements require in the Prudential Code | FSM | Mar-23 |
| L | Consider further engagement with wider range of stakeholders for budget consultation | CFO/ Policy Unit | Jan-23 |
| O | Consider if other major balance sheet items can be made more visible in quarterly reporting. | FSM | Sept-23 |

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 Vision 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 alignment 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

Due to the nature of the report, no specific Equality Impact Analysis is required.

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 Audit Committee are asked to:

- a) Review the progress of the actions arising from the 2020/21 self-assessment
- b) Review and comment upon the 2021/22 self-assessment, as attached at Appendix A, and the resulting actions required,

| | |
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| 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 | <p>The authority has a clear and consistent understanding of what value for money means to it and its leadership team.</p> <p>There are suitable mechanisms in place to promote value for money at a corporate level and at the level of individual services.</p> <p>The authority is able to demonstrate the action that it has taken to promote value for money and what it has achieved.</p> | <p>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:</p> <ul style="list-style-type: none"> • 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. |

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| | | | | <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ 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. <p>External Audit provide a VFM assessment in although the final outcome of the 2020/21 audit is still awaiting, the audit completion report stated, “At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on the Council's arrangements”.</p> <p>The 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. Monitoring of all aspects, to ensure standard are maintained is undertaken.</p> |
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| | | | | <p>The council has a strong record of identifying and delivering efficiency savings with clarity about any impacts on services. Annual savings of c£10m have been delivered over the past decade.</p> <p>ACTION REQUIRED - NONE</p> |
| B | The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government. | 18/19 | <p>In summary this Statement requires that the CFO:</p> <ul style="list-style-type: none"> • 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. | <p>The Chief Finance Officer post is a key member of the Corporate Leadership Team, reporting to the Chief Executive.</p> <p>She is actively involved in, and does influence, all material business decisions.</p> <p>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).</p> <p>She is ACCA qualified with significant experience of local government finance. Continuing professional development is undertaken as required by her accounting body.</p> <p>There are contracts in place for specialist financial advice (technical accounting, treasury management, financial management & planning and taxation)</p> <p>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.</p> |

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| | | | | <p>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 5 qualified accounting technicians and 2 part qualified accounting technicians. All officers undertake continuing professional development as required by their accounting bodies.</p> <p>ACTION REQUIRED – TO CONTINUE TO SUPPORT PROFESSIONAL DEVELOPMENT - ONGOING</p> |
| Governance and Financial Management Style | | | | |
| C | The leadership Team demonstrates in its actions and behaviours responsibility for governance and internal control. | 21 | <p>The leadership team espouses the Nolan principles.</p> <p>The authority has a clear framework for governance and internal control.</p> <p>The leadership team has established effective arrangements for assurance, internal audit and internal accountability.</p> <p>The leadership team espouses high standards of governance and internal control.</p> <p>The leadership team nurtures a culture of effective governance and robust internal control across the authority.</p> | <p>The leadership exhibit the Nolan principles of public life.</p> <p>There are Financial Procedure Rules which are subject to a full review on a 3-yearly basis, the last review was in 2018, with work now underway to review the document, which is scheduled for approval by Audit Committee and then Full Council in June 2022. 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, but are pending the publication of the Government’s Procurement Green Paper.</p> <p>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.</p> <p>All Committees have separate Terms of Reference.</p> |

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| | | | | <p>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.</p> <p>The authority has in place a clear framework for governance and internal controls through it's Code of Corporate Governance.</p> <p>There are effective arrangements for assurance, internal audit and internal accountability. Any areas of concern raised through those arrangements are managed robustly and transparently.</p> <p>The leadership team espouses high standards of governance and internal control and communicates these clearly to all staff.</p> <p>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.</p> <p>ACTION REQUIRED: REVIEW OF FINANCIAL PROCEDURE RULES – JUNE 2022 REVIEW OF CONTRACT PROCEDURE RULES – MARCH 2023</p> |
| D | The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016). | 22 | <p>The authority of aware of the provisions of the CIPFA Delivering Good Governance Framework.</p> <p>The authority has sought to apply the principles, behaviour and actions set out in the Framework to its own governance arrangements.</p> | 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 latest external review |

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| | | <p>The authority has in place a suitable code of governance.</p> | <p>has been undertaken in February 2022 with the final report awaited.</p> <p>The Council’s Code of Corporate Governance was comprehensively reviewed in July 2021 and is refreshed annually. The last update took place in February 2022.</p> <p>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.</p> <p>Internal Audit have assessed their compliance against the Public Sector Internal Audit Standards and reported this Audit Committee July 2021. The next review will be undertaken in 2023 unless there are any updates to the standards.</p> <p>The previous Head of Internal Audit (Internal Audit Manager) had also assessed themselves against the latest CIPFA document The Role of the Head of Internal Audit 2019, and was in line with the requirements. A new Internal Audit Manager is now in place and will, once they have become established in the role, undertake an assessment.</p> <p>ACTION REQUIRED:</p> <ol style="list-style-type: none"> 1. ASSESS OUTCOME OF EXTERNAL QUALITY ASSESSMENT OF INTERNAL AUDIT AND DEVELOP APPROPRIATE ACTION PLAN – MAY 2022 2. ASSESS NEW HIA AGAINST CIPFA REQUIREMENTS – SEPTEMBER 2023 |
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| E | The financial management style of the authority supports financial sustainability | 22/23 | <p>Strong financial management is assessed against a hierarchy of</p> <ol style="list-style-type: none"> 1. delivering accountability, 2. supporting performance 3. enabling transformation. <p>Need to perform well at each level before moving to the next. This is broadly linked to economy, efficiency and effectiveness.</p> | <p>Achieving stage 1 of the hierarchy. The Council has an effective framework of financial accountability through:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>The Finance Team have implemented a Finance Business Partnering approach, although full role out has been delayed due to the COVID-19 pandemic and will continue through 2022/23.</p> <p>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.</p> <p>ACTION REQUIRED: IMPLEMENTATION OF FINANCE BUSINESS PARTNERING ACTION PLAN – MARCH 2023</p> |
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Long to Medium Term Financial Management

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| F | The authority has carried out a credible and transparent financial resilience assessment | 26 | <p>The authority has undertaken a financial resilience assessment.</p> <p>That assessment tested the resilience of the authority’s financial plans to a broad range of alternative scenarios.</p> <p>The authority has taken appropriate action to address any risks identified as part of the assessment</p> | <p>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 and the impact of Covid on the index. Reference is made to this in the MTFS, with clear reasons for it’s use of reserves and reasons for fluctuations during the period covered by the index.</p> <p>There has not been an independent assessment of the local authority’s financial resilience other than the CIPFA index and the annual external audit.</p> <p>The level of prudent minimum balances in the MTFS is based on a financial risk assessment of the key variables in the budget and the probability of variations (the MTFS also contains a full risk register with details of mitigations in place and to be undertaken). This is then further expanded over the period of the MTFS to produced various scenarios as to assess the impact of key assumptions in the budget. This is documented in the MTFS. In addition, 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.</p> <p>This financial planning and risk assessment, over a 5-year period, allows the Council to identify potential funding gaps and ensure action is taken in advance, e.g. through it’s TFS Programme.</p> <p>ACTION REQUIRED – NONE</p> |
| G | The authority understands its prospects for financial sustainability in the longer term | 26 | The authority has a sufficiently robust understanding of the risks to its financial sustainability. | 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. |

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| | <p>and has reported this clearly to members.</p> | | <p>The authority has a strategic plan and long-term financial strategy that addresses adequately those risks.</p> <p>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.</p> | <p>The current high levels of uncertainty around future funding for local government 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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> |
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| | | | | ACTION REQUIRED - NONE |
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| H | The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities. | 26/27 | <p>The authority is aware of its obligations under the Prudential Code.</p> <p>The authority has prepared a suitable capital strategy.</p> <p>The authority has a set of prudential indicators in line with the Prudential Code.</p> <p>The authority has suitable mechanisms for monitoring its performance against the prudential indicators that it has set.</p> | <p>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.</p> <p>An updated Prudential Code was published in December 2021 and applies with immediate effect, except that authorities may defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. The revised reporting requirements include changes to the capital strategy, prudential indicators and investment reporting. The Council has opted to defer full implementation of the revised reporting requirements until the 2023/24 financial year. The general ongoing principles of the revised Prudential Code, including the requirement that an authority must not borrow to invest primarily for financial return, apply with immediate effect. The Council's Treasury Management Strategy 22/23 has been prepared in accordance with this.</p> <p>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.</p> <p>The Council has assessed the implications of the recent consultation by DHLUC on proposed changes to Minimum Revenue Payment (MRP) requirements</p> |

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| | | | | <p>and is awaiting the outcome prior to implementing any changes.</p> <p>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.</p> <p>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 has been subject to a high level review in 2021 with a full refresh to be undertaken in 2022.</p> <p>Individual financial modelling of capital schemes covers a longer term frame, typically over the asset life and is factored into investment decisions.</p> <p>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.</p> <p>ACTION REQUIRED – IMPLEMENT REVISED REPORTING REQUIREMENTS UNDER THE PRUDENTIAL/TM CODE – MARCH 2023</p> <p>IMPLEMENT REVISED MRP POLICY DEPENDENT ON OUTCOME OF DHLUC CONSULTATION – MARCH 2023</p> |
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| I | The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans | 27 | <p>The authority has in place an agreed medium term financial plan.</p> <p>The medium-term financial plan consistent with and integrated into relevant service plans and its capital strategy.</p> <p>The medium-term financial plan has been prepared on the basis of a robust assessment of the relevant drivers of cost and demand.</p> <p>The medium-term financial plan has been tested for resilience against realistic potential variations in key drivers of cost and demand.</p> | <p>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.</p> <p>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.</p> <p>The MTFS is the best assessment of each Directorate of what their demand pressures will be.</p> <p>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.</p> <p>The Council undertakes an annual service plan process at an Assistant Director level (although the process for 2021/22 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.</p> |
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| | | | | ACTION REQUIRED - NONE |
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| The Annual Budget | | | | |
| J | The authority complies with its statutory obligations in respect of the budget setting process | 29 | <p>The authority is aware of its statutory obligations in respect of the budget-setting process.</p> <p>The authority has set a balanced budget for the current year.</p> <p>The authority is likely to be able to set a balanced budget for the forthcoming year.</p> <p>The authority is aware of the circumstances under which it should issue a Section 114 notice and how it would go about doing so.</p> | <p>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.</p> <p>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 guidance issued by CIPFA in light of COVID-19.</p> <p>ACTION REQUIRED - NONE</p> |
| K | The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves. | 29/30 | <p>The authority's most recent budget report includes a statement by the CFO on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.</p> <p>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.</p> <p>The authority has sufficient reserves to ensure its financial sustainability for the foreseeable future.</p> <p>The report sets out the current level of the authority's reserves, whether these are sufficient to ensure the authority's ongoing</p> | <p>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.</p> <p>The budget report sets out the detail of estimates in terms of key estimates e.g. business rates, council tax grants, housing rents, specific grants, fees and charges etc. It does not set out specific service assumption details and the impact of variations in those.</p> <p>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 2023/24 and 2024/25) whilst a savings programme is delivered. These reserves include general balances as well as a specific covid reserves, the insurance reserve and the Business</p> |

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| | | | financial sustainability and the action that the authority is taking to address any shortfall. | <p>Rates Volatility reserve. The authority has a prudent approach to what is needed to manage risks.</p> <p>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.</p> <p>ACTION REQUIRED - NONE</p> |
| 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 | <p>The authority knows who its key stakeholders are.</p> <p>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.</p> <p>The authority has assessed the effectiveness of this engagement.</p> <p>The authority has a plan to improvement its engagement with key stakeholders.</p> | <p>The Council is aware of who its key stakeholders are.</p> <p>The Council's view is that widespread engagement with the public on council spending is still hard for residents to engage with in a meaningful way, and is not entirely effective in influencing the budget plans. However, the Council engages with it's stakeholders on its medium term financial strategy, annual budget and strategic plan. This is undertaken through an online survey covering; key projects in Vision 2025, savings programme proposals, Council Tax proposals and overall VFM. This survey is specifically sent to the Citizens Panel and is also available to all on the Council's website and is actively promoted through social media.</p> <p>In addition, 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. This allows the engagement to be more targeted to affected groups and ensures that the engagement is meaningful.</p> |

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| | | | | ACTION REQUIRED – CONSIDER FURTHER ENGAGEMENT WITH WIDER RANGE OF STAKEHOLDERS – JANUARY 2023 |
| M | The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions. | 31/32 | <p>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’.</p> <p>The authority offers guidance to officers as to when an option appraisal should be undertaken.</p> <p>The authority’s approach to option appraisal includes appropriate techniques for the qualitative and quantitative assessment of options.</p> <p>The authority’s approach to option appraisal includes suitable mechanisms to address risk and uncertainty.</p> <p>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).</p> | <p>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.</p> <p>In considering a number of development projects the Council also undertakes a development appraisal from a commercial developer perspective to assess overall scheme viability, as well as financial modelling from a LA perspective.</p> <p>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.</p> <p>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.</p> |

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| | | | | <p>These contain both quantitative evaluation of costs and benefits and qualitative evaluation of fit to service objectives and outcomes for residents/service users.</p> <p>The project documentation includes an evaluation of risk and uncertainty and the extent that this can be mitigated for given options.</p> <p>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.</p> <p>ACTION REQUIRED – NONE</p> |
| 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 | <p>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.</p> <p>The reports cover both forward- and backward looking information in respect of financial and operational performance.</p> <p>There are mechanisms in place to report the performance of the authority’s significant delivery partnerships.</p> <p>The reports are provided to the leadership team in a timely manner and in a suitable format.</p> <p>The leadership team is happy with the reports that it receives and with its ability to use these reports to take appropriate action</p> | <p>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.</p> <p>Quarterly reporting is also provided in respect of the Council’s basket of key operational performance indicators.</p> <p>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</p> |

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| | | | | <p>compile performance information on a more regular basis and where relevant highlight the impacts of these.</p> <p>There are mechanisms established to report the performance of the authority's significant delivery Partnerships. Annual assurance assessments for the Council's significant partners are now undertaken and reported to the Audit Committee.</p> <p>The leadership team are happy with the reports it receives and with its ability to use these reports to take appropriate action.</p> <p>ACTION REQUIRED – NONE</p> |
| 187 | <p>O The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.</p> | 33 | <p>The authority has identified the elements of its balance sheet that are most critical to its financial sustainability.</p> <p>The authority has put in place suitable mechanisms to monitor the risk associated with these critical elements of its balance sheet.</p> <p>The authority is taking action to mitigate the risk identified.</p> <p>The authority reports unplanned use of its reserves to the leadership team in a timely manner.</p> <p>The monitoring of balance sheet risks is integrated into the authority's management accounts reporting processes.</p> | <p>The Council has historically considered its reserves position, investments and borrowing, and debt levels as most critical and therefore regular reporting is currently only made on these elements of the balance sheet.</p> <p>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.</p> <p>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.</p> |

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| | | | | <p>The level of arrears for Council Tax, Business Rates, Housing Benefit Overpayments and Former Tenant 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.</p> <p>Housing Rent arrears are reported to Performance Scrutiny and the Executive on a quarterly basis.</p> <p>Other assets and liabilities are only included in the Annual Statement of Accounts report to Audit Committee, Executive and Full Council.</p> <p>Officers are currently reviewing if other major balance sheet items can be made more visible in quarterly financial reporting.</p> <p>ACTION REQUIRED - CONSIDER IF OTHER MAJOR BALANCE SHEET ITEMS CAN BE MADE MORE VISIBLE IN QUARTERLY FINANCIAL REPORTING – SEPTEMBER 2023</p> |
| 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 | <p>The authority's leadership team is aware of the CFO's responsibilities in terms of the preparation of the annual financial statements.</p> <p>The authority's CFO is aware of their responsibilities in terms of the preparation of the annual financial statements.</p> <p>These responsibilities are included in the CFO's role description, personal objectives and other relevant performance management mechanisms.</p> | <p>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.</p> <p>These responsibilities form part of the CFO's role description and personal objectives.</p> <p>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</p> |

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| | | | <p>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.</p> | <p>external auditors (current 2020/21 opinion is awaited, although draft report concludes an unqualified opinion).</p> <p>ACTION REQUIRED - NONE</p> |
| Q | <p>The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions</p> | | <p>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.</p> <p>The information in these reports is presented effectively.</p> <p>These reports are focused on information that is of interest and relevance to the leadership team.</p> <p>The leadership team feels that the reports support it in making strategic financial decisions.</p> | <p>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.</p> <p>The report also sets out the impact of key variances on the MTFS/future years budgets and any mitigating action being taken.</p> <p>These reports focus on material issues, which require action or awareness from the leadership team and therefore are appropriately focused.</p> <p>The leadership team agreed that the reports support it in making strategic financial decisions.</p> <p>ACTION REQUIRED – NONE</p> |

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AUDIT COMMITTEE**22 MARCH 2022****SUBJECT: DLUHC: MEASURES TO IMPROVE LOCAL AUDIT DELAYS****DIRECTORATE: CHIEF EXECUTIVE****REPORT AUTHOR: JACLYN GIBSON, CHIEF FINANCE OFFICER****1. Purpose of Report**

1.1 To provide the Committee with a summary of the Government's announcement of a new series of measures to support the timeliness of local audit (conducted by external audit), and the implications for the Council.

2. Background

2.1 Local government audit plays a vital role in providing local authorities with accurate and reliable financial information to plan and manage their services and finances effectively. The timely completion of local audits also ensures local authority financial arrangements, including whether value for money is being achieved, are transparent to the taxpayer, and facilitates assurance for the public sector.

2.2 There have been several challenges around the timeliness of local audits in recent years with only 45% of 2019/20 audits completed by the deadline of 30th November 2020 and, most recently, only 9% of 2020/21 audits completed by the extended deadline of 30th September 2021 (CoLC not being one of the 9% completed on time).

2.3 There are a variety of reasons for this including:

- Audit firms are seeing a high turnover of qualified staff.
- Increase in audit scope and regulatory pressures; and
- Local authorities have competing priorities and have often diverted their resources from the audit process to other areas, affecting their preparedness for audit, exasperated by the COVID 19 pandemic (not applicable to CoLC).

2.4 Given the complexities of the drivers behind the audit delays, the Government are clear that a whole system response is needed, with local bodies, audit firms, regulatory bodies and code-setters working collectively to implement solutions across the sector.

2.5 The Government is continuing to prioritise measures to improve timeliness and support capacity as part of it's response to the Redmond Review (previously reported to this Committee on 23rd March 2021). Measures taken to date include:

- Greater flexibility given to the Appointing Person through streamlining the fee variation process and extending the deadline for setting fees to take into consideration latest market considerations.

- Providing £15m additional funding to local bodies for 2021/22 to support implementation of recommendations from the Redmond Review and additional costs relating to new audit requirements.
- Extension of the statutory deadline for publishing local authority accounts to 30th September from 31st July from 2020/21 for 2 years.
- Consulted on proposals for a new systems leader body for local audit.

2.6 However, while these changes will be beneficial in the longer term, additional short-term measures are required to address the deterioration in timeliness.

3. Measures to improve local audit delays

3.1 In December 2021, the Government committed to a series of new measures to support improved timeliness and the wider local audit market. These measures are summarised in the table below with further detailed analysis, including the potential impact on the Council, set out in Appendix A.

3.2

| Section | Key Point/Measures |
|--|--|
| Section 1 – Measures relating to audit firms and timely completion of audits | Financial Reporting Council to revise Key Audit Partner guidance and CIPFA to develop local audit training diploma and provide technical advisory service to auditors. |
| Section 2 – Measures relating to local bodies and quality of accounts preparation | Government to provide additional resources to local authorities and CIPFA to publish guidance on audit committees. |
| Section 3 – Proposed measures relating to accounting and audit requirements | National Audit Office to review auditing requirements and CIPFA to review accounting requirements as well as delaying implementation of standardised statements. |
| Section 4 – Longer-term measures to help stabilise the market and address long-term supply issues | Extending deadline for audit of accounts, providing certainty of auditing requirements over the appointing period, development of industry-led workforce strategy. |

4. Strategic Priorities

4.1 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.

5. Organisational Impacts

5.1 Finance

To support implementation of the [Redmond review](#) recommendations, DHLUC has provided local authorities with £15 million in additional funding in 2021/22. The Council's allocation was announced as £18,729. A further £15m pa of funding for local authority's, covering the 3-year period from 2022/23 has been announced as part of these new measures. Specific allocations have not been announced, but the Medium Term Financial Strategy assumes that the allocation will be in line with the 2021/22 award.

5.2 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.

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

5.3 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.

Due to the nature of the report, no specific Equality Impact Analysis is required.

6. Risk Implications

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

7. Recommendation

7.1 The Audit Committee note the latest measures that have been announced and the potential implications for the Council.

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| Key Decision | No |
| Do the Exempt Information Categories Apply? | No |
| Call in and Urgency: Is the decision one to which | No |

**Rule 15 of the Scrutiny
Procedure Rules apply?**

How many appendices
does the report contain?

One

List of Background Papers: Redmond Review into the oversight of local audit and the
transparency of local authority financial reporting –
Audit Committee, 23rd March 2021.

Lead Officer:

Jaclyn Gibson, Chief Finance Officer
Jaclyn.gibson@lincoln.gov.uk

| Section 1 – Measures relating to audit firms and timely completion of audit | |
|---|--|
| Measure | Impact on CoLC |
| FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP. | This is training support for external auditors to allow new route for auditors to become key audit partners. The Council should see a better quality of audit as a result. |
| Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants. | Designed to increase supply/quality in the audit market, external auditors will have a larger pool of talent to choose from. The Council should see a better quality of audit as a result. |
| Section 2 – Measures relating to local bodies and quality of accounts preparation | |
| Measure | Impact on CoLC |
| DLUHC to provide further funding of £45 million over the course of the next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements. | The Council is due to receive £0.018m of the £15M for 21/22 to support new burdens from the new VfM requirements placed on audited bodies/external auditors. It is expected that the Council will be entitled to a similar amount p.a. for the next 3 year period (22/23 – 25/26). |
| DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs. | Establishment of a targeted forum to be attended by the Council's Audit Committee Chair (first forum to be held on 22 nd March 2022). |
| CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, CIPFA will consider making the guidance, audit committee/independent member processes a statutory requirement. | Council to provide Audit Committee training on new guidance if required and consider any changes required to the Audit Committee's Terms of Reference and/or work programme. No other implications on independent member as already part of Committee structure. |
| Section 3 – Proposed measures relating to accounting and audit requirements | |

| Measure | Impact on CoLC |
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| NAO rolling over of amendments to 20/21 AGN 03 and 07 to allow for alteration of the timing of elements of the VfM arrangements work and to enable more focus on fully delivering opinions on the financial statements in line with statutory timeframes. | Audit of VfM for 2020/21 continues to the revised deadline, following issuing of audit opinion for the financial statements. |
| CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 22/23 Accounting Code and comply with IFRS and statutory accounting principles. HMT to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 22/23 onwards. | Potential change to the format / structure of the accounts from 22/23, to make financial information more transparent and accessible for lay people. |
| The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 21/22. | <p>A potential change to how fixed assets are valued for 21/22 which may change both accounting and auditing requirements. These changes have recently been consulted upon and an outcome is awaited ahead of the preparation of the 21/22 accounts.</p> <p>The Council is concerned that whilst these changes may reduce audit work in the short term, they may potentially create issues in later years as they are unwound. Additionally, the proposals focus on property valuations, the majority of work on which has already been undertaken by Council's ahead of the outcome of the consultation.</p> |
| Delaying the implementation of standardised statements and associated audit requirements | Delay to the implementation of these proposals will allow officers to concentrate on the wider issues associated with the current accounting/auditing requirements. |
| Section 4 – Longer-term measures to help stabilise the market and address long-term supply issues | |
| Measure | Impact on CoLC |

APPENDIX A

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| <p>PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24.</p> | <p>The Council's approach in terms of the next round of local audit contracts was presented to Audit Committee on 14th December 2021 and approved by Council on 18th January 2022.</p> |
| <p>Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 21/22 accounts and the 30 September date for 5 years from 22/23 – 27/28.</p> | <p>The auditing period is extended which places elongated pressure on Council finance staff in respect of the resources involved in supporting the audit.</p> <p>Clarity is required on the proposed deadline in terms of whether the Council is still required to submit draft accounts by the end of May from the 22/23 accounts onwards.</p> |
| <p>NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period.</p> | <p>This provides clarity of the auditing requirements for the appointing period which will provide stability to audit firms.</p> |
| <p>Developing an industry-led workforce strategy, working with system leaders and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications.</p> | <p>Provides framework for external audit services moving forwards.</p> |

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AUDIT COMMITTEE**22 MARCH 2022**

SUBJECT: AUDIT COMMITTEE WORK PROGRAMME

DIRECTORATE: CHIEF EXECUTIVE

REPORT AUTHOR: JACLYN GIBSON, CHIEF FINANCE OFFICER

1. Purpose of Report

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

2. Background

2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) identifies the purpose of an Audit Committee, in its Practical Guidance for Local Authorities and Police 2018 Edition, as providing those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. In local authorities, audit committees are necessary to satisfy the wider requirements for sound financial and internal control. Accounts and Audit (England) Regulations 2015 state ‘the relevant authority must ensure that it has a sound system of internal control which; facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk’. With a known work plan, and appropriate and timely learning and development for Members, the committee will be well prepared and members will gain the knowledge and experience needed to carry out their role effectively.

2.2 The Audit Committee approves a work programme each year and monitors progress against it. Any changes to the work programme are reporting to the Committee.

3. 2021/22 Work Programme

3.1 The proposed work programme is attached at Appendix B. Since last reporting to this Committee, the following changes have been made to the work programme (as shown in red/italics in Appendix B):

- **22nd March Meeting**

- **Deferrals**

- External Quality Assessment: Final Report – the EQA was undertaken by CIPFA in February 2022, however the final report has not been received. This will be deferred to the next Audit Committee in June 2022.

- **Additions**

- Next Steps Accommodation Programme: Compliance Audit Result – reported added to comply with Homes England assurance requirements.
- DHLUC: Measures to improve timeliness of local audit – reported added to provide an update to Audit Committee on latest Government measures

3.2 A copy of the Audit Committee’s terms of reference is attached at Annex A

3.3 A new work programme for the municipal year 2022/23 is currently being prepared and will be presented to the Committee at it’s first meeting of the year on 14th June 2022.

4. Learning and Development

4.1 CIPFA identify a key characteristic of an effective Audit Committee as having a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. There is a range of knowledge and experience that audit committee members can bring to the committee which will enable it to perform effectively. No one committee member is expected to be an expert in all areas. There are however some core areas of knowledge which committee members need to acquire in addition to the need for regular briefings and training.

4.2 Members need to consider annually their learning and development plan to support them in delivery of their roles. During 2021/22 Members have received the following training:

- 10th June 2021 – General Audit Committee Awareness
- 22nd July 2021 – Local Government Financial Statements
- 1st February 2022 – Treasury Management

Counter Fraud learning, which was scheduled for December 2021, is on hold pending the development of a training package through the Lincolnshire Counter Fraud Partnership and will be rolled out as soon as this is available. In terms of the Audit Committee effectiveness training, this has now been procured through Fifield Training and is scheduled for 6th June 2022.

4.3 Members of the Committee were also invited to attend the Update for Local Authority Audit Committee Members Webinar hosted by CIPFA. Unfortunately, no Members were able to attend. Should the webinar material be made available then this will be circulated to Members of the Committee.

4.4 The Chair of the Committee has attended a Audit Committee: Leadership Essentials Programme delivered by the Local Government Association. The programme, aimed at Audit Committee Chairs, discussed how Audit Committees can be most effective, drawing on the insights of auditors to ensure that the public can have confidence in the way the council is managing its financial affairs.

4.5 In addition, details of the Local Government Association’s soon to be established targeted forums, aimed at further strengthening the capability and skills of audit committee members, have now been received. The first of these forums, to be

attended by Audit Committee Chairs, or Vice Chairs, or substitutes, will be held on 22nd March 2022.

5. Strategic Priorities

- 5.1 The Internal Audit Service and Audit Committee contributes to the Council's strategic priorities, by helping to manage risk and achieve its objectives.

6. Organisational Impacts

- 6.1 Finance – 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 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.

Due to the nature of the report, no specific Equality Impact Analysis is required.

7. Risk Implications

- 7.1 By identifying the key topics to be considered at the Audit Committee meetings and receiving appropriate learning and development sessions in respect of their roles and responsibilities, Audit Committee Members can undertake their duties effectively and deliver them to a high standard, thereby adding to:
- the robustness of the risk management framework;
 - the adequacy of the internal control environment and
 - the integrity of the financial reporting and annual governance of the Council.

8. Recommendation

- 8.1 Audit Committee are asked to comment on and agree on 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?

Two

List of Background Papers:

None

Lead Officer:

Jaclyn Gibson, Chief Finance Officer
Jaclyn.gibson@lincoln.gov.uk

9.1 Audit Committee

The Council will appoint an Audit Committee.

9.2 Composition

Audit Committee

- (a) The Audit Committee will comprise • seven Councillors • one independent member
- (b) The seven councillors of the Audit Committee should include the Chair of Performance Scrutiny Committee.
- (c) A member of the Executive may not be a member of this Committee

9.3 Statement of purpose

(a) The Audit Committee will have the following roles and functions:

- (b) The audit committee is a key component of the City of Lincoln's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- (c) The purpose of the Audit Committee is to provide independent assurance to the Council members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the City of Lincoln's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.
- (d) To decide upon and authorise allowances to the Committee's Independent Member.

Governance, risk and control

- (a) To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- (b) To engage with relevant committees to help support ethical values and reviewing arrangements to achieve those values as appropriate
- (c) To appoint Lead Member to monitor and oversee Information Governance practices within the Council along with the Information Governance Board.
- (d) To monitor the effectiveness of the Authority's risk management Arrangements (development and operation),
- (e) To monitor the Council's anti-fraud and anti-corruption arrangements (including an assessment of fraud risks);
- (f) To monitor the counter-fraud strategy, actions and resources.
- (g) To monitor progress in addressing risk-related issues reported to the committee.
- (h) To maintain an overview of the Council's constitution in respect of contract procedure rules and financial procedure rules;
- (i) To review any issue referred to it by the Chief Executive, a Strategic Director, Monitoring Officer, Chief Financial Officer or any Council body as the Chair considers appropriate within the general Terms of Reference of the Committee
- (j) To review the Authority's assurance statements, including the Annual Governance Statement prior to approval, ensuring it properly reflects the risk environment and

supporting assurances (including internal audit's annual opinion on governance, risk and control)

- (k) To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- (l) To review the Council's arrangements for corporate governance, including the local Code of Corporate Governance and agreeing necessary actions to ensure compliance with best practice (the good governance framework, including the ethical framework)
- (m) To review the governance and assurance arrangements for significant partnerships or collaborations.
- (n) To consider the Council's compliance with its own and other published standards and controls;
- (o) To report and make recommendations to Executive or Council on major issues and contraventions;
- (p) To have rights of access to other Committees of the Council and to strategic functions as it deems necessary.
- (q) To receive on an annual basis a report on the Treasury Management Strategy before approval by the Executive and Full Council.
- (r) To be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Internal audit

- (a) Receive and consider the annual report and opinion of the Internal Audit Manager including conformance with Internal Audit Standards
- (b) Review a summary of internal audit activity including internal audit reports on the effectiveness of internal controls, seeking assurance that action has been taken where necessary on the implementation of agreed actions;
- (c) To consider summaries of specific internal audit reports as requested by the Audit committee.
- (d) To Approve (but not direct) internal audit's risk-based annual audit plan including resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those sources.
- (e) Audit Committee Chair to approve significant interim changes to the risk based internal audit plan and resource requirements followed by report to Audit Committee.
- (f) To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- (g) To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments
- (h) To monitor audit performance, including QAIP results and any nonconformance with PSIAS and LGAN.
- (i) To consider whether the non-conformance is significant enough that it must be included in the AGS
- (j) Consider the annual review of effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations
- (k) To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years
- (l) To receive reports outlining the action taken where the Audit manager has concluded that management has accepted a level of risk that may be

unacceptable to the authority or there are concerns about progress with the implementation of agreed actions

(m) To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

(n) To have the right to call any officers or Members of the Council as required to offer explanation in the management of internal controls and risks.

(o) To approve the internal audit charter.

External audit

(a) To consider the reports of external audit and inspection agencies, including the external auditor's annual letter, relevant reports, and the report to those charged with governance

(b) To consider specific reports as agreed with the external auditor.

(c) To advise and recommend on the effectiveness of relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;

(d) To comment on the scope and depth of external audit work and to ensure it gives value for money.

(e) To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.

(f) To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

(l) To commission work from internal and external audit, as required, and as resources allow;

Financial reporting

(a) The Audit Committee, as the Committee "Charged with Governance" should consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts

(b) To review the annual statement of accounts. The Committee should consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

c) The Committee will monitor management action in response to any issues raised by external audit 151

Accountability arrangements

(a) To report to full council on an annual basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

9.4 Proceedings of the Audit Committee

(1) The Audit Committee must conduct its proceedings in accordance with Rules 6-8, 12.3 to 12.7, 14 -17 and 18-28 (but not Rule 23.1 or 26 of the Council Procedure Rules set out in Part 4 of this Constitution.

9.5 Quorum

Audit Committee

The quorum for any meeting of the Audit Committee shall be three Councillors.

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**AUDIT COMMITTEE
WORK PROGRAMME 2021/22**

| Meeting dates | Audit Items – Revised Agenda | Training (Suggested) |
|------------------------------------|--|---------------------------------------|
| 10 th June | | Training, Member Development |
| 6 July 21 | <ul style="list-style-type: none"> • Annual Internal Audit Report • Annual Governance Statement (Draft) • Counter Fraud Policies – Counter Fraud Strategy • Annual Counter Fraud report • Code of Corporate Governance • External Audit - Audit Completion report (19/20) • External audit – annual audit letter (19-20) • Audit Committee Work Programme • Statement of Accounts 19/20 | |
| 15 July 21 (Additional meeting) | <ul style="list-style-type: none"> • Grant audit – approval | |
| 22 July 21 | <ul style="list-style-type: none"> • External Audit Progress report • Internal Audit Progress report • Audit recommendations. • Risk Management Annual Update • Review of effectiveness (IA/Audit Committee) • Statement of Accounts (Draft)* • EQA report (approach) • Audit Committee Work Programme | Local Government Financial Statements |
| 23 Sept 21 | <ul style="list-style-type: none"> • Internal Audit progress report • Annual Complaints report • Information Governance Update | |

| | | |
|-----------|--|----------------------------|
| | <ul style="list-style-type: none"> • Audit Committee Work Programme • IT Disaster Recovery update report • Assessment of going concern status | |
| 14 Dec 21 | <ul style="list-style-type: none"> • Code of Corporate Governance (update) • Audit Committee Work Programme • Internal Audit progress report • Annual Governance Statement - monitoring • Audit recommendations report • Counter Fraud policies – Anti bribery policy review • Internal Audit Plan 21-22 • Partnership Governance • Statement of Accounts (including Annual Governance Statement) (Final) – • External Audit – Audit Completion report (ISA 260 and Letter of Representation) • External Audit – Progress Report | |
| 1 Feb 22 | <ul style="list-style-type: none"> • Internal Audit Progress report • Treasury management policy and strategy (consultation prior to approval by Council) • Code of Corporate Governance • Audit Committee Work Programme • Outstanding Licensing Audit Recommendations | Treasury Management |
| 22 Mar 22 | <ul style="list-style-type: none"> • Internal Audit Progress report • Audit recommendations report • Combined Assurance report • Fraud risk register • Annual Governance Statement –update report • Internal Audit Strategy and Plan 22-23 • Statement on Accounting Policies • External Audit Inquiries • IAS19 Assumptions | |

| | | |
|-------------------|--|---|
| | <ul style="list-style-type: none"> • External Audit plan update report • Information Governance update • Audit Committee Work Programme • EQA final report • Partnership Governance • CIPFA Financial Management Code • Next Steps Accommodation Programme – Compliance Audit Result • DHLUC: Measures to improve timeliness of local audit | |
| 6 Jun 22 | | Audit Committee effectiveness (general audit committee training and knowledge/skills) |
| Date to be agreed | | Counter Fraud (e-learning) |

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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SUBJECT: INFORMATION GOVERNANCE UPDATE

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: SALLY BROOKS, DATA PROTECTION OFFICER (DPO)

1. Purpose of report

- 1.1. To update committee on Information Governance management. This includes monitoring of the council's compliance with data protection legislation including the UK General Data Protection Regulation (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 2021.

3. Information governance risk register

- 3.1 Attached at Appendix A (Part B) is the updated Information Governance risk register. The following risks are highlighted for comment:

4 Training

- 4.1 Data protection training is a legal requirement. The Information Commissioner's Office (UK regulator) recommends it is renewed every 2 years and preferably annually for an organisation such as the council. The council have agreed to renew training annually for all staff and to provide training for all staff on induction.
- 4.2 The council have obtained new e-learning provided by an external provider. The training is accredited by the National Cyber Security Centre (NCSC) and covers both data protection training and cyber security training.
- 4.3 The need for cyber security training is essential given the increase in staff remote working and cyber activity. The risk of cyber activity is currently particularly concerning considering recent events in Ukraine. The NCSC have warned the council and other organisations that the UK's cyber risk has heightened following a string of cyber-attacks targeting Ukraine's digital infrastructure. They state that recently they have seen the EU mobilise a team of cyber security experts to help Ukraine fight off cyber-attacks from Russia and as the situation continues to escalate, they can see cyber-attacks that have international consequences. In this light, the NCSC has urged organisations to strengthen cyber security posture.
- 4.4 The e-learning for all staff and councillors includes topics such as data protection, data handling, password security, appropriate use of social media,

phishing emails and how to identify/report cyber security risks and suspicious cyber activity.

- 4.5 The training also includes a higher-level training package for Information Asset Owners (IAO's) 'Data Confident' and a bespoke training package for Councillors who have responsibility for data protection as 'Controllers' in their own right, when processing constituents' personal data.
- 4.6 The e-learning along with completion of the low-risk forms for relevant staff (without access to the network) was rolled out December 2021 and the deadline for completion, the end of January 2022, has now passed. From recent reports around 68% of all staff and councillors have now completed the training, with feedback on the course content being extremely positive. Non-completers are currently being chased from training reports to complete.
- 4.7 IAO's are required to complete their annual IAO Checklist online by the end of April 2022. The checklist requires them to assess all information assets held in their area by checking that the corporate Information Asset Register is up to date, Information Sharing Agreements and Contracts are data protection compliant and personal data is being disposed of in accordance with our Retention & Disposal Schedules.
- 4.8 This year completion of the IAO Checklist is particularly important as any additional datasets created in response to the Covid pandemic need to be considered carefully. IAO's are given the opportunity to meet with the Data Protection Officer to discuss their Checklists and any outstanding actions and all results are ultimately shared, as required, with our Senior Information Risk Officer.

5. **ICT Security Policies**

- 5.1 Previously the ICT Security policies was a red risk on the Information Governance risk register as these were due for renewal. This is no longer a red risk as the ICT Security policies have now been updated and were approved by Executive Committee on the 21 February 2022.
- 5.2 The new ICT Security policies will now be promoted with staff and councillors through bite sized communications and will be available to all through the council's policy management software NET-consent.

6. **Management of documents in Office 365**

- 6.1 Full use of the Office 365 suite including Microsoft Teams and SharePoint continues to be rolled out to staff.
- 6.2 Office 365 has the potential to improve information management in terms of available tools in retention, security, data leakage and access control as well as compliance with information requests such as Freedom of Information and Subject Access Requests.
- 6.3 The Information Governance working group have been considering these tools and in particular retention and management of documents in Office 365.

Proposals have been drafted and are currently being considered by CMT. It is essential that retention in Office 365 is implemented from the outset and that existing data held is reviewed and deleted where possible. This is to ensure the council does not retain personal data longer than necessary which is a fundamental principle of data protection and key to business efficiency.

7. Annual Governance Statement (AGS)

7.1 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 closely monitored with reports being submitted to IG Board CLT, CMT as and when required and Audit Committee.

8. Strategic Priorities

8.1 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.

9. Organisational Impacts

9.1 Finance (including whole life costs where applicable)

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

9.2 Legal Implications including Procurement Rules

There are no legal implications arising out of this report.

9.3 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.

10. Risk Implications

10.1 The council must comply with data protection legislation. Non-compliance may result in enforced external audits, enforcement notices, monetary fines, criminal prosecutions of individual's, compensation claims and loss of public/partner trust.

11. Recommendation

11.1 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? 1

List of Background Papers: None

Lead Officer: Data Protection Officer, Sally Brooks

| | |
|-----------------------|--|
| SUBJECT: | EXCLUSION OF THE PRESS & PUBLIC |
| DIRECTORATE: | CHIEF EXECUTIVE & TOWN CLERK |
| REPORT AUTHOR: | CAROLYN WHEATER, MONITORING OFFICER |

1. Purpose of Report

1.1 To advise members that any agenda items following this report are considered to contain exempt or confidential information for the reasons specified on the front page of the agenda for this meeting.

2. Recommendation

2.1 It is recommended that the press and public be excluded from the meeting at this point as it is likely that if members of the press or public were present there would be disclosure to them of exempt or confidential information.

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