Public Document Pack

CITY OF Lincoln COUNCIL

# AUDIT COMMITTEE

| Tuesday, 21 March 2023 | 5.00 pm | Committee Rooms 1-2, City Hall |
|---|---|---|

| | |
|---|---|
| Membership: | Councillors Rebecca Longbottom (Chair), Jackie Kirk (Vice-Chair), David Clarkson, Thomas Dyer, Gary Hewson, Calum Watt and Emily Wood |
| Substitute member(s): | Councillors Pat Vaughan |
| Independent Member: | Jane Nellist |
| Officers attending: | Democratic Services, Jaclyn Gibson, Colleen Warren and Amanda Stanislawski. |

---

# A G E N D A

---

**SECTION A** **Page(s)**

## PLEASE NOTE THE EARLIER START TIME OF THE MEETING

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**

**Audit Committee** **31 January 2023**

| | |
|---|---|
| **Present:** | Councillor Rebecca Longbottom *(in the Chair)* |
| **Councillors:** | Jackie Kirk, David Clarkson, Thomas Dyer, Gary Hewson, Calum Watt and Emily Wood |
| **Independent Member:** | None. |
| **Apologies for Absence:** | Jane Nellist |

## 51. Confirmation of Minutes - 13 December 2022

RESOLVED that the minutes of the meeting held on 13 December 2022 be confirmed and signed by the Chair.

## 52. Matters Arising

Recruitment

The Chair referred to minute number 46 in relation to recruitment to the vacant posts in the Audit Team and requested an update.

Amanda Stanislawski, Audit Manager advised that a Principal Auditor had been appointed subject to completion of the HR process. The recruitment of an Auditor had been unsuccessful, this post would remain vacant for the time being and would go out for recruitment later in the year. A previous employee had been helping with some ad hoc work to deliver the audit plan.

Internal Audit Recommendations

The Chair referred to minute number 48 in relation to the ICT Anti-Malware recommendation which had not been completed. She explained that the Committee was concerned that the deadline was 2 years ago and it had not been completed. She advised that it was resolved at the last Audit Committee to invite Matt Smith, Business Development and IT Manger to attend this meeting to explain why the recommendation had not been completed.

Matt Smith, Business and IT Manager circulated a briefing note to the committee and explained that the recommendation had been considered but it had not been implemented due to a number of specific reasons.

Amanda Stanislawski, Audit Manager, advised that she had been liaising with the Director of Housing and Matt Smith and she was satisfied with the processes that were in place and was happy to agree the removal of the recommendation.

## 53. Declarations of Interest

No declarations of interest were received.

## 54. 2022 Homes England Compliance Audit Results

Paula Burton, Housing Strategy & Investment Manager:

a. presented a report to request that Audit Committee note the result of the Homes England Compliance Audit for the Next Steps Accommodation

Programme (NSAP) which took place during Q2 of 2022/23

b. highlighted that the Council was currently under contract with Homes England (HE) to deliver new homes at Rookery Lane via grant funding

c. stated that the annual Compliance Audit Programme provided assurance that the Council had met all of HE's requirements and funding conditions; and had properly exercised its responsibilities as set out in HE's Capital Funding Guide (CFG)

d. explained that on the 13th June 2022, HE advised the Council that 3 x compliance audit schemes had been opened for assessment in line with the individual grant funding terms/contracts and CFG. The schemes that were audited were:

   - Affordable Homes New Build Programme – in year audit – Rookery Lane
   - Next Steps Accommodation Programme (NSAP) x one property; and
   - Rough Sleeping Accommodation Programme (RSAP) x one property

e. advised that as set out in the standardised terms by HE, the Council was required to appoint an independent auditor to undertake the compliance audit. This work could not take place by the appointed external auditor Mazars due to Financial Reporting Council (FRC) guidelines and potential conflict of interest. Therefore, on the 4th August 2022, Beevor & Struthers Chartered Accountants and Business Advisors were appointed to complete the external audit following direct approach procurement processes and authorisation.

f. advised that on the 23rd November 2022, Homes England issued the Audit report to confirm a successful Green rating for all three schemes.. The report confirmed that the scheme met all requirements with zero breaches and also had no areas for improvement

RESOLVED that the successful Green rating for Audit Compliance as per paragraph 3.2 of the report be acknowledged and noted.

**55. Treasury Management Policy and Strategy (To Follow)**

Collen Warren, Financial Service Manager:

a. presented a report for Audit Committee to scrutinise and recommend to Council for approval and the adoption of the:

   - Treasury Management Strategy 2023/24;
   - Prudential Indicators;
   - Minimum Revenue Provision (MRP) Policy Amended from 2022/23
   - Treasury Management Practices (TMPS's)

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 2023/24 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. referred to paragraph 3.2 of the report in relation to the Liability Benchmark and explained that this new Treasury Indicator had been adopted in the Treasury Management Strategy 2023/24

e. referred to paragraph 4 of the report and detailed the proposed changes to the MRP Policy, the advantages and disadvantages to changing the policy and concluded that the number of advantages outweighed the disadvantages

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 Council for approval.

h. invited questions and comments

**Question:** Referred to the changes to the MRP Policy and asked if there was any risk involved in changing to the annuity method.
**Response:** It was just an alternative method, there was no risk involved.

**Question:** Commented that there were 60% of Councils that had adopted the annuity method and asked why 40% of Councils had not adopted this method.
**Response:** Advice was provided by the Treasury, there were other strategies that could be used but this method was the best fit for this Council.

**Question:** Asked why the changes to the MRP Policy had not been made sooner.
**Response:** The MRP Policy was reviewed every 5 years, it would not be reviewed annually as this would make capital planning difficult.

Mike Norman, Mazars commented that this method had regard to the regulations and did not exhibit aggressive practices. The proposed policy was consistent with what would be expected.

**Question:** Asked where was the majority of the debt.
**Response**: The debt was not physically being paid back but the money was set aside to pay the debts on maturity.

Jaclyn Gibson, Chief Finance Officer, explained that the Council had purchased commercial properties, where the money had not been set aside for that debt, the saving made from moving to the annuity method has allowed the Council to put the money aside for that debt. All of the Council debts now have MRP provision.

**Question:** Referred to appendix 5 of the Treasury Management Practices and asked if the Allpay contract had been renewed.
**Response:** The contract had been renewed for an additional 2 years and the document would be updated to reflect this.

The Chair referred to the Environmental, Social and Governance Considerations and commented that this was raised at last year's Audit Committee and she was pleased to see that it had been included.

RESOLVED that:

1. The Treasury Management Strategy 2023/24 including the Prudential Indicators be recommended to Executive and Council for approval.

2. The Minimum Revenue Provision Policy amended from 2022/23 be recommended to Executive and Council for approval.

3. The Treasury Management Practices be recommended to Executive and Council for approval.

## 56. External Audit - Progress Report

Mike Norman, representing Mazars, External Auditor:

a. provided the External Audit progress report to Audit Committee which gave an update on progress in delivering their responsibilities as external auditor to the City of Lincoln Council

b. advised that the External Audit progress report attached at Appendix A of the report covered the following areas:

   - Audit progress
     - 2020/21 audit and assurance Work
     - 2021/ 22 Audit
     - 2022/23 Audit
     - A summary of recent relevant reports and publications for information

c. invited members' questions and comments;

**Question:** Referred to the Financial Statements Audit and asked for clarification on the Public Interest Entity Status.
**Response:** This related to an old debt from the 1920's, the money was used to build a council building, interest was being paid on the stock at a rate of 3%.
The Council had since bought back the bonds, as it was decided through a business case that this would save money for the Council.

**Question**: Referred to the National Publication "CIPFA: Audit Committees Practical Guidance for Local Authorities and Police 2022 edition" and asked if a copy of the document was available**.**
**Response:** The document had been purchased and a report would be brought to Audit Committee in June 2023 once the implications for the Committee's Terms of Reference and work programme had been assessed.

**Comment**: There was a substantial amount of changes to publications.
**Response**: They were updated when there was changes to legislation.

RESOLVED that the content of the report be noted.

**57. Appointment of External Auditor**

Jaclyn Gibson, Chief Finance Officer:

a. advised that the Council's contract with our current external auditors (Mazars LLP) would come to an end following the audit of the 2022/23 accounts

b. confirmed that as part of the process for appointing our future external auditors, the Council agreed to opt-in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of its external auditors for period covering the accounts 2023/24 – 2027/28

c. reported that following a tender process to procure audit services the PSAA had appointed KPMG as the Council's external auditor for five years from 2023/24, with the appointment commencing on 1st April 2023. This represented a change from the existing appointed auditor; Mazars LLP

d. invited committee's questions and comments

**Question:** Commented that there had been issues with staffing when KPMG were the Councils auditors previously, and asked if there would be similar issues this time.
**Response:** A meeting with KPMG would take place in due course, we do not currently know their proposals for staffing and resources. They would be auditing all of the Lincolnshire Authorities.

**Question**: Referred to the 150% raise in fees and asked why they had increased.
**Response:** Five years ago the auditor prices dropped and there were concerns how they could deliver the services at that price. There were issues with recruitment and retention of staff, and therefore it was not a surprise that the fees had been increased.
**Question**: Further asked if the price was fixed over the five year period.
**Response:** The fees were scaled, there would be an additional fee for next year, the base fee was agreed nationally for Local Authorities.

RESOLVED that the appointment of KPMG by PSAA as the Council's external auditor for a period of 5 years from 1 April 2023 be noted by Audit Committee

**58. Audit Committee Work Programme**

Amanda Stanislawski, Audit Manager

a. presented a report to inform members of the Audit Committee on the work programme for 2022/23 as detailed at Appendix A of the report

b. referred to paragraph 3 of the report which highlighted the changes to the work programme

c. advised that the Audit Committee Terms of Reference was attached at Appendix A of the report for information

d. invited members' questions and comments:

RESOLVED that the contents of the Audit Committee work programme 2022/23 be noted.

Item No. 4

**AUDIT COMMITTEE** **21 MARCH 2023**

| | |
|---|---|
| **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 agreed actions.

**2. Executive Summary**

2.1 The report provides a summary of the outstanding actions and progress made on implementation. There are currently 4 High actions and 8 Medium actions remaining to be implemented. There are no overdue actions. The attached report provides more details of the splits between those extended and not due and also the changes made since the last report to the Audit Committee in December.

2.2 We have now commenced a spot check review which will check for evidence that recommendations reported as being implemented have been implemented to ensure that the control weaknesses identified are no longer an issue. A report will be issued covering our findings. Going forward these will be undertaken each quarter.

**3. Audit recommendations Report**

3.1 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 CMT is asked to review on 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 |

# Audit Recommendations

## March 2023

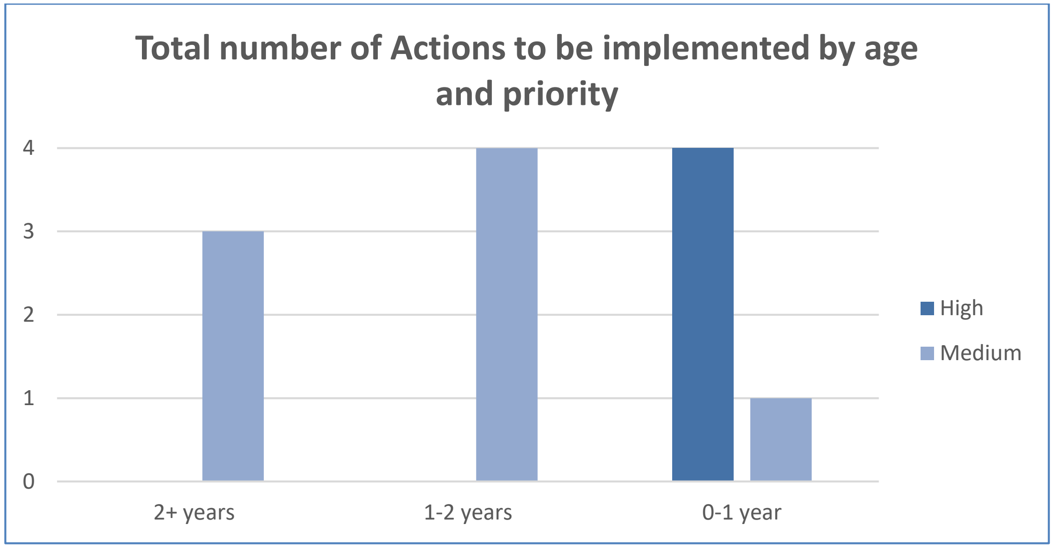
Assurance LINCOLNSHIRE

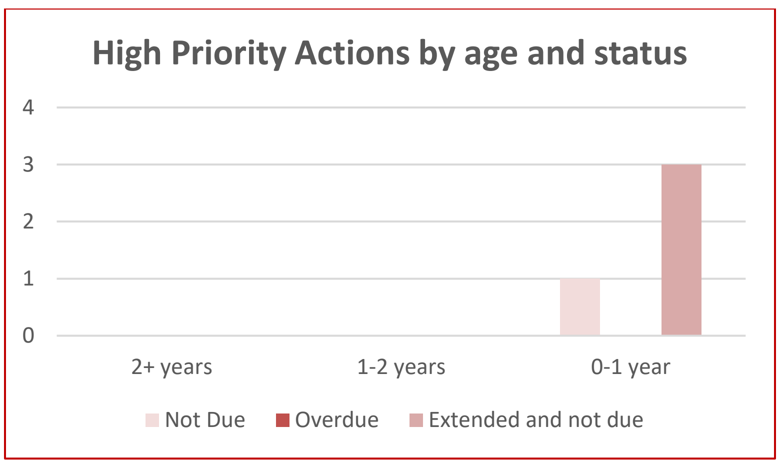
*For all your assurance needs*

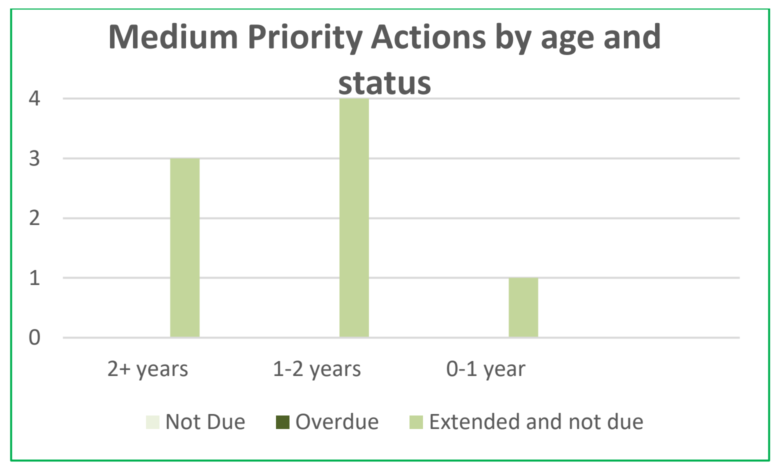
CITY OF Lincoln COUNCIL

# Summary of Agreed Actions

We have carried out a review of the actions due by the end of February 2023 and the following graphs summarise the current position of the implementation of all agreed actions in response to the recommendations made:-



# High Priority Actions outstanding

The following table provides the detailed information for the high priority actions which have not yet been implemented and are overdue:-

| Audit | Recommendation | Agreed Action | Original Due Date | Current Due Date | Owner | Latest Progress / Comments |
|---|---|---|---|---|---|---|
| There are none. | | | | | | |

# Changes since the previous report

A report on the outstanding recommendations was presented to Committee in December 2022. There have been a number of changes in the implementation of actions outstanding at that time and these are detailed below.

### All recommendations have now been implemented for the following reports:-

| Audit Area | Date | Assurance | Progress |
|---|---|---|---|
| Creditors | Jun 21 | High | Action implemented.<br>**Review and approve authorising officers on Agresso.**<br>Information is being collated in a format for the appropriate Assistant Directors to approve/confirm and this will be distributed at the latest by the end of next week. Extension approved to Nov 22. |
| Licensing | Feb 20 | Substantial | Action implemented<br>**Review performance measures.**<br>Extension required to allow time to procure the new system. Extended to Jan 23 from Jun 22– approved. |

### Progress made on implementing actions for the remaining reports are as follows in date order:-

| Audit | Date | Assurance | No of Recs | | Implmntd | Outstanding | | Not Yet Due | Comments / Progress since previous report |
|---|---|---|---|---|---|---|---|---|---|
| | | | H | M | | Overdue | Extended | | |
| ICT Anti-Malware | Mar 20 | Substantial | 1 | 8 | 8 | 0 | 1 | 0 | High action closed.<br>**Review and update the Incident management policy / procedure**.<br>Policy has been drafted and working with IT Auditor to review any extra requirements. |
| Housing Allocations | Aug 20 | Substantial | 0 | 4 | 3 | 0 | 1 | 0 | No change<br>**Annual review of applications.**<br>Testing phase of upgrade revealed some issues so not yet able to implement into the live system. |

| Audit | Date | Assurance | No of Recs | | Implmntd | Outstanding | | Not Yet Due | Comments / Progress since previous report |
|---|---|---|---|---|---|---|---|---|---|
| | | | H | M | | Overdue | Extended | | |
| Homelessness | Aug 20 | Substantial | 0 | 2 | 1 | 0 | 1 | 0 | No change.<br>**Ensure compliance with document retention & disposal requirements**.<br>The new Enterprise system is in place, however the retention timescales have not been set yet. Extended to March 2023, this is the last extension to be granted. |
| Office 365 | May 21 | Substantial | 0 | 6 | 5 | 0 | 1 | 0 | No change.<br>**Enable, set-up and use DLP policies for Exchange Online and SharePoint Online content.**<br>Consultancy has now been completed to set out a framework for change. This will be developed into a plan for migration of data etc. A significant amount of resource will be required for completion. Extended to Jun 2024 – approved. |
| Visitor Information Centre | Jan 22 | Substantial | 1 | 6 | 5 | 0 | 2 | 0 | No change<br>**Obtain agreement of whether discount scheme to continue**<br>Being progressed as part of a wider review. Extension to Apr 23 approved.<br>**Develop a Business Plan**<br>Extension requested until April 23 from July 22 due to staff recruitment and busy summer season. Approved. |
| Safeguarding | Jan 22 | Substantial | 0 | 5 | 4 | 0 | 1 | 0 | No change.<br>**Use the E-CINS IT system to record and track referrals**.<br>System and guidance in place and testing has been completed. New Safeguarding Lead will implement |

| Audit | Date | Assurance | No of Recs | | Implmntd | Outstanding | | Not Yet Due | Comments / Progress since previous report |
|---|---|---|---|---|---|---|---|---|---|
| | | | H | M | | Overdue | Extended | | |
| | | | | | | | | | and embed now in post. Extension approved to March 2023. |
| Income (key areas) | May 22 | Substantial | 2 | 1 | 1 | 0 | 2 (High) | 0 | Extension agreed for remaining two actions.<br>**Reclaiming VAT that has been incorrectly reported**<br>**Adjustments to online payments for regularisation applications to identify them as outside the scope for VAT**<br>Setting up an internal meeting with colleagues in Banking/ BDIT to understand if/how this can be resolved in a systematic way. Extension to Jun 23 approved for both. |
| Performance Management | Aug 22 | Limited | 3 (7*) | 1 | 2 (1 High) | 0 | 1 (High) | 1 (High) | One Implemented – tracking of actions.<br>**Signing off procedure** – completed.<br>Review of Performance Management Framework – several actions linked to this and work is ongoing.<br>**PIMS Options and Delivery** – actions cover a of review delivery against the brief and additional tools would like.<br>**Seven high recommendations were made but agreed actions covered more than one recommendation resulting in four actions.* |
| ICT Programme and Project Management | Oct 22 | Substantial | 0 | 2 | 1 | 0 | 1 | 0 | No change.<br>**Project management paperwork to be completed** – completed<br>**Prioritisation of projects** – Will be undertaken. Extension approved to Mar 23. |

# Recommendation/Agreed Action Follow Up protocol

The following sets out the protocol to be followed for the approval of changes to the implementation dates and monitoring of implementation of the agreed actions.

1. Internal Audit will;

    1.1 Record recommendations and actions on the Audit System – Pentana and use this for reporting and monitoring
    1.2 Monitor target dates quarterly and obtain updates where the action is due within 1 month
    1.3 Discuss extensions to target dates and obtain approval from Directors
    1.4 Undertake detailed follow up work on all agreed actions in Limited / Low assurance audits approx. 12mths from the report date or other agreed date.
    1.5 Provide a report for Directors of all outstanding actions on at least a 6 monthly basis to be added to the next available DMT meeting agenda
    1.6 Liaise with Directorates to ensure that they are aware of the actions outstanding and provide reports as required.
    1.7 Feedback comments from the Audit Committee in respect of the implementation of audit actions.
    1.8 Carry out spot checks of any completed actions within the last 12 months and obtain evidence to support implementation.

2. Audit Committee will;

    2.1 Receive recommendation update reports at alternating meetings, which provide a summary of progress and detail of High priority recommendations
    2.2 Receive verbal updates from service managers where there are outstanding agreed actions 12mths from the report issue date
    2.3 Receive a 12mth update on Limited / Low assurance audits
    2.4 Receive notification where recommendations are not agreed

3. Directors will;

    3.1 Consider and approve extensions where the agreed action has not been implemented by the implementation date.
    3.2 Approve acceptance of risk where recommendations are not agreed.
    3.3 Include a review of agreed actions on the DMT agenda at least every 6 months.
    3.4 Ensure Portfolio Holders are made aware of outstanding actions and the reasons for this.

4 Assistant Directors, City Solicitor, Chief Finance Officer will:

    4.1 Approve the closing of agreed actions where the action is no longer relevant / has been superseded.

**Definitions**

- *Recommendation* – Action recommended by the Auditor to rectify the weakness/issue identified.
- *Agreed Action* – Action agreed by management to rectify the weakness/issue identified which may differ from the recommendation.

(Approved by Committee 14 June 2022)

This page is intentionally blank.

Item No. 5

**AUDIT COMMITTEE** **21 MARCH 2023**

| | |
|---|---|
| **SUBJECT:** | **DRAFT INTERNAL AUDIT PLAN – 2023/24** |
| **DIRECTORATE:** | **CHIEF EXECUTIVE AND TOWN CLERK** |
| **REPORT AUTHOR:** | **AMANDA STANISLAWSKI, AUDIT MANAGER** |

## 1. Purpose of Report

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

## 2. Background

2.1 The plan has been developed using a combination of:

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

## 3. Internal Audit Plan 2023/24

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 of management or alternative assurance in place.

3.4 Attached is the draft internal audit plan for 2023/24– 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 available are sufficient and compare adequately with others. We use external auditors / consultants and resources from our Partnership with Lincolnshire County Council 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 Team currently comprises of a Full time Manager and Principal and is supported by specialist IT contractors and a casual Auditor. The part time Auditor post remains vacant and action will be taken during the year to recruit to the post. The impact on the current plan resource is being managed through the engagement of a casual auditor although in the longer term it reduces the resilience of the team and the levels of income achievable.

4.2 The annual planned days are 310, 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. During 2023/24 this has temporarily been reduced by 50% although there is scope to increase this once the vacant post is recruited to. It is anticipated that this will increase back to the usual level in 2024/25.

**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 and the budget for the vacant post will be used to cover the costs of the casual auditor and the loss of income.

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.

5.3 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.

## 6. Recommendation

6.1 Committee are asked to review and agree the draft plan, identifying any amendments which it considers appropriate.

| | |
|---|---|
| **Is this a key decision?** | No |
| **Do the exempt information categories apply?** | No |
| **Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?** | No |
| **How many appendices does the report contain?** | One |
| **List of Background Papers**: | None |
| **Lead Officer:** | Amanda Stanislawski, Audit Manager<br>Telephone (01522) 873321 |

This page is intentionally blank.

# Internal Audit

## Draft 2023/24 Plan

## City of Lincoln Council

## March 2023

Assurance LINCOLNSHIRE For all your assurance needs

CITY OF Lincoln COUNCIL

# Contents



**The contacts at Assurance Lincolnshire are:**


**Amanda Stanislawski**

**Audit Manager (Head of Internal Audit)**

**Amanda.stanislawski@lincoln.gov.uk**

**Ellen Williams**

**Principal Auditor**

**Ellen.Williams@lincoln.gov.uk**

# The Planning Process

## Introduction

This report sets out the Internal Audit Plan as at 1st April 2023. 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 310 days, covering the period April 23 to March 24. This includes 300 days of internal resource and 10 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 **310 Days.** The core team who will be delivering your Internal Audit plan are:

Head of Internal Audit / Audit Manager
Amanda Stanislawski

Principal
Ellen Williams

Auditor
Karen Atkinson / contracted support

## Audit Focus for 2023/24

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

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. |
| **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 |

| Area | Reason for inclusion |
|---|---|
| | 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** | We will carry out spot checks to ensure agreed actions are implemented to provide assurance that identified control improvements have been effectively implemented and the risks mitigated.<br><br>Working with management we also track the implementation of agreed management actions for all audit reports issued. |
| **Combined Assurance** | Working with management we co-ordinate the levels of assurance across the Council's critical activities, key risks, projects and partnerships – producing a Combined Assurance Status report for management. |
| **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 2023/24

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 | Days |
|---|---|---|---|---|---|---|
| **Financial Governance** | | | | | | |
| VAT/Tax | Assurance that VAT has been correctly accounted for and claims submitted in-line with HMRC requirements. | G | 12 | | | 8 |
| 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 | 11 | | | 8 |
| Council Tax | There are effective arrangements in place which ensure that council tax due to the Council is correctly identified, calculated, requested and accounted for. Refunds, discounts, exemptions and write-offs are correctly applied. | G | 9 | | | 10 |
| Creditors | Assurance that there are effective processes and procedures in place which ensure payments are made to the correct suppliers in a timely manner and in accordance with the Council's Financial Procedure Rules. | G | 9 | | | 10 |
| 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 | 8 | | | 10 |
| NNDR | To carry out a review of the key controls to provide assurance that NNDR is accurately charged and promptly collected in accordance with procedures. Refunds, discounts, exemptions and write-offs are correctly applied. | G | 9 | | | 5 |
| Treasury Management | To carry out a review of the key controls to provide assurance that separation of duties are maintained, system access is restricted, procedure rules are adhered to and monitoring and reporting undertaken. | G | 8 | | | 5 |

| Audit Area | Assurance Sought | Assurance Map RAG Rating Risk | Internal Audit Risk Assessment | Strategic Risk Register | Corporate Priority | Days |
|---|---|---|---|---|---|---|
| **Governance and Risk** | | | | | | |
| Contract Management | To review the processes in place for managing contracts throughout the Council. | **A** | **12** | ✔ | | 12 |
| Governance Health Check | Health check of COLC against the 7 governance characteristics within the Centre of Governance and Scrutiny's Governance, Risk and Resilience Framework. | **N/A** | **N/A** | | | 10 |
| Business Continuity | Review to ensure there is a process and plans in place for all relevant areas. The revised plans take on board lessons learned from the pandemic. | **A** | **10** | | | 6 |
| Counter Fraud | NFI, strategy, policy, health check, partnership, training, money laundering, identity. | **N/A** | **N/A** | | | 20 |
| Electoral Registration | Review of the maintenance of the electoral register and implementation of new legislation. | **R** | **10** | | | 8 |
| **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** | **12** | | ✔ | 10 |
| 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. | **G** | **12** | | | 8 |
| 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** | | | 10 |
| Neighbourhood Management and Regeneration | There are structures, processes and plans/strategies in place which ensure that neighbourhood management is effective and achieves its intended outcomes now and in the future. | **A** | **11** | | | 8 |

| Audit Area | Assurance Sought | Assurance Map RAG Rating Risk | Internal Audit Risk Assessment | Strategic Risk Register | Corporate Priority | Days |
|---|---|---|---|---|---|---|
| Staff Recruitment, Retention and Talent Management | Staff recruitment, selection and retention processes ensure compliance with the relevant legislations, policies and procedures. Processes in place to address the long term vacancies and 'grow' staff. | **A** | **7** | ✔ | | 10 |
| Performance Management Follow Up | To follow-up the implementation of recommendations made in the previous Limited assurance report to ensure they have been completed and the assurance level improved. | **N/A** | **N/A** | | | 5 |
| **Programme / Project Assurance** | | | | | | |
| Housing IT | System Implementation Gateway reviews | **A** | **9** | | | 8 |
| Western Growth Corridor | To continue to provide assurance that appropriate partnership governance and programme management arrangements are in place for the relevant Phase. | **A** | **10** | ✔ | | 10 |
| UK Shared Prosperity | The processes in place for the governance and management of the Fund including the management of the Expressions of Interest for projects. | **A** | **12** | | | 8 |
| **ICT** | | | | | | |
| Cyber Security | To provide assurance that the key areas of cyber security have been addressed in accordance with the National Cyber Security Centre 10 steps. | **A** | **N/A** | ✔ | | 10 |
| Digital | To ensure security of on-line services (web-site/forms/applications etc) | **N/A** | **N/A** | | | 5 |
| Access Control | To provide assurance over the processes in place for controlling access to systems, network and suppliers remote access control arrangements. | **N/A** | **N/A** | | | 8 |
| **Follow-up** | | | | | | |
| Follow-ups | Follow-up of recommendations made for the progress report and in detail on a sample basis. | N/A | N/A | | | 5 |
| **Combined Assurance** | | | | | | |
| Combined Assurance | Updating the assurance map and completing the Combined Assurance report for management. | N/A | N/A | | | 10 |
| **Days** | | **227** | | | | |

| 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** | **310** |

# 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 |
|---|---|---|---|---|---|---|
| Corporate Asset Management | There is an up-to-date Strategic Asset Management plan in place which is appropriately communicated. | A | 8 | | | |
| Customer Services and Contact Centre | | A | 11 | | | |
| HRA Business Plan | | G | 11 | | | |
| Economic and geopolitical uncertainty | | | | ✔ | | |
| New Telephony System | | G | 12 | | | |
| Greyfriars | | G | 11 | | | |
| IT Strategy and Infrastructure | | G | 8 | | | |
| IT System Acquisition, development and maintenance | | A | 6 | | | |
| Cloud Computing | | A | 6 | | | |
| IT Operations Security | | A | 8 | | | |
| Tree Management | | R | 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.**

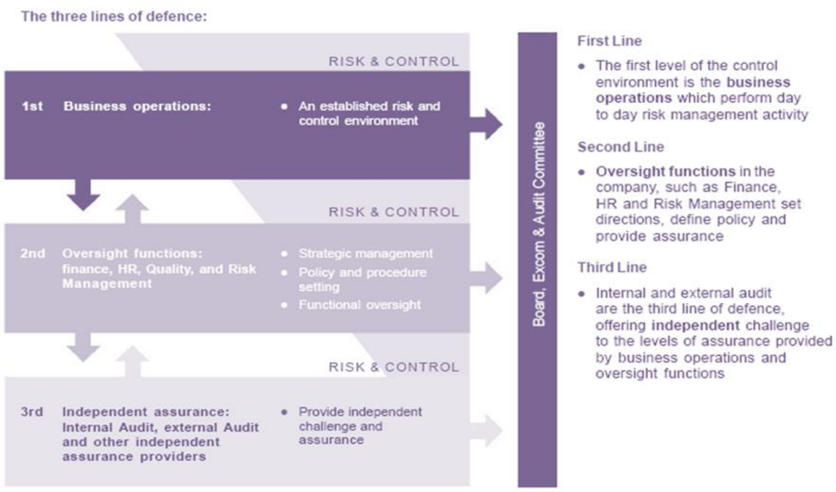



**Figure 2 – The three lines of defence**

9

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.

# 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

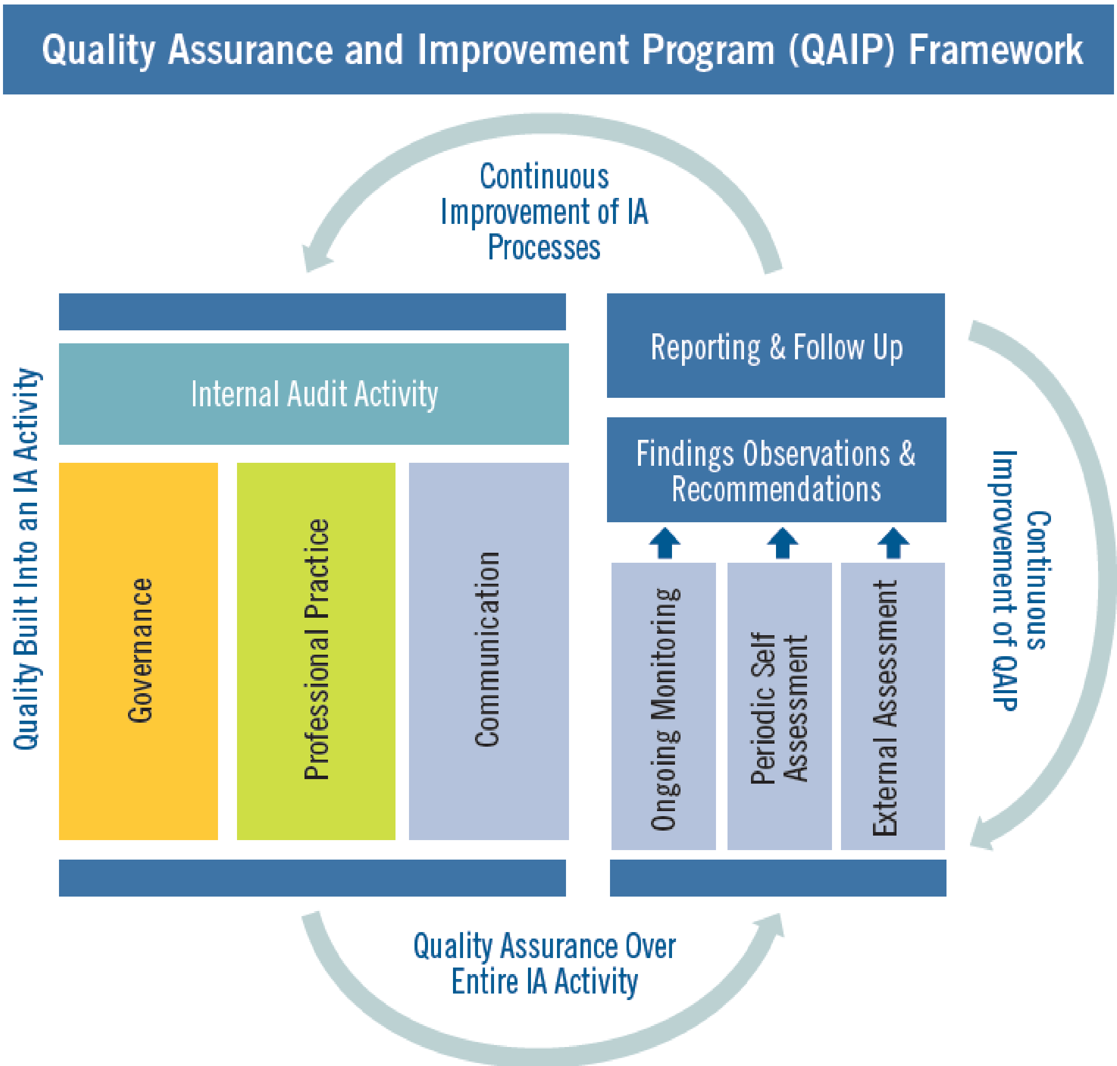
Quality is built into the way we operate – we have designed our processes and procedures to conform to best practice applicable to Internal Audit – in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

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.



Item No. 6

**AUDIT COMMITTEE** **21 MARCH 2023**

| | |
|---|---|
| **SUBJECT:** | **MONEY LAUNDERING POLICY AND PROCEDURE** |
| **DIRECTORATE:** | **CHIEF EXECUTIVE'S AND TOWN CLERK** |
| **REPORT AUTHOR:** | **AMANDA STANISLAWSKI, AUDIT MANAGER** |

**1. Purpose of Report**

1.1 To update the Money Laundering policy and procedures**.**

**2. Background**

2.1 The Council's Money Laundering policy is part of range of counter fraud policies which are formally reviewed every two years (or sooner of required). The policy was last reviewed in February 2021 where there were some legislative changes made.

2.2 Money laundering is the process where criminals attempt to hide and change the true identity of the proceeds of their crime so that they appear legitimate. City of Lincoln Council is committed to prevent the Council and its employees being exposed to money laundering, to identify the risks where it may occur, and to comply with legal and regulatory requirements, especially with regards to reporting suspected cases.

**3. Policy and Guidance**

3.1 The Council's money laundering policies set out the definition and legislation around money laundering and the responsibility of the Council and it's employees. It sets out the reporting process in detail and contains the relevant forms.

3.2 This review was carried out on the policy's two-year anniversary. The most noticeable change is the format of the policy which includes a document control page and paragraph numbering throughout. The change made to the content was to add the July 2022 legislation to paragraphs 5 and 22 which included:-

- Changing the requirement from all discrepancies to be reported to Companies House to Material discrepancies
- Reference to cryptoasset businesses
- Widening the meaning of a 'trust'
- Widening information and intelligence sharing gateways

A copy of the policy and guidance is attached at Appendix A with the changes marked.

**4. Organisational Impacts**

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

4.2 Legal Implications including Procurement Rules – There are no direct legal implications arising as a result of this report; however the policy helps ensure compliance with UK law.

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. Recommendation**

5.1 Audit Committee are asked to approve the updated policy and procedures.

| | |
|---|---|
| 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, Internal Audit Manager<br>Amanda.stanislawski@lincoln.gov.uk |

# Anti-Money Laundering Policy Statement and Procedures

# February 2023

Document Control

| Organisation | City of Lincoln Council |
|---|---|
| Title | Money Laundering Policy and Procedures |
| Author | Amanda Stanislawski Audit Manager |
| Owner/Responsible Officer | Carolyn Wheater City Solicitor (Monitoring Officer) |
| Consultation | Audit Committee / Executive |
| Version | 1.01 |
| Next Review Date | February 2025 |

Review Arrangements: Every two years

Document Amendment History

| Revision | Originator | Date | Description |
|---|---|---|---|
| 1.01 | John Scott | February 2021 | Legislation changes |
| 1.02 | Amanda Stanislawski | February 2022 | Format changes, numbering, minor legislation changes. |
| | | | |
| | | | |
| | | | |
| | | | |

# Anti-Money Laundering Policy Statement

## Introduction

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

## Key Message

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

   **Key Points**

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

3. Although Local Authorities are not legally obliged to apply the Money Laundering Regulations 2007 ( as amended by the Money Laundering (Amendment) Regulations 2012 and updated by the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 and 2019 (the regulations), the Council is bound by the provisions of the Proceeds of Crime Act 2002 and the Terrorism Act 2000 (as amended by the Anti-Terrorism and Security Act 2001 and the Terrorism Act 2006 and the Counter-Terrorism Act 2008). It is

good practice to comply with the main measures of the Regulations as part of corporate governance arrangements. As such this policy ensures compliance.

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

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

   The changes include various new requirements including:

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

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

   A further update in July 2022 changed the requirement to report 'material' discrepancies on the register at Companies House not all discrepancies. The update also referred to cryptoasset businesses, widening the meaning of a 'trust' and to widen information and intelligence sharing gateways between relevant authorities.

## What is money laundering?

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

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

   The main types of money laundering offences are:-

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

- Investing the proceeds of crime in other financial products
- Investing the proceeds of crimes through the acquisition of property/assets
- Transferring criminal property.

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

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

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

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

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

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

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

   - Section 329: acquiring, using or possessing criminal property

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

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

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

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

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

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

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

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

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

## Scope

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

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

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

## The Money Laundering Reporting Officer (MLRO)

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

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

The authorised Deputies are:

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

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

The Legal Section is available to give advice as required.

## Reporting Procedures

### Protected Disclosure

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

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

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

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

3. When reporting to the MLRO include details of:

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

    You should also enclose copies of any supporting documentation.

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

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

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

**Proposed transactions**

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

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

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

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

**Prejudicing an Investigation**

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

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

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

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

- makes a disclosure (to any other person) likely to prejudice the investigation
- falsifies, conceals, destroys or otherwise disposes of or permits the falsification, concealment, destruction or disposal of documents which are relevant to the investigation

If any disciplinary action is proposed HR must be informed.

## General Procedures

### Cash payments

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

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

### Identification of new Clients and Due Diligence

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

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

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

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

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

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

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

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

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

18. It is good practice to have either:

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

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

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

**Additional due diligence requirements for Finance and Legal employees.**

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

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

There are various levels of 'due diligence'

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

- 'Simplified due diligence' is required where there is a low risk of money laundering. For example, if a company is listed on the stock exchange a company search and evidence of the listing would suffice;
- 'Enhanced due diligence' for those with a high-risk status, for example remote transactions where the customer is not physically present to be identified would require additional appropriate documents to be requested
- The 'beneficial owner', the individual that ultimately owns or controls the customer or on whose behalf a transaction or activity is being conducted, should be identified

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

Some of the new 2019 and 2022 regulations that should be noted include:

- Regulation 19 (2019) means that (relevant) businesses need to carry out a money laundering risk assessment of new products, business practices, or technologies before they implement them. For Councils it is useful to consider the risks of money laundering on any new services.
- regulation 30(a) sets out a requirement to check trust and company beneficial ownership registers before establishing a business relationship, and to report any material discrepancies found to companies house. The meaning of a trust was extended to the formation of a 'firm' as defined by regulation 3.
- regulation 33 sets out requirements to apply enhanced due diligence, explains what a 'relevant person' is, and what 'being established' means

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

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

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

24. The customer identification procedure **must** be carried out when the Council is carrying out 'relevant business' and:-

    - Forms a business partnership with a customer,

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

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

25. In the above circumstances, employees must:

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

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

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

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

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

28. Any checks undertaken should remain proportionate to the risks of the individual business and the relationship. Under Money Laundering Regulations, businesses

should undertake a risk based approach to "customer due diligence". Risks must be assessed before the appropriate level of due diligence can be applied. Additional checking may need to be performed if the person is not physically present to be identified, or they are politically exposed, by virtue of holding a prominent public function.

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

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

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

## Possible signs of Money Laundering

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

- Concerns about honesty, integrity, identity or location of the client
    - New customers with high value transactions such as selling property to individuals or businesses, renting out property to individuals or businesses, entering into other lease agreements, undertaking services for other organisations.
- Customers who we think are acting dishonestly or illegally such as people paying for Council services who do not provide details about themselves or people making odd or unusual requests for payment arrangements
- Secretive e.g. refuses to provide information without a reasonable explanation.
    - Housing benefit claimants who have sums of money entering into / out of their bank account (even if we do not award them benefit, we should still consider money laundering implications)

- People buying or renting property from the Council who may not want to say what it is for
- People receiving grant funding who refuse to demonstrate what funding was used for

- Attempt a payment of substantial sum of cash (see limits) for example large debt arrears paid in cash
- Payment of lower cash sums where cash is not the normal means of payment,
- Transaction which appears uneconomic, inefficient or irrational
- Illogical third-party transactions – unnecessary routing of funds from third parties or through third party accounts
- Requests for the Council to pay seemingly unconnected third parties in respect of goods / services provided to the Council
- Illogical involvement of unconnected third-party funds - receipt of business payments (rent, business rates) in settlement from seemingly unconnected third parties instructions for payments to an unexpected source/third party
- No payment demanded even though good / service has been provided
- Significant overpayments and subsequent request for refund
- Refunds following the cancellation or reversal of an earlier transaction
- No obvious legitimate source of funds
- Unusual request for client account details
- Poor business records or internal accounting controls
- In respect of property transactions, i.e. where we receive a payment in for a property, money should only be accepted from a conveyancers/ solicitor's bank account and not from persons directly
- However, this does not include payment of legal fees, which can be received directly from an individual
- Sudden and unexpected termination of lease agreements
- Movement of funds overseas, particularly to a higher risk country or tax haven, requests for the Council to pay in foreign currencies or overseas for no apparent reasons
- Unusual transactions or ways of conducting business, without reasonable explanation,
- Requests to purchase Council assets / land with no apparent purpose
- Requests to rent Council property with no apparent business motive
- Requests for release of customer account details other than in the normal course of business,

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

## Guidance and Training

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

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

## Further Information

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

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

Appendix A

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

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

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

Appendix B

**Confidential**

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

**Reporting Officer**

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

Directorate: Ext/Tel No:

**Details of suspected offence:**

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

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

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

**Has any investigation been undertaken (as far as you are aware)?**
*[Please circle]*
Yes / No

**If yes, please include details below:**

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

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

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

**If yes, please specify below:**

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

**Yes/No**

**If yes, please set out full details below:**

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

**Yes/No**

**If yes, please enclose details below:**

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

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

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

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

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

**Date receipt of report acknowledged:**

…………………………………

**Consideration of Disclosure:**
**Action plan:**

**Outcome of consideration of disclosure:**

**Are there reasonable grounds for suspecting money laundering activity?**

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

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

Yes / No

***If yes, please confirm date of report to NCA:***

***………………………………***

and complete the points below:

Details of liaison with NCA regarding the report:

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

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

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

Yes/No

**If yes, please confirm full details below**

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

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

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

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

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

Other relevant information:

**-End-**

## Appendix C

Record of Due Diligence Checks Completed

Date: Completed by:

Brief outline of the business transaction?

Parties involved?:

Due Diligence checks completed:

Reliance on third party (due diligence):

Outcome:

Item No. 7

**AUDIT COMMITTEE** **21 MARCH 2023**

| | |
|---|---|
| **SUBJECT:** | **STATEMENT OF ACCOUNTING POLICIES 2022/23** |
| **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 2022/23 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 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 in presented in the Council's

Statement of Accounts.

5.2 Legal Implications including Procurement Rules

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

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 2022/23 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<br>Telephone (01522) 873361 |

## 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2022/23 financial year and its position at the year-end of 31 March 2023. 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 2022/23 (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 on loan to Lincoln College and a Stradivarius violin, which is on loan to the Halle orchestra. These items are not held on our balance sheet as they are deemed to be controlled by the loanee.

- **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.

This page is intentionally blank.

Item No. 8

**AUDIT COMMITTEE** **21 MARCH 2023**

| | |
|---|---|
| **SUBJECT:** | **IAS19 – ASSUMPTIONS USED TO CALCULATE PENSION ENTRIES IN THE 2022/23 STATEMENT OF ACCOUNTS** |
| **REPORT BY:** | **CHIEF EXECUTIVE AND TOWN CLERK** |
| **LEAD OFFICER:** | **COLLEEN WARREN, FINANCIAL SERVICES MANAGER** |

## 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 2022/23 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 2022/23.

## 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 31st March 2023 will be based on the market conditions as at 31st January 2023.

**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. Strategic Priorities**

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

**7. Organisational Impacts**

7.1 Finance

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.

7.2 Legal Implications including Procurement Rules

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

7.3 Equality, Diversity and Human Rights

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

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

- Eliminate discrimination

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

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

**8. Risk Implications**

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

**9. Recommendations**

9.1 That the Audit Committee approve the IAS19 assumptions the pension fund actuary proposes to use in preparing IAS19 figures for inclusion in the 2022/23 Statement of Accounts.

| | |
|---|---|
| **Key Decision** | No |
| **Key Decision Reference No.** | N/A |
| **Do the Exempt Information Categories Apply** | No |
| **Call In and Urgency:** Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply? | No |
| **Does the report contain Appendices?** | Yes |
| **If Yes, how many Appendices?** | 1 |
| **List of Background Papers**: | None |
| **Lead Officer:** | Colleen Warren, Financial Services Manager<br>Telephone: 01522 873361<br>Email: colleen.warren@lincoln.gov.uk |

This page is intentionally blank.

BARNETT WADDINGHAM

beyond the expected

# Accounting reporting as at

31 March 2023

Employer briefing note pre-accounting date

**Barnett Waddingham LLP**
**13 February 2023**

# Contents

BARNETT WADDINGHAM
beyond the expected

# Introduction and executive summary

This briefing note is addressed to employers participating in the LGPS and details our standard approach to the 31 March 2023 accounting exercise. This document is based on market conditions as at 31 January 2023. It sets out our recommended assumptions along with key changes since the previous accounting date. Unless noted otherwise in this briefing note, or in the employer's results report, the approaches adopted as at 31 March 2023 are in line with the approaches set out in this briefing note and are consistent with that at the employer's last accounting date.

A summary of our standard assumptions at durations 5 to 30 years is set out in Appendix 1.

This briefing note assumes a previous accounting date of 31 March 2022. For employers whose previous accounting date was not 31 March 2022, this briefing note provides a summary of our recommended assumptions for 31 March 2023 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 lower than the discount rate assumed at the previous accounting date which will worsen the balance sheet position. |
| Discount rate | ↑ | Discount rates have increased which will improve the balance sheet position. |
| Inflation | ↑ | Future inflation assumptions have decreased which will improve an employer's balance sheet position. |
| Allowance for actual pension increases | ↓ | The 2023 pension increase is higher than previously assumed which will worsen the balance sheet position. |
| Mortality | ↑ | Allowing for the results of the recent 2022 actuarial valuation for employers participating in English or Welsh LGPS funds is likely to see a reduction in the average life expectancy and an improvement to the balance sheet position. |
| **Overall** | ↑ | **Overall, due to the significant increase in the discount rate and decrease in the future inflation assumption, we expect the balance sheet position to improve compared with last year.** |

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?

95

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.

We also publish regular briefings and webinars on our website. You can keep up to date on the latest information by joining our mailing list here.

Valuation of the employer's 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 -6% for the period from 31 March 2022 to 31 January 2023. 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 and depending on asset performance for the remaining two months to 31 March 2023.

If the actual asset return for the Fund over the year is lower than the previous discount rate, this will lead to an actuarial loss on the assets; worsening 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 2023, we roll forward the value of the liabilities calculated for the latest full funding valuation using financial assumptions compliant with IAS19 and FRS102. Please note that for employers participating in English or Welsh funds, this will involve an update this year to be based on the fund's 2022 funding valuation.

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 2023 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2023 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 sample assumptions using market conditions at 31 January 2023.

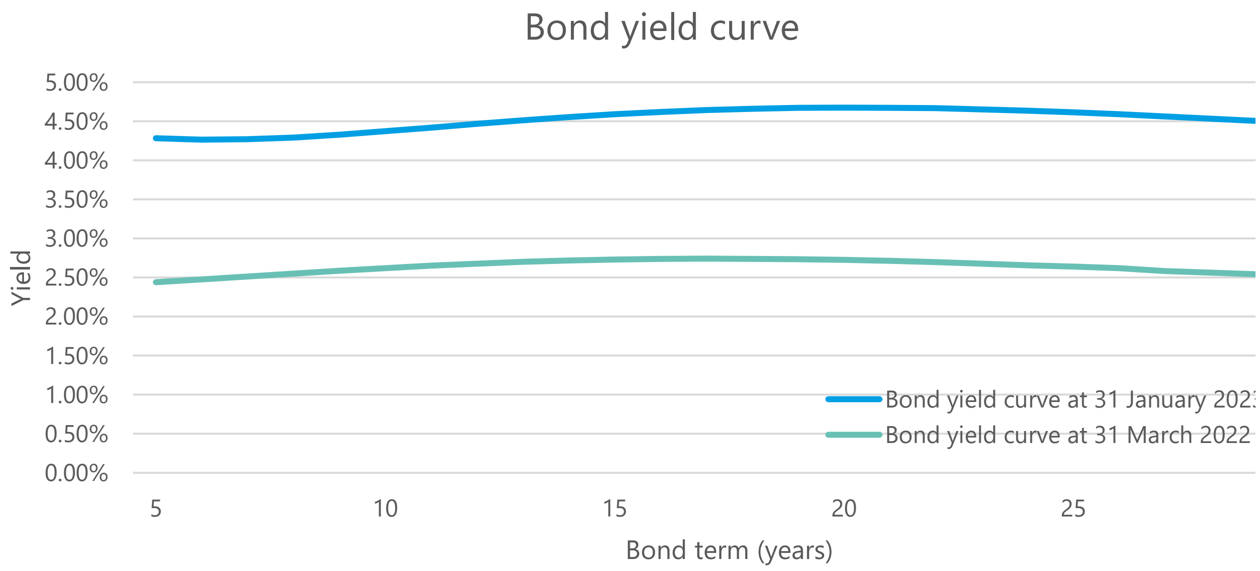
### Discount rate

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 1 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 sample cashflows are updated on a three-yearly basis using a full valuation of membership data. These are currently based on cashflows derived as at 31 March 2022. As at 31 March 2022, each employer's duration is calculated and corresponds to the set of sample cashflows with the same duration. As an employer's duration changes, the duration of the corresponding sample cashflows is expected to change in a similar way, so over time the assumptions derived using those same sample cashflows will remain appropriate for the employer. Therefore, the standard assumptions for an employer will be set using the 31 March 2022 sample cashflows which the employer was allocated to.

The below graph shows the bond yield curve at the last accounting date along with the yield curve at 31 January 2023:




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 2023 is higher at all terms than at 31 March 2022. As a result, the discount rate assumed for employers will be higher than that assumed at the previous accounting date.

*Source: Merrill Lynch*

BARNETT WADDINGHAM
beyond the expected

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 2023 with the equivalent 31 March 2022 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 at 31 March 2022 (years) | Discount rate | | Estimated impact of change on liabilities |
|---|---|---|---|
| | 31 January 2023 | 31 March 2022 | |
| 10 | 4.50% | 2.60% | Decrease of 17% |
| 15 | 4.50% | 2.60% | Decrease of 24% |
| 20 | 4.50% | 2.60% | Decrease of 30% |
| 25 | 4.50% | 2.60% | Decrease of 36% |

*Assumptions are rounded to the nearest 0.05%.*

Please note this is illustrative only. 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.

Sample SEDRs for durations of 5 years up to 30 years are provided in Appendix 1.

## Comparison to previous accounting date

Unless specified otherwise in the employer’s results report, this approach is the same as at 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 1 year 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 1 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 2023, with the equivalent 31 March 2022 SEIRs (based on our standard derivation at that time) also shown for comparison:

| Duration at 31 March 2022 (years) | RPI | |
|---|---|---|
| | 31 January 2023 | 31 March 2022 |
| 10 | 3.15% | 4.00% |
| 15 | 3.15% | 3.75% |
| 20 | 3.15% | 3.55% |
| 25 | 3.10% | 3.45% |

## Difference between RPI and CPI

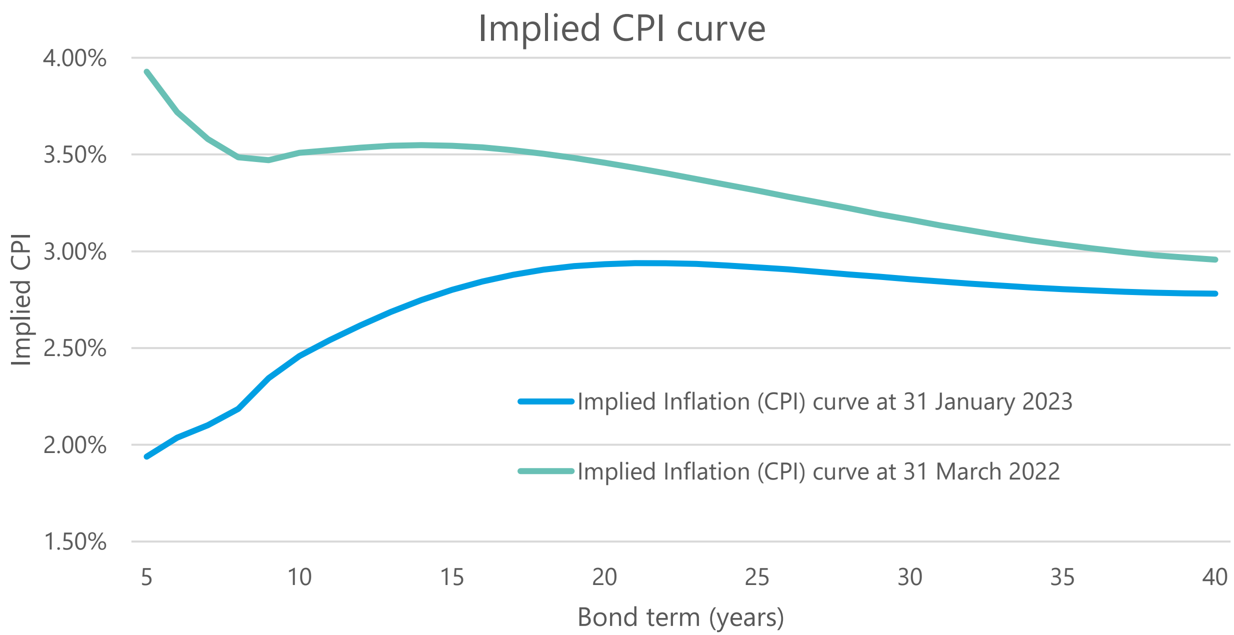
It is expected that RPI will be on average 1.0% p.a. lower than it would have otherwise been from 2030 as a result of the proposed alignment of RPI to CPIH (and CPI) from that date. We have therefore assumed that the annual increase in CPI inflation will be 1.0% p.a. lower than the market implied increases 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 0.80% p.a. depending on the term of the liabilities (for terms ranging from 30 years down to 5 years).

BARNETT WADDINGHAM
beyond the expected

## 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 2023 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 2023 is lower at all durations. As a result, the assumed level of future pension increases will be lower than that assumed at the previous accounting date.

*Source: Barnett Waddingham based on Bank of England data*

All else being equal, a lower pension increase assumption will result in a lower value being placed on the defined benefit obligation and an improvement 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 at 31 March 2022 (years) | CPI | | Estimated impact of change on liabilities |
|---|---|---|---|
| | 31 January 2023 | 31 March 2022 | |
| 10 | 2.55% | 3.45% | Decrease of 8% |
| 15 | 2.70% | 3.30% | Decrease of 8% |
| 20 | 2.80% | 3.20% | Decrease of 7% |
| 25 | 2.80% | 3.15% | Decrease of 7% |

*Assumptions are rounded to the nearest 0.05%.*

Please note this is illustrative only. 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.

Details of the RPI and CPI assumptions for durations of 5 years up to 30 years are shown in Appendix 1.

## Comparison to previous accounting date

Unless specified otherwise in the employer's results report, this approach is the same as at 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

Unless specified otherwise in the employer's results report, this approach is the same as at the previous accounting date.

105

## 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 2023:

| Duration at 31 March 2022 (years) | Estimated effect of change in financial assumptions on employer's liabilities |
|---|---|
| 10 | Decrease of 24% |
| 15 | Decrease of 30% |
| 20 | Decrease of 35% |
| 25 | Decrease of 41% |

Based on market conditions at 31 January 2023, most employers will see the value of their defined benefit obligation decrease. However, the extent of this will depend on employer's membership profile, cashflows over the year and any bespoke assumptions or approaches.

**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.

# Demographic assumptions

## 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 judgment 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.

106

For employers participating in an English or Welsh LGPS fund, our standard approach is to update the mortality assumption to be based on those adopted for the fund's 2022 actuarial valuation.

For employers participating in a Scottish LGPS Fund, the next actuarial valuation of the Fund is as at 31 March 2023, with results and reports due to be finalised by 31 March 2024, and therefore our standard approach for the 31 March 2023 disclosures is to continue using the fund's base table mortality assumption from the 2020 actuarial valuation.

### 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.

For employers participating in an English or Welsh LGPS fund, similar to the base table assumption our standard approach is to update the improvements model to be based on that adopted for the fund's 2022 actuarial valuation.

For employers participating in a Scottish LGPS Fund, the majority of employers have updated their disclosure 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%.

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

Please note that any changes to demographic assumptions, including changes to be in line with the fund's latest actuarial valuation, will incur additional fees.

## Other demographic assumptions

Unless stated otherwise in the employer's accounting report, the other key demographic assumptions are:

| Assumption | Detail |
|---|---|
| **Commutation** | Members will exchange pension to get 50% of the maximum available cash on retirement. For every £1 of pension that members commute, they will receive a cash payment of £12 as set out in the Regulations |
| **Normal retirement** | Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age |
| **50:50 take up** | The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same |

This is in line with the assumption adopted for the fund's latest actuarial valuation.

# Additional requirements

## Experience items allowed for since the previous accounting date

### 2022 valuation update

For employers in English of Welsh LGPS funds, the liability roll forward will be updated to be based on the fund's 2022 valuation. This update ensures the accounting results are based on the latest information available. The impact of this update will result in experience items on the liabilities and the assets, and could be a positive or negative effect. The experience item reflects how experience over the intervaluation period has differed from that assumed as part of the roll forward approach.

Further detail on the experience item can be provided on request and will incur additional fees.

### Allowance for actual pension increases

Our default approach is to allow for actual pension increases up to the accounting date. Any difference between this and the pension increase previously assumed will give rise to an experience item.

**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.

The 2023 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.

## 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 2023 assumptions to bespoke assumptions and see the impact this would have on the closing position as at 31 March 2023 and also on the Profit and Loss projections for the year to 31 March 2024. 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 employers in English or Welsh funds, where the unfunded benefits are included as part of the latest actuarial valuation data, the unfunded liability roll forward will be updated to be based on the fund's 2022 valuation. Where separate unfunded benefits are included in an employer's accounts, we will be in touch separately about the approach required.

For employers in Scottish funds, the unfunded liability will continue to be based on a roll forward of the results at the previous accounting date.

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

# Other considerations

## McCloud/Sargeant judgments

There are currently uncertainties in relation to LGPS benefits due to the McCloud and Sargeant judgments. Remedial regulations are expected in 2023 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. For employers in English and Welsh funds, the estimated cost of McCloud will be updated as part of the 2022 valuation update and this will reflect the approach adopted at the valuation in estimating the cost of the McCloud remedy. The difference between this cost and the cost previously incorporated into the employer's accounting liabilities will be reflected in the liability experience item and we do not expect this to be material. It should be noted that the cost of the McCloud remedy varies with member experience (for example due to salary increases), and therefore the cost calculated at each actuarial valuation will vary, however, generally we do not expect this to be material. For employers in Scottish funds the McCloud costs were estimated as part of the 2020 valuation and no update is required this year.

Please see FAQs for further details.

If no previous allowance has been made and allowance is now required then we will be in touch via the fund to discuss the requirements.

## 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 is to assume that all events are material and therefore will adopt the approach set out in the IAS19 amendment. We 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.

Details of whether the remeasurement approach has been adopted at an event date or not will be set out in the employer's report.

Please see FAQs for further details.

## 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.

112

BARNETT WADDINGHAM
beyond the expected

# Guaranteed Minimum Pension (GMP) equalisation and indexation

## Impact of Lloyds judgment 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 judgment. 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.

BARNETT WADDINGHAM
beyond the expected

# 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. |
| **Climate risk** | Climate risk can be grouped into two categories; Physical and Transitional risks. Physical risks are direct risks associated with an increased global temperature such as heatwaves and rising sea levels. Transitional risks are the costs of transitioning to a low carbon economy. These risks will manifest themselves in many of the other risks detailed above which the fund is exposed to, for example investment returns may be affected. |
| **Regulatory risk** | Regulatory uncertainties could result in benefit changes to past of 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 Financial assumptions

| Duration (years) | Discount rate | RPI | RPI/CPI Gap | CPI |
|---|---|---|---|---|
| 5 | 4.40% | 3.05% | 0.80% | 2.25% |
| 6 | 4.45% | 3.10% | 0.75% | 2.35% |
| 7 | 4.45% | 3.15% | 0.70% | 2.45% |
| 8 | 4.50% | 3.15% | 0.65% | 2.50% |
| 9 | 4.50% | 3.20% | 0.60% | 2.60% |
| 10 | 4.50% | 3.15% | 0.60% | 2.55% |
| 11 | 4.50% | 3.15% | 0.55% | 2.60% |
| 12 | 4.50% | 3.20% | 0.55% | 2.65% |
| 13 | 4.50% | 3.20% | 0.50% | 2.70% |
| 14 | 4.50% | 3.15% | 0.50% | 2.65% |
| 15 | 4.50% | 3.15% | 0.45% | 2.70% |
| 16 | 4.50% | 3.15% | 0.45% | 2.70% |
| 17 | 4.50% | 3.15% | 0.40% | 2.75% |
| 18 | 4.50% | 3.15% | 0.40% | 2.75% |
| 19 | 4.50% | 3.15% | 0.40% | 2.75% |
| 20 | 4.50% | 3.15% | 0.35% | 2.80% |
| 21 | 4.50% | 3.10% | 0.35% | 2.75% |
| 22 | 4.50% | 3.10% | 0.35% | 2.75% |
| 23 | 4.50% | 3.10% | 0.35% | 2.75% |
| 24 | 4.50% | 3.10% | 0.30% | 2.80% |
| 25 | 4.50% | 3.10% | 0.30% | 2.80% |
| 26 | 4.50% | 3.10% | 0.30% | 2.80% |
| 27 | 4.50% | 3.10% | 0.30% | 2.80% |
| 28 | 4.50% | 3.10% | 0.30% | 2.80% |
| 29 | 4.50% | 3.10% | 0.25% | 2.85% |
| 30 | 4.50% | 3.05% | 0.25% | 2.80% |

Item No. 9

**AUDIT COMMITTEE** **21 MARCH 2023**

| | |
|---|---|
| **SUBJECT:** | **EXTERNAL AUDIT ENQUIRIES 2022/23 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 2022/23 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 2022/23 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 in 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 2022/23 Statement of Accounts.

| | |
|---|---|
| **Key Decision** | No |
| **Key Decision Reference No.** | N/A |
| **Do the Exempt Information Categories Apply** | No |
| **Call In and Urgency:** I s the decision one to which Rule 15 of the Scrutiny Procedure Rules apply? | No |
| **Does the report contain Appendices?** | Yes |
| **If Yes, how many Appendices?** | One |
| **List of Background Papers**: | None |
| **Lead Officer:** | Colleen Warren, Financial Services Manager<br>Telephone: 01522 873361<br>Email: colleen.warren@lincoln.gov.uk |

# ENQUIRIES OF THOSE CHARGED WITH GOVERNANCE

## Appendix A

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

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

| Inquiry Area | Description | Response |
|---|---|---|
| Fraud<br>[ISA 240.20] | How do those charged with governance (TCWG) exercise oversight of management's processes for identifying and responding to the risk of fraud in the Council and the internal control that management has established to mitigate these risks? | Management and the Audit Committee receive scheduled (6 monthly) updates on counter fraud activity and fraud outcomes (through a fraud and error update report). The Audit Committee receives an Annual Fraud Report which provides an update on the Counter Fraud Plan and the outcome of proactive fraud and investigations work.<br><br>The Audit Committee have previously received a training presentation on counter fraud/fraud awareness and further training guidance. Fraud e-learning has previously been rolled out across Directors, Assistant Directors and Service Managers, although this is due to be refreshed during 2023/24.<br><br>There is a corporate fraud risk register presented annually to management and the Audit Committee.<br><br>Periodic reporting and review by the Audit Committee of counter fraud policies.<br><br>Regular updates on the Internal Audit Plan and reports are provided to management and the Audit Committee. |

| Inquiry Area | Description | Response |
|---|---|---|
| | | There is a clear reporting mechanism for any suspected fraud to be reported to the Council. |
| Fraud<br>[ISA 240.21] | Are TCWG aware of or have they identified any instances of actual, suspected or alleged fraud within the Council? This includes instances of misconduct or unethical behaviour related to financial reporting or misappropriation of assets.<br><br>Where TCWG are aware of such instances how have these been addressed? | No – no financial reporting or misappropriation of assets.<br><br>Instances of external fraud have been identified, primarily in the following areas:<br>- Tenancy<br>Council Tax single persons discount<br>- Housing benefits<br><br>These have been investigated and actioned as appropriate (e.g. penalty, discounts removed, DWP referral, police referral etc.) |
| Fraud<br>[ISA 240.21] | What are the views of TCWG about fraud risks at the Council? | As with any large and complex organisation there are a range of fraud risks and emphasis on reducing fraud risk is continuous.<br><br>The results of the NFI, internal audit work and reported fraud show some low value frauds.<br><br>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.<br><br>Fraud risks are acknowledged in key areas. Members and officers are aware of these and the risks are managed through established processes. |

| Inquiry Area | Description | Response |
|---|---|---|
| Laws and Regulations [ISA 250.15] | How do you gain assurance that all relevant laws and regulations have been complied with? | The Council is governed by all national legislation, regulation and EU law.<br><br>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.<br><br>Directorates and Managers are responsible for identifying and complying with the legal and regularity framework.<br><br>Advice is obtained from the Council's Legal Services as required.<br><br>All Committee reports have legal implications assessed, reported and these are reviewed by Legal.<br><br>Training for members and officers is provided, and updates issued through Netconsent where appropriate to track training.<br><br>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.<br><br>Internal Audit have undertaken an "emerging legislation" audit/review in the past<br><br>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. |

This page is intentionally blank.

Item No. 10

**AUDIT COMMITTEE** **21 MARCH 2023**

| | |
|---|---|
| **SUBJECT:** | **EXTERNAL AUDIT: DRAFT AUDIT STRATEGY MEMORANDUM** |
| **DIRECTORATE:** | **CHIEF EXECUTIVE AND TOWN CLERK** |
| **REPORT AUTHOR:** | **JACLYN GIBSON, CHIEF FINANCE OFFICER** |

**1**. **Purpose of Report**

1.1 To present the External Audit Draft Audit Strategy Memorandum, for the year ending 31st March 2023, to Audit Committee.

**2. Background**

2.1 The External Auditor provides an Audit Strategy Memorandum ahead of each external audit along with periodic update reports to the Audit Committee. Mazars are currently appointed as the Council's External Auditor.

**3. External Audit Progress Report**

3.1 The External Audit Draft Audit Strategy Memorandum for 2022/23 (Appendix A) summarises the audit approach highlights significant audit risks and areas of key judgements and provides the Audit Committee with details of the audit team.

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

**4. Strategic Priorities**

4.1 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.

**5. Organisational Impacts**

5.1 Finance (including whole life costs where applicable)

The Audit fee for 2022/23 is £48,403, 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, in addition the work undertake on property valuations and the net pension liability valuation is now included in the scale fee rather than being issued as a fee variation. Variations are still likely to be incurred for additional testing as a result of new auditing standards and additional working arising from changes in the Code of Audit Practice for VFM reporting, these fee variations will not be confirmed until later in 2023.

5.2 Legal Implications including Procurement Rules

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

5.3 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.

**6. Risk Implications**

6.1 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.

**7. Recommendation**

7.1 Audit Committee are asked to note the content of the Draft Audit Strategy Memorandum.

| | |
|---|---|
| **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<br>Telephone (01522) 873258 |

# DRAFT Audit Strategy Memorandum

## City of Lincoln Council



Year ending 31 March 2023

mazars

# Contents

01

Section 01:

# Engagement and responsibilities summary

# 1. Engagement and responsibilities summary

## Overview of engagement

We are appointed to perform the external audit of City of Lincoln Council (the Council) for the year to 31 March 2023. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

### Audit opinion

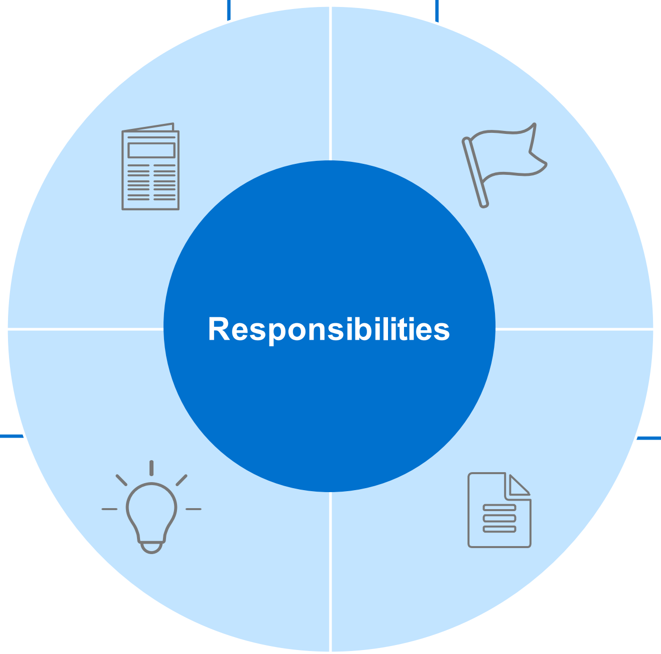
We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or The Audit Committee, as those charged with governance, of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

The Chief Finance Officer is responsible for the assessment of whether is it appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements.

126

### Value for money

We are also responsible for forming a commentary on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in [section 5] of this report.




### Fraud

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

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

### Wider reporting and electors' rights

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

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

02

Section 02:

# Your audit engagement team

# 2. Your audit engagement team

Your external audit service will continue to be led by the following.

| Who | Role | Email |
|---|---|---|
| Mark Surridge<br>Director and Key Audit Partner | Engagement Lead | Mark.Surridge@mazars.co.uk |
| Michael Norman<br>Senior Manager | Engagement Manager | Michael.Norman@mazars.co.uk |
| Garima Garg<br>Assistant Manager | Engagement Senior | Garima.Garg@mazars.co.uk |



03

Section 03:

# Audit scope, approach and timeline

# 3. Audit scope, approach and timeline

## Audit scope

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

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

## Audit approach

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

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

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

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

## Requirements of revised ISA 315

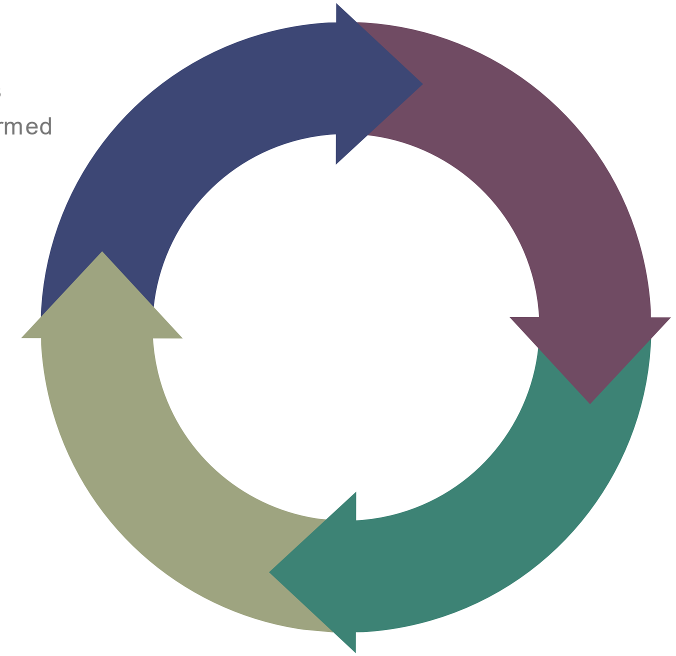
The International Audit and Assurance Standards Board (IAASB) approved major changes to ISA 315 in September 2019. The changes are effective for audits of financial statements for periods beginning on or after 15 December 2022. The revisions intend to drive better quality and more consistent risk assessments, as well as the exercising of professional scepticism. We summarise the implications of the revised standard in Appendix B.

# 3. Audit scope, approach and timeline



## Planning and Risk Assessment – January/February

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



## Interim – March/April

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

## Completion – October/November

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

## Fieldwork – August/September

- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks and high risk areas including detailed testing of transactions, account balances and disclosures
- Communicating progress and issues
- Clearance meeting

# 3. Audit scope, approach and timeline

## Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures, and we will take the Head of Internal Audit's Annual Report findings into account in forming our Value for Money Conclusion.

## Management's and our experts

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



| Item of account | Management's expert | Our expert |
|---|---|---|
| Defined benefit liability | Barnett Waddingham<br>*Actuary for Lincolnshire Pension Fund* | PWC<br>*Consulting actuary appointed by NAO* |
| Property, plant and equipment, Investment Properties and Assets held for Sale valuation | Paul Clifton, MRICS<br>*The Council's internal valuer* | We may seek to engage our Internal Valuer to support our audit testing. |
| Property, plant and equipment valuation (Council Dwellings only) | DVS Property Services<br>*External valuation specialist* | |
| Business Rate Appeals valuation | Inform CPI Limited<br>*Analyse Local Valuation System* | Not applicable |
| Financial instrument disclosures | Link Asset Services<br>*Treasury management advisors* | Not applicable |

## Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. We have not identified any service organisations which are relevant to the Council.

| Items of account | Service organisation | Audit approach |
|---|---|---|
| Payroll Expenditure | North Kesteven District Council<br>*The payroll entries that form part of the Council's financial statements are material and are derived from the processing of monthly payrolls. The payroll processing is undertaken and administered by North Kesteven District Council on behalf of the Council.* | We will review the controls at the Council over these transactions and gain an understanding of the work of the service organisations. We will conclude whether the Council has sufficient controls in place over the services provided by the payroll service and whether we will be able to audit these items of account based on the records held at the entity. |

04

Section 04:

# Significant risks and other key judgement areas

133

# 4. Significant risks and other key judgement areas

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

### Significant risk

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

### Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:



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

### Standard risk

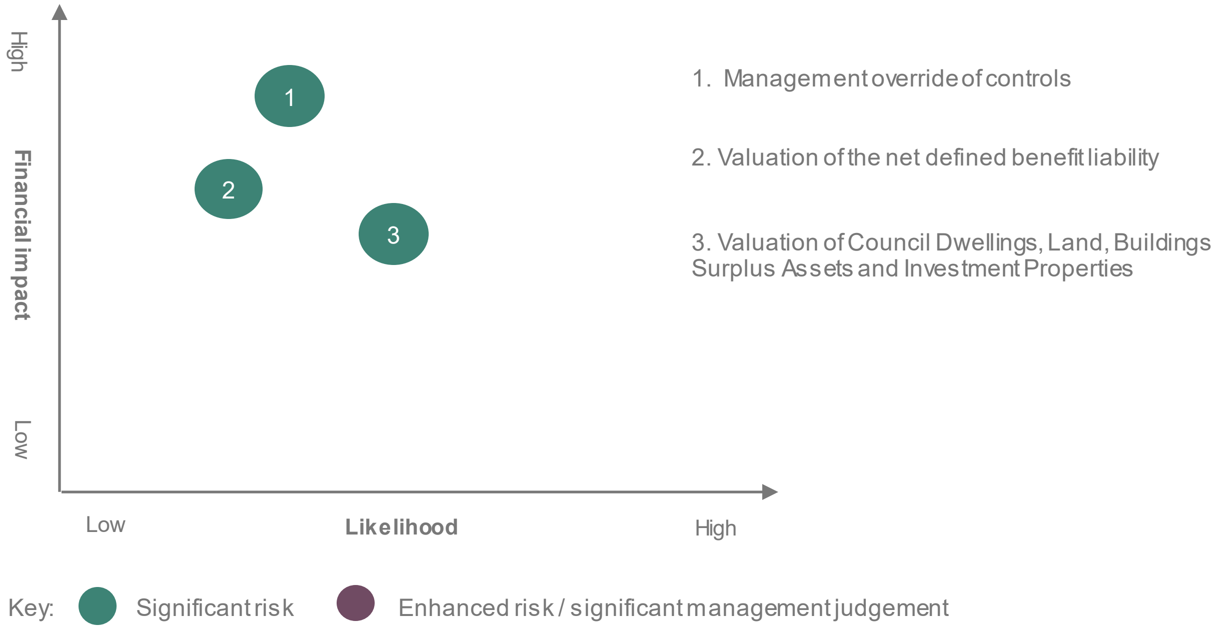
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

### Areas of audit focus

Where we identify a material item of account or aspect of financial reporting that represents a challenge to the Council, we will highlight to the Audit Committee as one where will focus our audit attention.

## Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council. We have summarised our audit response to these risks on the next page.



# 4. Significant risks and other key judgement areas

## Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

## Significant risks

| | Description | Fraud | Error | Judgement | Planned response |
|---|---|---|---|---|---|
| 1 | **Management override of controls**<br>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.<br><br>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits. | ● | ○ | ○ | We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual. |

# 4. Significant risks and other key judgement areas

## Significant risks

| | Description | Fraud | Error | Judgement | Planned response |
|---|---|---|---|---|---|
| 2 | **Valuation of the net defined benefit liability**<br><br>The net defined benefit liability relating to the Local Government Pension Scheme represents a significant balance on the Council's balance sheet.<br><br>The Lincolnshire County Pension Fund, as the local scheme administrator, uses an actuary to provide an annual valuation of these assets and liabilities in line with the requirements of IAS 19 Employee Benefits.<br><br>Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.<br><br>Relevant Account Balances (taken from the 2021/22 final financial statements, Note 44) are:<br><br>- Present value of the defined obligation £(259.8)m<br><br>- Fair value of plan assets £174.8m<br><br>- Net defined benefit liability £(84.9)m | ○ | ● | ● | We plan to address the risk by:<br><br>• critically assessing the competency, objectivity and independence of the Actuary engaged by the Lincolnshire County Pension Fund;<br><br>• liaising with the auditors of the Lincolnshire County Pension Fund to gain assurance over the design and implementation of controls in place at the Lincolnshire Pension Fund. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate;<br><br>• reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Fund Actuary (as applicable), and the key assumptions included within the valuations. This will include comparing them to expected ranges, utilising information by the consulting actuary engaged by the National Audit Office; and<br><br>• agreeing the data in the IAS 19 valuation report provided by the Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements. |

# 4. Significant risks and other key judgement areas

## Significant risks

| | Description | Fraud | Error | Judgement | Planned response |
|---|---|---|---|---|---|
| 2 | **Valuation of Council Dwellings, Land and Buildings, Surplus Assets and Investment Properties**<br><br>Property related assets are a significant balance on the council's balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements.<br><br>Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.<br><br>This risk covers (figures have been taken from the 2021/22 financial statements, Note 14):<br>• Council Dwellings (£299.4m)<br>• Land & Buildings (£77.9m)<br>• Surplus Assets (£21.5m)<br>• Investment Properties (£36.0m) | ○ | ● | ● | We plan to address this risk by:<br>• critically assessing the Council's valuers' scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;<br>• considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA code of practice and the Council's accounting policies;<br>• assessing whether valuation movements are in line with market expectations by considering valuation trends;<br>• critically assessing the approach that the Council adopts to ensure that assets that are not subject to revaluation in 2021/22 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Councils valuers. |

# 05

Section 05:

**Value for money**

138

# 6. Value for Money

## The framework for Value for Money work

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

2022/23 will be the third audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

## Specified reporting criteria

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

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services



2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks
3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services

## Our approach

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

We reported that we had not identified any risks of, or actual, significant weaknesses in the Council's VFM arrangements for 2021/22 and there were no recommendations arising from our work. We have completed our 2022/23 planning and initial risk assessment work and at this stage have not identified any risks of, or actual, significant weaknesses. We will keep our risk assessment up to date as the audit progresses and will report our full commentary and any recommendations in our current year's Auditor's Annual Report.

| | |
| --- | --- |
| Planning and risk assessment | Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:<br>• NAO guidance and supporting information<br>• Information from internal and external sources including regulators<br>• Knowledge from previous audits and other audit work undertaken in the year<br>• Interviews and discussions with staff and members |
| Additional risk based procedures and evaluation | Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness. |
| Reporting | We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.<br>Our commentary will also highlight:<br>• Significant weaknesses identified and our recommendations for improvement<br>• Emerging issues or other matters that do not represent significant weaknesses but still require attention from Council. |

# 06

## Section 06:

## **Fees for audit and other services**

# 7. Fees for audit and other services

## Fees for work as the Council's appointed auditor

Details of the 2021/22 Actual and indicative 2022/23 Audit fees in line with PSAA and other reporting mechanisms are set out below.

| Area of work | 2021/22 Fee | 2022/23 Proposed Fee |
|---|---|---|
| Scale Audit fee | £36,332 | £36,332 |
| *Fee variations:* | | |
| Additional work to reflect the Council's designation as a Public Interest Entity | £5,000 | n/a |
| Additional work in response to regulatory recommendations, including audit work on defined benefit liability schemes and the valuation of Council Dwellings, land and buildings and Investment Properties | £7,200 | £7,200 |
| Additional testing as a result of the implementation of new auditing standards (ISA240 continuing and ISA315R for 2022/23 – see Appendix B) | £2,800 | £5,000 |
| Additional work arising from changes in the Code of Audit Practice and VFM Reporting | £9,000 | £9,000 |
| **Total** | **£60,332** | **£57,532** |

This is a proposed fee for 2022/23 at the point of the issue of our ASM. This figure is subject to change and additional costs will be discussed with management.

07

Section 07:

# Our commitment to independence

142

# 7. Our commitment to independence

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

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

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

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

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

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

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

08

Section 08:

# Materiality and misstatements

144

# 9. Materiality and misstatements

## Summary of initial materiality thresholds

| Threshold | Initial threshold £’000s |
|---|---|
| Overall materiality | 1,229 |
| Performance materiality | 922 |
| Specific materiality – Officers’ Remuneration (note 35 of the Statement of Accounts) | 5 |
| Trivial threshold for errors to be reported to the audit committee | 37 |

## Materiality

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

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

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

The financial information needs of the users of the financial statements. In making our assessment we assume that users:

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

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

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

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

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

Our provisional materiality is set based on a benchmark of the Comprehensive Income and Expenditure Statement (CIES) total gross expenditure. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the audit committee.

We consider that the total gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

# 9. Materiality and misstatements

## Materiality (continued)

We expect to set a materiality threshold at 1.5% of gross revenue expenditure, as explained on the previous page.

In setting materiality, we considered, among other matters:

- The nature of the Council's business, being provision of public services to the local community
- Nature of the Council's ownership, being a public body, led by elected members and paid officers, which includes the statutory roles - Head of Paid Services, Chief Financial Officer (s151), and Monitoring Officer;
- Council's access to financing, with the Council having access to the Public Works Loan Board (PWLB) for borrowing which are non-complex arrangements.

Based on the 2021/22 audited financial statements we anticipate the overall materiality for the year ended 31 March 2023 to be in the region of £1.2m.

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



## Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our fourth year of audit, we have cumulative audit knowledge about the Council's financial statements, and there were no significant matters arising last year. We have therefore set our performance materiality again at 75% of our overall materiality being £0.92m.

## Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the audit committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £37,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Surridge.

## Reporting to the Audit Committee

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

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

# Appendices

A

A: Key communication points

B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

# Appendix A: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) ‘Communication with Those Charged with Governance’ and ISA 265 (UK) ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor’s Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

## Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

## Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

# Appendix A: Key communication points

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

| Required communication | Where addressed |
|---|---|
| Our responsibilities in relation to the financial statement audit and those of management and those charged with governance. | Audit Strategy Memorandum |
| The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks. | Audit Strategy Memorandum |
|  With respect to misstatements:<br>• uncorrected misstatements and their effect on our audit opinion;<br>• the effect of uncorrected misstatements related to prior periods;<br>• a request that any uncorrected misstatement is corrected; and<br>• in writing, corrected misstatements that are significant. | Audit Completion Report |
| With respect to fraud communications:<br>• enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;<br>• any fraud that we have identified or information we have obtained that indicates that fraud may exist; and<br>• a discussion of any other matters related to fraud. | Audit Completion Report and discussion at the Audit Committee, Audit planning and clearance meetings |

# Appendix A: Key communication points

| Required communication | Where addressed |
|---|---|
| Significant matters arising during the audit in connection with the entity's related parties including, when applicable:<br>• non-disclosure by management;<br>• inappropriate authorisation and approval of transactions;<br>• disagreement over disclosures;<br>• non-compliance with laws and regulations; and<br>• difficulty in identifying the party that ultimately controls the entity. | Audit Completion Report |
| Significant findings from the audit including:<br>• our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;<br>• significant difficulties, if any, encountered during the audit;<br>• significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;<br>• written representations that we are seeking;<br>• expected modifications to the audit report; and<br>• other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Committee in the context of fulfilling their responsibilities. | Audit Completion Report |
| Significant deficiencies in internal controls identified during the audit. | Audit Completion Report |
| Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures. | Audit Completion Report |

# Appendix A: Key communication points

| Required communication | Where addressed |
|---|---|
| Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of. | Audit Completion Report and The Audit Committee meetings |
| With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>• whether the events or conditions constitute a material uncertainty;<br>• whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and<br>• the adequacy of related disclosures in the financial statements. | Audit Completion Report |
| Indication of whether all requested explanations and documents were provided by the entity | Audit Completion Report |

# Appendix B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

## Background

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor's risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The new standard is effective for periods commencing on or after 15 December 2022 and therefore applies in full for the Council's 2022/23 audit.

The most significant changes relevant to the Council's audit are outlined below.

### Enhanced risk identification and assessment

The standard has enhanced the requirements for the auditor to understand the audited entity, its environment and the applicable financial reporting framework in order to identify and assess risk based on new inherent risk factors which include:

- Subjectivity
- Complexity
- Uncertainty and change
- Susceptibility to misstatement due to management bias or fraud.

Using these inherent risk factors, we assess inherent risk on a spectrum, at which the higher end of which lies significant risks, to drive an audit that is more focused on identified risks. Auditors are now also required to obtain sufficient, appropriate evidence from these risk identification and assessment procedures which means documentation and evidence requirements are also enhanced.

### Greater emphasis on understanding IT

In response to constantly evolving business environments, the standard places an increased emphasis on the requirements for the auditor to gain an understanding of the entity's IT environment to better understand the possible risks within an entity's information systems. As a result, we are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs).

### Increased focus on controls

Building on the need for auditors to gain a greater understanding of the IT environment, the standard also widens the scope of controls that are deemed relevant to the audit. We are now required to broaden our understanding of controls implemented by management, including ITGCs, as well as assess the design and implementation of those controls.

## Implications for the audit

Our risk assessment procedures will be more granular than those carried out under the previous standard by your previous auditor, and we will be seeking sufficient information from the Council to ensure that we can document our detailed understanding of the Council and the environment that it operates in.

In documenting our risk assessment, we will need to input additional time to assess inherent risks of the spectrum that the auditing standard requires.

In terms of IT, we will need to ensure we have a good understanding of the Council's IT environment. We will keep this under review as part of our planning and interim audits. We do not plan to test IT general controls as we have designed our approach to gain assurance from substantive testing, which in our view remains the most efficient approach to take.

# Mark Surridge, Director – Public Services

**Mazars**
First Floor
Two Chamberlain Square
Birmingham, B3 3AX

This page is intentionally blank.

Item No. 11

**AUDIT COMMITTEE** **21 MARCH 2023**

| | |
|---|---|
| **SUBJECT:** | **ANNUAL GOVERNANCE STATEMENT MONITORING** |
| **REPORT BY:** | **CHIEF EXECUTIVE AND TOWN CLERK** |
| **LEAD OFFICER:** | **GRAHAM ROSE, SENIOR STRATEGIC POLICY OFFICER** |

## 1. Purpose of Report

1.1 To present to Audit Committee a progress update on the one area identified as a 'significant governance issue' as set out in the 2021/22 Annual Governance Statement (AGS).

## 2. Executive Summary

2.1 This report and supporting appendix provides an update on the progress made with the one significant governance issue identified in the 2021/22 Annual Governance Statement presented to Audit Committee in June 2022. This particular issue was monitored throughout 2021/22 and carried forward for monitoring during 2022/23. There were no new issues identified within the 2021/22 Annual Governance Statement.

## 3. Background

3.1 On an annual basis the Annual Governance Statement reviews how City of Lincoln Council complied with our Code of Corporate Governance during the previous year, and specifically focuses on identifying any significant governance issues for monitoring over the year ahead.

3.2 Updates on the progress made with reducing the risks of those issues identified are provided to Audit Committee on a quarterly basis.

## 4 Summary of findings

4.1 **Monitoring of 2021/22 AGS issues**

There was one significant governance issue monitored during 2021/22, which remained an issue for monitoring during 2022/23.

4.2 **<u>AGS issue identified for monitoring in 2022/23</u> -**

**Disaster Recovery Plan in place for IT arrangements and alignment with current Business Continuity plans:**

*A new IT Disaster Recovery plan needs to be in place, which will consider not just the 'where' the council has recovery plans based, but also what the future expectations from our IT resources will be; how our staff will work, how our services will work, what resources are available and what implications does this have on our* *ability to ensure the Disaster Recovery plans for IT can match the Business Continuity plans for key services.*

This issue falls into two separate actions – the first relating to the completion of the updated IT Disaster Recovery Plan, and the second being the review of the business continuity plans in light of the new recovery plan.

An update on the progress with this one significant issue identified within the 2021/22 AGS is provided within Appendix A, which also details the progress made on this issue throughout 2021 and 2022.

## 5. Strategic Priorities

5.1 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

7.2 (ii) Key risks associated with the preferred approach - n/a

## 8 Recommendation

8.1 Audit Committee is asked to note the progress made on the one issue identified within the AGS 2021/22.

| | |
|---|---|
| **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:** | Graham Rose, Senior Strategic Policy Officer |

This page is intentionally blank.

## Summary of progress with AGS risk actions: March 2023

### Significant current issue from 2021/22 to focus on in 2022/23

The significant AGS issue below was identified in the 2021/22 AGS review. This particular issue was monitored during 2021/22, and remains an issue for monitoring during 2022/23, although the issue has been updated to reflect the current environment:

- **Disaster Recovery plan in place for IT arrangements and alignment with current Business Continuity plans:** A new IT Disaster Recovery plan needs to be in place, which will consider not just the 'where' the council has recovery plans based, but also what the future expectations from our IT resources will be; how our staff will work, how our services will work, what resources are available and what implications does this have on our ability to ensure the Disaster Recovery plans for IT can match the Business Continuity plans for key services.

**There were no new significant issues identified from the 2021/22 AGS review.**

159

| AGS issue identified | Update by | What actions will be taken over the coming months | What progress have we made against each action | RAG Status |
|---|---|---|---|---|
| **Disaster Recovery plan in place for IT arrangements and alignment with current Business Continuity plans** | Matt Smith – BDIT Manager (IT) | IT actions agreed<br>1. Finish the final aspects of the Hamilton House recovery centre – by August 2021<br>a. all servers to be fully functional | IT actions delivered in 2021:<br>1. All servers are now replicated to Hamilton House secondary data centre<br>• Disaster Recovery is now operational at Hamilton House<br>• Specific Cyber-attack insurance is being procured<br>• Many systems are now hosted off site in the cloud especially email and Microsoft suite of documents – this ensures 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 Disaster Recovery implications on site | A |

160

| AGS issue identified | Update by | What actions will be taken over the coming months | What progress have we made against each action | RAG Status |
|---|---|---|---|---|
| | | 2. Refresh the ITDR plan – September 2022<br>a. Review priority of services to be brought back on-line<br>b. Consider ongoing agile working requirements<br>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?<br>d. Decisions on how we could simplify the invocation process<br>e. Documentation completed and action plan in place | • The only outstanding action is to review individual business continuity plans for services, to ensure the scope and scale of recovery matches the capacity of the Disaster Recovery Plan (see below).<br><br>2. Initial consideration has been made into next stages, and the review of the Disaster Recovery plan. This may involve some investment, and options will be developed in conjunction with existing suppliers<br><br>February 2022 - ICT is continuing to develop the Disaster Recovery response including ongoing work on:<br>• Citrix portal accessible from Disaster Recovery site<br>• Replacement / upgrade of firewalls to provide additional resilience<br><br>Next stages will be looking at VPN resilience, increasing internet connectivity at secondary site and making files more accessible to users<br><br>Update September 2022 –<br><br>Below provides an update on the activity, which has taken place recently towards the development and implementation of an effective IT Disaster Recovery Plan. | |

| AGS issue identified | Update by | What actions will be taken over the coming months | What progress have we made against each action | RAG Status |
|---|---|---|---|---|
| | | | Cyber Insurance – more investigation is required and further work will need to be undertaken before the insurance can be procured. The insurance market in this field is very new and this means it is challenging to meet all requirements at this time.<br><br>Access to services – further work has been undertaken meaning the Citrix portal can now be accessed from a secondary site.<br><br>Firewalls - Firewalls have been upgraded at both data centres.<br><br>New applications - Further progress is being made with the procurement of new applications to allow for more efficient and effective working and service delivery.<br><br>Data backup - Further options for the backup of data and security are also in early stages of consideration / planning.<br><br>An additional piece of work is also underway to mitigate invocation times should this be necessary.<br><br>A review of overall ICT strategy is being considered to ascertain next steps for development of infrastructure. | |

| AGS issue identified | Update by | What actions will be taken over the coming months | What progress have we made against each action | RAG Status |
|---|---|---|---|---|
| | | | Currently aiming for the IT Disaster Recovery Plan to be in place by the end of December 2022, in advance of an expected audit on the plan taking place in early 2023.<br><br>It is important to note that following implementation of the plan, there will be a need to review this regularly due to the changing nature of the IT service.<br><br>**Update March 2023**<br><br>**Following a considerable amount of work within the IT service, the IT Disaster Recovery Plan has been updated and is in operation.**<br><br>**An audit on the plan is scheduled to take place during mid to late March 2023 to assess and inform the suitability of the plan and to identify any weaknesses.**<br><br>**Recommendations from the audit will be reflected within the plan.**<br><br>**Moving forward the plan will continue to be reviewed for accuracy, enhanced and updated where required on a routine basis and in line with the changing nature of the IT service. This will ensure the plan** | |

| AGS issue identified | Update by | What actions will be taken over the coming months | What progress have we made against each action | RAG Status |
|---|---|---|---|---|
| | Jaclyn Gibson – CFO (BC) | Business Continuity actions agreed:<br>1. Review all BC plans in light of the published ITDR plan | **remains as up to date and as accurate as possible.**<br><br>Business Continuity Actions:<br><br>**<u>Update March 2023</u>**<br><br>**Work continues on the annual refresh of business continuity plans for those services that have been assessed as 'critical' services.**<br><br>**This will now be further supplemented for the 2023/24 updates to ensure they align with the new IT Disaster Recovery Plan.** | |

This page is intentionally blank.

Item No. 12

**AUDIT COMMITTEE** **21 MARCH 2023**

| | |
|---|---|
| **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 2022/23 against the Standards contained within the CIFPA Financial Management Code and the associated actions arising to ensure compliance.

## 2. Background

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 previously supported by a professional code.

2.2 This situation changed when, in December 2019, the 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. The FM Code was introduced as part of a package of measures in response to concerns around the financial resilience of Councils. These measures were driven by the exceptional financial circumstances faced by local authorities (even prior to the impact of Covid19 and the current economic factors), having revealed concerns about fundamental weaknesses in financial management. In particular there had been, and continue to be, a small number of high-profile failures across local government which threaten stakeholders confidence in the sector as a whole.

2.3 The FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability through a set of standards of financial management.

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

2.5 The Code complies with other legislation and associated CIPFA codes and is evidence of compliance with statutory and professional frameworks. Demonstrating compliance with the CIPFA FM Code is a collective responsibility of the Elected Members, Corporate Leadership Team and the Chief Finance Officer.

## 3. The Financial Management Code

3.1 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.

3.2 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.

3.3 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.

3.4 The Council's external auditors, from 2021/22, have regard to the FM 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 is now prepared on this basis.

3.5 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.

3.6 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.

3.7 <u>2021/22 Assessment</u>

A self-assessment against the standards set out in FM Code was prepared in February 2022. This assessment sets out what is expected within each standard and records evidence of areas of compliance and documents any further actions required to meet and/or improve current processes in place. An update against the actions identified in February 2022 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 | Jun-22 | **COMPLETE –** Revised FPR's approved by Full Council January 2023 |
| Review of Contract Procedure Rules | Mar-23 | **OUTSTANDING** – delayed as pending Procurement Bill receiving Royal Assent |

| | | |
|---|---|---|
| Undertake Assessment against HIA requirements | Sept-23 | **OUTSTANDING –** delayed due to capacity issues within Internal Audit Team |
| Assess outcome of external quality assessment of Internal Audit and develop action plan | May-22 | **COMPLETE –** assessment concluded Internal Audit were fully compliant with the Standards, no action required. |
| Implementation of Finance Business Partnering approach | Mar-23 | **IN PROGRESS** – progress slower than planned due to capacity with Financial Services Team. |
| Implement revised MRP policy, if required by DHLUC | Mar-23 | **COMPLETE –** DHLUC have not yet confirmed implementation date but MRP policy has been updated to reflect forthcoming changes. |
| Assess implications of changes to The Prudential Code | Mar-23 | **COMPLETE –** Treasury Mgmt Strategy and Prudential Indicators updated and approved by Full Council February 2023. |
| Consider further engagement with wider range of stakeholders for budget consultation | Jan-23 | **COMPLETE** – Budget consultation undertaken via Citizens Panel and online survey |
| 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 capacity in Financial Services Team. |

<u>2022/23 Assessment</u>

3.8 The 2021/22 assessment has now been updated for the actions completed and in progress above, and in light of other developments during 2022/23. This has resulted in an updated self-assessment, as attached at Appendix A. The assessment now also includes a RAG rating against each of the standards against the following definitions:

| **Assessment** | **Description** |
|---|---|
| | Substantial compliance |
| | Reasonable compliance/Some areas for improvement |
| | Minimum compliance/significant areas for improvement |

In summary the 17 standards have been assessed as follows:

| Ref | Standard/Description | RAG |
|---|---|---|
| A | The leadership team is able to demonstrate that the services provided by the authority provide value for money | |
| B | The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government. | |
| C | The leadership Team demonstrates in its actions and behaviours responsibility for governance and internal control. | |
| D | The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016). | |
| E | The financial management style of the authority supports financial sustainability. | |
| F | The authority has carried out a credible and transparent financial resilience assessment. | |
| G | The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members. | |
| H | The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities. | |
| I | The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans. | |
| J | The authority complies with its statutory obligations in respect of the budget setting process. | |
| 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. | |
| L | The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget. | |
| M | The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions. | |
| N | The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial. | |
| O | The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability. | |
| 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. | |
| Q | The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions. | |

This demonstrates an overall substantial level of compliance (65%) with the underlying principles of the FM Code. There are areas for improvement in 6 (35%) of the standards, the actions for which are set out below. It is not expected that there will be full compliance across all standards, continual improvement, the routine revision of policies and procedures and assessment against best practice is likely to result in there being actions to be implemented following each annual assessment. The Council can be assured that it has achieved this level of substantial and reasonable assurance and that there are no areas of minimum compliance and no significant areas for improvement.

3.9 The actions arising from this updated assessment (which incorporates those outstanding from 2021/22) are as follows:

| **Standard** | **Action Required** | **Responsible Officer** | **Timescale** |
|---|---|---|---|
| B | To continue to support professional development | CFO | Ongoing |
| C | To review Contract Procedure Rules | PM | TBC – dependent on Procurement Bill/Act |
| C | To review the Terms of Reference of the Audit Committee | AM | Jun-23 |
| D | Assess HIA against CIPFA requirements | AM | Sept-23 |
| D | Complete bi-annual assessment of Internal Audit against PSIAS | AM | Jul-23 |
| E | Review Finance Business Partnering Action Plan | FSM | Mar-24 |
| H | Benchmark the Treasury Mgmt and Capital Strategies against best practice | FSM | Mar-24 |
| H | Introduce quarterly reporting of treasury management activities | FSM | Jul-23 |
| L | Review engagement approach for budget/strategic plan consultation | CFO/ Policy Unit | Nov-23 |
| O | Consider if other major balance sheet items can be made more visible in quarterly reporting. | FSM | Sept-24 |

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

## 4. Strategic Priorities

4.1 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.

## 5. Organisational Impacts

5.1 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.

5.2 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.

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 (i) Options Explored

There are no alternative options available.

6.2 (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.

## 7. Recommendation

7.1 Audit Committee are asked to:

a) Review the progress of the actions arising from the 2021/22 self-assessment
b) Review and comment upon the 2022/23 self-assessment, as attached at Appendix A, and the resulting actions required,

| | |
|---|---|
| **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<br>Telephone (01522) 873258 |

| Ref | Description | Pages of Code | Detail | CFO assessment and actions required | RAG |
|---|---|---|---|---|---|
| Responsibilities of the Chief Finance Officer and Leadership Team | | | | | |
| A | The leadership team is able to demonstrate that the services provided by the authority provide value for money | 17/18 | The authority has a clear and consistent understanding of what value for money means to it and its leadership team.<br><br>There are suitable mechanisms in place to promote value for money at a corporate level and at the level of individual services.<br><br>The authority is able to demonstrate the action that is has taken to promote value for money and what it has achieved. | The Council has clear accountability and arrangements to deliver value for money. The Council has a Value for Money Statement that was last 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:<br><br>• VFM is a key part of any business case submitted and all decision-making groups take decisions with a focus on VFM.<br>• 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.<br>• 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.<br>• The Annual Governance Statement focuses on all aspects of governance, including processes around VFM in service provision<br>• Lincoln Project Management Model – this compulsory method of managing projects within the council contains key | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | templates for financial assessments and risk management<br>• 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.<br>• 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.<br>• The performance framework includes regular service monitoring of detailed performance trends covering:<br>○ Performance measures – e.g. throughput, time taken and outstanding work<br>○ Volumetric measures to add contextual background data<br>○ Customer satisfaction - feedback through satisfaction monitoring and complaints and compliments monitoring<br>○ Quarterly Dashboard summarising all aspects of performance within the VFM chain<br>• Communication of VFM to customers and staff through a variety of channels.<br>• Delivering excellent customer service which is a key component of VFM.<br><br>External Audit provide a VFM assessment in although the final outcome of the 2021/22 audit is still awaiting, the audit completion report | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | stated, "we anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources".<br><br>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.<br><br>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.<br><br>**ACTION REQUIRED - NONE** | |
| B | The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government. | 18/19 | In summary this Statement requires that the CFO:<br>• 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.<br>• Must be actively involved in, and able to bring influence to bear on, all material business decisions<br>• Must lead the promotion and delivery by the whole | The Chief Finance Officer post is a key member of the Corporate Leadership Team, reporting to the Chief Executive.<br><br>She is actively involved in, and does influence, all material business decisions.<br><br>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).<br><br>She is ACCA qualified with significant experience of local government finance. | |

| | | | | | |
|---|---|---|---|---|---|
| | | | organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.<br>• Must lead and direct a finance function that is resourced to be fit for purpose.<br>• Must be professionally qualified and suitably experienced. | Continuing professional development is undertaken as required by her accounting body.<br><br>There are contracts in place for specialist financial advice (technical accounting, treasury management, financial management & planning and taxation)<br><br>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.<br><br>The Finance Team is suitably resourced with appropriately qualified staff, and is fit for purpose. This team includes 2 qualified accountants, 2 part qualified accountant and 6 qualified accounting technicians and 1 part qualified accounting technicians. All officers undertake continuing professional development as required by their accounting bodies.<br><br>**ACTION REQUIRED – TO CONTINUE TO SUPPORT PROFESSIONAL DEVELOPMENT - ONGOING** | |
| **Governance and Financial Management Style** | | | | | |
| C | The leadership Team demonstrates in its actions and behaviours responsibility for governance and internal control. | 21 | The leadership team espouses the Nolan principles.<br><br>The authority has a clear framework for governance and internal control. | The leadership exhibit the Nolan principles of public life.<br><br>There are Financial Procedure Rules which are subject to a full review on a 3-yearly basis, these have been reviewed during the last year, | |

| | | | | | |
|---|---|---|---|---|---|
| | | | The leadership team has established effective arrangements for assurance, internal audit and internal accountability.<br><br>The leadership team espouses high standards of governance and internal control.<br><br>The leadership team nurtures a culture of effective governance and robust internal control across the authority. | with consideration by Audit Committee and then approval by Full Council in January 2023. 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 Royal Assent of the Procurement Bill (this is expected around Spring 2024).<br><br>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. Following the publication by CIPFA of an updated Position Statement on Audit Committees, along with additional guidance for local authority audit committees, a review of the Audit Committee's Terms of Reference and work programmes now needs to be undertaken to ensure this reflects the latest guidance and best practice.<br><br>All Committees have separate Terms of Reference.<br><br>There is a Code of Conduct for Members which is overseen by the Ethics and Engagement Committee and was last updated in January 2021. In addition, there is a Code of Conduct for Officers. | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | The authority has in place a clear framework for governance and internal controls through it's Code of Corporate Governance. The Code of Corporate Governance is reviewed on an annual basis, with the last comprehensive review undertaken in 2021.<br><br>There are effective arrangements for assurance, internal audit and internal accountability. Any areas of concern raised through those arrangements are managed robustly and transparently.<br><br>The leadership team espouses high standards of governance and internal control and communicates these clearly to all staff.<br><br>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.<br><br>**ACTION REQUIRED:**<br>**1. REVIEW OF CONTRACT PROCEDURE RULES – TBC (dependent on Procurement Act)**<br>**2. REVIEW TERMS OF REFERENCE OF AUDIT COMMITTEE – JUNE 2023** | |
| D | The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016). | 22 | The authority of aware of the provisions of the CIPFA Delivering Good Governance Framework.<br><br>The authority has sought to apply the principles, behaviour and actions set out in the Framework to its own governance arrangements. | There is a strong internal audit function which produces reporting and recommendations across all functions. This is subject to external review every 5 years, with the latest review undertaken in 2022. This concluded that the service fully conformed to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. | |

| | | | | | |
|---|---|---|---|---|---|
| | | | The authority has in place a suitable code of governance. | The Council's Code of Corporate Governance was comprehensively reviewed in July 2021 and is refreshed annually. The last review took place in March 2023.<br><br>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.<br><br>Internal Audit assess their compliance against the Public Sector Internal Audit Standards on a bi-annual basis. This was last undertaken and reported to the Audit Committee July 2021. The next review will be undertaken in 2023.<br><br>Following the recruitment of a new Internal Audit Manager in 2022, an assessment against the CIPFA document "The Role of the Head of Internal Audit 2019" will now be undertaken.<br><br>**ACTION REQUIRED:**<br>**1. ASSESS NEW HIA AGAINST CIPFA REQUIREMENTS – SEPTEMBER 2023**<br>**2. COMPLETE BI-ANNUAL ASSESSMENT OF INTERNAL AUDIT FUNCTION AGAINST PSIAS – JULY 2023** | |

| | | | | | |
|---|---|---|---|---|---|
| E | The financial management style of the authority supports financial sustainability | 22/23 | Strong financial management is assessed<br>against a hierarchy of<br>1. delivering accountability,<br>2. supporting performance<br>3. enabling transformation.<br><br>Need to perform well at each level before moving to the next. This is broadly linked to economy, efficiency and effectiveness. | Achieving stage 1 of the hierarchy. The Council has an effective framework of financial accountability through:<br><br>• Member delegations which include financial responsibilities;<br>• Officer delegations which include financial responsibilities;<br>• Financial Procedure Rules which set out financial responsibilities for Directors, Assistant Directors Budget Managers and all employees of the Council and all Members.<br><br>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.<br><br>The Finance Team have implemented a Finance Business Partnering approach, although full role out has been delayed due to staff capacity, but this is continuing through 2023/24.<br><br>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 is required towards acting as an enabler. | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | **ACTION REQUIRED: REVIEW OF FINANCE BUSINESS PARTNERING ACTION PLAN AND IMPLEMENATION – MARCH 2024** | |
| **Long to Medium Term Financial Management** | | | | | |
| F | The authority has carried out a credible and transparent financial resilience assessment | 26 | The authority has undertaken a financial resilience assessment.<br><br>That assessment tested the resilience of the authority's financial plans to a broad range of alternative scenarios.<br><br>The authority has taken appropriate action to address any risks identified as part of the assessment | The Council has reviewed the CIPFA Financial Resilience index and reviewed whether it is comfortable with the areas that the index flags as more concerning, given the specific natures of Lincoln as an authority 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.<br><br>There has not been an independent assessment of the local authority's financial resilience other than the CIPFA index and the annual external audit.<br><br>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.<br><br>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.<br><br>**ACTION REQUIRED – NONE** | |
| G | The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members. | 26 | The authority has a sufficiently robust understanding of the risks to its financial sustainability.<br><br>The authority has a strategic plan and long-term financial strategy that addresses adequately those risks.<br><br>The authority reports effectively to the leadership team and to members its prospects for long-term financial sustainability, the associated risks and the impact of these for short- and medium-term decision making. | The Council produces a 5-year MTFS and a 30-year Housing Business Plan incorporating revenue and capital models using a range of assumptions for economic factors and service related factors. This is currently undergoing a full refresh.<br><br>The current high levels of uncertainty around future funding for local government and the current economic volatility 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.<br><br>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.<br><br>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.<br><br>In addition, Member briefings are delivered to individual political groups and to all Members as a whole. This was evident during 2022/23 given the escalating cost pressures that arose during the past 12 months.<br><br>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.<br><br>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.<br><br>**ACTION REQUIRED - NONE** | |
| H | The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities. | 26/27 | The authority is aware of its obligations under the Prudential Code.<br><br>The authority has prepared a suitable capital strategy.<br><br>The authority has a set of prudential indicators in line with the Prudential Code. | The Council is aware of its obligations under the Prudential Code and has assessed itself as compliant with those obligations. Like the Financial Management Code, there are many areas of compliance where the guidance allows for the Council to decide what an appropriate fit is; and there is not a single way to be compliant. | |

| | | | | | |
|---|---|---|---|---|---|
| | | | The authority has suitable mechanisms for monitoring its performance against the prudential indicators that it has set. | An updated Prudential Code was published in December 2021 and applied 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 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, was though applied during 2022/23. The Council's Treasury Management Strategy and Capital Strategy for 2023/24 have now been prepared in accordance with the revised reporting requirements. However, it would be beneficial to undertake a further exercise to benchmark both strategies against best practice.<br><br>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.<br><br>The Council has assessed the implications of the 2021 consultation by DHLUC on proposed changes to Minimum Revenue Payment (MRP) requirements and, in advance of any changes being put into operation, it has amended it's MRP Policy. This now provides for MRP being set aside on all borrowing. | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | 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.<br><br>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 2022 with a full refresh currently in progress and set to report in Summer 2023.<br><br>Individual financial modelling of capital schemes covers a longer-term frame, typically over the asset life and is factored into investment decisions.<br><br>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. As required under the revised Treasury Management and Prudential Codes, reporting on treasury activities must, from 2023/24, be reporting on a quarterly basis, the Council will therefore ensure it's reporting arrangements reflect this. | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | **ACTION REQUIRED:**<br><br>1. **BENCHMARK THE TREASURY MANAGEMENT AND CAPTIAL STRAEGIES AGAINST BEST PRACTICE – MARCH 2024**<br>2. **INTRODUCE QUARTERLY REPORTING OF THE COUNCIL'S TREASURY MGMT ACTIVITIES – JULY 2023** | |
| I | The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans | 27 | The authority has in place an agreed medium term financial plan.<br><br>The medium-term financial plan consistent with and integrated into relevant service plans and its capital strategy.<br><br>The medium-term financial plan has been prepared on the basis of a robust assessment of the relevant drivers of cost and demand.<br><br>The medium-term financial plan has been tested for resilience against realistic potential variations in key drivers of cost and demand. | The Council has in place an agreed 5-year MTFS. This plan is consistent with the capital strategy and refreshed annually to reflect relevant strategic priorities, commitments, underlying assumptions and emergent issues and to agree future savings targets. This ensures that the Council always has a 5-year balanced budget, allowing for sufficient time to plan and deliver any required savings.<br><br>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.<br><br>The MTFS is the best assessment of each Directorate of what their demand pressures will be. | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | Although the plan is set on a rolling 5-year basis, there is the opportunity annually to revisit plans where the latest data indicates that there have been material changes to assumptions, as demonstrated in recent years.<br><br>The Council undertakes an annual service plan process at an Assistant Director level. 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.<br><br>**ACTION REQUIRED - NONE** | |
| **The Annual Budget** | | | | | |
| J | The authority complies with its statutory obligations in respect of the budget setting process | 29 | The authority is aware of its statutory obligations in respect of the budget-setting process.<br><br>The authority has set a balanced budget for the current year.<br><br>The authority is likely to be able to set a balanced budget for the forthcoming year.<br><br>The authority is aware of the circumstances under which it should issue a Section 114 notice and how it would go about doing so. | The Council understands its obligation in respect of the budget-setting process and has set a balanced budget for the current year, and the four following years. The Council's MTFS process is designed to deliver a full five- year balanced budget each year.<br><br>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 updated guidance issued by CIPFA in light of COVID-19.<br><br>**ACTION REQUIRED - NONE** | |
| K | The budget report includes a statement by | 29/30 | The authority's most recent budget report includes a statement by the | The most recent budget report includes a statement by the Chief Finance Officer on the | |

| | | | | | |
|---|---|---|---|---|---|
| | the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves. | | CFO on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.<br><br>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.<br><br>The authority has sufficient reserves to ensure its financial sustainability for the foreseeable future.<br><br>The report sets out the current level of the authority's reserves, whether these are sufficient to ensure the authority's ongoing financial sustainability and the action that the authority is taking to address any shortfall. | robustness of the estimates and a statement of the adequacy of the proposed financial reserves.<br><br>The budget report sets out the detail of estimates in terms of key estimates e.g. business rates, council tax grants, housing rents, specific grans, fees and charges etc. It does not set out specific service assumption details and the impact of variations in those.<br><br>The Council currently has sufficient reserves, which ensures its sustainability for the foreseeable future. This position has though been impacted by COVID-19 and the current economic conditions with the required use of reserves (earmarked and general balances) over the period of the MTFS, whilst a savings programme is delivered. These reserves include general balances as well as specific covid reserves. The authority has a prudent approach to what is needed to manage risks.<br><br>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.<br><br>**ACTION REQUIRED - NONE** | |
| **Stakeholder Engagement and Business Plans** | | | | | |
| L | The authority has engaged where appropriate with key | 31 | The authority knows who its key stakeholders are. | The Council is aware of who its key stakeholders are. | |

| | | | | | |
|---|---|---|---|---|---|
| | stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget. | | 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.<br><br>The authority has assessed the effectiveness of this engagement.<br><br>The authority has a plan to improvement its engagement with key stakeholders. | The Council's view is that widespread engagement with the public on council spending is still hard for residents to engage with in a meaningful way and is not entirely effective in influencing the budget plans. The Council does though engage 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. Following on from the January/February 2023 consultation exercise a review of the method of public engagement will be undertaken to inform the 2024 consultation to ensure this remains effective.<br><br>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.<br><br>**ACTION REQUIRED – REVIEW ENGAGEMENT APPROACH FOR BUDGET/STRATEGIC PLAN CONSULTATION – NOVEMEBER 2023** | |
| M | The authority uses an appropriate documented option appraisal | 31/32 | The authority has a documented option appraisal methodology that is consistent with the guidance set out | The Council does not currently have a consistent process for undertaking and documenting option appraisals. These are | |

| | | | | | |
|---|---|---|---|---|---|
| | methodology to demonstrate the value for money of its decisions. | | in IFAC/PAIB publication 'Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal'.<br><br>The authority offers guidance to officers as to when an option appraisal should be undertaken.<br><br>The authority's approach to option appraisal includes appropriate techniques for the qualitative and quantitative assessment of options.<br><br>The authority's approach to option appraisal includes suitable mechanisms to address risk and uncertainty.<br><br>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). | 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.<br><br>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.<br><br>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.<br><br>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.<br><br>These contain both quantitative evaluation of costs and benefits and qualitative evaluation of | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | fit to service objectives and outcomes for residents/service users.<br><br>The project documentation includes an evaluation of risk and uncertainty and the extent that this can be mitigated for given options.<br><br>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.<br><br>**ACTION REQUIRED – NONE** | |
| **Monitoring Financial Performance** | | | | | |
| N | The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial | 33 | The authority provides the leadership team with an appropriate suite of reports that allow it to identify and to correct emerging risks to its budget strategy and financial sustainability.<br><br>The reports cover both forward- and backward looking information in respect of financial and operational performance.<br><br>There are mechanisms in place to report the performance of the authority's significant delivery partnerships.<br><br>The reports are provided to the leadership team in a timely manner and in a suitable format. | 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.<br><br>Quarterly reporting is also provided in respect of the Council's basket of key operational performance indicators.<br><br>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 | |

| | | | | | |
|---|---|---|---|---|---|
| | | | The leadership team is happy with the reports that it receives and with its ability to use these reports to take appropriate action | accessible by budget managers, this would highlight significant variances earlier. Services will compile performance information on a more regular basis and where relevant highlight the impacts of these.<br><br>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.<br><br>The leadership team are happy with the reports it receives and with its ability to use these reports to take appropriate action, this has been particularly evident during 2022/23 and the significant number of budget variances due to external factors.<br><br>**ACTION REQUIRED – NONE** | |
| O | The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability. | 33 | The authority has identified the elements of its balance sheet that are most critical to its financial sustainability.<br><br>The authority has put in place suitable mechanisms to monitor the risk associated with these critical elements of its balance sheet.<br><br>The authority is taking action to mitigate the risk identified. | 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.<br><br>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. | |

| | | | | | |
|---|---|---|---|---|---|
| | | | The authority reports unplanned use of its reserves to the leadership team in a timely manner.<br><br>The monitoring of balance sheet risks is integrated into the authority's management accounts reporting processes. | Borrowing and investments are reported to Performance Scrutiny Committee and the Executive on a 6-monthly basis as part of the Treasury Management reporting. Prudential Code requirements are adhered too to provide the risk management of treasury activity. The frequency of these reports will be increased to quarterly from 2023/24 onwards in line the revised Treasury Management and Prudential Codes.<br><br>The level of arrears for Council Tax, Business Rates, Housing Benefit Overpayments and Former Tennant Arrears are reported to the Performance Scrutiny Committee on an annual basis. In addition, key service areas are provided with arrears information as part of account management meetings.<br><br>Housing Rent arrears are reported to Performance Scrutiny and the Executive on a quarterly basis.<br><br>Other assets and liabilities are only included in the Annual Statement of Accounts report to Audit Committee, Executive and Full Council.<br><br>Officers will review if other major balance sheet items can be made more visible in quarterly financial reporting.<br><br>**ACTION REQUIRED - CONSIDER IF OTHER MAJOR BALANCE SHEET ITEMS CAN BE MADE MORE VISIBLE IN QUARTERLY FINANCIAL REPORTING – SEPTEMBER 2024** | |

| | | | | | |
|---|---|---|---|---|---|
| **External Financial Reporting** | | | | | |
| P | The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom | 35 | The authority's leadership team is aware of the CFO's responsibilities in terms of the preparation of the annual financial statements.<br><br>The authority's CFO is aware of their responsibilities in terms of the preparation of the annual financial statements.<br><br>These responsibilities are included in the CFO's role description, personal objectives and other relevant performance management mechanisms.<br><br>The authority's financial statements have hitherto been prepared on time and in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom. | The authority's leadership team and the CFO are aware of the CFO's responsibilities in terms of the preparation of the annual financial statements.<br><br>These responsibilities form part of the CFO's role description and personal objectives.<br><br>The authority's financial statements have been prepared on time and in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom, and have been consistently given an unqualified opinion by external auditors (current 2021/22 opinion is awaited, although draft report concludes an unqualified opinion).<br><br>**ACTION REQUIRED - NONE** | |
| Q | The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions | | The authority's leadership team is provided with a suitable suite of reports on the authority's financial outturn and on significant variations from budget.<br><br>The information in these reports is presented effectively.<br><br>These reports are focused on information that is of interest and relevance to the leadership team. | 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.<br><br>The report also sets out the impact of key variances on the MTFS/future years budgets and any mitigating action being taken. | |

| | | | | | |
|---|---|---|---|---|---|
| | | | The leadership team feels that the reports support it in making strategic financial decisions. | These reports focus on material issues, which require action or awareness from the leadership team and therefore are appropriately focused.<br><br>The leadership team agreed that the reports support it in making strategic financial decisions.<br><br>**ACTION REQUIRED – NONE** | |

This page is intentionally blank.

Item No. 13

**AUDIT COMMITTEE** **21 MARCH 2023**

| | |
|---|---|
| **SUBJECT:** | **AUDIT COMMITTEE WORK PROGRAMME 2022/23** |
| **DIRECTORATE:** | **CHIEF EXECUTIVE AND TOWN CLERK** |
| **REPORT AUTHOR:** | **AMANDA STANISLAWSKI, AUDIT MANAGER** |

## 1. Purpose of Report

1.1 To provide details of the Audit Committee work programme for 2022/23.

## 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 reported to the Committee.

## 3. 2022/23 Work Programme

3.1 The proposed work programme for 2022/23, based on the Committee's Terms of Reference and cyclical reporting, is attached at Appendix B The frequency of meetings has been reviewed and is considered appropriate for 2022/23.

3.2 There have been two changes made to the work programme for the March meeting:-

- The Combined Assurance report has been removed. Due to available resources the full combined assurance report has not been completed. The assurance mapping work has been completed and the summary results will be included within the Annual Report as usual.
- Information Governance. It was previously agreed that this will be a six-monthly update so as it was last reported in November the next review is due in June.

Any further changes to this work programme will be reported to the Committee at each of its meetings.

3.3 A copy of the Audit Committee's Terms of Reference is attached at Appendix A.

**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 2022/23 the following training is scheduled:

- 6th June 2022 – Audit Committee Effectiveness – this was cancelled and rescheduled to 30th June
- 7th July 2022 – Local Government Financial Statements
- 31st January 2023 – Treasury Management
- TBC – Risk Management
- TBC – Counter Fraud learning – the slides have been received and will be rolled out shortly followed by a training session.

**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 2022/23.

| | |
|---|---|
| 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: | Amanda Stanislawski, Internal Audit Manager<br>Amanda.stanislawski@lincoln.gov.uk |

This page is intentionally blank.

**Appendix A**

## Audit Committee terms of reference (Constitution)

### 9.1 Audit Committee

The Council will appoint an Audit Committee.

### 9.2 Composition

Audit Committee

(a) The Audit Committee will comprise of seven Councillors and 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.

This page is intentionally blank.

APPENDIX B

## AUDIT COMMITTEE
## AUDIT WORK PROGRAMME FOR 2022/23

| Meeting dates | Audit Items – Revised Agenda | Training (Suggested) |
|---|---|---|
| 6th June 22 | | Audit Committee Effectiveness (Cancelled) |
| 14th June 22 | • Annual Internal Audit Report<br>• Annual Fraud & Error Report<br>• Internal Audit Charter<br>• External Quality Assessment Report<br>• External Audit – Audit Planning Update 2021/22 and Progress Report<br>• External Audit – Audit Completion Report 2020/21 – Follow Up Letter<br>• External Audit – Annual Auditor's Report 2020/21<br>• Audit Committee Work Programme | |
| 30th June 2022 | | Audit Committee Effectiveness |
| 7th July 2022 | | Local Government Financial Statements |
| 19th July 22 | • Internal Audit Progress Report<br>• Internal Audit recommendations Follow Up<br>• Annual Governance Statement (Draft)<br>• Statement of Accounts (Draft)<br>• Risk Management Annual Update<br>• Audit Committee Work Programme | |
| 27th Sept 22 | • Meeting cancelled and items moved to 15th November | |
| 15th Nov 22 | • Statement of Accounts (including Annual Governance Statement) (Final)<br>• External Audit – Audit Completion report (21/22)<br>• External audit – Annual Audit letter (21/22)<br>• Information Governance Update<br>• Annual Governance Statement Monitoring<br>• Financial Procedure Rules | |

**APPENDIX B**

| | | |
|---|---|---|
| | • **Internal Audit Progress Report**<br>• **Internal Audit Revised Plan**<br>• **Counter Fraud Policies – Whistle Blowing**<br>• **Annual Complaints Report**<br>• **Assessment of going concern status**<br>• **Approval of External Audit 2021/22 Non-audit services**<br>• **Audit Committee Work Programme** | |
| **13th Dec 22** | • **Internal Audit progress report**<br>• **Audit Recommendations Follow Up Report**<br>• **Six Month Fraud & Error Report**<br>• **Audit Committee Work Programme** | |
| **31st Jan 23** | • **Treasury management policy and Strategy**<br>• **External Audit –-Progress Report**<br>• **Appointment of External Auditor**<br>• **Homes England Compliance Audit Results**<br>• **Audit Committee Work Programme** | • **Treasury Management** |
| **21st Mar 23** | • **Internal Audit Progress report**<br>• **Audit Recommendations Follow Up Report**<br>• **Internal Audit Strategy and Plan 22/23**<br>• **Counter Fraud Policies – Money Laundering**<br>• **Statement on Accounting Policies**<br>• **IAS19 – Assumptions**<br>• **External Audit Inquiries**<br>• **External Audit: Audit Strategy Memorandum**<br>• **Annual Governance Statement Monitoring**<br>• **Partnership Governance**<br>• **CIPFA Financial Management Code**<br>• **Audit Committee Work Programme** | |
| **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.*

Item No. 14

| | |
|---|---|
| **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.

Document is Restricted

This page is intentionally blank.

Document is Restricted

This page is intentionally blank.

Document is Restricted

Document is Restricted

This page is intentionally blank.

Document is Restricted

This page is intentionally blank.

Document is Restricted

This page is intentionally blank.

Document is Restricted

This page is intentionally blank.

Document is Restricted

Document is Restricted

This page is intentionally blank.

Document is Restricted

This page is intentionally blank.