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CITY OF Lincoln COUNCIL

AUDIT COMMITTEE

Tuesday, 19 March 2024 | **6.00 pm** | **Committee Room 1, City Hall**

Membership:	Councillors Chris Burke (Chair), David Clarkson, Thomas Dyer, Gary Hewson, Clare Smalley, Calum Watt and Emily Wood (Vice-Chair)
Substitute member(s):	Councillors Councillor Natasha Chapman, Martin Christopher, Pat Vaughan and Aiden Wells
Independent Member:	Jane Nellist
Officers attending:	Democratic Services, Jaclyn Gibson, Laura Shipley and Amanda Stanislawski

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A G E N D A

SECTION A **Page(s)**

Audit Committee **30 January 2024**

Present:	Councillor Chris Burke *(in the Chair)*
Councillors:	David Clarkson, Gary Hewson, Clare Smalley, Calum Watt and Emily Wood
Independent Member:	None.
Apologies for Absence:	Councillor Thomas Dyer and Jane Nellist

46. Confirmation of Minutes - 12 December 2023

RESOLVED that the minutes of the meeting held on 12 December 2023 be confirmed and signed by the Chair.

47. Declarations of Interest

No declarations of interest were received.

48. External Audit - Annual Auditor's Report 2021/22

Mark Surridge, representing the External Auditor, Mazars:

a. presented the Annual Auditors Report for 2021/22 as attached at Appendix A of the report

b. advised that the Annual Auditors Report 2021/22; although addressed to the Council, it was also designed to be read by a wider audience, including members of the public and other external stakeholders and a copy would be placed on the Council's website

c. explained that the annual audit itself covered the Statement of Accounts for 2021/22, the Value for Money (VFM) arrangements and wider reporting responsibilities

d. reported that in summary, the External Auditors believed the authority's arrangements were adequately operated.

RESOLVED that the content of the Annual Auditors Report from Mazars be noted.

49. External Audit - Annual Auditor's Report 2022/23

Mark Surridge, representing the External Auditor, Mazars:

a. presented the Annual Auditors Report for 2022/23 as attached at Appendix A of the report

b. advised that the Annual Auditors Report 2022/23; although addressed to the Council, it was also designed to be read by a wider audience, including members of the public and other external stakeholders and a copy would be placed on the Council's website

c. explained that the annual audit itself covered the Statement of Accounts for 2022/23, the Value for Money (VFM) arrangements and wider reporting responsibilities

d. reported that in summary the External Auditors believed the authority's arrangements were adequately operated.

RESOLVED that the content of the Annual Auditors Report from Mazars be noted.

50. <u>Prudential Indicators 2023/24 to 2026/27 and Treasury Management Strategy 2024/25</u>

Laura Shipley, Financial Services Manager:

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

- Treasury Management Strategy 2024/25;
- Prudential Indicators;
- Minimum Revenue Provision (MRP) Policy;
- 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 2024/25 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. 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

e. requested that Audit Committee review the content of the report and its associated appendices and recommend to Council for approval.

RESOLVED that:

1. The Treasury Management Strategy 2024/25 including the Prudential Indicators be recommended to Council for approval.

2. The Minimum Revenue Provision Policy amended from 2023/24 be recommended to Council for approval.

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

51. Anti-Bribery Policy

Amanda Stanislawski, Audit Manager:

a. presented a revised version of the Anti-Bribery Policy as detailed at Appendix A of the report

b. explained that the policy was reviewed and updated every two years or upon any significant change to the law

c. reported that the Bribery Act 2010 made it an offence to offer, promise or give a bribe, and to request, agree to receive or accept a bribe

d. highlighted that the document set out the Council's policy on anti-bribery in accordance with the legislation and guidance

e. reported that a comparison to other recent Local Authority Anti-Bribery policies and best practice documents found that only paragraph 10 within the policy required updating. This paragraph had been updated to reflect 2015 Public Contract Regulations. Other changes made were to the formatting to bring it into line with other policies i.e adding a front sheet and review table

RESOLVED that the latest version of the Anti-Bribery Policy be approved.

52. Review of the Effectiveness of the Audit Committee

Jaclyn Gibson, Chief Finance Officer:

a. presented a report to review the effectiveness of the Audit Committee against Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on Audit Committees 2022

b. advised that the assessment was completed by the Chief Finance Officer and the Audit Manager initially and a roundtable discussion took place with members

c. explained that a score of 165/200 was achieved for the Self-Assessment of Good Practise and whilst not scored, a good level of compliance was achieved against the evaluation of the impact of and effectiveness of the Audit Committee

d. summarised the following areas of the assessment:

    - Terms of Reference review
    - CIPFA Self-Assessment
    - CIPFA Evaluation of the impact and effectiveness of the Audit Committee
    - Summary and Conclusions

e. explained that the Chair and Vice Chair had only been in place since June 2023, ensuring that they had the necessary processes in place, support, skills and knowledge was key to maintaining the effectiveness of the Audit Committee

f. referred to the Action Plan contained at Appendix C of the report and advised that this would ensure that the maintaining of the effectiveness of Audit Committee was achieved and it also enabled a revised training plan to be compiled to address any ‘gaps’ in knowledge and skills identified for the Audit Committee as a whole.Progress against this plan would be brought to this Committee

g. invited committee’s comments and questions:

Comment: The CIPFA Position Statement and CIPFA Guidance on Audit Committees that had been provided for members attending the roundtable discussion were very useful documents. Would it be possible to circulate these documents to all members of the Audit Committee along with the Audit Committee Terms of Reference at the beginning of each municipal year?
Response: Yes, these documents could be circulated to members at the beginning of each municipal year.

Question: The CIPFA Guidance emphasised looking at risk registers in relation to major projects and partnerships. Could the risk assessments for the Western Growth Corridor be brought to Audit Committee?
Response from Officers: There needed to be a balance between what was considered at Performance Scrutiny Committee and what was considered at Audit Committee. The role of Performance Scrutiny Committee was to consider performance, expenditure and risk. The Western Growth Corridor was part of the audit plan for this year, and the results would be presented to Audit Committee in due course once the audit was completed. This would provide the Audit Committee with an opportunity to scrutinise the Western Growth Corridor Audit.
Response from External Audit: External Audit considered the value for money arrangements and governance. The Western Growth Corridor project including the risk assessments would be considered as part of that work.

Question: In future could all members be invited to attend audit training rather than just members of the Audit Committee? This would provide all members with a flavour of the committee and ensure some consistency if membership changed due to elections.
Response: Yes, all members could be invited to attend audit training in the future.

RESOLVED that:

1. The Review of the Effectiveness of the Audit Committee and Action plan be noted.

2. The CIPFA Position Statement and CIPFA Guidance be circulated to members of the Audit Committee for information at the beginning of each municipal year.

3. All members be invited to attend training in relation to the Audit Committee.

53. <u>Independent Member</u>

Amanda Stanislawski, Audit Manager:

a. presented a report to consider the arrangements for the appointment of Independent Members to the Audit Committee

b. gave the background to the report and advised that the current Independent Member had been in post since April 2016 and under the terms of the appointment, extensions could be given every two years up to a maximum term of eight years, which would therefore expire in April 2024

c. advised that the CIPFA guidance 2022 recommended that Councils appoint two Independent Members to the Audit Committee for the reasons set out at paragraph 3.1 of the officers report

d. requested that members consider that the Audit Committee Terms of Reference be updated to set out that a minimum of one independent member and a maximum of two be appointed. This would allow flexibility if there was difficulty in recruiting two Independent Members

e. advised that the committee was responsible for determining and authorising the allowances for the Independent Members

f. highlighted the level of remuneration paid to Independent Members of other local councils as set out in the table at paragraph 4.3 of the officers report

g. requested that committee review the remuneration of the Independent Audit Committee Member and consider whether an increase was required for 2024/25

h. invited committee's questions and comments:

Comment: The comparison of remuneration paid at other local councils was useful and showed that the current rate of pay was comparable.

Comment: Noted that the Independent Member had received the same remuneration since 2016.

Question: Were travel expenses included in the current allowance and if not, could they be included?
Response: Travel expenses were not included within the current allowance. Yes, it was an option if the committee wished to include travel expenses in the allowance.

Question: Could the Independent Member be paid the same rate of pay as West Lindsey District Council which was £60 per meeting?
Response: There were 6 Audit Committee meetings annually, therefore this would be a reduction to the current pay. If the committee were minded to pay an allowance per meeting then the rate per meeting would need to be increased.

Question: How was the decision made to appoint the Independent Member?
Response: The applicants would be interviewed by the Chief Finance Officer, Audit Manager and representatives from the Audit Committee. The Audit Committee would confirm the appointment.

The committee considered all of the options discussed in relation to the remuneration of the Independent Member and overall were supportive of the remuneration to be updated to £500 per year plus travel expenses.

RESOLVED that:

1. An additional Independent Audit Committee Member be appointed and incorporated into the revised Audit Committee Terms of Reference to be submitted to Council for approval.

2. The remuneration of the Independent Audit Committee Member be revised to £500 per year plus travel expenses.

3. The re-advertising of the position of Independent Audit Committee member to be appointed for the June Audit Committee be approved.

54. Audit Committee Work Programme

Amanda Stanislawski, Audit Manager:

a. presented a report to inform members of the Audit Committee on the work programme for 2023/24 as detailed at Appendix B 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.

The committee considered the contents of the report.

RESOLVED that the contents of the Audit Committee work programme 2023/24 be noted.

Item No. 3

AUDIT COMMITTEE **19 MARCH 2024**

SUBJECT:	**STATEMENT OF ACCOUNTING POLICIES 2023/24**
REPORT BY:	**CHIEF EXECUTIVE AND TOWN CLERK**
LEAD OFFICER:	**LAURA SHIPLEY, 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 2023/24 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 2023/24 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:	Laura Shipley, Financial Services Manager Email: laura.shipley@lincoln.gov.uk

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2023/24 financial year and its position at the year-end of 31 March 2024. The authority is required to prepare an annual statement of accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices under section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the Code), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of 2003 Act.

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

2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with performance obligations in 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 an accounting estimate of the cost of holding non-current assets during the year. This comprises:

- Depreciation attributable to the assets used by the relevant 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 liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the

Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs

- Net interest cost on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Re-measurements comprising:

  - the return on plan assets – excluding amounts included in net interest on the defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- Contributions paid to the Local Government Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

8. Events After the Balance Sheet Date

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

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

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

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

9. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and carried at their amortised cost. Annual charges for interest payable are shown in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement and are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the unexpired life of the original loan. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

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

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

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable, with interest receivable within one year shown under short term investments and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, occasionally the Council may make loans to other parties (e.g. voluntary organisations) at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in the Reserves Statement.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Expected Credit Loss Model

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

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Council has a number of loans to local organisations. It does not have reasonable and supportable information that is available without undue cost or effort to support the measurement of lifetime expected losses on an individual instrument basis. 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

Fair value measurements of financial assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. 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

Expenditure on non-monetary assets that do not have physical substance but are controlled by the authority as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the authority.

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 cost less accumulated depreciation and any accumulated impairment loss. The depreciable account of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

13. Interests in Companies and other Entities

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

14. Inventories and Long Term Contracts

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

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

15. Investment Property

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

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

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

16. Joint Operations

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

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

17. Leases

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

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

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

<u>The Council as Lessee</u>

Finance Leases

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

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

- A financing charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

Operating Leases

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

18. Overheads and Support Services

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

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

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

The cost of assets acquired other than by purchase is deemed to be its fair 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)
- 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 assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

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 on or before the Balance Sheet date:

- that gives the Council a present obligation
- that probably requires settlement by a transfer of economic benefits or service potential, and
- where a reliable estimate can be made of the amount of the obligation.

If it is not clear whether an event had taken place on or before the Balance Sheet date, it is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely that not that a present obligation exists at the Balance Sheet date. The present obligation can be legal or constructive.

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.

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

23. Reserves

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

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

24. Revenue Expenditure Funded from Capital under Statute

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

25. VAT

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

26. Fair Value

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

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

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

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

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

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

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AUDIT COMMITTEE **19 MARCH 2024**

SUBJECT:	**IAS19 – ASSUMPTIONS USED TO CALCULATE PENSION ENTRIES IN THE 2023/24 STATEMENT OF ACCOUNTS**
REPORT BY:	**CHIEF EXECUTIVE AND TOWN CLERK**
LEAD OFFICER:	**LAURA SHIPLEY, 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 2023/24 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 2023/24.

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 will be based on those adopted for the latest triennial funding review conducted 31 March 2022.

5. Treatment of Settlement and Curtailments

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

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

6. 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 2023/24 Statement of Accounts.

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

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BARNETT WADDINGHAM
beyond the expected

Accounting reporting as at

31 March 2024

Employer briefing note pre-accounting date

Barnett Waddingham LLP
14 February 2024

Contents

Introduction and executive summary

This briefing note is addressed to employers participating in the LGPS and details our standard approach to the 31 March 2024 accounting exercise. This document is based on market conditions as at 31 January 2024. It sets out our recommended assumptions along with any 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 2024 are in line with the approaches set out in this briefing note and are consistent with that at the employer's last accounting date.

This briefing note assumes a previous accounting date of 31 March 2023. For employers whose previous accounting date was not 31 March 2023, this briefing note provides a summary of our recommended assumptions for 31 March 2024 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: General Actuarial Standards (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 for a typical LGPS fund have been higher than the discount rate assumed at the previous accounting date which will improve the balance sheet position. Please note that actual returns will vary between different LGPS funds.
Discount rate	↑	Discount rates have increased for most employers which will improve the balance sheet position.
Inflation	↑	Future inflation assumptions have decreased slightly for most employers which will improve the balance sheet position.
Allowance for inflation experience	↔	The 2024 pension increase at 6.7% is higher than the long-term average assumed. However, most employers will have made an allowance for observed inflation up to March 2023 at the previous accounting date. Inflation observed to December 2023 has been broadly in line with the long-term assumption. Therefore, we expect the experience to be fairly neutral for most employers.
Mortality	↑	We intend to update our mortality assumptions to adopt the 2022 Continuous Mortality Investigation (CMI) 2022 core projections model. The impact of this will be a further small reduction to life expectancies and improvement in the balance sheet position. For employers participating in Scottish LGPS funds we will allow for the updated assumptions of the 2023 actuarial valuation so may see an additional impact on their balance sheet position.
Overall	↑	**Overall, we expect the balance sheet position to improve compared with last year.**

Please note that these general principles are based on a typical 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.

How much will my IAS19/FRS102 report cost?

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

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

Where can I get further information?

We appreciate that some of the terminology in this report may not be familiar and therefore we would recommend also reading our Glossary and FAQs document for a more detailed explanation on some of the jargon used here.

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

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 c9% for the period from 31 March 2023 to 31 January 2024. 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 2024.

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

We also make an allowance for administration expenses which are paid in respect of the fund. For the purposes of our calculations, we distribute fund administration expenses amongst the employers in the fund in proportion to their individual asset shares.

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Valuation of the employer's liabilities

To value the employer's liabilities at 31 March 2024, 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.

The projected unit method (PUM) is used to calculate the future service cost. For accounting valuations, the control period is set to one year.

It is not possible to assess the accuracy of the estimated value of liabilities as at 31 March 2024 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2024 should not introduce any undue 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.

Where members have been granted unreduced retirement on the grounds of redundancy or efficiency, an additional strain is placed on the liabilities. We request details of such events from the fund and calculate an additional strain which is then allowed for as a curtailment cost.

Where employees are known to have transferred their employment to or from the employer during the accounting period, an allowance is made for the transfer of assets and liabilities as a settlement event.

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 2024.

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 year 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).

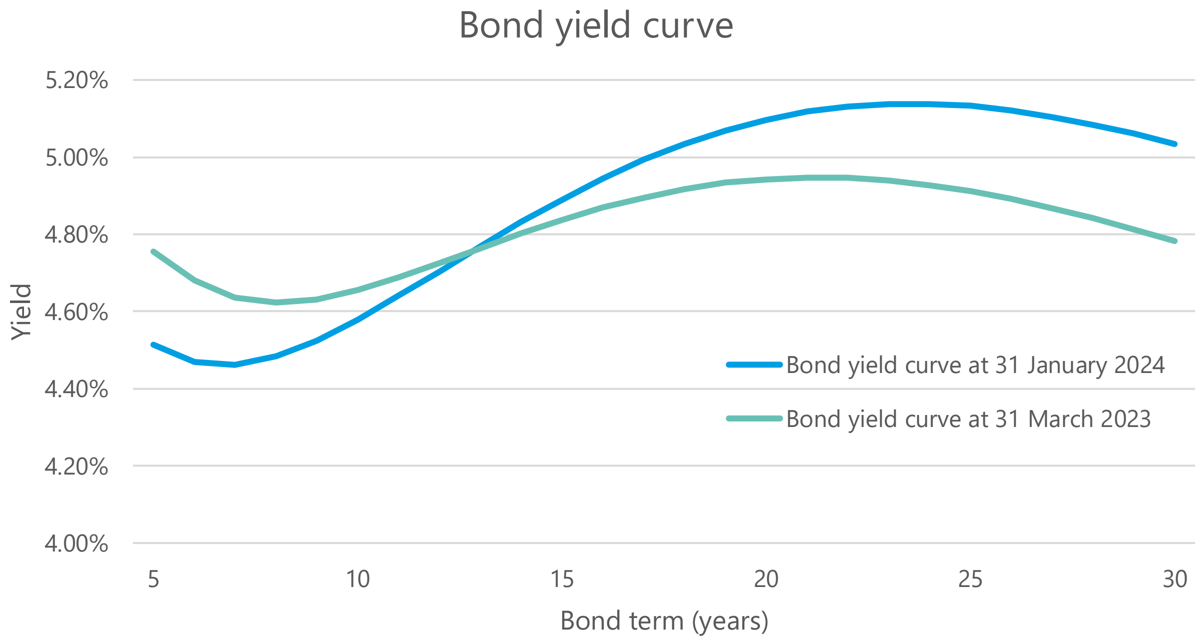
These sample cashflows are prepared by Barnett Waddingham on a triennial basis. Employers are grouped together into 'maturity brackets' based on the duration of their future cashflows. Each maturity bracket is linked to a term on the yield curve, up to the 30 year point, resulting in 30 sets of sample cashflows. All employers in the same maturity bracket share the same set of sample cashflows which is used at each accounting date to set the relevant financial assumptions.

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 new yield curve at the accounting date is used to discount the sample cashflows to calculate a single equivalent discount rate proposed for use in the employer's accounting valuation.

The sample cashflows are used to set the assumption used, however when calculating the change in financial assumption item on the employer's balance sheet we discount the employer's unique cashflow profile with the new single equivalent discount rate. The impact of a change in the discount rate compared with the previous accounting date will therefore vary by employer depending on their own unique cashflow profile. Individual employer cashflow profiles were derived as at the last valuation date and are assumed to remain unchanged between triennial actuarial valuations.

The below graph shows the bond yield curve at the last accounting date along with the yield curve at 31 January 2024:



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 2024 is higher at the longer terms than at 31 March 2023, but lower at shorter terms. For most employers, the discount rate will be typically higher than that assumed at the previous accounting date.

Source: Merrill Lynch

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.

The impact of a change in the discount rate compared with the previous accounting date will vary by employer depending on their own unique cashflow profile. Cashflow profiles were derived as at the last full triennial valuation date and are assumed to have remained unchanged since then.

- Employers may be considered "Very Mature" if they have a liability duration under 10 years at the accounting date
- Employers may be considered "Mature" if they have a liability duration of between 10 and 20 years at the accounting date
- Employers may be considered "Immature" if they have a liability duration over 20 years at the accounting date

	Discount rate		Estimated impact of change on liabilities
Maturity	31 January 2024	31 March 2023	
Very Mature	4.70% to 4.85%	4.80% to 4.85%	Decrease of 0% to Increase of 1%
Mature	4.85% to 5.00%	4.80%	Decrease of 0% to 4%
Immature	5.00%	4.80%	Decrease of 4% to over 5%

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.

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.

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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). To derive our CPI assumption we first make an assumption for 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, and flat over the initial short-end period up to the 3 year point.

Consistent with past periods, our view remains that gilt-implied inflation rates are distorted by supply and demand factors at medium and longer terms. We allow for an IRP which varies by the term of the employer’s liabilities with the resulting assumption falling between 0.0% p.a. and 0.25% p.a. (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.

RPI assumptions under the three maturity scenarios are set out in the table below and based on market conditions at 31 January 2024, with the equivalent 31 March 2023 SEIRs (based on our standard derivation at that time) also shown for comparison:

	RPI Inflation	
Maturity	31 January 2024	31 March 2023
Very Mature	3.25% to 3.50%	3.40% to 3.50%
Mature	3.00% to 3.25%	3.20% to 3.40%
Immature	2.95% to 3.00%	3.15% to 3.20%

Difference between RPI and CPI

It is expected that CPI will be on average 1.0% p.a. lower than RPI for the period up to 2030. 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 market-implied inflation from the Bank of England inflation curve thereafter. This results in an assumed gap between the two inflation measures of between 0.20% p.a. and 0.75% p.a. depending on the term of the liabilities (for terms ranging from 30 years down to 5 years).

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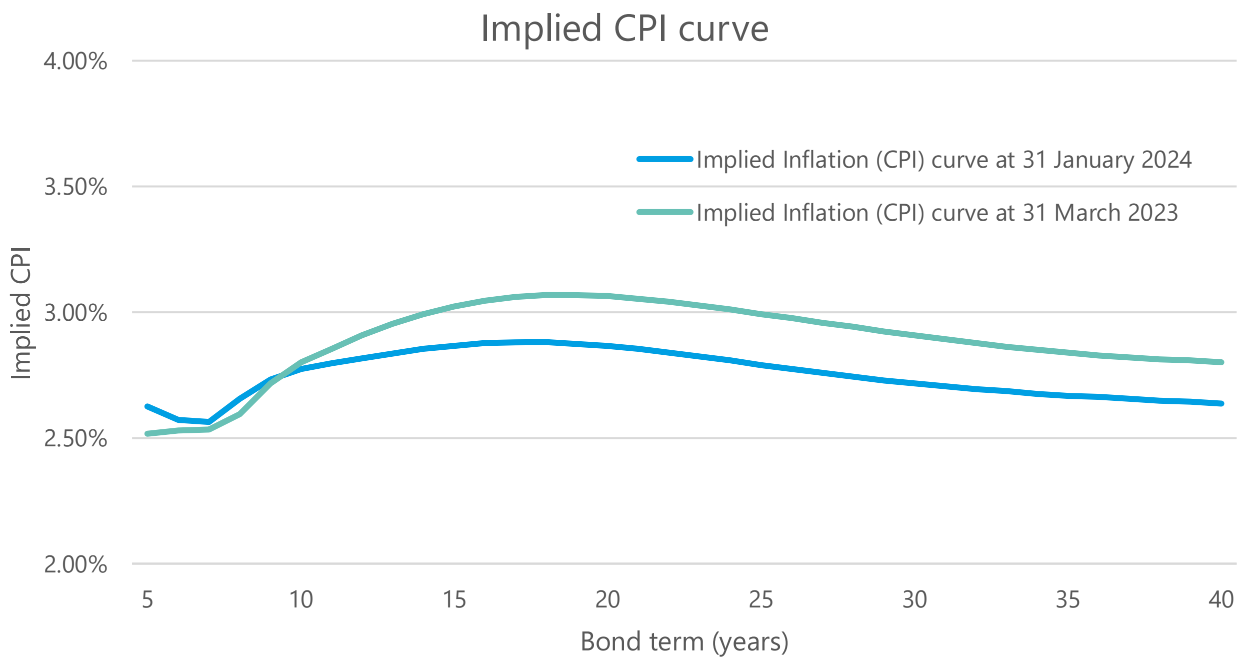
While we recognise that post-2030, implied inflation will represent CPIH (i.e. including housing costs), and historically CPIH has (on average) been around 0.1% pa above the rate of CPI, we understand that since 2003 CPI has actually been slightly higher than CPIH, rather than lower. Based on the composition of the two indices before the ONS announcement in December 2023, we do not believe there was a compelling argument for the two indices to differ (on average) in the long term. We therefore take the post-2030 market implied inflation as our CPI assumption directly, making no allowance for any potential CPI-CPIH difference.

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 2024 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 2024 is lower compared to 31 March 2023, with the exception of the very short end. As a result, the assumed level of future pension increases will generally be lower than that assumed at the previous accounting date.

Source: Barnett Waddingham based on Bank of England data

All else equal, a lower pension increase assumption will result in a lower value being placed on the defined benefit obligation and improve the balance sheet position.

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

	CPI inflation		Estimated impact of change on liabilities
Maturity	31 January 2024	31 March 2023	
Very Mature	2.70% to 2.80%	2.65% to 2.85%	Decrease of 1% to Increase of 1%
Mature	2.70% to 2.80%	2.85% to 2.95%	Decrease of 1% to 4%
Immature	2.70% to 2.75%	2.85% to 2.90%	Decrease of 2% to 4%

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.

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 to use 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 and Funding Strategy Statement.

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.

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 based on assumptions derived as at 31 January 2024 under the three maturity scenarios:

Maturity	Estimated effect of change in financial assumptions on employer's liabilities
Very Mature	Decrease of 1% to Increase of 1%
Mature	Decrease of 1% to 7%
Immature	Decrease of 7% to over 9%

Based on market conditions at 31 January 2024, most employers will see the value of their defined benefit obligation decrease. However, the extent of this will depend on the employer's membership profile, cashflows over the year, experience 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.

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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.

For employers participating in an English or Welsh LGPS fund, the last actuarial valuation was at 31 March 2022.

For employers participating in a Scottish LGPS Fund, our standard approach is to update the mortality assumption to be based on those adopted for the fund's 31 March 2023 actuarial valuation. Employers may have had the option to allow for the fund's 2023 valuation mortality assumption in their 31 March 2023 accounting disclosure.

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.

The CMI have released the 2022 version of their model and so we intend to further update our mortality assumptions to use the 2022 core model as standard for all employers. This represents a change from the last accounting date when either the 2020 or 2021 version of the model was used for most employers. The latest version of the core model places no weight on the exceptional mortality experienced during 2020 and 2021 as a result of the Covid pandemic, but places some reliance on mortality data that has been observed during 2022. Specifically, a weighting of 25% is applied to mortality in 2022. The impact of updating the model is expected to be a slight reduction in life expectancies for all employers, largely reflecting the heavier than average mortality that was experienced during 2022.

> **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 or the latest CMI model, 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

2023 valuation update

For employers in Scottish LGPS funds, the liability roll forward will be updated to be based on the fund's 2023 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.

For employers in England and Wales, an allowance for the most recently completed actuarial valuation will have already been made at the previous accounting date.

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

Allowance for inflation experience

Our default approach is to allow for actual pension increases which will apply at the accounting date as confirmed by the HM Treasury Order. In addition we allow for actual inflation experience from September 2023 (which determines the next pension increase order) to the most recent known date available. Any difference between this and the pension increase previously assumed will give rise to an experience item.

For most employers, an allowance for part-year inflation experience was made when preparing their 2023 year-end accounting balance position. This would have allowed for ONS CPI inflation up to March 2023, or the most recent available data at the time the report was prepared. The inflation experience to 31 March 2024 will allow for ONS CPI inflation observed over the year to March 2024.

ACTION: Please note that additional fees will be incurred to incorporate an allowance for inflation experience. The employer must let the fund know if they do not wish to allow for inflation experience.

The CPI inflation observed from last time's accounting date up to the most recent information has been broadly in line with the long term rate of inflation assumed over the same period for a typical LGPS employer. Therefore, the impact on the defined benefit obligation is likely to be fairly neutral for most employers.

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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 2024 assumptions to bespoke assumptions and see the impact this would have on the closing position as at 31 March 2024 and also on the Profit and Loss projections for the year to 31 March 2025. We would be happy to provide further information on the modeller features and the associated fees if required.

Asset ceilings

The accounting standards state that if an employer has an accounting surplus, it should only be recognised to the extent that it is able to recover the surplus either through reduced contributions in the future, or through refunds. The present value of such economic benefits is commonly referred to as the "asset ceiling".

Our default approach for all employers will be to allow for an asset ceiling. For employers accounting under IAS19, the calculation will be based on our interpretation of IFRIC 14 *"The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"*. For employers reporting under FRS102, the accounting standards are less prescriptive regarding the methodology underpinning an asset ceiling calculation, however in the absence of any other guidance we consider it reasonable to have regard to IFRIC 14 which applies under the international standard.

IFRIC 14 itself is open to multiple interpretations and, since the last accounting date, auditors' preferences have been evolving and have only recently coalesced around a generally preferred approach. Guidance was also released from CIPFA dated November 2023 regarding their interpretation of IFRIC 14's applicability in the LGPS. In light of these developments, we intend to adopt the below methodology as standard:

Asset ceiling methodology

Our calculations assume that:

- There is no unconditional right to a refund of surplus, as such a payment would be at the discretion of the relevant LGPS fund.
- The appropriate time horizon to consider for calculating the economic benefit associated with potential reductions in future contributions will depend on the type of body and the nature of any applicable admission agreement:
  - If the employer is a scheduled body, or an admission body which is open to new members with no anticipated contract end date, we will assume they will participate indefinitely. Our calculations will therefore assess the cost of future accrual, and contributions payable in respect of future accrual, in 'perpetuity'.

    - If the employer is an admitted body which is closed to new members, the appropriate time horizon to consider will be the shorter of any anticipated contract end date and the average future working lifetime of active members. Our calculations will therefore assess the cost of future accrual, and contributions payable in respect of future accrual, with reference to an annuity corresponding to this period.
- If the employer is currently already receiving a reduction in contributions in respect of a funding surplus, these will be deducted from the contributions that would otherwise be required to be paid towards the cost of future accrual, for so long as that reduction is expected to remain in force.
- For employers reporting under IAS19 only, any requirement to make contributions towards a funding deficit is considered as an additional minimum liability. The time horizon for assessment of the additional minimum liability is the deficit recovery period used to determine the level of secondary contributions certified.

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If your auditor has a preferred approach which differs from that outlined above, this should be communicated to Barnett Waddingham, otherwise our default method will be used.

The default approach may differ from the approach which was used to prepare last time's accounts, however as above this largely reflects updated guidance which has been released since then.

Please get in touch if you or your auditor require any further details regarding our approach.

ACTION: Employers should contact their auditor to consider which approach is most appropriate to use in the event a surplus is revealed on their 31 March 2024 position. Please note that additional fees will be incurred to allow for an asset ceiling calculation.

Valuation of unfunded benefits

Employers may need to include the value of unfunded benefits for their accounts.

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

For employers in Scottish 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 2023 valuation. Where separate unfunded benefits are included in an employer's accounts, we will be in touch separately about the approach required.

New discretionary benefits awarded or recognised in the accounting period are allowed for as a past service cost.

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.

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Other considerations

McCloud/Sargeant judgments

Regulations in respect of the McCloud and Sargeant judgements came into force on 1 October 2023. These may affect the value of the liabilities in respect of accrued benefits and therefore an allowance may need to be included in an employer's report. An allowance for the McCloud remedy will have been made in the liabilities which is consistent with the method adopted at the last actuarial valuation.

For employers in Scottish LGPS funds, the estimated cost of McCloud will be updated as part of the 2023 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.

Please see FAQs for further details.

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Settlements and curtailments

Employers accounting under the IAS19 standard

When determining any past service cost or gain or loss on settlements 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.

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.

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 or future benefits which could result in additional costs.
Orphan risk	As many unrelated employers participate in each fund, there is an orphan liability risk where employers leave the fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers in that fund.

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

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

Item No. 5

AUDIT COMMITTEE **19 MARCH 2024**

SUBJECT:	**EXTERNAL AUDIT ENQUIRIES 2023/24 STATEMENT OF ACCOUNTS**
REPORT BY:	**CHIEF EXECUTIVE AND TOWN CLERK**
LEAD OFFICER:	**LAURA SHIPLEY, 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 2023/24 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, KPMG, 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, internal controls and risks 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 KPMG to the audit of the 2023/24 Statement of Accounts.

2.2 In addition to the enquiries made to officers KPMG 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 KPMG.

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 2023/24 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:	Laura Shipley, Financial Services Manager Email: laura.shipley@lincoln.gov.uk

Short Description	Detailed Description	Inquiries Made Of	Response
Programs and controls to prevent, detect and deter fraud – oversight by those charged with governance	How do you oversee fraud risk assessments and the establishment of controls to address fraud risks?	TCWG	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. The Audit Committee have previously received a training presentation on counter fraud/fraud awareness and further training guidance. Fraud e-learning has rolled out out for all officers on the Council's NetConsent system. Training for Members is currently being developed, in the interim Audit Committee have been provided with the e-learning training provided to officers. There is a corporate fraud risk register presented annually to management and the Audit Committee with periodic reporting and review by the Audit Committee of counter fraud policies. Regular updates on the Internal Audit Plan and reports are provided to management and the Audit Committee. There is a clear reporting mechanism for any suspected fraud to be reported to the Council and the Council has a broad range of controls and processes established to prevent, detect, deter and mitigate fraud. The Council's counter-fraud framework also includes strategy, response plan, and relevant policies. The Council is a partner in the Lincolnshire Counter Fraud Partnership which includes various projects to prevent, detect, deter and mitigate. Management monitor controls and processes through supervisory review, checks and system reporting. Internal audit also act as an additional layer of defence.
Management's assessment of fraud risks including the nature, extent and frequency of such assessment	What are your views about fraud risks at the entity? Note: consider inquiries below when inquiring of Internal Audit: -What is internal audit function's assessment of the risks that the financial statements may be materially misstated due to fraud? What fraud risks have been identified? -Has management and those charged with governance responded appropriately to the identified risks?	TCWG	The risk of fraud within the Council, including employee fraud, is mitigated through a range of standard and bespoke controls, key ones as set out in the fraud risk register, which identifies key fraud risks and mitigating controls. Where there are higher risks (likelihood and impact) more pro-active work is undertaken for example around housing benefits, tenancy and council tax. A material misstatement would require a fraud in excess of £1m. The key systems which would result in a misstatement of this scale are audited on a rolling programme. The Council has a broad range of controls in place over the key systems to mitigate the risk of a material misstatement in addition to the fraud risk register. Service managers monitor their individual areas on an ongoing basis and report to their Assistant Director/Director, this is supported by quarterly budget monitoring. Any suspected irregularities are reported to Internal Audit. Internal Audit undertake audits on high risk areas more frequently. The Audit Committee receives a six-monthly counter fraud update report. It reviews the fraud risk register. It reviews key counter fraud policy and strategy.
Actual, suspected or alleged instances of fraud	Are you aware of, or have you identified, any instances of actual, suspected, or alleged fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?	TCWG	No - no instances of actual, suspected, or alleged internal fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets. Instances of external fraud have been identified, primarily in the following areas: - Tenancy - Council Tax Single persons discount - Housing Benefits These have been investigated and actioned as appropriate (e.g. penalty, discounts removed, DWP referral, police referral, etc.)
Management's assessment of fraud risks including the nature, extent and frequency of such assessment	Are you aware of or have you received tips or complaints regarding the entity's financial reporting (including those received through the internal whistleblower program, if such program exists) and, if so, what was your response to such tips and complaints?	TCWG	No tips or complaints regarding the entity's financial reporting have been received.
Related parties - audit committee's understanding	What is the audit committee's understanding of the entity's relationships and transactions with related parties that are significant to the entity?	TCWG	A process will be undertaken to identify any related party transactions that have occurred through the year - this process hasn't yet been completed, but is anticipated to be the same as previous years.
Related parties - concerns of audit committee	Does any member of the audit committee have concerns regarding relationships or transactions with related parties and, if so, what are the substance of those concerns?	TCWG	No concerns are raised at this stage.
SUTs - existence	Has the entity entered into any significant unusual transactions?	TCWG	All accounting policies are in line with the Code of Practice on Local Government Accounting (UK) and authorisation of transactions are in line with Financial Procedure Rules and approved authorisation limits. There are no significant unusual transactions expected for the year.

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Item No. 6

AUDIT COMMITTEE **19 MARCH 2024**

SUBJECT:	**DRAFT INTERNAL AUDIT PLAN – 2024/25**
DIRECTORATE:	**CHIEF EXECUTIVE AND TOWN CLERK**
REPORT AUTHOR:	**AMANDA STAINSLAWSKI, INTERNAL 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 internal audit plan, together with combined assurance work, should enable the provision of an annual internal report and Head of Internal Audit Opinion around governance, risk and control.

2.2 The 2024/25 plan has been developed using a combination of:

- the Council's Combined Assurance work
- an assessment of risk - based on the significance and sensitivity of key activities
- consultation with Senior Management during the assurance mapping process
- reference to risk registers
- horizon scanning
- reference to the cyclical and ICT schedules

3. Internal Audit Plan 2024/25

3.1 The audit plan has been compiled to ensure that it contains sufficient audits to support the Head of Internal Audit opinion within the current resources. It is based on the current plan days of 310 (unchanged from 2023/24), which allows for time to be spent on the induction and training of the new members of the team.

3.2 The planning undertaken to select the areas for review has looked at the risks the Council is facing together with the mitigating actions within the risk registers alongside the results of the assurance mapping work and our own risk scoring methodology. Consideration has also been given to those areas raised through the horizon scanning work and management requests. We also undertake cyclical work on due diligence areas particularly around financial and governance systems.

3.3 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.

3.4 The draft audit plan, attached at Appendix A, provides the list of audits to be completed split into financial governance, governance and risk, critical activities, programme and project assurance, ICT and the standard areas covered every year. There is also another list in Appendix B which includes those which are important but which we do not have capacity to review this year.

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

3.6 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.

4. Audit Plan resources

4.1 The Team currently comprises of a Full time Manager and Trainee Auditor and is supported by specialist IT audit contractors. The Principal Auditor post is currently vacant, and action is being taken to recruit to the post. The impact on the current plan resource is being managed through the engagement of an external audit contractor.

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.

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 external audit contractor.

5.2 Legal Implications including Procurement Rules

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

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 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 Email: amanda.stanislawski@lincoln.gov.uk

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Internal Audit

Draft 2024/25 Plan

City of Lincoln Council

March 2024

Assurance LINCOLNSHIRE For all your assurance needs

CITY OF Lincoln COUNCIL

Contents

The contacts are:

Amanda Stanislawski
Audit Manager (Head of Internal Audit)

Amanda.stanislawski@lincoln.gov.uk

The Planning Process

Introduction

This report sets out the Internal Audit Plan as at 1st April 2024. 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 24 to March 25. 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

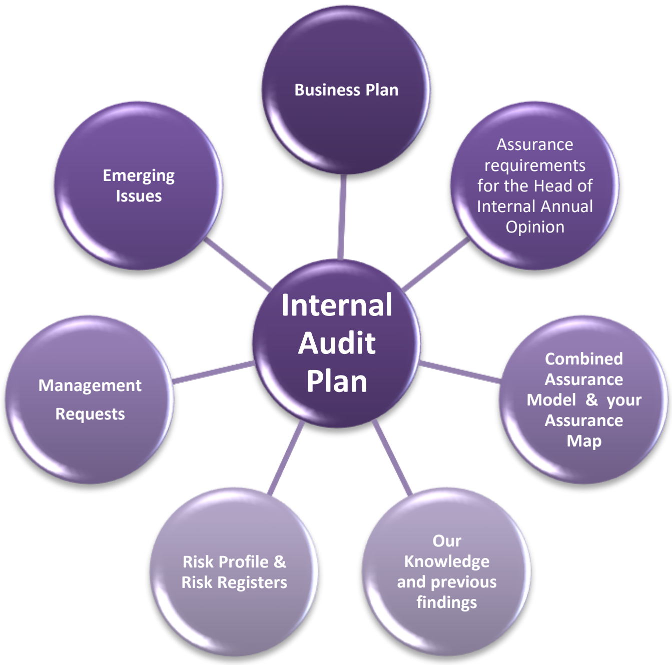
Developing the plan

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
Vacant/Contracted support

Trainee Auditor
Huw Burrows

Audit Focus for 2024/25

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 significant impact on how well

Area	Reason for inclusion
	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. 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 2024/25

Our proposed planned audits are listed below.

Audit Area	Assurance Sought	Assurance Map RAG Rating Risk	Internal Audit Risk Assessment	Strategic Risk Register	Corporate Priority	Management Request
Financial Governance						
Budget Management	Budgets are produced in line with the financial policies, approved, monitored and action taken on variances. Budgets are managed in line with Financial Procedure rules.	G	N/A	✔		
Debtors	Debtors are raised appropriately, authorised with processes in place to collect payment. Write-offs and credit notes are authorised.	G	N/A			
Housing Benefits and Council Tax Support – Key control	There are controls in place to ensure that HB and CTR is paid to the right people at the right time and for the correct amount. Local agreements are approved.	G	N/A			
Governance and Risk						
Business Continuity	Business continuity plans are in place for all relevant areas, communicated and up to date.	A	9	✔		
Corporate Planning – Vision 2030	There are robust processes in place for the development of the corporate plan. The corporate plan is supported by evidence and links to the performance and service planning etc – golden thread.	N/A	N/A	✔		
Project Management	There is a project management framework in place and used. The framework includes consideration of capacity and resources.	A	11	✔		
Counter Fraud	NFI, strategy, policy, health check, partnership, training, money laundering, identity.	A	9			
Risk Management	There is a risk management strategy in place which is up to date and embedded. Risk registers are completed, reviewed and contain appropriate mitigating actions.	G	8	✔		
Contract Management Follow Up	To review the recommendations made and ensure implemented with evidence of improvement.	A	8			

Audit Area	Assurance Sought	Assurance Map RAG Rating Risk	Internal Audit Risk Assessment	Strategic Risk Register	Corporate Priority	Management Request
Critical Activities						
Housing Strategy and New build / new homes	The Council has a plan in place that includes the delivery of new homes which is realistic and adequately resourced.	G	11		✔	
Market Operations	The processes put into place contain the necessary controls and ensure that the objectives of the Market are achieved.	A	10	✔	✔	✔
Planned Maintenance	There is a programme of maintenance in place to ensure housing properties are maintained as required by regulations. The plan is adequately resourced both financially and capacity.	G	11		✔	
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			
Homelessness	Review of the homelessness service to ensure that it complies with regulations, objectives and performance including the determination of applications.	G	11		✔	
Parking Services	Review of the Income collection processes and the strategy.	G	12		✔	
Housing Assistance (DFGs etc)	Review of the processes in place for Disabled Facilities Grants, Decent Homes and Security Grants.	A	9		✔	
Protection of vulnerable people	The processes and procedures in place for safeguarding, prevent, domestic violence, hate crime and modern slavery comply with recent legislation and are embedded throughout the Council.	G	8		✔	
Programme / Project Assurance						
Western Growth Corridor	Gateway review to provide assurance that appropriate partnership governance and programme management arrangements remain in place.	A	11	✔		✔
GSW26	Assurance over the arrangements in place over the re-tendering of the contract.	G	11		✔	
Towns Fund	Following on from the review in 2021/22 to provide assurance that appropriate arrangements remain in place for governance and programme management of the fund. Including spend and performance.	G	11		✔	

Audit Area	Assurance Sought	Assurance Map RAG Rating Risk	Internal Audit Risk Assessment	Strategic Risk Register	Corporate Priority	Management Request
ICT						
Strategy and Infrastructure	To give assurance that policies and processes are appropriate for Councils current and future requirements; ICT strategy, management and board oversight, budget, infrastructure planning and risk management	**A**	**N/A**			
ICT Support and helpdesk service	An assessment of the effectiveness of the ICT Service desk function using both assessment of key metrics and staff interviews. Objective: An assessment of the effectiveness of the ICT Service desk function using both assessment of key metrics and staff interviews.	**G**	**N/A**			
Follow-up						
Follow-ups	Follow-up of recommendations made for the progress report and on a sample basis.	N/A	N/A			
Combined Assurance						
Combined Assurance	Updating the assurance map and completing the Combined Assurance report.	N/A	N/A			
Days		**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
TOFs Programme	The savings programme is agreed, timetabled, monitored and performance is reported. The level of savings has been demonstrated as being feasible.	G	N/A	✔		
IT Operations Security	To ensure appropriate security / process arrangements in line with policy/strategy and good practice. Areas to be determined at the start of the audit.	G	N/A			
Income Collection and cash receipting - KC		G	10			
MTFS - KC		G	8			
Payroll	Processes in place ensure that staff are paid correctly and on time.	G	10			
Code of corporate governance	The Council has a Code in place which complies with the requirements, is visible and embedded.	G	11	✔		
Health and safety		G	9			
Information Governance - KC	Processes are in place which ensures that information is managed in accordance with the appropriate regulations – Data Protection etc	G	9			
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	11			
System acquisition, development and maintenance	Assurance that new and existing systems are appropriately procured, with security compliance, developed and maintained; licenced	A	N/A			
Cloud Computing including 365	To ensure the appropriate security arrangements are in place for	G	N/A			

	cloud computing systems for new and existing systems.					
Procurement Cards	Procurement cards are used appropriately, kept secure with monitoring of spend undertaken.	**N/A**	**N/A**			
HR - Leavers	To ensure that there is a robust process in place for leavers (staff and agency) which ensures that they are removed from Council systems including outlook, physical access is removed and equipment returned.	**N/A**	**N/A**			
Safeguarding	Review of the processes in place to ensure that the Council's safeguarding functions are operating adequately .		**N/A**	✔		✔

Appendix C – Head of Internal Audit's Opinion

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

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

Our Internal Audit Strategy

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

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

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

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

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

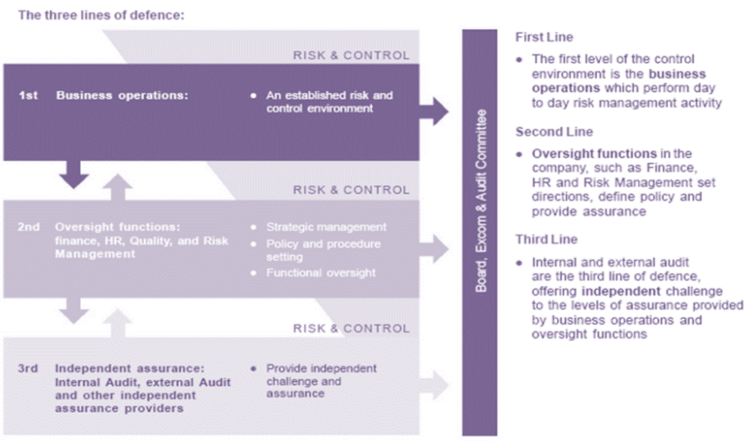


Figure 2 – The three lines of defence

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

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

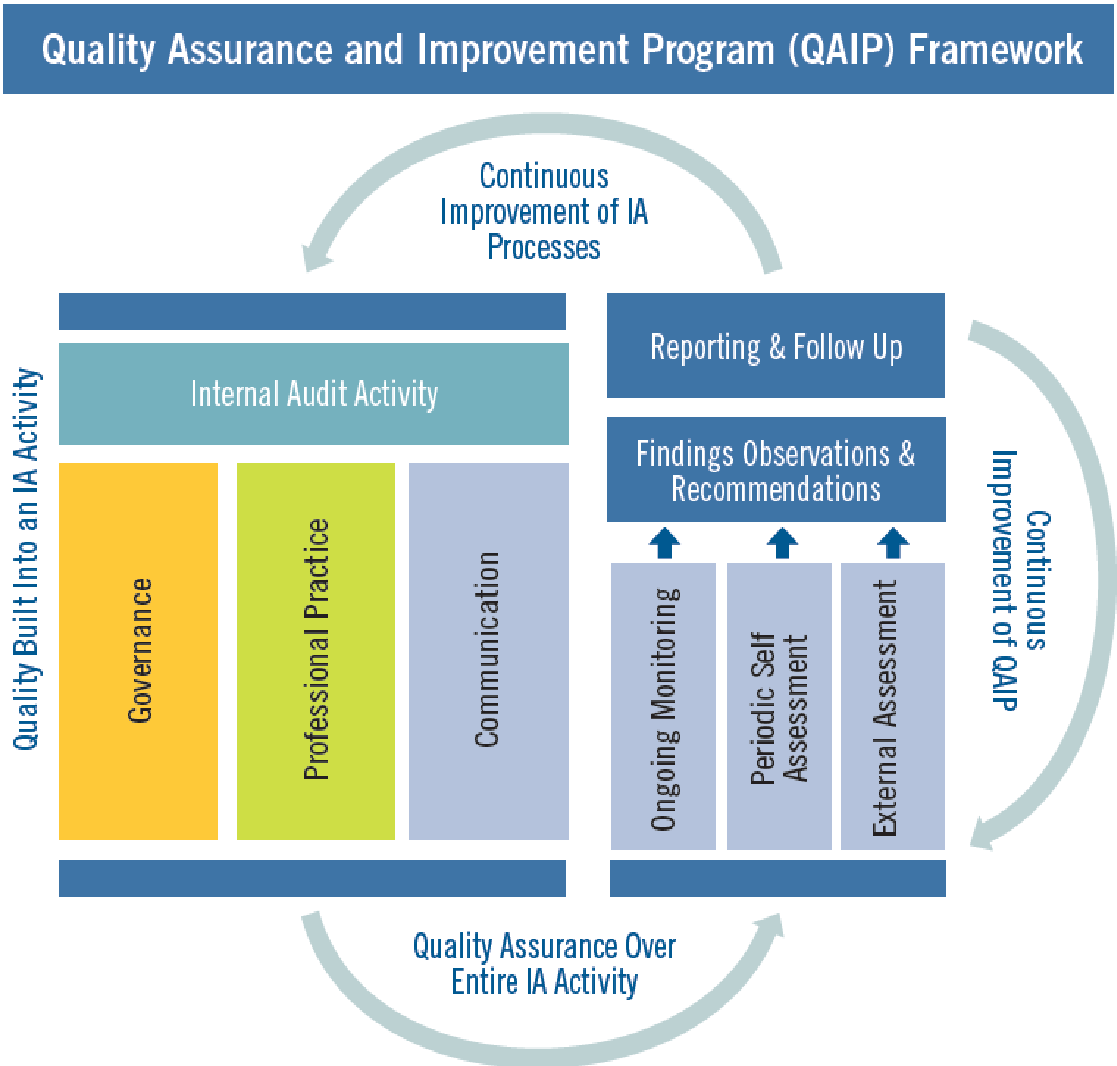
Appendix E – Our Quality Assurance Framework

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.



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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 last reviewed in 2022.

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Item No. 7

AUDIT COMMITTEE **19 MARCH 2024**

SUBJECT:	**INTERNAL AUDIT PROGRESS REPORT**
DIRECTORATE:	**CHIEF EXECUTIVE AND TOWN CLERK**
REPORT AUTHOR:	**AMANDA STANISLAWSKI, AUDIT MANAGER**

1. Purpose of Report

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

2. Background

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

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

2.2 The report highlights progress against the audit plan up to 19th February 2024.

3. Progress Report

3.1 Two reports have been issued since the previous Progress Report in December. These include Creditors (Substantial) and Insurance (Substantial).

3.2 We have completed 63% of the revised plan so far. There still remains one vacancy within the team and we will continue to deliver the 2023/24 Audit Plan using both internal and external resources. We remain on track to complete sufficient work in time for the Annual report.

3.3 The performance of the team has been affected by the reduction in staff and the increase in workload for the recruitment processes. This has led to delays in completing audits which have also been impacted by delays in receiving management responses and information from auditees.

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

5. Recommendation

5.1 Committee is asked to review and comment on the content of the latest Internal Audit Progress Report.

Is this a key decision?	No
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	One
List of Background Papers:	None
Lead Officer:	Amanda Stanislawski, Audit Manager Email: **amanda.stanislawski@lincoln.gov.uk**

Internal Audit

Progress Report

City of Lincoln Council
March 2024

Assurance LINCOLNSHIRE
For all your assurance needs

CITY OF Lincoln COUNCIL

Contents

Amanda Stanislawski – Audit Manager (Head of Internal Audit)
Amanda.stanislawski@lincoln.gov.uk

Overview and Purpose

The purpose of this report is to:

- Provide details of audit work from Nov 2023 to 19 February 2024
- Advise on progress with the Audit Plan
- Raise any other matters that may be relevant to the Audit Committee role

Staffing

Following a successful recruitment exercise, we have recruited a trainee Auditor to the career graded post, the Principal Auditor position is however currently vacant. For the remainder of the year we will continue to deliver the Internal Audit service using both internal and external resources.

Progress & Performance

There is one audit remaining from the 2022/23 plan to be completed. This is currently at draft report stage and should be finalised before the end of March. We continue to work through the audits within the 2023/24 plan with three currently at draft report stage and two issued since the previous progress report in December. Progress is slower than anticipated due in part to delays in receiving responses to draft reports and auditee availability. Other delays have occurred due to the time taken for the recruitment process, reduced staffing to cover other tasks and sickness. Further details are provided within the following pages and a full breakdown in Appendix 2.

We have completed the following piece of work since the previous report (Summaries of these reports are provided in the following pages) :-

High Assurance	Substantial Assurance	Limited Assurance	Low Assurance
None	Creditors	None	None
	Insurance		

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1.

Benchmarking data.

We have completed 63% of the revised plan and are currently on track to complete the remaining audits prior to issuing the Annual report.

The target for the span of the audits continues to not be met partially due to the availability of auditees. The draft reports continue to be issued promptly following completion of the audit although there remains some delays in getting management responses. The data is included within the following pages.

The following are summaries from the Internal Audit reports issued since the previous report and key recommendations made.

Substantial Assurance

Creditors (Accounts Payable)

A Substantial level of assurance has been given to reflect the robust and effective systems of control in overall operation throughout the Council's Creditors (Accounts Payable) function.

A single Action Plan finding has been put forward to strengthen the documentation of key operational procedures and user manuals for use by the extended Exchequer team.

Whilst there are some permitted exceptions (e.g. utility accounts), the Financial Procedure Rules state that purchase orders should be raised for all work, goods or services to be supplied. Concerns have recently been raised by Members regarding the overall numbers of orders being raised, including whether the current associated performance indicator target (DCT2 - Percentage of invoices that have a purchase order completed) is sufficiently challenging. These concerns have been actively considered by senior management (CMT) and at its 24th July 2023 meeting, Executive resolved the resulting actions put in place to be acceptable. These actions include reminders to Managers that purchase orders must be raised for the majority of purchases, provision of training and ongoing monitoring.

Our testing identified 3 of 10 purchase invoices where the orders had been raised retrospectively after the invoice date. However this is not being raised as a repeat issue due to the wider actions which have been put in place and remain ongoing, with further time needed to fully embed. Achievement towards the anticipated longer-term improvement in performance will be assessed by Audit as part of the next periodic Creditors key control audit.

We have made the following recommendation:-

Recommendation	Priority
1.1 Procedures and operational guidance relating to key Accounts Payable processes and activities (including team structure) are formally documented and updated and made available to all relevant staff.	Medium

Substantial Assurance

Insurance

A Substantial level of assurance has been given to reflect the overall robust and effective arrangements in place for the administration and management of the Council's insurances.

Recommendations have been made to update and enhance the documentation of key operational procedures, user manuals and intranet content; for use within the Insurance section and to provide general information, clarity on roles and responsibilities and key insurance processes to officers more widely.

Introduction of routine formal performance reporting to senior management and/or members is recommended to aid improved oversight of claims data and trends with claim processing timescales being more actively assessed to ensure compliance with sector standards and good practice.

Our review coincided with a period of recruitment to the Insurance team, and since completion of audit fieldwork a Finance Assistant (Insurance) has been successfully appointed. This should address known overdue 'housekeeping' tasks that due to stretched resource in the team previously had been deferred over the prioritisation of more critical functions, namely day-to-day claims handling and annual renewal.

Positively, verbal assurances have been received that many of the recommended tasks put forward by Audit have already (prior to the audit's undertaking) been set as formal personal objectives of the Insurance Officer in the coming 12 months.

We have made the following recommendations:-

Recommendation	Priority
1.1 Procedures and operational guidance relating to key Insurance processes and activities are formally documented, updated and made available to all relevant staff.	Medium
1.2 Information platforms for communicating key information regarding the Council's insurances and arrangements are reviewed for the clarity and comprehensiveness of their content to relevant stakeholders, and to ensure up-to-date.	Medium
2.1 Introduce active monitoring of claims handling/ processing timeframes to ensure statutory and good practice requirements are being achieved and highlight any slippages where remedying actions may be required.	Medium
3.1 Regular formal management reporting of claims data to enable corporate overview of insurance issues, trend identification and highlight areas where remedying actions may be required to reduce claims / minimise costs to the Council.	Medium

Work Completed / In Progress

The following summarises the audits in progress and other work including that which is not itemised on the Audit Plan

Audits in Progress

- IT Asset Management (2022/23) – Draft report
- VAT/Tax – Fieldwork
- Contract Management – Draft Report
- Staff Recruitment, retention and talent management – Draft report
- Housing IT - Terms of Reference
- Western Growth Corridor – Fieldwork due to start
- Council Tax – Fieldwork
- Treasury Management – Fieldwork
- NNDR – Draft report
- Governance – Fieldwork

Changes to the Plan

The audit of Housing Strategy has been removed from the plan and is now planned for April 2024. Discussions with the auditee found that they were currently revising the strategy and there would be more value from the audit if we reviewed the new draft plan.

Other work

- NFI – co-ordination.
- Recommendation follow-up – in progress
- Combined assurance – Completed
- Effectiveness of Audit Committee review – Completed
- 2024/25 Audit Plan – Completed
- Counter Fraud and Anti-Corruption Policy Statement and Action Plan – drafted.

Staffing

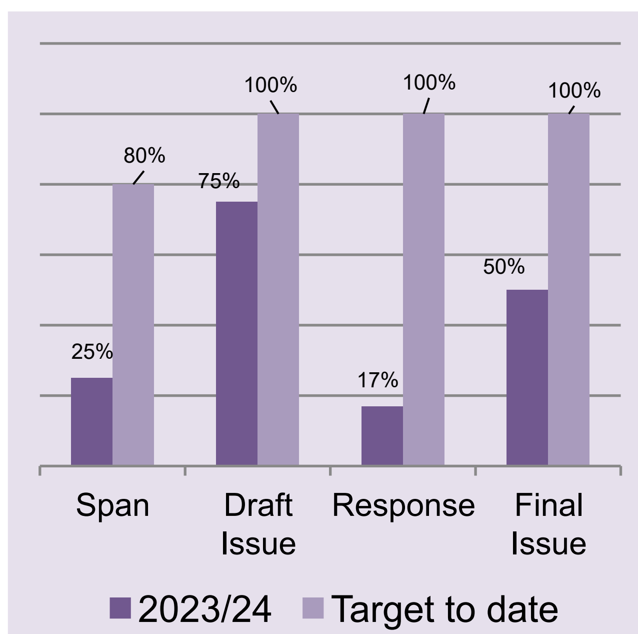
- Trainee Auditor post is now filled and working on the training and development plans for staff.
- Recruitment to Principal Auditor post to commence in March 2024.

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

Performance on Key Indicators

Rated our service Good to Excellent

63% Plan Completed



Other matters of interest

A summary of matters that will be of particular interest to Audit committee members

Standards

The international Internal Audit Standards Board have issued the Global Internal Audit

The IIA state that the Standards are the culmination of years of research, outreach, feedback, and due diligence, all of which were vital to crafting Standards that reflect the vision, breadth, and depth of the profession and the needs of the organisations served. The IIASB has a recent webinar, during which they discussed the Standards project and the final contents of the new standards.

The full document can be found here. Internal Audit Services in all sectors are expected to comply with the revised standards by 2025.

CIPFA are currently considering the implications for the Public Sector Internal Audit Standards and are meeting with the Internal Audit Standards advisory board on 6 March. The expectation is that there will be a consultation on the new PSIAS during the summer for implementation in 2025.

Assurance

Developing an effective assurance framework in a local authority

CIPFA has release a briefing aimed at everyone with an interest in assurance in a local authority. It sets out what assurance frameworks are, assurance within local authorities, roles and responsibilities and appetite. It briefly covers developing an assurance framework which should set out the source of assurances available to the leadership team and reflect the needs of the authority. The process should have a clear structure, identify the main types and sources , set out how assurance providers should work together, assess the effectiveness, identify gaps and duplications and facilitate regular review. The full briefing can be found here.

Appendix 1 Assurance Definitions

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

Appendix 2 Audit Plan Progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
2022/23 Housing Repairs	To provide assurance on the operation of the new repairs process and the void repairs process	Q3	Mar 23	Oct 23	Completed
2022/23 IT Asset Management	Review of the processes and policies in place regarding the control of IT assets (Including mobile devices) including asset management, responsibility, use and the security of the devices to protect against unauthorised use, access to information and loss of assets.	Q4	Feb 23		Draft Report
2022/23 Staff Wellbeing	Review of the impact of changes to working practices on staff and action being taken. Covering areas such as homeworking, health and safety and the impact on sickness, grievances, turnover.	Q1	Sept 22 Start delayed until September by auditee.	Apr 23	Completed
Annual IA Report	Audit opinion & coverage for 2021/22	Q1	May 23	Jun 23	Completed
Housing Benefit Subsidy	Detailed testing on behalf of External Audit	Q1-2	May 23	Oct 23	Completed
VAT/Tax	Assurance that VAT has been correctly accounted for and claims submitted in-line with HMRC requirements.		Nov 23		Fieldwork
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.	Q2	Sept 23	Feb 24	Completed

Appendix 2 Audit Plan Progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
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.		Dec 23		Fieldwork
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.	Q2	Aug 23	Dec 23	Completed
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.	Q4			Not started
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.	Q4	Nov 24		Draft Report

Appendix 2 Audit Plan Progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
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.	Q4	Jan 24		Fieldwork
Contract Management	To review the processes in place for managing contracts throughout the Council.		Aug 23		Draft Report
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.		Feb 24		Fieldwork
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.	Q4			Removed
Electoral Registration	Review of the maintenance of the electoral register and implementation of new legislation.				Removed
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.				Postponed to April 2024

Appendix 2 Audit Plan Progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
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.				Removed
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.				Removed
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.		Feb 24		Terms of Reference
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.	Q3	Nov 23		Draft report

Appendix 2 Audit Plan Progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
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.	Q4			Planned for 27 Feb
Housing IT	System Implementation Gateway reviews	Various			Terms of reference
Western Growth Corridor	To provide assurance that appropriate partnership governance and programme management arrangements are in place for the construction of Phase 1a.	Q3	Jan 24		Fieldwork to start
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.	Q4			Not started
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.	Q4	Jan 23		Fieldwork
Digital	To ensure security of on-line services (web-site/forms/applications etc)	Q4	Feb 24		Terms of Reference

Appendix 2 Audit Plan Progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Access Control	To provide assurance over the processes in place for controlling access to systems, network and suppliers remote access control arrangements.	Q4			Terms of reference
Combined Assurance	Update of the Combined Assurance Map	Q4		Feb 24	Completed
Audit Strategy & Plan	Audit Strategy & Plan for 2024/25	Q4	Jan 24	Mar 24	Completed

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Item No. 8

AUDIT COMMITTEE **19 MARCH 2024**

SUBJECT:	**EXTERNAL AUDIT: DRAFT AUDIT PLAN & STRATEGY**
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 Plan and Strategy, for the year ending 31 March 2024, to Audit Committee.

2. Background

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

3. External Audit Progress Report

3.1 The External Audit Draft Audit Plan and Strategy for 2023/24 (Appendix A) summarises the planned audit approach, highlights significant audit risks, sets out the approach to forming the value for money conclusion and provides the Audit Committee with details of the audit team.

3.2 The Audit Plan and Strategy will remain as draft until work has completed on the transfer between External Auditors (from Mazars to KPMG) and while a number of consultations in the audit sector remain audit, including:

- consultations by the NAO and DLUHC regarding addressing the audit backlog.
- consultation by CIPFA on short-term measures to aid the recovery of local authority reporting and audit.

An updated Plan will be presented to the next meeting of this Committee.

3.3 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 2023/24 is £139,722, 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. Variations are still likely to be incurred for new requirements of ISA315 (risk of material misstatement) or ISA240 (auditors responsibilities relating to fraud). The fees also assume no significant risks are identified as part of the VFM risk assessment. Additional fees in relation to these areas will be subject to the fee variation process as outlined by the PSAA.

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 I Audit Plan and Strategy sets out the key risks, as identified by the External Auditor, relevant to the audit of the financial statements and VFM conclusion.

7. Recommendation

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

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Is this a key decision?	No
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	One
List of Background Papers:	None
Lead Officer:	Jaclyn Gibson, Chief Finance Officer Email: jaclyn.gibson@lincoln.gov.uk

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City of Lincoln Council

DRAFT - Report to the Audit Committee

External Audit Plan & Strategy for the year ending 31 March 2024

March 2024

Introduction

To the Audit Committee of City of Lincoln Council

We are pleased to have the opportunity to meet with you on 19 March 2024 to discuss our audit of the financial statements of City of Lincoln Council for the year ending 31 March 2024.

We have been appointed as your auditors by Public Sector Audit Appointments Ltd. The audit is governed by the provisions of the Local Audit and Accountability Act 2014 and in compliance with the NAO Code of Audit Practice. The NAO is consulting on a new Code of Audit Practice for 2023/24, therefore this plan will remain draft until the finalisation of that Code.

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This report outlines our risk assessment and planned audit approach. Our planning activities, including review of the outgoing auditor's audit file are still ongoing and we will communicate any significant changes to the planned audit approach.

We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

The engagement team

Rashpal Khangura is the engagement director on the audit. He has over 20 years experience in public sector audit.

Rashpal Khangura shall lead the engagement and is responsible for the audit opinion.

Other key members of the engagement team include engagement manager John Blewett and in-charge Dominic Kular with 7 years and 3 years of experience respectively.

Yours sincerely,

R S Khangura

Rashpal Khangura

Director - KPMG LLP

19 March 2024

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We depend on well planned timing of our audit work to avoid compromising the quality of the audit. This is also heavily dependent on receiving information from management and those charged with governance in a timely manner. We aim to complete all audit work no later than 2 days before audit signing. As you are aware, we will not issue our audit opinion until we have completed all relevant procedures, including audit documentation.

Restrictions on distribution

This report is intended solely for the information of those charged with governance of City of Lincoln Council and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Overview of planned scope including materiality

Our materiality levels

We determined materiality for the entity financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of expenditure which we consider to be appropriate given the sector in which the entity operates, its ownership and financing structure, and the focus of users.

We considered qualitative factors such as stability of legislation and lack of shareholders when determining materiality for the financial statements as a whole.

To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of materiality £1.04m / 65% of materiality driven by our expectations of normal level of undetected or uncorrected misstatements in the period. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons.

We will report misstatements to the audit committee including:

- Corrected and uncorrected audit misstatements above £0.08m.
- Errors and omissions in disclosure (Corrected and uncorrected) and the effect that they, individually in aggregate, may have on our opinion.
- Other misstatements we include due to the nature of the item.

Control environment

The impact of the control environment on our audit is reflected in our planned audit procedures. Our planned audit procedures reflect findings raised in the previous year and management's response to those findings.

- For example, we anticipate that we will adopt a controls-based approach on Cash

File review

We will undertake an appropriate prior year file review dependent on the final opinion issues by the previous auditors.

Entity Materiality

	Entity
Materiality for the financial statements as a whole	**£1.6m** (2% of expenditure)
Procedure designed to detect individual errors at this level	**£1.04m**
Misstatements reported to the Audit Committee	**£0.08m**

Entity Materiality
£1.6m

2.2% of entity expenditure £72.6m

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Overview of planned scope including materiality (cont.)

Timing of our audit and communications

- We will maintain communication led by the engagement director and manager throughout the audit. We set out below the form, timing and general content of our planned communications:
- Kick-off meeting with management in March 2024 where we present our draft audit plan outlining our audit approach and discuss management's progress in key areas;
- Audit Committee meeting in March 2024 where we present our final audit plan;
- Status meetings with management during July to September 2024 where we communicate progress on the audit plan, any misstatements, control deficiencies and significant issues;
- Closing meeting with management in September 2024 where we discuss the auditor's report and any outstanding deliverables;
- Audit Committee meeting in September 2024 where we communicate audit misstatements and significant control deficiencies; and
- Biannual private meetings can also be arranged with the Committee chair if there is interest.

Given the large amount of consultation happening in regard to the scope and timing of local government audit this audit schedule may be subject to change.

Using the work of others and areas requiring specialised skill

We outline below where, in our planned audit response to audit risks, we expect to use the work of others such as Internal Audit or require specialised skill/knowledge to perform planned audit procedures and evaluate results.

Others	Extent of planned involvement or use of work
KPMG Pensions Centre of Excellence	The pensions audit team will perform all planning, risk assessment and substantive procedures over the LGPS account balances. KPMG actuary will review and assess the underlying assumptions within the entity's year-end actuarial report.
Internal Audit	We will review the work of internal audit as part of our risk assessment procedures but will not place reliance on their work.

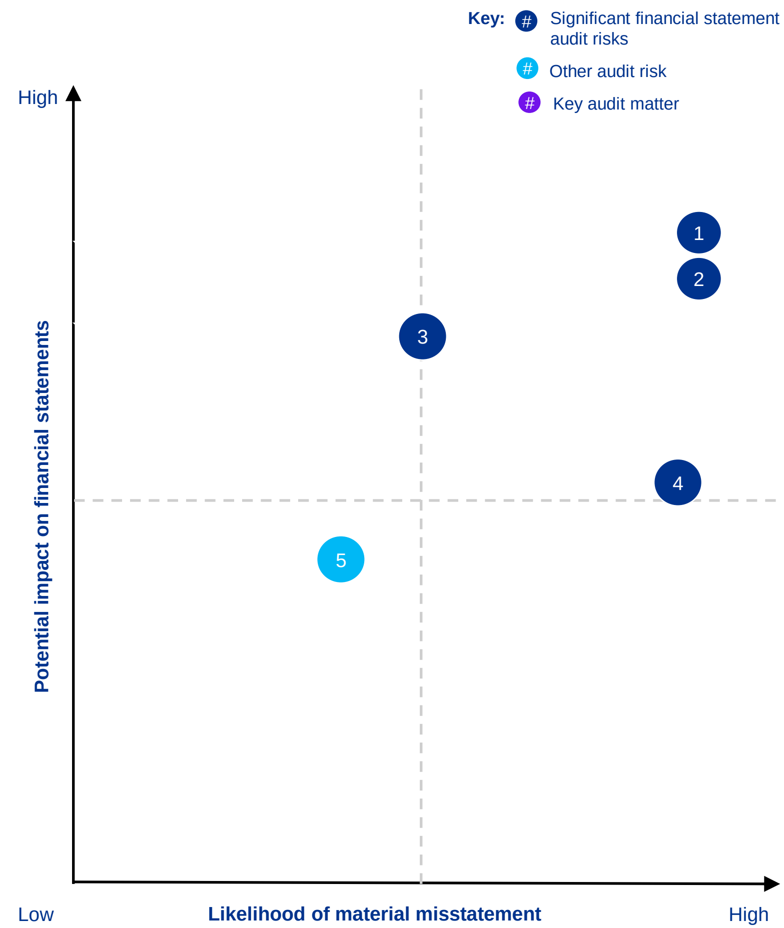
Significant risks and Other audit risks

Our risk assessment draws upon our understanding of the applicable financial reporting framework, knowledge of the business, the sector and the wider economic environment in which the Council operates.

We also use our regular meetings with senior management to update our understanding and take input from sector audit teams and internal audit reports.

Significant risks	
1.	Valuation of land and buildings
2.	Valuation of investment property
3.	Management override of controls
4.	Valuation of post retirement benefit obligations

Other audit risks	
5.	Revenue expenditure is inappropriately recognised as capital expenditure



Value for money

We are required to provide commentary on the arrangements in place for ensuring Value for Money is achieved at the Council and report on this via our Auditor's Annual Report. This will be published on the Council's website and include a commentary on our view of the appropriateness of the Council's arrangements against each of the three specified domains of Value for Money: financial sustainability; governance; and improving economy, efficiency and effectiveness.

Audit risks and our audit approach (cont.)

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1 Valuation of land and buildings

The carrying amount of revalued Land & Buildings differs materially from the fair value

Change vs prior year

Significant audit risk

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle, with land and buildings outside the full revaluation subject to a desktop review. The Authority engages the District Valuer for all Housing property and employs an in-house valuer for all other land and buildings.

This creates a risk that the carrying value of assets not revalued in year differs materially from the year end current value.

A further risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the Council's valuer and the District Valuer.

Planned response

We will perform the following procedures designed to specifically address the significant risk associated with the valuation:

- We will critically assess the independence, objectivity and expertise of the valuers used in developing the valuation of the Council's properties at 31 March 2024;
- We will inspect the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We will compare the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We will challenge the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation as part of our judgement;
- We will agree the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;
- We will utilise our own valuation specialists (as required) to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology utilised; and
- Disclosures: We will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Audit risks and our audit approach (cont.)

2 Valuation of investment property

The carrying amount of revalued investment property differs materially from the fair value

Change vs prior year

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Significant audit risk

The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property. As at March 2023, the value of investment properties was £36.6m.

There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.

Planned response

We will perform the following procedures designed to specifically address the significant risk associated with the valuation:

- We will critically assess the independence, objectivity and expertise of the valuer used in developing the valuation of the Council's investment property at 31 March 2024;
- We will inspect the instructions issued to the valuers to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We will compare the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We will challenge the appropriateness of the valuation; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation as part of our judgement;
- We will agree the calculations performed of the movements and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;
- We will utilise our own valuation specialists (as required) to review the valuation report prepared by the Council's valuer to confirm the appropriateness of the methodology utilised; and
- Disclosures: We will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Audit risks and our audit approach (cont.)

3 Management override of controls(a)

Fraud risk related to unpredictable way management override of controls may occur

Change vs prior year

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is 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.
- We have not identified any specific additional risks of management override relating to this audit.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Planned response

Our audit methodology incorporates the risk of management override as a default significant risk.

- Assess accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Evaluate the selection and application of accounting policies.
- In line with our methodology, evaluate the design and implementation of controls over journal entries and post closing adjustments.
- Assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assess the business rationale and the appropriateness of the accounting for significant transactions that are outside the entity's normal course of business, or are otherwise unusual.
- We will analyse all journals through the year and focus our testing on those with a higher risk.

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Audit risks and our audit approach (cont.)

4 Valuation of post retirement benefit obligations

An inappropriate amount is estimated and recorded for the defined benefit obligation

Change vs prior year ▲

Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

Planned response

We will perform the following procedures:

- Understand the processes the Councils have in place to set the assumptions used in the valuation;
- Evaluate the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Perform inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Agree the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluate the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;
- Challenge, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Confirm that the accounting treatment and entries applied by the Council are in line with IFRS and the CIPFA Code of Practice;
- Consider the adequacy of the Council's disclosures in respect of the sensitivity of the deficit or surplus to these assumptions; and
- Where applicable, assess the level of surplus that should be recognised by the entity.

Audit risks and our audit approach

Expenditure – rebuttal of Significant Risk

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered.

Having considered the risk factors relevant to the Council and the nature of expenditure within the Council, we have determined that a significant risk relating to expenditure recognition is not required.

Specifically, the financial position of the Council, (whilst under pressure) is not indicative of a position that would provide an incentive to manipulate expenditure recognition and the nature of expenditure has not identified any specific risk factors.

Audit risks and our audit approach

Revenue – Rebuttal of Significant Risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Due to the nature of the revenue within the sector we have rebutted this significant risk. We have set out the rationale for the rebuttal of key types of income in the table below.

Description of Income	Nature of Income	Rationale for Rebuttal
Council tax	This is the income received from local residents paid in accordance with an annual bill based on the banding of the property concerned.	The income is highly predictable and is broadly known at the beginning of the year, due to the number of properties in the area and the fixed price that is approved annually based on a band D property: it is highly unlikely for there to be a material error in the population.
Business rates	Revenue received from local businesses paid in accordance with an annual demand based on the rateable value of the business concerned.	The income is highly predictable and is broadly known at the beginning of the year, due to the number of businesses in the area and the fixed amount that is approved annually: it is highly unlikely for there to be a material error in the population.
Fees and charges	Revenue recognised from receipt of fixed fee services, in line with the fees and charges schedules agreed and approved annually.	The income stream represents high volume, low value sales, with simple recognition. Fees and charges values are agreed annually. We do not deem there to be any incentive or opportunity to manipulate the income.
Grant income	Predictable income receipted primarily from central government, including for housing benefits.	Grant income at a local authority typically involves a small number of high value items and an immaterial residual population. These high value items frequently have simple recognition criteria and can be traced easily to third party documentation, most often from central government source data. There is limited incentive or opportunity to manipulate these figures.

Audit risks and our audit approach

5 Revenue expenditure is inappropriately recognised as capital expenditure

Revenue expenditure is inappropriately recognised as capital expenditure

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Other audit risk

Given the size of the Council's capital programme (£31.4M at Q3) we have identified an Other Audit Risk regarding the recognition of revenue expenditure being inappropriately recognised as capital expenditure.

Planned response

We will perform the following procedures in order to respond to the significant risk identified:

- We will evaluate the design and implementation of controls for classifying expenditure as capital;
- We will review the capital programme for schemes which indicate they are of a revenue nature; and
- We will test capital expenditure incurred by the Council to ensure it is correctly capitalised.

Mandatory communications

Type	Statements
Management's responsibilities (and, where appropriate, those charged with governance)	Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error. Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.
Auditor's responsibilities	Our responsibilities set out through the NAO Code (communicated to you by the PSAA) and can be also found on their website, which include our responsibilities to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
Auditor's responsibilities – Fraud	This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.
Auditor's responsibilities – Other information	Our responsibilities are communicated to you by the PSAA and can be also found on their website, which communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.
Independence	Our independence confirmation at page 23 discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement director and audit staff.

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Mandatory communications - additional reporting

Going concern

Under NAO guidance, including Practice Note 10 - A local authority's financial statements shall be prepared on a going concern basis; this is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganization) do not negate the presumption of going concern.

However, financial sustainability is a core area of focus for our Value for Money opinion.

Additional reporting

Your audit is undertaken to comply with the Local Audit and Accountability Act 2014 which gives the NAO the responsibility to prepare an Audit Code (the Code), which places responsibilities in addition to those derived from audit standards on us. We also have responsibilities which come specifically from acting as a component auditor to the NAO. In considering these matters at the planning stage we indicate whether:

Work is completed throughout our audit and we can confirm the matters are progressing satisfactorily (OK)	We have identified issues that we may need to report	Work is completed at a later stage of our audit so we have nothing to report

We have summarised the status of all these various requirements at the time of planning our audit below and will update you as our work progresses:

Type	Status	Response
Our declaration of independence	OK	No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence.
Issue a report in the public interest		We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters to date.
Provide a statement to the NAO on your consolidation schedule		This "Whole of Government Accounts" requirement is fulfilled when we complete any work required of us by the NAO to assist their audit of the consolidated accounts of DLUHC.
Provide a summary of risks of significant weakness in arrangements to provide value for money		We are required to report significant weaknesses in arrangements. Work to be completed at a later stage.
Certify the audit as complete		We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above.

City of Lincoln Council

Value for Money

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Value for money

For 2023/24 our value for money reporting requirements have been designed to follow the guidance in the Audit Code of Practice.

Our responsibility to conclude on significant weaknesses in value for money arrangements is unchanged.

The main output remains a narrative on each of the three domains, summarising the work performed, any significant weaknesses and any recommendations for improvement.

We have set out the key methodology and reporting requirements on this slide and provided an overview of the process and reporting on the following page.

Risk assessment processes

Our responsibility remains to assess whether there are any significant weaknesses in the Council's arrangements to secure value for money. Our risk assessment will continue to consider whether there are any significant risks that the Council does not have appropriate arrangements in place.

In undertaking our risk assessment we will be required to obtain an understanding of the key processes the Council has in place to ensure this, including financial management, risk management and partnership working arrangements. We will complete this through review of the Council's documentation in these areas and performing inquiries of management as well as reviewing reports, such as internal audit assessments.

Reporting

As with the prior year our approach to value for money reporting aligns to the NAO guidance and includes:

- A summary of our commentary on the arrangements in place against each of the three value for money criteria, setting out our view of the arrangements in place compared to industry standards;
- A summary of any further work undertaken against identified significant risks and the findings from this work; and
- Recommendations raised as a result of any significant weaknesses identified and follow up of previous recommendations.

The Council will be required to publish the commentary on its website at the same time as publishing its annual report online.

Financial sustainability

How the body manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and property manages its risks.

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Value for money

Approach we take to completing our work to form and report our conclusion:

Process

Understanding the entity's arrangements

- Financial statements planning
- Internal reports, e.g. IA
- Management Inquiries
- External reports, e.g. regulators
- Assessment of key processes
- Annual report

Evaluation of entity's value for money arrangements

- Targeted follow up of identified value for money significant risks
- Continual update of risk assessment

Value for money conclusion and reporting

- Conclusion whether significant weaknesses exist

Outputs

Risk assessment to Audit Committee

Our risk assessment will provide a summary of the procedures undertaken and our findings against each of the three value for money domains. This will conclude on whether we have identified any significant risks that the entity does not have appropriate arrangements in place to achieve VFM.

Value for money assessment

We will report by exception as to whether we have identified any significant weaknesses in arrangements.

Public commentary

Our draft public commentary will be prepared for the Audit Committee alongside our annual report on the accounts.

Public commentary

The commentary is required to be published alongside the annual report.

Summary of risk assessment

Summary of risk assessment

We have not identified any risks of significant weaknesses from our initial work, however our risk assessment is continuing and we will provide our full risk assessment at the next Audit Committee.

Appendix

Audit team and rotation

Your audit team has been drawn from our specialist local government audit department and is led by key members of staff who will be supported by auditors and specialists as necessary to complete our work. We also ensure that we consider rotation of your audit director.

Rashpal Khangura is the director responsible for our audit. They will lead our audit work, attend the Audit Committee and be responsible for the opinions that we issue.	**John Blewett** is the manager responsible for our audit. They will co-ordinate our audit work, attend the Audit Committee and ensure we are co-ordinated across our accounts and use of funds work.	**Dominic Kular** is the in-charge responsible for our audit for the second year. They will be responsible for our on-site fieldwork. He will complete work on more complex section of the audit.

To comply with professional standard we need to ensure that you appropriately rotate your external audit director. There are no other members of your team which we will need to consider this requirement for:

This will be director’s first year as your engagement lead. They are required to rotate every five years, extendable to seven with PSAA approval.

Audit cycle & timetable

Our schedule
Dec 2023 – Dec 2024

We have worked with management to generate our understanding of the processes and controls in place at the Council in it's preparation of the Statement of Accounts.

We have agreed with management an audit cycle and timetable that reflects our aim to sign our audit report by September 2024.

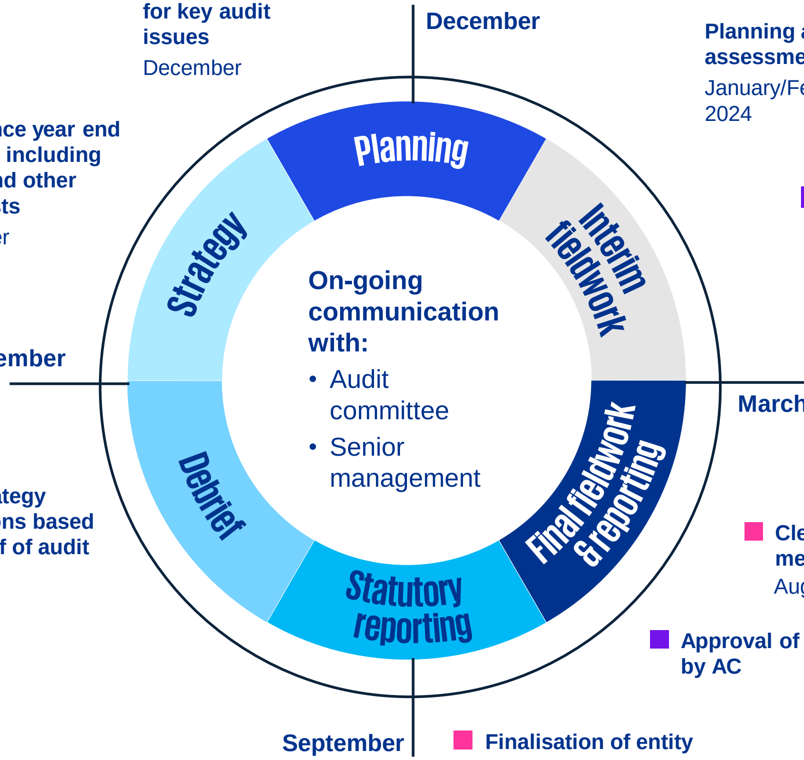
This being the first year of KPMG as auditor we have undertaken greater activities to understand the Council at the planning stage. This level of input may not be required in future years and may change our audit timings.

Given the large amount of consultation happening in regard to the scope and timing of local government this audit **schedule may be subject to change**.

Planning meeting with management for key audit issues
December

Commence year end planning including tax, IT and other specialists
November

Audit strategy discussions based on debrief of audit
October



Planning and risk assessment
January/February 2024

Audit plan discussion and approval
March 2024

Final fieldwork
July

Clearance meetings:
August

Approval of accounts by AC

Finalisation of entity accounts
September

Key:
- Timing of AC communications
- Key events

Fees

Audit fee

Our fees for the year ending 31 March 2024 are set out in the PSAA Scale Fees communication and are shown below.

Entity	2023/24 (£'000)	*2022/23 (£'000) **
Statutory audit	140	*69*
TOTAL	**140**	*69*

**fee charged by Mazars LLP - your predecessor auditor.*

As per PSAA's Scale Fees Consultation, the fees do not include new requirements of ISA315 revised (risk of material misstatement); or ISA 240 (auditor's responsibilities relating to fraud). The fees also assume no significant risks are identified as part of the Value for Money risk assessment. Additional fees in relation to these areas will be subject to the fees variation process as outlined by the PSAA.

Billing arrangements

Fees will be billed in accordance with the milestone completion phasing that has been communicated by the PSAA.

Basis of fee information

Our fees are subject to the following assumptions:

- The entity's audit evidence files are completed to an appropriate standard (we will liaise with you separately on this);
- Draft statutory accounts are presented to us for audit subject to audit and tax adjustments;
- Supporting schedules to figures in the accounts are supplied;
- The entity's audit evidence files are completed to an appropriate standard (we will liaise with management separately on this);
- A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-formas as necessary.

Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

Any variations to the above plan will be subject to the PSAA fee variation process.

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Director and audit staff is not impaired.

To the Audit Committee members

Assessment of our objectivity and independence as auditor of City of Lincoln Council

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values.
- Communications.
- Internal accountability.
- Risk management.
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

There are no non-audit services applicable.

Confirmation of Independence (cont.)

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Summary of fees

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period.

Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be 0.0: 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2023/24
	£'000
Statutory audit	140
Other Assurance Services	0
Total Fees	**140**

Application of the FRC Ethical Standard 2019

We communicated to you previously the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Council and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

Rashpal Khangura

KPMG LLP

KPMG’s Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

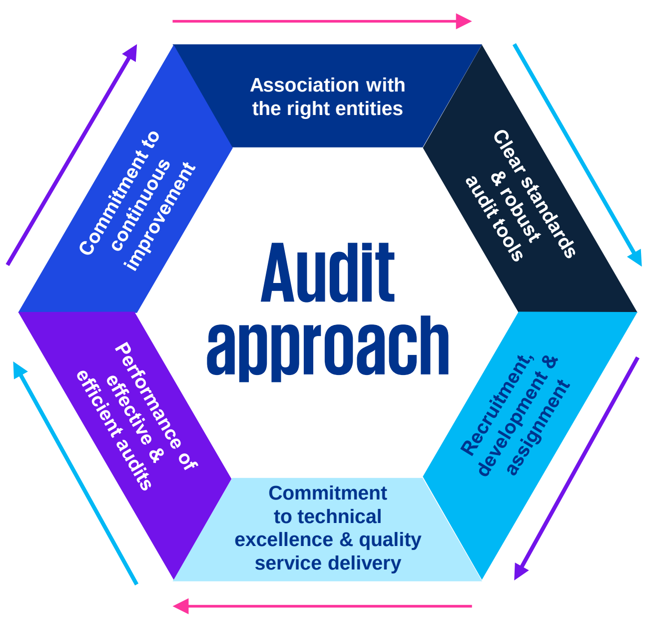
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



Association with the right entities

- Select entities within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

ISA (UK) 315 Revised: Overview

Summary

In the prior period, ISA (UK) 315 Revised "Identifying and assessing the risks of material misstatement" was introduced and incorporated significant changes from the previous version of the ISA.

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after **15 December 2021**.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

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What impact did the revision have on audited entities?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard's scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

Implementing year 1 findings into the subsequent audit plan

Entering the second year of the standard, the auditors will have demonstrated, and communicated their enhanced insight into their understanding of your wider control environment, notably within the area of IT.

In year 2 the audit team will apply their enhanced learning and insight into providing a targeted audit approach reflective of the specific scenarios of each entity's audit.

A key area of focus for the auditor will be understanding how the entity responded to the observations communicated to those charged with governance in the prior period.

Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

What will this mean for our on-going audits?

To meet the on-going requirements of the standard, auditors will each year continue to focus on risk assessment process, including the detailed consideration of the IT environment.

Subsequent year auditor observations on whether entity actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the entity control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

ISA (UK) 240 Revised: changes embedded in our practices

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Ongoing impact of the revisions to ISA (UK) 240

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) The auditor's responsibilities relating to fraud in an audit of financial statements included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

Area	Our approach following the revisions
Risk assessment procedures and related activities	1) Increased focus on applying professional scepticism – the key areas affected are: • the need for auditors not to bias their approach towards obtaining evidence that is corroborative in nature or excluding contradictory evidence; • remaining alert for indications of inauthenticity in documents and records, and • investigating inconsistent or implausible responses to inquiries performed. 2) Requirements to perform inquiries with individuals at the entity are expanded to include, amongst others, those who deal with allegations of fraud. 3) We will determine whether to involve technical specialists (including forensics) to aid in identifying and responding to risks of material misstatement due to fraud.
Internal discussions and challenge	We will have internal discussions among the audit team to identify and assess the risk of fraud in the audit, including determining the need for additional meetings to consider the findings from earlier stages of the audit and their impact on our assessment of the risk of fraud.

FRC's areas of focus

The FRC released their Annual Review of Corporate Reporting 2021/22 in October 2022, along with a summary of key matters for the coming year, primarily targeted at CEOs, CFOs and Audit Committee chairs. In addition, they released six thematic reviews during the year which should be considered when preparing financial reports.

The reports identify where the FRC believes companies should be improving their reporting. Below is a high level summary of the key topics. We encourage management and those charged with governance to read further on those areas which are significant to the entity.

Reporting in uncertain times

Last year's Annual Review of Corporate Reporting from the FRC was prepared in the context of the current heightened economic and geopolitical uncertainty. The challenges of the Covid-19 pandemic, Russia's invasion of Ukraine and slowing of global economies has led to inflationary pressure worldwide and rising interest rates.

This makes meaningful disclosure more important than ever, and the FRC has stressed the need for companies to move beyond simply complying with the minimum requirements of the relevant accounting and reporting frameworks. They expect companies to provide high-quality, decision-useful information for investors, with companies continually assessing evolving risks and ensuring these are clearly explained in annual reports.

The potential effects of uncertainty on recognition, measurement and disclosure are numerous, and companies will need to think carefully about the impacts of uncertainty, in particular inflation, on their reporting. The Annual Review gives a number of examples including:

Strategic report: the impact of inflation on the business model, changes to principal risks and uncertainties, and the impact of inflation on stakeholders.

Discount rates: inputs need to follow a consistent approach in incorporating the effects of inflation.

Material assumptions: where inflation assumptions represent a source of significant estimation uncertainty, the FRC expects companies to provide explanation of how these have been calculated and sensitivity disclosures if appropriate.

Pension schemes: explain the effect of uncertainty on investment strategy and associated risks.

Climate-related reporting

Climate-related reporting has advanced significantly this year as premium listed entities are required by the Listing Rules to provide disclosures consistent with the Taskforce on Climate-Related Disclosures (TCFD) recommendations. This follows the expansion of the Streamlined Energy and Carbon Reporting (SECR) rules last year, which require quoted companies and large unquoted companies and LLPs to provide emissions reporting.

Climate has therefore been an area of ongoing focus for the FRC, with a thematic reviews in both 2021 and 2022 on aspects of climate reporting. From reviews of TCFD disclosures in the year, the FRC has highlighted five areas of improvement for companies to consider going forwards:

Granularity and specificity: disclosures should be granular and specific both to the company and the individual disclosure requirement, including a clear link to financial planning.

Balance: discussion of climate-related risks and opportunities should be balanced, and companies should consider any technological dependencies.

Interlinkage with other narrative disclosures: companies should ensure clear links between TCFD disclosures with other narrative disclosures in the annual report.

Materiality: companies should clearly articulate how they have considered materiality in the context of their TCFD disclosures.

Connectivity between TCFD and financial statements disclosures: the FRC may challenge those that disclose significant climate risks or net zero transition plans in narrative reporting, but do not explain how this is taken into account in the financial statements.

FRC's areas of focus (cont.)

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Cash flow statements

This continues to be a particular area of concern as it is a recurring source of errors identified by the FRC, with 15 companies restating their cash flow statements in the review period as a result of the FRC's enquiries.

Companies are encouraged to consider the guidance in the 2020 thematic review on this topic, and to ensure that robust pre-issuance reviews of the financial statements have been undertaken.

Cash flows must be classified as operating, investing or reporting in line with the requirements of the standard, and amounts reported should be consistent with disclosures elsewhere in the report and accounts including the elimination of non-cash transactions.

Several errors identified by the FRC related to the parent company cash flow statement, and it should ensured that this statement also complies with the requirements of the standard.

Financial Instruments

Companies should ensure that disclosure is sufficient to enable users to evaluate the nature and extent of risks arising from financial instruments and the approach taken to risk management.

These disclosures should include the approach and assumptions used in the measurement of expected credit losses, and details of concentrations of risk. In times of economic uncertainty, disclosure of methods used to measure exposure to risks, and details of hedging arrangements put in place for interest rates or inflation are all the more important.

In addition, accounting policies should be provided for all material financing and hedging arrangements and any changes in these arrangements. Where companies have banking covenants, information about these should be provided (unless the likelihood of a breach is considered remote).

Income taxes

Where material deferred tax assets are recognised by historically loss-making entities, disclosures should explain the nature of the evidence supporting their recognition. In addition, any connected significant accounting judgements or sources of estimation uncertainty will also need to be disclosed.

On tax more generally, the FRC expects companies to ensure that tax-related disclosures are consistent throughout the annual report and accounts, and material reconciling items in the effective tax rate reconciliation are adequately explained.

For Councils operating in several jurisdictions, effective tax reconciliations may be more meaningful if they aggregate reconciliations prepared using the domestic rate in each individual jurisdiction, with a weighted average tax rate applied to accounting profit.

Strategic report and other Companies Act 2006 matters

The strategic report needs to articulate the effects of economic and other risks facing companies, including inflation, rising interest rates, supply chain issues and labour relations. Mitigation strategies should be explained, with links, where relevant, to information disclosed elsewhere in the annual report.

Business reviews should discuss significant movements in the balance sheet and cash flow statement, and should not be limited to just an explanation of financial performance in the period.

The FRC has also identified instances of companies not complying with legal requirements around distributions, and companies are reminded of the need to file interim accounts to support distributions in excess of the distributable profits shown in the relevant accounts.

Revenue

Accounting policies should be provided for all significant performance obligations and should address the timing of revenue recognition, the basis for over-time recognition, and the methodology applied.

Inflationary features in contracts with customers and suppliers and the accounting for such clauses are under increased focus this year.

Alternative performance measures ('APMs')

APMs should not be presented with more prominence, emphasis or authority than measures stemming directly from the financial statements, and should be reconciled to the relevant financial statements line item.

FRC's areas of focus (cont.)

Provisions and contingencies

Companies should give clear and specific descriptions of the nature and uncertainties for material provisions or contingent liabilities, the expected timeframe and the basis for estimating the probable or possible outflow.

Inputs used in measuring provisions should be consistent in the approach to incorporating the effects of inflation, and details of related assumptions should be provided if material.

Presentation of financial statements and related disclosures

Material accounting policy information should be clearly disclosed, and additional company-specific disclosures should be provided when compliance with IFRS requirements is insufficient to adequately explain transactions.

Judgements and estimates

Economic uncertainty increases the likelihood of companies needing to make significant judgements when preparing financial statements. The FRC highlights two specific examples – going concern assessments and accounting for inflationary features in contracts – where disclosure is key.

More generally, the FRC highlights the need for disclosures to clearly distinguish between estimates with a significant risk of a material adjustment to the carrying amounts of assets/liabilities within the next year, and other sources of estimation uncertainty.

Significant estimates, and the associated disclosures should be updated at the balance sheet date. Sensitivity disclosures should be meaningful for readers, for example by sensitising the most relevant assumptions, and explaining any changes in assumption since the previous year.

Impairment of assets

Economic uncertainty may have a significant impact on impairment assessments, and this is an area where queries raised from the FRC could have been avoided by clearer disclosure.

Companies need to explain the sensitivity of recoverable amounts to changes in assumptions, especially where the range of possible outcomes has widened. This should include explanation of the effect of economic assumptions, such as reduction in customer demand and increased cost.

Inflation should be treated consistently in value in use calculations. Nominal cash flows are discounted at a nominal rate, and real cash flows are discounted at a real rate.

Lastly, the FRC stresses the importance of consistency between impairment reviews/disclosures and other disclosures in the annual report.

Thematic reviews

The FRC released six thematic reviews on corporate reporting last year, and companies are encouraged to consider the guidance in those reviews, where relevant, to enhance their financial reporting. The topics covered are:

- TCFD disclosures and climate in the financial statements
- Judgements and estimates
- IFRS 3 Business Combinations
- Discount rates
- Deferred Tax Assets (IAS 12)
- Earnings per Share (IAS 33)

2022/23 review priorities

The FRC has indicated that its 2022/23 reviews will focus on the extent to which companies' disclosures address risks and uncertainty in the challenging economic environment, including those relating to climate change. Companies need to clearly articulate the impact of these risks on their strategy, business model and viability. In particular, the FRC intends to prioritise reviews of companies operating in the following sectors:

- Travel, hospitality and leisure
- Construction materials
- Retail
- Gas, water and multi-utilities

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Some or all of the services described herein may not be permissible for KPMG audited entities and their affiliates or related entities.

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Item No. 9

AUDIT COMMITTEE **19 MARCH 2024**

SUBJECT:	**INTERNAL AUDIT RECOMMENDATIONS FOLLOW UP**
DIRECTORATE:	**CHIEF EXECUTIVE AND TOWN CLERK**
REPORT AUTHOR:	**AMANDA STANISLAWSKI, AUDIT MANAGER**

1. Purpose of Report

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

2. Background

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

3. Recommendations Progress

3.1 The report provides a summary of the outstanding actions and progress made on implementation. There are currently 1 High action and 11 Medium actions remaining to be implemented. There are no overdue High risk actions or outstanding actions for Limited or Low reports. The attached report provides more details of the splits between those overdue, extended and not due and also the changes made since the last report to the Audit Committee in December including the new actions agreed.

3.2 There is 1 report where the actions have now all been implemented, Staff Wellbeing.

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

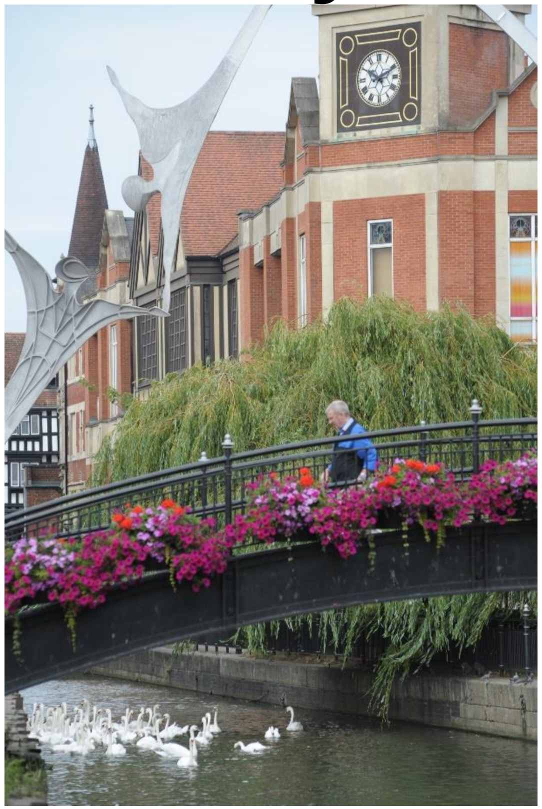
5. Recommendation

5.1 The Audit Committee is asked to review the attached Appendix and responses.

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 Email: amanda.stanislawski@lincoln.gov.uk

Audit Recommendations

February 2024



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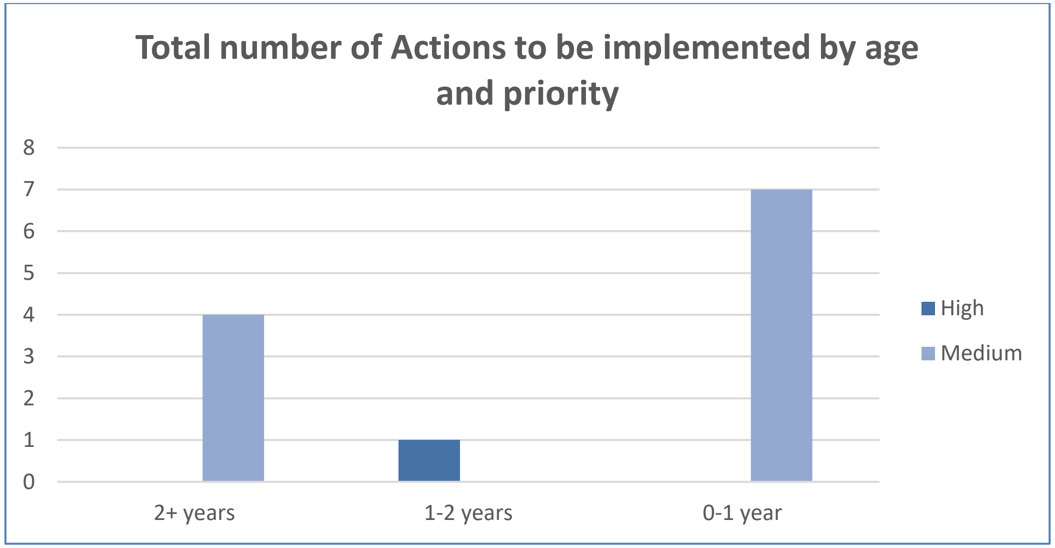
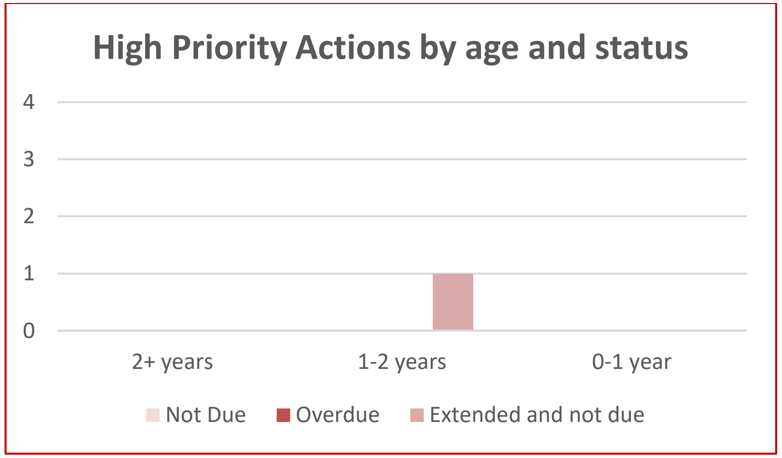
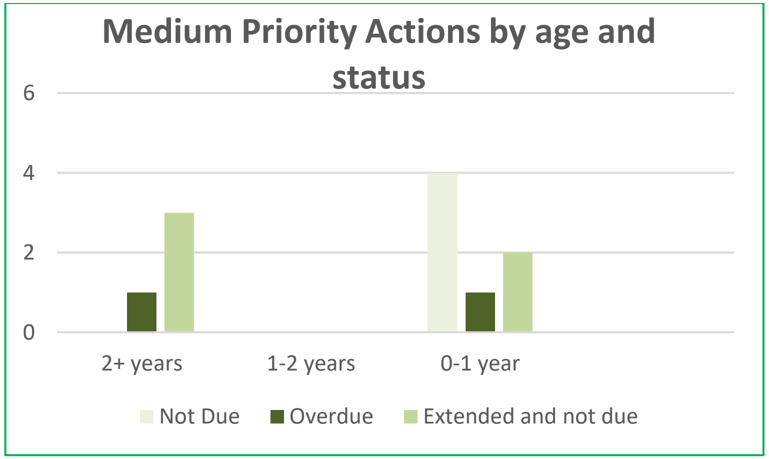
Summary of Agreed Actions

We have carried out a review of the actions due by the end of February 2024 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 the Committee in November 2023. 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
Staff Wellbeing	July 2023	Substantial	Actions Implemented **Review stress policy and document review** – Approved updated H&S policy and issued as guidance and not policy. **Policies are reviewed in accordance with timescales** – as above.

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

Audit	Date	Assurance	No of Recs		Implemented	Outstanding		Not Yet Due	Comments / Progress since previous report
			H	M		Overdue	Extended		
Housing Allocations	Aug 20	Substantial	0	4	3	0	1	0	Updated commentary. **Annual review of applications.** Issues are escalated internally and with the software supplier. Meeting to update on the remaining issues with the software supplier is booked for 13th March. Will feedback after the meeting. Current date – September 2024.
Homelessness	Aug 20	Substantial	0	2	1	1	0	0	Updated commentary. **Ensure compliance with document retention & disposal requirements**. All documentation is on the new Council wide document management system which is currently being

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Audit	Date	Assurance	No of Recs		Implemented	Outstanding		Not Yet Due	Comments / Progress since previous report
			H	M		Overdue	Extended		
									upgraded to include an automated document retention process. This was expected to go live in September but has been delayed. The testing stage of the upgrade is expected to be finished on 1st March. The live upgrade is expected to be done on 2nd and 3rd of March. The whole implementation is scheduled to be completed before the end of April 2024.
Office 365	May 21	Substantial	0	6	5	0	1	0	Updated commentary **Enable, set-up and use DLP policies for Exchange Online and SharePoint Online content.** Current date - Jun 2024. Slow progress is being made on this due to resource constraints and being pulled onto other projects.
Performance Management	Aug 22	Limited	3 (7*)	1	3 (2 High)	0	1 (High)	0	No change. **Framework Document** – Review of Performance Management Current date – Apr 2024 **Seven high recommendations were made but agreed actions covered more than one recommendation resulting in four actions.*
DeWint Court	Mar 23	Substantial	8	12	19	0	1	0	No Change One not due - **Amendment to tenancy agreements for utility costs –** Current date – Sept 2025.
IT Disaster Recovery	May 23	Substantial	0	3	1	0	2	0	One action implemented and updated commentary **Plan to be updated for additions and agreed –** implemented.

Audit	Date	Assurance	No of Recs		Implemented	Outstanding		Not Yet Due	Comments / Progress since previous report
			H	M		Overdue	Extended		
									Develop a testing schedule – No longer relevant - the whole nature of the backup has changed since this recommendation. We now have implemented a 'cloud' solution. We are now developing a new DR infrastructure within MS Azure which will form the basis of a revised DR plan. **Wider desktop test to be undertaken –** exercise planned for Feb/Mar 2024. Extension to Mar 2024 approved.
Housing Benefit Subsidy	Nov 2023	Substantial	0	1	0	0	0	1	Updated Commentary **Errors identified are included in the ongoing assessor training –** Completed further guidance on the error and updated the guides on the error that have been found. A new guidance manual has been purchased by the Shared Service. Current due Mar 2024.
Housing Repairs	Nov 2023	Substantial	1	11	9	1	0	2	New – remaining actions **Scheduled Repairs in target will be included on the EDMT dashboard –** due December 2023 – currently reported as part of internal HRS dashboard, awaiting update/target setting for 2024/25 to be included on EDMT dashboard. **Resource planner guidance document will be shared to customer services** – Current due April 2024.

Audit	Date	Assurance	No of Recs		Implemented	Outstanding		Not Yet Due	Comments / Progress since previous report
			H	M		Overdue	Extended		
									Process for collecting tenant satisfaction is reviewed – Current due Aug 2024.
Creditors	Oct 2023	Substantial	0	1	0	0	0	1	New **Completion of procedure notes for all key processes and activities –** Current due Sept 2024.

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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. 12 months 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 12 months from the report issue date.
   2.3 Receive a 12 months 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)

Item No. 10

AUDIT COMMITTEE **19 MARCH 2024**

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 2023/24 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 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 2022/23 Assessment

A self-assessment against the standards set out in FM Code was prepared in March 2023. 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 March 2023 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.
To review Contract Procedure Rules	TBC – dependent on Procurement Bill/Act	**IN PROGRESS** – Procurement Act expected to go live in Oct 24.
To review the Terms of Reference of the Audit Committee	Jun-23	**COMPLETE** – Approved by Audit Committee Dec 23.

Assess HIA against CIPFA requirements	Sept-23	**COMPLETE** – Assessment undertaken Sept 23.
Complete bi-annual assessment of Internal Audit against PSIAS	Jul-23	**COMPLETE** – Reported to Audit Committee Dec 23.
Review Finance Business Partnering Action Plan	Mar-24	**IN PROGRESS** – progress slower than planned due to capacity with Financial Services Team.
Benchmark the Treasury Mgmt and Capital Strategies against best practice	Mar-24	**COMPLETE –** review undertaken Sept 23. Changes reflected in 24/25 Strategies.
Introduce quarterly reporting of treasury management activities	Jul-23	**COMPLETE –** quarterly monitoring introduced Jul 23.
Review engagement approach for budget/strategic plan consultation	Nov-23	**ONGOING** – Additional engagement undertaken in Jan/Feb 24, further developments to be considered.
Consider if other major balance sheet items can be made more visible in quarterly reporting.	Sept-24	**COMPLETE** – review undertaken by CFO Feb 24.

<u>2023/24 Assessment</u>

3.8 The 2022/23 assessment has now been updated for the actions completed and in progress as above, and in light of other developments during 2023/24. This has resulted in an updated self-assessment, as attached at Appendix A. The assessment 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, with actions included as required:

Ref	**Standard/Description**	**RAG**	**Action Required/By When**
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.		To update VFM Statement and incorporate with new Productivity Plan requirements – Jul 24

B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.		To continue to support professional development – ongoing. To recruit to remaining Finance role to ensure fully resourced – Apr 24
C	The leadership Team demonstrates in its actions and behaviours responsibility for governance and internal control.		To revise Contract Procedure Rules – Dec 24
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).		None
E	The financial management style of the authority supports financial sustainability.		Review Finance Business Partnering Action Plan – Mar 25
F	The authority has carried out a credible and transparent financial resilience assessment.		Consider options for an independent financial resilience assessment – Dec 24
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.		None
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.		None
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.		None
J	The authority complies with its statutory obligations in respect of the budget setting process.		None
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.		None
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget.		Further development of engagement approach for budget/strategic plan consultation – Nov 24
M	The authority uses an appropriate documented option appraisal		None

	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.		None
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.		None
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.		None
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.		None

This demonstrates an overall substantial level of compliance (65%) with the underlying principles of the FM Code, this is as per the 2022/23 assessment although the individual standards assessments are different. There are areas for improvement in 6 (35%) of the standards, the actions for which are set out in the table above. 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 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 2022/23 self-assessment
b) Review and comment upon the 2023/24 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, Chief Finance Officer Email: jaclyn.gibson@lincoln.gov.uk

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. There are suitable mechanisms in place to promote value for money at a corporate level and at the level of individual services. The authority is able to demonstrate the action that is has taken to promote value for money and what it has achieved.	The Council has clear accountability and arrangements to deliver value for money. The Council has a Value for Money Statement that was 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: • VFM is a key part of any business case submitted and all decision-making groups take decisions with a focus on VFM. • Performance Scrutiny Committee reviews service and financial performance (against cost, performance, and satisfaction) on a quarterly basis and uses its remit to periodically review key (off target) services. • Policy Scrutiny ensures that any changes to policy with financial aspects delivers VFM as part of the proposal – e.g. restructures, retention of discretionary services etc. • The Annual Governance Statement focuses on all aspects of governance, including processes around VFM in service provision.	

				• Lincoln Project Management Model – this compulsory method of managing projects within the council contains key templates for financial assessments and risk management
				• The MTFS delivers a robust financial plan through a rigorous budget setting process. One of the key objectives of the MTFS is to provide cost effective services which demonstrate value for money.
				• The performance framework includes, regular monitoring of Vision 2025 projects to ensure that the key aims of the council are progressed to budget, timescales, and outcomes.
				• The performance framework includes regular service monitoring of detailed performance trends covering:
				  ○ Performance measures – e.g. throughput, time taken and outstanding work
				  ○ Volumetric measures to add contextual background data
				  ○ Customer satisfaction - feedback through satisfaction monitoring and complaints and compliments monitoring
				  ○ Quarterly Dashboard summarising all aspects of performance within the VFM chain
				• Communication of VFM to customers and staff through a variety of channels.	

				• Delivering excellent customer service which is a key component of VFM. The Council has a strong record of identifying and delivering efficiency savings with clarity about any impacts on services. Annual savings of c£10.5m have been delivered over the past decade and a half. In light of the announcement that Councils will be required to publish a Productivity Plan by July 2024, an update of the Value for Money Statement will be undertaken and will be incorporated with these new requirements. External Audit provide a VFM assessment, the Auditors Annual Report 2022/23 stated, “Overall, we have not identified any indicators of a significant weakness in the Council’s arrangements relating to the Improving Economy, Efficiency and Effectiveness criteria for the year ended 31 March 2023.”. 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 standards are maintained is undertaken. The next peer review will be undertaken following development of the new Vision 2030. **ACTION REQUIRED – TO UPDATE VALUE FOR MONEY STATEMENT AND**	

				INCORPORATE REQUIREMENTS OF NEW PRODUCTIVITY PLANS – JULY 2024 (CFO/ADSDT)	
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	18/19	In summary this Statement requires that the CFO: • Is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest. • Must be actively involved in, and able to bring influence to bear on, all material business decisions • Must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively. • Must lead and direct a finance function that is resourced to be fit for purpose. • Must be professionally qualified and suitably experienced.	The Chief Finance Officer post is a key member of the Corporate Leadership Team, reporting to the Chief Executive. She is actively involved in, and has influence over, all material business decisions. The CFO personally leads on the MTFS and ensures that all risks are considered and detailed as part of the MTFS, in conjunction with the other members of the senior leadership team (Executive Members and Corporate Leadership Team). She is ACCA qualified with significant experience of local government finance. Continuing professional development is undertaken as required by her accounting body. There are contracts in place for specialist financial advice (technical accounting, treasury management, financial management & planning and taxation) The CFO through the Finance team provides the financial reporting and monitoring to the Corporate Management Team and Members, with the Treasury Management reporting going through Audit Committee and Council as	

				prescribed in the CIPFA Prudential Code and the CIPFA Treasury Management Code. The Finance Team is suitably resourced with appropriately qualified staff, and is fit for purpose. This team includes 1 qualified accountant, 2 part qualified accountants and 9 qualified accounting technicians and 2 part qualified accounting technicians. All officers undertake continuing professional development as required by their accounting bodies. There currently remains 1 vacant qualified accountant role, which is actively being recruited to, with interim support in place. **ACTION REQUIRED** **1. TO CONTINUE TO SUPPORT PROFESSIONAL DEVELOPMENT AND THE ACHIEVEMENT OF PROFESSIONAL ACCOUNTACY QUALIFICATIONS – ONGOING (CFO/FSM)** **2. TO RECRUIT TO REMAINING FINANCE ROLES TO ENSURE TEAM IS FULLY RESOURCED – APRIL 24 (FSM)**	
Governance and Financial Management Style					
C	The leadership Team demonstrates in its actions and behaviours responsibility for governance and internal control.	21	The leadership team espouses the Nolan principles. The authority has a clear framework for governance and internal control.	The leadership exhibit the Nolan principles of public life. 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, with consideration by Audit Committee and	

			The leadership team has established effective arrangements for assurance, internal audit and internal accountability. The leadership team espouses high standards of governance and internal control. The leadership team nurtures a culture of effective governance and robust internal control across the authority.	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 Following the Procurement Act receiving Royal Assent, and with an implementation date of October 2024, Contract Procedure Rules are now being updated. 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 programmmes has been undertaken to ensure this reflects the latest guidance and best practice. All Committees have separate Terms of Reference. There is a Code of Conduct for Members which is overseen by the Ethics and Engagement Committee and was last updated in January 2021, with regular reviews undertaken as part of the Constitution as a whole. Training for Members was on the Code was provided in	

				2023. 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 Council's Code of Corporate Governance was comprehensively reviewed in July 2021 and is refreshed annually. The last review took place in February 2024. Subject to updated guidance being from CIPFA during 2024/25, a further, comprehensive review of the Code will be undertaken. There are effective arrangements for assurance, internal audit and internal accountability. Any areas of concern raised through those arrangements are managed robustly and transparently. The leadership team espouses high standards of governance and internal control and communicates these clearly to all staff. There is a culture of effective governance and robust internal control. Internal audit is used to bring focus to any areas of concern and to ensure that standards remain high. **ACTION REQUIRED: REVIEW OF CONTRACT PROCEDURE RULES – DECEMBER 2024 (PM)**	

D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).	22	The authority of aware of the provisions of the CIPFA Delivering Good Governance Framework. The authority has sought to apply the principles, behaviour and actions set out in the Framework to its own governance arrangements. The authority has in place a suitable code of governance.	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 Council's Code of Corporate Governance was comprehensively reviewed in July 2021 and is refreshed annually. The last review took place in February 2024. Subject to an updated Framework being published by CIPFA during 2024/25, a further, comprehensive review of the Code will be undertaken. The Framework recommends that a local code of governance is developed and reported against annually. The Council's Annual Governance Statement details how the Council has complied with its own Code of Corporate Governance over the preceding year and meets the statutory requirements with areas of concern reported and monitored. Internal Audit 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 December 2023. The next review will be undertaken in 2025. 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" has been undertaken. There is a good level of compliance overall and where improvements are required actions have been included within the QAIP which is monitored by the Audit Committee. **ACTION REQUIRED: NONE**	
E	The financial management style of the authority supports financial sustainability	22/23	Strong financial management is assessed against a hierarchy of 1. delivering accountability, 2. supporting performance 3. enabling transformation. Need to perform well at each level before moving to the next. This is broadly linked to economy, efficiency and effectiveness.	Achieving stage 1 of the hierarchy. The Council has an effective framework of financial accountability through: • Member delegations which include financial responsibilities; • Officer delegations which include financial responsibilities; • Financial Procedure Rules which set out financial responsibilities for Directors, Assistant Directors Budget Managers and all employees of the Council and all Members. Achieving stage 2 of the hierarchy. The Council has an effective performance management framework in place including, performance measures, volumetric measures, customer satisfaction, monitoring of key strategic projects, quarterly performance reporting, quarterly dashboard across all aspects of performance within the VFM chain. The Finance Team have implemented a Finance Business Partnering approach, although full role out has been delayed due to	

				staff capacity, but this is continuing through 2023/24. 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 fully acting as enablers. **ACTION REQUIRED: REVIEW OF FINANCE BUSINESS PARTNERING APPROACH – MARCH 2025 (FSM)**	
Long to Medium Term Financial Management					
F	The authority has carried out a credible and transparent financial resilience assessment	26	The authority has undertaken a financial resilience assessment. That assessment tested the resilience of the authority's financial plans to a broad range of alternative scenarios. The authority has taken appropriate action to address any risks identified as part of the assessment	The Council has reviewed the CIPFA Financial Resilience index and newly published Oflog financial metrics and assessed whether it is comfortable with the areas that the index/metrics flags as more concerning. This has been supported by an external consultant to provide further analysis and challenge. Reference is made to this in the MTFS, with application of the local context, and clear explanations for the Council's position in comparison to others is provided. The External Auditor's Annual Audit Report 2022/23 stated " there are no indications of a significant weakness in the Council's arrangements for financial sustainability brought forward from 2021/22. The Council's underlying arrangements in relation to financial sustainability are not significantly different in 2022/23.	

				There has not been an independent assessment of the local authority’s financial resilience other than the CIPFA index, Oflog metrics and the annual external audit. This will however be reviewed and options for an independent assessment will be considered, as part of or separate to the next Corporate Peer Review. 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. 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. **ACTION REQUIRED – CONSIDER OPTIONS FOR AN INDEPENDENT FINANCIAL RESILIENCE ASSESSMENT – DECEMBER 2025 (CFO)**	

G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	26	The authority has a sufficiently robust understanding of the risks to its financial sustainability. The authority has a strategic plan and long-term financial strategy that addresses adequately those risks. The authority reports effectively to the leadership team and to members its prospects for long-term financial sustainability, the associated risks and the impact of these for short- and medium-term decision making.	The Council produces a 5-year MTFS and a 30-year Housing Business Plan incorporating revenue and capital models using a range of assumptions for economic factors and service-related factors. The was fundamentally updated in November 2023 and consisted of a number of Member engagement exercises. 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, including full Member workshops and specific briefings to individual political groups as required. The MTFS also includes a risk assessment of the key financial risks the Council faces over the 5-year period. The risks modelled include the level of inflation, the council tax base, the business rates base, pay inflation, interest rates as well as service income, housing rents/voids, and a range of capital implications e.g. cost overruns. The pre-cursor report to the main MTFS sets out in more detail changes in key variables since the development of the previous Strategy and the impact of these on the budget and likely budget gap. Further, more, detailed reports are provided to the Corporate	

				Management Team as part of the budget development. The Council has a robust approach to risk management with Strategic and Directorate Risk Registers, with clear lines of escalation, supported by specific project and programme risk registers. The Council's Vision 2025 contains a range of projects and programmes, not all of which are financially resourced. The MTFS is very clear on this and specifically in relation to the larger scale capital investments emphasises the need to seek external partner contributions or grant support. The MTFS also highlights the finanail pressures and the influence of this on the forthcoming Vision 2030. In addition, the MTFS includes a specific earmarked reserve to support the roll out of some of the projects. **ACTION REQUIRED - NONE**	
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	26/27	The authority is aware of its obligations under the Prudential Code. The authority has prepared a suitable capital strategy. The authority has a set of prudential indicators in line with the Prudential Code.	The 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. An updated Prudential Code was published in December 2021 and applied with immediate effect, except that authorities may defer	

			The authority has suitable mechanisms for monitoring its performance against the prudential indicators that it has set.	introducing the revised reporting requirements until the 2023/24 financial year if they wish. The revised reporting requirements included 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 Council's Treasury Management Strategy and Capital Strategy for 2023/24 were prepared in accordance with the revised reporting requirements. These were then benchmarked during the year to ensure they demonstrated best practice, with further changes incorporated for the 2024/25 financial year. 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. The Council has assessed the implications of the 2021 and 2023 consultations 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. The Council also has a 30-year Housing Business Plan which includes a 30-year capital investment programme. This plan was fundamentally reviewed during 2023/24 and published in November 2023. Individual financial modelling of capital schemes covers a longer-term frame, typically over the asset life and is factored into investment decisions. There are effective mechanisms in place to monitor performance against the code, with quarterly 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. **ACTION REQUIRED - NONE**	
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans	27	The authority has in place an agreed medium term financial plan. The medium-term financial plan consistent with and integrated into relevant service plans and its capital strategy.	The 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	

			The medium-term financial plan has been prepared on the basis of a robust assessment of the relevant drivers of cost and demand. The medium-term financial plan has been tested for resilience against realistic potential variations in key drivers of cost and demand.	balanced budget, allowing for sufficient time to time to plan and deliver any required savings. The development of service budgets is Directorate led. Cost drivers and demand are considered within each directorate and used to form the basis of pressures identified and mitigations/savings put forward. The detail of the analysis of cost drivers is not contained specifically in the MTFS but forms part of the internal budget setting process, though reference is made to particularly large changes in the narrative and in the financial planning report seen as the pre-cursor to the main MTFS. The MTFS is the best assessment of each Directorate of what their demand pressures will be. Although the plan is set on a rolling 5-year basis, there is the opportunity annually to revisit plans where the latest data indicates that there have been material changes to assumptions, as demonstrated in recent years. The Council undertakes an annual service plan process at an Assistant Director level. These service plans are driven by to both the Council's Vision (Delivery Plans) and the MTFS in terms of the delivery of key projects but also into the MTFS in relation to specific savings programme required to be delivered. **ACTION REQUIRED - NONE**	

The Annual Budget					
J	The authority complies with its statutory obligations in respect of the budget setting process	29	The authority is aware of its statutory obligations in respect of the budget-setting process. The authority has set a balanced budget for the current year. The authority is likely to be able to set a balanced budget for the forthcoming year. The authority is aware of the circumstances under which it should issue a Section 114 notice and how it would go about doing so.	The Council understands its obligation in respect of the budget-setting process and has set a balanced budget for the current year, and the four following years. The Council's MTFS process is designed to deliver a full five- year balanced budget each year. The authority is aware of the circumstances under which it should issue a section 114 notice and how it would go about doing so. This includes updated guidance issued by CIPFA in light of COVID-19 and a 2023 briefing on Approaching the Section 25 Statement. The Chief Finance Officer has attended recent update sessions, provided by CIPFA in relation to S114 notices. **ACTION REQUIRED - NONE**	
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.	29/30	The authority's most recent budget report includes a statement by the CFO on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves. The report accurately identifies and considers the most significant estimates used to prepare the budget, the potential for these estimates to be incorrect and the impact should this be the case.	The most recent budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves. The Chief Finance Officer has taken into consideration the recent briefing from CIPFA on Approaching the Section 25 Statement. 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	

			The authority has sufficient reserves to ensure its financial sustainability for the foreseeable future. The report sets out the current level of the authority's reserves, whether these are sufficient to ensure the authority's ongoing financial sustainability and the action that the authority is taking to address any shortfall.	does not set out specific service assumption details and the impact of variations in those. The Council has assessed that it 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. The report sets out the current level of the authority's reserves, the sufficiency of them and the plans for the use of reserves in the future and a requirement to ensure reserves are replenished over the period of the MTFS through achievement of the savings programme. **ACTION REQUIRED - NONE**	
Stakeholder Engagement and Business Plans					
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget.	31	The authority knows who its key stakeholders are. The authority has sought to engage with key stakeholders in developing its long-term financial strategy, its medium term financial plan and its annual budget.	The Council is aware of who its key stakeholders are. The Council'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	

			The authority has assessed the effectiveness of this engagement. The authority has a plan to improvement its engagement with key stakeholders.	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. In addition, the most recent budget engagement exercise included a facilitated workshop with individual residents, who maybe under represented or ‘hard to reach’ along with representative agencies, charities or organisations supporting those with lived experience. This form of engagement will be further developed for the 2025/26 engagement exercise, along with the development of Vision 2030. 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. **ACTION REQUIRED – FURTHER DEVELOPMENT OF ENGAGEMENT APPROACH FOR BUDGET/STRATEGIC PLAN CONSULTATION – NOVEMBER 2024 (CFO/ADSDT)**	

M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	31/32	The authority has a documented option appraisal methodology that is consistent with the guidance set out in IFAC/PAIB publication 'Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal'. The authority offers guidance to officers as to when an option appraisal should be undertaken. The authority's approach to option appraisal includes appropriate techniques for the qualitative and quantitative assessment of options. The authority's approach to option appraisal includes suitable mechanisms to address risk and uncertainty. The authority reports the results of option appraisals in a clear, robust and informative manner that gives clear recommendations and outlines the risk associated with any preferred option(s).	The Council does not currently have a consistent process for undertaking and documenting option appraisals. These are undertaken on a case-by-case basis, influenced by the scale of investment and also the requirements of external funders, e.g. green book requirements. For all projects these covers as a minimum the 5-year MTFS period and for larger scale investment these are usually based on a whole life cycle basis. In considering a number of development projects the Council also undertakes a development appraisal from a commercial developer perspective to assess overall scheme viability, as well as financial modelling from a LA perspective, this is demonstrated in the approach to the delivery of Western Growth Corridor. Senior members of the Finance Team are involved in the preparation of all financial modelling with key input from the service area leading on delivery. Property Services and the Major Developments Team also play a key role in the development of scheme viability assessments and external support is also commissioned as required. The Council's project management framework is clear that that there are no major investments or service changes without developing a business case including an options appraisal and project initiation	

				documents. These are reviewed and managed through DMTs and project/ programme/ visions boards, and ultimately inform decision making reports to members. These contain both quantitative evaluation of costs and benefits and qualitative evaluation of fit to service objectives and outcomes for residents/service users. The project documentation includes an evaluation of risk and uncertainty and the extent that this can be mitigated for given options. Reports for decision set out the outcomes of these business case/option appraisals with clear recommendations and risk. Risks from agreed options are then managed through the corporate risk management approach. **ACTION REQUIRED – NONE**	
Monitoring Financial Performance					
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial	33	The authority provides the leadership team with an appropriate suite of reports that allow it to identify and to correct emerging risks to its budget strategy and financial sustainability. The reports cover both forward- and backward looking information in respect of financial and operational performance.	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.	

			There are mechanisms in place to report the performance of the authority's significant delivery partnerships. The reports are provided to the leadership team in a timely manner and in a suitable format. The leadership team is happy with the reports that it receives and with its ability to use these reports to take appropriate action	Quarterly reporting is also provided in respect of the Council's basket of key operational performance indicators. Reporting to officers is periodically 1-month after the quarter end with reporting to Members in the following two weeks, which creates a time lag. Financial information, forecasts are available on a more regular basis and accessible by budget managers, this would highlight significant variances earlier. Services will compile performance information on a more regular basis and where relevant highlight the impacts of these. There are mechanisms established to report the performance of the authority's significant delivery Partnerships. Annual assurance assessments for the Council's significant partners are now undertaken and reported to the Audit Committee. 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 the last two years and the significant number of budget variances due to external factors. **ACTION REQUIRED – NONE**	
O	The leadership team monitors the elements of its balance sheet that	33	The authority has identified the elements of its balance sheet that are most critical to its financial sustainability.	The Council has historically considered its reserves position, investments and borrowing, and debt levels as most critical and therefore	

	pose a significant risk to its financial sustainability.		The authority has put in place suitable mechanisms to monitor the risk associated with these critical elements of its balance sheet. The authority is taking action to mitigate the risk identified. The authority reports unplanned use of its reserves to the leadership team in a timely manner. The monitoring of balance sheet risks is integrated into the authority's management accounts reporting processes.	regular reporting is currently only made on these elements of the balance sheet. Forecast use/contribution of/to reserves is reported on a quarterly basis to the Corporate Management Team, Performance Scrutiny and the Executive. This highlights any changes to planned use/contribution to balances as well as movements in budgeted contributions to/from earmarked reserves. This then feeds into any MTFS refresh, along with intelligence about key risks. The quarterly financial report also provides details of usable capital resources, e.g. unapplied capital receipts, 1-4-1 receipts etc. Borrowing and investments are reported to Performance Scrutiny Committee and the Executive on a quarterly basis as part of the Treasury Management reporting. The level of arrears for Council Tax, Business Rates, Housing Benefit Overpayments and Former Tennant Arrears are reported to the Performance Scrutiny Committee on an annual basis. In addition, key service areas are provided with arrears information as part of account management meetings. Housing Rent arrears are reported to Performance Scrutiny and the Executive on a quarterly basis.	

				Collection Fund Surplus/Deficits are reported to Executive on an annual basis, further reporting of key collection fund areas will be incorporated in future quarterly financial performance reports. Other assets and liabilities are only included in the Annual Statement of Accounts report to Audit Committee, Executive and Full Council. Officers have reviewed other major balance sheet items and assessed that those items critical to it's financial sustainability are adequately reported. **ACTION REQUIRED – NONE**	
External Financial Reporting					
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom	35	The authority's leadership team is aware of the CFO's responsibilities in terms of the preparation of the annual financial statements. The authority's CFO is aware of their responsibilities in terms of the preparation of the annual financial statements. These responsibilities are included in the CFO's role description, personal objectives and other relevant performance management mechanisms.	The authority's leadership team and the CFO are aware of the CFO's responsibilities in terms of the preparation of the annual financial statements. These responsibilities form part of the CFO's role description and personal objectives. The authority's financial statements have been prepared on time and in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom, and have been consistently given an unqualified opinion by external auditors – the latest opinion being based on the 2022/23 Statement of Accounts.	

			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.	**ACTION REQUIRED - NONE**	
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions		The authority's leadership team is provided with a suitable suite of reports on the authority's financial outturn and on significant variations from budget. The information in these reports is presented effectively. These reports are focused on information that is of interest and relevance to the leadership team. The leadership team feels that the reports support it in making strategic financial decisions.	The 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. The report also sets out the impact of key variances on the MTFS/future years budgets and any mitigating action being taken. These reports focus on material issues, which require action or awareness from the leadership team and therefore are appropriately focused. The leadership team agreed that the reports support it in making strategic financial decisions. **ACTION REQUIRED – NONE**	

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AUDIT COMMITTEE **19 MARCH 2024**

SUBJECT:	**AUDIT COMMITTEE WORK PROGRAMME 2023/24**
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 2023/24.

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 2022 Edition, as providing an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee's role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective.

2.2 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'.

2.3 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.

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

3 2023/24 Work Programme

3.1 The proposed work programme for 2023/24 based on the Committee's Terms of Reference and cyclical reporting, is attached at Appendix B. Since last reporting to this Committee, the following change have been made to the work programme (as shown in red/italics in Appendix B):

- Counter Fraud Policy/Strategy – this has been deferred to the June Committee.

3.2 A copy of the Audit Committee's Terms of Reference is attached at Annex 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 2023/24 the following training is scheduled/has been provided:

- 6th June 2023 – Local Government Financial Statements - Provided
- 17th July 2023 – Audit Committee Effectiveness – Provided
- 16th August 2023 – Risk Management (All Members) - Provided
- 30th January 2024 – Treasury Management – Provided
- TBC – Counter Fraud Training (staff fraud training slides have been circulated)

5. Organisational Impacts

5.1 Finance (including whole life costs where applicable)

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

5.2 Legal Implications including Procurement Rules

There are no direct legal implications arising as a 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

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

6. Risk Implications

6.1 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.

7. Recommendation

7.1 Audit Committee are asked to comment on and agree the updated work programme for 2023/24.

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?	Two
List of Background Papers:	None
Lead Officer:	Amanda Stanislawski, Audit Manager Email: **amanda.stanislawski@lincoln.gov.uk**

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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.

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

Financial reporting

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

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

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

Accountability arrangements

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

9.4 Proceedings of the Audit Committee

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

9.5 Quorum

Audit Committee

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

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APPENDIX B

AUDIT COMMITTEE
AUDIT WORK PROGRAMME FOR 2023/24

Meeting dates	Audit Items – Revised Agenda	Training
6th June 2023	• Annual Internal Audit Report • Annual Fraud & Error Report • Information Governance Update • Annual Governance Statement (Draft) • External Audit – Progress Report • Audit Committee Work Programme	Local Government Financial Statements
17th July 2023	• Statement of Accounts (Draft) • Internal Audit Progress Report • Audit Recommendations Follow Up Report • Risk Management Annual Update • External Audit – Progress Report	Audit Committee Effectiveness
12th Sept 2023	*Cancelled due to room availability. Replaced with previously cancelled meeting on 25th September which was scheduled pending confirmation of the date for the completion of the unaudited Statement of Accounts.*	
25th Sept 2023	• External Audit – Annual Auditor's Report 2021/22 • Annual Complaints Report • Internal Audit Revised Audit Plan • Audit Committee Work Programme •	
8th Nov 2023	• Statement of Accounts 22/23 (including Annual Governance Statement) Final • External Audit – Audit Completion report (22/23)	

APPENDIX B

Meeting dates	Audit Items – Revised Agenda	Training
12th Dec 2023	• Internal Audit progress Report • Audit Recommendations Follow Up Report • Six Month Fraud & Error Report • Review of Effectiveness of Internal Audit • Review of Effectiveness of Audit Committee • Audit Committee Terms of Reference • Information Governance update • Audit Committee Work Programme	
30th Jan 24	• Treasury management Policy and Strategy • Anti Bribery Policy • Review of Effectiveness of Audit Committee • Appointment of Independent Member(s) • External audit – Annual Audit letter (22/23) • External audit - Annual Audit letter (21/22) • Audit Committee Work Programme	**Treasury Management**
19th Mar 24	• Internal Audit Progress Report • Audit Recommendations Follow Up Report • Internal Audit Strategy and Plan 24/25 • External Audit – Audit Strategy Memorandum 24/25 • Statement on Accounting Policies • IAS19 – Assumptions • External Audit Inquiries • Partnership Governance • CIPFA Financial Management Code • ~~Counter Fraud Policy/Strategy~~ • Audit Committee Work Programme	
Date to be agreed		**Counter Fraud Training**

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

Item No. 12

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

1. Purpose of Report

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

2. Recommendation

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

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