

## AUDIT COMMITTEE

**Tuesday, 25 March 2025**

**6.00 pm**

**Committee Room 1, City Hall**

Membership: Councillors Emily Wood (Chair), Calum Watt (Vice-Chair), Annie Currier, Thomas Dyer, Gary Hewson, Callum Roper and Clare Smalley

Substitute members: Councillors Pat Vaughan and Aiden Wells

Independent Members: Jane Nellist and Dave Carter

Officers attending: Democratic Services, Jaclyn Gibson, Zlati Kalchev, Laura Shipley and Amanda Stanislawski

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## A G E N D A

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| 1. Confirmation of Minutes - 4 February 2025  | <b>3 - 6</b>     |
| 2. Declarations of Interest   |                  |
| <p>Please note that, in accordance with the Members' Code of Conduct, when declaring interests members must disclose the existence and nature of the interest, and whether it is a disclosable pecuniary interest (DPI) or personal and/or pecuniary.</p> |                  |
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|-------------------------------|---|
| <b>Present:</b>               | Councillor Calum Watt ( <i>in the Chair</i> )   |
| <b>Councillors:</b>           | Thomas Dyer, Gary Hewson, Clare Smalley and Patrick Vaughan   |
| <b>Independent Members:</b>   | Jane Nellist and Dave Carter  |
| <b>Apologies for Absence:</b> | Councillor Emily Wood, Councillor Annie Currier, Councillor Callum Roper and Councillor Aiden Wells |

**45. Confirmation of Minutes - 10 December 2024**

RESOLVED that the minutes of the meeting held on 10 December 2024 be confirmed.

**46. Declarations of Interest**

No declarations of interest were received.

**47. Procurement Act 2023 & Contract Procedure Rules**

Carolyn Wheeler, City Solicitor and Heather Carmichael, Procurement Manager presented a report which sought comments from the Committee on the new Procurement Act 2023 and the subsequent revision of the Council's Contract Procedure Rules.

The new Act was due to come into force on 24 February 2025 and would only apply to new procurements commencing from that date. This meant that contracts let prior to that would continue under the previous legislation. It would also affect pre-contract and pre-market enquiries.

An aspect of the new legislation was to simplify the procurement process and increase transparency, however this had also made it more labour intensive. The requirement for public authorities to publish 14 notices on a dedicated Government-run platform had been introduced. The notices would set out the who, why, when and how of the procurement and contract, and each notice would apply to different stages within the process and continue throughout the contract period until expiry.

With the introduction of the Act, the Council had taken the opportunity to update the Contract Procedure Rules. These were also considered by the Committee along with the Procurement Flow Chart.

Officer training sessions on the new Act would be rolled out in due course for contract managers. Training for Members had already taken place.

The Committee discussed the report and procedure rules in detail and was provided with the following responses by Officers to questions:

- There would be no extra resources to support the administration of the new Act, however contract managers would be trained and expected to manage their own contracts with support from the Procurement Manager.

- Unauthorised sub-contracting was not considered to be a high risk when close relationships with contractors were maintained. Certain contracts contained collateral warranties to prevent sub-contracting without permission and, where relevant and required, it could be permitted with agreement by the Council.
- Following a recent piece of work, the raising of purchase orders across the Council had been increased to 76%. Officers felt this was a positive result as increasing it any further would not be practical.
- It would not be the responsibility of the Council's internal audit team to check compliance of the notices for each contract; that would fall to central government who would run the dedicated online platform.
- Suppliers local to Lincoln could not exclusively be considered for over-threshold contracts; the selection area was the Lincolnshire county boundary plus 20 miles. However, the Local Purchasing Policy would be used where possible, and the ability to add social value to a contract would not be impacted.
- Suppliers were required to register on the central government platform and in tandem with this, the Act provided a debarment function where a list of excluded suppliers was maintained which authorities had to check before making procurement decisions.
- The direct award of a contract to a particular supplier could be made to allow for continuation of service if, for example, the contractor became insolvent however, there were internal controls to support this.
- Officer workloads would be reviewed once the Act had come into force, and the number of over-threshold contracts would determine the size of workloads.
- It was unlikely that caselaw would appear any sooner than 12-18 months after the commencement of the Act.
- Under section 4 of the Contract Procedure Rules entitled Thresholds (Council set - below mandatory legal threshold), the wording for contracts worth less than £5,000 would be reviewed as it was felt the wording was unclear around recording of the contract within the Council's contract register.
- Deadlines for invitation to tender would be adhered to and submitted via the electronic portal. Mitigating circumstances for missing the deadline (such as an internet outage) would be reviewed on a case-by-case basis and Officers would be pragmatic about a genuine reason for delay. Consideration would be given to the wording in section 9.8 of the Contract Procedure Rules to assess whether these needed to be tweaked to reflect this, before being submitted to Executive.

Resolved that:

- the new Procurement Act 2023 and Contract Procedure Rules, and comments from the Audit Committee be noted.

- Officers be tasked to consider making the suggested amendments to the Procurement Act 2023 and Contract Procedure Rules, as appropriate.
- the Procurement Act 2023 and Contract Procedure Rules be recommended to Executive for approval.

#### 48. **Annual Governance Statement Monitoring**

Lara Wells, Business Manager - Corporate Policy and Improvement presented a report which provided an update on the progress made with an issue identified in the 2023/24 Annual Governance Statement. Six issues in total had been identified which needed attention, however none of them met the 'significant' threshold within the Statement, and only one required monitoring by the Audit Committee.

The issue for the Committee's attention was entitled *Complete a full review of the Lincoln Project Management Model (LPMM)* and was required to be completed by March 2025. It was reported that good progress had been made, and the issue was on track for a full completion by the end of March 2025. The revised documentation was being tested and would be launched following a final consultation.

Questions from the Committee confirmed the following:

- The LPMM review would capture the new procurement process.
- The issue relating to the internal audit of IT Asset Management was not being monitored as part of the AGS as it formed part of the Internal Audit recommendations follow up process.

RESOLVED that the Committee note the progress made with the Lincoln Project Management Model action identified in the Annual Governance Statement 2023/24.

#### 49. **Prudential Indicators 2024/25 to 2027/28 and Treasury Management Strategy 2025/26**

A report was presented by Laura Shipley, Financial Services Manager, which enabled the Committee to review and recommend to Executive and Council the approval and adoption of the:

- Treasury Management Strategy 2025/26
- Prudential Indicators
- Minimum Revenue Provision (MRP) Policy
- Treasury Management Practices (TMPs).

The report covered the operation of the Council's prudential indicators, its treasury function and its likely activities for the forthcoming year.

It was noted that the level of borrowing was currently below the capital financing requirement, this was in line with strategy to currently use cash balances rather than borrowing.

There was expected to be an increase in Minimum Revenue Provision during this financial year due to changes in IFRS16 (leasing).

RESOLVED that:

- the Treasury Management Strategy 2025/26, including the Prudential Indicators, be recommended to the Executive and Council for approval
- the Minimum Revenue Provision Policy 2025/26 be recommended to Executive and Council for approval
- the Treasury Management Practices be recommended to Executive and Council for approval.

**50. Internal Audit Progress Report**

Audit Manager, Amanda Stanislawski presented the Internal Audit Progress Report to the Committee which covered the progress made against the plan up to 10 January 2025, and a summary of audit work. It also incorporated the overall position reached so far and summarised the outcomes of audits completed during the period.

Questions from the Committee confirmed the following:

- The analysis of audit reviews appeared to have fallen behind schedule. The Audit Manager was conscious of this and additional resources had been put in place to assist. Some reviews were now nearing completion and finalisation of all reviews was expected in time for the Internal Audit Annual Audit Report in June 2025.
- Work on the changes to the Public Sector Internal Audit Standards (now the Global Internal Audit Standards) had proved to be more challenging than expected and this had taken time away from other tasks.
- Internal audit meetings were in the process of being set up, however scheduling could sometimes be challenging due to workloads and limited availability.

RESOLVED that the Audit Committee review and comment on the content of the latest Internal Audit Progress Report.

**51. Audit Committee Work Programme 2024/25**

The Committee considered its work programme for 2024/25 and the following was noted:

- an additional training session had been arranged for March on the new Global Internal Audit Standards and Audit Committee Effectiveness. This training would be online
- an item on the Internal Audit Charter would be added to the work programme for an upcoming meeting.

RESOLVED that Audit Committee agreed the updated work programme for 2024/25.

|                       |   |
|-----------------------|---|
| <b>SUBJECT:</b>       | <b>INTERNAL AUDIT RECOMMENDATIONS FOLLOW-UP</b> |
| <b>DIRECTORATE:</b>   | <b>CHIEF EXECUTIVE AND TOWN CLERK</b>           |
| <b>REPORT AUTHOR:</b> | <b>AMANDA STANISLAWSKI, AUDIT MANAGER</b>       |

## 1. Purpose of Report

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

## 2. Executive Summary

2.1 The report provides a summary of the outstanding actions and progress made on implementation. There is currently one High action and 40 Medium actions remaining to be implemented. There are one High and eleven Medium risk overdue actions, extensions have been requested for eleven of these and are waiting for approval. Nine of the overdue actions relate to audits undertaken within IT. 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 in December including the new actions agreed.

2.2 There are two reports where the actions have now all been implemented, Homelessness Reduction Act and Risk Management.

2.3 Following the completion of the External Audit of the Statement of Accounts a number of recommendations were made. These are also tracked within this report and to date 4 out of the 7 have been completed.

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

## 3. Organisational Impacts

### 3.1 Finance (including whole life costs where applicable)

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

### 3.2 Legal Implications including Procurement Rules

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

### 3.3 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.

#### 4. Recommendation

- 4.1 Audit Committee are asked to review and comment on the attached report, setting out any further explanations they require in respect of the overdue actions.

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

**Lead Officer:**

Amanda Stanislowski, Audit Manager  
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# Audit Agreed Action Implementation Report

**City of Lincoln Council**  
**March 2025**



## Process for following up Agreed Actions

Recommendations are made within Internal Audit reports to address the weaknesses identified during the audit. Management are requested to agree actions to address the weaknesses setting out the responsibilities and timeframe for completion. These actions may or may not be the same as the recommendations.

The Internal Audit Standards require that Internal Audit must confirm that management has implemented the agreed actions made within the Audit Reports. As part of this process Internal audit must follow an established methodology which includes:-

- Inquiring about progress on the implementation
- Performing follow-up assessments using a risk-based approach
- Updating the status of management's actions in a tracking system

Where management has not progressed with the implementation of the agreed actions Internal Audit must obtain an explanation from management and determine whether there remains an unacceptable level of risk.

To meet these requirements we have a process in place to review all actions every quarter and obtain management updates on those due. We also review a sample of completed actions to ensure that the actions have been implemented as expected. These are selected based on their level of priority and the assurance level of the report, concentrating mainly on those rated High risk or from Low or Limited reports.

All actions are currently recorded and tracked using a spreadsheet.

There is a protocol in place (See Appendix 1) which sets out the roles and responsibilities for all in the follow-up process.

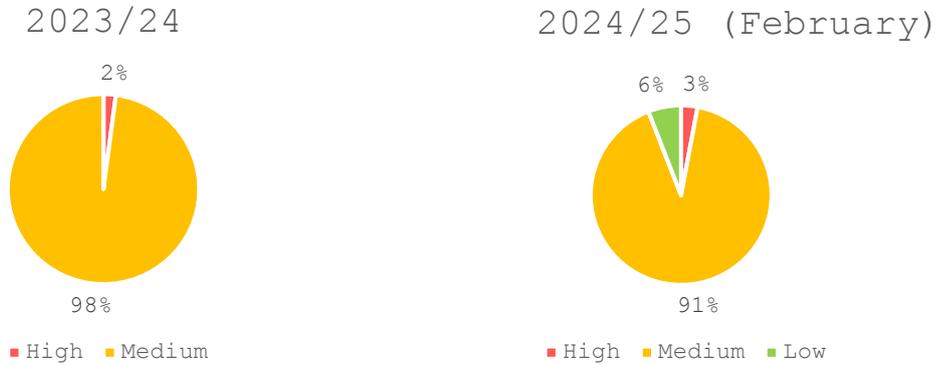
## The Purpose of the Report

In accordance with the Internal Audit Standards and the Protocol a status report is required to be presented to Management and Members setting out the progress made on implementing the agreed actions (corrective action) and any implications on the level of remaining risk.



# Summary of Agreed Actions

The following charts show the number of agreed actions within reports issued during 2023/24 and 2024/25 to date:

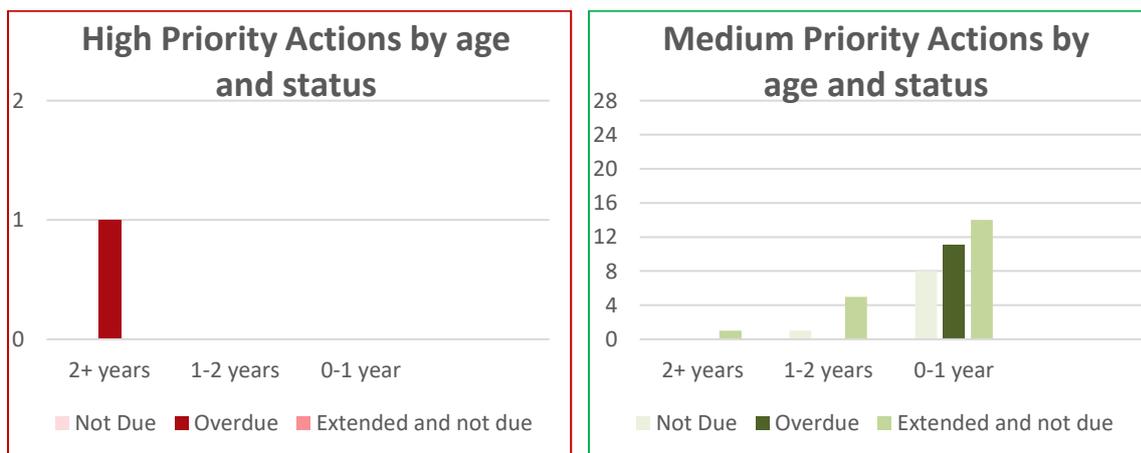


The current implementation rates for reports issued in the year are include below. The rates for 2024/25 will fluctuate up and down as reports are issued.

| 2023/24 | 2024/25 |
|---------|---------|
| 88%     | 47%     |

There has been no change for 2023/24 and an increase from 39% for 2024/25. There are 3 agreed actions from reports issued prior to 2023/24 which have not yet been implemented. One is overdue and two have been extended and are not yet due.

In total there are 45 actions remaining to be implemented in total. These are split in age according to when the reports were issued and current status as follows:-



There were four Low risk actions agreed, two are overdue and two are not yet due.

## Progress

A report on the outstanding actions was presented to the Committee in December 2024. The changes in the implementation of actions outstanding are detailed below.

There were two reports, Homelessness Reduction Act and Risk Management where all of the agreed actions have now been implemented.

Progress made on implementing the remaining actions is summarised below in report date order:-

| Audit                   | Report date | Assurance   | No. of Actions |           | Comp.     | Outstanding |           | Not yet due | Progress  |
|-------------------------|-------------|-------------|----------------|-----------|-----------|-------------|-----------|-------------|---|
|                         |             |             | H              | M         |           | Overdue     | Extended  |             |   |
| Office 365              | May 21      | Substantial | 0              | 6         | 5         | 0           | 1         | 0           |    |
| Performance Management  | Aug 22      | Limited     | 3              | 1         | 3         | 1 (H)       | 0         | 0           |    |
| IT Disaster Recovery    | May 23      | Substantial | 0              | 3         | 2         | 0           | 1         | 0           |   |
| Creditors               | Oct 23      | Substantial | 0              | 1         | 0         | 0           | 1         | 0           |  |
| Insurance               | Feb 24      | Substantial | 0              | 4         | 0         | 0           | 3         | 1           |  |
| IT Asset Management     | May 24      | Limited     | 0              | 11        | 2         | 4           | 3         | 2           |  |
| Contract Management     | May 24      | Limited     | 2              | 19        | 14        | 0           | 7 (M)     | 0           |  |
| Cyber Security          | Mar 24      | Substantial | 0              | 5         | 0         | 5           | 0         | 0           |  |
| VAT/Taxation            | Jul 24      | High        | 0              | 1         | 0         | 0           | 0         | 1           |  |
| Governance Health Check | Jul 24      | Substantial | 0              | 5         | 0         | 0           | 4         | 1           |  |
| Online Services         | Aug 24      | Substantial | 0              | 3         | 1         | 2           | 0         | 0           |  |
| Council Tax             | Nov-24      | Substantial | 0              | 6         | 5         | 0           | 0         | 1           | New   |
| Business Continuity     | Dec-24      | Substantial | 0              | 7         | 4         | 0           | 0         | 3           | New   |
| <b>Total</b>            |             |             | <b>5</b>       | <b>72</b> | <b>36</b> | <b>12</b>   | <b>20</b> | <b>9</b>    |   |

Full details of those not yet implemented are included in Appendix 2.



## External Audit Recommendations

External Audit made seven recommendations following their review of the 2023/24 Statement of Accounts. So far four of these have been completed. The details of these are provided in Appendix 3.

# Appendix 1 - 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.
- 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, updated June 2024 to remove reference to Pentana as no longer used)



## Appendix 2 – Details of Outstanding Recommendations

| Audit                  | Report Date | Priority | Agreed Action   | Current status                     | Original Due Date | Current Due Date | Resolution Comments   |
|------------------------|-------------|----------|---|------------------------------------|-------------------|------------------|---|
| Office 365             | May-21      | Medium   | 4.1 Feeds into overarching project plan before migration of files; provided resources available will enable DLP policies for Exchange Online and SharePoint Online content. Will set up and use SharePoint Online data classification policies on data stored in SharePoint Online sites. | Extended and not yet due 2+ years  | 31/03/2022        | 31/07/2025       | Feb 25 – information has been shared with service areas to review and manage the storage of information. This has been discussed and cascaded with Assistant Directors and Service Managers and progress continues to be made. Further communication and updates will be provided during quarter 4. |
| Performance Management | Aug-22      | High     | 1.1 Review the LPMF document, combine with Data Quality and reintroduce Control Sheets, defining roles and responsibilities at a high level, and linking to key documents. Will also focus on external reporting as noted.  | Overdue 2+ years                   | 31/03/2023        | 31/12/2024       | Feb 25 – Good progress has been made and all documentation, data quality checks and control sheets are completed. The revised documentation can now be updated to reference Vision 2030 and taken through for sign off. Extension requested for completion of sign off.                             |
| IT Disaster Recovery   | May-23      | Medium   | 3.1 Working with relevant external partners and colleagues across Council a proposal for a Desktop exercise for the Business Continuity Plan and IT Disaster Recovery will be developed.  | Extended and not yet due 1-2 years | 30/09/2023        | 30/09/2025       | Oct 24 - An exercise in 2024 on widescale power outage which covered elements of ITDR although not sole focus. IT/Cyber is in place for 2025. Extension agreed by Chief Executive.  |

| Audit     | Report Date | Priority | Agreed Action  | Current status                     | Original Due Date | Current Due Date | Resolution Comments  |
|-----------|-------------|----------|--|------------------------------------|-------------------|------------------|--|
| Creditors | Oct-23      | Medium   | 1.1 The Exchequer Officer will coordinate the completion of procedure notes for all key processes and activities as outlined herein.   | Extended and not yet due 1-2 years | 30/09/2024        | 31/03/2025       | Oct 24 - A revised deadline of 31/03/2025 was requested to take account of capacity issues within the team. Extension agreed by Chief Executive. |
| Insurance | Feb-24      | Medium   | 1.1 Agreed procedures and operational guidance relating to key Insurance processes and activities will be developed to include a service manual for Officers across the Council. The Insurance Team will also review the current licence with JCAD Lachs over the course of the year to take into account how any possible upgrades/version improvements can be planned to support the IT strategy.      | Extended and not yet due 1-2 years | 28/02/2025        | 30/07/2025       | Jan 25 - Extension agreed from 28/02 to 30/07. Extension agreed by Chief Executive.  |
| Insurance | Feb-24      | Medium   | 1.2 Although there is some information already on the Hub this will be built upon to make more accessible to all Council Officers  | Extended and not yet due 1-2 years | 28/02/2025        | 30/07/2025       | Jan 25 - Extension agreed from 28/02 to 30/07. Extension agreed by Chief Executive.  |
| Insurance | Feb-24      | Medium   | 2.1 The insurance system does have capability to do so through diary monitoring and reporting but until now the administrative support has not been available to do so consistently across all claims. This will be improved upon now the team is full established. The development plan for JCAD Lachs as mentioned in 1.1 will be reviewed to ensure this can be achieved across all claim guidelines. | Extended and not yet due 1-2 years | 28/02/2025        | 30/07/2025       | Jan 25 - Extension agreed from 28/02 to 30/07. Extension agreed by Chief Executive.  |



| Audit          | Report Date | Priority | Agreed Action  | Current status                     | Original Due Date | Current Due Date | Resolution Comments  |
|----------------|-------------|----------|--|------------------------------------|-------------------|------------------|--|
| Insurance      | Feb-24      | Medium   | 3.1 Agreed to develop mechanisms and attendance for regular reporting, at least quarterly, via Assistant Director Groups, Service Manager meetings, and/or DMT's, in agreement with Service Areas. | Extended and not yet due 1-2 years | 28/02/2025        | 30/07/2025       | Jan 25 - Extension agreed from 28/02 to 30/07. Extension agreed by Chief Executive.  |
| Cyber Security | May-24      | Medium   | 1.1 - Risk register to be updated  | Overdue 0-1 year                   | 31/12/2024        | 31/12/2024       | Feb 25 Penetration testing took place in quarter 3, the findings are being reviewed and the risk register updated with the latest findings. This is work in progress and this action can be completed once the final revised risk register is presented. Extension requested to June 2025 – Awaiting approval. |
| Cyber Security | May-24      | Medium   | 1.2 - Risks to be reported regularly to the appropriate group  | Overdue 0-1 year                   | 31/07/2024        | 31/12/2024       | Feb 25 - Assistant Director now receives invites to the IG Working Group and quarterly updates will be provided. Mechanism is in place, first update is expected by end quarter 4. Extension requested.  |
| Cyber Security | May-24      | Medium   | 2.1 Agreed – Process for managing non-compliant devices in Intune to be reviewed   | Overdue 0-1 year                   | 31/12/2024        | 31/12/2024       | Feb 25 – this is work in progress and an assessment of all current devices will be completed by end quarter 4. Extension requested.  |
| Cyber Security | May-24      | Medium   | 3.1 – Incident log to be updated and will be discussed at IG quarterly meetings.   | Overdue 0-1 year                   | 31/07/2024        | 31/12/2024       | Feb 25 - Assistant Director now receives invites to the IG Working Group and quarterly updates will be provided. Mechanism is in   |



| Audit               | Report Date | Priority | Agreed Action   | Current status                    | Original Due Date | Current Due Date | Resolution Comments   |
|---------------------|-------------|----------|---|-----------------------------------|-------------------|------------------|---|
|                     |             |          |   |                                   |                   |                  | place, first update is expected by end quarter 4. Extension requested.  |
| Cyber Security      | May-24      | Medium   | 3. 2 – Schedule to test incident response plan to be developed.   | Overdue 0-1 year                  | 31/12/2024        | 31/12/2024       | Feb 25 – extension requested to maximise the benefits of the test incorporating support available through the Cyber Assessment Framework.   |
| Contract Management | May-24      | Medium   | 1.1 Contract Procedure Rules are to be completely reviewed and redrafted to ensure that all recommendations within this audit are addressed; that best practice is incorporated where appropriate and that in line with the Procurement Act 2023 (due to come into force in October 2024) | Extended and not yet due 0-1 year | 31/12/2024        | 31/03/2025       | Jan 25 - Extended to 31/03/25 on the basis that the Procurement Act was pushed back from Oct 24 to Feb 25. The CPRs are written and are set to be approved by Exec/Council end of Feb/early March. Extension agreed to 31/03/25 by Chief Executive. |
| Contract Management | May-24      | Medium   | 2.1 Recommendation (clearer guidance on level/depth of contract management arrangements) is addressed as part of the review and redraft of CPR's and through ongoing contract manager training.   | Extended and not yet due 0-1 year | 31/12/2024        | 31/03/2025       | Jan 25 - Extended to 31/03/25 on the basis that the Procurement Act was pushed back from Oct 24 to Feb 25. The CPRs are written and are set to be approved by Exec/Council end of Feb/early March. Extension agreed to 31/03/25 by Chief Executive. |
| Contract Management | May-24      | Medium   | 3.1 Recommendation ( CPRs include responsibilities of the S151 Officer, Management Team and Senior Officers in respect of contract management) to be addressed as part of the review and redraft of CPR's.  | Extended and not yet due 0-1 year | 31/12/2024        | 31/03/2025       | Jan 25 - Extended to 31/03/25 on the basis that the Procurement Act was pushed back from Oct 24 to Feb 25. The CPRs are written and are set to be approved by Exec/Council end of Feb/early   |



| Audit               | Report Date | Priority | Agreed Action   | Current status                    | Original Due Date | Current Due Date | Resolution Comments   |
|---------------------|-------------|----------|---|-----------------------------------|-------------------|------------------|---|
|                     |             |          |   |                                   |                   |                  | March. Extension agreed to 31/03/25 by Chief Executive.   |
| Contract Management | May-24      | Medium   | 4.1 Recommendation (contracts are in place that clearly set out requirements in respect of contract management and performance) to be addressed as part of the review and redraft of CPR's. | Extended and not yet due 0-1 year | 31/12/2024        | 31/03/2025       | Jan 25 - Extended to 31/03/25 on the basis that the Procurement Act was pushed back from Oct 24 to Feb 25. The CPRs are written and are set to be approved by Exec/Council end of Feb/early March. Extension agreed to 31/03/25 by Chief Executive. |
| Contract Management | May-24      | Medium   | 5.1 Recommendation (CPRs include details of what should be recorded on the Contracts Register) to be addressed as part of the review and redraft of CPR's.                                  | Extended and not yet due 0-1 year | 31/12/2024        | 31/03/2025       | Jan 25 - Extended to 31/03/25 on the basis that the Procurement Act was pushed back from Oct 24 to Feb 25. The CPRs are written and are set to be approved by Exec/Council end of Feb/early March. Extension agreed to 31/03/25 by Chief Executive. |
| Contract Management | May-24      | Medium   | 8.2 Recommendation (All extensions are formally documented and Vos retained) to be addressed as part of the review and redraft of CPR's   | Extended and not yet due 0-1 year | 31/12/2024        | 31/03/2025       | Jan 25 - Extended to 31/03/25 on the basis that the Procurement Act was pushed back from Oct 24 to Feb 25. The CPRs are written and are set to be approved by Exec/Council end of Feb/early March. Extension agreed to 31/03/25 by Chief Executive. |



| Audit               | Report Date | Priority | Agreed Action  | Current status                    | Original Due Date | Current Due Date | Resolution Comments   |
|---------------------|-------------|----------|--|-----------------------------------|-------------------|------------------|---|
| Contract Management | May-24      | Medium   | 10.2 Agreed action (risk registers) to be reflected within the review and redraft of CPR's.  | Extended and not yet due 0-1 year | 31/12/2024        | 31/03/2025       | Jan 25 - Extended to 31/03/25 on the basis that the Procurement Act was pushed back from Oct 24 to Feb 25. The CPRs are written and are set to be approved by Exec/Council end of Feb/early March. Extension agreed to 31/03/25 by Chief Executive. |
| IT Asset Management | May-24      | Medium   | 2.1 a) Complete the review of all mobile devices, their current use and number of unsupported device.  | Overdue 0-1 year                  | 31/05/2024        | 31/12/2024       | Feb 25 – Some progress has been made with this alongside reviewing the new mobile phone contract. Final review of devices expected to be complete by end quarter 4. Extension requested   |
| IT Asset Management | May-24      | Medium   | 2.1 b) Develop a programme for replacement with patchable devices where needed subject to budget being available. Additional investment will be needed and a clear assessment of use and need will be completed. | Overdue 0-1 year                  | 31/12/2024        | 31/12/2024       | Feb 25 – a full review of devices and future options has taken place. This is a large scale piece of work that has interdependencies with software used and devices. A proposal for some new hardware has been prepared. Extension requested.       |
| IT Asset Management | May-24      | Medium   | 2.2 a) Develop a mechanism for annually monitoring all new devices and include this in the ICT Strategy  | Not due 0-1 year                  | 31/03/2025        | 31/03/2025       | Not due   |
| IT Asset Management | May-24      | Medium   | 2.2 b) Undertake an interim action of asset review across all services   | Overdue 0-1 year                  | 31/07/2024        | 31/12/2024       | Feb 25 - Some progress has been made with this and is being finalised. Expected completion by end quarter 4 in line with related actions and replacement  |



| Audit               | Report Date | Priority | Agreed Action  | Current status                | Original Due Date | Current Due Date | Resolution Comments  |
|---------------------|-------------|----------|--|-------------------------------|-------------------|------------------|--|
|                     |             |          |  |                               |                   |                  | hardware will support resolution of this action. Extension requested.  |
| IT Asset Management | May-24      | Medium   | 3.1 A final roadmap for decommissioning all unsupported SQL Server databases to be developed and agreed.   | Not due 0-1 year              | 31/12/2025        | 31/12/2025       | Not due.   |
| IT Asset Management | May-24      | Medium   | 4.1 The Asset Management Policy content within the IT Security Standard will be considered again at the next scheduled review of the document (scheduled for March 2024) and amended as/where necessary to ensure it reflects current practices.                                 | Extended and not due 0-1 year | 30/09/2024        | 31/03/2025       | Oct 24 - Extension requested to 31.03.25 for final review of policy to link with possible connections with digital exclusion action plan and benchmarking with neighbouring authorities policies. Extension approved by Chief Executive. |
| IT Asset Management | May-24      | Medium   | 4.2 For asset verification, processes will be reviewed to determine what improvements can be made. This will include reviewing information can be extracted from the Lansweeper system and additional asset verification checks that could be undertaken during a support visit. | Extended and not due 0-1 year | 30/09/2024        | 31/03/2025       | Oct 24 - Extension requested to 31.03.25 for final review of policy to link with possible connections with digital exclusion action plan and benchmarking with neighbouring authorities policies. Extension approved by Chief Executive. |
| IT Asset Management | May-24      | Medium   | 5.1 An annual IT asset verification process will be developed. This links with actions 2.1 and 2.2.  | Overdue 0-1 year              | 31/12/2024        | 31/12/2024       | Feb 25 – progress being made, new hardware will assist with completing this action, linked to actions above. Extension requested.  |
| IT Asset Management | May-24      | Medium   | 6.1 Review options for formal contract for the secure disposal of redundant IT hardware.   | Extended and not due 0-1 year | 31/07/2024        | 31/03/2025       | Oct 24 - This has been delayed slightly as in partnership with other organisations in Lincolnshire, we are reviewing   |

| Audit                   | Report Date | Priority | Agreed Action   | Current status                    | Original Due Date | Current Due Date | Resolution Comments   |
|-------------------------|-------------|----------|---|-----------------------------------|-------------------|------------------|---|
|                         |             |          |   |                                   |                   |                  | digital exclusion support. Through the Good Things Foundation there are opportunities to safely, and in a compliant way, re-use redundant IT hardware - having a benefit for both residents who are digitally excluded and on the environment and climate ambitions. Extension approved by Chief Executive. |
| VAT / Taxation          | Jul-24      | Medium   | Procedures and operational guidance notes to be updated and shared with relevant members of the Financial Services team.<br>VAT guidance for budget holders to be included in refresh of budget holder manual and training planned for 2024/25. | Not due 0-1 year                  | 31/05/2025        | 31/05/2025       | Not due   |
| Governance Health Check | Jul - 24    | Medium   | 1.1 Develop a new internal and external Communications Strategy for the Council in line with the Vision 2030 preparations.  | Not due 0-1 year                  | 30/04/2025        | 30/04/2025       | Oct 24 - Good progress made and is on track for completion by deadline.   |
| Governance Health Check | Jul - 24    | Medium   | 2.1 Agree to have in place annual meetings for Ethics & Engagement Committee, of which member training is a standing item – so that this committee takes some ownership of the training that members are attending/or should be attending.      | Extended and not yet due 0-1 year | 31/10/2024        | 31/07/2025       | Jan 25 - The E&E Committee has currently been postponed until March. The report will go to this Committee. Extension approved by Chief Executive.   |

| Audit                     | Report Date | Priority | Agreed Action  | Current status                    | Original Due Date | Current Due Date | Resolution Comments   |
|---------------------------|-------------|----------|--|-----------------------------------|-------------------|------------------|---|
| Governance Health Check   | Jul - 24    | Medium   | 3.1 To compile and continually monitor and review a central record of training provided to each member (and linked to the above), for Ethics & Engagement Committee to assume this monitoring role.  | Extended and not yet due 0-1 year | 31/10/2024        | 31/07/2025       | Jan 25 - The E&E Committee has currently been postponed until March. The report will go to this Committee. Extension approved by Chief Executive.   |
| Governance Health Check   | Jul - 24    | Medium   | 4.1 To undertake the scrutiny self assessment toolkit as provided by CIPFA, to assess whether the scrutiny function is fit for purpose and whether any improvements can be made.   | Extended and not yet due 0-1 year | 31/10/2024        | 31/07/2025       | Jan 25 - The self assessment will be completed by each scrutiny committee as part of the annual report work looking back over the previous municipal year. Extension approved by Chief Executive. |
| Governance Health Check   | Jul - 24    | Medium   | 4.2 To update the constitution as above, to update the position with regards Select Scrutiny Committee and reports to Council.   | Extended and not yet due 0-1 year | 31/10/2024        | 31/07/2025       | Jan 25 - A report is expected to be presented to Council in July 2025 with relevant amendments. Extension approved by Chief Executive.  |
| Online Services (Digital) | Aug- 24     | Medium   | 1.1 Accepted. Penetrative testing is being arranged, and we are expecting this to be completed by the end of September 2024. The testing will be done by a third party across all relevant areas that require it.  | Overdue 0-1 year                  | 30/09/2024        | 31/12/2024       | Feb 25- Penetration Tests took place in quarter 3 across a number of areas. Findings are currently being reviewed and will be finalised by end of quarter 4. Extension requested.                 |
| Online Services (Digital) | Aug- 24     | Medium   | 2.1 Accepted. As LCC host our corporate website as a 'galaxy' site on their web infrastructure, I am in contact with LCC to clarify their DR arrangements. It is my understanding that these are in place, however LCC procured the contract off a framework and I know DR is an optional extra on | Overdue 0-1 year                  | 30/12/2024        | 30/12/2024       | Feb 25 – Requests for clarification on third party DR arrangements have been made. Update will be shared as soon as this is available.  |

| Audit               | Report Date | Priority | Agreed Action   | Current status   | Original Due Date | Current Due Date | Resolution Comments |
|---------------------|-------------|----------|---|------------------|-------------------|------------------|---------------------|
|                     |             |          | that CCS contract type. I'm currently awaiting confirmation from them that this is in place and will forward additional information to Audit as it becomes available.         |                  |                   |                  |                     |
| Council Tax         | Nov-24      | Medium   | 5b. The report showing accounts under review will be divided up for the Recovery Team to review and update accordingly. Due to the high volume this will be a rolling review. | Not due 0-1 year | 30/04/2025        | 30/04/2025       | Not due.            |
| Business Continuity | Dec-24      | Medium   | 1.1. As BCP's are refreshed the location of copies held will be reviewed and updated as appropriate.  | Not due 0-1 year | 30/04/2025        | 30/04/2025       | Not due.            |
| Business Continuity | Dec-24      | Medium   | 3. To incorporate BCRA, BIA and Combined Assessments review dates into Tracker Spreadsheet (this will be done as part of Year One of new Operational Framework)               | Not due 0-1 year | 31/12/2025        | 31/12/2025       | Not due.            |
| Business Continuity | Dec-24      | Medium   | 6. Extra-ordinary (outside of Operational Framework) training session for Service Managers/Assistant Directors to be provided.  | Not due 0-1 year | 31/12/2025        | 31/12/2025       | Not due.            |



## Appendix 3 – External Audit Recommendations

| Recommendation   | Management Response  | Status      | Update  |
|--|--|-------------|---|
| 1. Related Party Transactions                                  | Management will review the Declaration of Interest form and process to ensure its fit for purpose ahead of the 2024/25 Statement of Account process.   | In Progress | The process is yet to be either reviewed or undertaken for 2024/25.   |
| 2. Journals  | Management are satisfied that journal entry is limited to only appropriately qualified and/or experienced officers largely mitigating the risk of incorrect journal postings.  | Complete    | No further action required.   |
| 3. Preparation of staff disclosures                            | Management will ensure a full review of disclosures within the draft accounts are built into the year-end timetable and completed ahead of audit commencement moving forward.  | Complete    | Reviewing officers have been allocated for all core statements, notes and disclosures as part of the closedown timetable for 2024/25. The timetable will be frequently reviewed to ensure all actions are completed by appropriate officers in a timely manner. |
| 4. Review of Bank reconciliations                              | Management will ensure monthly bank reconciliations are performed and reviewed prior to the end of the next period i.e. within the following month.  | Complete    | Bank reconciliations are currently complete and reviewed up to January 2025.  |
| 5. Housing Repairs Service (HRS) – authorisation of timesheets | Management will ensure timesheets are checked and approved in a timely manner with no timesheet being submitted to payroll until authorised by a team leader.  | Complete    | Management has implemented checks to ensure any timesheets unsigned are returned to Team Leaders for sign off prior to processing.  |
| 6. Fixed Asset Register  | Management believe that whilst system based alternatives are available the spreadsheet currently used, whilst complicated, is fit for purpose. Staff turnover and vacancies over the years had unfortunately led to a lack of understanding around the spreadsheet and an inconsistent treatment of items within it. The Finance Team is now fully established and has started a review of the Fixed Asset Register spreadsheet highlighting issues that were corrected in year. The register will be part of an | In Progress | This is an ongoing process with no major changes made to fixed asset register for 2024/25.  |

| Recommendation               | Management Response  | Status      | Update  |
|------------------------------|--|-------------|---|
|                              | ongoing review striving for improved practices and efficiencies in a both complicated and material area of the statements.         |             |   |
| 7. Impairment review process | Moving forward a documented review process for all assets will be undertaken ensuring all assets are held at an appropriate value. | In Progress | An existence and impairment review process is currently underway as part of the 2024/25 closedown process in conjunction with asset owners. |

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|                       |   |
|-----------------------|---|
| <b>SUBJECT:</b>       | <b>INTERNAL AUDIT STRATEGY AND PLAN 2025/26</b> |
| <b>DIRECTORATE:</b>   | <b>CHIEF EXECUTIVE AND TOWN CLERK</b>           |
| <b>REPORT AUTHOR:</b> | <b>AMANDA STANISLAWSKI, AUDIT MANAGER</b>       |

## **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. This report provides the Audit Committee with the Audit Charter, Strategy and Plan for 2025/26 for comment and approval.

## **2. Background**

- 2.1 The new Public Sector Internal Audit Standards (Standards) become effective from April 2025. As part of these a number of changes have been made to the documentation required to be presented and formally reviewed by the Audit Committee with a greater emphasis on consultation and engagement.
- 2.2 The first of these documents are those which support the planning process and the plan for 2025/26. As these are all linked they are being presented together.

## **3. Audit Charter**

- 3.1 There was previously an Audit Charter in place which was periodically reported to both Senior Management and the Audit Committee. The standards require that this is more formally discussed to ensure that it represents the views of management and members. The Charter has been discussed and agreed with management and is now being presented to the Audit Committee.
- 3.2 The Charter has been revised to take into account the additional requirements of the standards and a revised copy is attached as Appendix A, with the revisions highlighted in yellow. The standards require that this document is periodically reviewed but it does not state the frequency of such a review, so it has been suggested that this document is reviewed bi-annually.

## **4. Audit Strategy**

- 4.1 The standards require that there is a strategy in place which sets the vision and objectives of the Internal Audit Service. Whilst there was previously a strategy in place which was presented as part of the audit plan document, this has been fully revised to incorporate the new requirements and is now presented as a separate document in Appendix B.
- 4.2 The service has been presented with a number of challenges over the last few years with the loss of long standing members of staff and the dissolution of the partnership arrangement with Assurance Lincolnshire. This, alongside the new standards, has provided the opportunity to review the work undertaken by the service and consider

different ways of improving coverage and insight into the Council's operations. The strategy sets out the issues faced and the proposed changes to the work undertaken by the service.

#### 4.3 The changes include:-

- Discontinuing the Key Control audits and replacing them with Health Checks, which are a self-assessment and evidence-based review followed up by further work if weaknesses are identified.
- Introducing spot check audits which are short audits covering certain specific processes either within services or Council wide. These will be used to check risk mitigations are in place, the assurance processes detailed as part of the assurance mapping exercise are in place and also to provide an insight into areas which are unlikely to be included on the plan due to their perceived low risk and high assurance.

### 5.0 Audit Plan

#### 5.1 The 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 including reports from Mazars
- reference to the cyclical and ICT schedules

5.2 The audit plan, attached as Appendix C, 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 increasing the number of audit days from 310 to 340, due to the dissolution of the partnership arrangement with Assurance Lincolnshire. There remains a significant proportion of time for training which includes the professional training of the Auditor and also the additional time required for them to complete the audits.

5.3 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.

5.4 Appendix A of the draft audit plan 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.

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

5.6 The Team currently comprises of a full-time Manager, Principal and Trainee Auditor and is supported by specialist IT audit contractors. The resources available are

sufficient and compare adequately with others. We use contractors as required to fill any gaps.

## **6. Organisational Impacts**

### **6.1 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.

### **6.2 Legal Implications including Procurement Rules**

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

### **6.3 Equality, Diversity and Human Rights**

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

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

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

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

## **7. Recommendations**

7.1 Audit Committee are asked to review the Charter and the Strategy and confirm that they include the Committee's expectations of the Internal Audit Service and agree the revised approach.

7.2 Audit 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?**

Three

**List of Background Papers:**

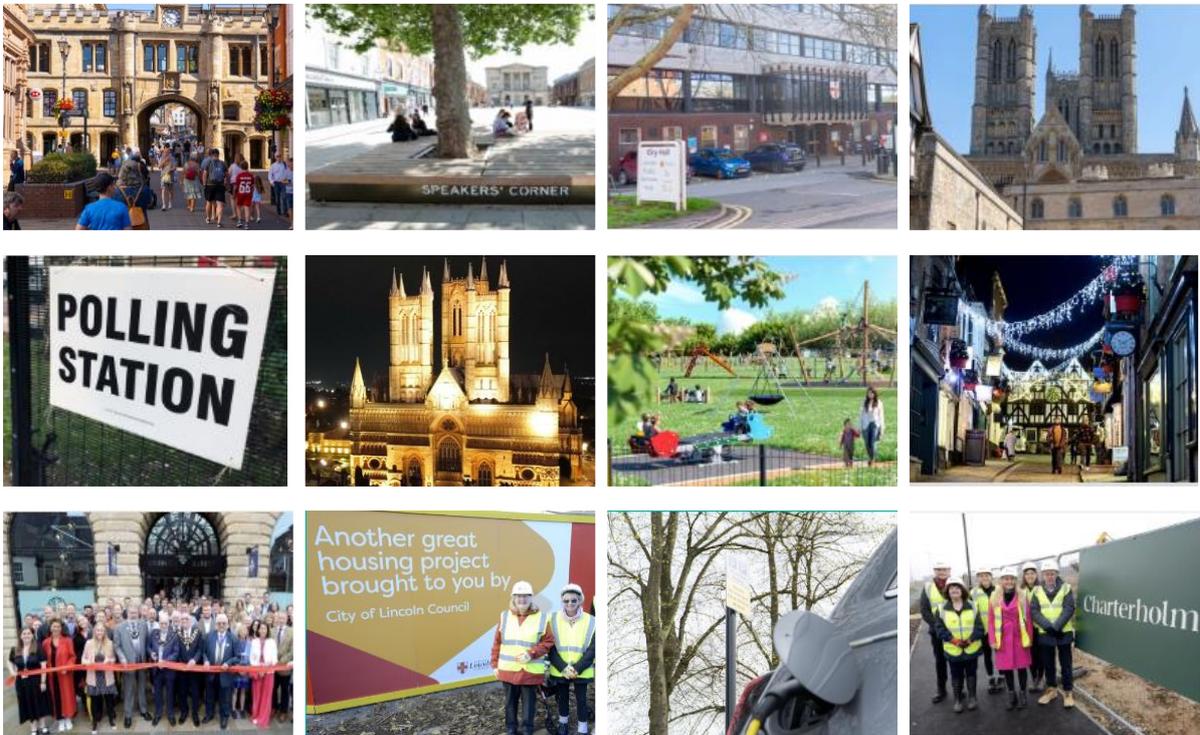
None

**Lead Officer:**

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# Internal Audit Charter 2025/26



## Mission Statement

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.



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|                         |  |
|-------------------------|--|
| Organisation            | City of Lincoln Council                |
| Title                   | Internal Audit Charter                 |
| Author - name and title | John Scott Audit Manager               |
| Owner - name and title  | Amanda Stanislawski Audit Manager      |
| Date                    | May 2022                               |
| Filename                |  |
| Version                 | V.05                                   |
| Approved                | CMT 04/03/25 /Audit Committee ??/??/?? |
| Next review date        | March 2027                             |

| Revision | Originator of change | Date of change | Change description  |
|----------|----------------------|----------------|---|
| V0.2     | Audit Manager        | February 2021  | Reviewed - no changes   |
| V0.3     | Audit Manager        | May 2022       | Change of ownership<br><br>Added in S151 requirement under Authority<br><br>Added in fraud paragraph under scope.   |
| V0.3     | Audit Manager        | February 2023  | Review - No change  |
| V0.4     | Audit Manager        | February 2024  | Review – Minor change to reflect the revised approval process as previously agreed by the Audit Committee – final page.   |
| V0.5     | Audit Manager        | February 2025  | Reformatted into new style and made amendments to comply with the new Standards including referencing standard, updating the references to the standards, rewording the sections on the purpose, strategy, quality and performance and approval, and other minor wording changes. |



# Statutory Requirements and Purpose

(Standard Principle 6)

There is a statutory requirement for the Council to have an internal audit of its governance, risk and control processes. The Accounts and Audit Regulations 2015, more specifically require that the audit takes into account the Public Sector Internal Audit Standards (The Standards) or guidance which are mandatory. The Public Sector Standards comprise of the Global Internal Audit Standards 2024 and the Chartered Institute of Public Finance (CIPFA) Public Sector Application Note.

The purpose of the internal audit function is to strengthen the Council's ability to create, protect, and sustain value by providing Members and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances the Council's:-

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Internal Audit also provides the Audit Committee with information necessary for it to fulfil its own responsibilities and duties.

Implicit in Internal Audit's role is that it supports the organisation's management to fulfil its own risk, control and compliance responsibilities

This Charter formally defines Internal Audit's purpose, authority and responsibility. It establishes Internal Audit's position within the Council and defines the scope of Internal Audit activities. The Global Internal Standards 2024 (Standards 6.1 and 6.2) require that the Council has a Mandate and Charter in place.

## Authority

(Standard Principle 6)

Internal Audit derives its authority from the Accounts and Audit Regulations 2015, the standards, this Charter and from the Council's Constitution, specifically the Financial Procedure Rules

The Council's Section 151 Officer is required to ensure that the Internal Audit function is appropriately resourced and effective.



The Head of Internal Audit (Audit Manager) is the “Chief Audit Executive”. The HIA and internal audit staff are authorised to:

- Have unrestricted access to all the organisation’s records, property, and personnel, management and elected members relevant to the performance of its engagements. Including those relevant to services provided in partnership or under contract with external organisations.
- Receive information and explanations that are sought in the course of audit work
- Obtain the necessary assistance of the organisation’s personnel in relevant engagements, as well as other specialised services from within or outside the organisation.

Internal Audit has no authority or management responsibility for any of its engagement subjects.

Internal Audit (and its auditors) will not make any management decisions or engage in any activity which could reasonably be construed to compromise its independence. Auditors are free from operational system involvement or influence.

## Accountability

(Standard Principle 6)

To provide for Internal Audit’s independence, the Head of Internal Audit reports directly to the Audit Committee (The Board) and the Corporate Management (Senior Management) Team and the Chief Executive.

Internal Audit also supports the Chief Finance Officer, Monitoring Officer and the Head of Paid Service discharge statutory responsibilities including those responsibilities set out in the Constitution.

The Head of Internal Audit has free and full access to the Chair of the Audit Committee.

The Head of Internal Audit reports administratively to the Section 151 Officer (CFO) who provides day-to-day oversight. **The Head of Internal Audit is responsible for all aspects of Internal Audit activity, including strategy, planning, performance, quality and reporting.**

The Chief Finance Officer reports directly to the Chief Executive as Head of Paid Service

The appointment or removal of the Head of Internal Audit will be performed in accordance with established procedures.

**The Audit Manager will ensure that the Internal Audit service has an impartial, unbiased attitude and avoids conflicts of interest. They will also ensure that the**



service conforms with the ethical principles as laid out within the standards and the Council's Code of Conduct and will report any behaviour within the Council which is inconsistent with the Code.

If the independence or objectivity of the Internal Audit Service is impaired, details of the impairment will be disclosed to either the Section 151 Officer, or the Chair of the Audit Committee, or both dependent upon the nature of the impairment.

The Internal Audit Service is not authorised to perform any operational duties for the organisation; initiate or approve accounting transactions external to the Internal Audit Service; or direct the activities of any organisation employee not employed by the Internal Audit Service, except to the extent such employees have been appropriately assigned to Service or to otherwise assist the Internal Auditor.

Constructive working relationships make it more likely that internal audit work will be accepted and acted upon – although the internal auditor does not allow their objectivity or impartiality to be impaired.

## Scope

(Standard Principle 6)

The scope of Internal Audit activities includes all activities conducted by the organisation - the entire control environment including those services provided in partnership or under contract with external organisations. There are no restrictions.

The Internal Audit Plan identifies those activities that have been identified as the subject of specific Internal Audit engagements – helping to support the HIA opinion on governance, risk and control.

**Assurance engagements** involve the objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system or other subject matter. The nature and scope of the assurance engagement are **determined by Internal Audit**.

**Consulting engagements** are advisory in nature and are generally performed at the **specific request of management**. The nature and scope of consulting engagement are subject to **agreement with management** and should assist management in meeting the objectives of the organisation without undermining the key principles of independence and objectivity. Internal Audit should not assume management responsibility.

Internal audit does not have responsibility for the prevention or detection of fraud and corruption. Internal Auditors should, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that a fraud or corruption may have been occurring. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be



detected. Managing the risk of fraud and corruption is the responsibility of management

The HIA will assist with the implementation of the Council's counter fraud policy/strategy and the investigation of fraud and irregularities in line with policy/strategy and the constitution. The HIA must be notified of all suspected or detected fraud, corruption or impropriety

Consultancy engagements should only be performed where resources and skills exist and should focus on governance, risk and control – supporting the HIA annual opinion. They should not replace assurance engagements.

The HIA cannot give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control within their area of accountability. They should ensure that appropriate and adequate risk management, control systems, accounting records, financial processes and governance arrangements exist (the control environment), without depending on internal audit activity to identify weaknesses or control failures.

## Audit Committee (Board)

(Standard Principle 6)

The Audit Committee is a key component of the Council's governance framework providing an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. It provides independent assurance to the Council members of the adequacy of the risk management framework, the internal control environment and the integrity of 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.

For the purposes of the **Standards** the Audit Committee performs the role of the 'Board'. The Audit Committee complies with CIPFA best practice standards through their **separate** terms of reference and work programme.

The Audit Committee will:

- **Discuss, review and** approve the internal audit charter.
- Approve the risk-based internal audit plan.
- Receive reports from the head of internal audit on internal audit activity's performance relative to its plan and other matters.

# Strategy

(Standard Principle 9)

The HIA will develop and maintain an Internal Audit Strategy in accordance with the standards. This will be reviewed at least bi-annually with management and the Audit Committee.

# Planning

(Standard Principle 9)

The audit planning process will include the following:-

- Develop and maintain a risk based Internal Audit Plan
- Engage with Management and consider the organisation's strategic and operational objectives and related risks in the development of the Internal Audit Plan.
- Review the Internal Audit Plan periodically with management to reflect changes in the risk environment and these changes are approved when significant.
- Present the Internal Audit Plan, including updates, to the Audit Committee for periodic review and approval.
- Agree an Internal Audit Budget sufficient to fulfil the requirements of this Charter, the Internal Audit Strategy, and the Internal Audit Plan.
- The Internal Audit budget is reported to the Executive and Full Council for approval annually as part of the overall Council's budget. The Audit Manager will draw to the attention of the Chief Executive, Section 151 officer and the Audit Committee any resourcing issues that potentially impact on the effectiveness of the Internal Audit function.
- Coordinate with and (where relevant) provide oversight of other control, monitoring and assurance functions, including Risk Management, External Audit.
- Consider the scope of work of the external auditors (and other assurance providers) for the purpose of providing optimal audit coverage to the organisation.

In developing the Internal Audit Plan the Council's assurance framework is also taken into account – using the Three Lines of Assurance (see next page) which is obtained through our Combined Assurance work.

Management are also required to consult with the HIA about significant proposed changes to the internal control systems and the implementation of new systems. This will enable advice to be provided on the standards of controls to be applied and also allow for consideration of changes to the plan to accommodate a more thorough review of the changes.

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



## Reporting

(Standard Principles 11, 13 and 15)

Following the completion of the audit (engagement) fieldwork a draft report will be issued to the auditees and the process and timetable for the completion of agreed management actions will be confirmed. Where the report is of Limited or Low Assurance this will also be presented to the Corporate Management Team.

The HIA will also provide the following reports for the Audit Committee and the Corporate Management Team:-

- Periodic reports summarising Internal Audit activities and the results of Internal Audit Engagements.
- Periodic reports on the status of agreed management actions taken in response to Internal Audit Engagements.
- Annual report on the Internal Audit performance against goals and objectives including an annual assurance opinion on governance, risk and control. This will also help inform the Council's Annual Governance statement.
- Report as needed on management, resource, or budgetary impediments to the fulfilment of this Charter, the Internal Audit Strategy, or the Internal Audit Plan.
- Inform of emerging trends and practices in internal auditing.
- Provide results of the annual review on the effectiveness of internal audit (including outcomes of its Quality Assurance and Improvement programme).



This will include a statement on organisational independence of Internal Audit and conformance with the Code of Ethics. Any significant non-conformance must be included in the Annual Governance Statement.

- Report as necessary any significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee or Senior management.

## Quality and Performance

(Standard Principles 8 and 12)

Internal Audit will perform its work in accordance with the Standards, Code of Ethics and the Council Code of Conduct.

A Quality Assurance Framework will be established to set out the system for monitoring and evaluating conformance with the standards and meeting the expectations of Senior Management and the Audit Committee.

An annual internal assessment of the service and its compliance with the Standards will be completed and an external assessment completed at least every five years by a suitably qualified, independent assessor.

Regular feedback on the quality and impact of our work (added value) will be obtained.

Internal auditing procedures will be maintained incorporating best practice approaches and techniques.

The delivery of the Internal Audit Plan will be monitored using appropriate performance indicators.

Resources will be maintained which include sufficient knowledge, skills and experience to meet the requirements of this Charter, the Strategy and the Internal Audit Plan. These resources will be allocated appropriately to the audits (engagements) to ensure that the objectives are met.

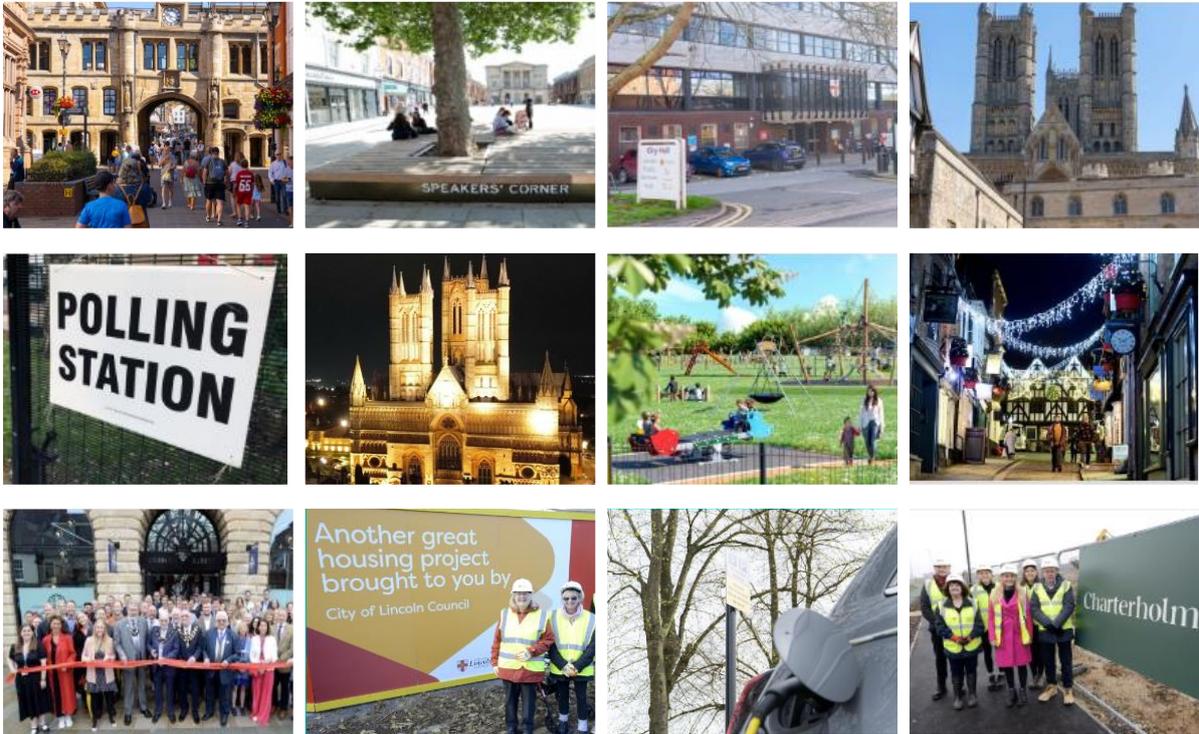
Regular meetings will be held with Senior management to discuss resources, quality and performance.

## Approval and Validity of the Charter

This Charter will be discussed at least bi-annually with Senior Management and the Audit Committee. The final version will be approved by Corporate Management and the Audit Committee.



# Internal Audit Strategy 2025/26



**Mission Statement**  
To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.



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|                         |  |
|-------------------------|--|
| Organisation            | City of Lincoln Council  |
| Title                   | Internal Audit Charter   |
| Author - name and title | Amanda Stanislowski Audit Manager  |
| Owner - name and title  | Amanda Stanislowski Audit Manager  |
| Date                    | March 2025   |
| Consultation            | The draft strategy has been prepared and stakeholders have been consulted including the S151, Management Team and the Audit Committee. |
| Version                 | V.1  |
| Approved                | CMT 04/03/ 2025<br>Audit Committee 25/03/25??  |
| Next review date        | March 2027   |

| Revision | Originator of change | Date of change | Change description |
|----------|----------------------|----------------|--------------------|
|          |                      |                |                    |
|          |                      |                |                    |
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|          |                      |                |                    |



## Introduction

The Public Sector Internal Audit standards 2024\* (Standards) require that Internal Audit prepare a strategy which outlines how it supports the strategic objectives and success of the Council and aligns with the expectations of senior management, the Audit Committee and any other key stakeholders (Standard Principle 9).

This strategy provides the foundation for the provision of an effective Internal Audit service which supports senior management and members in meeting the Vision and Strategic Priorities for the Council:-

*Together, let's deliver Lincoln's ambitious future*



The Internal Audit service within the Council has undergone a significant number of changes since 2021/22 resulting in a new team for 2024/25. In addition to changes in staffing there has also been a number of other significant changes with the loss of the Audit software previously shared with the County Council and the recent dissolution of the Assurance Lincolnshire partnership which provided support to the City Council's Internal Audit Team. Whilst this has presented many challenges it has also provided the opportunity to review the service, tailoring it to the way the Council now operates and requirements of senior management, improving visibility and aligning with the changes to the Standards from April 2025.

A number of changes have already been made improving the visibility of the service, refining the engagement document (Terms of Reference) and reporting. The area of greatest improvement is the process for the implementation of audit recommendations where a new protocol was drawn up and has management and Committee support to ensure it is adhered to.

This strategy sets out how the service will continue to review and refine the processes in place to ensure that it continues to meet the expectations of the key stakeholders and support them in achieving the Councils priorities. It will be reviewed at least every three years or following any significant changes to ensure that it is kept up to date with the Councils priorities.

\*The Public Sector Standards comprise of the Global Internal Audit Standards 2024 and the Chartered Institute of Public Finance (CIPFA) Public Sector Application Note.



## Vision and Strategic Objectives

The vision of the Internal Audit Service is:

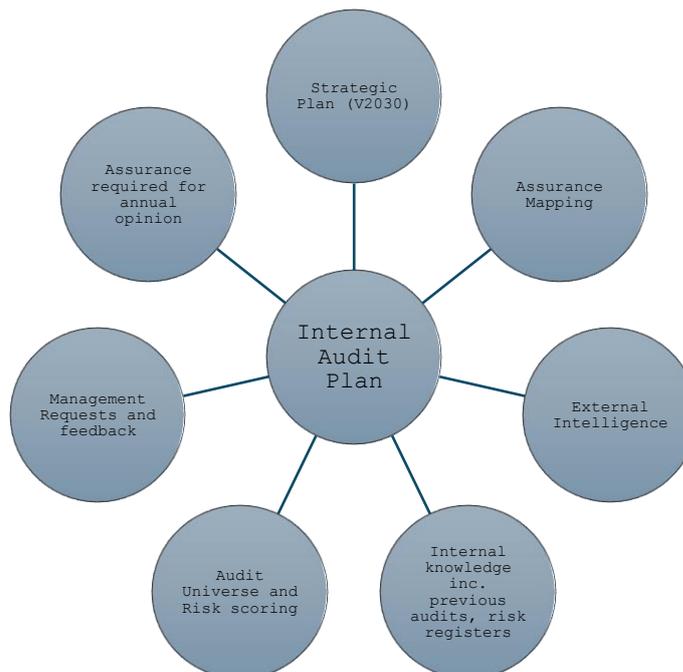
*Internal Audit will provide value-added audits and advisory services with objectivity, fairness, openness, and in accordance with the highest professional and ethical standards.*

The strategic objectives which underpin the vision are as follows:-

- Provide Members and Management with independent, risk-based and objective assurance, advice and foresight.
- Comply with the Standards and other regulations relating to the Internal Audit Service.
- Maintain an Internal Audit Team which demonstrates integrity, honesty and professional courage and behaves in an ethical and professional manner.
- Ensure processes, skills and knowledge are kept up to date supporting continuous improvement.

## Audit Planning and Delivery

The Internal Audit Plan is developed using various sources including assurance mapping work, external intelligence, local knowledge and meetings held with the Corporate Leadership Team. A risk scoring model is also used to identify and prioritise potential areas. The key sources of information that help inform the plan are:-



The plan is driven by the Council's priorities, key risks and critical service areas as identified through the assurance mapping process. It is aligned to work with other assurance providers wherever possible to ensure the best use of Internal Audit resource by minimising duplication of effort and enhancing the value added.

Draft Internal Audit Plans are shared with the Senior managers for their input and review prior to being presented for approval by the Corporate Management Team and the Audit Committee.

Once approved the plan continues to be monitored to ensure that it covers the most relevant areas, with a full revised plan being drafted and approved after six months. Changes made to the plan at any point are agreed with relevant parties and formally communicated to Senior managers and the Audit Committee within the progress reports.

In previous years the plan has focussed on risk based audits with some key control, follow-up, project and IT audits. The reduced capacity within the team due to the recent vacancies has reduced the amount of Internal audit coverage over the past three to four years and, together with a recent event, has led to a change in the audit plan for 2025/26 onwards. Future audit plans will comprise of the following:-

- Traditional risk based audits – cover the key risks areas for the Council and are usually of 8-15 days in length.
- Health Check audits – high level self assessment question and evidence reviews of due diligence areas which were previously subject to key control audits. Where issues are identified and on a cyclical basis these are escalated to a full risk based audit. These are usually 1-2 days in length but will initially be longer as the process is developed.
- Targeted Checks 'spot checks' – these are short 2-5 days audits focussed on specific processes which could be within one activity or Council wide. These include checking specific risk mitigation actions are in place, specific assurance processes are in place or that a process within an activity is working as it should. These are designed to provide a quick insight into the risk and control environment over a wider range of areas.
- Project audits – review of the governance, control and risk elements within key projects. These can be completed as gateway reviews where reviews are carried out at intervals within a project or a one off review. The length will be dependent on the project complexity.
- IT audits - use the risk based approach but require more specialist skills. Some will be undertaken by general auditors which have the necessary skills and other more complex and technical by a specialist IT auditor.
- Follow-up Audits – these are conducted within 12 months of the issue of a Limited or Low assurance report to ensure that there have been improvements made.
- Consultancy reviews – these are undertaken by request and include providing pre-inspection advice and supporting management with service improvements.



Following the completion of the audits management are asked to confirm that the agreed actions have been implemented. To support this, quarterly spot checks are carried out of a sample of implemented actions to ensure that they have been implemented and the weakness identified has been mitigated. This is reported to the Corporate Management Team and the Audit Committee periodically.

The Internal Audit Plan document sets out the focus, resources and coverage for the year as well as the alignment with the Council's priorities and Strategic risks.

## Annual Report

An annual report is produced which includes the annual opinion of the adequacy and effectiveness of the Council's framework of governance, risk and control. This is presented to the Corporate Management Team and the Audit Committee.

The opinion is based on a number of things:-

- The Internal Audit work carried out during the year
- The results of the assurance mapping work including any third party assurance
- Follow-up of management action taken to implement the agreed actions for the individual audits.
- Any other intelligence relating to the Council's framework of governance, risk and control.

## Performance

Performance of the Internal Audit Team is measured using a number of performance indicators:-

- Plan completion
- Audits completed within 2 months
- Draft report issued within 10 days
- Management response received within 10 days
- Final report issued within 5 days
- Customer satisfaction overall score

All of the indicators are reported to the Corporate Management Team and the Audit Committee periodically throughout the year and within the Annual report. The plan completion indicator is also monitored as part of the strategic performance indicators and reported to the Performance Scrutiny Committee periodically. These will be discussed further with the Corporate Management Team and the Audit Committee to ensure that they reflect their expectations together with the targets for the year.



Customer satisfaction questionnaires are sent to auditees at the end of each audit (engagement). These will be amended to reflect the new feedback requirements within the standards.

Internal quality processes are in place which ensure that every audit is reviewed and checked to ensure that it complies with our methodologies and the Standards and all findings are supported by sufficient evidence. A Quality and Improvement Plan (QAIP) is in place which includes the actions required to meet this strategy alongside any other actions to improve the service. This is monitored and updated, with progress reported to the Corporate Management Team and the Audit Committee annually.

## Resources

During 2024/25 the team was fully staffed from July and changes to the structure have incorporated a career graded role to improve the succession planning and recruitment potential for the team.

The Team currently comprises of an Audit Manager, Principal and Auditor all of which are full time. The Audit Manager and Principal are both experienced and qualified to Chartered level (CIPFA and IIA) with the Auditor required to achieve qualified status to progress through the career grade. All levels of staff complete the audits which are allocated based on individual skills and knowledge.

The team is supported by specialist IT auditors which conduct the audits within this area. There is currently a contract in place until September 2026 with the option to extend for a further year. There is also a contract in place with a general audit contractor until May 2026, to provide days as and when required. This was used to provide support whilst there were vacancies and other capacity shortfalls.

The service previously provided days to Assurance Lincolnshire under the partnership agreement. This ceased following the recruitment difficulties experienced by the service and has not been reinstated. Whilst this increased the days available for audit work, the removal of the audit software, dissolution of the partnership and the requirements of the Standards have increased the workload of the Audit Manager diverting them away from the completion of audits. The appointment of an inexperienced Auditor has also reduced the time available of the Principal and Auditor as they are trained. This is likely to continue in the short term but in the longer term the plan is to increase the days for audit and proactive fraud work and review opportunities for raising income.

The financial resources of the Internal Audit service are agreed through the Council's budget setting process following consultation with the Audit Manager and S151 Officer. Any issues with the financial resources are raised with the Corporate Management Team and the Audit Committee.



## Training and Development

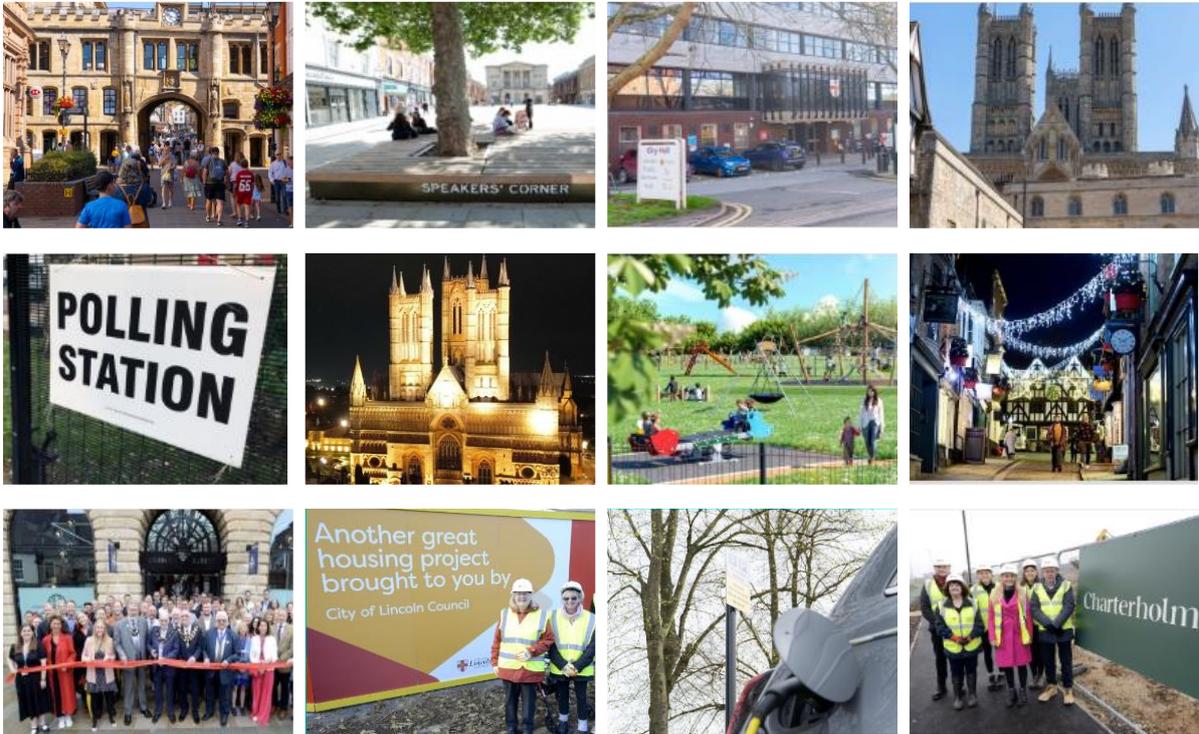
Training and development has currently been completed through the recruitment and retention process, appraisals and 1-2-1 meetings. This will now be formalised further through the development of a skills analysis for all roles and a training and development plan produced annually and monitored to comply with the standards.

Continual Professional Development (CPD) records are currently maintained and further work will be carried out to ensure that the training plans support the CPD requirements of the Standards as well as those required by the professional bodies.

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# Internal Audit Plan 2025/26



**Mission Statement**  
To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.



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## Introduction

The Public Sector Internal Audit standards 2024\* (Standards) require that Internal Audit prepare an Internal Audit Plan that supports the achievement of the Council's objectives (Standards Principle 9.4). The scope of the plan covers the whole range of the Council's activities, seeking to provide an annual internal audit opinion on the governance, risk and internal control environment of the Council. The plan and planning process incorporates the requirements outlined within the Internal Audit Charter and Strategy.

This document sets out the Internal Audit Plan as at 1<sup>st</sup> April 2025. The plan details the activities to be audited and the indicative scope for each audit together with the links to the Strategic Risks and the priorities within Vision 2030.

\*The Public Sector Standards comprise of the Global Internal Audit Standards 2024 and the Chartered Institute of Public Finance (CIPFA) Public Sector Application Note.

## Resources

The Internal Audit Team is led by the Audit Manager, Amanda Stanislawski supported by the Principal, Zlati Kalchev and the Auditor, Huw Burrows. The team is supported by specialist IT audit contractors to deliver the technical IT audit work.

The plan delivers assurance within these agreed resources totalling 793 days, split between 340 audit days and 453 non-audit days. This is an increase of 30 audit days from the original 2024/25 plan. There are currently a high number of non-audit days due to the training of the Auditor and the support that this requires from other members of the team, this is expected to reduce in future years.

The work carried out by the Internal Audit team has been set up to conform with the Standards and will be subject to internal quality reviews and assessments against the Standards.

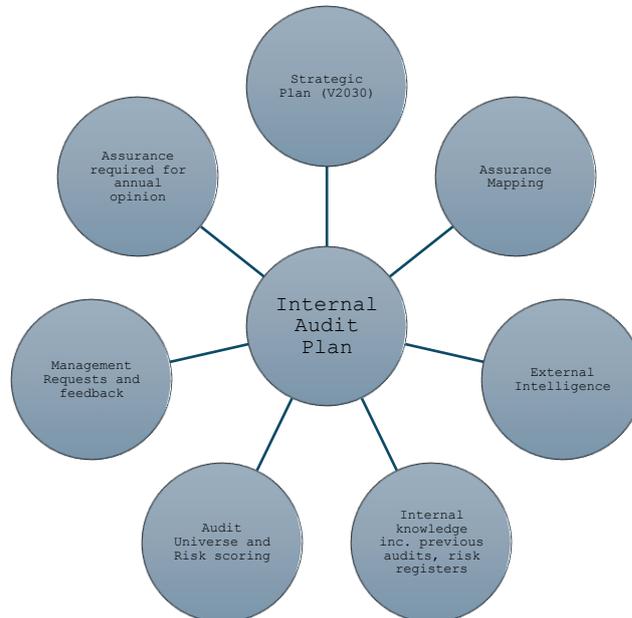
There are no known impairments to the independence or objectivity of the Internal Audit Team. There are potential conflicts of interest relating to previous employment and residency in the City which have been declared and are taken into account when allocating the Audit engagements.

## Developing the plan

The Internal Audit Plan is driven by the Council's priorities, key risks and critical service areas as identified through the assurance mapping process. It is aligned to work with other assurance providers wherever possible to ensure the best use of Internal Audit resource by minimising duplication of effort and enhancing the value added.



It is developed using various sources including assurance mapping work, external intelligence, local knowledge and meetings held with the Corporate Leadership Team. The key sources of information that help inform the plan are:-



The assurance mapping work is used to inform the audit universe, listing the critical activities, projects and partnerships within the Council. A risk scoring model is used alongside the assurance mapping to identify and prioritise potential areas from this list.

The plan has been split into a number of key areas, the following table lists these areas and provides the rationale for their inclusion within the plan:-

| Area                  | Rationale for inclusion   |
|-----------------------|---|
| Financial Governance  | Providing assurance that key financial controls are in place and operating effectively. Provides the S151 Officer with assurance over the council's financial affairs.                            |
| Governance and Risk   | Providing assurance that key governance controls are in place and are operating effectively. Informs the Annual Governance Statement.   |
| Critical Activities   | Providing independent assurance for management over the effectiveness of risk management, control and governance processes.   |
| Programme and Project | Providing assurance over the key critical projects and programmes, ensuring that there are adequate controls and governance arrangements in place, and effective project management arrangements. |
| ICT                   | Providing assurance that controls comply with best practice and are operating effectively. The effectiveness of IT has a significant impact on how well the Council operates.                     |
| Targeted Checks       | Provide an insight into the risk and control environment over a wider range of areas to provide further assurance to  |

| Area                    | Rationale for inclusion   |
|-------------------------|---|
|                         | management. Results feed into the assurance mapping and planning process.   |
| Follow-ups              | Provides assurance that the weaknesses identified have been rectified resulting in an improved control environment.                   |
| Combined Assurance      | Co-ordinates the levels of assurance across the Council to provide assurance to management and feeds into the audit planning process. |
| Housing Benefit Subsidy | Provided at the request of management to review the housing subsidy claim with External Audit.  |

Appendix A outlines the various audits to be undertaken in 2025/26 and Appendix B outlines those audits considered to be important but it has not been possible to include in the current plan due to resources available.

## Updating the plan

The plan is not a static document and during the year intelligence is collected which continues to inform the plan and may require that changes are made. This intelligence is gathered from various sources including management meetings, Committee reports, changes to the risk registers, internal and external events.

Regular liaison with management enables revisions to be made to the plan in a timely manner, reflecting the current risk environment.

All changes are agreed by senior management and reported to the Audit Committee. A full review is undertaken of the plan after six months and a revised plan presented for approval.

## Delivering the Plan

The aim is to deliver the audits included in the plan in accordance with the schedule which will be drawn up once the plan is agreed. The schedule is drawn up following liaison with the audit sponsors taking into account the resources of the team. Progress on delivery is reported to senior management and the Audit Committee within the periodic Progress reports.



## Appendix A – Internal Audit Plan 2025/26

Our proposed planned audits are listed below.

| Audit Area                                    | Type         | Assurance Sought  | Assurance Map<br>RAG Rating | Internal Audit<br>risk score | Strategic Risk<br>Register   | Corporate<br>Priority | Management<br>Request | Days      |
|---|--------------|---|-----------------------------|------------------------------|--|-----------------------|-----------------------|-----------|
| <b>Financial Governance</b>                   |              |   |                             |                              |  |                       |                       | <b>30</b> |
| Housing Rent Income                           | Risk Based   | Housing rents charged in accordance with the approved amounts. Effective processes in place for monitoring payments and recovery of debt.   | <b>A</b>                    | <b>H</b>                     | SR15 - Failure of service delivery leading to reputational impact on the Council and adverse financial implications  | 1, 2, and 3.          | N/A                   | 8         |
| MTFS  | Risk Based   | To provide assurance that assumptions, reserve levels, etc, are appropriate and there is integration with other strategic documents.  | <b>G</b>                    | <b>M</b>                     | SR2 - Failure to deliver a sustainable Medium term Financial Strategy that supports delivery of the Council's Vision | 6 – Support Services  | N/A                   | 8         |
| Income collection and cash receipting         | Risk Based   | Income received by the Council is banked, reconciled and allocated to the correct accounts.   | <b>G</b>                    | <b>M</b>                     | SR15 - Failure of service delivery leading to reputational impact on the Council and adverse financial implications  | 6 – Support Services  | N/A                   | 8         |
| General Ledger                                | Health Check | Processes are in place which ensure that access to the general ledger is controlled and transactions are accurate.  | <b>G</b>                    | <b>L</b>                     | SR15 - Failure of service delivery leading to reputational impact on the Council and adverse financial implications  | 6 – Support Services  | N/A                   | 3         |
| Property, Plant and Equipment (Asset Control) | Health Check | Processes are in place for registering the assets, authorisation and approval of acquisitions and disposals, reconciliation with the property database and depreciation and impairment of assets. | <b>G</b>                    | <b>L</b>                     | SR15 - Failure of service delivery leading to reputational impact on the Council and adverse financial implications  | 6 – Support Services  | N/A                   | 3         |



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| Audit Area                       | Type       | Assurance Sought  | Assurance Map<br>RAG Rating | Internal Audit<br>risk score | Strategic Risk<br>Register  | Corporate<br>Priority | Management<br>Request | Days       |
|----------------------------------|------------|---|-----------------------------|------------------------------|---|-----------------------|-----------------------|------------|
| <b>Governance and Risk</b>       |            |   |                             |                              |   |                       |                       | <b>34</b>  |
| Freedom of Information           | Risk Based | Procedures are in place which allow for prompt and accurate responses to be made to FOI requests. Requests are dealt with in compliance with the legislation.                                     | A                           | M                            |   | 6 – Support Services  | N/A                   | 8          |
| Corporate Planning – Vision 2030 | Risk Based | 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. | G                           | L                            | SR1 - Failure to engage & influence effectively the Council's strategic partners, council staff and all stakeholders to deliver against the Council's new Vision 2030.                              | All                   | N/A                   | 8          |
| Project Management               | Risk Based | There is a project management framework in place and used. The framework includes consideration of capacity and resources.  | A                           | M                            | SR7 - Insufficient levels of resilience, capability and capacity exist in order to deliver key strategic projects & services within the Council.<br>SR9 - Failure to deliver key strategic projects | 6 – Support Services  | N/A                   | 10         |
| Information Governance           | Risk Based | Processes are in place which ensures that information is managed in accordance with the appropriate regulations – Data Protection etc   | G                           | M                            |   | 6 – Support Services  | N/A                   | 8          |
| <b>Critical Activities</b>       |            |   |                             |                              |   |                       |                       | <b>139</b> |
| Complaints                       | Risk Based | There are processes in place for complaints in respect of housing to be   | A                           | M                            | SR15 - Failure of service delivery leading to reputational  | All                   | ✓                     | 10         |

| Audit Area  | Type         | Assurance Sought   | Assurance Map<br>RAG Rating | Internal Audit<br>risk score | Strategic Risk<br>Register  | Corporate<br>Priority                             | Management<br>Request | Days |
|---|--------------|--|-----------------------------|------------------------------|---|---|-----------------------|------|
|   |              | actioned promptly and in accordance with the Council's policy and good practice.   |                             |                              | impact on the Council and adverse financial implications  |   |                       |      |
| Health and Safety                                 | Health Check | There are processes in place which ensure that the Council adheres to Health and Safety requirements.  | G                           | L                            | SR4 - Failure to ensure compliance with existing and new statutory duties / functions                               | 6 – Support Services                              | N/A                   | 3    |
| Equality and Diversity                            | Health Check | There are procedures in place which ensure that the Council complies with equality and diversity requirements.   | G                           | L                            |   | 2 – Together let's reduce all kinds of inequality | N/A                   | 3    |
| Emergency Planning                                | Health Check | There is an emergency plan in place which is communicated, tested and links with other relevant bodies.  | G                           | M                            | SR14 - Failure to deliver critical services in an emergency situation   | 6 – Support Services                              | N/A                   | 3    |
| Housing Strategy                                  | Risk Based   | The Council has a strategy in place for housing which was developed with involvement of stakeholders, is supported by research and is resourced.   | A                           | M                            |   | 3 - Together lets deliver quality housing         | N/A                   | 8    |
| Bereavement Services – Crematorium and cemeteries | Risk Based   | There are processes and procedures in place which ensure that cremations and burials are undertaken in accordance with the booking instructions and legal requirements. Actions agreed following external reviews have been implemented. | A                           | H                            | SR15 - Failure of service delivery leading to reputational impact on the Council and adverse financial implications | 4 – Together let's enhance our remarkable place   | ✓                     | 10   |
| HR - Leavers                                      | Risk Based   | To ensure that there is a robust process in place for leavers (staff and agency)   | A                           | M                            |   | 6 – Support Services                              | N/A                   | 8    |

| Audit Area                                  | Type       | Assurance Sought  | Assurance Map<br>RAG Rating | Internal Audit<br>risk score | Strategic Risk<br>Register   | Corporate<br>Priority                             | Management<br>Request | Days |
|---|------------|---|-----------------------------|------------------------------|--|---|-----------------------|------|
|   |            | which ensures that they are removed from Council systems including outlook, physical access is removed and equipment returned.                          |                             |                              |  |   |                       |      |
| Fleet                                       | Follow up  | Follow up of the Limited assurance report to ensure that actions have been implemented.   | A                           | M                            |  | 3 and 5   | N/A                   | 8    |
| Homelessness                                | Risk Based | Review of the homelessness service to ensure that it complies with regulations, objectives and performance including the determination of applications. | G                           | H                            |  | 3 - Together lets deliver quality housing         | N/A                   | 10   |
| Housing Allocations                         | Risk Based | Policies and procedures are in place and followed for the allocation of housing properties to those on the waiting list.                                | A                           | M                            |  | 3 - Together lets deliver quality housing         | N/A                   | 12   |
| Work based learning / apprenticeship scheme | Risk Based | Processes ensure that full and efficient use of the apprenticeship levy is made and the council supports the growth of staff to maintain resilience.    | A                           | M                            | SR6 - Unable to meet the emerging changes required in the Council's culture, behaviour and skills to support the delivery of the council's future Vision, transformational journey to one Council approach and service delivery. | 6 – Support Services                              | N/A                   | 10   |
| Protection of vulnerable people             | Risk Based | The processes and procedures in place for safeguarding, prevent, domestic violence, hate crime and modern slavery                                       | G                           | M                            | SR11 - Failure to protect the vulnerable in respect of the Council's PREVENT duties and compliance with safeguarding   | 2 – Together let's reduce all kinds of inequality | N/A                   | 10   |



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| Audit Area   | Type       | Assurance Sought  | Assurance Map<br>RAG Rating | Internal Audit<br>risk score | Strategic Risk<br>Register   | Corporate<br>Priority                     | Management<br>Request | Days      |
|--|------------|---|-----------------------------|------------------------------|--|---|-----------------------|-----------|
|  |            | comply with recent legislation and are embedded throughout the Council.   |                             |                              | and domestic abuse legislation and procedures  |   |                       |           |
| Facilities Management                                    | Risk Based | Procedures are in place which ensure that the Council's facilities are secure, maintained and comply with relevant legislation.   | A                           | M                            | SR4 - Failure to ensure compliance with existing and new statutory duties / functions  | 6 – Support Services                      | N/A                   | 8         |
| Strategic partnership working and partnership governance | Risk Based | Review of the arrangements in place for the recording and monitoring of partnerships within the Council.  | A                           | L                            | SR10 - Failure of the Council's key contractors and partners to remain sustainable and continue to deliver value for money to the Council. | 6 – Support Services                      | N/A                   | 10        |
| Legal  | Risk Based | Processes are in place for the management of work, maintenance and storing of legal documents and provision of advice/support.  | R                           | M                            |  | 6 – Support Services                      | N/A                   | 8         |
| Right to Buy   | Risk Based | The processes in place for right to buy ensure that applications are processed accurately and in compliance with the rules. Policy or procedures have been updated for the new rules. | A                           | M                            | SR4 - Failure to ensure compliance with existing and new statutory duties / functions  | 3 - Together lets deliver quality housing | N/A                   | 10        |
| S106 and planning obligations                            | Risk Based | S106 agreements and other planning obligations have been made following the correct process with monitoring undertaken and monies received spent as required.                         | A                           | M                            | SR4 - Failure to ensure compliance with existing and new statutory duties / functions  | All                                       | N/A                   | 8         |
| <b>Programme / Project Assurance</b>                     |            |   |                             |                              |  |   |                       | <b>17</b> |

| Audit Area   | Type       | Assurance Sought   | Assurance Map<br>RAG Rating | Internal Audit<br>risk score | Strategic Risk<br>Register   | Corporate<br>Priority                           | Management<br>Request | Days      |
|--|------------|--|-----------------------------|------------------------------|--|---|-----------------------|-----------|
| HitRep   | Risk Based | Review of the project to ensure that the results of the external reviews have been taken on board and there are adequate arrangements in place to conclude the project. Lessons learned have been documented and used to inform the project. | A                           | H                            | SR9 - Failure to deliver key strategic projects  | 3 and 6   | N/A                   | 10        |
| New car park machines  | Risk Based | Assurance over the process for the acquisition of new car park payment machines and the processes in place for their current use.  | N/A                         | N/A                          | SR9 - Failure to deliver key strategic projects  | 4 – Together let's enhance our remarkable place | ✓                     | 7         |
| <b>ICT</b>   |            |  |                             |                              |  |   |                       | <b>20</b> |
| IT Resources - skills mapping, development and training, succession planning | Risk Based | Skills mapping and development is in place to ensure that the IT resources remain sufficient to support the council's IT infrastructure and applications.  | N/A                         | N/A                          | SR12 - Failure to mitigate against the risk of a successful cyber-attack against the council with significant / critical impact. | 6 – Support Services                            | N/A                   | 10        |
| Specialist IT Audit to be confirmed  | Risk Based | TBC following a revised risk assessment process.   | N/A                         | N/A                          | SR12 - Failure to mitigate against the risk of a successful cyber-attack against the council with significant / critical impact. | 6 – Support Services                            | N/A                   | 10        |
| <b>Targeted Checks</b>   |            |  |                             |                              |  |   |                       | <b>20</b> |



| Audit Area                     | Type       | Assurance Sought   | Assurance Map<br>RAG Rating | Internal Audit<br>risk score | Strategic Risk<br>Register | Corporate<br>Priority | Management<br>Request | Days      |
|--------------------------------|------------|--|-----------------------------|------------------------------|----------------------------|-----------------------|-----------------------|-----------|
| Various short audits           | Risk Based | Small specific audits looking at specific areas either within one service or throughout the Council. | N/A                         | N/A                          | N/A                        | All                   | N/A                   | 20        |
| <b>Follow-Up</b>               |            |  |                             |                              |                            |                       |                       | <b>5</b>  |
| Follow-ups                     | N/A        | Follow-up of recommendations made for the progress report and on a sample basis.                     | N/A                         | N/A                          | N/A                        | N/A                   | N/A                   | 5         |
| <b>Combined Assurance</b>      |            |  |                             |                              |                            |                       |                       | <b>10</b> |
| Combined Assurance             | N/A        | Updating the assurance map and completing the Combined Assurance report.                             | N/A                         | N/A                          | N/A                        | N/A                   | ✓                     | 10        |
| <b>Counter Fraud</b>           |            |  |                             |                              |                            |                       |                       | <b>20</b> |
| Counter Fraud                  | N/A        | Completion of various counter fraud related activities e.g NFI, polices, strategies, training etc    | N/A                         | N/A                          | N/A                        | N/A                   | N/A                   | 20        |
| <b>Housing Benefit Subsidy</b> |            |  |                             |                              |                            |                       |                       | <b>30</b> |
| Housing Benefit Subsidy        | N/A        | Testing of a sample of housing benefit claims to support the subsidy claim.                          | N/A                         | N/A                          | N/A                        | N/A                   | ✓                     | 30        |



| Audit Area        | Type | Assurance Sought   | Assurance Map<br>RAG Rating | Internal Audit<br>risk score | Strategic Risk<br>Register | Corporate<br>Priority | Management<br>Request | Days       |
|-------------------|------|--|-----------------------------|------------------------------|----------------------------|-----------------------|-----------------------|------------|
| Contingency       | N/A  | Days available to cover emerging risks, additional requests and any additional work required following health check reviews. | N/A                         | N/A                          | N/A                        | N/A                   | N/A                   | <b>15</b>  |
| <b>Total Days</b> |      |  |                             |                              |                            |                       |                       | <b>340</b> |

65

| <b>Non-Audit / Management</b>                 |            |
|---|------------|
| Leave/Bank holidays                           | 125        |
| Training                                      | 171        |
| Admin / Management / Other non audit specific | 134        |
| Committee & Senior management reporting       | 23         |
| <b>Days</b>                                   | <b>453</b> |

| <b>Corporate Priority</b> |   |
|---------------------------|---|
| 1                         | Together, let's drive inclusive, sustainable, economic growth |
| 2                         | Together, let's reduce all kinds of inequality                |
| 3                         | Together, Let's Deliver Quality Housing                       |
| 4                         | Together, let's enhance our remarkable place                  |
| 5                         | Together, let's address the challenge of climate change       |
| 6                         | Support Services  |

## Appendix B –Areas not included in the current plan

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

| Audit Area   | Type       | Assurance Sought   | Assurance Map<br>RAG Rating | Internal Audit<br>risk score | Strategic Risk<br>Register   | Corporate<br>Priority | Management<br>Request | Days      |
|--|------------|--|-----------------------------|------------------------------|--|-----------------------|-----------------------|-----------|
| <b>Financial Governance</b>                        |            |  |                             |                              |  |                       |                       | <b>16</b> |
| Payroll  | Risk Based | Processes in place ensure that staff are paid correctly and on time.   | G                           | M                            |  | 6 – Support Services  | N/A                   | 8         |
| Procurement  | Risk Based | Procurement is undertaken in compliance with the Contract Procedure rules and legislation.   | G                           | H                            | SR10 - Failure of the Council's key contractors and partners to remain sustainable and continue to deliver value for money to the Council. | 6 – Support Services  | N/A                   | 8         |
| <b>Governance and Risk</b>                         |            |  |                             |                              |  |                       |                       | <b>8</b>  |
| Members - standards, development, expenses, assets | Risk Based | There are processes and procedures in place which ensure that Members adhere to the Code of Conduct, are adequately trained and assets are returned when they leave the Council. | A                           | M                            |  | 6 – Support Services  | N/A                   | 8         |
| <b>Critical Activities</b>                         |            |  |                             |                              |  |                       |                       | <b>74</b> |
| Tenancy / Estate Management                        | Risk Based | There are tenancy agreements in place for all Council properties which includes the process for breaches. Estates are adequately managed and maintained.                         | G                           | H                            |  | 2, 3 and 4            | ✓                     | 10        |
| Customer Services contact centre                   | Risk Based | There are procedures in place for ensuring that customers queries are dealt with promptly and accurately.  | G                           | H                            |  | All                   | N/A                   | 8         |

| Audit Area                               | Type          | Assurance Sought   | Assurance Map<br>RAG Rating | Internal Audit<br>risk score | Strategic Risk<br>Register  | Corporate<br>Priority                           | Management<br>Request | Days      |
|--|---------------|--|-----------------------------|------------------------------|---|---|-----------------------|-----------|
| Lincare /<br>Emergency<br>control centre | Risk<br>Based | Procedures are in place to ensure that the Lincare service is effective, income collected and regulations complied with.   | <b>G</b>                    | <b>M</b>                     |   | 3 - Together lets deliver quality housing       | N/A                   | 8         |
| ASB Housing                              | Risk<br>Based | There are policies and procedures in place for ASB from tenants which include the escalation process.  | <b>G</b>                    | <b>M</b>                     |   | 2 and 3   | N/A                   | 10        |
| Supported /<br>Sheltered<br>Housing      | Risk<br>Based | There are processes in place for the allocation to supported housing and establishments comply with the relevant regulations.  | <b>G</b>                    | <b>M</b>                     | SR15 - Failure of service delivery leading to reputational impact on the Council and adverse financial implications | 3 - Together lets deliver quality housing       | N/A                   | 10        |
| CIL                                      | Risk<br>Based | CIL is applied correctly and the funds received are spent in accordance with regulations.  | <b>A</b>                    | <b>M</b>                     | SR4 - Failure to ensure compliance with existing and new statutory duties / functions                               | 3 and 4   | ✓                     | 8         |
| Land Charges                             | Risk<br>Based | There is a process in place for the administration of land charge requests and maintaining the land charges register.  | <b>A</b>                    | <b>M</b>                     | SR15 - Failure of service delivery leading to reputational impact on the Council and adverse financial implications | 4 – Together let's enhance our remarkable place | N/A                   | 8         |
| Planned<br>Maintenance                   | Risk<br>Based | 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. | <b>A</b>                    | <b>M</b>                     |   | 3 - Together lets deliver quality housing       |                       | 12        |
| <b>Total Days</b>                        |               |  |                             |                              |   |   |                       | <b>98</b> |



**SUBJECT: STATEMENT OF ACCOUNTING POLICIES 2024/25**

**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 2024/25 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. The significant change for the accounting year 2024/25 is the introduction of IFRS16 – Leases. As a result of this standard the Council has amended its lease policy (AP17) to ensure it remains compliant.

The key decision is around the low value exemption limit - it is proposed to mirror the Council's capital de minimus level of £10,000 in line with guidance.

### **4. Strategic Priorities**

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

## 5. Organisational Impacts

### 5.1 Finance

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

### 5.2 Legal Implications including Procurement Rules

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

### 5.3 Equality, Diversity and Human Rights

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

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

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

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

## 6. Risk Implications

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

## 7. Recommendations

7.1 That the Audit Committee review and note the Accounting Policies to be used for 2024/25 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](mailto:laura.shipley@lincoln.gov.uk)

## **1. General Principles**

The Statement of Accounts summarises the Council's transactions for the 2024/25 financial year and its position at the year-end of 31 March 2025. 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 2024/25 (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 highly liquid 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**

Services, 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 reporting period**

Events after the Balance Sheet reporting period are those events, both favourable and unfavourable, that occur between the Balance Sheet date 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 to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable 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 (plus accrued interest); 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 term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. 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. The Council holds 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 and are initially measured at fair value. They are subsequently measured 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 (plus accrued interest), 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 other comprehensive income**

Financial assets that are measured at FVOCI are recognised on the Balance Sheet when the authority becomes 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 arise in other comprehensive income.

## **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 (with adequate resources being available) 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 amount 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, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are re-valued annually according to market conditions at the year-end. 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

### **The Council as Lessee**

The authority classifies contracts as leases based on their substance. Contracts and parts of contracts, including those described as contracts for services, are analysed to determine whether they convey the right to control the use of an asset, through rights to obtain substantially all the economic benefits or service potential from that asset and to direct its use. The Code expands the scope of IFRS 16 Leases to include arrangements with nil consideration, peppercorn or nominal payments.

### **Initial measurement**

Leases are recognised as right-of-use assets with a corresponding liability at the date from which the leased asset is available to use (or the IFRS 16 transition date, if later). The leases are typically for fixed periods in excess of one year but may have extension options.

The Council initially recognises lease liabilities measured at present value of lease payments, discounting by applying the authority's incremental borrowing rate wherever the interest rate implicit in the lease cannot be determined. Lease payments included in the measurement of the lease liability include:

- fixed payments, including in-substance fixed payments
- variable lease payments that depend on an index or rate, initially measured using the prevailing index or rate as at the adoption date
- amounts expected to be payable under a residual value guarantee
- the exercise price under a purchase option that the authority is reasonably certain to exercise
- lease payments in an optional renewal period if the authority is reasonably certain to exercise and extension option
- penalties for early termination of a lease, unless the authority is reasonably certain not to terminate early.

The right-of-use asset is measured at the amount of the lease liability, adjusted for any prepayments made, plus any direct costs incurred to dismantle and remove the underlying asset or restore the underlying asset on the site on which it is located, less any lease incentives received.

However, for peppercorn, nominal payments or nil consideration leases, the asset is measured at fair value.

### **Subsequent measurement**

The right-of-use asset is subsequently measured using the fair value model. The authority considers the cost model to be a reasonable proxy except for:

- assets held under non-commercial leases
- leases where rent reviews do not necessarily reflect market conditions
- leases with terms of more than five years that do not have any provision for rent reviews
- leases where rent reviews will be at periods of more than five years

For these leases, the asset is carried at a revalued amount. In the financial statements, right-of-use assets held under index-linked leases have been adjusted for changes in the relevant index, while assets held under peppercorn or nil consideration leases have been valued using market prices or rentals for equivalent land and properties.

The right-of-use asset is depreciated straight-line over the shorter period of remaining lease term and useful life of the underlying asset as at the date of adoption.

The lease liability is subsequently measured at amortised cost, using the effective interest method. The liability is remeasured when:

- there is a change in future lease payments arising from a change in index or rate
- there is a change in the group's estimate of the amount expected to be payable under a residual value guarantee
- the authority changes its assessment of whether it will exercise a purchase, extension or termination option, or
- there is a revised in-substance fixed lease payment.

When such a remeasurement occurs, a corresponding adjustment is made to the carrying amount of the right-of-use asset, with any further adjustment required from remeasurement being recorded in the income statement.

### **Low value and short lease exemption**

As permitted by the Code, the authority excludes leases:

- for low-value items that cost less than £10,000 when new, provided they are not highly dependent on or integrated with other items, and

- with a term shorter than 12 months (comprising the non-cancellable period plus any extension options that the authority is reasonably certain to exercise and any termination options that the authority is reasonably certain not to exercise).

### **Lease expenditure**

Expenditure in the Comprehensive Income and Expenditure Statement includes interest, straight-line depreciation, any asset impairments and changes in variable lease payments not included in the measurement of the liability during the period in which the triggering event occurred. Lease payments are debited against the liability. Rentals for leases of low-value items or shorter than 12 months are expensed.

Depreciation and impairments are not charges against council tax, as the cost of non-current 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 Reserves Statement.

### **The authority as lessor**

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.

### **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 (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 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 lease (long-term 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 non-current 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.

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.

### **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.

### **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.

## **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. 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.

## **22. 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.

## **23. 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.

## **24. 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.

## **25. 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
- 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.

**SUBJECT: IAS19 – ASSUMPTIONS USED TO CALCULATE PENSION ENTRIES IN THE 2024/25 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 2024/25 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 2024/25.

**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<sup>st</sup> 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 2024/25 Statement of Accounts.

|   |      |
|---|------|
| <b>Key Decision</b>   | No   |
| <b>Key Decision Reference No.</b>   | N/A  |
| <b>Do the Exempt Information Categories Apply</b>   | No   |
| <b>Call In and Urgency:</b> Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply? | No   |
| <b>Does the report contain Appendices?</b>  | Yes  |
| <b>If Yes, how many Appendices?</b>   | One  |
| <b>List of Background Papers:</b>   | None |

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# Accounting reporting as at

31 March 2025

Employer briefing note pre-accounting date

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Barnett Waddingham LLP  
4 February 2025



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## Introduction and executive summary

This briefing note is addressed to employers participating in the LGPS and details our standard approach to the 31 March 2025 accounting exercise. This document is based on market conditions as at 31 January 2025. 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 2025 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 2024. For employers whose previous accounting date was not 31 March 2024, this briefing note provides a summary of our recommended assumptions for 31 March 2025 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).

Barnett Waddingham prepare LGPS accounting disclosures in accordance with the IAS19 and FRS102 standards. The second periodic review of the FRS102 standard was completed in March 2024, with the resulting revised FRS102 standard effective for accounting periods beginning on or after 1 January 2026. While early adoption is permitted, until we advise otherwise, our LGPS accounting disclosures will adhere to the current FRS102 standard, published 31 January 2022.

In preparing accounting disclosures for employers who participate in the LGPS, we act as Management's Expert as defined by IAS(UK)500. The relevant LGPS fund's committee oversees the management of the fund. Where appropriate some functions are delegated to professional advisers or outsourced to third party providers.

### 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 of some of the jargon used here.

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](#).

## 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   |
|--|---|--|
| <a href="#">Asset returns</a>                      |    | 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.   |
| <a href="#">Discount rate</a>                      |    | Discount rates have increased for most employers which will improve the balance sheet position.  |
| <a href="#">Inflation</a>                          |    | Future inflation assumptions have remained relatively unchanged. Some employers may see a small worsening of the balance sheet position.   |
| <a href="#">Allowance for inflation experience</a> |    | CPI inflation observed between March 2024 and December 2024 has been lower than the rate of CPI inflation assumed over the same period. For employers who allowed for observed inflation up to the previous accounting date, allowing for observed inflation up to the current date is likely to improve the balance sheet position. |
| <a href="#">Mortality</a>                          |  | We intend to update our mortality assumptions to adopt the 2023 Continuous Mortality Investigation (CMI) 2023 core projections model. The impact of this will be a further small reduction to life expectancies and improvement in the balance sheet position.   |
| <b>Overall</b>                                     |  | <b>Overall, we expect the balance sheet position to improve compared with last year.</b>   |

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 around 10% for the period from 31 March 2024 to 31 January 2025. 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 2025.



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.

## Valuation of the employer's liabilities

To value the employer's liabilities at 31 March 2025, 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 Scottish funds, this will involve an update this year to be based on the fund's 2023 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 2025 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2025 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.

The order in which the reconciliation of liabilities is constructed is provided in Appendix 2.

## 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 2025.

## 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).

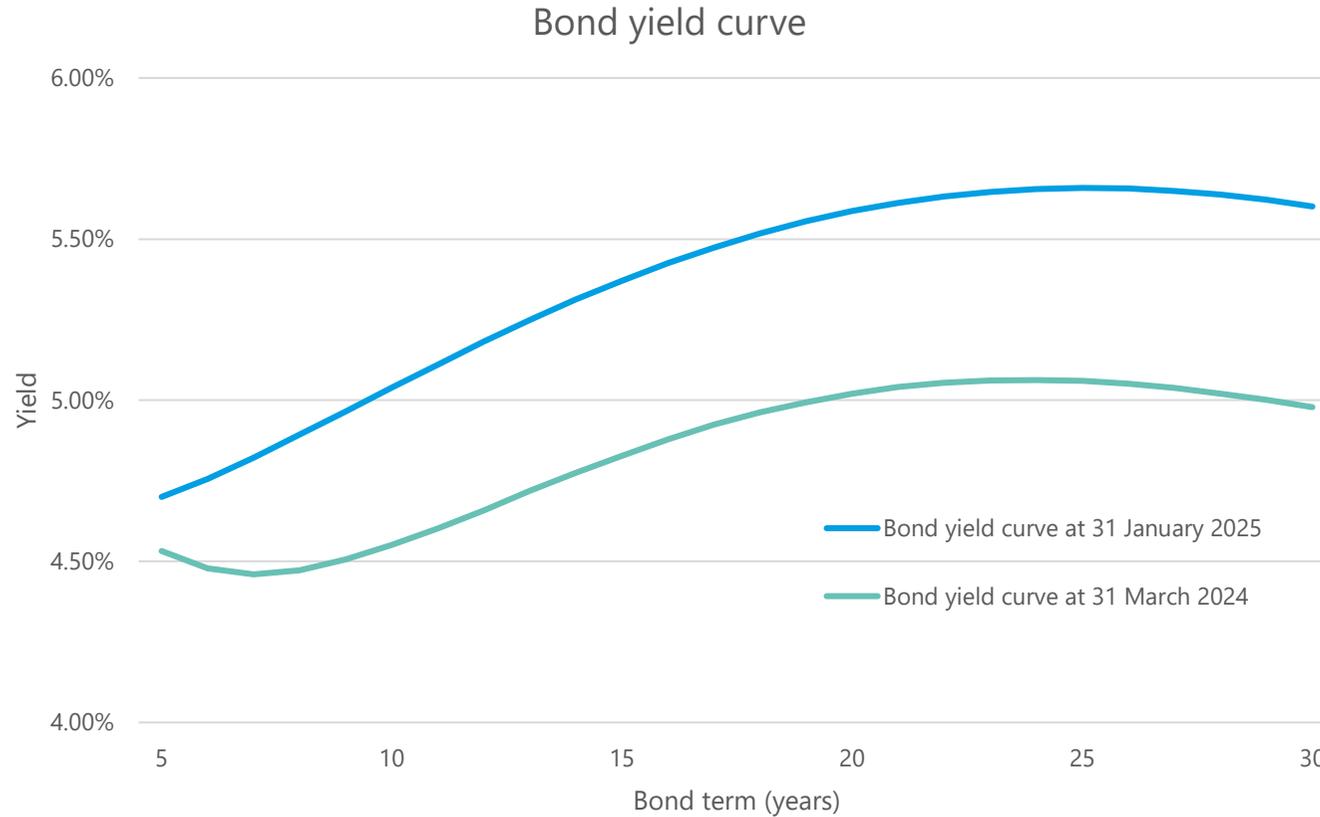
These sample cashflows are prepared by Barnett Waddingham on a triennial basis. Employers are grouped together into 'maturity brackets' based on the duration of their future cashflows. Each maturity bracket is linked to a term on the yield curve, up to the 30 year point, resulting in 30 sets of sample 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 2025:



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 2025 is higher than the yield at the previous accounting date, resulting in a higher discount rate.

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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 will improve 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

| Maturity    | Discount rate   |                | Estimated impact of change on liabilities |
|-------------|-----------------|----------------|---|
|             | 31 January 2025 | 31 March 2024  |   |
| Very Mature | 4.90% to 5.25%  | 4.65% to 4.80% | Decrease of 1% to 4%                      |
| Mature      | 5.25% to 5.50%  | 4.80% to 4.95% | Decrease of 4% to 10%                     |
| Immature    | 5.50% to 5.55%  | 4.95%          | Decrease of 10% to over 14%               |

*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.

## 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 2025, with the equivalent 31 March 2024 SEIRs (based on our standard derivation at that time) also shown for comparison:

| Maturity    | RPI Inflation   |                |
|-------------|-----------------|----------------|
|             | 31 January 2025 | 31 March 2024  |
| Very Mature | 3.45% to 3.80%  | 3.45% to 3.75% |
| Mature      | 3.15% to 3.45%  | 3.15% to 3.45% |
| Immature    | 3.10% to 3.15%  | 3.10% to 3.15% |

### Difference between RPI and CPI

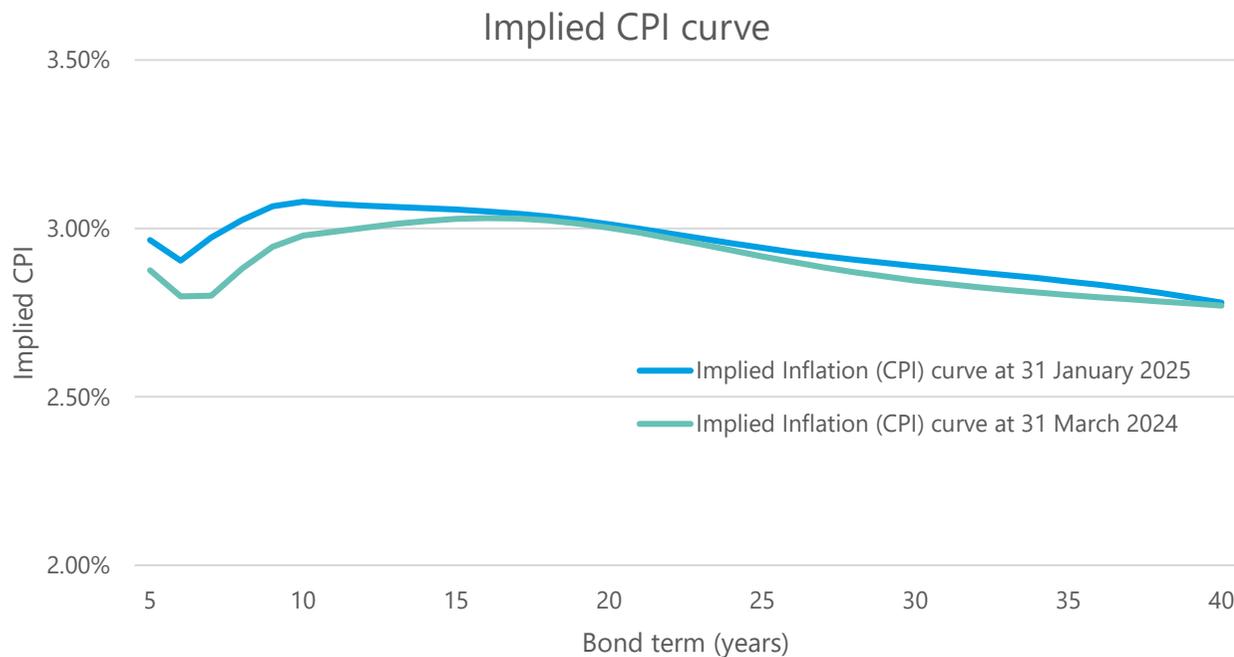
It is expected that CPI will be on average 1.0% p.a. lower than RPI for the period up to 2030. We have therefore assumed that the annual increase in CPI inflation will be 1.0% p.a. lower than the market implied increases in RPI for each year prior to 2030, and will be in line with market-implied inflation 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).

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 2025 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 2025 around the same level as at 31 March 2024. As a result, the assumed level of future pension increases will be broadly in line with that assumed at the previous accounting date.

Source: Barnett Waddingham based on Bank of England data

↔ Since market expectations remain similar to the previous year, all else equal, balance sheets are expected to remain unchanged from the previous year. Some employers may see a small worsening to the balance sheet.

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:

| Maturity    | CPI inflation   |                | Estimated impact of change on liabilities |
|-------------|-----------------|----------------|---|
|             | 31 January 2025 | 31 March 2024  |   |
| Very Mature | 3.00% to 3.05%  | 2.95%          | Neutral to increase of 1%                 |
| Mature      | 2.90% to 3.00%  | 2.85% to 3.00% | Neutral to increase of 2%                 |
| Immature    | 2.90%           | 2.85% to 2.90% | Neutral to increase of 1%                 |

*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 2025 under the three maturity scenarios:

| Maturity    | Estimated effect of change in financial assumptions on employer's liabilities |
|-------------|---|
| Very Mature | Decrease of 1% to 4%  |
| Mature      | Decrease of 4% to 9%  |
| Immature    | Decrease of 9% to over 14%  |

Based on market conditions at 31 January 2025, employers will see the value of their defined benefit obligation decrease due to a significant increase to corporate bond yields since 31 March 2024. However, the extent of this will depend on the employer's membership profile, cashflows over the year, experience and any bespoke assumptions or approaches. The actual financial impact at 31 March 2025 may differ considerably from the results shown using an earlier date for market date.

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

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

# Demographic assumptions

## Mortality assumption

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

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

## Base table mortality

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

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, the last actuarial valuation was at 31 March 2023.

For England and Wales, the next triennial valuation date is as at the accounting date, 31 March 2025. The results of the 2025 valuation will not be finalised at the time of preparing reports, nor assumptions agreed with the relevant LGPS fund. An update to base mortality tables will follow next year as part of 31 March 2026 reporting.

## 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 2023 version of their model and so we intend to further update our mortality assumptions to use the 2023 core model as standard for all employers. This represents a change from the last accounting date when the 2022 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 since. Specifically, a weighting of 15% is applied to mortality in the 2022 and 2023 years' data. 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 and 2023.

**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  |
|--------------------------|---|
| <b>Commutation</b>       | 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 |
| <b>Normal retirement</b> | Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age  |
| <b>50:50 take up</b>     | 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

#### Full valuation update

For employers in England and Wales, the next triennial valuation date is 31 March 2025. The results of the 2025 valuation will not be finalised at the time which 31 March 2025 year end accounting reports are prepared. The statutory deadline for completion of the 2025 valuation is 31 March 2026, after which time the results can be allowed for in employer accounting reports.

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 2024 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 the 2024 pension increase was made when preparing their 2024 year-end accounting balance position. In addition, we would have allowed for actual ONS CPI inflation experience from September 2023 (the month that determines the 2024 pension increase order) to 31 March 2024, or the most recent available data at the time the 2024 year-end report was prepared.

The inflation experience to 31 March 2025 will allow for ONS CPI inflation observed over the year to 31 March 2025, or based on the latest data available when the report is prepared.

**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 available has been slightly below the long term rate of inflation assumed over the same period for a typical LGPS employer. Therefore, allowing for recent inflation is expected to slightly improve the balance sheet position for most employers.

## 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 2025 assumptions to bespoke assumptions and see the impact this would have on the closing position as at 31 March 2025 and also on the Profit and Loss projections for the year to 31 March 2026. 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”. We strongly suggest that an employer wishing to recognise an accounting surplus obtains a detailed asset ceiling calculation from their actuary.

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, and academy 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 admission 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.
- Our default view is that administration expenses are assumed to grow in line with salary inflation, and are deductible from any economic benefit when determining if an accounting asset can be recognised.
- 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.

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.

## FRS102

In the absence of further guidance, our standard approach is to assume IFRIC14 applies to FRS102. If you report under FRS102 and have been provided with advice that IFRIC14 does not apply, we can prepare a disclosure using an alternative methodology. The methodology remains similar, however there is no requirement to value the minimum funding requirement (MFR) so the asset ceiling calculation is simplified to only include the present value of the future service cost. You should indicate to Barnett Waddingham if you would like an asset ceiling calculation performed using this methodology.

The current 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 consider which approach is most appropriate to use in the event a surplus is revealed on their 31 March 2025 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.

The unfunded liability will continue to be based on a roll forward of the results at the previous accounting date.

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.

## Pass-through admissions

There are many different types of employers who participate in the LGPS. It is common for tax-raising bodies (i.e. local councils) and academies to outsource some services to private contractors. Such contracts may be let with 'pass-through' arrangements. This is essentially a risk-sharing arrangement – the extent to which risks are shared between the contractor and the letting authority may vary slightly from case to case. Principally, the risk which is shared is the risk of a shortfall in funds at the point of pass-through contractor's cessation date. The extent that contributions made by the pass-through contractor prove insufficient to meet the cost of benefits as they fall due would represent an additional cost to the letting authority. Therefore in such cases, actuarial and investment risks ultimately lie with the letting authority.

In absence of further direction from the employer, we will include the pension assets and liabilities associated with members under a pass-through admission body within the letting authority's balance sheet. When the admission body with pass-through provisions ceases their participation in the LGPS, the responsibility to meet the benefit payments of the members will fall back to the letting authority and hence justification for their inclusion in the balance sheet.

In addition, to the extent that the accounting cost of accrual is not met by the contribution rate paid by the pass-through employer, the extra cost should be borne by the letting authority and shown in their P&L as a component of the letting authority's service cost. We do this in practice by calculating the total cost of accrual for all staff, deduct employee contributions (for the letting authority and pass-through employer) and then also deduct pass-through employer contributions. We describe this in our accounting reports as "*Contributions by scheme participants and other employers*". However, we accept that other approaches may also be perfectly acceptable.

## 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.

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

### 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 MHCLG 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.

## Virgin Media case

### Court of Appeal's 25<sup>th</sup> July 2024 Ruling

In very broad terms, the background to this case is that where the rules of a contracted-out defined benefit scheme were amended, the Scheme Actuary would provide a "section 37" confirmation that the scheme continues to meet the contracting-out requirements. The original court case in June 2023 decided that certain rule amendments were invalid in absence of the actuarial certification (potentially including cases where such a confirmation cannot now be located). More details can be found in our blog on the original High Court Ruling.

### LGPS considerations

For the LGPS, the Scheme Actuary is the Government Actuary's Department (GAD). We understand that GAD is currently reviewing historic amendments to the LGPS in this context and the Scheme Advisory Board are liaising with GAD on whether the relevant certificates were available for past scheme changes.

The most recent LGPS Bulletin 257 - Nov 2024 states that HM Treasury is currently assessing the implications for all public service pension schemes, however, HM Treasury do not believe the Virgin Media case expressly addresses whether confirmation is required for public service pension schemes. We understand their view to be that the relevant amendments in the LGPS would have been made by legislation – and therefore would remain valid until revoked or repealed by subsequent legislation, or declared void by a court.

Our view is that at this point in time there remains insufficient information to assess the potential impact, so we are unable to quantify it. However, employers may wish to include a narrative disclosure in their accounts to reflect the current position as outlined above.

## Appendix 1 - 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  |
|---------------------------|--|
| <b>Investment risk</b>    | 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.   |
| <b>Interest rate risk</b> | 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.  |
| <b>Inflation risk</b>     | 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.   |
| <b>Longevity risk</b>     | 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.   |
| <b>Climate risk</b>       | 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. |
| <b>Regulatory risk</b>    | Regulatory uncertainties could result in benefit changes to past or future benefits which could result in additional costs.  |
| <b>Orphan risk</b>        | 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. Changes in the funding level of the LGPS fund's orphaned liabilities could result in asset experience passed on to the Employer following a full valuation update.                 |

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

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

## Appendix 2 – Reconciliation of defined benefit obligation

The relative size of the items which appear in the reconciliation of the Employer's defined benefit obligation will depend on the order in which the actuary has assessed the items when constructing the closing balance sheet position. The order of the reconciliation items will affect the size of each item but should not affect the closing defined benefit obligation itself.

The order in which these reconciliation items are assessed to prepare pensions accounting reports is provided below.

**Start** - Open position, last year's closing position

1. *Current service cost* – cost of benefit accrual based on last year's assumptions
2. *Contributions by other participants* – e.g. employee contributions and other employers
3. *Benefits paid net of transfers in* – e.g. pensions in payment
4. *Settlements* – transfer of members in/out of the employer
5. *Curtailments* – e.g. unreduced early retirement grants
6. *Past service costs* – e.g. an employer decision to award additional service to a retiring employee
7. *Interest cost* – interest on opening liability, net cashflows and curtailments and settlements over the accounting period
8. *Member Experience* – update to member data to the latest full valuation data
9. *Inflation Experience* – inflation observed over accounting period
10. *Change in demographic assumptions* – e.g. mortality assumption update
11. *Change in financial assumptions* – impact of change in market conditions

**End** – Closing defined benefit obligation.

**SUBJECT: EXTERNAL AUDIT ENQUIRIES 2024/25 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 2024/25 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 2024/25 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 is presented in the Council's Statement of Accounts

4.2 Legal Implications including Procurement Rules

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

#### 4.3 Equality, Diversity and Human Rights

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

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

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

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

### 5. Risk Implications

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

### 6. Recommendations

6.1 That the Audit Committee receive, and comment upon, the enquiries for those charged with governance for the 2024/25 Statement of Accounts.

**Key Decision** No

**Do the Exempt Information Categories Apply** No

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

**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](mailto:laura.shipley@lincoln.gov.uk)

Questionnaire Completed by:

Date completed on:

| Short Description   | Detailed Description  | Required to be discussed with | Applicable framework  |
|---|---|-------------------------------|---|
| 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                          | <p>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.</p> <p>The Audit Committee have previously received a training presentation on counter fraud/fraud awareness and further training guidance. Fraud e-learning has previously been rolled out across Directors, Assistant Directors and Service Managers, this is currently being refreshed throughout 2024/25.</p> <p>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.</p> <p>Regular updates on the Internal Audit Plan and reports are provided to management and the Audit Committee.</p> <p>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.</p> <p>The Council's counter-fraud framework also includes strategy, response plan, and relevant policies. The Council works closely with Lincolnshire County Council Fraud department on various projects to prevent, detect, deter and mitigate fraud and have carried out training this year with the SMTF group on risk registers, and with AD's on fraud, with particular focus on responsibilities.</p> <p>Management monitor controls and processes through supervisory review, checks and system reporting. Internal audit also act as an additional layer of defence.</p> |
| Those charged with governance's assessment of fraud risks   | What are your views about fraud risks, including management override of controls, at the entity and whether you have taken any actions to respond to these risks?   | TCWG                          | <p>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.</p> <p>Where there are higher risks (likelihood and impact) more pro-active work is undertaken for example around housing benefits, tenancy and council tax.</p> <p>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.</p> <p>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.</p> <p>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.</p>  |
| 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                          | <p>No - no instances of actual, suspected, or alleged internal fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets.</p> <p>Instances of external fraud have been identified, primarily in the following areas:</p> <ul style="list-style-type: none"> <li>- Tenancy</li> <li>- Council Tax Single persons discount</li> <li>- Housing Benefits</li> </ul> <p>These have been investigated and actioned as appropriate (e.g. penalty, discounts removed, DWP referral, police referral, etc.)</p>   |
| 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, it is currently under review and anticipated to be changed slightly this year in line with Audit recommendations.   |
| 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, the Audit Committee will review any declarations made in the forthcoming annual review process.   |
| 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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|                       |   |
|-----------------------|---|
| <b>SUBJECT:</b>       | <b>CIPFA FINANCIAL MANAGEMENT CODE</b>      |
| <b>DIRECTORATE:</b>   | <b>CHIEF EXECUTIVE AND TOWN CLERK</b>       |
| <b>REPORT AUTHOR:</b> | <b>JACLYN GIBSON, CHIEF FINANCE OFFICER</b> |

**1. Purpose of Report**

1.1 To report to the Audit Committee the Council's assessment for 2024/25 against the Standards contained within the CIPFA 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 have regard to the FM Code in their value for money assessment. Furthermore, CIPFA guidance states that the Council’s Annual Governance Statement should include the overall conclusion of the assessment of the organisation’s compliance with the principles of the FM Code. Where there are outstanding matters or areas for improvement, these should be included in the action plan. 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.

2023/24 Assessment

- 3.7 A self-assessment against the standards set out in FM Code was prepared in March 2024. 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 2024 is provided below:

| Action Required  | Timescale | Progress   |
|--|-----------|--|
| To update VFM Statement and incorporate with new Productivity Plan requirements. | Jul-24    | <b>COMPLETE</b> – VFM Statement updated and reviewed by CLT in Mar-25                                    |
| To continue to support professional development                                  | Ongoing   | <b>ONGOING</b> - where required officers have achieved relevant CPD requirements of professional bodies. |
| To recruit to remaining Finance role to ensure fully resourced.                  | Apr-24    | <b>COMPLETE</b> - new Principal Finance Business Partner now in post.                                    |

|   |        |  |
|---|--------|--|
| To revise Contract Procedure Rules  | Dec-24 | <b>COMPLETE</b> – new Contract Procedure Rules approved by Full Council in Mar-25  |
| Review Finance Business Partnering Action Plan                                    | Mar-25 | <b>IN PROGRESS</b> – progress slower than planned due to capacity and recruitment challenges with Financial Services Team.                           |
| Consider options for an independent financial resilience assessment               | Dec-25 | <b>NOT PROGRESSED</b> – pending direction of potential local government re-organisation  |
| Further development of engagement approach for budget/strategic plan consultation | Nov-24 | <b>IN PROGRESS</b> – Vision 2030/budget engagement undertaken but further work to refresh Consultation and Communication Strategies to be undertaken |

### 2024/25 Assessment

- 3.8 The 2024/25 assessment has now been updated for the actions completed and in progress as above, and in light of other developments during 2024/25. 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. |     |  |
| 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 25  |
| C | The leadership Team demonstrates in its actions and behaviours responsibility for governance and internal control.   |  | Review of Code of Corporate Governance against CIPFA/Solace Addendum for 2025/26 – Mar 26  |
| D | The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).   |  | Implementation of Action Plan to ensure compliance with new Global Internal Audit Standards (GIAS) for 2025/26 – Jul 26<br><br>Assessment of Internal Audit Manager against CIPFA Code and GIAS – Mar 26 |
| E | The financial management style of the authority supports financial sustainability.   |  | Further implementation of business partnering approach – as capacity allows  |
| F | The authority has carried out a credible and transparent financial resilience assessment.  |  | Consider options for independent financial resilience assessment – Mar 26  |
| 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.   |  | To revise the Communication and Consultation Strategies – Mar 26 |
| M | The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.  |  | None   |
| 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 (76%) with the underlying principles of the FM Code, this an increase from the 2023/24 assessment which was a 65% compliance rate. There are areas for improvement in 4 (24%) 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 2030 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 2023/24 self-assessment
- b) Review and comment upon the 2024/25 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  
[jaclyn.gibson@lincoln.gov.uk](mailto: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         | <p>The authority has a clear and consistent understanding of what value for money means to it and its leadership team.</p> <p>There are suitable mechanisms in place to promote value for money at a corporate level and at the level of individual services.</p> <p>The authority is able to demonstrate the action that is has taken to promote value for money and what it has achieved.</p> | <p>The Council has clear accountability and arrangements to deliver value for money. The Council has a Value for Money Statement that was last refreshed in March 2025. This sets out why VFM is important and what the Council’s approach to ensure delivery of VFM is, this includes:</p> <ul style="list-style-type: none"> <li>• VFM is a key part of any business case submitted and all decision-making groups take decisions with a focus on VFM.</li> <li>• 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.</li> <li>• 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.</li> <li>• The Annual Governance Statement focuses on all aspects of governance, including processes around VFM in service provision.</li> <li>• Lincoln Project Management Model – this compulsory method of managing projects within the council contains key</li> </ul> |     |

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|  |  |  |  | <p>templates for financial assessments and risk management</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• The performance framework includes, regular monitoring of Vision 2025 (and will do for Vision 2030) projects to ensure that the key aims of the council are progressed to budget, timescales, and outcomes.</li> <li>• The performance framework includes regular service monitoring of detailed performance trends covering:             <ul style="list-style-type: none"> <li>○ Performance measures – e.g. throughput, time taken and outstanding work</li> <li>○ Volumetric measures to add contextual background data</li> <li>○ Customer satisfaction - feedback through satisfaction monitoring and complaints and compliments monitoring</li> <li>○ Quarterly Dashboard summarising all aspects of performance within the VFM chain</li> </ul> </li> <li>• Unit cost benchmarking of service areas based on budget and actuals is undertaken and will be used to inform development of future strands of the savings and transformation programmes.</li> </ul> |  |
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|  |  |  |  | <ul style="list-style-type: none"> <li>• Communication of VFM to customers and staff through a variety of channels.</li> <li>• Delivering excellent customer service which is a key component of VFM.</li> </ul> <p>In addition to the Value for Money Statement, the Council has also published it's Productivity Plan which sets out:</p> <ul style="list-style-type: none"> <li>• How services have been designed, delivered or transformed to make better use of resources</li> <li>• How the Council plans to use technology and make better use of data to improve decision making, service design and use of resources</li> <li>• Plans to reduce waste, be efficient and spend effectively.</li> <li>• Assurances on governance, financial approach and performance.</li> </ul> <p>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.</p> <p>External Audit provide a VFM assessment, the Auditors Annual Report 2023/24 stated, "Our opinion is that the Council have appropriate arrangements place. We identified no significant weaknesses in respect of arrangements to secure economy, efficiency, and effectiveness in the use of resources".</p> <p>The last Peer Challenge review conducted by LGA, including a review of financial processes. The initial review led to a glowing report, with</p> |  |
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|   |  |       |   | <p>minimal suggested improvements. Monitoring of all aspects, to ensure standards are maintained is undertaken. An annual assurance discussion between the LGA and three statutory officers took place in March 2025. Consideration of a future Peer Challenge is currently pending in light of potential local government reorganisation.</p> <p><b>ACTION REQUIRED – NONE</b></p>   |  |
| B | <p>The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.</p> | 18/19 | <p>In summary this Statement requires that the CFO:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Must be actively involved in, and able to bring influence to bear on, all material business decisions</li> <li>• 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.</li> <li>• Must lead and direct a finance function that is</li> </ul> | <p>The Chief Finance Officer post is a key member of the Corporate Leadership Team, reporting to the Chief Executive.</p> <p>She is actively involved in, and has influence over, all material business decisions.</p> <p>The CFO personally leads on the MTFs and ensures that all risks are considered and detailed as part of the MTFs, in conjunction with the other members of the senior leadership team (Executive Members and Corporate Leadership Team).</p> <p>She is ACCA qualified with significant experience of local government finance. Continuing professional development is undertaken as required by her accounting body.</p> <p>There are contracts in place for specialist financial advice (technical accounting, treasury management, financial management &amp; planning and taxation)</p> |  |

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|  |  |    | <p>resourced to be fit for purpose.</p> <ul style="list-style-type: none"> <li>• Must be professionally qualified and suitably experienced.</li> </ul> | <p>The CFO through the Finance team provides the financial reporting and monitoring to the Corporate Management Team and Members, with the Treasury Management reporting going through Audit Committee and Council as prescribed in the CIPFA Prudential Code and the CIPFA Treasury Management Code.</p> <p>The Finance Team is suitably resourced with appropriately qualified staff, and is fit for purpose. This team includes 2 qualified accountants, 1 part qualified accountant and 9 qualified accounting technicians and 2 part qualified accounting technicians. All officers undertake continuing professional development as required by their accounting bodies. There is currently 1 vacant qualified accountant role, which is actively being recruited to, with interim support in place.</p> <p><b>ACTION REQUIRED</b></p> <ol style="list-style-type: none"> <li>1. TO CONTINUE TO SUPPORT PROFESSIONAL DEVELOPMENT AND THE ACHIEVEMENT OF PROFESSIONAL ACCOUNTANCY QUALIFICATIONS – ONGOING (CFO/FINANCIAL SERVICES MANAGER)</li> <li>2. TO RECRUIT TO REMAINING FINANCE ROLES TO ENSURE TEAM IS FULLY RESOURCED – APR 25 (FINANCIAL SERVICES MANAGER)</li> </ol> |  |
| <b>Governance and Financial Management Style</b> |  |    |  |   |  |
| C  | The leadership Team demonstrates in its actions and behaviours | 21 | The leadership team espouses the Nolan principles.   | The leadership exhibit the Nolan principles of public life.   |  |

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|  | <p>responsibility for governance and internal control.</p> |  | <p>The authority has a clear framework for governance and internal control.</p> <p>The leadership team has established effective arrangements for assurance, internal audit and internal accountability.</p> <p>The leadership team espouses high standards of governance and internal control.</p> <p>The leadership team nurtures a culture of effective governance and robust internal control across the authority.</p> | <p>The Chief Executive, Monitoring Officer and CFO have reviewed the CIPFA/SOLACE/LLG Code of Practice on Good Governance for Statutory Officers and exhibit the seven principles of the Golden Triangle.</p> <p>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 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. Following implementation of the Procurement Act 2023, in February 2025, Contract Procedure Rules have been fundamentally updated and were approved by Full Council in March 2025.</p> <p>The Council's Audit Committee has two independent members 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. The Committee's Terms of Reference and Work Programme reflects CIPFA's Position Statement on Audit Committees and it's additional guidance for local authority audit committees.</p> <p>All Committees have separate Terms of Reference.</p> |  |
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|  |  |  |  | <p>There is a Code of Conduct for Members which is overseen by the Ethics and Engagement Committee and was last updated in January 2021, with regular reviews undertaken as part of the Constitution as a whole, and was updated internally in 2024. Training for Members on the Code was provided in 2023, and new members are trained on the code every year on induction. In addition, there is a Code of Conduct for Officers.</p> <p>The authority has in place a clear framework for governance and internal controls through it's Code of Corporate Governance. The Council's Code of Corporate Governance was comprehensively reviewed in July 2021 and is refreshed annually. The last review took place in February 2025. CIPFA and Solace have recently consulted on an Addendum to the guidance for application for 2025/26 Annual Governance Statements. A comprehensive review of the Code will be undertaken during 2025/26.</p> <p>There are effective arrangements for assurance, internal audit and internal accountability. Any areas of concern raised through those arrangements are managed robustly and transparently.</p> <p>The leadership team espouses high standards of governance and internal control and communicates these clearly to all staff.</p> <p>There is a culture of effective governance and robust internal control. Internal audit is used to</p> |  |
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|   |  |    |   | bring focus to any areas of concern and to ensure that standards remain high.<br><br><b>ACTION REQUIRED: TO REVIEW CODE OF CORPORATE GOVERNANCE AGAINST ADENDUM TO CIPFA/SOLACE GUIDANCE – MARCH 2026 (BUSINESS MANAGER – POLICY AND SERVICE IMPROVEMENT)</b>   |  |
| D | The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016). | 22 | <p>The authority of aware of the provisions of the CIPFA Delivering Good Governance Framework.</p> <p>The authority has sought to apply the principles, behaviour and actions set out in the Framework to its own governance arrangements.</p> <p>The authority has in place a suitable code of governance.</p> | <p>There is a strong internal audit function which produces reporting and recommendations across all functions. This is subject to external review every 5 years, 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.</p> <p>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 2025. CIPFA and Solace have recently consulted on an Addendum to the guidance for application for 2025/26 Annual Governance Statements. A comprehensive review of the Code will be undertaken during 2025/26.</p> <p>The Framework recommends that a local code of governance is developed and reported against annually. The Council's Annual Governance Statement details how the Council has complied with its own Code of Corporate Governance over the preceding year and</p> |  |

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|  |  |  |  | <p>meets the statutory requirements with areas of concern reported and monitored.</p> <p>Internal Audit have previously assessed 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. In light of the introduction of the new Global Internal Audit Standards, and Application Note in the UK Public Sector, from April 2025, Internal Audit have undertaken an assessment and identified a range of actions to be implemented to ensure compliance by July 2026 (as the point the HIA Annual Report is completed).</p> <p>The Internal Audit Manager has undertaken an assessment against the CIPFA document “The Role of the Head of Internal Audit 2019”. 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. From 2025/26 with the introduction of the new GIAS and CIPFA Code of Practice on the Governance of Internal Audit in Local Government, a revised assessment will be required, with any actions being included in the QAIP.</p> <p><b>ACTION REQUIRED:</b></p> <p><b>IMPLEMENTATION OF ACTION PLAN TO ENSURE COMPLIANCE WITH NEW GIAS – JULY 2026 (INTERNAL AUDIT MANAGER)</b></p> |  |
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| E | The financial management style of the authority supports financial sustainability | 22/23 | <p>Strong financial management is assessed against a hierarchy of</p> <ol style="list-style-type: none"> <li>1. delivering accountability,</li> <li>2. supporting performance</li> <li>3. enabling transformation.</li> </ol> <p>Need to perform well at each level before moving to the next. This is broadly linked to economy, efficiency and effectiveness.</p> | <p>Achieving stage 1 of the hierarchy. The Council has an effective framework of financial accountability through:</p> <ul style="list-style-type: none"> <li>• Member delegations which include financial responsibilities;</li> <li>• Officer delegations which include financial responsibilities;</li> <li>• Financial Procedure Rules which set out financial responsibilities for Directors, Assistant Directors Budget Managers and all employees of the Council and all Members.</li> </ul> <p>Achieving stage 2 of the hierarchy. The Council has an effective performance management framework in place including, performance measures, volumetric measures, customer satisfaction, monitoring of key strategic projects, quarterly performance reporting, quarterly dashboard across all aspects of performance within the VFM chain.</p> <p>The Finance Team have implemented a Finance Business Partnering approach, equivalent to stage 2. Although, work towards stage 3 of the hierarchy has been progressed, with many examples of financial management supporting transformation specifically in relation to key strategic projects, further work is required towards fully acting as enablers. While there is an intention to further progress this work, staff capacity and recruitment</p> |  |

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|   |  |    |   | <p>challenges have meant this has not yet been possible.</p> <p><b>ACTION REQUIRED: FURTHER IMPLEMENTATION OF BUSINESS PARTNERING APPROACH – ONGOING AS CAPACITY ALLOWS (FINANCIAL SERVICES MANAGER)</b></p>   |  |
| <b>Long to Medium Term Financial Management</b> |  |    |   |  |  |
| F   | The authority has carried out a credible and transparent financial resilience assessment | 26 | <p>The authority has undertaken a financial resilience assessment.</p> <p>That assessment tested the resilience of the authority’s financial plans to a broad range of alternative scenarios.</p> <p>The authority has taken appropriate action to address any risks identified as part of the assessment</p> | <p>The Council has reviewed the CIPFA Financial Resilience index and MHCLG financial metrics (previously produced by OFLOG) and assessed whether it is comfortable with the areas that the index/metrics flags as more concerning. 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.</p> <p>The External Auditor’s Annual Audit Report 2023/24 stated “based on the procedures performed, we have not identified any significant weaknesses in relation to the Council’s arrangements to maintain financial sustainability”.</p> <p>There has not been an independent assessment of the local authority’s financial resilience other than the CIPFA index, MHCLG metrics and the annual external audit. In light of the potential for local government re-organisation the timing of undertaking a financial resilience assessment is being assessed (as this will be a key element of any business plan for the formation of new councils) and will be considered further post</p> |  |

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|   |   |    |  | <p>submission of LGR proposals in November 2025.</p> <p>The level of prudent minimum balances in the MTFS is based on a financial risk assessment of the key variables in the budget and the probability of variations (the MTFS also contains a full risk register with details of mitigations in place and to be undertaken). This is then further expanded over the period of the MTFS to produce various scenarios as to assess the impact of key assumptions in the budget. This is documented in the MTFS. In addition, the pre-cursor report to the main MTFS sets out more detail on the key variables and the impact of changes in the underlying budget assumptions.</p> <p>This financial planning and risk assessment, over a 5-year period, allows the Council to identify potential funding gaps and ensure action is taken in advance, e.g. through it's TFS Programme.</p> <p><b>ACTION REQUIRED – CONSIDER OPTIONS FOR AN INDEPENDENT FINANCIAL RESILIENCE ASSESSMENT – MARCH 2026 (CFO)</b></p> |  |
| G | The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members. | 26 | <p>The authority has a sufficiently robust understanding of the risks to its financial sustainability.</p> <p>The authority has a strategic plan and long-term financial strategy that addresses adequately those risks.</p> | <p>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.</p>  |  |

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|  |  |  | <p>The authority reports effectively to the leadership team and to members its prospects for long-term financial sustainability, the associated risks and the impact of these for short- and medium-term decision making.</p> | <p>The current high levels of uncertainty around future funding for local government and the current economic factors 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.</p> <p>The MTFS also includes a risk assessment of the key financial risks the Council faces over the 5-year period. The risks modelled include the level of inflation, the council tax base, the business rates base, pay inflation, interest rates, national funding reforms, new statutory requirements, as well as service income, housing rents/voids, and a range of capital implications e.g. cost overruns.</p> <p>The pre-cursor report to the main MTFS sets out in more detail changes in key variables since the development of the previous Strategy and the impact of these on the budget and likely budget gap. Further, more, detailed reports are provided to the Corporate Management Team as part of the budget development.</p> <p>The Council has a robust approach to risk management with Strategic and Directorate Risk Registers, with clear lines of escalation, supported by specific project and programme risk registers.</p> <p>The Council's new Vision 2030 contains a range of projects and programmes, not all of</p> |  |
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|   |  |       |   | <p>which are financially resourced. The MTFS is very clear on this and specifically in relation to the larger scale capital investments emphasises the need to seek external partner contributions or grant support. In addition, the MTFS includes a specific earmarked reserve to support the roll out of some of the projects.</p> <p><b>ACTION REQUIRED - NONE</b></p>  |  |
| H | <p>The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.</p> | 26/27 | <p>The authority is aware of its obligations under the Prudential Code.</p> <p>The authority has prepared a suitable capital strategy.</p> <p>The authority has a set of prudential indicators in line with the Prudential Code.</p> <p>The authority has suitable mechanisms for monitoring its performance against the prudential indicators that it has set.</p> | <p>The Council is aware of its obligations under the Prudential Code and has assessed itself as compliant with those obligations. Like the Financial Management Code, there are many areas of compliance where the guidance allows for the Council to decide what an appropriate fit is; and there is not a single way to be compliant.</p> <p>The latest Prudential Code was published in December 2021 and introduced revised reporting requirements, including changes to the capital strategy, prudential indicators and investment reporting. The Council’s Treasury Management Strategy and Capital Strategy are prepared in accordance with the revised reporting requirements and have been benchmarked to ensure they demonstrate best practice, with further changes incorporated for the 2024/25 financial year.</p> <p>Previous commercial investments were undertaken in line with the Council’s Commercial Property Investment Strategy and funded through prudential borrowing. In line with updated requirements the Council has no plans for further debt for yield schemes.</p> |  |

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|  |  |  |  | <p>The Council's Minimum Revenue Payment (MRP) Policy is in accordance with MHCLG requirements to set aside MRP on all borrowing.</p> <p>The Council has a 5- year Capital Strategy (The Code suggests up to 20 but the authority has judged that 5 years is a reasonable period over which to have meaningful plans) and within that prudential indicators are set in line with the Code. The Capital Strategy sets out the high-level plans, with individual decisions made about investments or capital schemes through separate reports to members.</p> <p>The Council also has a 30-year Housing Business Plan which includes a 30-year capital investment programme. This plan was fundamentally reviewed during 2023/24 and published in November 2023.</p> <p>Individual financial modelling of capital schemes covers a longer-term frame, typically over the asset life and is factored into investment decisions.</p> <p>There are effective mechanisms in place to monitor performance against the code, with 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.</p> <p><b>ACTION REQUIRED - NONE</b></p> |  |
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| I | The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans | 27 | <p>The authority has in place an agreed medium term financial plan.</p> <p>The medium-term financial plan consistent with and integrated into relevant service plans and its capital strategy.</p> <p>The medium-term financial plan has been prepared on the basis of a robust assessment of the relevant drivers of cost and demand.</p> <p>The medium-term financial plan has been tested for resilience against realistic potential variations in key drivers of cost and demand.</p> | <p>The Council has in place an agreed 5-year MTFS. This plan is consistent with the capital strategy and refreshed annually to reflect relevant strategic priorities, commitments, underlying assumptions and emergent issues and to agree future savings targets. This ensures that the Council always has a 5-year balanced budget, allowing for sufficient time to time to plan and deliver any required savings.</p> <p>The development of service budgets is Directorate led. Cost drivers and demand are considered within each directorate and used to form the basis of pressures identified and mitigations/savings put forward. The detail of the analysis of cost drivers is not contained specifically in the MTFS but forms part of the internal budget setting process, though reference is made to particularly large changes in the narrative and in the financial planning report seen as the pre-cursor to the main MTFS.</p> <p>The MTFS is the best assessment of each Directorate of what their demand pressures will be.</p> <p>Although the plan is set on a rolling 5-year basis, there is the opportunity annually to revisit plans where the latest data indicates that there have been material changes to assumptions, as demonstrated in recent years.</p> <p>The Council undertakes an annual service plan process at an Assistant Director level. These service plans are driven by to both the Council's Vision and supporting Delivery Plans</p> |  |
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|                          |  |       |  | and the MTFS in terms of the delivery of key projects but also into the MTFS in relation to specific savings programme required to be delivered.<br><br><b>ACTION REQUIRED - NONE</b>   |  |
| <b>The Annual Budget</b> |  |       |  |   |  |
| J                        | The authority complies with its statutory obligations in respect of the budget setting process   | 29    | <p>The authority is aware of its statutory obligations in respect of the budget-setting process.</p> <p>The authority has set a balanced budget for the current year.</p> <p>The authority is likely to be able to set a balanced budget for the forthcoming year.</p> <p>The authority is aware of the circumstances under which it should issue a Section 114 notice and how it would go about doing so.</p> | <p>The Council understands its obligation in respect of the budget-setting process and has set a balanced budget for the current year, and the four following years. The Council's MTFS process is designed to deliver a full five- year balanced budget each year.</p> <p>The authority is aware of the circumstances under which it should issue a section 114 notice and how it would go about doing so. In addition, the authority is aware of the Exceptional Financial Support (EFS) and Capitalisation Directives that are available through MHCLG.</p> <p><b>ACTION REQUIRED - NONE</b></p> |  |
| K                        | The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves. | 29/30 | <p>The authority's most recent budget report includes a statement by the CFO on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.</p> <p>The report accurately identifies and considers the most significant estimates used to prepare the budget, the potential for these</p>   | <p>The most recent budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves, under Section 25 of the Local Government Act.</p> <p>The Chief Finance Officer has taken into consideration the recent briefing from CIPFA on Approaching the Section 25 Statement.</p>   |  |

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|  |   |    | <p>estimates to be incorrect and the impact should this be the case.</p> <p>The authority has sufficient reserves to ensure its financial sustainability for the foreseeable future.</p> <p>The report sets out the current level of the authority's reserves, whether these are sufficient to ensure the authority's ongoing financial sustainability and the action that the authority is taking to address any shortfall.</p> | <p>The budget report sets out the detail of estimates in terms of key estimates e.g. business rates, council tax grants, housing rents, specific grants, fees and charges etc. It does not set out specific service assumption details and the impact of variations in those.</p> <p>The Council has assessed that it currently has sufficient reserves, which ensures its sustainability for the foreseeable future. This position has though been impacted by current economic factors, demand pressures and level of Government funding, requiring the use of reserves (earmarked and general balances) during the MTFS period while a savings programme is delivered. These reserves include general balances as well as specific earmarked reserves. The authority has a prudent approach to what is needed to manage risks.</p> <p>The report sets out the current level of the authority's reserves, the sufficiency of them and the plans for the use of reserves in the future and a requirement to ensure reserves are replenished over the period of the MTFS through achievement of the savings programme.</p> <p><b>ACTION REQUIRED - NONE</b></p> |  |
| <b>Stakeholder Engagement and Business Plans</b> |   |    |  |   |  |
| L  | The authority has engaged where appropriate with key stakeholders in developing its long-term | 31 | <p>The authority knows who its key stakeholders are.</p> <p>The authority has sought to engage with key stakeholders in developing</p>   | <p>The Council is aware of who its key stakeholders are.</p> <p>The Council's view is that widespread engagement with the public on council</p>   |  |

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|  | <p>financial strategy, medium term financial plan and annual budget.</p> |  | <p>its long-term financial strategy, its medium term financial plan and its annual budget.</p> <p>The authority has assessed the effectiveness of this engagement.</p> <p>The authority has a plan to improve its engagement with key stakeholders.</p> | <p>spending is still hard for residents to engage with in a meaningful way and is not entirely effective in influencing the budget plans. The Council does though engage with its stakeholders on its medium term financial strategy, annual budget and strategic plan. This is undertaken through an online survey covering; the Council's priorities, key projects in Vision 2030, savings programme proposals, Council Tax proposals and overall VFM. This survey is specifically sent to the Citizens Panel and is also available to all on the Council's website and is actively promoted through social media.</p> <p>The Council has also, in the last two years, undertaken further engagement exercises comprising of facilitated workshops with individual residents, who maybe under represented or 'hard to reach' along with representative agencies, charities or organisations supporting those with lived experience. These workshops have focused on both the budget and Vision 2030 priorities.</p> <p>In addition, engagement with residents/service users is conducted in line with individual service changes proposed within the budget, as part of the development and delivery of those proposals. This allows the engagement to be more targeted to affected groups and ensures that the engagement is meaningful.</p> <p>The Council continues to explore ways to engage with local residents and stakeholders in different ways that make it easy for them to share their views on services they receive and</p> |  |
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|   |   |       |   | <p>the way the Council operates. During 2025/26 the Council plans to revise both its communication and consultation strategies and toolkits which will support enhanced engagement with local communities.</p> <p><b>ACTION REQUIRED – REVISE COMMUNICATION AND CONSULTATION STRATEGIES – MARCH 26 (AD – T&amp;SD)</b></p>   |  |
| M | <p>The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.</p> | 31/32 | <p>The authority has a documented option appraisal methodology that is consistent with the guidance set out in IFAC/PAIB publication ‘Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal’.</p> <p>The authority offers guidance to officers as to when an option appraisal should be undertaken.</p> <p>The authority’s approach to option appraisal includes appropriate techniques for the qualitative and quantitative assessment of options.</p> <p>The authority’s approach to option appraisal includes suitable mechanisms to address risk and uncertainty.</p> <p>The authority reports the results of option appraisals in a clear, robust and informative manner that gives clear recommendations and outlines</p> | <p>The Council does not currently have a consistent process for undertaking and documenting option appraisals. These are undertaken on a case-by-case basis, influenced by the scale of investment and also the requirements of external funders, e.g. green book requirements. For all projects these cover as a minimum the 5-year MTFS period and for larger scale investment these are usually based on a whole life cycle basis.</p> <p>In considering a number of development projects the Council also undertakes a development appraisal from a commercial developer perspective to assess overall scheme viability, as well as financial modelling from a LA perspective, this is demonstrated in the approach to the delivery of Western Growth Corridor.</p> <p>Senior members of the Finance Team are involved in the preparation of all financial modelling with key input from the service area leading on delivery. Property Services and the Major Developments Team also play a key role in the development of scheme viability</p> |  |

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|   |  |    | <p>the risk associated with any preferred option(s).</p>   | <p>assessments and external support is also commissioned as required.</p> <p>The Council's project management framework is clear that that there are no major investments or service changes without developing a business case including an options appraisal and project initiation documents. These are reviewed and managed through DMTs and project/ programme/ visions boards, and ultimately inform decision making reports to members.</p> <p>These contain both quantitative evaluation of costs and benefits and qualitative evaluation of fit to service objectives and outcomes for residents/service users.</p> <p>The project documentation includes an evaluation of risk and uncertainty and the extent that this can be mitigated for given options.</p> <p>Reports for decision set out the outcomes of these business case/option appraisals with clear recommendations and risk. Risks from agreed options are then managed through the corporate risk management approach.</p> <p><b>ACTION REQUIRED – NONE</b></p> |  |
| <b>Monitoring Financial Performance</b> |  |    |  |  |  |
| N                                       | The leadership team takes action using reports enabling it to identify and correct emerging risks to its | 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. | 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  |  |

|  |                                      |  |  |  |  |
|--|--------------------------------------|--|--|--|--|
|  | <p>budget strategy and financial</p> |  | <p>The reports cover both forward- and backward looking information in respect of financial and operational performance.</p> <p>There are mechanisms in place to report the performance of the authority's significant delivery partnerships.</p> <p>The reports are provided to the leadership team in a timely manner and in a suitable format.</p> <p>The leadership team is happy with the reports that it receives and with its ability to use these reports to take appropriate action</p> | <p>being taken. The reports cover the position to date and the forecast for the remainder of the financial year. It also includes progress against savings targets and planned use of/contributions to earmarked reserves.</p> <p>Quarterly reporting is also provided in respect of the Council's basket of key operational performance indicators.</p> <p>Reporting to officers is periodically 1-month after the quarter end with reporting to Members in the following two weeks, which creates a time lag. Financial information, forecasts are available on a more regular basis and accessible by budget managers, this would highlight significant variances earlier. Services will compile performance information on a more regular basis and where relevant highlight the impacts of these.</p> <p>There are mechanisms established to report the performance of the authority's significant delivery Partnerships. Annual assurance assessments for the Council's significant partners are now undertaken and reported to the Audit Committee.</p> <p>The leadership team are happy with the reports it receives and with its ability to use these reports to take appropriate action, this has been particularly evident in recent years and the significant number of budget variances due to external factors.</p> <p><b>ACTION REQUIRED – NONE</b></p> |  |
|--|--------------------------------------|--|--|--|--|

|          |   |           |   |   |  |
|----------|---|-----------|---|---|--|
| <p>O</p> | <p>The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.</p> | <p>33</p> | <p>The authority has identified the elements of its balance sheet that are most critical to its financial sustainability.</p> <p>The authority has put in place suitable mechanisms to monitor the risk associated with these critical elements of its balance sheet.</p> <p>The authority is taking action to mitigate the risk identified.</p> <p>The authority reports unplanned use of its reserves to the leadership team in a timely manner.</p> <p>The monitoring of balance sheet risks is integrated into the authority's management accounts reporting processes.</p> | <p>The Council has historically considered its reserves position, investments and borrowing, and debt levels as most critical and therefore regular reporting is currently only made on these elements of the balance sheet.</p> <p>Forecast use/contribution of/to reserves is reported on a quarterly basis to the Corporate Management Team, Performance Scrutiny and the Executive. This highlights any changes to planned use/contribution to balances as well as movements in budgeted contributions to/from earmarked reserves. This then feeds into any MTFS refresh, along with intelligence about key risks.</p> <p>The quarterly financial report also provides details of usable capital resources, e.g. unapplied capital receipts, 1-4-1 receipts etc.</p> <p>Borrowing and investments are reported to Performance Scrutiny Committee and the Executive on a quarterly basis as part of the Treasury Management reporting.</p> <p>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.</p> <p>Housing Rent arrears are reported to Performance Scrutiny and the Executive on a quarterly basis.</p> |  |
|----------|---|-----------|---|---|--|

|                                     |   |    |  |  |  |
|-------------------------------------|---|----|--|--|--|
|                                     |   |    |  | <p>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.</p> <p>Other assets and liabilities are only included in the Annual Statement of Accounts report to Audit Committee, Executive and Full Council.</p> <p>Officers have reviewed other major balance sheet items and assessed that those items critical to it's financial sustainability are adequately reported.</p> <p><b>ACTION REQUIRED – NONE</b></p>  |  |
| <b>External Financial Reporting</b> |   |    |  |  |  |
| P                                   | <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</p> | 35 | <p>The authority's leadership team is aware of the CFO's responsibilities in terms of the preparation of the annual financial statements.</p> <p>The authority's CFO is aware of their responsibilities in terms of the preparation of the annual financial statements.</p> <p>These responsibilities are included in the CFO's role description, personal objectives and other relevant performance management mechanisms.</p> <p>The authority's financial statements have hitherto been prepared on time and in accordance with the</p> | <p>The authority's leadership team and the CFO are aware of the CFO's responsibilities in terms of the preparation of the annual financial statements.</p> <p>These responsibilities form part of the CFO's role description and personal objectives.</p> <p>The authority's financial statements have been prepared on time and in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom, and have been consistently given an unqualified opinion by external auditors – the latest opinion being based on the 2023/24 Statement of Accounts.</p> <p><b>ACTION REQUIRED - NONE</b></p> |  |

|   |   |  |   |   |  |
|---|---|--|---|---|--|
|   |   |  | requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.   |   |  |
| Q | The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions |  | <p>The authority's leadership team is provided with a suitable suite of reports on the authority's financial outturn and on significant variations from budget.</p> <p>The information in these reports is presented effectively.</p> <p>These reports are focused on information that is of interest and relevance to the leadership team.</p> <p>The leadership team feels that the reports support it in making strategic financial decisions.</p> | <p>The presentation of the final outturn position to the Corporate Management Team and Executive compares the outturn to the revised budget and explains the reasons for any key variances from budget. The report sets out the impact of these variances on general balances and earmarked reserves and makes proposals for further contributions to/or from these.</p> <p>The report also sets out the impact of key variances on the MTFS/future years budgets and any mitigating action being taken.</p> <p>These reports focus on material issues, which require action or awareness from the leadership team and therefore are appropriately focused.</p> <p>The leadership team agreed that the reports support it in making strategic financial decisions.</p> <p><b>ACTION REQUIRED – NONE</b></p> |  |

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|-----------------------|--|
| <b>SUBJECT:</b>       | <b>MONEY LAUNDERING POLICY AND PROCEDURE</b> |
| <b>DIRECTORATE:</b>   | <b>CHIEF EXECUTIVE AND TOWN CLERK</b>        |
| <b>REPORT AUTHOR:</b> | <b>AMANDA STANISLAWSKI, AUDIT MANAGER</b>    |

## **1. Purpose of Report**

1.1 To update the Money Laundering policy and procedures.

## **2. Background**

2.1 The Council's Money Laundering policy is part of range of counter fraud policies which are formally reviewed every two years (or sooner if required). The policy was last reviewed in February 2023 where there were some minor legislative changes made.

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

## **3. Policy and Guidance**

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

3.2 This review was carried out on the policy's two-year anniversary. There have been minor changes to the policy to remove the reference to 'new' and change the tense of the changes which were made as part of the 2023 review. There have been no changes to legislation or processes. A copy of the policy and guidance is attached at Appendix A with the changes marked.

## **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; however the policy helps ensure compliance with UK law.

### 4.3 Equality, Diversity and Human Rights

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

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

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

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

### 5. Recommendation

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

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

**Lead Officer:**

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# Anti-Money Laundering Policy Statement and Procedures

February 2025

Document Control

|                           |   |
|---------------------------|---|
| Organisation              | City of Lincoln Council                             |
| Title                     | Money Laundering Policy and Procedures              |
| Author                    | Amanda Stanislawski Audit Manager                   |
| Owner/Responsible Officer | Carolyn Wheater City Solicitor (Monitoring Officer) |
| Consultation              | Audit Committee / Executive                         |
| Version                   | 1.01  |
| Next Review Date          | February 2027                                       |

Review Arrangements: Every two years

Document Amendment History

| Revision | Originator          | Date          | Description   |
|----------|---------------------|---------------|---|
| 1.01     | John Scott          | February 2021 | Legislation changes   |
| 1.02     | Amanda Stanislawski | February 2022 | Format changes, numbering, minor legislation changes.                             |
| 1.03     | Amanda Stanislawski | February 2025 | Minor wording changes to remove reference to 'new' changes between 2021 and 2022. |
|          |                     |               |   |
|          |                     |               |   |
|          |                     |               |   |

# Anti-Money Laundering Policy Statement

## Introduction

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

## Key Message

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

## Key Points

- The Council is committed to the prevention, detection and reporting of money laundering
  - All employees should be vigilant for signs of money laundering
  - An employee who suspects money laundering activity should report this promptly to the Money Laundering Reporting Officer (**Use form Appendix B**)
  - The Council will not accept payments in cash that exceed £2,000.
3. Although Local Authorities are not legally obliged to apply the Money Laundering Regulations 2007 ( as amended by the Money Laundering (Amendment) Regulations 2012 and updated by the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 and 2019 (the regulations), the Council is bound by the provisions of the Proceeds of Crime Act 2002 and the Terrorism Act 2000 (as amended by the Anti-Terrorism and Security Act 2001 and the Terrorism Act 2006 and the Counter-Terrorism Act 2008). It is

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

4. The Sanctions and Anti-Money Laundering Act 2018 is also now law and enables the UK to maintain the status quo after it leaves the EU in the areas of sanctions and anti-money laundering
5. On 10 January 2020, the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulation 2017 were updated by the Money Laundering and Terrorist Financing (Amendment) Regulations 2019. The Amendment Regulations contain changes brought in by the EU's Fifth Money Laundering Directive. The MLR 2019 ensures<sup>sd</sup> that arrangements continued<sup>d</sup> as when we leave left the EU.

The changes included<sup>d</sup> various new requirements including:

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

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

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

## What is money laundering?

6. There are two main types of offences which may be committed:-
  - Money laundering offences.
  - Failure to report money laundering offences.

The main types of money laundering offences are:-

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

- Investing the proceeds of crime in other financial products
  - Investing the proceeds of crimes through the acquisition of property/assets
  - Transferring criminal property.
7. Money laundering is the process where criminals attempt to hide and change the true identity of the proceeds of their crime so that they appear legitimate. The various stages are termed placement, layering and integration:
- placement – ‘dirty money’ is placed directly into the financial system
  - layering – the proceeds are then moved through a series of financial transactions, making it harder to establish their origin
  - integration – the money launderer creates a legitimate explanation for the source of the funds allowing them to be retained, invested into the legitimate economy or to acquire assets
8. A person commits a criminal offence under the Proceeds of Crime Act 2002 by:
- Section 327: concealing, disguising, converting, transferring criminal property or removing it from the UK
  - Section 328: entering into or becoming concerned in an arrangement which he/she knows or suspects facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person
  - Section 329: acquiring, using or possessing criminal property

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

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

9. The money laundering offences are aimed by legislators at criminals and their associates, but any person can be caught by the offences if they suspect money laundering and either become involved with it in some way or do nothing about it. It is not necessary to have benefitted in any way to be guilty of the offences.
10. **The key requirement for Council employees is to promptly report (Sec 337 Disclosure) any suspected money laundering activity to the Council’s Money Laundering Reporting Officer.**

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<sup>1</sup> It therefore includes an act committed outside the UK but which, if it took place in the UK would be a criminal offence

11. While the risk to the Council of contravening the legislation is low, it is important that all employees are familiar with their responsibilities; serious criminal sanctions can be imposed for breaches of the legislation.
12. The Money Laundering Regulations require appropriate systems of internal control to prevent money laundering and terrorist financing. There must be management controls in place to help identify possible attempts to launder money or fund terrorism, so that appropriate action to prevent or report it can be taken.

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

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

## Scope

13. This Policy applies to all employees of the Council and sets out the required procedures which should be followed for reporting suspicions of money laundering activity to enable the Council to comply with its legal obligations.
14. This Policy is consistent with all other Council policies including the Counter Fraud Policy and the Whistle-blowing Policy.
15. Failure by an employee to comply with the procedures set out in this Policy may lead to disciplinary action being taken against them.

## The Money Laundering Reporting Officer (MLRO)

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

### The Chief Executive

City of Lincoln Council  
City Hall  
Beaumont Fee  
Lincoln  
LN1 1DB  
Tel: 01522 873292  
E-mail: [angela.andrews@lincoln.gov.uk](mailto:angela.andrews@lincoln.gov.uk)

The authorised Deputies are:

**Carolyn Wheater**

City Solicitor

Telephone 01522 873323

E-mail: [carolyn.wheater@Lincoln.gov.uk](mailto:carolyn.wheater@Lincoln.gov.uk)

**Jaclyn Gibson**

Chief Finance Officer Telephone 01522 873323

E-mail: [jaclyn.gibson@Lincoln.gov.uk](mailto:jaclyn.gibson@Lincoln.gov.uk)

The Legal Section is available to give advice as required.

# Reporting Procedures

## Protected Disclosure

1. Section 337 of the Proceeds of Crime Act 2000 protects employees from liability under any other legislation (e.g. Data Protection Act) when they report suspected money laundering. The conditions are that the information or other matter:-
  - came to his/her notice in the course of their trade, profession, business or employment and
  - causes him/her to know or suspect or gives reasonable ground to know or suspect that another person is engaged in money laundering and
  - the disclosure is made to a constable, a customs officer or the nominated MLRO
2. Any employee who knows or has reasonable grounds to suspect that any person is engaged in money laundering activity should report their suspicion immediately to the MLRO or her Deputy.

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

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

You should also enclose copies of any supporting documentation.

4. The employee must follow any subsequent directions of the MLRO. No further enquiries into the matter or any further steps in any related transaction may be taken without authorisation from the MLRO. Under no circumstances should you voice any suspicions to the person(s) you suspect of money laundering.
5. The MLRO will consider the need for disclosure, based on the facts as well as any consent from NCA to any ongoing or imminent transactions. Details of any liaison with the NCA will be recorded.
6. The MLRO must promptly report<sup>2</sup> the disclosure to the National Crime Agency (NCA) via the NCA website at <http://www.nationalcrimeagency.gov.uk>.

### **Proposed transactions**

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

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

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

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

### **Prejudicing an Investigation**

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

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

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

10. Failure to comply with these requirements could amount to a criminal offence of Prejudicing an Investigation. Section 342 – if a person:
  - makes a disclosure (to any other person) likely to prejudice the investigation
  - falsifies, conceals, destroys or otherwise disposes of or permits the falsification, concealment, destruction or disposal of documents which are relevant to the investigation

If any disciplinary action is proposed HR must be informed.

## General Procedures

### Cash payments

11. No payment to the Council will be accepted in cash if it exceeds £2,000. Cash is defined as including notes, coins or travellers' cheques in any currency. If officers wish to accept amounts greater than this, then prior approval is required from the MLRO or Deputy. A standard form must be completed. (Form attached Appendix A)
12. Cash payments between £1,000 and £2,000 can be accepted through the relevant Assistant Director or Manager. Officers should be satisfied as to the identity of the individual concerned. Be vigilant to any regular cash payments of this size which together exceed £2,000.

### Identification of new Clients and Due Diligence

13. Employees should be wary of situations where funds flow through the authority from sources with which it is not familiar. Where the authority is forming a new business relationship and/or is considering undertaking a significant one-off transaction with a new client, evidence of the identity of the prospective client should be obtained before proceeding.
14. The money laundering policy and guidelines should also be considered in context of the Council's existing customer identification procedures which are well established in several service areas.
15. The Council does undertake activities that may be considered, under the Money Laundering Regulations, to be regulated, however it does not undertake these activities "by way of business", and therefore would not normally be expected to undertake due diligence in respect of any clients to whom it provides these services. The types of activities that are regulated are:

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

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

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

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

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

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

18. It is good practice to have either:

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

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

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

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

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

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

There are various levels of 'due diligence'

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

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

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

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

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

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

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

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

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

- Forms a business partnership with a customer,

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

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

25. In the above circumstances, employees must:

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

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

26. In relation to external bodies the MLRO will maintain a central file of general client identification evidence regarding the external organisations to which Finance and Legal Services provide professional services.
27. Details of due diligence checks (where these are undertaken) should be recorded (Appendix C provides a template) and retained for a minimum of 6 years, with an electronic copy of every customer due diligence record being retained by the client department and the MLRO to meet the requirements of the regulations and in case of inspection by the relevant supervising body.

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

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



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

29. The amount of due diligence required is linked to the type and value of transaction being undertaken, however services need to know the identity of the individual they are dealing with and where their funds are coming from. The process of “knowing your customer” (KYC) is also fundamental in ensuring that the Council can comply with the data protection legislation.
30. Most areas of the Council currently have in place adequate processes to ensure that they know their customers. There is enhanced checking in key areas such as property transactions, benefits claims, employment checking, and council house tenancies as well as several other areas.
31. There is also now an ongoing legal obligation to check the identity of existing clients and the nature and purpose of the business relationship with them at appropriate times. One option to review these matters might be to do so as part of the ongoing monitoring of the business arrangements, as is usually provided for in the Terms of Business Letter, Service Level Agreement or other written record, as well as scrutinising transactions as they occur, paying particular attention to complex or unusually large transactions, unusual patterns of transactions and/or unexpected transactions, etc.

## **Possible signs of Money Laundering**

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



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



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

## Guidance and Training

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

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

## Further Information

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

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

## Appendix A

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

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

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



## Appendix B

### **Confidential**

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

### **Reporting Officer**

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

Directorate: Ext/Tel No:

### **Details of suspected offence:**

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

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

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

**Has any investigation been undertaken (as far as you are aware)?**

*[Please circle]*

Yes / No

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

**Have you discussed your suspicions with anyone else?**

*[Please circle]*

Yes /No

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

**Have you consulted any supervisory body guidance re money laundering? (e.g. the Law Society) *[Please circle]***

Yes/ No

**If yes, please specify below:**

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

Yes/No

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

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

*[Please circle]*

Yes/No



If yes, please enclose details below:

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

Signed:..... Dated:.....

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



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

Date report received: .....

Date receipt of report acknowledged:

.....

Consideration of Disclosure:

Action plan:

Outcome of consideration of disclosure:

Are there reasonable grounds for suspecting money laundering activity?

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

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

Yes / No



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

.....

and complete the points below:

Details of liaison with NCA regarding the report:

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

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

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

Yes/No

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

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

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

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

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

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

Other relevant information:

**-End-**



## Appendix C

### Record of Due Diligence Checks Completed

Date:                      Completed by:

Brief outline of the business transaction?

Parties involved?:

Due Diligence checks completed:

Reliance on third party (due diligence):

Outcome:

**AUDIT COMMITTEE****25 MARCH 2025**

**SUBJECT: LOCAL AUDIT REFORM (CONSULTATION)**

**REPORT BY: CHIEF EXECUTIVE & TOWN CLERK**

**LEAD OFFICER: JACLYN GIBSON, CHIEF FINANCE OFFICER**

**1. Purpose of Report**

- 1.1 To provide the Audit Committee with a summary of the recent consultation undertaken by the Ministry of Housing Communities and Local Government (MHCLG) on Local Audit Reform – A strategy for overhauling the local audit system in England.

**2. Background**

- 2.1 The local audit system in England has faced significant challenges, culminating in a backlog of nearly 1,000 unaudited accounts dating back to 2015/16. For the financial year 2022/23, only 1% of local bodies published audited accounts on time. This has impaired financial assurance, denied residents' transparency regarding the use of taxpayer money.
- 2.2 The Minister of State for Housing, Communities and Local Government published a written ministerial statement on 30<sup>th</sup> July 2024 regarding the backlog in the publication of audited accounts of local bodies in England.
- 2.3 In this statement, he acknowledged the Local Audit system in England as broken and advised of his intention to update on the Government's longer-term plan to fix local audit.
- 2.4 Core systemic challenges, highlighted by Government include:
- Capacity. There is a severe lack of external auditors, with a limited number of firms operating in the sector;
  - Co-ordination. Multiple organisations have a statutory role to oversee and regulate audit, across various sectors, countries (within the UK) and with responsibilities for different frameworks. There is no clear ownership of the system. This limits the ability to align incentives and establish a single vision;
  - Complexity. Financial reporting and audit requirements are disproportionately complex, beyond the system's capacity and inadvertently incentivises risk aversion. Standards are largely modelled on corporate audit rather than the needs of local bodies.
- 2.5 On 18<sup>th</sup> December 2024, the Government opened a wide-ranging consultation on Local Authority Accounts and Local Audit Reform.

2.6 The Local Audit Reform – A strategy for overhauling the Local Audit system in England, commits to a series of measures to fix the broken Local Audit system, including:

- A local audit vision with 8 core principles;
  1. Value for money. A system that provides confidence that bodies and the new LAO have arrangements in place to deliver value for money for taxpayers.
  2. Transparency of the sector's financial health and value for money arrangements.
  3. Capacity and capability. A sustainable and resilient market with access to the right expertise and with sufficient capacity to serve all eligible bodies.
  4. External scrutiny to independently identify issues, challenge and drive improvement
  5. Professionalism. Building a sector attractive to auditors to build careers and become future audit leaders.
  6. Proportionality. Local audit that is proportionate and relevant, from regulations to governance.
  7. Stronger accountability. Scrutiny and reporting of issues and high standards of financial reporting to promote public accountability.
  8. Timely. High quality accounts audited and published on time to ensure relevance and increase value to the public, including timely reporting of issues.
- The establishment of a statutory and independent Local Audit Office (LAO) with 5 strategic responsibilities;
  1. Coordinating the system – including leading the local audit system and championing auditors' statutory reporting powers;
  2. Contract management, procurement, commissioning and appointment of auditors to all eligible bodies;
  3. Setting the Code of Audit Practice;
  4. Oversight of the quality regulatory framework (inspection, enforcement and supervision) and professional bodies;
  5. Reporting, insights and guidance including the collation of reports made by auditors, national insights of local audit issues and guidance on the eligibility of auditors
- Mandating Audit Committees

- 2.7 The strategy reports to build on the recommendations set out in the “Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting” undertaken by Sir Tony Redmond in 2020, and the “Independent Review of Financial Reporting Council” conducted by Sir John Kingman in 2018.

### 3. Local Audit Reform Consultation

- 3.1 The proposed strategy for overhauling the Local Audit systems in England commits to establishing the LAO, to radically simplify the system, and bring as many audit functions as possible under a single organisation with a focus and expertise in local audit, as the Kingman and Redmond Reviews recommended. The proposed strategy also consults on potential additional functions for the LAO to further unify the system.
- 3.2 A LAO will form one of several steps towards resolving the sector’s most pressing challenges. Alongside the Government’s programme to clear the backlog and return to timely audit, relationships must be strengthened and capacity and capability enhanced.
- 3.3 The 6 key areas of required reform included in the consultation are summarised below:

- **The purpose of local audit** – Reforms must be guided by a vision statement with 8 core principles and be driven by user needs.

The proposal includes new emphases on the examination of an authority's financial resilience and the provision of early warnings of major governance and financial risks (including material fraud).

The most radical proposal requires auditors to give an opinion on whether an authority has actually achieved value for money (VFM), rather than purely assessing whether adequate arrangements to secure VFM are in place.

Any implementation of this proposal needs to consider that responsibility for VFM in local authorities sits with elected members. The need to maintain auditors’ independence and whether there is a risk of being drawn into challenging political decisions also need to be taken into consideration. The capacity and capability of the system to respond to an extension of auditors’ responsibilities is a further consideration requirement in this proposal

- **Local Audit Office remit** - The Government accepts the Redmond Review recommendation for a statutory and independent oversight body (the LAO), which would largely take on the roles currently performed by the FRC, PSAA and the NAO, simplifying the system and driving change. As highlighted earlier in the report. The LAO will have 5 strategic responsibilities. A point of focus within the proposal is to improve the consistency and effectiveness of the auditors' use of special powers (e.g., highlighting issues of concerns where remedial action cannot wait for the publication of the Accounts, or the concerns exceeds the scope of the audit via Advisory Notices or Public Interest Reports).

The LAO would have overall responsibility for audit inspection (although it may delegate the work to others), and consideration is being given to whether there should be a scheme for enforcement related to the financial statements that would require authorities to make changes to the accounts.

- **Financial reporting and accounts** - Reforms should consider the needs of the user and the impact of accounting requirements on the work of the account preparers, auditors and the wider audit system.

The Government acknowledges the range of views on the purposes and users of accounts. Local accounts must be fit for purpose, proportionate and relevant to account users. There is a clear need to ensure that accounts contain the correct level of information and disclosures to benefit the users and achieve the purpose of the accounts. The Government is committed to working with sector partners to review the content and format of local authority accounts to ensure that the requirements of the Accounting Code and those practices set out in legislation are appropriate and do not create any excessive or unnecessary burden. The review will consider the definition of the purpose and user of local accounts, any impact definitions may have on accounts and audit, as well as any unintended consequences.

The consultation also highlights the Government's consideration of the now MHCLG Committee's November 2023 recommendation that decoupling the Pension Fund Accounts from the main accounts, publishing them separately and subjecting them to a separate audit certificate would have numerous benefits to local government, however there is no dedicated/ specific question around this topic for response within the consultation.

The consultation document states that infrastructure asset accounting will remain unchanged in the medium term via secondary legislation to extend the current exemption.

Views are also requested for how the reform of the Code of Practice on Local Authority Accounting in the UK (the Code) could be facilitated (e.g., by making the Code an LAO responsibility). It is also proposed that the Code should be freely available.

- **Capacity and capability** – Delays and complexity disincentivise the right skills from entering the market, leading to less timely, less effective audit. The Government will work to ensure that bodies have skilled and resourced account preparers. In order to strengthen the capacity of the sector, consideration will also be given to supplementing private sector audit with public provision.

The Government is committed to ensuring that authorities have skilled and resourced account preparers and will work with the LGA and CIPFA on a programme of improvement support. The FRC's Local Audit Workforce Strategy (yet to be published) will be built upon to enable greater alignment between corporate and local audit and provide a more flexible career progression for individuals.

The eligibility criteria for Key Audit Partners will be reviewed as part of the proposal to ensure that there are no unintended barriers for partners wanting to join the profession and that the sector has the widest possible pool of qualified auditors.

The consultation also considers whether there are further ways to build public provision to supplement capacity and strengthen the sector. including consideration as to whether there should be supplemental public provision of audit.

- **Underpinning the system: relationships and audit regimes** – Existing relationships between local bodies and their auditor need to be strengthened and their respective relationship with the LAO must be clear. The collective scrutiny of audits as part of the democratic process, such as Audit Committees will be strengthened and the potential for local accounts committees for strategic authority areas in England will be considered. Audit regimes will be reviewed to ensure they are fit for purpose in the short and long term.

A key role of the LAO will be to maintain strong links between central government (in its stewardship capacity), the NAO, inspectorates of relevant bodies, and local auditors, allowing a transparent and supportive government approach when concerns are raised about particular bodies.

The strategy proposes that Audit Committees will be mandated for local authorities, with at least one independent member, and audit reports require consideration by full council. Views are also sought on whether the committee chair should be an independent member.

- **Local audit backlog** - Significant and difficult work undertaken by finance teams and auditors to clear the backlog to date is a necessary step to reform. The Government recognises that there is further work required to support the recovery process including guidance, advice and support.

The Government aspiration is that disclaimed audit opinions driven by backstop dates should be limited in unexceptional cases to the next two years (i.e., up to and including 2024/25 – backstop date of 27 February 2026).

The Government recognises that further cross system work is required to support the recovery process, and the consultation informs that the Government will work with system partners to ensure that additional guidance, advice and practical support is available. Consideration may also be given to temporary measures additional to the extended exemption from normal accounting for infrastructure assets (as noted earlier in the report) to ensure that the preparer workload and cost is proportionate (subject to the appropriate management of any risks to public funds).

#### **4. Implications for the Council**

- 4.1 At this stage the Council is in a more favourable position compared to many other authorities and has not experienced the extent of delays that others have in the publication and audit of its accounts. The Council's Statement of Account's up to

2023/24 have all received audit opinions, which means the Council is up to date and ready for the end of the current financial year when the next Statement of Account's will be prepared.

- 4.2 Once the outcome of the consultation is known and any amendments made to the requirements for the production of accounts, these will be taken into account in preparing the relevant set of financial statements and preparing for the external audit of them. Any other, wider, impacts will be reported back to the Audit Committee.

## **5. Strategic Priorities**

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

## **6. Organisational Impacts**

- 6.1 Finance – There are no direct financial implications arising from this report. The external audit process provides an independent source of assurance and form a key element of the checks and balances within the local accountability framework. Part of the role of the external auditor is to provide an assessment of the arrangements that a local authority has put in place to secure economy, efficiency and effectiveness in its use.

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

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

- 6.3 Equality, Diversity and Human Rights

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

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

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

Due to the nature of this report there are no direct equality, diversity or human rights implications,

## **7. Risk Implications**

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

## 8. Recommendation

8.1 Audit Committee are asked to note Local Audit Reform consultation.

**Is this a key decision?** No

**Do the exempt information categories apply?** No

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

**How many appendices does the report contain?** None

**List of Background Papers:** Redmond Review into the Oversight of Local Audit and the transparency of local authority financial reporting – Audit Committee 23<sup>rd</sup> March 2021

DLUCH: Measures to improve local audit delays – Audit Committee 22<sup>nd</sup> March 2022

Addressing the local audit backlog in England – Audit Committee 4<sup>th</sup> June 2024

**Lead Officer:** Jaclyn Gibson, Chief Finance Officer  
[jaclyn.gibson@lincoln.gov.uk](mailto:jaclyn.gibson@lincoln.gov.uk)

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**AUDIT COMMITTEE**

**25 MARCH 2025**

|                       |   |
|-----------------------|---|
| <b>SUBJECT:</b>       | <b>AUDIT COMMITTEE WORK PROGRAMME 2024/25</b> |
| <b>DIRECTORATE:</b>   | <b>CHIEF EXECUTIVE AND TOWN CLERK</b>         |
| <b>REPORT AUTHOR:</b> | <b>JACLYN GIBSON, CHIEF FINANCE OFFICER</b>   |

**1. Purpose of Report**

1.1 To provide details of the Audit Committee work programme for 2024/25.

**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 reported to the Committee.

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

**3. 2024/25 Work Programme**

3.1 The proposed work programme for 2024/25 based on the Committee's Terms of Reference and cyclical reporting, is attached at Appendix B.

3.2 Since last reporting to this Committee, the following changes have been made to the work programme (as shown in red/italics in Appendix B):

- Local Audit Reform (Consultation) – has been added to the agenda for this meeting following publication of the consultation by MHCLG.
- External Audit: Audit Strategy Memorandum 2024/25 – has been deferred to until the June committee meeting at the request of KPMG.

#### **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 As part of the latest Audit Committee Review of Effectiveness, that was undertaken early in 2024, a key area within the resulting Action Plan was ensuring that Members of the Committee have the necessary skills and training. A number of actions were set to address the issues identified including:
- Providing the Group Leaders with more information on the skills required for Members of the Committee.
  - The completion of an individual skills and knowledge assessment to inform a new Committee training plan.
  - Transparency of attendance and inclusion of substitutes on the training will also be improved to ensure that all Members of the Audit Committee are fully trained.
- 4.3 In relation to the development of a training plan, all Members and substitute Members, were sent a questionnaire/survey to assess their individual skills and knowledge in relation to the functions of the Committee. The results of this self-assessment informed a training a development plan which was presented to this Committee in September 2024.
- 4.4 Specific briefing sessions for the Audit Committee are shown included on the Work Programme at Appendix B, although there is also an emphasis on independently led training i.e. the LGA E-learning modules, LGA publications, CIPFA Audit Committee Updates. The CIPFA Audit Committee Updates are usually included in the Internal Audit Progress Reports as and when CIPFA publish them, the latest issue, no 41, was included in the February 2025 Progress Report.

#### **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 2024/25.

**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:** Jaclyn Gibson, Chief Finance Officer  
Email: [jaclyn.gibson@lincoln.gov.uk](mailto:jaclyn.gibson@lincoln.gov.uk)

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## Audit Committee terms of reference (Section 9 Constitution)

### 1 Audit Committee

- 1.1 The Audit Committee is directly accountable to Full Council. It is independent of both the executive and the scrutiny functions and is a key advisory Committee providing independent oversight, recommendations, opinions and influence on the matters for which it is responsible. To assist the Audit Committee in fulfilling its role, it has a right of access to and is expected to engage constructively with other committees and functions, and has the right to request reports and seek assurances from relevant officers.
- 1.2 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 the Constitution.
- 1.3 The Council will appoint an Audit Committee as follows:-

|  |   |
|--|---|
| Number of Members                            | 8 – 7 Councillors and at least 1 Independent member                   |
| Substitute Members permitted                 | Yes, provided they have met the training requirements                 |
| Restrictions on membership                   | Executive members or the mayor may not be a member of this Committee. |
| Quorum                                       | 3 Councillors   |
| Number of ordinary meetings per Council year | At least 4 per year   |

### 2 Statement of purpose

- 2.1 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.
- 2.2 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.
- 2.3 To decide upon and authorise allowances to the Committee's Independent Member.

### **3 Governance, risk and control**

- 3.1 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).
- 3.2 To monitor the effectiveness of the Authority's risk management arrangements (development and operation).
- 3.3 To monitor progress in addressing risk-related issues reported to the Committee.
- 3.4 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 3.5 To consider reports on the effectiveness of financial management arrangements, including compliance with CIPFA's Financial Management Code.
- 3.6 To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 3.7 To monitor the Council's anti-fraud and anti-corruption arrangements (including an assessment of fraud risks and potential harm from fraud and corruption).
- 3.8 To monitor the counter-fraud strategy, actions and resources.
- 3.9 To review the governance and assurance arrangements for significant partnerships or collaborations.
- 3.10 To consider reports on customer complaints against service provision and monitor the effectiveness of the arrangements for managing these complaints.
- 3.11 To appoint the Chair as the Lead Member of the Information Governance Board and to monitor and oversee Information Governance practices within the Council.
- 3.12 To maintain an overview of the Council's constitution in respect of contract procedure rules and financial procedure rules.
- 3.13 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.
- 3.14 To consider the Council's compliance with its own and other published standards and controls.
- 3.15 To report and make recommendations to Executive or Council on major issues and contraventions.

- 3.16 To support ethical values and reviewing arrangements to achieve those values as appropriate.

## **4 Financial Reporting**

### **Governance Reporting**

- 4.1 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).
- 4.2 To consider whether the annual evaluation for the AGS fairly concludes that governance arrangements are fit for purpose, supporting the achievement of the authority's objectives.
- 4.3 To consider whether any non-conformance is significant enough that it must be included in the AGS.

### **Financial Reporting**

- 4.3 To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
- 4.4 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.
- 4.4 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.
- 4.5 To receive on an annual basis a report on the Treasury Management Strategy before approval by the Executive and Full Council.
- 4.6 To be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

## **5 Arrangements for audit and assurance**

- 5.1 To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.

### **External Audit**

- 5.2 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 (Public Sector Audit Appointments) or the authority's auditor panel as appropriate.

- 5.3 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.
- 5.4 To consider specific reports as agreed with the external auditor.
- 5.5 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 5.6 To commission work from internal and external audit, as required, and as resources allow.
- 5.7 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.
- 5.8 To provide free and unfettered access to the Audit Committee Chair for the auditors, including the opportunity for a private meeting with the Committee.
- 5.9 Monitor management action in response to any issues raised by external audit.

#### **Internal Audit**

- 5.10 To approve the Internal Audit Charter.
- 5.11 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- 5.12 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.
- 5.13 To approve significant interim changes to the risk based internal audit plan and resource requirements.
- 5.14 To make appropriate enquiries of both management and the Head of internal audit (Audit Manager) to determine if there are any inappropriate scope or resource limitations.
- 5.15 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.

- 5.16 Consider reports from the Head of internal audit concerning internal audit activity including internal audit reports on the effectiveness of internal controls (key findings and issues of concern) and seeking assurance that action has been taken where necessary on the implementation of agreed actions.
- 5.17 To monitor audit performance, including QAIP (Quality Assurance and Improvement Program) results and any non-conformance with PSIAS (Public Sector Internal Audit Standards) and LGAN (Local Government Application Notes).
- 5.18 Receive and consider the annual report and opinion of the Head of internal audit including conformance with PSIAS.
- 5.19 To consider summaries of specific internal audit reports as requested by the Audit Committee.
- 5.20 To receive reports outlining the action taken where the Head of internal audit 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.
- 5.21 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.
- 5.22 Consider the regular review of effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations.
- 5.23 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.
- 5.24 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.

## **6 Accountability arrangements**

- 6.1 To report to Full Council on an annual basis the Committee's performance in relation to meeting their Terms of reference and the effectiveness of meeting their purpose. The report to include findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
- 6.2 To publish an annual report on the work of the Committee, including a conclusion on the compliance with the CIPFA position Statement.

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**AUDIT COMMITTEE  
AUDIT WORK PROGRAMME FOR 2024/25**

| Meeting dates                               | Audit Items – Revised Agenda  | Training (Subject to the development of a new training plan) |
|---|---|--|
| 4 <sup>th</sup> June 2024                   | <ul style="list-style-type: none"> <li>• Meeting cancelled due to General Election</li> </ul>   |  |
| 15 <sup>th</sup> July 2024                  | <ul style="list-style-type: none"> <li>• Information Governance Update</li> <li>• Internal Audit Progress Report</li> <li>• Audit Recommendations Follow Up Report</li> <li>• Annual Internal Audit Report</li> <li>• Annual Fraud &amp; Error Report</li> <li>• Counter Fraud Policy and Strategy</li> <li>• Annual Governance Statement (Draft)</li> <li>• Addressing the Audit Backlog in England</li> <li>• Statement of Accounts 2023/24 (Draft)</li> <li>• External Audit – Progress Report</li> <li>• Risk Management Annual Update</li> <li>• Audit Committee Work Programme</li> </ul> | Local Government Financial Statements                        |
| 10 <sup>th</sup> Sept 2024<br>(Provisional) | <ul style="list-style-type: none"> <li>• Provisional meeting to receive Audit Completion report - not required.</li> </ul>  |  |
| 23 <sup>rd</sup> Sept 2024                  | <ul style="list-style-type: none"> <li>• Internal Audit Progress Report</li> <li>• Learning and Development Plan for Audit Committee Members</li> <li>• Internal Audit Revised Audit Plan</li> <li>• Whistleblowing Policy and Guidance</li> <li>• Review of Effectiveness Committee Progress Report</li> <li>• Addressing the Local Audit Backlog in England</li> <li>• External Audit – Progress Report</li> <li>• Audit Committee Work Programme</li> </ul>  |  |

|                           |  |  |
|---------------------------|--|--|
| 10 <sup>th</sup> Dec 2024 | <ul style="list-style-type: none"> <li>• Annual Complaints Report</li> <li>• External Audit – Annual Auditor’s Report 2023/24</li> <li>• External Audit – Audit Completion Report (IAS260) 2023/24</li> <li>• Statement of Accounts 2023/24 (Final)</li> <li>• Audit Recommendations Follow Up Report</li> <li>• Six Month Fraud &amp; Error Report</li> <li>• NFI Policy</li> <li>• Information Governance update</li> <li>• Audit Committee Work Programme</li> </ul>  |  |
| 4 <sup>th</sup> Feb 25    | <ul style="list-style-type: none"> <li>• Procurement Act 2023/Contract Procedure Rules</li> <li>• Annual Governance Statement – Progress Report</li> <li>• Treasury management Policy and Strategy</li> <li>• Internal Audit progress Report</li> <li>• Audit Committee Work Programme</li> </ul>  | Treasury Management                                      |
| 6 <sup>th</sup> Mar 25    |  | Audit Committee Effectives and new GIAS (online session) |
| 25 <sup>th</sup> Mar 25   | <ul style="list-style-type: none"> <li>• Internal Audit Charter</li> <li>• Audit Recommendations Follow Up Report</li> <li>• Internal Audit Strategy and Plan 25/26</li> <li>• <del>External Audit – Audit Strategy Memorandum 24/25</del></li> <li>• Statement on Accounting Policies</li> <li>• IAS19 – Assumptions</li> <li>• External Audit Inquiries</li> <li>• Partnership Governance</li> <li>• CIPFA Financial Management Code</li> <li>• Money Laundering Policy and Procedure</li> <li>• <b>Local Audit Reform (Consultation)</b></li> <li>• Audit Committee Work Programme</li> </ul> |  |

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

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