Public Document Pack

West Lindsey District Council

Guildhall Gainsborough
Lincolnshire DN21 2NA
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AGENDA

This meeting will be recorded and the video archive published on our website

Governance and Audit Committee
Tuesday, 13th March, 2018 at 2.00 pm
Council Chamber - The Guildhall, Marshall's Yard, Gainsborough, DN21 2NA

Members:

Councillor Giles McNeill (Chairman)
Councillor Mrs Jackie Brockway (Vice-Chairman)
Councillor Mrs Sheila Bibb
Councillor David Bond
Councillor John McNeill
Councillor Mrs Angela White
Alison Adams
Andrew Morriss
Peter Walton

1. **Apologies for Absence**
2. **Public Participation Period**
   Up to 15 minutes are allowed for public participation. Participants are restricted to 3 minutes each.
3. **Minutes of Previous Meeting**
   i) Meeting of the Governance and Audit Committee held on 16 January (PAGES 3 - 10)
4. **Members Declarations of Interest**
   Members may make any declarations of interest at this point but may also make them at any point during the meeting.
5. **Matters Arising Schedule** (PAGES 11 - 12)
   Matters Arising schedule setting out current position of previously agreed actions as at 5 March 2018.
6. **Attendance of the Executive Director for Economic and Commercial Growth** (VERBAL REPORT)
7. **Public Reports for Consideration**

i) Combined Assurance Report 17/18 (PAGES 13 - 34)

ii) Closure of Accounts 2017/18 - Accounting Matters and External Audit Plan 17/18 (PAGES 35 - 94)

iii) Internal Audit Draft Annual Plan Report 2018/19 (PAGES 95 - 119)

8. **Workplan** (PAGES 120 - 121)

Mark Sturgess
Head of Paid Service
The Guildhall
Gainsborough

Monday, 5 March 2018

WEST LINDSEY DISTRICT COUNCIL

MINUTES of the Meeting of the Governance and Audit Committee held in the Council Chamber - The Guildhall, Marshall's Yard, Gainsborough, DN21 2NA on 16 January 2018 commencing at 2.30 pm.

Present:	Councillor Giles McNeill (Chairman)
	Councillor Mrs Sheila Bibb
	Councillor John McNeill
	Councillor Mrs Angela White
	Councillor Thomas Smith
	Alison Adams
	Andrew Morriss
	Peter Walton

In Attendance:

Ian Knowles	Executive Director of Resources and S151 Officer
Tracey Bircumshaw	Finance & Business Support Manager
James O'Shaughnessy	Corporate Policy Manager & Deputy Monitoring Officer
Caroline Capon	Principal Accountant
Lucy Pledge	Lincolnshire County Council Internal Audit
Matthew Waller	Lincolnshire County Council Internal Audit
Michael Norman	KPMG
John Cornett	KPMG
James Welbourn	Democratic and Civic Officer

Apologies:	Councillor Mrs Jackie Brockway Councillor David Bond
Membership:	Councillor Jackie Brockway was substituted by Councillor Thomas Smith.

49 PUBLIC PARTICIPATION PERIOD

There was no public participation.

50 MINUTES OF PREVIOUS MEETING

The minutes were moved and seconded, and a recorded vote was taken.

For: Councillors G McNeill, J McNeill, Bibb, White.

Against: None.

Abstained: Councillor Smith.

A total of 4 votes for, none against and one abstention.

RESOLVED that **t**he minutes of the meeting held on 7 November 2017 were approved as a correct record.

51 MEMBERS DECLARATIONS OF INTEREST

None.

52 MATTERS ARISING SCHEDULE

The matters arising schedule was noted.

53 PERIODIC REVIEW OF THE ANNUAL GOVERNANCE STATEMENT ACTION PLAN 2016/17

Members considered a report reviewing the process with the Annual Governance Statement 2016/17 Action Plan.

The Corporate Policy Manager & Deputy Monitoring Officer introduced the report, making the following points:

- The action relating to selective licensing had now been closed;

- Progress was underway with all of the other actions contained in the report, and all the due dates were expected to be met. It was anticipated that by the next Governance and Audit meeting in March that the actions relating to resilience and capacity and political governance will have been progressed to the point of closure;

Following this update, Members also considered whether they wanted to see a further report on development management in March. Following reassurance from the Housing and Enforcement Manager that steps had been taken to implement all of the recommendations in the report relating to development management, it was felt that such a report was not needed.

The periodic review was noted.

54 DRAFT INTERNAL AUDIT QUARTER 3 PROGRESS REPORT 2017/18

Members considered a report on the progress of the Audit partner against the 2017/18 annual programmes agreed by the Governance and Audit Committee in March 2017.

The Principal Auditor highlighted several points from the draft audit, listed below:

- The ICT patch management audit had been moved back to Quarter 4;

- There were currently two overdue actions, one of which was high priority. This related to the ICT infrastructure audit;

- The amount of overdue audit recommendations was low;
- The performance details against targets were highlighted at paragraph 12 of the report;

Following this update, Independent Members expressed concern about the 'red' risks listed in the report, and that the Governance and Audit Committee was not being used more proactively in certain circumstances; in particular, they felt that their role as independents was being bypassed. Overall though, they wanted to make it clear that West Lindsey District Council (WLDC) and its Executive have the absolute right to determine the direction of the Council, but on the big decisions more questions for due diligence should be asked by the Governance and Audit Committee.

The Director of Resources responded and said that management had always tried to be open and honest about risks. Part of the red risks in the report were around the handover between the previous Commercial Director and the former Chief Executive. The subsequent departure of the Chief Executive had made it hard to provide evidence for that six month period.

The Chairman added his thanks to the Independent Members for correspondence sent to himself prior to Christmas. He outlined that the Governance and Audit Committee's primary role was retrospective; it currently could not be proactive in decision making. However, although the Committee was retrospective on the whole, it was proactive in taking reviews. In addition, decisions taken by the Council are guided by and set out by the Constitution.

Further points from the Committee were:

- Mr Walton had concerns that WLDC did not have the structure or process in place to become an entrepreneurial authority;
- The 'Entrepreneurial Board' mentioned in the report had been headed by the former Chief Executive and was an officer group;
- In the next iteration of the medium term financial plan there will be an integration of commercial activity within existing project delivery in order that it can be tracked as one activity and not two;
- It was important that problems from the past are not perpetuated;
- It was right that Governance and Audit drive their own agenda and are able to appropriately challenge decisions;
- New guidance was set to be released on support for Audit committees and can be shared with Members when it becomes available;
- The Head of Audit and Risk Management at Lincolnshire County Council stressed that questioning for audit committees should concentrate on the 'how', rather than the 'why', as the committee was in existence to help keep good governance. This good governance did not have to be confined to the formal processes of the committee,

and a refresher on insight could be in order;

- As a third line of assurance, if sections of the commercial strategy are not functioning as they should be, audit can bring this to the attention of the Governance and Audit Committee. Part of the formal follow up process was to keep an eye on areas that have lower assurance;

The Chairman then gave his thanks to the auditors for their report.

Two new recommendations were moved and seconded as follows:

(1) The Director of Economic Development & Commercial be invited to the next meeting of the Governance and Audit Committee;
(2) A workshop on commercial governance to be run by either the Director of Resources or the Director of Economic Development & Commercial be set up;

and a recorded vote was taken.

For: Councillors G McNeill, Bibb, J McNeill, Smith and White.

Against: None.

Abstained: None.

A total of 5 votes for, with no-one voting against or abstaining.

RESOLVED that:

(1) The Director of Economic Development & Commercial be invited to the next meeting of the Governance and Audit Committee;
(2) A workshop on commercial governance to be run by either the Director of Resources or the Director of Economic Development & Commercial be set up.

55 CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2016/17

Members considered a report from the External Auditor, KPMG, on the annual claims and returns.

The following points were highlighted:

- The report was largely undertaken by internal auditors on KPMG's behalf;

- The housing benefits return was circa £22.7 million in value;

- Every error has to be reported regardless of the size or scale of the error; some of the numbers can appear to be miniscule in comparison to the overall value of the returns;

- There were a number of errors in the payment of benefits to claimants; some of those errors were underpayments. In these instances, West Lindsey District Council's (WLDC's) Benefits team work to correct these underpayments;

  Some of the errors resulted in overpayments to claimants. Where errors are identified in testing, there were two options available. WLDC opted to take the '100% testing' option; here, all of the cases that have attributes associated with the error were looked at. This resulted in an amendment to the claim of £37, and avoided the potential extrapolation of the error, and a potential reclaim from the Department for Work and Pensions (DWP);

- The work did not meet the 30 November deadline, and was signed off 5 days later. This had not appeared to have had any impact on the subsidy paid to WLDC;

- The fee for the work set by Public Sector Audit Appointments was just short of £6,200. There was likely to be a variation on this fee due to the issues discussed above.

- The errors discovered are usually due to a change in circumstances for the claimant. As part of the subsidy testing, a report was compiled so that errors can be tracked;

- The errors are not untypical of most Local Authorities. The DWP tend to scrutinise more closely those Local Authorities who have no errors reported;

- Issues found as part of the testing are discussed with the Benefits team and the individuals concerned.

The report was noted.

56 DRAFT TREASURY MANAGEMENT STRATEGY 2018/19

Members considered a draft Treasury Management Strategy for 2018/19

The Finance and Business Support Manager introduced the report, highlighting the following points;

- There were a number of additions to the strategy this year; there were a number of changes within the prudential code and the treasury management guidance, and guidance was imminent from the Ministry of Housing, Communities and Local Government;

- Included within the strategy was a section on non-treasury management investment;

- All borrowing will be undertaken to maturity (long and short-term borrowing) to provide some surety as to when repayments will need to be made;

- A new local authority bill was being developed; this was an intra authority borrowing investment, and was free of charge. The minimum investment was £500,000 – it had a range of 1 month to 1 year.

Following this introduction, Members of the Committee then asked questions of the Finance and Business Support Manager. Further information was provided as below;

- This strategy had already been through the Corporate Policy and Resources Committee and provided criteria in which WLDC will invest £20 million in commercial properties;

- The implementation of the commercial strategy will happen alongside the business plan to avoid confusion;

- The Director of Resources mentioned that a report on developments within the commercial portfolio was scheduled for Corporate Policy and Resources committee later in May 2018;

- The operational boundary (the limit beyond which external debt is not normally expected to be exceeded) had moved to £44.509 million; this figure was lower than the previous level. This was in part due to lower borrowing;

Note: Peter Walton left the meeting at this point and did not return.

- WLDC would not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed;

- The arrangement with the Municipal Bond Agency (MBA) means that if the Council entered into a bond with them, but the Public Works Loans Board (PWLB) have a better rate, then the Council would use the PWLB. If the reverse were true, then the Council would use the MBA;

- The external auditors would look at the Local Audit Office's report that was released before Christmas 2017, and include it as part of their reporting;

- The amount permissible to be invested on the local property asset fund was being increased by £1million to £4million; however this does not mean an investment will be made.

The recommendations in the report, along with a new recommendation from the Chairman were moved and seconded, and a recorded vote was taken.

For: Councillors G McNeill, Bibb, J McNeill, Smith and White.

Against: None.

Abstained: None.

A total of 5 votes for, with no-one voting against or abstaining.

RESOLVED to:

(1) Recommend the inclusion of the Treasury Management Strategy in the Medium Term Financial Plan for the approval of Council;
(2) Acknowledge the Treasury Management Practices;
(3) Recommend that the attention of Full Council is drawn to the repayment of capital on borrowing.

57 CONCURRENT MEETINGS PROTOCOL

Members considered a report on the protocol for the occasions where Prosperous Communities and Corporate Policy and Resources Committees meet concurrently.

Question and comments from Members followed an introduction from the Democratic and Civic Officer. The following points were highlighted:

- The quorum for the concurrent committee would be as for the individual committees. 4 Members from Prosperous Communities, and 4 Members from Corporate Policy and Resources would be required as separate votes will be taken during the meeting;

- There were other examples of this type of committee meeting in other parts of the country, but most Councils operate a 'Cabinet' or 'Executive' style of governance;

- The calling of a concurrent committee would happen as and when required; for example, it may be used for areas that require significant investment.

The recommendation was moved and seconded, and a recorded vote was taken.

For: Councillors G McNeill, Bibb, J McNeill, Smith and White.

Against: None.

Abstained: None.

A total of 5 votes for, with no-one voting against or abstaining.

RESOLVED to adopt the concurrent protocol as outlined in the report.

58 WORKPLAN

Subject to the addition of a visit from the Commercial and Economic Growth Director in March, the workplan was noted.

The meeting concluded at 4.17 pm.

Chairman

Governance & Audit Committee Matters Arising Schedule

Purpose:
To consider progress on the matters arising from previous Governance & Audit Committee meetings.

Recommendation: That members note progress on the matters arising and request corrective action if necessary.

Matters arising Schedule

Status	Title	Action Required	Comments	Due Date	Allocated To
Black					
	member training - future topic request	extract from mins of mtg 14/3 The rationale for reviewing sales invoicing was further explained and it was noted that key staff were been offered training around commerciality. Members requested that some level of commercial awareness training be built into the Member Training Plan in the future.	Please build into plan going forward. Discussion took place to confirm what training Members required. Agreed to look at courses to aid better understanding of issues such as Procurement, Commercial awareness, Ethics, Decision making, Business Case risk/understanding, Conflicts of Interest, Commercialism, setting up a Private Company and related risks, Contract management. External and Internal training options to be considered. UPDATE - internal training options identified, dates to be set in early 2018. UPDATE - booked for Tuesday 27 Feb 2018. Members to be notified.	13/03/18	Alan Robinson
	Workshop on commercial governance	The Chairman proposed as a recommendation a workshop to be run by either	I think this was intended for independent members and members of g and a - could it be extended to other interested Members?	13/03/18	Ian Knowles

		Ian or Eve on commercial governance.			
Green					
	Scrutiny Workshop	**A meeting between Cllr McNeill, Cllr Howitt-Cowan, Cllr Summers and Cllr Bibb, Alan Robinson and Mark Sturgess about having a workshop to discuss how Scrutiny operates at the moment and its role in the future.**	**To be postponed until after the Scrutiny workshop in early March.**	**17/04/18**	**Alan Robinson**
Grand Total					

	Committee: Governance & Audit
	Date: 13th March 2018

Subject: Combined Assurance Report 2017/18

Report by:	Director of Resources: Ian Knowles
Contact Officer:	James O'Shaughnessy Corporate Policy Manager 01427 676537
Purpose / Summary:	To present the Council's Combined Assurance Report for 2017/18.

RECOMMENDATION(S): The Committee are asked to approve the report and be assured that the findings illustrate that the Council's governance framework is operating effectively.

IMPLICATIONS

Legal: None

Financial: FIN/143/18

Staffing: None

Equality and Diversity including Human Rights: None

Risk Assessment: None

Climate Related Risks and Opportunities: None

Title and Location of any Background Papers used in the preparation of this report:
None.

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	**X**

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**		**No**	**X**

1 Introduction

1.1 The purpose of the Combined Assurance Report is to produce a record of assurances against our critical activities and risks. It provides an overview of assurance across the Council making it possible to identify where assurances are present, their source and where there are potential assurance ‘unknowns or gaps’. It offers a tri-angulated view of assurance with separate opinion provided by management; corporate and/or third party assurance and Internal Audit. The Combined Assurance Report is produced annually and this report covers the year ending 31st March 2018.

2 Combined Assurance Report

2.1 This is the fifth Combined Assurance Report undertaken at West Lindsey District Council. It provides a view on assurance systems and services for the year ending March 2018. The report is offered at Appendix 1.

2.2 The report details the methodology that was used and the levels of assurance that we currently have. The assurance assessment, as explained in the report, is based on the ‘three levels of assurance’ model.

2.3 By conducting this work, we are in a position to be able to identify where we need to obtain further assurance and at what levels. The findings will be used to focus on areas for improvement and potentially form the issues to be addressed within the Council’s Annual Governance Statement.

3 Findings

3.1 This report, as presented, represents a realistic, yet positive picture of the levels of assurance in place across the Council and illustrates that our assurance framework is working well.

3.2 The findings shows that across the critical activities which were within the report’s scope; 71% were assessed as performing well (green), with the remainder assessed as requiring some form of attention to ensure significant issues do not arise. Last year’s findings; using the same methodology, were green (55%); amber (39%) and red (6%). The improved position is due to areas assessed as amber last year now being assessed as performing well and a reduction in the number of emerging risks, which are all categorised as ‘amber’ in nature.

3.3 The ‘field-work’ identified a number of potential emerging risks which were discussed with the Management Team. Following deliberations a significant proportion of these were considered as operational in nature and deemed to be manageable at that level.

3.4 Those transactional, front-facing activities, categorised as 'amber' in nature in this year's report are set out below with the reasons for their amber ratings. In all cases the issues identified were known to the Council and oversight/actions were already in situ:

Area	Reason for Rating
Environmental Protection	New team manager is looking to review and improve processes
External Health & Safety	New team manager in place who is reviewing the service
Gainsborough Markets	Looking for effective solutions to halt long-term decline in markets
Health & Wellbeing	Contract awarded to WLDC to provide service. Capacity and impact on workloads to be assessed and monitored
Vulnerable Communities	Must ensure a clear strategy is in place to provide appropriate support when required
Planning Enforcement	Review of key policies required. Actions recommended in recent audit to be progressed
Community Safety/ASB	Recently re-structured. Audit due to look into service more closely
Operational/Strategic Property & Estate Management	Restructure and additional capacity now in place. Close working with Growth now evident. New processes to be embedded
Property Investment Portfolio	Purchase of investment properties is behind schedule. Governance processes are in place to support decision making
Building Control	Under new management; reviewing commercial opportunities

3.5 The content of the report and the thoughts of the Council's senior management have identified a number of key areas of focus for the year ahead. These are:

- **Review of Statutory Returns**
  The Council is required to submit to various government bodies, a wide range of statistical and performance related information in the form of statutory returns. These are provided across a range of Council activity. There is no clear corporate oversight of their submission, their usefulness and accuracy. Hence a piece of work is in development to delve further into this.

- **Oversight of Third Party Arrangements**
  The Council is involved in a number of joint venture arrangements and is also a joint shareholder in two companies. It is key that the Council's governance arrangements incorporate appropriate oversight and scrutiny of the business plans and operations of these bodies to ensure

they are performing well and their values are compatible with those of the Council.

- **Enforcement Related Services**
  A restructure of this area and recruitment to provide additional capacity have been completed within the past 12 months. The effectiveness of the new arrangements has to remain in focus to provide assurance that the anticipated improvements in service delivery are realised.

- **Implementation of the Wellbeing Service**
  Following a procurement and tendering exercise, the Council has been successful in being chosen to deliver a strand of the service to support vulnerable adults to maintain their independence and wellbeing, therefore preventing the escalation of need and reducing demand on Hospital and Adult Social Care. This service commences on 1st April 2018. The Council must ensure its implementation is closely monitored, partnership working arrangements are effective and the intended outcomes for users of the service are achieved.

3.6 Operating in an environment of constant change and uncertainty, service areas assess and monitor any emerging risks that may affect the delivery of their service. These have been captured within the report and all have been classified as medium (amber) in nature. These classifications have been fed into the overall green and amber ratings contained within the report. In comparison to last year's report, there has been a significant reduction on the number of emerging risks

3.7 The identification and management of risk are regarded as key disciplines. We are pleased that an appreciation and awareness of risk management was evident and captured during the collation of the report.

4 Next Steps

4.1 The report will be used as a basis for learning and improvements and service planning and will be updated to provide an overall level of assurance, focusing on the critical areas (detailed at 3.5 above) for the Council in achieving strategic objectives for the 2018/19 period.

4.2 The findings of the report will be used to inform Internal Audit's work plan for 2018/19 and the Council's Annual Governance Statement for 2017/18.

5 Recommendation

5.1 The Committee are asked to approve the report and be assured that the findings illustrate that the Council's governance framework is operating effectively.

Assurance LINCOLNSHIRE

For All Your Assurance Needs

West Lindsey DC

Combined Assurance Status Report

Lincolnshire COUNTY COUNCIL

Working for a better future

January 2018

What we do best…

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

…and what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

Already working extensively with the not-for-profit and third sector

Combined Assurance Status Report

Assurance LINCOLNSHIRE
For All Your Assurance Needs

Contact details – Lucy Pledge Head of Internal Audit
Lucy.Pledge@lincolnshire.gov.uk

John Sketchley Audit Team Leader
John.Sketchley@lincolnshire.gov.uk

Introduction

This is the fifth combined assurance report for West Lindsey District Council.

By grouping the different sources of assurance in a single model we provide the basis for Senior Management and Audit Committees to gain a better understanding of their organisation's assurance status and needs.

We do this by coordinating assurance arrangements – providing some structure – this is our Assurance Map.

We have well established Assurance Maps that help us to focus our work plans on the make or break risks that affect the successful delivery of services and strategic objectives. The Maps also recognise the importance of critical business systems that support successful delivery and 'protect the business' – the due diligence activities.

The Maps give an overview of assurance provided across the whole organisation – not just those from Internal Audit – making it possible to identify where assurances are present, their source, and where there are potential assurance 'unknowns or gaps'.

The Maps are an invaluable tool for senior managers, providing a snapshot of assurance at any point of time. This report explores those assurances in more detail.

We gathered and analysed assurance information in a controlled environment that:

- takes what we have been told on trust, and
- encourages accountability with those responsible for managing the service.

Scope

We gathered information on our:

- **Critical systems** – those areas identified by senior management as having a significant impact on the successful delivery of our priorities or whose failure could result in significant damage to our reputation, financial loss or impact on people.
- **Due diligence activities** – those that support the running of the Council and ensure compliance with policies.
- **Key risks** – found on our strategic risk register, operational risk registers or associated with major new business strategy/change.
- **Key projects** –supporting corporate priorities/activities.
- **Key partnerships** – partnerships that play a key role in successful delivery of services

Methodology

To ensure our combined assurance model shows assurances across the entire Council, not just those from Internal Audit, we leverage assurance information from your 'business as usual' operations. Using the '3 lines of assurance' concept:

Our approach includes a critical review or assessment on the level of confidence the Board can have on its service delivery arrangements, management of risks, operation of controls and performance.

We did this by:

- Speaking to senior and operational managers who have the day to day responsibility for managing and controlling their service activities.
- Working with corporate functions and using other third party inspections to provide information on performance, successful delivery and organisational learning.
- Using the outcome of Internal Audit work to provide independent insight and assurance opinions.
- Considering other information and business intelligence that feed into and has potential to impact on assurance.

We used a Red (low), Amber (medium) and Green (high) rating to help us assess the level of assurance confidence in place.

The overall assurance opinion is based on the assessment and judgement of senior management. Internal audit has helped co-ordinate these and provided some challenge **but** as accountability rests with the Senior Manager we used their overall assurance opinion.

Key Messages

The production of this year's Combined Assurance Report has again been a positive experience, with meaningful participation on the part of team managers and senior officers. The findings are an accurate reflection of our assurance position across our services, critical systems, governance processes, ICT arrangements, key projects and risk analysis.

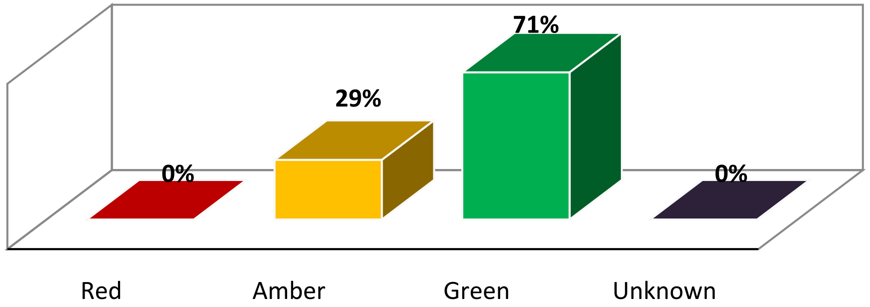
The findings show that 71% of all areas assessed demonstrated high levels of assurance. The remaining areas, 29%, were assessed as amber in nature; highlighting known issues that, if not sufficiently addressed, could have a negative impact on Council operations. For 2016/17, the ratings were 55% green, 39% amber and 6% red, so an improved position has been reported.

During 2017/18 one of the main aims of the Council was to shift into delivery mode to meet the objectives of the Corporate Plan. This is evidenced by the significant and detailed work that has been undertaken to support regeneration and economic development across the District. Partnerships and delivery vehicles have been created to assist the Council in this regard. This focus has necessitated the Council to review its governance decision-making processes to ensure they do not hinder progress or lead to missed opportunities (in a fast moving environment) yet remain sufficiently robust to provide sufficient levels of assurance for Members, officers and residents.

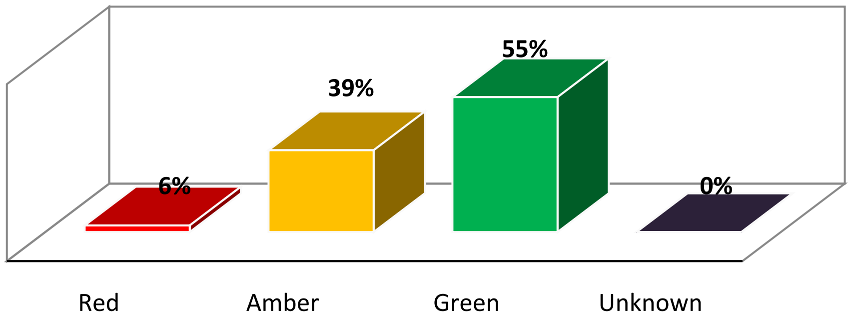
Focus has also been placed on ensuring the Council has sufficient capacity and capability to deliver, with restructures taking place at Director and Team Manager levels.

Service delivery has also remained a priority. Emphasis has successfully been placed on improving performance and customer satisfaction in a number of service areas including Local Land Charges and Development Management. .

Overall Assurance Status 2017/18



Overall Assurance Status 2016/17



Suggested next steps……

Review of Statutory Returns

The Council is required to submit to various government bodies, a wide range of statistical and performance related information in the form of statutory returns. These are provided across a range of Council activity. There is no clear corporate oversight of their submission, their usefulness and accuracy. Hence a piece of work is in development to delve further into this.

Oversight of Third Party Arrangements

The Council is involved in a number of joint venture arrangements and is also a joint shareholder in two companies. It is key that the Council's governance arrangements incorporate oversight and scrutiny of the business plans and operations of these bodies to ensure they are performing well and their values are compatible with those of the Council.

Enforcement Related Services

A restructure of this area and recruitment to provide additional capacity has been completed within the past 12 months. The effectiveness of the new arrangements has to remain in focus to provide assurance that the anticipated improvements in service delivery are realised.

Implementation of the Wellbeing Service

Following a procurement and tendering exercise, the Council has been successful in being chosen to deliver a strand of the service to support vulnerable adults to maintain their independence and wellbeing, therefore preventing the escalation of need and reducing demand on Hospital and Adult Social Care. This service commences on 1st April 2018. The Council must ensure its implementation is closely monitored, partnership working arrangements are effective and the intended outcomes for users of the service are achieved.

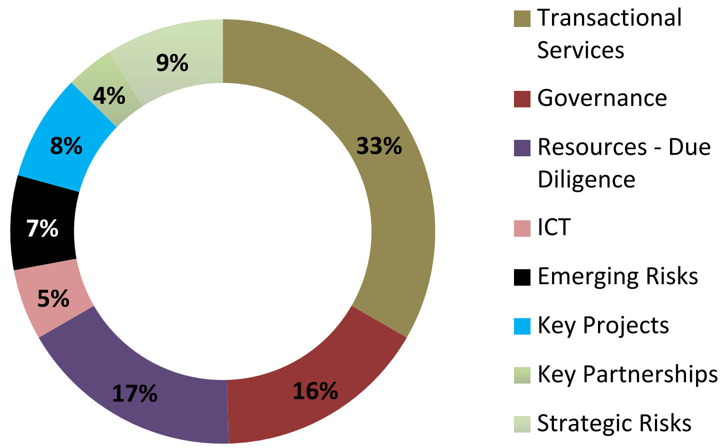
Critical Systems

The critical systems that form the scope of the report are detailed on the accompanying chart. They include transactional services, governance, resources, ICT, emerging risks, key projects, key partnerships and the Council's strategic risks.

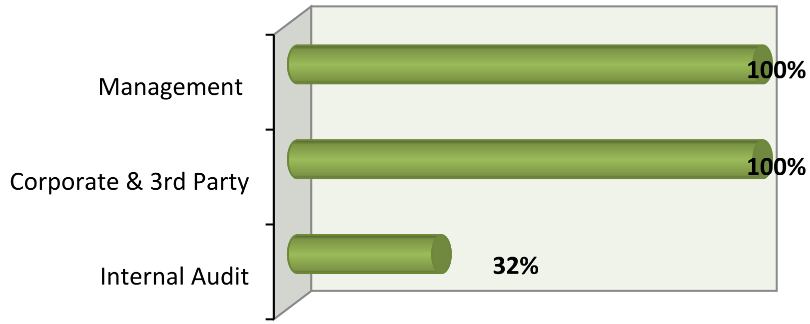
Across this range of aspects, we are in agreement with the reported levels of assurance. As reported earlier, 71% of our critical systems were assessed as displaying high levels of assurance, with 29% assessed as requiring some form of attention. In respect of any areas categorised as 'amber' in nature, the Council were in a position to demonstrate their current awareness of the need for specific focus to be applied to remedy issues and plans were already in place or were in the process of being devised. In appropriate circumstances, the Council utilises external reviews and audit support to assist in identifying the root cause of issues and remedial actions. This balance is evidenced by the analysis of who provides our assurance.

The Council adopts the Three Lines of Assurance Model, with team management and corporate support playing a crucial role in demonstrating effective accountability for delivery and understanding the overall effectiveness of service delivery within their remit.

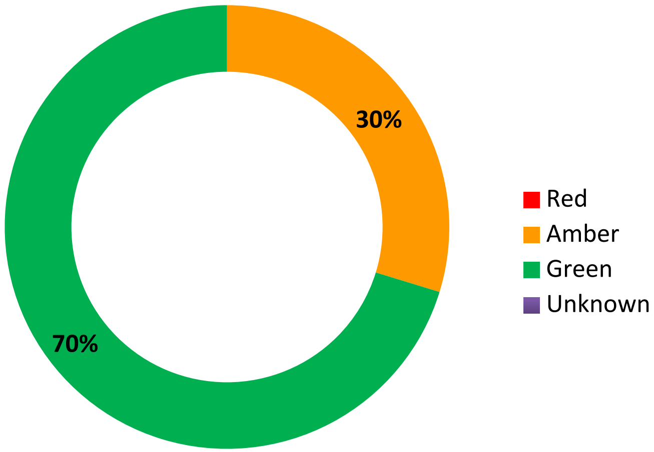
Effective performance and risk management are key disciplines required to ensure delivery remains at a high standard. Greater use of benchmarking is an objective for the Council to promote continual improvement and ensure value for money.



Who Provides Your Assurance



Transactional Services



Transactional services refer to the agreed set of services and functions run by the Council. Each service area should have clarity of its purpose, an understanding of their stakeholders and clear processes for delivery and managing performance.

Our transactional services are in the main 'front-facing' and the delivery of excellent performance and high levels of customer satisfaction are key pre-requisites. These two components contribute in a large part to the reputation of the Council amongst residents and Members.

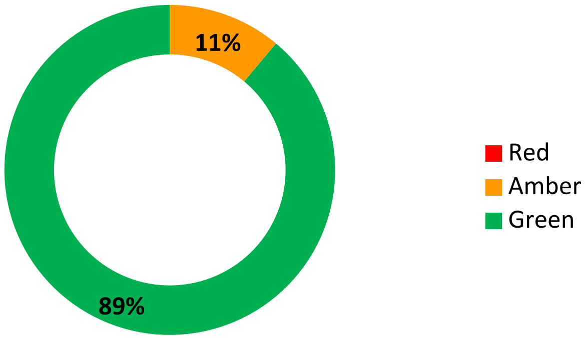
Analysis of the report's findings in respect of transactional services has established that our overall assessment remains almost the same as in 2016/17, with 70% of our transactional services assessed as performing highly. No service has suffered a worsening in their assessment during the year and no area has been assessed as 'red' in nature.

The number of transactional services assessed within the report has grown since last year's report with the inclusion of new areas such as Health & Wellbeing, Vulnerable Communities and Property Investment Portfolio. Due to their newness, all were given an 'amber' rating as implementation and development plans become embedded.

Other areas assessed as 'amber' include environmental protection, external health and safety, strategic and operational property management and building control. All of these areas have new structures/management in place and the Council is cognisant of the need to closely monitor and provide support as the new arrangements settle down. Markets remains an issue, with future options still under deliberation. Community Safety/ASB was also categorised as 'amber'. A restructure has taken place within this service and an audit is due into this area, for which the Council awaits the findings.

Improved assurance ratings were provided in the areas of Land Charges, Planning Management Processes, Tourism, Traded Services, Homelessness Prevention and Car Parking. Such improvements illustrate the benefit of the Combined Assurance exercise and ensures the focus within service and business planning is on identifying means of improvement.

Governance



This section includes areas such as corporate governance, risk management, partnerships, projects and contract management, Human Resources and Member and Democratic Services.

During 2017/18 we were pleased to again receive from Internal Audit a ‘green’ rating opinion on our governance arrangements. This maintained our improvements over recent years. We aim to ensure that in a time of significant change, our governance processes and structures remain robust, yet proportionate and facilitate effective decision making.

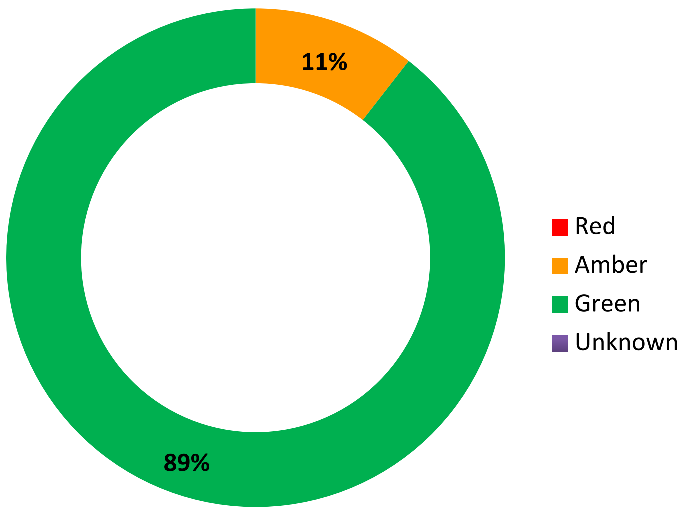
The Council’s ‘Local Code of Governance’ was revised during the year in line with the latest CIPFA update.

The findings show that almost 90% of our governance related elements are deemed to be working very effectively. Two areas require attention. Firstly, Progress & Delivery measures. A limited assurance finding was reported by an audit into this area in 2017/18, with attention focused on issues pertaining to the relevance of some measures and the setting of targets and benchmarks. A review of this is underway in readiness for 2018/19. The subject of Equality & Diversity was also assessed as ‘amber’. Responsibility for this area was re-assigned during 2017/18, however there has been a delay in arranging staff refresher training. This will be delivered in early 2018/19.

Improvements were identified in Partnership Management and in 2017/18 an audit looking into the Council’s adoption of the ‘Intelligent Client’ role gave a substantial assurance rating. Similar ratings were provided by audits into Risk Management and Project Management. A consultancy report based on the Quality of Decision Making produced by Internal Audit, found governance structures ensure that Members are engaged in the process and do not create barriers or unnecessary time constraints to the process. Business cases are produced and options for the delivery of a programme or project are properly assessed and that financial and legal information and advice is obtained and decisions are challenged and scrutinised.

Work is well under-way in preparation for the implementation of the General Data Protection Regulations (GDPR) from May 2018. The Council has appointed to the role of Data Protection Officer, the project plan is closely monitored by the Corporate Information Governance Group (CIGG) and staff awareness sessions have been held.

Resources - Due Diligence



This aspect relates to the functions that support the running of the Council and ensure compliance with policies and internal Council procedures.

The findings across this section of the report are extremely encouraging. Few issues were reported in respect of the Council's arrangements for overseeing Council Tax, Business Rates, Housing Benefits, financial management controls and the governance of grants. The findings were ascertained after due consideration had been given to a range of indicators against which individual areas could be assessed. These indicators included performance, costs of delivery, the quality and breadth of project and risk management within the area and any conclusions from recent audits.

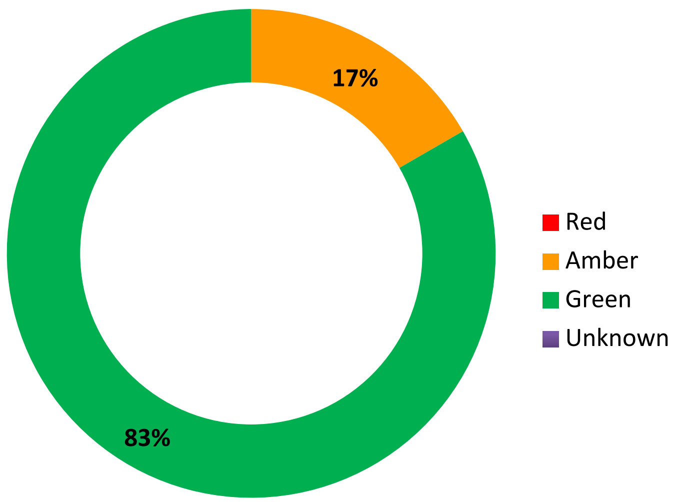
Due to statutory requirements, a number of these areas are subject to annual audits.

An 'amber' rating was reported in connection with Universal Credit. This is a developing process with the impact on resources and workloads not yet fully understood. Full roll-out of Universal Credit across West Lindsey is expected in Autumn 2018.

A further 'amber' rating was made in connection with Debtors. The Council has an objective to increase its trading and commercial opportunities; the latest being the introduction of a charge for green waste collections. While processes are currently operating well, the impact on the capacity of the Debtors team to meet future demand has to be closely monitored.

In 2017/18, audits into Non-National Domestic Rates (business rates), Bank Reconciliation and Key Controls all reported findings of substantial assurance.

ICT



The ICT aspect of the report focuses on governance arrangements within the service, the infrastructure, day to day operations, projects, compliance and applications and systems.

This year's findings show an improvement on last year's report with over 80% of elements providing a high level of assurance, compared with 67% last year.

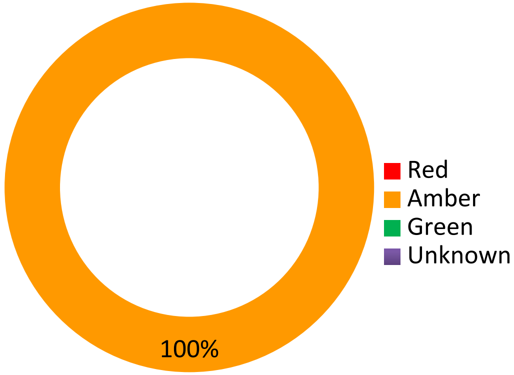
Compliance was categorised as 'amber' due to concerns relating to software licensing and PCI DSS compliance (which concerns the security and data flows relating to the receipt and processing of card payments). The latter area was audited late in 2016/17 and provided a limited assurance finding. Actions have been undertaken to remedy the issues that were identified and a follow-up audit is due. During the Council's business planning exercise, software licensing was raised as an area requiring investment. Further analysis and business cases are now awaited from the ICT Manager.

An audit was undertaken in 2017/18 into the ICT partnership arrangements the Council has with North Kesteven District Council. This found that arrangements were working effectively, but suggested that a focus now needs to be placed on the future strategic direction of the partnership and how this can mutually benefit both parties.

Work on the production of the Council's Digital and ICT Strategy has continued. SOCITM feedback on the draft strategy they reviewed during the year has been acted upon, with the Council now recognising the need for greater emphasis and integration into the strategy of digital considerations. Further consultancy support has been commissioned to provide objective analysis and expert input. The lack of a formal strategy has not compromised the Council's ICT function.

ICT security and information governance remain key areas and are fully supported by the Council. No major security breaches or successful attacks on ICT systems were reported during 2017/18. Any learning from publicised attacks on other organisations has been taken on-board.

Emerging Risks



This element of the report was introduced last year and assess the Council's appreciation, across all service areas, of potential future issues that may arise if not adequately mitigated or planned for at an early stage. During periods of uncertainty or significant change, it is imperative that due consideration is paid to the risks associated with planned or potential events.

A number of emerging risks were identified among service areas as part of the exercise. All were deemed to be amber in nature, meaning that their potential impact and likelihood were not of critical proportions. They included a mixture of externally generated risks (future legislative change for example) and internally generated risks, such as implementation of new processes or concerns associated with capacity/capability. The risks raised within the Report were discussed by Management Team with a significant proportion of them determined to be operational in nature and therefore assigned to the respective service risk registers.

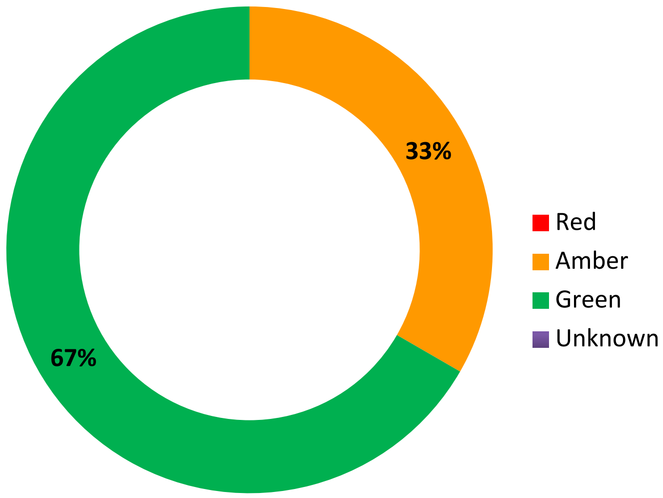
The Council has a Risk Strategy in place (2016-2018) which is to be refreshed during 2017/18. This provides overarching guidance on the Council's approach to risk management, details the Council's risk appetite, identifies levels of responsibility and accountability and sets out the processes in place to support on-going appraisal of risks.

Internal audit reported a 'substantial assurance' rating in their Risk Management audit report in 2017/18. Risk management is now undertaken effectively across the Council and encompasses the consideration of strategic risks, operational risks and programme and project based risks. All service areas maintain their own risk registers to record and manage their risks and the Council's project management methodology allows for the recording and management of risks associated with project development and delivery.

The Council's strategic risks are managed by the Management Team and are presented to the Governance & Audit Committee on a bi-annual basis for review and comment.

The Council is a member of the Lincolnshire Risk Managers Group. This forum provides the opportunity to share best practice and discuss the prevailing climate which councils operate in and the associated risks.

Key Projects



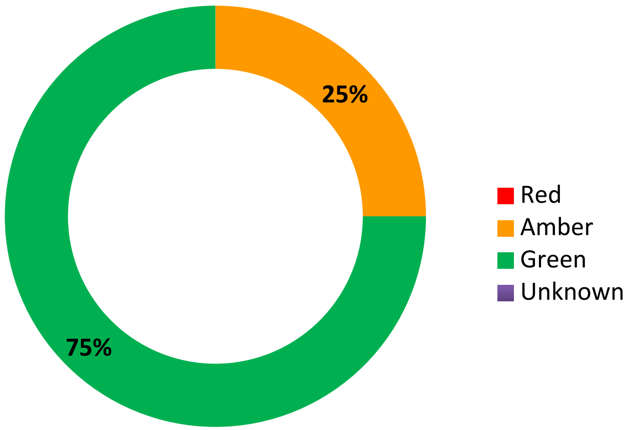
To oversee the development, delivery and review of the effectiveness of key programmes and projects which support delivery of the Corporate Plan, the Council, has formed a Programme Board. This is comprised of the Directors and key officers. It meets on a monthly basis and receives reports and updates relating to new initiatives, progress on delivery of existing projects, benefits realisation reports and considers interdependencies and any resourcing/capacity issues. Reporting to Members on the delivery of key programmes of work is provided through quarterly reports for the main policy committees.

During the course of compiling the Combined Assurance Report, officers were asked to identify the key projects the Council is involved with. Of these, three were categorised as warranting an 'amber' rating, with the remaining six deemed to be fully on track. When required, the Council buys-in additional capacity and expert technical knowledge to support delivery.

During 2017/18, Internal Audit conducted an audit into the Council's project management processes. This provided a substantial assurance rating. It recognised the degree of support in place for the Council's key programmes of work, however highlighted a recognised issue relating to weaknesses in maintaining oversight and appropriate governance of smaller scale projects delivered at an individual officer or service area level. To address this, steps are in place to recruit additional capacity and project management expertise to ensure such projects are developed and delivered in line with the Council's methodology.

To provide further support for programme and project management, agreement has been obtained from Management Team to explore options relating to the possible procurement of a project management system.

Key Partnerships



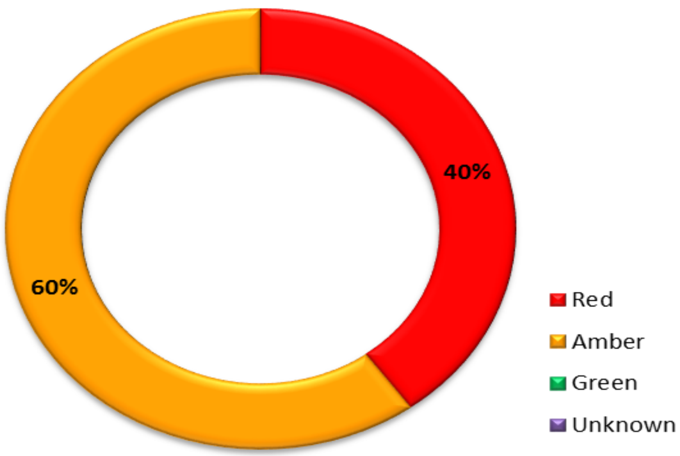
Ensuring effective partnership working is a key concern for the Council. It is recognised that to achieve its goals, the Council must enter into key strategic partnerships and work jointly to achieve mutually beneficial objectives. Assessments of the on-going relevance and effectiveness of partnerships must therefore be undertaken. This is an issue raised within the Council's Annual Governance Statement and a programme of work is in place to strengthen matters.

During 2017/18 the Council has formed a number of key partnerships to support the delivery of regeneration and economic growth. A process is also in place to identify a major development partner to take forward ambitions related to the economic growth of Gainsborough over the next 20 years or so. A joint venture has also been created to support improvements in the retail sector in Gainsborough. The formation of appropriate governance structures for such arrangements has been a focus for the Council, with expert legal advice sought where necessary.

Key partnerships are also in place to support aspects such as ICT delivery (audited in 2017/18), the delivery of the Central Lincolnshire Local Plan and waste operations. These are deemed to be working effectively. One area of concern relates to the partnership in place which oversees the Choice Based Lettings Service. An audit report into this area reported limited assurance and highlighted known issues. The findings were useful however, in that they raised the profile of the issues across the partners. This has led to a better state of affairs, as evidenced by a follow-up audit, which reported a much improved position and has supported the Council in its decision making with respect to its future involvement in the partnership.

The Council's understanding and application of the concept of the 'Intelligent Client' was audited in 2017/18. For the Council to achieve its objectives, it is important that the outputs required from partnership arrangements for the Council to achieve its objectives are completely and effectively delivered, and good value for money is achieved. To ensure this the Council must act as an Intelligent Client in its relationship with its partners. The audit provided a 'substantial assurance' finding, demonstrating that the Council fulfils its obligations effectively in this regard.

Strategic Risks



Strategic Risks are reviewed and managed by the Council's Management Team (comprising of the Directors and Strategic Leads), with ownership of each individual strategic risk assigned to the appropriate Director. The content of the strategic risk register is based around the risks associated with the delivery of the themes contained within the Council's Corporate Plan, plus a number of additional risks such as Information Governance and Corporate Health & Safety. This approach is advocated by the Association of Local Authority Risk Managers (ALARM) who advise that strategic risks should focus on the long-term objectives of the organisation, which can be affected by areas such as financial concerns, political risks, legal and regulatory changes and changes in the physical environment.

The Management Team are risk aware and as a minimum review the strategic risk register on a quarterly basis. Each risk is assessed against the scoring matrix (used for assessing all categories of risk) set out below, which calculates the level of the risk (high – red, medium - amber) or low - green.) Existing mitigations are identified and consideration is paid to the need for additional mitigations.

Scoring Matrix

Impact	Critical	4	8	12	16
	Major	3	6	9	12
	Minor	2	4	6	8
	Negligible	1	2	3	4
		Hardly Ever	Possible	Probable	Almost Certain
	Likelihood				

The Council's Governance & Audit Committee receive bi-annual updates on the content of the strategic risk register and are asked to provide appropriate scrutiny. This Committee contains the Council's 'Member Risk Champion'.

Key Risks

Strategic Risks

The Council's highest rated strategic risks are:

Information Governance

Protection from cyber-attack and/or data leakage is a significant risk to all organisations. We must therefore ensure that our defences are as strong as possible and staff, Members and partners are aware of their responsibilities. On-going monitoring of developments in this area, training and awareness and vigilance on the part of all, are a major part of the mitigating actions. Work to ensure the smooth implementation of GDPR from May 2018 is a key action to be progressed.

Open for Business

The achievement of sustainable growth across the District and resilience in the business sector is a key objective of the Council's Corporate Plan. The risks to achieving this are varied in nature and emanate from many sources. The Council must be vigilante and sensitive to external factors and ensure that the District is seen as and becomes a more attractive and supportive place for business to thrive.

Corporate Health & Safety

The health, well-being and safety of staff, visitors and users of Council facilities is of upmost importance. The impact and consequences of a serious incident due to negligence on the part of the Council are extremely serious. The Council must therefore ensure that the safety of all is maintained and existing controls and processes are regularly monitored to assess their on-going effectiveness.

Commercial Approach

For the Council to successfully meet its financial challenges it has embarked upon a journey of generating additional sustainable revenue streams from commercial sources. These need to be properly evaluated and the Council must be able to act in an agile manner to take appropriate opportunities as they arise.

Governance & Audit Committee	
Date 13/03/2018	

Subject: CLOSURE OF ACCOUNTS 2017/18 – ACCOUNTING MATTERS & EXTERNAL AUDIT PLAN 2017/18

Report by:	Tracey Bircumshaw
Contact Officer:	Tracey Bircumshaw Finance & Business Support Manager 01427 676560 Tracey.Bircumshaw@west-lindsey.gov.uk
Purpose / Summary:	To review and approve the accounting policies actuary assumptions and materiality levels that will be used for the preparation of the 2017/18 accounts. For the External Auditor to explain the process of the External Audit of the Statement of Accounts and approach to the Value for Money Audit 2017/18.

RECOMMENDATION(S):

1. Members are recommended to approve the proposed Accounting Policies (as included at Appendix 1)

2. Members consider and make comment on the pension assumptions (as included at Appendix 2)

3. Members consider and make comment on the risk assessment (at Appendix 3).

4. Members are recommended to approve the proposed materiality levels as included at section 4 including the revisions detailed at 5.7.

5. Members consider and make comment on the key closedown dates at Section 7.6.

6. Members should accept the main accounting changes for 2017/18 and onwards as shown at section 8.

7. That members accept that in future years due to the earlier deadline the Unaudited Statement of Accounts will be circulated **after** issue by the S151 Officer.

8. That Members note that accounting policies for group accounting and accounting for Community Infrastructure Levy are now required.

9. That Members note and receive the External Audit information contained within this report. (Appendix 4).

IMPLICATIONS

Legal: The External Audit element of the report is in accordance with the Audit Commission Act 1998 and Audit Code of Practice

Financial FIN/108/18: None directly from this report. However, the accounting policies and actuarial assumptions used for the accounts will have an impact on the amounts contained within the Statement of Accounts for 2017/18. The levels of materiality set will have minimal impact.

The additional costs associated with the delivery of the Statement of Accounts by the statutory deadline are met from existing budgets.

The annual audit fee 2017/18 and any additional work required to address significant risk within the Value for Money Audit will be met from the approved budget.

Staffing: An additional temporary staffing resources has been appointed for the process period, in addition, overtime hours are likely to be worked by some members of the Finance Team to ensure the earlier Statutory deadline is met.

Equality and Diversity including Human Rights: None arising as a result of this report.

Risk Assessment: There is a risk of material errors should incorrect accounting policies be applied or if the actuary uses wildly inaccurate assumptions. An assessment of all risks is attached at Appendix 3.

Climate Related Risks and Opportunities: None arising as a result of this report.

Title and Location of any Background Papers used in the preparation of this report: No background papers were used in the preparation of this report.

Call in and Urgency:

Is the decision one which Rule 14 of the Scrutiny Procedure Rules apply?

Yes		**No**	**x**

Key Decision:

Yes		**No**	**x**

1. Background

1.1 The Audit and Accounts Regulations 2015 require Local Authorities to produce and publish their Statement of Accounts by 31 May and an Audited Statement of Accounts by 31 July annually (previously 30 June and 30 September respectively) for all the financial statements for the accounts for the previous financial year, these statutory dates are effective for the 2017/18 onwards.

1.2 In producing the Statement of Accounts the Council follows the CIPFA Code of Practice on Local Authority Accounting 2017/18 (the Code).

1.3 The Council is required to ensure that the Statement of Accounts provides a true and fair view of the financial positon, financial performance and cash flows of the authority. A true and fair presentation requires a faithful representation of the effects of transactions, other events and conditions in accordance with the definitions criteria for assets and liabilities, income and expenses set out in the Code. Compliance with the Code will therefore meet this requirement.

1.4 This report is asking for Members to review a number of matters such as accounting policies, materiality and actuarial assumptions (used for determining the pensions estimates) that will be used for drawing up the financial statements for the year. This review then forms part of the scrutiny process for the Statement of Accounts 2017/18.

1.5 External Audit – 2017/18 Audit Planning

The Accounts and Audit Regulations 2015 require local authorities to approve and publish their Statement of Accounts by 31 May and the Audited Statements by 31 July respectively (previously 30 June and 30 September) effective from the accounts for the year 2017/18.

The External Audit Annual Audit Plan is attached at Appendix 4 explains the process of the external audit of the Statement of Accounts and their approach to the Value for Money audit 2017/18.

The Auditor will ultimately give his opinion on whether the Statement of Accounts is compliant with statutory requirements and that they have been prepared in accordance with proper accounting practices, and that adequate arrangements are in place to achieve Value for Money in the use of resources.

The audit will take a risk based approach, which will be reassessed throughout the process.

The report will be presented by John Cornett, KPMG LLP (UK).

2. Changes to the Code of Practice

2.1 The following changes to the Code are effective for the 2017/18 and onwards financial statements:

Code Change	Impact on WLDC	Progress
Amendments to section 2.2 relating to the Community Infrastructure Levy (CIL) and treatment of revenue costs and charges before date of commencement.	WLDC are acting as an agent for the collection of the CIL and will therefore only recognise the administration fee within our Comprehensive Income and Expenditure	Accounting treatment confirmed. Accounting Policies amended. No receipts received to

	Table.	date.
Amendment to section 3.1 to introduce key reporting principles for the Narrative Report.	Narrative Report is reviewed annually to ensure it is compliant with the key reporting principles.	A review of the Narrative Report has been undertaken and the Council do cover the key principles
Updates to section 3.4 covering the presentation of financial statements to clarify the reporting requirements for accounting policies and going concern reporting	Finance Team to review the accounts and they are already compliant with this requirement.	Finance Team have reviewed the accounts and they are already compliant with this requirement.
Following the amendments in the Update to 2016/17 Finance Team to review changes and ensure all information is in line with the Code. Only minor changes to these sections and the Code, changes to sections 4.2 (Lease and Lease Type Arrangements), and 7.4 (Financial Instruments – Disclosure and Presentation Requirements)	Finance Team to review changes and ensure all information is in line with The Code.	There are only minor changes to these sections and the changes will be reviewed as part of the production of the Statement of Accounts.

3. Accounting Policies

3.1 The proposed accounting policies are as detailed at Appendix 1. These have been reviewed to ensure that they reflect the requirements of the latest Code and that they are still appropriate, accurately reflect what has occurred during the year and have been consistently applied.

3.2 Members should note only material accounting policies will be included within the Statement of Accounts.

3.3 The following changes of accounting policies have been made since the production of the 2016/17 financial statements:

- Added at vi Charges to Revenues for Non-Current Assets

  "For loans advances to third parties funded by borrowing the principal repayment on the loan is classed as a capital receipt and is then used as a proxy for MRP and set aside in the Capital Adjustment Account."

  This reflects the Councils MRP policy as included within the Treasury Management Strategy. It applies to loans where the returns are expected to be higher than the revenue costs of the debt and in these cases the principal repayments will be utilised as a proxy for MRP.

- The addition of wording to xi Government Grants and Contributions

  "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."

  This is to reflect the material transactions in year. Last year's transactions were not considered to be material and therefore the wording had been removed.

- The addition of the following wording also to xi Government Grants and Contributions:

  "Community Infrastructure Levy

  The policy pertaining to CIL has been developed and agreed by the Central Lincolnshire Joint Committee composed of representatives of North Kesteven, City of Lincoln, West Lindsey District Council and Lincolnshire County Council. The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The council collects the levy, which is a planning charge on behalf of the Parish Councils and as such, the income does not belong to West Lindsey District Council and will be held on the Balance Sheet until paid over to the Parish Council."

  This is to reflect the adoption of CIL 13 November 2017 with effect from 22 January 2018.

- The removal of xviv Overheads and Support Services.

  This is to reflect that overheads and support services are not reported to management and do not inform decision making or the financial statements such as the Expenditure and Funding Analysis and Consolidated Income and Expenditure Statement.

- Added a new policy xiv Interests in Companies and Other Entities

  "The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses."

  The addition of the above policy is required in view of the Councils fifty percent ownership of the joint venture company Market Street Renewal Ltd. Should the turnover of Surestaff Ltd/Staffing Services Ltd exceed the Councils materiality level the Council will also be required to include these companies as part of the group accounts.

4. Actuarial Report and Assumptions

4.1 The Council's pension scheme is administered by Lincolnshire County Council with pension contributions included in the county wide pension fund.

4.2 The County Council uses Hymans as the actuary for assessing the year end assets and liabilities of the pension fund and the use of these assumptions determines the estimates of its share of the pension fund that the Council is required to reflect within its accounts.

4.3 The actuary also does a formal valuation of the pension fund every three years, with 2016 being the year of the latest valuation which relates to the financial years 2017/18 to 2019/20. The purpose of the review is to:

- calculate the Council's funding position within the fund, and
- determine the contributions that the Council will pay from April 2017 to March 2020.

4.4 The pension values are comparatively large when taken in the context of the Councils overall budget and spend levels, so any assumptions used for these values will inevitably have a major impact on the Councils accounts, albeit this is a long term liability which is projected to be funded within 20 years. It is right therefore that they should receive special scrutiny.

4.5 Although the assumptions have been determined by Hymans, ultimately it is the Council that is responsible for ensuring that any assumptions used are accurate and will lead to the best estimates possible for use in the accounts for 2017/18.

4.6 The actuarial assumptions report as provided by Hymans is included at Appendix 2.

4.7 When reviewing the assumptions used, the Council is required to consider if these assumptions are appropriate having regard to local circumstances. Matters that could impact on any assumptions used usually relate to proposals that may have a major impact on the future makeup of the workforce, such as pay increases in excess of 3% or outsourcing more than 5% of the workforce.

4.8 At this point in time there are no known proposals in the near future that could impact and therefore it is not recommended that the actuary's assumptions are challenged.

4.9 Estimated values of contributions and deficit reduction payments are submitted to the Actuary to take into account when calculating the final IAS19 report for inclusion within the Accounts.

5. Materiality Levels for 2017/18

5.1 Members will be aware of the earlier closedown requirement for the closure of the 2017/18 accounts and onwards. Members now approve materiality levels that will be applied as part of the closedown process with the expectation that these will greatly assist with speeding up the closedown process and meeting the new statutory deadline of 31 May.

5.2 Information is said to be material if omitting it or misstating it could influence decisions that users make on the basis of an entity's financial statements. There are no set materiality levels and each organisation needs to set levels having regard to the size and any special circumstances of the organisation.

- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and

- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

5.3 Materiality is an amount that makes a difference to the users- an audit never provides 100% assurance- only "reasonable assurance." For instance, if a company has overstated its revenues by £5 million when its total revenues are £4 billion, then this £5 million is considered 'immaterial.' However, if the company's total revenues are only £50 million, then this £5 million overstatement would be considered 'Material."

5.4 External Audit have set a materiality level for the Council of £850,000 for 2017/18 (2% of gross expenditure) and amounts less than £42,000 are considered trivial (i.e. not significant)

5.5 The financial effect of applying these materiality levels cannot be accurately assessed since some could result in a revenue budget underspend and some could result in a revenue budget overspend. There will be equal and opposite under and over spends in the following financial year.

5.6 In order to meet the very tight statutory deadline there is a fine balance to strike between having absolute accuracy and accepting that there may be minor adjustments to make as part of the audit which would be included in the ISA260 Audit Report. Overall, it would be worth accepting the risk of small under/overspends year on year and possible minor audit adjustments to the accounts since they will not materially affect the Councils overall financial position or the financial statements that will still show “a true and fair view”.

5.7 The following levels of materiality are suggested for particular classes of transactions, account balances or disclosures. They remain at the same level as approved for 2016/17.

1. Disclosure of material items of income and expenditure (Note 5) £750,000 being 5% of total revenue (reduced from £1m)
2. Manual Accruals - limit of £2,000 (increased from £1,000)
3. Disclosures - £750,000
4. 5% of income for continuing operations
5. Related party transactions £10,000
6. Stocks – anything less than £10,000 is charged to revenue in year
7. Fixed assets (Property, Plant & Equipment) – Major components £500,000. Only assets with a value greater than £500,000 will be subject to the componentisation rules as per our policy.

5.8 The Council has a capital de minimis level of £10k (i.e. all sums below this value are treated as revenue) and it is proposed that this sum remain unchanged.

6. Risk Assessment

6.1 An assessment of the risks associated with closing the Councils accounts and producing the Financial Statements has identified a number of risks. The assessment is attached at Appendix 3.

6.2 Each risk has been scored in terms of the likelihood that the event will happen and the severity of the impact if the event happens. Multiplying these two scores together then gives the calculated risk severity. A traffic light colouring system is used to highlight the level of severity.

6.3 These risks are then scored again after applying any actions to be taken to mitigate the risk.

6.4 Members should note that after applying the planned mitigation the majority of risks are coloured green (low risk) with only two risks having an amber rating and no risks identified as being high (red).

7.0 Key Closedown Timetable

7.1 In order to achieve the earlier closedown for the 2017/18 accounts, officers have been working hard over the last three years to reduce the length of time to achieve tasks and also to bring forward the deadlines.

7.2 Tasks and work practices have been reviewed to take on board both accounting changes and the need to streamline/reduce workload and work more efficiently.

7.3 For the last three years the timetable was revised to bring forward all dates to ensure that we could achieve the 31 May deadline from 2017/18 and onwards. The actual achievement last year was that the deadline was met with the Statement of Accounts being published on the Council website on 31 May 2017. This forward planning means that we are now in a good position for delivering by the deadline going forward.

7.4 A detailed timetable is produced (with some 230+ tasks) for officers' use that not only produces the Statement of Accounts but is also used to produce the working papers as required by the Councils External Auditors.

7.5 Within the detailed timetable there are certain key dates that represent those key milestones that we need to focus on achieving.

7.6 The following table shows those key tasks and dates for the 2017/18 closedown process.

	Key Dates 2017/18
Planning and Preparation	1.11.2017 - 31.12.2017
External Audit Liaison Meeting	31.1.2018
Balance Sheet Review at 30.12.2016	31/01/2018
Finance Team Closedown Briefing	10/01/2018
Interim Audit	25.2.2018
Budget Managers Briefings/Training	01/02/2017

Report to G&A Committee: Accounts Closedown Matters: to approve Accounting Policies & Actuaries Assumptions	13/03/2018
Narrative Report draft	31/03/2018
Close the period 12	01/04/2018
Accruals/Prepayments input to system	06/04/2018
All Accounts Closed	30/04/2018
Out-turn position report to CP&R	03/05/2018
Balance Sheet and CIES completed	04/05/2018
Statement of Accounts completed	23/05/2018
Quality review of Statement of Accounts	25/05/2018
Authorised for Issue by S151 Officer	31/05/2018
Send SoA to Auditors and publish on website	31/05/2018
Out-turn position Report to CP&R	03/05/2018
Audit of Accounts	23/06/2018
WGA (subject to date of issue)	31/05/2018
G&A Approval of SoA and AGS	24/07/2018
Publish SoA on website and issue notice	31/07/2018

8. Accounting Changes 2017/18

8.1 There are no major accounting changes that will affect the 2017/18 Statement of Accounts and onwards. However there is a minor presentational change of significance to Members. The financial statements last year reported amounts based on the Councils "clusters" which was to enable Councils to demonstrate performance in a way in which they organise themselves and more importantly how they budget against the General Fund to provide services. Members will be aware of more recent changes that now require budget setting and monitoring reporting on the three directorates (People, Places and Policy & Resources). Consequently, those statements that had been reported on a "cluster" basis will now be reported on a "directorate" basis.

9.0 2017/18 Statutory Deadline (moved to 31 May 2018 and Audited by 31 July 2018)

9.1 Due to new statutory deadlines for the 2017/18 Statement of Accounts, it will no longer be possible to report to the Governance and Audit Committee prior to authorisation for issue of the unaudited statements by the Executive Director of Resources (Chief Finance Officer S151). They will however, be issued to Members of the Governance and Audit Committee at the earliest opportunity.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

i General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (The Code) and the Service Reporting Code of Practice 2017/18, supported by the International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the Local Government Act 2003.

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

ii 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 the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- 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. Expenses incurred, which relate to employees, are not accrued for as they are considered to be relatively stable year on year and omitting them would not result in a material error.

- Interest receivable on investments is accounted for as income 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 income 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.

iii Acquired Operations

All operations acquired in year will be treated in line with the Council's accounting policies and if material disclosed separately on the face of the Comprehensive Income and Expenditure Statement.

iv 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 in 3 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.

v 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 a 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 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.

vi Charges to Revenue for Non-Current Assets

Services and support services are debited with the following amounts to record the cost of holding fixed assets during the year:

- 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 the losses can be written off

- amortisation of intangible fixed assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. 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.

The Council has assessed the Minimum Revenue Provision (MRP) in accordance with the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. Any charge in 2017/18 is for either new borrowing under the prudential system, based on the asset life method, or relates to the Council's current credit arrangements for Finance Leases for which the outstanding liabilities are repaid over the term of the agreement. For loans advances to third parties funded by borrowing the principal repayment on the loan is classed as a capital receipt and is then used as a proxy for MRP and set aside in the Capital Adjustment Account. The Council will review on a case by case basis any repayment of MRP against Prudential Borrowing undertaken for the purpose of Commercial Property Investment.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vii Council Tax and National Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NNDR) on behalf of the major preceptors (including government for NNDR) and, as principals, collecting council tax and NNDR 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 NNDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NNDR collected could be less or more than predicted.

The council tax and NNDR 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 NNDR 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 NNDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

viii Employee Benefits

The Council accounts for employment and post-employment benefits when employees earn them and the Council is committed to providing them, even if the actual provision might be many years into the future. Employee benefits are accounted for in the following four categories:

a) Benefits Payable During Employment

Short-term employee benefits are those due to be settled payable within twelve months of the Balance Sheet date and include, wages, salaries, social security contributions, paid annual leave and paid sick leave, bonuses and non-monetary benefits, and similar payments 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 holiday entitlements (or any form of leave, e.g. 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 the employee takes 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.

b) 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 relevant service line (or in discontinued operations) 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 for a 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 the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the 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.

c) Post – Employment Benefits

Employees of the Council are eligible to be members of the Local Government Pension Scheme (LGPS) Lincolnshire Pension Fund, administered by Lincolnshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

d) The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme.

- Liabilities of the Lincolnshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected 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 projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (determined by reference to market yields at the end of the reporting period on high quality corporate bonds (iBoxx AA over 15 year index).

- The assets of the Lincolnshire Pension Fund attributable to the Council are included in the Balance Sheet at fair value:

  - quoted securities – current bid price

- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value

The assessment process takes the most recent triennial actuarial valuation and updates it to reflect current conditions.

The change in the net pensions liability is analysed into seven components:

Service cost comprising:

Current service cost – the increase in 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 Costs – the increase in liabilities as a result of a scheme amendment or a decision whose effect relates to years of service earned in earlier years (curtailment) – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

Net Interest – 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-measurement comprising:

Return on scheme assets – excluding amounts included in net interest on the net defined benefit liability/asset – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Actuarial gains and losses - changes in net pension 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 Pension Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Lincolnshire 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 appropriations to and from the Pension 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 Pensions 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 the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Further information can be found in the Lincolnshire Local Government Pension Fund Annual Report. Which is available at the following link;

https://www.lincolnshire.gov.uk/local-democracy/how-the-council-works/finances/lincolnshire-county-council-pension-fund/

or the following address;

Treasury and Financial Strategy,
Lincolnshire County Council,
County Offices
Newland,
Lincoln, LN1 1YG

ix Events after the Reporting Period

Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are 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.

x 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 and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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.

Financial liabilities are classified into two types:

- amortised cost – liabilities that are not held for trading, such as operational creditors and borrowings; and

- fair value through profit or loss – liabilities held for trading.

The Council currently only has liabilities carried at amortised cost relating to Finance Leases, 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 lease agreement.

Financial Assets

Financial assets are classified into two types;

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and

- Available-for-sale assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables

Loans and receivables 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 the amortised costs. 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 loans that the Council has made this means that the amount presented on the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement as the amount receivable for the year in the loan agreement.

Where assets are impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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.

Available for Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value.

Where the asset has fixed or determinable payments, annual credits to the Financing and Investing Income and Expenditure line in the Comprehensive Income and Expenditure

Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument.

Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

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 Council 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.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on the Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred - these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments are due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the 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, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

xi 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 or 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 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.

Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The council collects the levy, which is a planning charge on behalf of the County and Parish Councils and will be utilised for infrastructure projects to support the development of the area. As a collecting authority, other than an element of the charge being credited to the Comprehensive Income and Expenditure Account for administration costs, the income does not belong to West Lindsey District Council and therefore will be held on the Balance Sheet until paid over to the relevant bodies.

xii Heritage Assets – General

The Council holds Civic Regalia as a Heritage Asset

Heritage assets are recognised and measured (including the treatment of valuation gains and losses) in accordance with the council's policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

The carrying amount of heritage assets are reviewed where there is evidence of impairment for heritage assets, 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 general policies on impairment – (see Accounting Policy xviv Property Plant and Equipment) in this summary of significant accounting policies.

xiii Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences, rights to use land) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. All such expenditure is accounted for on an accruals basis and capitalised as a non-current asset.

Internally generated 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 websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. 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.

xiv. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

xv Inventories and long-term contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

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

xvi Investment Properties

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 or production of goods or is held for sale.

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 revalued 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 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.

xvii 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 the 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

xviii Leases

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

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (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. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement 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 debt) asset 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 Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease 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 of 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 fixed 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.

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, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement 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.

xviv Property Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or 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 and Equipment is capitalised on an accruals basis, provided that it is possible 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 assets potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense when it is incurred. Assets acquired above a de-minimis of £10,000 are capitalised.

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 assets, community assets and assets under construction – depreciated historical cost

- 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.

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CIES where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- 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 line in the Comprehensive Income and Expenditure Statement.

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

Impairment

Assets are assessed at each year–end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- 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 line 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 commencing in the first full year that the asset is included in the Council's accounts. An exception is made for assets without a determinable 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 life of the property as estimated by the valuer with the exception of a number of leased shops, where the remaining term of the lease has been used

- Vehicles, plant and equipment – straight line allocation over the life of the asset, as advised by a suitably qualified officer

- Infrastructure – straight line allocation.

Asset Useful Economic Lives assumed

Assets	Useful Life Range (years)
Offices/Leisure Centre	20 to 60
Depots & Stores	46
Shops	48
Public Conveniences	39
CCTV Systems/IT Equipment/Wheeled Bins/Office Equipment	1 to 11
Vehicles/Bin Lifters	1 to 7
Infrastructure Assets	20 to 31
Dwellings	46

Where an item PPE asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Materiality levels have been assessed and a materiality level of £0.5m for major components has been applied.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable 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 revalued 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 previous losses recognised in the Surplus or 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 data 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 disposals (if any) are credited to the same line in the CIES 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 and credited to the Capital Receipts Reserve. The balance on the Capital Receipts Reserve can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated 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 fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xx Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will 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, this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent liabilities

A contingent liability arises when an event has taken place that gives the authority 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 authority a possible asset whose existence will only be confirmed only 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 or service potential.

xxi Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingences. Reserves are created by appropriating 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, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

xxii Revenue Expenditure Funded From Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the CIES 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.

xxiii Value Added Tax (VAT)

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

xxiv Fair Value Measurement

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 each reporting date. 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:

a) In the principal market for the asset or liability, or

b) 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 using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring 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 valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access 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

HYMANS ROBERTSON

Accounting Assumptions

Take control early, it's your call!

From listening to LGPS employers, we understand the importance of the pension figures disclosed in your accounts. The figures disclosed can have a material impact on your ability to carry out your normal business function.

The pension figures, in both the balance sheet and revenue account, are heavily dependent on the choice of assumptions. Crucially, as directors of the organisation, it is your responsibility to set assumptions that reflect the characteristics of your organisation.

Your options

1 Enhanced Service

For employers who wish to take control of the figures disclosed in their pension accounts, using the enhanced service would allow your organisation to:

- Receive provisional FRS102 / IAS19 figures in advance of the reporting date, giving an early indication of how your assets and obligations have developed and can also help inform the assumption setting exercise. Further, for Scottish employers in 2018, provisional figures would also capture the 'step-change' from the 2017 actuarial funding valuations. This 'step-change' experience item could have a significant positive or negative impact on your accounting balance sheet.
- Provide an employer specific assumptions paper covering the assumptions key to your organisation, what changes to assumptions could be made, and the impact on your accounting disclosures. This would be based on information you provide about future expected pay growth and recruitment plans.
- Arrange a face-to-face meeting (or a call) with an Actuary to discuss the accounting assumptions further and how these impact on your organisation's accounting figures. Engaging directly with the Actuary preparing your FRS102 / IAS19 report is typically more cost-effective than seeking third party advice.

2 Basic Service

For employers who are happy to adopt the default assumptions, appropriate for an average LGPS employer with your liability profile, we will prepare the standard accounting report for the standard fee.

If you would like to know more about our enhanced service, please click here
or speak to either Craig Alexander on 0141 566 7843 or Kameel Kapitan on 0141 566 7880.

HYMANS ROBERTSON

Briefing note

Local Government FRS102 / IAS19 February 2018

"You choose assumptions appropriate for your organisation"

As the actuary to the LGPS fund in which you participate, we provide a set of default accounting assumptions for a 'typical LGPS employer' which can be amended to be more appropriate for your organisation.

The accounting assumptions adopted are ultimately the responsibility of your organisation's directors (or equivalent) based on actuarial advice.

We therefore strongly recommend that you consider the suitability of the default assumptions to your specific organisation. It is up to you to determine how to proceed with the choice of assumptions given the relative importance of the LGPS accounting figures to your organisation's own circumstances.

The value placed on the liabilities for accounting purposes (the defined benefit obligation) is heavily dependent on the assumptions adopted. The assumptions you choose to adopt will drive:

1. your **accounting balance sheet at the year-end date**; and
2. your **profit and loss cost for the year following the year-end date.**

For example, adopting a lower salary increase assumption than our default assumption may better reflect your own organisation's forecasts. This change would lower the value placed on the defined benefit obligation (and improve the accounting balance sheet position).

If you wish to take control of your accounting disclosures, please get in touch with us as soon as possible.

The remainder of this briefing note sets out the rationale behind the setting of our default principal accounting assumptions. The approach to our default assumption setting applies to all accounting disclosures (unless otherwise stated). We have discussed this approach with the National Audit Office, Audit Scotland and Wales Audit Office who have not raised any concerns.

Discount Rate

Both FRS102 and IAS19 state that the discount rate used to place a value on the liabilities should be determined by reference to market yields on high quality corporate bonds at the reporting date. In addition, the currency and term of the high quality corporate bonds used to set the discount rate should be consistent with the currency and term of the liabilities.

Corporate bond yield curve

Government bond yield curves are updated and available on a daily basis from the Bank of England. It is therefore relatively easy to identify a spot yield on Government bonds at any duration and at any date. Unfortunately, a similarly accessible corporate bond yield curve is not so readily available.

We have adopted an approach to setting the discount rate whereby a "Hymans Robertson" corporate bond yield curve is constructed based on the constituents of the iBoxx AA corporate bond index.

Weighted average duration

The discount rate should reflect the 'term' of the benefit obligation. We have interpreted 'term' to be the weighted average duration of the benefit obligation. This is broadly defined as '*the weighted average time until payment of all expected future discounted cashflows, determined based on membership and the financial and demographic assumptions at a particular time'*. The shorter the duration, the more 'mature' the employer.

With increased divergence of LGPS employers, the weighted average durations of individual employers can be materially different. It is therefore not appropriate for all employers to adopt the same financial assumptions for accounting purposes. Our default assumption approach sets out 3 separate discount rates (and corresponding RPI/CPI inflation assumptions) for employers who fall into each duration category below:

Weighted average duration at most recent actuarial valuation	Duration category
Less than 17 years	Short
Between 17 and 23 years	Medium
More than 23 years	Long

Retail Prices Inflation (RPI)

This assumption is typically derived from yields available on fixed interest and index linked government bonds, and should be consistent with the derivation of the discount rate.

We use a market implied inflation curve over a range of maturities. Cashflow weighted single RPI rates are derived from the market implied inflation curve that recognise the weighted average duration of each corresponding duration category defined above.

Pension Increases (CPI)

The pension increase assumption is set in line with our default Consumer Prices Index (CPI) assumption. As a market in CPI linked bonds does not exist, we need to estimate the long term gap between RPI and CPI in order to derive a CPI assumption for accounting purposes.

Our default assumed RPI-CPI gap will be 1.0% p.a. (unchanged from the 2017 accounting exercise).

Salary growth

Our default assumption for salary growth is set relative to the derived RPI/CPI assumption at the reporting date using the same methodology as the most recent actuarial funding valuation for the LGPS fund(s) in which you participate. Further details on the salary growth assumption can be found in the latest actuarial valuation reports available on each LGPS fund's website.

Longevity assumptions

Our default longevity assumptions for the 2018 accounting exercise are in line with those adopted by your LGPS fund(s) for the most recent funding actuarial valuation.

Other demographic assumptions

These include assumptions for commutation, withdrawal, ill-health early retirements, proportions of deaths leaving a dependant, etc. We gathered data on recent experience of LGPS funds in order to set appropriate demographic assumptions for the most recent actuarial valuation. Our default approach will be to use the same demographic assumptions for accounting purposes as at the most recent funding actuarial valuation. Collectively, these demographic assumptions are intended to be best estimate.

Indicative default assumptions (based on market conditions as at 31 January 2018)

The following table shows our default financial assumptions at 31 January 2018, based on the above methodology. Our default assumptions used for the 31 March 2017 exercise are also shown for comparison purposes.

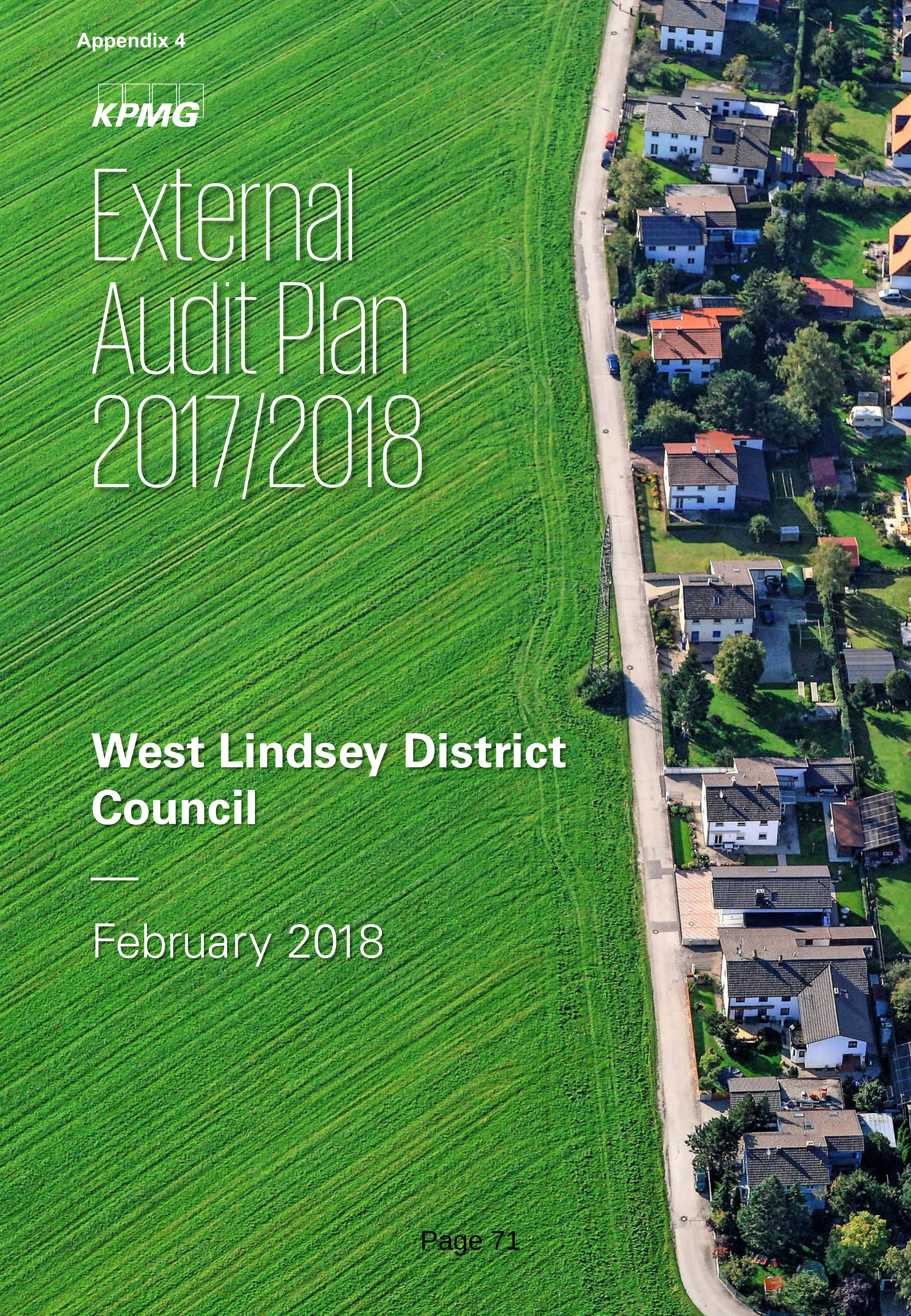
Please note that bond yields can be particularly volatile and it is the observed bond yields at the actual year-end date that will be used to set our default assumptions. Therefore, the actual default assumptions could be significantly different from the indicative assumptions which are based on ***market conditions as at 31 January 2018***.

Duration category	31 March 2017		31 January 2018	
	Discount rate	RPI (CPI)	Discount rate	RPI (CPI)
Short	2.5%	3.4% (2.4%)	2.6%	3.5% (2.5%)
Medium	2.6%	3.4% (2.4%)	2.7%	3.5% (2.5%)
Long	2.7%	3.4% (2.4%)	2.7%	3.4% (2.4%)

Extract from Financial Services 2017/18 Risk Register

APPENDIX 3

				Score with Existing Mitigation				Planned Mitigation (if any)			Score with Planned Mitigation						
Event (description of risk)	Consequences of Event occurring	Existing Mitigation	Existing Assurances	Likelihood 1 Minor 2 Moderate 3 High	Impact 1 Minor 2 Moderate 3 High	Calculated Risk Severity	Risk Option Chosen	Action	Lead	Due Date	Likelihood 1 Minor 2 Moderate 3 High	Impact 1 Minor 2 Moderate 3 High	Calculated Risk Severity	Contingency (should the Event actually occur)	Due Date for next Review	Actual Date of last Review *or* Date Closed	Comments
External auditor will detect a material mis-statement in the accounts.	Could impact on the financial health of the Council and reputation of Financial Services	Regular review of GL transactions against budget, reconciliations, quality review of final account working papers, PBC owners designated	Senior officers review reconciliations and working papers. Checking systems throughout the year are in place. Tracey does a final review.	1	1	1	Accept risk as is	no further actions identified	Tracey Bircumshaw		1	2	2	Amend the financial statements	01/06/2019	18/09/2017	
The correct accounting treatment has not been followed due to omission, error in interpretation	Could lead to material misstatement and impact on the financial health of the Council and reputation of Financial Services	Updated procedures, up to date technical reference library, attendance at external briefings, learning & development framework	Internal audit reports. Final accounts working papers signed off by senior officer. Working papers are subject to second review by different senior officer.	2	1	2	Mitigate risk (reduce)	QA on all working papers undertaken by expert.	Tracey Bircumshaw		1	2	2	Amend the financial statements	01/06/2019	18/09/2017	continuous improvement process
Errors are made in Civica as part of the closedown, as team are not clear on processes for Civica	Could lead to late production of accounts, impact on the reputation of Financial Services and possible additional costs.	Civica closedown timetable and documented procedures	Written procedure notes	2	1	2	Accept risk as is	Balance Sheet Review to December	Tracey Bircumshaw		1	1	1	Restore Civica and re-process data with IT support	01/06/2019	18/09/2017	
Team members do not comply or are unable to comply with the timetable	Could lead to late production of accounts, impact on the reputation of Financial Services and the Council and possible additional costs.	Final accounts closedown timetable that is clearer to follow and devolved responsibilities. Training delivered annually as part of closedown process	Flexi rules suspended, 1-2-1 meetings with PBC owners, support and learning, procedures built into working papers, code guidance	2	2	4	Mitigate risk (reduce)	More support for officers over the closedown plan and working papers	Tracey Bircumshaw		1	2	2	reprioritise work, bring in overtime if necessary and external resources	01/06/2019	18/09/2017	
Team members leave or are ill, together with in-experienced team members taking on new roles.	Could lead to late production of accounts, impact on the reputation of Financial Services and the Council and possible additional costs.	Procedure notes for main areas	Procedures built into working papers. Earlier preparation, so QA in January, flexible working	2	2	4	Mitigate risk (reduce)	Work with PBC owners to identify issues. Mentor new officers and provide training where necessary to ensure all work areas have sufficient cover so that no one officer has the sole knowledge	Tracey Bircumshaw		1	2	2	reprioritise work, bring in overtime - external resources	01/06/2019	18/09/2017	
Team members do not provide adequate working papers	Could lead to additional audit costs by delaying time for completion.	standard template in place	Two senior officer signes off working papaers. PBC owner reviews	2	2	4	Mitigate risk (reduce)	All WP's QA twice	Tracey Bircumshaw		1	2	2	Rework any defficient WPs	01/06/2019	18/09/2017	continuous improvement process
There are issues with the asset register	Could lead to material misstatement and impact on the financial health of the Council and reputation of Financial Services	Capital cosedown procedure notes in place. Capital accountant and Principal Accountant have received in house and external training. Team Manager is an expert	Principal Accountant oversees the work area. Team Manager Review	2	2	4	Mitigate risk (reduce)	Support to be provided to capital accountant if necessary. Capital closedwon work to be reveiwed by senior officer. New capital WP's templates set up	Tracey Bircumshaw		1	2	2	re-work asset figures and transactions	01/06/2019	18/09/2017	continuous improvement process
Providing audit with correct information in a timely manner.	Could lead to additional audit costs by delaying time for completion.	New protocol established including WP's to meet PBC requirments	Regular liaison with audit	2	2	4	Accept risk as is	no further actions identified	Tracey Bircumshaw		1	1	1		01/06/2019	18/09/2017	continuous improvement process
Ensuring all accounts are reconciled where there are system related imbalances	Could lead to additional audit costs by delaying time for completion.	policies established including balance sheet recs	Monitored by senior officer and at monthly team meeting	1	2	2	Accept risk as is	no further actions identified	Tracey Bircumshaw		1	2	2		01/06/2019	18/09/2017	
Service managers do not comply with closedown timetable or provide adequate information.	Could lead to additional audit costs by delaying time for completion.	workshops and guidance	No issues in prior years	2	2	4	Mitigate risk (reduce)	regular liaison	Service Accountants		1	1	1		01/06/2019	18/09/2017	
Elected members do not return related party questionnaires	Could lead to additional audit costs by delaying time for completion.	liaise with key members	Monitoring and reminders issued. Members who leave during year now complete a return as part of exit process	3	1	3	Mitigate risk (reduce)	Engage the support of the Chair/Vice Chair of G&A. Early liaison with S151 and member services	Tracey Bircumshaw		1	1	1		01/06/2019	18/09/2017	
Material MisStatement due to Fraud	Could lead to material misstatement and impact on the financial health of the Council and reputation of Financial Services	Systems of internal control including internal audit	Audit reports monitored by Senior managers and CMT	1	3	3	Accept risk as is	Regular budget monitoring, internal controls incl authorisations and separation of duties	Tracey Bircumshaw		1	1	1	Amend the financial statements	01/06/2019	18/09/2017	
Subsidiaries/other companies do not proivde the data needed for group accounting	Not issuing the Statement for publication by 31.5.2018	Liasion with key officers. Financial services control accounting	Minimal but very early in company set up process.	3	3	6	Mitigate risk (reduce)	Further work to be undetaken to assess Council requirements and set up formal processes to ensure delivery by deadline	Commercial Accountant		2	2	4		01/06/2019	18/09/2017	
Not issuing the Statement for publication by 31.5.2018	Reputation, more items identified for amendement on Audit. ISA 260 recommendations, material misstatements if estimates to be used more	Prior years working towards earlier closedown. Full dry run 2016/17 which achieved the new deadline	Tighter timetable monitoring, ownership of tasks, any issues picked up on audit are amended.	2	3	6	Mitigate risk (reduce)	Work closer with Auditor, agreement of estimates and process and PBC list, deal with issues as they come along	Tracey Bircumshaw		2	2	4		01/06/2019	18/09/2017	



Appendix 4

KPMG

External Audit Plan 2017/2018

West Lindsey District Council

February 2018

Summary for the Governance and Audit Committee

Financial statements

There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability in terms of the accounting standards the Authority need to comply with. Despite this, the deadline for the production and signing of the financial statements has been significantly advanced in comparison to year ended 31 March 2017.

In order to meet the revised deadlines it will be essential that the draft financial statements and all prepared by client documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2018. As a result we have recognised a significant risk in relation to this matter.

Materiality

Materiality for planning purposes has been set at **£0.85 million**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£42,000**.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- **Valuation of Plant, Property and Equipment (PPE)** – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. The net book value of the Authority's PPE at 31/3/2017 was over £20.9m. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated;
- **Pension Liabilities** – The valuation of the Authority's pension liability (£36.4m 2016/17), as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.
- **Faster Close** – As set out above, the timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). During 2016/17, the Authority started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were published by 31 May 2017. We will work with the Authority in advance of our audit to understand the steps being taken to continue to meet these deadlines and the impact on our work.

Summary for the Governance and Audit Committee (cont.)

Financial Statements (cont.)

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of additional audit focus have been identified as ensuring the Authority's:

- commercial property investments and other joint ventures have been properly accounted for and comply with with relevant statutory requirements;
- relationship with its companies and the joint venture have been properly disclosed; and
- Disclosure of officers' remuneration complies with the relevant requirements.

See pages 3 to 9 for more details

Value for Money Arrangements work

Our risk assessment regarding your arrangements to secure value for money is in progress but so far has identified the following significant risk:

- Medium term financial planning - The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the sector and falling levels of government grant. The total of the Revenue Support and Rural Services Grants has fallen from £1.86m in 2016-17 to £1.14m in 2017-18 (a 38% reduction), with the Revenue Support Grant expected to fall to nil by 2019/20. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan. This is relevant to the sustainable resource deployment sub-criteria of the VFM conclusion.

Logistics

Our team is:

– John Cornett – Director

– Mike Norman – Manager

– Vikash Patel – Assistant manager

More details are in **Appendix 2**.

Our work will be completed in four phases from January to July and our key deliverables are this Audit Plan, a Report to Those Charged With Governance and an Annual Audit Letter as outlined on **page 17**.

The scale fee set by PSAA for the 2017/18 audit is £43,403 (£43,403 2016/2017) see **page 16**.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2017/18 issued in April 2017, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice and the PSAA Statement of Responsibilities.

Our audit has two key objectives, requiring us to audit/review and report on your:

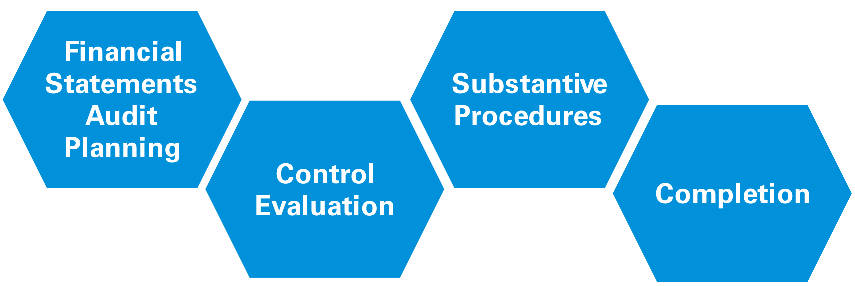
01 **Financial statements :**
Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and

02 **Use of resources:**
Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reporting to the Governance and Audit Committee.

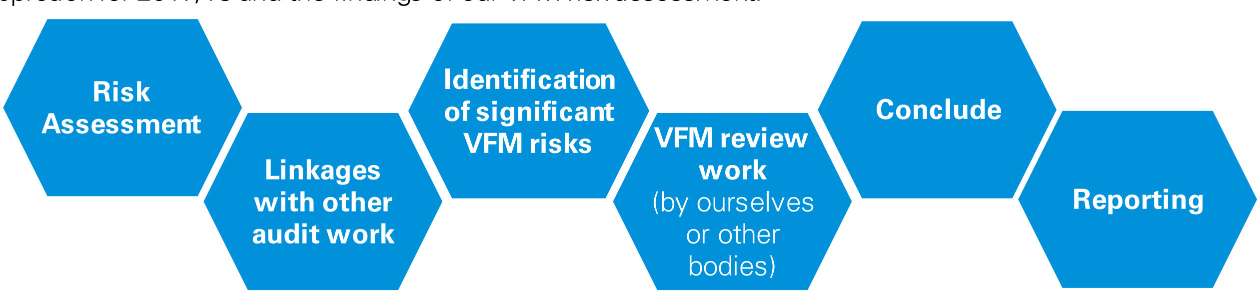
Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a six stage process which is identified below. Page 10 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2017/18 and the findings of our VFM risk assessment.



Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during December 2017 to January 2018. This involves the following key aspects:

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of management's use or experts; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Auditing standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

01

Management override of controls

Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

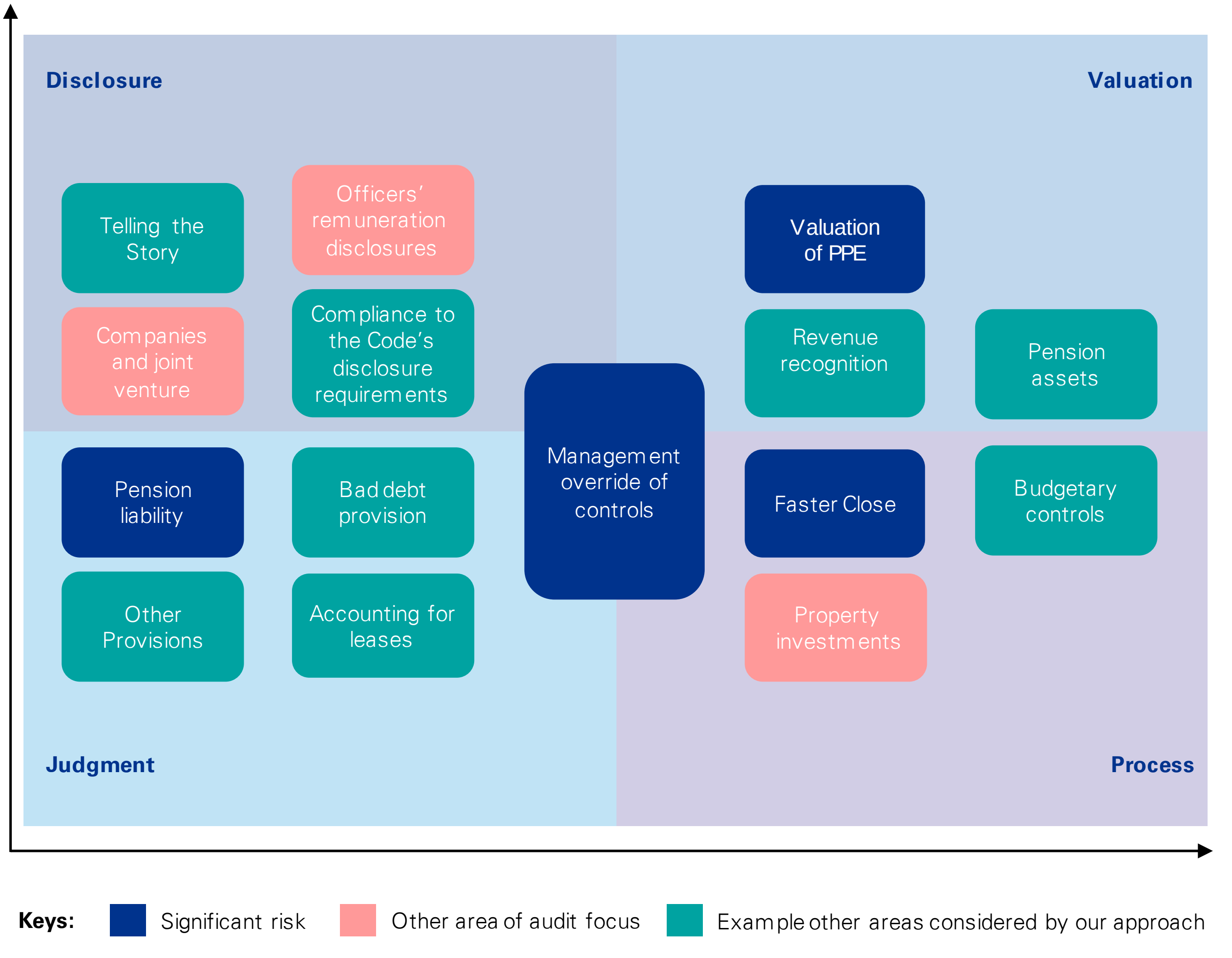
02

Fraudulent revenue recognition

We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Financial statements audit planning (cont.)

The diagram below identifies significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Financial statements audit planning (cont.)

Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk: **Valuation of PPE**

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The net book value of the Authority's PPE at 31st March 2017 was over £20.9m. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

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

Approach: We will review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will also assess the risk of the valuation changing materially during the year.

In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk: **Pension Liabilities**

The net pension liability represents a material element of the Authority's balance sheet. The liability at 31st March 2017 was £36.4m. The Authority is an admitted body of the Lincolnshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Approach: As part of our work we will review the controls that the Authority has in place over the information sent directly to the Scheme Actuary. We will also liaise with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of the Scheme Actuary.

We will review the appropriateness of the key assumptions included within the valuation, compare them to expected ranges, and consider the need to make use of a KPMG Actuary. We will review the methodology applied in the valuation by the Scheme Actuary.

In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk: **Faster Close**

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

During 2016/17, the Authority started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were published by 31 May 2017. The finance team responded promptly to any audit queries or requests for additional information. There were though delays in the response by third parties to our audit information requests, specifically for investment and bank balances. There are a number of additional logistical challenges that will need to be managed for 2017-18, including confirming the processes surrounding our reporting to the Governance and Audit Committee. If the arrangements are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.

Approach: We will continue to liaise with officers in preparation for our audit in order to understand the steps that the Authority is taking in order to ensure it meets the revised deadlines. We will also look to advance audit work into the interim visit in order to streamline the year end audit work.

Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.

Financial statements audit planning (cont.)

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Issue: **Commercial Investments**

The Authority has continued to pursue opportunities for commercial property investments and other joint ventures. In 2017/18 this has so far included £2.4m acquiring an investment property, with further investments expected before the year end, as well as progressing and supporting other substantial schemes such as the Market Street joint venture proposal and the former Sun Hotel development.

Nationally there is concern regarding the level of commercial property investment activity by councils, its financing and compliance with relevant accounting and legislative requirements. DCLG has recently consulted on proposed changes to the statutory guidance applying to these investments.

Approach: We will discuss the accounting and financing arrangements for any investments carried out with managers and review for compliance with relevant statutory requirements.

Issue: **Companies and Joint Venture**

The Authority has established WLDC Trading Ltd as a holding company for its commercial operations and its other Companies Limited by Shares. It is important that the Authority ensure that the financial statements properly reflect its relationship with these companies, as well as the joint venture referred to above.

Approach: We will liaise with the Authority's finance team regarding the planned accounting and disclosure of these companies and the joint venture.

Issue: **Officers' remuneration disclosures**

Although senior manager's remuneration is not material in value there are specific disclosure requirements which have a relatively high profile in the financial statements. It is important that the Authority complies with these requirements.

Approach: We will liaise with the Authority's finance team regarding the planned disclosures.

Financial statements audit planning (cont.)

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority, materiality for planning purposes has been set at £0.85 million, which equates to around 2% of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision. For 2017/18 this has been set at £0.63m.

Reporting to the Governance and Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £42,000.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Audit Committee to assist it in fulfilling its governance responsibilities.

Value for money arrangements work

VFM audit approach

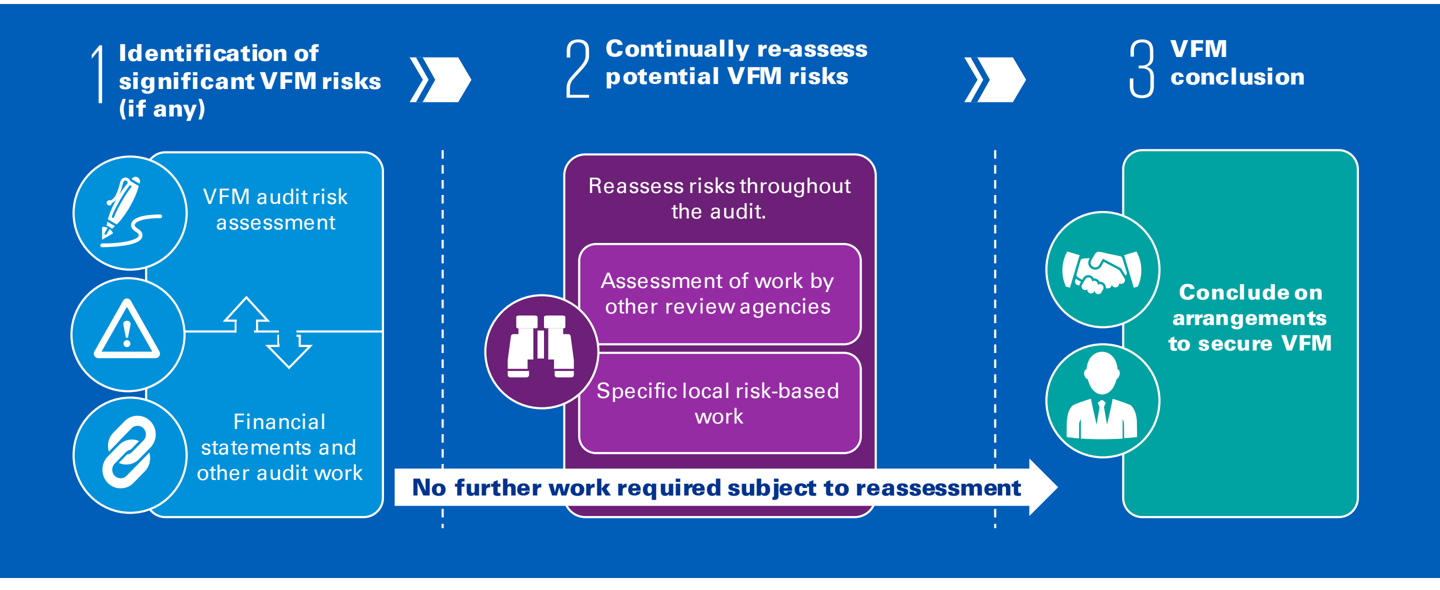
The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions, worked with partners and third parties and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The VFM approach is fundamentally unchanged from that adopted in 2016/17 and the process is shown in the diagram below. The diagram overleaf shows the details of the sub-criteria for our VFM work.



Value for money arrangements work (cont.)

Value for Money sub-criterion

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for money arrangements work (cont.)

VFM audit stage

VFM audit risk assessment

Audit approach

We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.*

In doing so we consider:

– The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;

– Information from the Public Sector Auditor Appointments Limited VFM profile tool;

– Evidence gained from previous audit work, including the response to that work; and

– The work of other inspectorates and review agencies.

Linkages with financial statements and other audit work

Audit approach

There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.

Identification of significant risks

Audit approach

The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'*

If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:

— Considering the results of work by the Authority, inspectorates and other review agencies; and

— Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage

Assessment of work by other review agencies, and Delivery of local risk based work

Concluding on VFM arrangements

Reporting

Audit approach

Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.

We will also consider the evidence obtained by way of our financial statements audit work and other work already undertaken.

If evidence from other inspectorates, agencies and bodies is not available and our other audit work is not sufficient, we will need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:

- Additional meetings with senior managers across the Authority;
- Review of specific related minutes and internal reports;
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.

Audit approach

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.

Audit approach

Our risk assessment is in progress and so far has identified one likely significant VFM conclusion risks: :

- Medium term financial planning - The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the sector and falling levels of government grant. The total of the Revenue Support and Rural Services Grants has fallen from £1.86m in 2016-17 to £1.14m in 2017-18 (a 38% reduction), with the Revenue Support Grant expected to fall to nil by 2019/20.. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan. This is relevant to the sustainable resource deployment sub-criteria of the VFM conclusion.

We will update our assessment throughout the year. We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2017/18 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

— The right to inspect the accounts;

— The right to ask the auditor questions about the accounts; and

— The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work, if required, would be charged in accordance with the PSAA's fee scales.

Other matters

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Governance and Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2017/2018 issued in April 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the s.151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £43,403 (£43,403 in 2016/17).

Appendix 1:

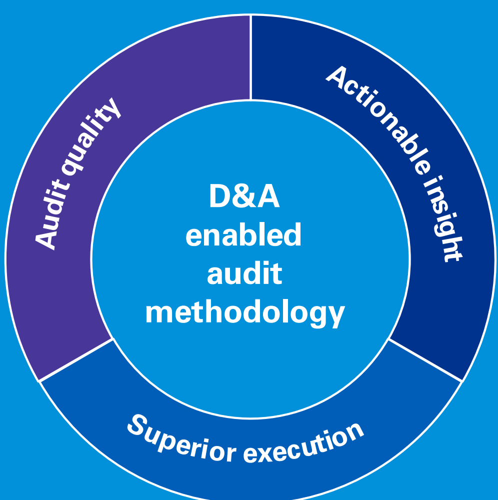
Key elements of our financial statements audit approach

Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. Data and Analytics allows us to:

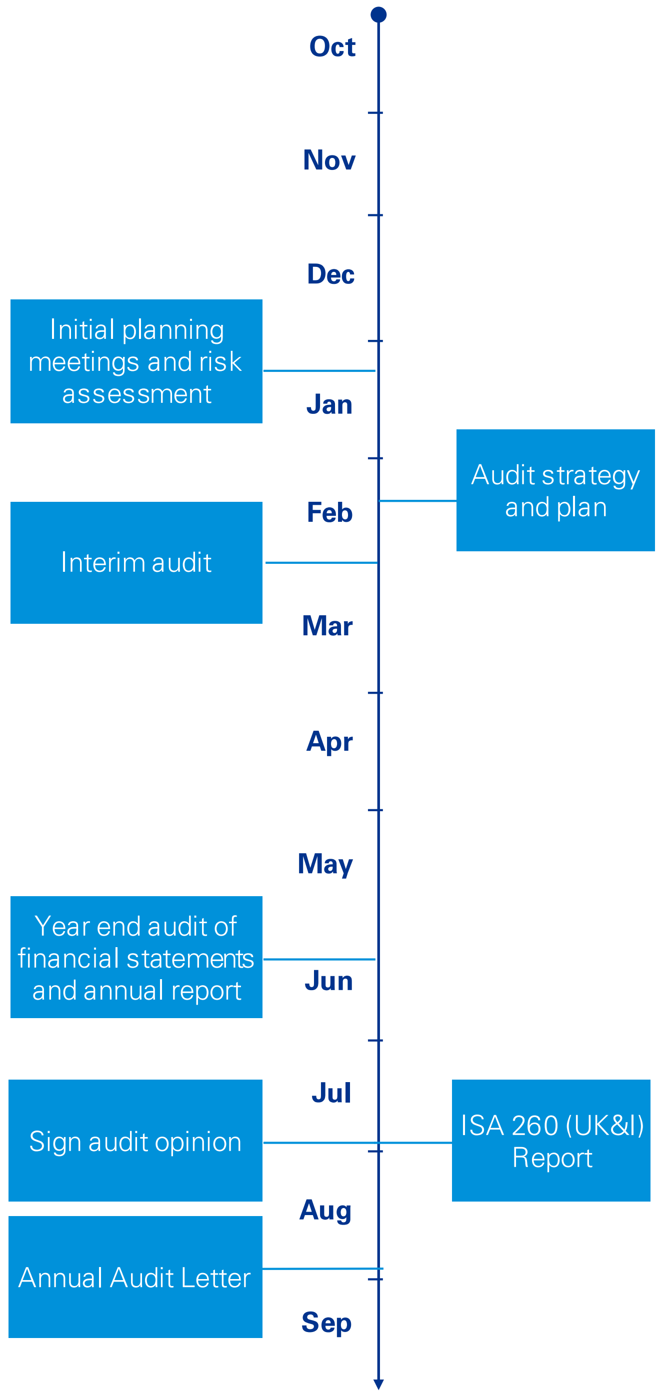
- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as journals.



Communication

Continuous communication involving regular meetings between Governance and Audit Committee, Senior Management and audit team.



Appendix 1:

Key elements of our financial statements audit approach (cont.)

Audit workflow

Planning

— Determining our materiality level;

— Risk assessment;

— Identification of significant risks;

— Consideration of potential fraud risks;

— Identification of key account balances in the financial statements and related assertions, estimates and disclosures;

— Consideration of managements use or experts; and

— Issuing this audit plan to communicate our audit strategy.

Control evaluation

— Understand accounting and reporting activities

— Evaluate design and implementation of selected controls

— Test operating effectiveness of selected controls

— Assess control risk and risk of the accounts being misstated

Substantive testing

— Plan substantive procedures

— Perform substantive procedures

— Consider if audit evidence is sufficient and appropriate

Completion

— Perform completion procedures

— Perform overall evaluation

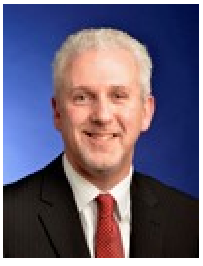
— Form an audit opinion

— Governance and Audit Committee reporting

Appendix 2:

Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the West Lindsey District Council audit last year.



John Cornett
Director

T: 0116 256 6064
E: john.cornett@kpmg.co.uk

'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.
I will be the main point of contact for the Governance and Audit Committee and Directors.'

Mike Norman
Manager

T: 0115 935 3544
E: michael.norman@kpmg.co.uk

'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.
I will work closely with John Cornett to ensure we add value.
I will liaise with the Director of Resources and other senior managers.'

Vikash Patel
Assistant Manager

T: 0116 256 6069
E: Vikash.patel@kpmg.co.uk

'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

Appendix 3:

Independence and objectivity requirements

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF WEST LINDSEY DISTRICT COUNCIL

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

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

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

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

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

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

Independence and objectivity considerations relating to other matters

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

Appendix 3:

Independence and objectivity requirements (cont.)

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

Summary of fees

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

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following table

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2018 £
Challenge and Improvement Workshop Committee (February 2018)	**Self-interest**	This engagement is entirely separate from the audit and there is a separate engagement letter in place.	Fixed Cost	3,500
	Self-review	The nature of this work is to facilitate a workshop with the Authority's Committee to help strengthen its arrangements. It does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors.		
	Management threat	This facilitation work is undertaken with the agreed Engagement Letter and will not involve KPMG in any management decision making..		
	Familiarity	This threat is limited given the scale, nature and timing of the work.		
	Advocacy	We do not act as advocates for the Authority in any aspect of this work.		

We monitor our fees to ensure that we comply with the 70% non-audit fee cap set by the NAO.

Appendix 3:

Independence and objectivity requirements (cont.)

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

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

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

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

John Cornett

Director

kpmg.com/uk

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

CREATE: CRT086281A

West Lindsey District Council The Entrepreneurial Council	**Governance & Audit Committee**
	13th March 2018

Subject: Internal Audit Draft Annual Plan Report 2018/19

Report by:	Lucy Pledge (Head of Service – Corporate Audit & Risk Management – Lincolnshire County Council)
Contact Officer:	Ian Knowles, Director of Resources Ian.knowles@west-lindsey.gov.uk
Purpose / Summary:	To present to members the draft annual internal audit plan based on assurance mapping and risk assessments across the Councils critical services.

RECOMMENDATION(S):	**That Members** 1) **Note and agree the contents of the report and be assured that the plan provides robust coverage of the Councils critical areas and services.**

IMPLICATIONS

Legal: None directly arising from the report

Financial: FIN/154/18/CC
No financial implications directly arise from the report.

Staffing: None.

Equality and Diversity including Human Rights:

NB: A full impact assessment **HAS TO BE** attached if the report relates to any new or revised policy or revision to service delivery/introduction of new services.

None arising from this report

Risk Assessment: N/A

Climate Related Risks and Opportunities: None arising from this report

Background Papers: No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

Call in and Urgency:

Is the decision one to which Rule 14 of the Scrutiny Procedure Rules apply?

Yes		**No**	**X**

Key Decision:

Yes		**No**	**X**

Assurance LINCOLNSHIRE

For all your assurance needs

West Lindsey District Council
Internal Audit Plan 2018/19

West Lindsey District Council
The Entrepreneurial Council

What we do best ….

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

….. And what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

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Contents

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Our Internal Audit Plan

Introduction

1. This report sets out the Internal Audit Plan as at 1st April 2018. The plan details the activities to be audited and the indicative scope for each audit. The audits are listed in priority order. The draft plan gives you an opportunity to comment on the plan and the priorities that we have established.

2. The dynamic plan replaces the traditional fixed style of audit plan. Whereas the fixed plan details the audits to be undertaken in a financial year, with the number of audits in the plan being determined by the internal audit resource available, the dynamic plan details all the audits required to be undertaken at a given point in time. The plan is then amended on an on-going basis to reflect changing assurance needs.

3. Internal Audit are then able to use our audit planning tool to target our resources– working within agreed resources. This approach has the benefit of enabling greater flexibility and responsiveness – ensuring each piece of work is the right one, delivered at the right time. It also delivers greater productivity and efficiencies – reducing abortive planning and engagement time. The plan becomes more dynamic and responsive – essential for an effective Internal Audit service.

4. In Appendices A to E we provide for you information details of:
   - Auditable Activities
   - How the draft plan achieves the requirements of the Governance & Audit Committee and Head of Internal Audit
   - Our Working Protocols and Performance
   - Our Quality Assurance Framework
   - Your Internal Audit Team

Developing the plan

5. The internal audit plan has been developed form the Council's Assurance Map – which was updated in November 2017 and input from the Management Board. **Figure 1** below also shows other key sources of information that has help inform the plan.

Figure 1 – Sources of information considered when developing Internal Audit activity

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

- **Significance** - how important is the activity to the Council in achieving its objectives, key plans and in managing its key risks. We look at both financial loss and strategic impact.
- **Sensitivity** - how much interest would there be if things went wrong and what would be the reputational and political impact.
- **Level of Assurance –** we assess the current level of assurance evaluating reliability and contribution to the Head of Internal Audit annual opinion on governance, risk and control.
- **Time**– when it will happen (this will determine when is the best time to do the Audit).

Updating the Plan

7. Through the year we will liaise with the Council and collect business intelligence that identifies emerging audits which will be included in the plan according to priority. The 2018 Assurance Map, to be undertaken in November 2018, will allow for a major annual review of the plan.

8. The primary source of business intelligence will be the regular liaison meetings between Assurance Lincolnshire and Executive Director of Resources, other sources of intelligence will include:

- Committee reports
- Investment and project proposals
- Project update reports
- Performance reports
- Key stakeholders

Delivering the Plan

9. The aim is to deliver the audits included in the plan in the order that they are listed, i.e. in accordance with their assessed priority. This will be modified in accordance with requests from management and practical considerations around the timing of audits. It may also be modified by the availability of specialised staff, in particular ICT audits, however we do not consider this will have a significant, if any, impact.

10. The Council's Internal Audit Plan is **170 Days** – with an additional **20 days** for testing of the Housing Subsidy claim on behalf of External Audit.

Fees

11. Our proposed internal audit fee is outlined below. We are pleased to confirm that we have once again not increased the daily rate.

Area	Fees – 2018/19
Internal Audit	£47,940
Housing Subsidy Claim Testing	£5,640

Our Audit Focus for 2018/19

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

Area	Reason for inclusion in the Internal Audit Strategy and PlanArea
Critical Activities	The combined assurance work undertaken in 2017/18 identified some critical activities where a potential audit would provide independent assurance over the effectiveness of risk management, control and governance processes. The areas prioritised included: ▪ Regulatory Services ▪ Income and Investment Programmes ▪ Customer First Programme ▪ Community Safety and Anti Social Behaviour ▪ Vulnerable Communities ▪ Health and wellbeing
Project Assurance	There have been a number of critical projects identified by the Council. We will seek to provide assurance around their successful delivery (on-time – within budget – deliverables achieved and benefits realised). ▪ The Marina Growth Project will be reviewed.

13. All auditable areas are shown in Appendix A. We have currently included 16 audits to be delivered.

Area	Reason for inclusion in the Internal Audit Strategy and Plan
Financial Governance	Providing assurance that key financial controls are in place and operating effectively during the year across all areas of the Council. This work provides the Section 151 Officer with a key element of his assurance that the Council has effective arrangements for the proper administration of its financial affairs. The areas of coverage and key controls to be tested will be agreed the Section 151 officer. We propose the following systems are reviewed this year: ▪ Financial strategy and budget preparation ▪ Budget Management ▪ Continuous Audit – key control testing
Governance & Risk	Providing assurance that key governance controls are in place and are operating effectively. These cross cutting audits focus on the Council's second line of assurance - corporate rather than service level systems. The area prioritised included: ▪ Corporate Health and Safety ▪ Corporate Planning

Our Internal Audit Plan

Area	Reason for inclusion in the Internal Audit Strategy and Plan
IMT	Technology and associated threats and opportunities continue to evolve at a pace. The effectiveness of IMT has a great impact on how well the Council works. We will seek to provide assurance that key controls comply with industry best practice and are operating effectively. Audits planned come from previous year assessments and our awareness of current IMT risks. We have prioritised : ▪ ICT Capability and Capacity ▪ Record / Document Management Systems
Follow Up	Where an audit receives a Limited or Low Assurance level we will carry out a follow up audit to provide assurance that the identified control improvements have been effectively implemented and the risks mitigated. Working with management we also track the implementation of agreed management actions for all audit reports issued.
Combined Assurance	Working with management we co-ordinate the levels of assurance across the Council's critical activities, key risks, projects and partnerships – producing a Combined Assurance Status report in January 2019.

Area	Reason for inclusion in the Internal Audit Strategy and Plan
Consultancy /No-Opinion Reviews	At the request of management we undertake specific reviews where they may have some concern or are looking for some advice on a specific matter or around governance, risk and controls for a developing system. Such reviews are not normally given an audit opinion. .

Annual Internal Audit Opinion

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

Appendix A

Internal Audit Plan

Dynamic Plan - Audits to be undertaken in priority order subject to agreement with the client over scheduling and where applicable availability of specialist staff eg ICT audits.

Page 107

Dynamic Plan at 1st April 2018	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request	Internal Audit Priority
Environment protection and enforcement	Review the recent changes in structures and management and provide assurance that services are being delivered as intended.	**Amber**	**Amber**	✓	✓	✓	**High**
Income and Investment programmes	Review the Councils approach to managing projected gaps in the budget and provide assurance on the delivery of projects which provide a commercial return to the Council.	**Amber**	**Amber**	✓	✓		**High**
Customer First Programme	A key programme of work and business transformation for the Council. Provide assurance that the programme is being effectively managed and monitored.	**Amber**	**Amber**	✓	✓		**High**
Vulnerable Communities	Provide assurance on the strategic approach and management of vulnerable communities in the district including Hemswell and the South West Ward.	**Amber**	**Amber**	✓	✓	✓	**Med**
Community Safety & Anti-Social Behaviour	Review and assess the effectiveness of Internal Control in this area. Previously agreed to audit but postponed in 2015/16.	**Red**	**Amber**	✓	✓		**Med**
Corporate Health & Safety	To provide assurance on the Councils health and safety processes and to review the issue and risk of how incident and accidents in the workplace are investigated.	**Amber**	**Amber**	✓	✓	✓	**Med**
ICT Capability and Capacity	Review the Councils staff structures, training succession and development plans, staff capacity and capability. To provide assurance on the continued effective delivery of ICT services.	**Amber**	**Amber**	✓	✓		**Med**

Appendix A

Internal Audit Plan

Dynamic Plan at 1st April 2018	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request	Internal Audit Priority
Document Management systems	Provide assurance on the Councils systems and controls for document management and compliance with legislation.	**Amber**	**Amber**		✓		**Med**
Programmes and Projects	To provide assurance on project and programme work in delivery	**Amber**	**Green**	✓	✓		**Med**
Marina Growth Project	**Consultancy –** Review the Councils approach and management of the Marina project to date and feedback any lessons learned.	**Amber**	**Green**	✓	✓		**Med**
Health & Wellbeing	Tendered for new contract if successful could represent a large increase in workloads. Require management assurance on the Councils approach and strategy for managing this work if successful.	**Amber**	**Amber**	✓	✓		**Med**
Central Lincolnshire Local Plan	The local plan has been approved and is now in delivery. This now needs close monitoring and management assurance that the plan is being delivered.	**Amber**	**Green**				**Med**
Property & Estate Strategic Management	Continued management monitoring and assurance on capacity and capability of the team to support the Councils strategic aims.	**Amber**	**Amber**				**Med**
Property & Estate Operational Management	Continued management monitoring and assurance on capacity and capability of the team to support the Councils operational aims.	**Amber**	**Amber**				**Med**

Appendix A

Internal Audit Plan

Dynamic Plan at 1st April 2018	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request	Internal Audit Priority
Building Control	Review the service and provide assurance on the future commercial capacity and longer term sustainability of the service.	**Amber**	**Amber**				**Med**
Equality & Diversity	Assurance on the Councils strategy and approach to E&D training and awareness across the Council. Provide assurance that plans are developed and in place and support officers in E&D management.	**Amber**	**Amber**				**Med**
Housing Needs	Legislative change is coming in the form of the Homeless Reduction Bill. This potentially could have a big impact on workloads and the ability of the service to be proactive with prevention policies. There has been a 50% rise in demand for homeless services. Currently the service is not sure if this is a blip or a trend. This has been reported through P&D measures and raised with the Director but is assessed as amber due to the uncertainty of the effect of increased workloads.	**Amber**	**Amber**				**Med**
Dynamic Plan Resources allocation April 2018 to March 2019							**90 days**

Holding Plan – High priority audits on hold awaiting specific trigger event to occur before they are included in the dynamic plan. It is not expected that the triggers will occur in 2018/19.

Holding Plan Audits to be integrated into Dynamic Plan if triggered	Areas identified through Assurance Mapping by management	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request	Intenal Audit Priority
Ambition vs Priority	Capacity to deliver key works by 2018/19. The new management team have listed the key deliverables for 2018/19 and these now need prioritising and considering the resource impact of delivering all the projects.	Red	Amber				High
Growth Development	There is a capacity risk for the Council in delivering a wide range of complex projects. With the Chief Executive leaving this has reduced the outward facing resource for the Council in working with partners and developers. It has also reduced the resilience within the management team.	Amber	Amber				High

Internal Audit Plan

Fixed Plan – Audit management work to be undertaken that supports the audit process and audits from our cyclical plan (Appendix F) not subject to dynamic planning, these are required to fulfill the Head of Audits annual assurance requirements or contracted by the Council.

Fixed Plan	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Head of Internal Audit Opinion	Management Request
Continuous Auditing - Key Control Testing	To provide high level assurance that the Council's key controls are in place and operating effectively throughout the year – this will cover financial and corporate areas. The areas of coverage and the key controls tested will be agreed with management but can cover: – Financial – Supplier data – payments – HR – new starters, leavers, changes to payroll data – Key reconciliations eg bank – payroll – creditors - income – Complaint handling – Revs & Bens – key control indicators around collection and accuracy rates.	**Amber**	**Green**	✓	✓
Financial Strategy and Budget Preparation **Budget Management**	Review the Councils systems and processes in place to provide assurance on the management of budgets. This will include budget setting, forecasting, monitoring, any key person dependencies and system access.	**Amber**	**Green**	✓	
Corporate Planning	Review the Council's systems and processes over the setting of its strategic direction.	**Amber**	**Green**	✓	

Fixed Plan	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Emerging risks	Areas to be agreed for possible audit reviews. ▪ Agile Refresh / Mobile / Working in Field.					✓
Combined Assurance	Completing the integrated assurance mapping process for the Council by helping to map assurance against critical activities and key risks. Helping coordinate the development of the annual status report.	N/A				
Audit follow up work	To provide management with assurance that actions from previous key audits have been implemented and this has led to improved outcomes. **Commercial governance and strategic planning** **Planning Enforcement** **Sales & Invoicing**	N/A				
Sub Total Days Allocated	**65 days**					
Advice and liaison						
Annual Report						
Audit Committee						
Review IA Strategy and Planning						
Sub Total Days Allocated	**15 days**					
Fixed Plan Resources 2018/19	**80 days**					
Housing Benefit Subsidy	**20 days**					

For All Your Assurance Needs

How the draft plan achieves the requirements of the Council and the Head of Internal Opinion

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

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

Our Internal Audit Strategy

2. It is important that the Internal Audit function focusses its work on what matters most to you – providing insight, assurance and added value to the Council.

3. To help us do this we propose to change the way we prioritise and schedule our work –Working with you we intend to have a continuous rolling audit work plan – updated each quarter – responding to changing circumstances or emerging risks during the year.

4. This approach has the benefit of enabling greater flexibility and responsiveness – ensuring each piece of work is the right one, delivered at the right time. It also delivers greater productivity and efficiencies – reducing abortive planning and engagement time. The plan becomes more dynamic and responsive – essential for an effective Internal Audit service.

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

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

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

How the draft plan achieves the requirements of the Council and the Head of Internal Opinion

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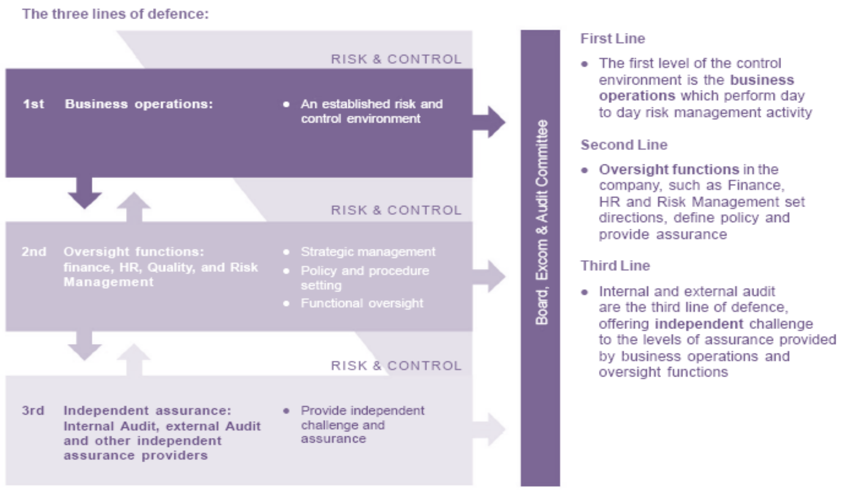
West Lindsey District Council The Entrepreneurial Council

Page 114

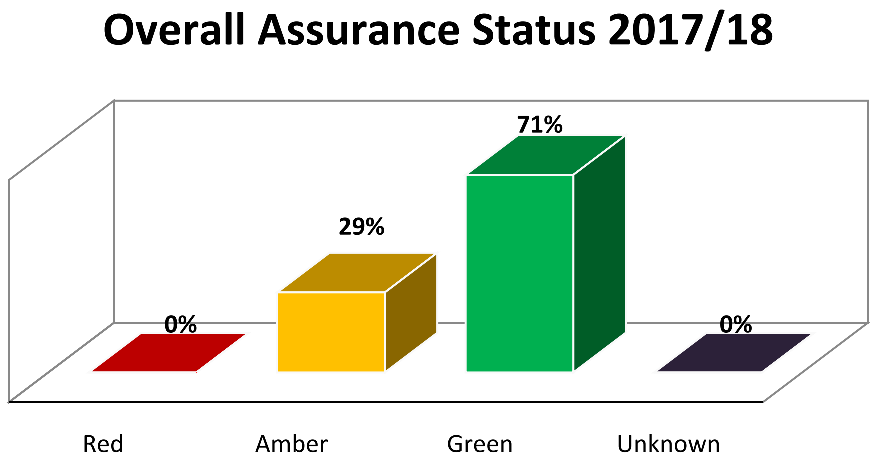
8. We have identified the level of assurances in place by using the "Three lines of assurance" model – See **Figure 1.**

Figure 1 – Three Lines of Assurance Model



9. **Figure 2** shows the overall assurance levels on the Council's critical activities as at November 2017.

Figure 2 –Your Assurance Status



Red Low level of assurance
Amber Medium level of assurance
Green High level of assurance
Unknown Assurance level not established

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

Appendix C

Working Protocols and Performance

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

2. Our performance is monitored by the Section 151 Officer and the Governance & Audit Committee - measured against 3 key areas:
   - Delivery of planned work.
   - Timeliness (contemporary reporting).
   - Quality and Impact of work (communicating results / added value).

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

   - agreeing potential audit work for the forthcoming year
   - providing quarterly updates to evaluate progress and discuss activities and priorities for the next quarter.
   - for individual audit engagements we hold planning meetings in person (our preference) by phone or email to discuss and agree the terms of reference and scope of our work..
   - We keep you informed of key findings during the audit and upon conclusion we hold a debrief meeting in person to discuss our findings and any outstanding issues.

Weeks prior to fieldwork	-4	Notify key stakeholders of audit at least 4 weeks prior to fieldwork
	-3	Meet with Senior / Operational Manager (Audit Sponsor) to agree draft terms of reference (ToR) 15 days prior to fieldwork
	-2	Approve ToR with the audit sponsor at least 10 days prior to fieldwork - arrange engagement meetings with auditees
	-1	Hold team briefing to confirm ToR, and agree detailed plan with the team
FIELDWORK		Initial meeting with auditees and audit sponsor
		Keep in regular contact with audit sponsor throughout the fieldwork
		Fieldwork completed
Weeks following fieldwork	+2	Draft report ready for quality review within 10 working days of fieldwork completing
	+3	Review of draft report by Head of Audit and sent to auditee for comments
	+6	Management respond within 15 working days of receipt of draft report
	+7	Final report issued within 5 working days of management response

- We communicate the results of our audit work in a clear and concise way – securing management action where control improvements are needed.

- We support Senior Management in attending the Governance & Audit Committee where a Limited or Low Assurance level has been given against the activity.

Page 116

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

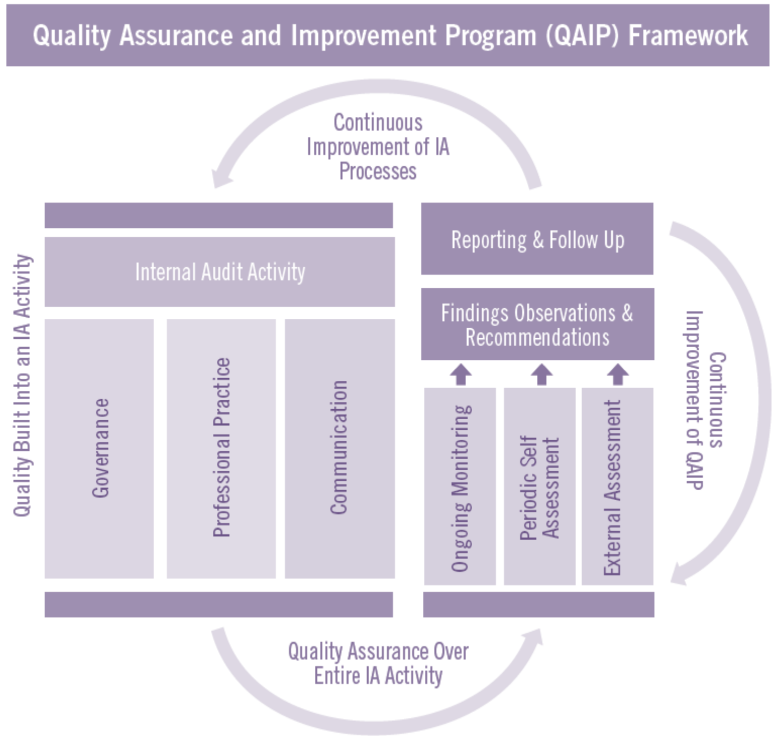
2. Our audit team offers a wide depth of knowledge and experience gained across different organisations. We promote excellence and quality through our audit process, application of our Quality Assurance Framework and our training and development programme.

3. Our Quality Assurance Improvement Programme incorporates both the internal (self) and external assessments – this is a mandatory requirement and the Head of Audit reports annually on the results and areas for improvement. Our internal assessments must cover all aspects of internal audit activity – **Figure 4** shows how we structure our internal assessments to ensure appropriate coverage.

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

5. Our Internal Audit Charter sets out the nature, role, responsibilities and authority of the Internal Audit service within the Council – this was approved by the Governance & Audit Committee and is due to be reviewed in 2018 following the planned revision of the CIPFA Local Government Application Note.

Figure 4 - Scope of Quality Assurance Improvement Programme



Your Internal Audit Team

1. Your Internal Audit Team will be led by Lucy Pledge (Head of Assurance Lincolnshire), supported by John Sketchley (Team Leader) and Matthew Waller – who is your Client Engagement lead.

2. The team will be supported by specialists from Assurance Lincolnshire and our wider audit framework as and when appropriate.

3. An indicative staff mix delivering our Internal Audit service to you is shown below:

Grade	2018/19 (days)	Grade Mix (%)
Head of Internal Audit	15	9%
Team Leader / Audit Manager	25	15%
Principle Auditor	60	35%
Senior Auditor	70	41%

Conflicts of Interest

4. Internal Audit remains sufficiently independent of the activities that it audits to enable auditors to perform their duties in such a way that

5. allows them to make impartial and effective professional judgements and recommendations.

6. We are not aware of any relationships that may affect the independence and objectivity of the team and which are required to disclose under the internal auditing standards.

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Our Cyclical Audits

System	Opinion	Last audited	Assurance Map Rating	Risk Score	System Changes
Financial Due Diligence					
Income Collection & Cash Receipting*	Substantial	2015/16	Green	Amber	No
Bank*	Substantial	2015/16	Amber	Amber	Yes - 2015
Budgetary Control/Management	High	2015/16	Green	Amber	No
General Ledger	Substantial	2015/16	Green	Amber	No
Budget prep and financial strategy	High	2015/16	Green	Amber	No
Creditors*	Substantial	2015/16	Green	Amber	No
Debtors*	Substantial	2016/17	Green	Amber	No
Pensions	Substantial	2016/17	Green	Amber	No
Payroll*	Substantial	2015/16	Green	Amber	Yes - 2014
Treasury Management	High	2015/16	Green	Amber	No
Property, Plant and Equipment*	Substantial	2014/15	Green	Amber	No
Council Tax*	High	2014/15	Green	Amber	No

Our Cyclical Audits

System	Opinion	Last audited	Assurance Map Rating	Risk Score	System Changes
Benefits*	Substantial	2016/17	Green	Amber	No
Other Due Diligence					
Investment Decisions / commissioning	Limited	2016/17	Green	Amber	No
Risk Management	Substantial	2016/17	Green	Amber	No
VAT/Tax	Low risk		Green	Amber	No
Insurance	Substantial	2015/16	Green	Amber	No
Grants	Substantial	2015/16	Green	Amber	No
Counter Fraud	Health Check	2017	Green	Amber	No
Contract Management	Substantial	2015/16	Green	Amber	No
Equality & Diversity	High	2008/09	Amber	Amber	No
Health & Safety	High	2010/11	Green	Green	No
Information Governance	Substantial	2014/15	Green	Green	No
Code of Corp Governance	Substantial	2017/18	Green	Amber	No
Partnerships	Substantial	2016/17	Amber	Amber	No
Corporate planning	Substantial	2012/13	Green	Amber	No
Business Continuity	Substantial	2010/11	Green	Amber	No
Emergency Planning	Substantial	2010/11	Green	Amber	No
Human Resources / Managing People	Substantial	2010/11	Green	Amber	No

Governance and Audit Committee Work Plan

Purpose:
This report provides a summary of reports that are due on the Forward Plan over the next 12 months for the Governance and Audit Committee.

Recommendation:

1. That members note the schedule of reports.

Date	Title	Lead Officer	Purpose of the report
17/04/2018	**Strategic Risks - 6 month update**	James O'Shaughnessy	To present the 6 monthly update
	Attendance of Head Of Paid Service - Planning Delegations	Mark Sturgess	Mark Sturgess to update Members on the subject of Planning delegations.
	Member Champions	James Welbourn	To inform Members of the work that has been carried out on the current Member Champions and to document the next steps that will be taken for future appointments.
	Constitution Annual Review	Alan Robinson	To present the Annual Review of the Constitution
	Internal Audit Charter	Tracey Bircumshaw	To provide independent and objective assurance on critical activities and key risks
	Internal Audit Q4 Monitoring	Tracey Bircumshaw	To present the final quarter monitoring report
	AGS 16/17 Monitoring Report (Q3)	James O'Shaughnessy	To provide Members with an update on the progress made against actions relating to the significant issues identified within the AGS 2016/17
19/06/2018	**Draft AGS 2017/18**	James O'Shaughnessy	Present the draft AGS 2017/18 and action plan
	Voice of the Customer/Annual feedback report 17/18	Lyn Marlow	Advise members on all customer interactions and feedback for 2017/18
	Internal Audit Report	Tracey Bircumshaw	This report gives the Head of Internal Audit’s opinion on the adequacy of the Council's, governance, risk and control environment and the delivery of the Internal Audit Plan for 2017/18
24/07/2018	**Audited Statement of Accounts**	Tracey Bircumshaw	The 2017/18 Statement of Accounts is presented for scrutiny and adoption.

	Annual Fraud Report	Tracey Bircumshaw	To review the number, type and results of investigations made by the Council during 2017/18
	AGS 2017/18	James O'Shaughnessy	Final review and approval of the AGS 2017/18 and Action Plan
	AGS 16/17 Monitoring Report (Q4)	James O'Shaughnessy	To present to Members details of progress against the actions contained in the AGS 16/17 Action Plan
	Annual Review of Whistleblowing Policy	Alan Robinson	Annual review of whistleblowing.
13/09/2018	**ISA 260 report**	Tracey Bircumshaw	The purpose of the report is for our Auditor to present their Report to those charged with Governance (ISA 260 Report) in relation to the Statement of Accounts and Annual Governance Statement 2017/18
06/11/2018	**Periodic Review of AGS**	James O'Shaughnessy	To review the progress with the Annual Governance Statement 2017/18 Action Plan