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West Lindsey District Council

Guildhall Gainsborough
Lincolnshire DN21 2NA
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AGENDA

<u>This meeting will be recorded and the video archive published on our website</u>

Governance and Audit Committee
Tuesday, 10th March, 2020 at 2.00 pm
Council Chamber - The Guildhall

Members: Councillor John McNeill (Chairman)
Councillor Mrs Jackie Brockway (Vice-Chairman)
Councillor Mrs Tracey Coulson
Councillor Christopher Darcel
Councillor David Dobbie
Councillor Mrs Caralyne Grimble
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** (PAGES 3 - 9)
   Held on 14 January 2020
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** (PAGE 10)
   Matters Arising schedule setting out current position of previously agreed actions as at 28 February 2020.
6. **Public Reports for Consideration**
   i) Internal Audit Draft Annual Plan Report 2020/21 (PAGES 11 - 32)

Agendas, Reports and Minutes will be provided upon request in the following formats:

Large Clear Print: Braille: Audio: Native Language

Ian Knowles
Head of Paid Service
The Guildhall
Gainsborough

Friday, 28 February 2020

WEST LINDSEY DISTRICT COUNCIL

MINUTES of the Meeting of the Governance and Audit Committee held in the Council Chamber - The Guildhall on 14 January 2020 commencing at 2.00 pm.

Present:	Councillor John McNeill (Chairman)
	Councillor Mrs Tracey Coulson
	Councillor David Dobbie
	Councillor Mrs Caralyne Grimble
	Councillor Mrs Jessie Milne
	Councillor Mrs Angela White
	Alison Adams
	Andrew Morriss
	Peter Walton

In Attendance:

Alan Robinson	Monitoring Officer
James O'Shaughnessy	Corporate Policy Manager & Deputy Monitoring Officer
Emma Bee	Audit Manager, Internal Audit
Caroline Capon	Corporate Finance Team Leader
Mark Dalton	Auditor Mazars
Michael Norman	Auditor Mazars
Matthew Waller	Internal Audit
James Welbourn	Democratic and Civic Officer

Apologies:	Councillor Mrs Jackie Brockway
Membership:	Councillor Jessie Milne subsituted for Councillor Jackie Brockway

30 PUBLIC PARTICIPATION PERIOD

There was no public participation.

31 MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 15 October 2019 were approved as a correct record.

32 MEMBERS DECLARATIONS OF INTEREST

There were no declarations of interests.

33 MATTERS ARISING SCHEDULE

The outstanding matters arising were outlined by the Democratic and Civic Officer, and were duly noted by the Committee.

34 CERTIFICATION OF GRANTS 2018/19

Members considered a report on the housing benefit subsidy claim audit for 2018/19 from the External Auditor, Mazars.

A full review had been carried out, and no further errors had been found outside of the £147.80 overpayment.

Officers were congratulated for their work over the year. It was considered to be a small error in a large overall budget.

RESOLVED to:

1) Accept the contents of the report;

2) Agree to accept this report through the West Lindsey Members' Bulletin in future. It will return to the Governance and Audit Committee if there are errors to report which are higher than triviality (£26,000) as detailed annually by the Authority's External Auditors, Mazars.

35 DRAFT TREASURY MANAGEMENT STRATEGY, MINIMUM REVENUE PROVISION (MRP) POLICY AND DRAFT CAPITAL INVESTMENT STRATEGY

Members considered a report on the Draft Treasury Management Strategy, Minimum Revenue Provision Policy, Prudential Indicators and the Capital Investment Strategy.

The Corporate Finance Team Leader introduced the report, and highlighted the following points:

- Incorporated into the report was the latest guidance from the Chartered Institute for Finance and Accountancy (CIPFA) and the Ministry for Housing, Communities and Local Government;

- The Treasury Management Strategy looked at the borrowing strategy, which ensured consideration was given to the affordability and sustainability for the repayment of debt.

  Also looked at was the Annual Investment Strategy, which aimed to provide security on investments, whilst considering liquidity, cashflow requirements and yield. All were considered alongside the Authority's risk appetite;

- The General Fund Balance was estimated to be at £3.862 million by the end of 2022/23;

- External debt by 2022/23 was estimated to be just over £44 million, with borrowing at £7 million. Gross debt was estimated at just over £55 million;

- The Minimum Revenue Provision Policy (MRP) had deviated from the guidelines. This policy determined how prudential borrowing was repaid on an annual basis.

Following this introduction, Members asked questions of officers present. Further information was provided:

- In 2019/20 the revenue implication for the capital programme was a negative figure impacting on Council Tax. In 2020/21 investments were largely infrastructure based; all of these planned infrastructure investments had limited income generating schemes. As a result, the capital programme was increased;

- £7 million remained in the capital programme, to be financed from borrowing. Anticipated borrowing by the end of 2022/23 was £44 million; however the absolute limit would be £55 million;

- It was very tough to accurately forecast cashflow due to uncertain elements, such as government grants.

RESOLVED to:

1) Accept the Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision Policy 2020/21, and **recommend them to Full Council**;

2) Note that the Capital Investment Strategy had been reviewed in conjunction with the Treasury Management Strategy.

36 EXTERNAL AUDIT STRATEGY MEMORANDUM (PLAN) FOR 2019/20

Members considered a report on the 2019/20 External Audit Strategy, presented by the External Auditors to West Lindsey District Council, Mazars.

Mike Norman and Mark Dalton from Mazars introduced this item, and highlighted the following sections of the report:

- The report described the approach taken by the external audit and highlighted the work proposed to be undertaken, along with the audit risks;

- The fees for the external audit were in line with the scale fees set by the Public Sector Audit Appointments (PSAA). These fees were continually reviewed, with regard given to additional work required by the regulators around the valuation of property, plant and equipment, and the pensions liability;

- The report highlighted the independence and objectivity of the external audit team;

- There had been no changes to the scope of the audit from the previous year, and it continued to be carried out under the Code of Practice on Local Authority Accounting.

This would be the last year under the current Code of Practice, which was currently under review by the National Audit Office (NAO);

- The timescale for the external audit remained broadly the same as previous years. The planning stage had been completed, with an interim visit scheduled for early February.

  The bulk of the substantive testing would take place in June and July. West Lindsey District Council (WLDC) had a requirement to produce draft accounts by the end of May, with final publication by the end of July;

- The two standard inherent, significant audit risks across all organisations were:
  - Management override and controls – management at various levels within an organisation were in a unique position to perpetrate fraud because of their ability to manipulate accounting records;
  - Fraudulent revenue recognition – this risk was more of an issue for the private sector. Across local government, these risks were not as prevalent; it was hoped that this risk could be rebutted at the Audit's planning stage;

- The two main areas of significant audit risk for WLDC remained:
  - Valuation of property, plant and equipment;
  - Valuation of net defined benefit liability;

- The 'concept of materiality' was built into the normal, standard approach to the audit. At this stage, materiality levels were broadly similar to those set for last year. One area of judgment was the 'concept of performance materiality';

- Broadly the risk profile was similar to that seen last year. The June and July period will be busy' however the team will endeavour to deliver the work by that point;

- The 2018/19 audit delivery across the country was patchy; non-delivery of the audit was around 40%. There were still two ongoing audits within Lincolnshire. Regulators across the sector were mindful of this.

Following this introduction, Members asked questions of the External Auditors. Further information was provided:

- If issues arose which led to the audit being delayed, WLDC would still have to publish their accounts at the end of July. However, these accounts would be classed as 'unaudited';

- If issues emerged during the audit process which required further work (issues could include technical problems, or incorrectly presented information), then a fee variation could be triggered. If the error was the fault of the External Auditors, then the responsibility of the fix would rest with them;

- WLDC were in a good position this year to have the full, audited accounts signed off by the end of July;

- The external auditors flagged up that WLDC had departed from guidance that had said that the Commercial Investment Strategy should be subject to the Minimum Revenue Provision Policy. However, for the previous year and the current year this departure from guidance was not expected to have a material impact on financial statements;

- The movement away from the Minimum Revenue Provision Policy had led to the Valuation Volatility Reserve being set up. This was continuously reviewed; the maintenance of this approach was an agreement with both Governance and Audit Committee and Full Council.

RESOLVED to approve the External Audit Strategy Memorandum Plan for 2019/20.

37 ANNUAL GOVERNANCE STATEMENT 2018/19 ACTION PLAN UPDATE

Members considered the progress with the Annual Governance Statement 2018/19 Action Plan.

This report detailed progress against the action plan, which had been agreed in July 2019. The four issues that had been identified for development were:

1. Risk Management – assessing the Authority's overall 'risk appetite' and undertaking a review of strategic risks;
2. Peer Review – hold a peer review to set improvement targets through a third party;
3. Governance Review – work on the findings of the Governance Review carried out by Internal Audit;
4. Member Induction and Training – induct new and returning Councillors and implement the Member Development Training Plan.

Two of these actions (Risk Management; Member Induction and Training) had been completed.

The Peer Review would commence in the week beginning 20 January; all of the preparation for this had been completed.

The Governance Review related to a report from the Head of Internal Audit on the ethics and culture of the Authority. The action plan was being worked through, was on track and had a completion date of 31 July 2020.

Following this introduction, Members asked questions of the Corporate Policy Manager. Further information was provided:

- There were around 18 individual actions as part of the Governance Review. Some could be solved quickly; however others would require amendments to the Constitution. The actions covered a range of issues such as Human Resources, the Constitution, and adherence to the 2018 CIPFA code. There was a planned follow-up by Internal Audit due for the end of January;

- The Peer Review had been requested by WLDC; best practice would be that this was undertaken approximately every five years. This was overdue, as it was last carried out around ten years ago. It contained a body of peers drawn from demographically similar Councils.

  The review would look at a number of areas, such as:
    - Leadership;
    - Finances;
    - Governance;

  Issues had been identified by WLDC and officers could point peer reviewers towards areas of help needed. The review will be conducted over two and a half days, resulting in a report which would be discussed with the Leader of the Council, senior Members and the internal Management Team. The report would highlight areas of improvement and things to consider.

  External parties will talk to the peers on certain matters.

It was **RESOLVED** that Members were assured that the current position of the Annual Governance Statement Action Plan for 2018/19 will result in the completion of all relevant actions by July 2020.

38 COMBINED ASSURANCE REPORT 2019/20

Members considered the Authority's Combined Assurance report for 2019/20.

The following points were highlighted by the Corporate Policy Manager:

- This report would normally be tabled during the March meeting, but was ready earlier for this year;

- The Combined Assurance report was an annual exercise undertaken by partners from Internal Audit. It was a record of assurance measured against critical activities, IT, key projects and partnerships and others. After speaking to the relevant managers, a level of assurance was given to different work strands.

  There were 119 different areas across the report; 72% of activities in the report were performing well (green assurance), 25% of areas in the report were in need of attention (amber), and 3% were not performing well (red);

- There were four items listed as 'red'; none of these related to front-facing transactional services. These four items were:
    - Strategic capacity – changes at Executive Director level;
    - Agri food sector – the project cannot currently proceed due to landowner restrictions;
    - Educational attainment – inability to raise local levels;
    - ICT Security and Information Governance – the arrangements were ineffective;

- All of the 'amber' risks detailed in the report were known to management. It would need to be ensured that sufficient actions were taken to address these risks;

- The conclusion from partners at Internal Audit and WLDC management was that the findings were positive, and the governance framework was acting well.

RESOLVED to:

1) Be assured that the findings illustrate that the Council's governance framework was operating effectively;

2) Approve the report.

39 DRAFT INTERNAL AUDIT QUARTER 3 PROGRESS REPORT 2019/20

Members considered a report giving an update on progress by the Audit partner against the 2019/20 annual programmes agreed by the Governance and Audit Committee in March 2019.

Assurance Lincolnshire, the Internal Auditors outlined their report, highlighting the following points:

- Financial resilience had received high assurance; this was a key control. This area had become more prominent following the issues that Northamptonshire County Council had experienced. This area will continue to be monitored;

- CIPFA had updated their financial management code for UK local authorities; this was designed to support good practice in financial management;

- There were three reports at the draft stage of an audit; these would all be large pieces of work:
  - Vulnerable Communities;
  - ICT – Members' Devices;
  - Corporate Plan and Golden Thread.

- 66% of the yearly plan had been completed at this stage. All of the work in the plan had been started, aside from two audits which would be taken at quarter 4 of the year;

- There were no outstanding actions from the previous quarter.

RESOLVED to note the update.

40 WORKPLAN

The workplan for 2019/20 and beyond was noted.

The meeting concluded at 3.03 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	**Peer Review Booklet**	Independent Members did not seem to have received the booklet that had been sent to elected Members.	**James O'Shaughnessy to make sure this is sent on.** **The email sent to WLDC Members with the Position Statement and Document Library provided to the Peer Team was emailed to Independent members on 15th January.**	24/01/20	Rachel Saville
Green	**Pensions Mistatements**	The Chairman of Governance and Audit requested that misstatements be covered as part of the Accounts Closedown paper in March.		10/03/20	Caroline Capon
Green	**Leisure Contract**	The Chairman of CPR committee at its meeting on 7 November asked Governance and Audit committee to 'send a note' on how the leisure contract is overseen from a Member perspective.	**Briefing note to be prepared for Members on the Leisure Contract by the Monitoring Officer and relayed to Members of CPR by being added to his annual report.**	10/03/20	Alan Robinson

	Governance & Audit Committee
	10th March 2020

Subject: Internal Audit Draft Annual Plan Report 2020/21

Report by:	Lucy Pledge (Head of Service – Corporate Audit & Risk Management – Lincolnshire County Council)
Contact Officer:	Ian Knowles, Chief Executive 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 Council's 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 Council's critical areas and services.**

IMPLICATIONS

Legal: None directly arising from the report

Financial:
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 2020/21

West Lindsey DISTRICT COUNCIL

What we do best ….

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

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….. 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

Contents

The contacts at Assurance Lincolnshire are:

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Introduction

1. This report sets out the Internal Audit Plan as at 1st April 2020. 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. 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.

3. 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

4. The internal audit plan has been developed form the Council's Assurance Map – which was updated in December 2019 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

5. 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

6. 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 2020 Assurance Map, to be undertaken in December 2020, will allow for a major annual review of the plan.

7. The primary source of business intelligence will be the regular liaison meetings between Assurance Lincolnshire and the Council, other sources of intelligence will include:

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

Delivering the Plan

8. 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.

9. 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

10. .

Area	Fees – 2020/21
Internal Audit	£47,940
Housing Subsidy Claim Testing	£5,640

Our Audit Focus for 2020/21

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

12. All auditable areas are shown in Appendix A.

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 are also include a review of the Council's Treasury Management systems.
Governance & Risk	Providing assurance that key governance controls are in place and operating effectively. These cross cutting audits focus on the Council's second line of assurance - corporate rather than service level systems. ▪ Review the strategic risk - Inability to raise local educational attainment and skills levels. To provide assurance on the management and controls in place to address this risk.

Area	Reason for inclusion in the Internal Audit Strategy and Plan Area
Critical Activities	The combined assurance work undertaken in 2019/20 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: Homelessness Wellbeing The Crematorium
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). These may include: CRM The Waste Depot Enterprise Resource Management System

Our Internal Audit Plan

Area	Reason for inclusion in the Internal Audit Strategy and Plan
ICT	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 our IMT Assurance and current risks. ▪ Public Sector Network (PSN) review. ▪ ICT Helpdesk system ▪ Provide support to the Council on the project to implementation the Enterprise Resource Planning system.
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 2021.

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

13. 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

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Plan at 1st April 2020	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Strategic Risk -	"Inability to raise local educational attainment and skills levels". To review the controls and planned controls the Council has to mitigate and manage this key strategic risk.	Amber	Red	✓	✓	
Key Projects	Assurance over management and delivery of the Council's key projects in 20/21, including: • CRM • The Waste Depot • Enterprise Resource Management System.	Amber	Amber	✓	✓	✓
Homelessness	The homelessness strategy is delivered to achieve targets on prevention and that statutory obligations are fulfilled.	Amber	Green	✓	✓	
Wellbeing	Review of delivery and effectiveness of the Council's elements of the wellbeing contract.	Amber	Amber		✓	
Treasury Management	Provide assurance on the Councils Treasury Management processes and controls around borrowing, investment and cash flow.	Amber	Green			

Crematorium	That the operational arrangements for the Crematorium are robust effective and efficient.	Amber	Green			✓
ICT	▪ Public Sector Network (PSN) review. ▪ ICT Helpdesk system ▪ Provide support to the Council on the project to implement the Enterprise Resource Planning system	Amber	Green			✓
Plan Resource	**Allocation at 01st April 2020 – 100 days**					

Holding Plan – Other areas identified from Assurance Mapping where management should seek further assruance or consider for inclusion in the plan.

Holding Plan Audits to be integrated into 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
Regulatory Services Env Protection	Focus on policy update and development of staff	Amber	Amber	✓	✓	✓
Regulatory Services External H&S	Still developing staff skills in order to become a proactive service	Amber	Amber	✓	✓	✓
Gainsborough Markets	Contract with Marshall's yard has created improvements but there is still much more to do to realise vision.	Amber	Amber	✓	✓	✓
Community Safety & ASB	Team structure has stabilised but remains a strategic risk.	Amber	Amber	✓	✓	✓
Building Control	Risk of loss of expertise due to age profile of team. Hard to recruit area.	Amber	Amber	✓	✓	✓
Local land Charges	Unable to meet target days due to staffing shortage. Data requires full review and update.	Amber	Amber	✓	✓	✓
Licensing	Retirement of manager so new structure being trialed.	Amber	Amber	✓	✓	✓
Procurement	Concerns over issues with large and some smaller procurements. A user survey will help inform on this and guide further action.	Amber	Amber	✓	✓	✓

Fixed Plan – Audit management work to be undertaken that supports the audit process and audits from our cyclical plan (Appendix F), 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
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: – General Ledger – VAT – Council Tax.	A	G	✓	

Appendix A

Internal Audit Plan

Fixed Plan	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
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.	N/A				
Contingency days for emerging risks.						
Sub Total Days Allocated	**55 days**					
Advice and liaison						
Annual Report						
Audit Committee						
Review IA Strategy and Planning						
Sub Total Days Allocated	**15 days**					
Fixed Plan Resources 2020/21	**70 days**					
Housing Benefit Subsidy	**20 days**					

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 prioritise and schedule our work –Working with you we intend to have a continuous rolling audit work plan - 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 responsive – essential for an effective Internal Audit service.

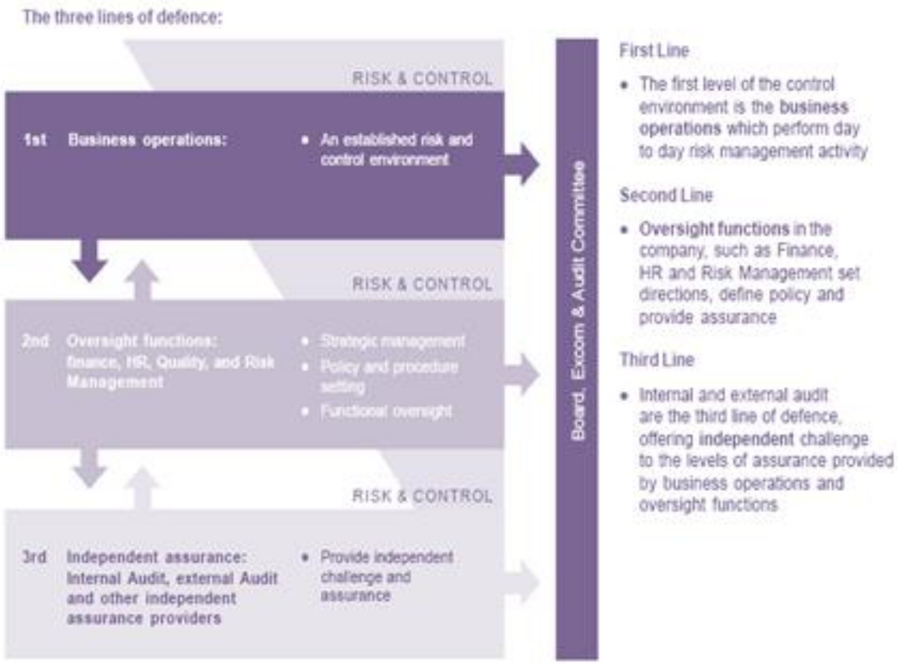
5. Our internal audit activity and plan has been driven by the Council's key objectives within the corporate plan, your key risks and critical service areas identified as part of the Combined Assurance Map.

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.

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



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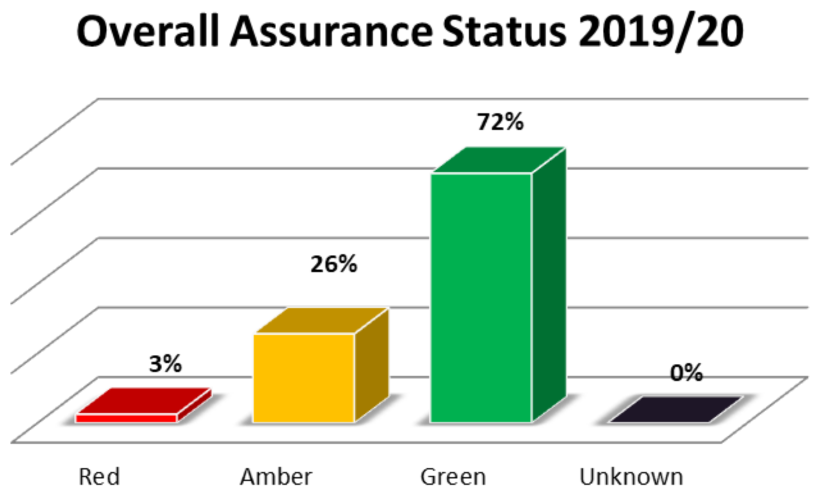
9. **Figure 2** shows the overall assurance levels on the Council's critical activities as at December 2019.

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.

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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.

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

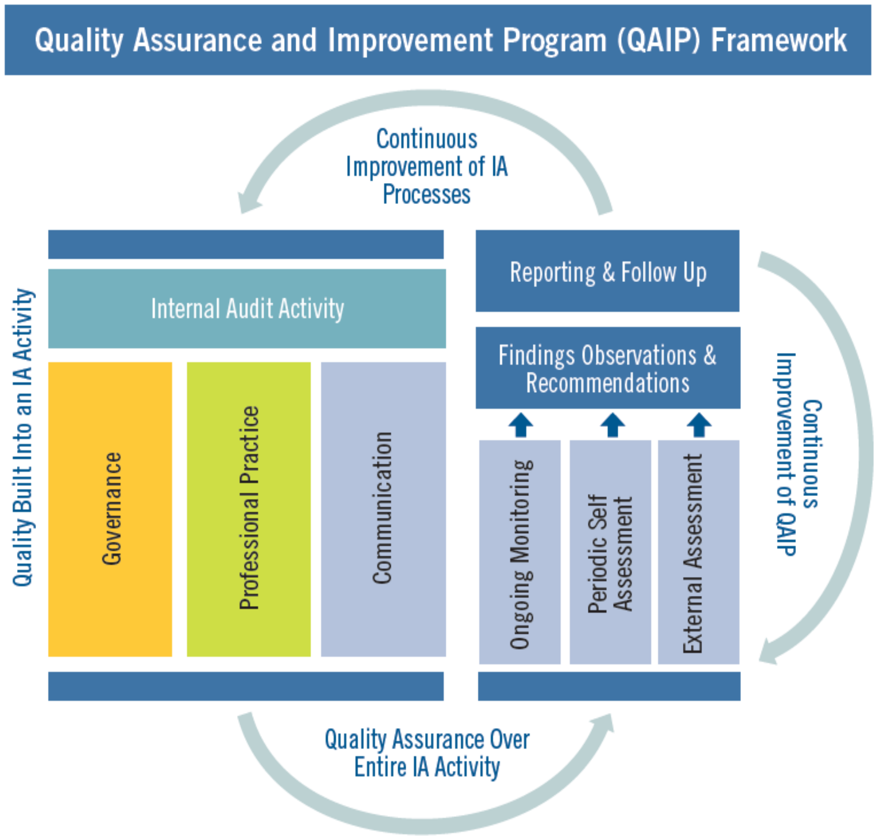
- We support Senior Management in attending the Governance & Audit Committee where a Limited or Low Assurance level has been given against the activity.

Appendix D

Our Quality Assurance Framework

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

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



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

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

Our Internal Audit Charter sets out the nature, role, responsibilities and authority of the Internal Audit service within the Council – this was approved by the Governance & Audit Committee and is due to be reviewed in 2019 following the planned revision of the CIPFA Local Government Application Note.

Your Internal Audit Team

1. Your Internal Audit Team will be led by Lucy Pledge (Head of Assurance Lincolnshire), supported by Emma Bee (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	2020/21 (days)	Grade Mix (%)
Head of Internal Audit	15	10%
Audit Manager	25	15%
Principle Auditor	60	27%
Senior Auditor	90	48%

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 judgments 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.

Assurance LINCOLNSHIRE
For All Your Assurance Needs

West Lindsey District Council
The Entrepreneurial Council

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	2017/18	Amber	Amber	Yes - 2015
Budgetary Control/Management	High	2018/19	Green	Amber	No
General Ledger	Substantial	2015/16	Green	Amber	No
Budget prep and financial strategy	High	2018/19	Green	Amber	No
Creditors*	WIP	2019/20	Green	Amber	No
Debtors*	WIP	2019/20	Green	Amber	No
Pensions	Substantial	2017/18	Green	Amber	No
Payroll*	WIP	2018/19	Green	Amber	Yes - 2014
Treasury Management	High	2015/16	Green	Amber	No
Property, Plant and Equipment*	Substantial	2017/18	Green	Amber	No
Council Tax*	High	2014/15	Green	Amber	No

Assurance LINCOLNSHIRE
For All Your Assurance Needs

West Lindsey District Council
The Entrepreneurial Council

Our Cyclical Audits

System	Opinion	Last audited	Assurance Map Rating	Risk Score	System Changes
Benefits*	Substantial	2017/18	Green	Amber	No
Other Due Diligence					
Investment Decisions / commissioning	Substantial	2017/18	Green	Amber	No
Risk Management	Substantial	2016/17	Green	Amber	No
VAT/Tax	WIP	2018/19	Green	Amber	No
Insurance	WIP	2018/19	Green	Amber	No
Grants	Substantial	2015/16	Green	Amber	No
Counter Fraud	Health Check	2017/18	Green	Amber	No
Contract Management	Substantial	2015/16	Green	Amber	No
Equality & Diversity	High	2008/09	Amber	Amber	No
Health & Safety	WIP	2018/19	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	2018/19	Green	Amber	No
Business Continuity	Substantial	2010/11	Green	Amber	No
Emergency Planning	Substantial	2010/11	Green	Amber	No
NNDR	High	2017/18	Green	Amber	No
Human Resources / Managing People	Substantial	2010/11	Green	Amber	No

Governance and Audit Committee
Tuesday 10 March 2020

Subject: Accounts Closedown 2019/20 - Accounting Matters

Report by:	Executive Director of Resources
Contact Officer:	Caroline Capon Corporate Finance Team Leader caroline.capon@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 2019/20 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 2019/20.

RECOMMENDATION(S):

1. To approve the proposed Accounting Policies (as included at Appendix 1)
2. To consider and make comment on the pension assumptions (as included at Appendix 2)
3. To consider and make comment on the risk assessment (at Appendix 3).
4. To approve the proposed materiality levels as included at section 5.
5. To consider and make comment on the key closedown dates at Section 7.6.

6. To accept the main accounting changes for 2019/20 and onwards as shown at section 3.

IMPLICATIONS

Legal: The External Audit element of the report is in accordance with the Local Audit and Accountability Act 2014 and Accounts and Audit Regulations 2015.

Financial : FIN/152/20/TJB

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 2019/20. 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 2019/20 and any additional work required to address significant risk within the Value for Money Audit will be met from the approved budget.

Staffing :

Additional temporary staffing resources have 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 Statutory deadline is met.

Equality and Diversity including Human Rights :

None arising as a result of this report

Data Protection Implications :

None arising as a result of this report

Climate Related Risks and Opportunities:

None arising as a result of this report

Section 17 Crime and Disorder Considerations:

None arising from this report

Health Implications:
None arising from this report

Title and Location of any Background Papers used in the preparation of this report :
CIPFA Code of Practice on Local Authority Accounting 2019/20 Accounts CIPFA Guidance Notes for Practitioners 2019/20 Accounts Both documents are held at the Guildhall

Risk Assessment :
There is a risk of material errors should incorrect accounting policies be applied or if the actuarial assumptions are proved to be materially different to actuals. An assessment of all risks is attached at Appendix 3.

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. 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

1.2 In producing the Statement of Accounts the Council follows the CIPFA Code of Practice on Local Authority Accounting 2019/20 (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 2019/20.

1.5 External Audit – 2019/20 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.

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.

1.6 The National Audit Officer is currently consulting on the proposed New Code of Audit Practice, although this will not impact until 2020/21, it may impact on how future audits are undertaken, the timetable and fees.

2. Changes to the Code of Practice

2.1 The following changes to the Code are effective for the 2019/20 and onwards financial statements:

Code Change	Impact on WLDC	Progress
Explanation of Code Approach (Module 1) Augments the description of adaptations and interpretations of standards, explains the code process for identifying statutory adjustments and confirms the relevance of application guidance within standards	No impact, the Council understands the Code standards and relevance of application guidance within standards	Fully compliant
Update to reflect 2018 IASB *Conceptual Framework* Module 2 Section A Now reflects improvements and updates in relation to: • the objectives of the financial statements • qualitative characteristics of useful financial information • definitions of assets, liabilities, income and expenses • the recognition process and criteria and new provisions on derecognition • measurement bases.	No impact. The Council understands the improvements and updates stated and the financial accounts and working papers already reflect these updates.	Fully compliant
Closure of Carbon Reduction Commitment Scheme References to this discontinued scheme have been removed from Module 2 Section D on landfill allowances and other trading	Not Applicable for West Lindsey District Council	No action required
Apprenticeship levy A new Section K on the accounting treatment for the apprenticeship levy has been added to Module 2	Payments received in the Councils digital apprenticeship service (DAS) account are considered to be a government grant for accounting purposes as resources are transferred to the authority in return for compliance with certain conditions. The code therefore requires income to be	Finance Team to Liaise with HR to obtain information from the DAS to enable us to process an accounting adjustment for the expense of training provided as part of the apprentice scheme and offset this with a

	recognised in the accordance with the code. The income should be recognised when the levy funded training expense is incurred. The expense for levy funded training is not a cash transaction for the authority but again needs to be recognised when incurred.	corresponding grant (the levy utilised)
Prepayment features with negative compensation Module 7 has been updated to reflect amendments to IFRS 9	The Council conducted a full review of IFRS 9 on implementation in 2018/19 accounts. The amendment in 2019/20 relating to prepayment features with negative compensation does not apply to West Lindsey as we do not have any financial instruments with this feature	No impact
Lender option borrower option clauses Module 7 has been updated to clarify the interpretation for contracts with these clauses	The most common type would be where a liability is derecognised at a gain or loss upon an early repayment of a loan, the code generally requires that this is posted in full to the surplus or deficit on the provision of services, however if repayment is due to loan restructuring but broadly on the same terms then the change would be accounted for as a modification to the existing liabilities	No impact
Group accounts scope clarification Module 9 includes scope clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* introduced by the Annual Improvements to IFRSs 2014 to 2016 cycle	The Council's Group interests include Surestaff (Lincs) Ltd and WLDC Staffing Services Ltd. Neither are held for sale or discontinued for the 2019/20 accounts	No impact

2.2 In 2020/21 there will be significant accounting changes to IFRS 16 Leases. Under the existing standard, lessees account for lease transactions as either operating or finance leases depending on certain tests and rules, this results in either all or nothing being recognised on the balance sheet. Under the new IFRS 16 all leases will need to be accounted for on the balance sheet as at 31/03/2021.

2.3 No restatement will be required for the 2019/20 accounts but the Council will need to convert every operating lease to a finance lease unless it is short term (<365 days) or low value (the Council's de-minimis is £10,000 for items added to the balance sheet and this will be applied to the new IRFS 16)

2.4 The Council has been preparing for these changes for the last two years, we have assessed every lease using a model which external audit has been provided with in the last two financial years audit papers. Each year we review all contracts for embedded leases and the finance business partners liaise with services for any new leases. We will have assessed all operating leases and finance leases by the end of March 2020.

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 2018/19 financial statements:

Major Changes

There are no major changes from 2018/19 accounting policies

Minor Changes

There are 3 minor changes to highlight from last year:

1) **Amendment of Revenue from contracts with service recipients - ii Accruals of Income and Expenditure.**

The accounting policy has been updated to reflect IFRS 15 Revenue from Contracts with Customers to state when revenue from contracts with service recipients, whether for services or the provision of goods, is recognised.

2) Amendment of Expected Credit Loss Model - x Financial Instruments

The accounting policy has been updated to state that only lifetime losses are recognised for trade receivables (debtors) held by the authority and not on other financial assets.

3) Local Government Pension Scheme - viii Employee Benefits

Updated the Link for Lincolnshire County Council Website – the new link takes the reader to West Yorkshire Pension Fund website from Lincolnshire County Council website.

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 triennial valuation of the pension fund, and this will reflect a 2019/20 valuation which will be concluded 31 March 2020. The accounting balance sheet position as at 31 March 2020, and the projected charge to the Profit and Loss (P&L) for 2020/21 are therefore based on this new roll forward from the 2019 formal valuation. This differs to the balance sheet position as at 31 March 2019 and the charge to the P&L for 2019/20, which we based on a roll forward from the 2016 formal valuation. The step change can lead to sizeable asset and liability 'remeasurement experience' items in the reconciliation of the balance sheet from 31 March 2019 to 31 March 2020

The purpose of the formal actuarial valuation is to:

- calculate the Councils funding position within the fund, and
- determine the contributions that the Council will pay from April 2020 to March 2023.

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 appropriate 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 2019/20.

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 ie 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 which 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.

4.10 The 2019 funding valuation liability positions do not include any estimate allowance for the McCloud Judgement (Public Service pensions age discrimination cases) due to the actuaries being advised by the Scheme Advisory Board to value liabilities at the 31 March 2019, funding valuations in line with current LGPS regulations benefit structure. Therefore the liabilities are not increased as a result of the McCloud Judgement. We have therefore asked that an estimated adjustment is made to the liabilities for McCloud from the 2019 valuation data to ensure this is captured in the 31 March 2020 IAS19 balance sheet figures.

4.11 We have also asked for two reports from the Actuary, the first report to be received in April using estimate investment returns to enable us to process the accounting adjustments required within the statutory deadline. The second report will be received at the end of May and will be on Actual Investment returns. If there is a material difference in the two reports then further adjustments to the accounts will be required.

5. Materiality Levels for 2019/20

5.1 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 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 understanding of the readers of the accounts- 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 2019/20 and amounts less than £26,000 are considered trivial (i.e. not significant).

5.5 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”.

5.6 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 2018/19.

1. Disclosure of material items of income and expenditure (Note 5) £750,000
2. Manual Accruals - limit of £2,000
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.

5.7 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 been undertaken and the risk 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 one risk identified as being high (red).

6.5 Ensuring adequate skilled resources are in place to deliver to the statutory deadline will include a mixture of solutions, interim agency, additional hours and overtime payments

7. Key Closedown Timetable

7.1 Since 2017/18 when the earlier statutory timetable for the publication and audit of the accounts was introduced (31 May from 31 July and 31 July from 30 September) the Finance Team have improved each year in relation to their efficiency in reducing the length of time to achieve 374 tasks, complete 254 audit working papers, and also to meet the statutory deadlines in relation to the production of the Statement of Accounts.

7.2 Tasks and work practices continue to be reviewed to take on board both accounting changes and the need to streamline/reduce workload and work more efficiently. The training and development of Finance staff helps with resilience and the use of estimates, enables us to complete some tasks prior to the year end.

7.3 A detailed timetable is produced for officers' use that not only produces the Statement of Accounts but is also used to produce the working papers as required by the Council's External Auditors.

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

7.5 Last year the Statement of Accounts was published on the Council website on 31 May 2019 (the statutory deadline), however the document was ready on 21 May 2019 a reduction of 5 working days on the previous year.

Preparation and forward planning means that we are in a good position for delivering by the deadline going forward.

7.6 The following table shows those key tasks and dates for the 2019/20 closedown process.

	Achieved 2018/19	Key Dates 2019/20
Planning and Preparation	31/12/2018	23/09/2019-31/12/2019
External Audit Liaison Meeting	01/11/2018	20/11/2019
Balance Sheet Review	28/01/2019	03/01/2020
Finance Team Closedown Briefing	11/01/2019	10/01/2020
Budget Managers Briefings/Training	26/01/2019	28/01/2020
Interim Audit	04/02/2019	03/02/2020
Report to G&A Committee: Accounts Closedown Matters: to approve Accounting Policies & Actuaries Assumptions	14/03/2019	10/03/2020
Close Period 12	01/04/2019	01/04/2020
Accruals/Prepayments input to system	05/04/2019	06/04/2020
Narrative Report draft	15/5/2019	30/04/2020
All Accounts Closed	30/04/2019	30/04/2020
Out-turn position report to CP&R	13/05/2019	11/05/2020
Balance Sheet and CIES completed	02/05/2020	01/05/2020
Statement of Accounts completed	21/05/2019	20/05/2020
Quality review of Statement of Accounts	21/05/2019	22/05/2020
Authorised for Issue by S151 Officer	30/05/2019	31/05/2020
Send SoA to Auditors and publish on website	31/05/2019	31/05/2020
Commence External Audit of Accounts (3 weeks)	27/05/2019	01/06/2020 TBC
G&A Unaudited Statement of Accounts	18/06/2019	16/06/2020
WGA (subject to date of issue)	13/05/2019	15/06/2020 TBC

G&A Approval of Audited SoA and AGS	**24/07/2019**	**21/07/2020**
Publish SoA on website and issue notice	**30/07/2019**	**31/07/2020**

8. Accounting Changes 2019/20 and Prior Period Adjustments

8.1 There have been no changes to the coding structure in 2019/20 and therefore no restatements of the main statement of accounts are required in this regard, however;

8.2 There has been a change of name for our clusters which can be seen in the main statements such as the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis. The changes are as follows:

Policy and Resources - Changed in 2019/20 to 'Our Council'
People - Changed in 2019/20 to 'Our People'
Places - Changed in 2019/20 to 'Our Place'

All affected statements and notes will have a footnote to explain the change

8.3 There are no major accounting changes that will affect the 2019/20 Statement of Accounts.

8.4 A material prior period adjustment has been made to the Council's 2018/19 published financial statements. The Valuations provided by our external valuers omitted a part of the main council office building thus understating the Council's assets, the Revaluation Reserve and the Capital Adjustment Account. As a consequence the surplus on the Provision of Services was understated and the total expenditure in the Comprehensive Income and Expenditure Statement was overstated.
Under the requirements of the CIPFA code of Practice all adjustments to the Comprehensive Income and Expenditure Statement that relate to asset valuations are reversed out of the Capital Adjustment Account. As such, the correction of this error has no impact on the year-end General Fund Balance, the impact is limited to changing two unusable reserves (Capital Adjustment Account and Revaluation Reserve)

The error was found to affect 2017/18 and 2018/19, however no adjustment has been made for 2017/18 as this was not material

As a result of the discovery of this error, a full review of the valuation of land and buildings including building and land measurement is being carried out and more assets may be identified, this work is currently ongoing.

The Council has thus far restated it's 2018/19 balances as shown in the table below:

	Property Plant and Equipment £'000	Capital Adjustment Account £'000	Revaluation Reserve £'000	General Fund £'000	CIES £'000	MiRs (Unusable Reserves) £'000
Original Statement of Accounts 2018/19	30,975	-12,176	-12,362	-19,682	2,038	17,660
Adjustment	1,045	-196	-849		-1,045	-1,045
Restated Opening Position 2018/19	**32,020**	**-12,372**	**-13,211**	**-19,682**	**993**	**16,615**

9. 2019/20 Statutory Deadline (Accounts Published 31 May 2020 and Audited by 31 July 2020)

9.1 Due to the statutory deadlines for the 2019/20 Statement of Accounts, it is not possible to report to the Governance and Audit Committee prior to authorisation for issue of the unaudited statements by the Chief Finance Officer (S151). As per last year, the Accounts will be presented to Members of the Governance and Audit Committee at its meeting in June.

1. ACCOUNTING POLICIES

i General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The 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 2019/20 (The Code) and the Service Reporting Code of Practice 2019/20, 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 contracts with service recipients, whether for services or the provision of goods is recognised when the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received, (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made. 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 and payable on borrowings is accounted for as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where 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 Acquisitions

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.

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 (Business 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 (CIES) 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.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Collection Fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

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 2.4% 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/finances-and-budget/

Option: Lincolnshire 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 and borrowing, 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 or loan agreement.

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the financial instrument.

For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

The Council has made no soft loans (loans at less than Market Rate) as at 31/03/2020.

Expected Credit Loss Model

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

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

The Council has a portfolio of loans to measure lifetime expected losses, this will be assessed on each individual instrument basis. This will take into account materiality, history of default, and impact sensitivity of amendments such as interest rate changes.

Financial Assets Measured at Fair Value through Profit of Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the 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.

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.

Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

The Council currently holds no financial instruments at fair value through Other Comprehensive Income.

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 Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be utilised for infrastructure projects to support the development of the area. As a collecting and charging authority an element of the charge is credited to the Comprehensive Income and Expenditure Statement for administration costs, the income is shared with Parish Councils and Lincolnshire County Council to support agreed infrastructure schemes. Amounts 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 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 judgement by the S151 Officer is that there is no material impact on the Statement of Accounts. Group Accounts are therefore not required for 2019/20.

xv Inventories and long-term contracts

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

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 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	25 to 60
Depots & Stores	52
Shops	54-60
Public Conveniences	49
CCTV Systems/IT Equipment/Wheeled Bins/Office Equipment/Led Lighting	1 to 13
Vehicles/Bin Lifters	1 to 7
Infrastructure Assets	17-29
Dwellings	54

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

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

Contingent assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed 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

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 best 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 an employer specific assumptions paper covering the assumptions key to your organisation, what changes to assumptions could be made, and the estimated financial 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 and how these impact on your organisation's accounting figures.
- 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.

Engaging directly with the Actuary preparing your FRS102 / IAS19 report is typically more cost-effective than seeking third party advice.

For more information about our enhanced service, please click here or call one of our accounting specialists - Craig Alexander on 0141 566 7843, Tom Hoare on 0141 566 7991 or Adrian Loughlin on 0141 566 7591.

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.

HYMANS ROBERTSON

Briefing note

Local Government FRS102 / IAS19 February 2020

> "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) and is discussed in advance with the National Audit Office, Audit Scotland and Wales Audit Office.

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 to derive a CPI assumption for accounting purposes. Our estimate is based on analysis of past and emerging future trends in the gap between these indices. When setting a CPI assumption, we also take account of the Bank of England’s long-term rate of CPI inflation of 2% p.a.

Based on the above approach, our proposed default assumed RPI-CPI gap is 0.9% p.a. for 31 March 2020 (noting this is a slight reduction from the 2019 accounting exercise where 1.0% was used).

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 2019 actuarial funding valuation for the LGPS fund(s) in which you participate. Further details on the salary growth assumption can be found in the 2019 actuarial valuation reports, which will be publicly available on each LGPS fund's website from 1 April 2020.

Longevity assumptions

Our default longevity assumptions for the 2020 accounting exercise are in line with those adopted by your LGPS fund(s) for the 2019 funding actuarial valuation.

Other demographic assumptions

These include assumptions for commutation, withdrawal, ill-health early retirements, etc. We gathered data on recent experience of LGPS funds in order to set appropriate demographic assumptions for the 2019 actuarial valuation. Our default approach will be to use the same demographic assumptions for accounting purposes as at the 2019 funding actuarial valuation. Collectively, these demographic assumptions are intended to be best estimate.

Indicative default assumptions (based on market conditions as at 31 December 2019)

The following table shows our default financial assumptions at 31 December 2019, based on the above methodology. Our default assumptions used for the 31 March 2019 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 at 31 March 2020 could be significantly different from the indicative assumptions below which are based on *market conditions as at 31 December 2019*.

Duration category	31 March 2019		31 December 2019	
	Discount rate	RPI (CPI)	Discount rate	RPI (CPI)
Short	2.4%	3.5% (2.5%)	2.0%	3.3% (2.4%)
Medium	2.4%	3.5% (2.5%)	2.0%	3.2% (2.3%)
Long	2.5%	3.4% (2.4%)	2.1%	3.2% (2.3%)

* The indicative assumptions at 31 December 2019 allow for the proposed RPI-CPI gap of 0.9%.

Appendix

Impact of the 31 March 2019 English and Welsh formal actuarial valuations

Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. The formal valuations for English and Welsh LGPS Funds will be concluded by 31 March 2020.

The accounting balance sheet position as at 31 March 2020, and the projected charge to the P&L for 2020/21, are therefore based on this new roll forward from the 2019 formal valuation. This differs to the balance sheet position as at 31 March 2019 and the charge to the P&L for 2019/20, which were based on a roll forward from the 2016 formal valuation. **This 'step change' can lead to sizeable asset and liability 'remeasurement experience' items in the reconciliation of the balance sheet from 31 March 2019 to 31 March 2020.**

For accounting purposes, we project forward the results from the most recently completed formal valuation: we only allow for certain elements of experience since the formal valuation date, such as actual investment return, estimated contributions paid, estimated benefit outgo, actual early retirements and actual outsourcings/bulk transfers when advised to do so by the employer. As such, the accuracy of the accounting projection declines over time. We would normally expect our projection to be within +/-2% of the underlying position for each year of projection. However, greater differences are possible, particularly if there have been volatile financial market movements or significant membership changes.

The asset and liability 'remeasurement experience' items arise because in the accounting roll-forward we cannot recognise all possible elements of experience, and these are recognised in the formal valuation calculations. **In effect, our accounting figures are "re-calibrated" every three years following each formal valuation.** For example;

- Actual level of salary (or pension) increases – e.g. lower than expected salary growth over the previous inter-valuation period would lead to a positive liability 'experience' item (i.e. lower past service liabilities).
- Outsourcings / Bulk transfers – where the employer has chosen, due to materiality, not to recognise outsourcings and bulk transfers in their accounting position, the impact of these will be included in the asset and liability 'experience' items.
- Membership movements (new entrants, withdrawals, ill health retirements, transfers etc) – any movements different to those assumed within the previous formal valuation will contribute positively or negatively to the asset and liability 'experience' items.

In line with the accounting standards, the liability 'experience' item is identified separately in the reconciliation, however the asset 'experience' item is included in the re-measurement 'return on assets' item shown in Other Comprehensive Income (OCI). In non-valuation years, the 'return on assets' item reflects the difference between actual return over the year and the expected return (recognised in the P&L as the interest income on assets). At first glance, the 2019/20 'excess return on assets' item may appear unusual but this is likely to be due to the inclusion of any asset 'remeasurement experience' from the 2019 formal actuarial valuation 'step-change'.

CLOSEDOWN 2019/20 RISK REGISTER

Event (description of risk)	Existing Mitigation	Existing Assurances	Planned Mitigation (if any)	Score with Planned Mitigation			Contingency (should the Event actually occur)
			Action	Likelihood 1 Minor 2 Moderate 3 High	Impact 1 Minor 2 Moderate 3 High	Calculated Risk Severity	
External auditor will detect a material mis-statement in the accounts.	Regular review of GL transactions against budget, reconciliations, quality review of final account working papers, PBC owners designated	Senior officers review reconcilations and working papers. Checking systems throughout the year are in place. Tracey does a final review.	no further actions identified	1	2	2	Amend the financial statements and report to members
The correct accounting treatment has not been followed due to omission, error in interpretation	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.	QA on all working papers undertaken by expert.	1	2	2	Amend the GL entries and financial statements
Errors are made in year end procedure for closing financial system	Civica closedown timetable and documented procedures	Written procedure notes	Balance Sheet Review to December. Regular checking of control account balances over year end period to ensure no further movement after closing system	1	1	1	Restore Civica and re-process data with IT support
Team members do not comply or are unable to comply with the timetable	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	More support for officers in time management, improve communication over the closedown plan. Expectation that additional hours will be required to manage workload during this period	1	2	2	reprioritise work, bring in weekend working if necessary and external resources
Team members leave or are ill, together with in-experienced team members taking on new roles.	Procedure notes for main areas	Procedures built into working papers. Earlier preparation, so QA in January, flexible working	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	1	2	2	reprioritise work, bring in overtime - external resources
Team members do not provide adequate working papers	standard template in place	Two senior officer signs off working papaers. PBC owner reviews	All WP's include instructions. Officers responsible for checking against the Code. QA twice	1	2	2	Rework any defficient WPs

			Planned Mitigation (if any)	Score with Planned Mitigation			
Event (description of risk)	Existing Mitigation	Existing Assurances	Action	Likelihood 1 Minor 2 Moderate 3 High	Impact 1 Minor 2 Moderate 3 High	Calculated Risk Severity	Contingency (should the Event actually occur)
There are issues with the asset register	Capital closedown procedure notes in place. Principal Accountant to receive in house and external training. Service Manager and Team Manager understand capital and year end requirements	Principal Accountant oversees the work area. Team Manager Review	Support to be provided to Corporate Principal Accountant if necessary. Capital closedown work to be reviewed by senior officer. New capital WP's templates set up	1	2	2	re-work asset figures and transactions
Not providing audit with correct information in a timely manner.	New protocol established including WP's to meet PBC requirments	Regular liaison with audit	Regular meeting with Audit Lead. Working Papers QA twice	1	1	1	
Ensuring all accounts are reconciled where there are system related imbalances	policies established including balance sheet recs	Monitored by senior officer and at monthly team meeting	no further actions identified	1	2	2	
Service managers do not comply with closedown timetable or provide adequate information.	Training and Briefings. Meetings with Key Stakeholders	No issues in prior years	regular liaison, no previous year issues	1	1	1	
Elected members do not return related party questionnaires	liaise with key members	Monitoring and reminders issued. Members who leave during year now complete a return as part of exit process	Engage the support of the Chair/Vice Chair of G&A. Early liaison with S151 and member services. Capture disclosures from any member/officer leaving during the year	1	1	1	
Material MisStatement due to Fraud	Systems of internal control including internal audit	Audit reports monitored by Senior managers and CMT	Regular budget and reconciliation monitoring, internal controls incl authorisations and separation of duties	1	1	1	Amend the financial statements
Subsidiaries/other companies do not provide the data needed for group accounting	Liason with key officers. Financial services control accounting	Minimal and no issues last year. Group accounts not material	Plan with external accounts when statement of accounts to be completed by and if they require auditiing	1	2	2	

			Planned Mitigation (if any)	Score with Planned Mitigation			
Event (description of risk)	Existing Mitigation	Existing Assurances	Action	Likelihood 1 Minor 2 Moderate 3 High	Impact 1 Minor 2 Moderate 3 High	Calculated Risk Severity	Contingency (should the Event actually occur)
Not issuing the Statement for publication by 31.5.2020	Prior years working towards earlier closedown, successfully achieved	Tighter timetable monitoring, ownership of tasks, any issues picked up on audit are amended.	Work closer with Auditor, agreement of estimates and process and PBC list, deal with issues as they come along. Appoint agency support and or additional working hours	1	2	2	Communicate with Audtior and Members as national publication for those authorities which do not achieve deadline - reputational risk
Brexit 2019/20	Liason with key officers, external valuers Wilks, Head and Eve and Pension Fund Administrators Lincolnshire County Council and Actuary. Financial Services control accounting.	Uncertainity remains around Brexit and the mid to longer term impact	Work closely with Auditor and External Valuers to agree the level of assurance and evidence required for Property valuations and amend the accounts should a material change in valuations occur post Brexit. Close the accounts using the Pension Estimate report and make the relevant accounting adjustments, then obtain an actual report in May to compare for material change. If a material change is deemed to of occured the relevant accounting amendments will be made prior to the publication of the draft financial statements 31/05/2020	2	3	6	Additional funds to be set aside to mitigate financial risk of capital loss on sale of assets. Higher contributions to pension fund over the long term

Governance & Audit Committee	
Tuesday 10th March 2020	

Subject: Annual Report from the Governance & Audit Committee 2019/20

Report by:	Chief Executive
Contact Officer:	Corporate Governance & Policy Manager & Deputy Monitoring Officer Councillor John McNeill Chair of Governance & Audit Committee
Purpose / Summary:	To report on the work undertaken by the Committee during 2019/20

RECOMMENDATION(S):

1. **Members endorse the contents of the report and identify any additional work of the Committee for inclusion**
2. **Members support the presentation of the Annual Report from the Governance & Audit Committee to Council on 6th April 2020**

IMPLICATIONS

Legal: None

Financial: FIN/186/20/TJB **None from this report**

Staffing: None

Equality and Diversity including Human Rights: None

Data Protection Implications: None

Climate Related Risks and Opportunities: None

Section 17 Crime and Disorder Considerations: None

Health Implications: None

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

Risk Assessment:

1 Introduction

1.1 Guidance provided by the Chartered Institute of Public Finance & Accountancy (CIPFA), advises that audit committees ought to present an annual report to Council, highlighting its work and demonstrating compliance with its terms of reference.

1.2 This report provides Council with an oversight of the Committee's activity during 2019/20.

2. Terms of Reference of the Governance & Audit Committee

2.1 The terms of reference of the Committee set out its areas of responsibility as being:

(a) Corporate Governance
(b) Accounts and Audit
(c) Regulatory Framework (Assurance Framework)
(d) Ethics and Standards

2.2 More comprehensive and specific detail is provided in Appendix One.

2.3 A range of activity has been undertaken during the past year to fulfil the Committee's terms of reference and to seek assurance that governance arrangements at the Council are operating effectively. An outline of the main activities undertaken by the Committee in support of each of the four main areas of responsibility are set out in turn below.

3. Corporate Governance

- Undertook a full review of the Council's Constitution; including financial and contract procedure rules
- Charged the Remuneration Panel with reviewing the Council's Member Allowance Scheme for 2020/21
- Approved the Annual Governance Statement and Action Plan for 2018/19
- Monitored progress and signed off as complete, the Annual Governance Statement Action Plan for 2017/18
- Reviewed and approved the Council's Risk Strategy (2019-2023)
- Completed bi-annual reviews and scrutiny of the Council's Strategic Risk Register
- Approved the Council's Combined Assurance Report for 2019/20 – completed one Committee meeting earlier than previously

4. Accounts and Audit

- Approved the annual audit plan for 2019/20 and monitored delivery; with particular focus on any overdue audit actions. At the time of the most recent monitoring, no overdue actions were reported
- Received and approved the Head of Internal Audit's Annual Report for 2018/19

- Received and approved the External Audit's Annual Report for 2018/19
- Approved and signed off the Council's Statement of Accounts for 2018/19
- Received and scrutinised the Council's Draft Treasury Management Strategy; Minimum Revenue Provision and Investment Strategy
- Approved External Audit's Strategy Memorandum (Plan) for 2019/20
- Requested and received an update from the Housing and Enforcement Manager on progress against recommendations made in the 2017 audit into planning enforcement

5. Regulatory Framework (Assurance Framework)

- Reviewed and approved the Council's annual fraud report and assessment of the controls in place
- Received the Council's annual 'Voice of the Customer' report and sought assurance that the processes and procedures used to gain insight into customer experience are robust and adequate
- Approved the Council's Risk Strategy (2019-2023) and undertook bi-annual reviews of the Council's strategic risk register
- Received a report regarding the complaint referrals to the Local Government Ombudsman (LGO) for 2018/19 and sought confirmation that learning from the report's findings is fed into how the Council works as an organisation
- Reviewed the costs incurred by the Council through the employment of consultant and agency employees

6. Ethics and Standards

- Oversaw development of and approved the Member Induction Training Plan and the Member Development Programme and received the Member Development Annual Report
- Maintaining oversight of a trial of e-learning packages for Members
- Maintained oversight of the Council's Standards Board and reviewed the number, nature and outcome of complaints received during the civic years 2016/2017 – 2018/2019

7. Training

7.1 To be as effective as possible, over the last year, Members of the Committee partook in the Member Induction Programme and have also received specific training on Risk Management, Treasury Management and the Statement of Accounts.

7.2 The on-going requirement of the training needs of the Committee is monitored.

8. Independent Members

8.1 The Committee contains three Independent Members. These individuals bring experience in the areas of risk management, corporate governance, commercial and financial matters. They make a valuable contribution to the workings of the Committee.

8.2 During the last year, the Committee re-appointed one Independent Member to the Committee following a recruitment exercise.

9. Attendees at the Committee

9.1 The Committee has a number of regular attendees including the Head of Internal Audit and senior auditors; the Director and Engagement Lead and the Senior Manager of the Council's External Auditors; service managers, the Monitoring Officer, the Deputy S151 Officer, other senior Council managers.

9.2 The Head of Internal Audit also meets with the Chair of the Committee at least annually to discuss the workings of the Committee and more generally, the effectiveness of the Council's governance arrangements.

9.3 Contact with such individuals provides the Committee with the opportunity to seek further assurances where required, obtain insight into developments in governance and audit related matters and for Committee members to develop their knowledge in this area.

Appendix One: Full Terms of Reference of Governance & Audit Committee

Corporate Governance

1. Monitoring the operation of the Council's Constitution and keeping its terms under review, including all procedure rules.

2. Considering and making recommendations on any proposal to make changes to the Constitution prior to its consideration by the Council.

3. To inform the work of the Remuneration Panel in advance of them making submissions to Council.

4. To keep under review the terms of reference of member level bodies and delegations of Council functions to committees and formally appointed bodies and officers.

5. Agreeing and updating regularly the Council's Local Code of Governance.

6. Monitoring its operation and compliance with it, and using it as a benchmark against performance for the Annual Governance Statement.

7. Following a decision of Council to undertake a community governance review to agree the terms of reference for and conduct such a review, making recommendations to Council who will determine the outcome of such reviews.

8. Exercising functions relating to elections and parishes set out in Part D of Schedule 1 to the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (or any replacement or amendment of it).

9. Reviewing the adequacy of the Council's corporate governance arrangements (including matters such as internal control and risk management) and approving the Annual Governance Statement.

10. To approve the financial and contract procedure rules between Annual Councils.

Accounts and Audit

1. Considering the Council's arrangement relating to accounts including;
(i) the approval of the statement of accounts and any material amendments of the accounts recommended by the auditors;
(ii) to keep under review the Council's financial and management accounts and financial information as it sees fit.

2. Considering the Council's arrangements relating to the external audit requirements including the receipt of the external audit reports so as to;
(i) inform the operation of the Council's current or future audit arrangements;
(ii) provide a basis for gaining the necessary assurance regarding governance prior to the approval of the Council's accounts.

3. Considering the external auditor’s report to those charged with governance on issues arising from the audit of the accounts.

4. Considering the Council’s arrangements relating to internal audit requirements including:
(i) considering the Annual Internal Audit report, reviewing and making recommendations on issues contained therein;
(ii) monitoring the management and performance of internal audit;
(iii) agreeing and reviewing the nature and scope of the Annual Audit Plan.

5. Considering summaries of specific internal audit reports of significance or as requested.

6. Considering reports from internal audit on agreed recommendations not implemented within a reasonable timescale.

7. Considering specific reports as agreed with the external auditor.

8. Recommending to the Council the appointment of the Council’s external auditor.

9. Scrutinising the draft Treasury Management Strategy.

<u>Regulatory Framework (Assurance Framework)</u>

1. Reviewing any issues referred to it by the Head of Paid Service, an Executive Director, the Chief Finance Officer or any Council body.

2. Monitoring the effective development and operation of risk management and corporate governance in the Council.

3. Monitoring Council policies on confidential reporting code, anti-fraud and anti-corruption policy and Council’s complaint process.

4. Approving payments or providing other benefits in cases of maladministration as required and making recommendations arising from any review of a report of the Local Government Ombudsman.

<u>Ethics and Standards</u>

1. Promote and maintain high standards of conduct by Councillors and co-opted members.

Note:
Any Member wishing to serve or substitute on this Committee must have undertaken such training as deemed appropriate by the Monitoring Officer, and as a minimum, within the previous two years of the date of the meeting, and in particular members must receive training prior to approval of the Annual Statement of Accounts.

Nominations be sought to form a pool of trained substitutes in order to ensure that decisions are made by fully trained members.

The Leader of the Council, Leader of the Opposition, the Chairman of the Overview and Scrutiny Committee and the Chairman of the Standards Sub-Committee may be required to attend this committee but may not be appointed to it.

The committee will include at least one independent member and the normal term of office shall be four years.

Governance and Audit Workplan to end of 2020 as at 28 February 2020

Purpose:
This report provides a summary of items going to Governance and Audit Committee over the course of the year.

Recommendation:

1. That members note the plan.

Date	Title	Lead Officer	Purpose of the report	Date First Published
14 APRIL 2020				
14 Apr 2020	Internal Audit Charter	Emma Bee, Assurance Lincolnshire	IA Charter for 20/21	15 July 2019
14 Apr 2020	Internal Audit Q4 19/20	Emma Bee, Assurance Lincolnshire	To present the update for quarter 4 to G and A committee	21 February 2019
14 Apr 2020	Review of Member Development Programme	Ele Snow, Democratic and Civic Officer	To make a decision on the introduction of online development options for Members and agree the template programme for By-Election Inductions.	14 February 2020
14 Apr 2020	Six Month Review of Strategic Risks	James O'Shaughnessy, Corporate Policy Manager & Deputy Monitoring Officer	To undertake and present the six-monthly review of the Council's strategic risks.	14 February 2020
14 Apr 2020	Annual Constitution Review	Katie Storr, Senior Democratic & Civic Officer	Annual review ahead of annual council in 2020	15 July 2019
16 JUNE 2020				
16 Jun 2020	Unaudited Statement of Accounts 2019/20	Caroline Capon, Corporate Finance Team Leader	Review of the Unaudited Statement of Accounts 2019/20	19 December 2019
16 Jun 2020	Internal Audit Annual Report 2019/20	James Welbourn, Democratic and Civic	Annual Report from Assurance Lincolnshire	19 December 2019

		Officer		
16 Jun 2020	4th Tier Governance Review	James O'Shaughnessy, Corporate Policy Manager & Deputy Monitoring Officer	As requested by the Chairman of the Governance and Audit Committee	
16 Jun 2020	Draft Annual Governance Statement 2019/20.	James O'Shaughnessy, Corporate Policy Manager & Deputy Monitoring Officer	To present the Council's draft Annual Governance Statement for 2019/20.	14 February 2020
21 JULY 2020				
21 Jul 2020	Audited Statement of Accounts 2019/20	Caroline Capon, Corporate Finance Team Leader	To review and sign off the 2019/20 Statement of Accounts	19 December 2019
21 Jul 2020	EXTERNAL AUDIT REPORT - ISA 260	Tracey Bircumshaw, Strategic Finance and Business Support Manager	External Auditor, Mazars will present their ISA260 report relating to our Statement of Accounts 2018/19	10 June 2019
21 Jul 2020	Member Development Annual Report	Ele Snow, Democratic and Civic Officer	To provide a summary of Member Development over the previous 12 months, including progress made with the actions agreed by the Member Development Group. To review and approve the priorities for Member Development for the coming year.	14 February 2020
21 Jul 2020	Annual Governance Statement 2019/20. Closure of the Annual Governance Statement 2018/19 Action Plan.	James O'Shaughnessy, Corporate Policy Manager & Deputy Monitoring Officer	To present the Council's Annual Governance Statement for 2019/20. To update progress against the Annual Governance Statement 2018/19 Action Plan.	14 February 2020
21 Jul 2020	Internal Audit Quarter 1 2020/21	James Welbourn, Democratic and Civic Officer	Report from Assurance Lincolnshire	19 December 2019

13 OCTOBER 2020				
13 Oct 2020	Internal Audit Report Quarter 2 20/21	James Welbourn, Democratic and Civic Officer	From Assurance Lincolnshire	19 December 2019