Public Document Pack

West Lindsey District Council

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AGENDA

<u>This meeting will be streamed live (at the below link), recorded and the video archive published on our website</u>

Governance and Audit Committee
Tuesday, 9th March, 2021 at 2.00 pm
Virtual - MS Teams

https://west-lindsey.public-i.tv/core/portal/home

Members: Councillor John McNeill (Chairman)
Councillor Mrs Jackie Brockway (Vice-Chairman)
Councillor Stephen Bunney
Councillor Mrs Tracey Coulson
Councillor David Dobbie
Councillor Mrs Caralyne Grimble
Councillor Mrs Angela White
Alison Adams
Andrew Morriss
Peter Walton

1. **Register of Attendance**

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 - 13)
To approve the minutes of the meeting held on 12 January 2021.

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 14)
Matters Arising schedule setting out current position of previously agreed actions as at 1 March.

6. **Public Reports for Consideration**

   i) Addition to the Civic Honours Scheme - Adoption by the District (PAGES 15 - 22)

   ii) Accounts Closedown 2020/21 Accounting Matters (PAGES 23 - 75)

   iii) External Audit Strategy Memorandum (Plan) 2020/21 (PAGES 76 - 116)

   iv) Combined Assurance Report 2020/21 (PAGES 117 - 137)

   v) Internal Audit Draft Annual Plan Report 2021/2022 (PAGES 138 - 163)

   vi) Internal Audit Quarter 4 2021/2022 Report (PAGES 164 - 186)

7. **Workplan** (PAGES 187 - 189)

Ian Knowles
Head of Paid Service
The Guildhall
Gainsborough

Monday, 1 March 2021

WEST LINDSEY DISTRICT COUNCIL

MINUTES of the Meeting of the Governance and Audit Committee held in the Virtual - MS Teams on 12 January 2021 commencing at 2.00 pm.

Present:	Councillor John McNeill (Chairman)
	Councillor Mrs Jackie Brockway (Vice-Chairman)
	Councillor Stephen Bunney
	Councillor Mrs Tracey Coulson
	Councillor David Dobbie
	Councillor Mrs Caralyne Grimble
	Councillor Mrs Angela White
	Alison Adams
	Andrew Morriss

In Attendance:

Alan Robinson	Director of Corporate Services and Monitoring Officer
Emma Bee	Audit Manager
Tracey Bircumshaw	Assistant Director of Finance and Property Services and Section 151 Officer
James O'Shaughnessy	Corporate Policy Manager & Deputy Monitoring Officer
Ele Snow	Democratic and Civic Officer
Katie Storr	Senior Democratic & Civic Officer
James Welbourn	Democratic and Civic Officer

Apologies: Peter Walton

41 PUBLIC PARTICIPATION PERIOD

A question and statement had been received from a member of the public:

The question is: **How can WLDC provide focus and guidance to help engage fellow villagers of Normanby and Owmby to ask for a governance review (in the form of a public petition) when there is so little information currently available for us to act upon?**

A governance review that would request for a boundary to be redrawn would enable the merger of the two current parish councils, becoming one council. We believe this would enable effective, respected administration and efficient governance of our community, reflecting the current public spirit and friendship of our villages. **We would welcome guidance from the district council to include a factual time frame, with the practical steps the review would follow**, with clear guidelines and transparency that can be well understood and interpreted by us all as residents. **We also seek assurance that the new reformed boundary will be for administration only and that the villages of Normanby-by-Spital and Owmby-by-Spital are both assured of retaining their individual character and village identity. This request for a review is purely to cohesively administer the**

governance and day to day running and become one effective 'parish' council.

We believe that WLDC are aware that there is an appetite for change in our villages and that this would also futureproof the governance of our community for years to come. Normanby PC as it currently stands, indicates most councillors wish to continue with the same ideology and values as it has administered for decades. What can WLDC do to support not only myself (as a parishioner) but also many other residents who believe the current council do not reflect or act in the best interests of the people they are there to represent?

We seek the guidance of the Governance and Audit committee and are aware the next local government elections will be held in 2023. It would be most desirable to engage with the committee to achieve a governance review for Normanby and Owmby within this timeframe.

On a separate matter: May I ask if the committee are aware of several code of conduct complaints raised between current Normanby councillors, and if this is seen as appropriate behaviour? Whilst there should be procedural recourse for complaints, this appears to illustrate a total inability to function effectively and work cohesively together for the community. It is further evidence of a poorly-run council and the complaints system in place appears to have been utilised inappropriately to a point where it is in danger of losing impact.

We look forward to your guidance and reply.

The response from the Governance and Audit Chairman was as follows:

Thank you for your question, the first we have received at the Governance & Audit Committee in over six years. You will receive a written copy of this response following the meeting.

I will begin with the second matter you raise concerning the number of recent Standards complaints regarding Normanby-by-Spital Parish Council. I can confirm that I am aware that complaints have been received and that these have been considered by officers and the Independent Person in line with the Council's policy and procedures. Standards complaints are not reported to this committee, but the overall details are reported to Annual Council in the Monitoring Officers Report.

Moving to the primary matter of your question, local Government in the UK is divided into four tiers, Unitary Authorities, Upper Tier (Counties), Lower Tier (District/Boroughs) and Fourth Tier (Parish/Town Councils).

Parishes are the smallest areas of civil administration in England. Parish and Town Councils are the closest level of government to the community they represent. The powers of parishes vary depending on how large and how active they are. Some meet infrequently and are responsible for very few matters. Other, often larger, parishes undertake many duties such as managing cemeteries, allotments, commons, village halls, war memorials and markets while also undertaking functions to do with street lighting and verge cutting.

Across West Lindsey there are 128 Parishes, of which 78 are served by Parish or Town Councils who can be contacted through a Parish or Town Clerk. Many of the remaining parishes have formed parish meetings.

Community Governance Reviews vary considerably, depending on the nature of the changes being considered and on local circumstances. Guidance on these Reviews was published by the Department for Communities & Local Government and the Local Government Boundary Commission for England in 2010, a copy of which will be provided to you (http://www.communities.gov.uk/publications/localgovernment/guidancecommunitygovernance2010).

The guidance, aimed largely at principal authorities, offers advice about undertaking a review and implementing its recommendations. The advice includes that it would be good practice for a principal authority to consider conducting a review every 10 to 15 years.

The Act requires principal authorities to take account of certain criteria when conducting a review, namely:

- The identities and interests of the community in an area; and
- The effective and convenient governance of the area.

They are also advised to consider factors such as:

- What impact proposed community governance arrangements might have on community cohesion; and
- Whether the size (meaning area), population and boundaries proposed for local governance make sense on the ground and contribute to the above criteria.

Overall, local council arrangements should lead to improved local democracy, greater community engagement and better local service delivery. The process required to be adhered to can typically take up to 12 months to complete.
To trigger a review and therefore begin the process either a principal authority needs to decide to undertake one or a valid community petition needs to be received by the principal authority. To be valid a petition must demonstrate sufficient support among the electorate for certain changes. This equates to 50% signing the petition in an area with fewer than 500 electors, or 250 signing in an area with between 500 and 2,500 electors, or 10% signing in an area with more than 2,500 electors. You will note that the threshold for a petition to trigger a review is quite high for small communities like Normanby-by-Spital and Owmby-by-Spital.

If a principal authority decides to undertake a review, it can decide whether it is for all or only part of its area. Having made the decision to undertake a review a Terms of Reference stating the matters and geographic area to be covered are drawn up and published and other local authorities are notified.

To undertake the review the principal authority must consult electors in the affected area and other bodies with an interest, including other local councils. It must then consider the representations received.

Bearing in mind representations received, the criteria and other factors, including alternative forms of governance in the area (for example residents associations and neighbourhood forums) the principal authority formally recommends an outcome from the review. It must publish its recommendations and the reasons for them, informing those with an interest.

To implement the recommendations of the review the principal authority makes a Reorganisation Order to put into effect any changes and this must include a detailed map of the boundaries; it publishes the Order and map for public inspection, and it must inform specified bodies (for example the Ordnance Survey). It should include in the Order any agreed incidental issues (for example the transfer of assets).

An Order is often written to come into force the following April, typically a new local council is then elected in May.

In the event of the electors of Normanby-by-Spital and Owmby-by-Spital jointly obtaining sufficient support to trigger a review, The Council would fully consider such a request. If a petition were to be received this year and The Council decided to undertake the review, we would expect a reorganisation order to most likely be made in 2022, and coming into effect in 2023, so that any new or revised parish electoral arrangements come into force in time for the ordinary parish elections.

I can also confirm that work is already underway by The Council to consider the need to hold a Community Governance Review as part of its work on 4th Tier Governance, in particular we are preparing to consult on what matters and areas may need reviewing; this has been delayed because of the Covid-19 pandemic. However, please be assured that, if you are unable to gain sufficient support in a petition, this matter will be considered as part of our 4th Tier Governance Review.

I hope that the response I have provided is helpful. You may wish to stay for the rest of this meeting, but if not, thank you for your question.

42 MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 13 October 2020 were approved as a correct record.

43 MEMBERS DECLARATIONS OF INTEREST

There were no declarations of interest.

44 MATTERS ARISING SCHEDULE

The matter arising was noted.

45 UPDATE ON GOVERNANCE AND AUDIT COMMITTEE'S EFFECTIVENESS ACTION PLAN

Members considered an update on the Governance and Audit Committee’s effectiveness action plan.

The Corporate Policy Manager introduced the report, and informed Committee that the Governance and Audit Committee Effectiveness working group had met and reviewed areas for improvement highlighted by a survey carried out by committee members in March 2020. An action plan had been devised, setting out the working group’s intentions.

It was hoped that if proposed, the items in the action plan would be completed by July 2021.

The following points were highlighted:

- Members were keen to continue with pre-meetings before the formal Governance and Audit committee meeting. This had not occurred prior to the October 2020 and January 2021 meetings; however this was due to training taking place before these meetings, and there being no desire for a further pre-meeting;

- Sessions on improving financial literacy had been offered by the Local Government Information Unit (LGIU), and were provisionally pencilled in for February and early March.

The report was moved, seconded, and following a vote it was unanimously **RESOLVED** to:

(1) Approve the Action Plan;

(2) Be assured that the Action Plan would adequately address the identified areas for improvement;

(3) Request that progress on the Action Plan be reported back to the committee in July 2021.

46 BI-ANNUAL REVIEW OF STRATEGIC RISKS

Members considered a report outlining the strategic risks facing the Authority as at January 2021.

The Corporate Policy and Governance Manager introduced the report, and highlighted the following points:

- 'Risk Managers' were asked to score their risks at their current state and determine the desirable level of risk for each topic. This methodology had been agreed by the Governance and Audit Committee in 2020;

- Covid-19 continued to have an impact on Council operations. It had not been reflected as a risk in its own right; rather it had been reflected in each individual risk where applicable;

- Brexit continued to be a risk, although it had not been disproportionately referred to within the report as some of its impacts had now been addressed. Three areas related to Brexit remained as risks:
    - Hold ups at ports and the impact on road networks;
    - Data handling;
    - Procurement related matters.

  On this last area, the committee were informed that the Authority's procurement arrangements were adequate for the immediate future.

Members then asked questions of officers. Further information was highlighted:

- Although there are lots of areas that could potentially be risk factors, not all of them are under the direct influence of West Lindsey District Council;

- The schools educational programme on recycling was due to be completed by November 2022; this would have more traction if schools were more accessible. The Environment and Sustainability Working Group were investigating these issues, and the work would be started as soon as practicably possible;

- It was part of ongoing risk management to keep abreast of local issues related to health and wellbeing and the climate.

  As a risk, the climate was similar to Covid-19 as it touched so many of the Authority's operations. In the future, it could become a risk in its own right; this would avoid it being diluted by being filtered through other risks;

- Although there were initiatives mentioned in the report specific to Gainsborough, it was important not to forget the rest of the District;

- On the issue of housing improvement, the addition of a survey of current disused housing may be appropriate;

- When officers look at risks they look at the impact on the Corporate Plan objectives. It was important for the Authority to keep its guard against disinformation, as it was very much being seen at a local level.

  Trusted sources were used to gather information, such as the Census and the State of the District report.

Note: Councillor David Dobbie joined the meeting at 1446.

- There was a difference between strategic, and operational risks. Operational risks were managed at a lower level in the organisation, whereas strategic risks were those faced by the Council as a whole. Should an operational risk escalate in nature then it would be reflected within the strategic risks.

The paper was then moved, seconded, and following a vote it was unanimously **RESOLVED** to:

(1) Note the report and be satisfied that any additional risks of a strategic nature had been identified by Members;

(2) Be assured that current risk management controls and proposed actions were sufficiently robust.

47 INTERNAL AUDIT QUARTER 3 20/21 REPORT

Members considered a progress report by Assurance Lincolnshire against the 2020/2021 annual programmes agreed by the Governance and Audit Committee in March 2020.

By way of introduction, some updates since the publication of the report were provided to committee members:

- The Homelessness audit report had been finalised and given ‘substantial’ assurance;
- The Strategic Risk audit on the inability to raise local educational attainment and skills was progressing;
- Audits on both the Crematorium and the Waste Depot were at draft stage;
- The Customer Relationship Management (CRM) and IT Helpdesk audits were still at fieldwork stage;
- Some additional work, on the subject of ‘subsidy testing’ had been undertaken by Assurance Lincolnshire, funded from the contingency allowance.

Following questions from committee Members, further information was provided:

- No staff at Assurance Lincolnshire had been furloughed; however the wellbeing of staff would remain a concern whilst government restrictions were in place;
- There were concerns in different parts of the country around auditors being able to provide an audit opinion on work of Councils; this was not a current concern for Assurance Lincolnshire;
- It had been a challenging year in terms of delivering on the Internal Audit Plan. Plans were constantly being reset and reviewed, which could lead to changes in scheduling. However, in terms of having enough staff to provide an opinion, there were no current concerns for Assurance Lincolnshire;
- Disasters and Crisis response had been raised as a new risk for 2021;
- The ‘Wellbeing Lincolnshire’ audit was due to be a broad brush review as East Lindsey and North Kesteven District Councils were also involved. This had not been scoped as yet, but the concerns on local vulnerable residents raised by a Member would be taken into account.

The report was then moved and seconded, and following a vote it was unanimously **RESOLVED** to agree that the content of the report had been considered and any actions required had been raised.

48 DRAFT TREASURY MANAGEMENT STRATEGY 2020/21

Members considered a report on the Treasury Management Strategy, Prudential Indicators, Minimum Revenue Provision (MRP) Policy and Capital Investment Strategy to facilitate effective financial management and planning.

The Treasury Management Strategy incorporated the requirements of the latest guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Ministry of Communities, Housing and Local Authorities (MCHLG).

The Treasury Management Strategy brought together the:

- borrowing strategy, which would ensure consideration was given to affordability and sustainability for the repayment of debt;

- The Annual Investment Strategy which was to make sure of providing security of the investment, liquidity and cashflow requirements, and finally yield, all are considered in the context of the Council's risk appetite;

- The MRP policy page which determined how the Authority would repay prudential borrowing;

- The Committee are also requested to consider the Capital Investment Strategy, which was the framework by which capital investment and financing decisions would be made.

Draft prudential and treasury indicators were calculated in November and would therefore be updated based on the final Capital Programme and Medium Term Financial Analysis for the final version of the Treasury Management Strategy.

There are 2 changes of note to investments in commercial property, or 'non-treasury investments:

1. In relation to the investment property portfolio, recent changes to the conditions for borrowing from the Public Works Loans Board (PWLB) now excluded being able to borrow for commercial purposes with the primary objective of securing a yield. This meant that any future acquisitions, subject to legal advice would need to be funded from the Authority's resources. At this time it was unclear whether borrowing was allowed for replacement assets and therefore, this element of the strategy would be updated.

2. In respect of the Minimum Revenue Provision the Authority's policy has been amended in relation to the Investment Property Portfolio, and a voluntary minimum revision would be considered on a case by case basis. This would allow any "overpayments" i.e. if the asset sale receipt was in excess of the borrowing outstanding those funds could be "withdrawn" to the General Fund.

This change had been discussed with the Authority's External Auditors, Mazars, who had previously highlighted within their report received by this Committee in September 2020 a conclusion that the MRP policy be reviewed regularly to ensure that it was justified in relation to MCHLG guidance. The Council needed to ensure it acted reasonably, that members understand the policy and that any judgements are prudent and that any investments are proportionate.

There had been Treasury Management training open to all Members of the Council held on 7 January.
Following this introduction there were questions and statements from Members of the

committee. Further information was provided:

- The topic of ethical investing would be explored more and developed in the next year. In terms of acquiring bonds on climate change, the investment value was higher than the funds available;

- There were £32 million of funds available to be utilised, which included £20 million of borrowing from the PWLB;

- The Authority would not borrow for long-term purposes unless it was for the purposes of treasury management. When talking to the PWLB on borrowing, they ask questions on the Authority's capital financing level, whether the borrowing was for a legal purpose and they ask for a limit;

- All monetary grants received by the government are labelled as 'section 31' grants, which means that they can be used for any purpose, although some have repayment conditions.

  Any remaining balance from local business grants would have to be repaid; however grants received supporting the Council directly, such as the Recovery of the High Street and signage, would not have to be repaid.

  Any savings made from the General Fund would be added to the General Fund balance;

- There had been a guaranteed three months or further support from the government.

The report was moved, seconded, and following a vote it was unanimously **RESOLVED** that:

(1) The Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision (MRP) Policy 2021/2022 had been scrutinised and reviewed, and was therefore recommended to Full Council for approval;

(2) The Capital Investment Strategy in conjunction with the Treasury Management Strategy had been scrutinised and reviewed;

(3) Approval of any changes to the Capital Strategy and Minimum Revenue Provision (MRP) Policy and Prudential Indicators be delegated to the Chief Finance Officer in consultation with the Chairman of the Governance and Audit Committee, prior to the final strategy being presented to Full Council in March.

49 WORKPLAN

The workplan was noted.

50 EXCLUSION OF PUBLIC AND PRESS

RESOLVED that under Section 100 (A)(4) of the Local Government Act 1972, the public and press be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

51 TREASURY MANAGEMENT PRACTICES

Members scrutinised a report providing the updated Treasury Management Practices and schedules.

The Treasury function was carried out in line with the Treasury Management Code of Practice and the Prudential Code.

The 12 treasury management practices set out how Treasury Management was managed within the Finance Team. Whilst these schedules were reviewed annually there had been a number of changes detailed at 2 in the report.

Within the Internal Audit Quarter 3 report seen previously, the Treasury Management Function had received high assurance for procedures and risk management.

Following questions from Members, further information was provided:

- It was very rare for the Authority to take out long-term investments, other than the CCLA Property Fund;

- The protection on the Authority's bank accounts was the same as for any individual, as it was compensated up to £85,000 under the Financial Services Compensation Scheme;

- It was important to look at lender ratings when borrowing; the Authority had not borrowed from overseas for a long period of time;

- The Authority's counterparty list was managed by an external company, and any changes were reported to the Finance Team on a daily basis There were limits on how West Lindsey District Council could invest with a counterparty;

- There were no significant changes within the proposed set of practices; however, two minor changes were:
    - Changes to the Minimum Revenue Provision (MRP) Policy;
    - A new Treasury Management system called TM Live had been implemented over the last year. This logged the borrowing and interest of the Authority;

- MIFID 2 was a legislative framework instituted by the European Union to regulate financial markets within the bloc and improve protections for investors. It has meant that if trading in money market funds you would need specific training. The practice had been updated to make sure West Lindsey District Council (WLDC) officers were compliant.

An additional recommendation had previously been suggested by the Chairman, "to recommend to Corporate Policy and Resources Committee the Treasury Management Practices". This, and the two printed recommendations were moved and seconded en bloc, and following a vote, it was unanimously **RESOLVED** to:

(1) Be assured of the operational purpose of the updated Treasury Management Practices in effective Treasury management, and be satisfied that the updated practices have been scrutinised;

(2) approve the scrutiny of Treasury Management Practices at least every 3 years, and in any event when a significant update is required due to changes in legislation or the Prudential Code.

The meeting concluded at 3.42 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

Meeting	Governance and Audit Committee

Status	Title	Action Required	Comments	Due Date	Allocated To
Green	**Net borrowing position**	The figures at 3.1 of the Treasury Management report were to be amended ahead of being presented at Full Council in March	**Information in the table on expected borrowing and the net borrowing position**	01/03/21	Tracey Bircumshaw

Governance and Audit Committee
Tuesday 9 March 2021

Subject: Addition to the Civic Honours Scheme - Adoption by the District

Report by:	Director of Corporate Services and Monitoring Officer
Contact Officer:	Katie Storr Senior Democratic & Civic Officer katie.storr@west-lindsey.gov.uk
Purpose / Summary:	To introduce a process, as part of the Civic Honours Policy, by which the Council may grant Instruments of Adoption.

RECOMMENDATION(S):

(1) That Members approve the summary, criteria, and the Instrument of Adoption process as attached at Appendix 1 for inclusion in the Civic Honours Policy.

(2) That delegated Authority be granted to the Chief Executive, in consultation with the Chairman of the Council, to convert the Awarding of a Freedom to the Awarding of an Instrument of Adoption, should the recipient make such a request. A requirement of the delegation being that all Members are notified within 5 days of the decision being made.

IMPLICATIONS

Legal:

The Civic Authority can bestow honours in accordance with Section 249 of the Local Government Act of 1972**.**

Financial : FIN/154/21/CC

An Adoption Scroll would need to purchased and would cost circa £200 and could be met within existing revenue budget CV02.

An Adoption would not require any parade and no additional expenditure would be incurred.

Staffing :

All activities associated with the awarding of honours can be met from existing Resources**.**

Equality and Diversity including Human Rights :

Data Protection Implications :

Climate Related Risks and Opportunities :

Section 17 Crime and Disorder Considerations :

Health Implications:

Title and Location of any Background Papers used in the preparation of this report:
Policy concerning the acceptance of a “freedom” or similar honour conferred by a civic authority in the united kingdom on a royal air force establishment or unit” – available from the Civic Office.

Risk Assessment :

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**	**x**	**No**	

1 Background

1.1 Members will be aware that Council has a Policy under which Civic Honours can be granted.

1.2 Under the current Policy the Council has processes by which it can bestow the following Honours: -

- Honorary Alderman
- Honorary Freeman
- Honorary Freedom of Entry to the District

1.3 By way of an Extraordinary meeting on 4 November 2019 Council received a report which sought Members' consideration of awarding a Freedom of the District. It was:

> **RESOLVED** that the Freedom of the District be awarded to the Royal Air Force Aerobatic Team (the Red Arrows).

1.4 The Civic Team wrote to the Royal Air Force Aerobatic Team (RAFAT) to advise of the decision and on 13 December 2019 received communication back.

1.5 The nature of this correspondence was reported back to Full Council by way of exempt report in January 2020.

1.6 At that meeting it was **RESOLVED** that

(a) the awarding of an adoption be approved in principle;

(b) delegated authority be granted to the Governance and Audit Committee to introduce a process by which "adoptions" can be granted going forward as part of the Civic Honours Policy; and

(c) subject to (b) above being completed, the recipient be invited to Annual Council in May 2019 to receive their "adoption".

1.7 At that meeting Members were also keen to further understand the differences between a Freedom and Adoption and rationale for RAFAT's decision.

1.8 This report seeks to introduce the process by which "adoptions" can be granted going forward as part of the Civic Honours Policy.

1.9 The report also briefly sets out the differences between the two honours; and summarises the "policy concerning the acceptance of a 'freedom' or similar honour conferred by a civic authority in the United Kingdom on a Royal Air Force establishment or unit" provided by the Squadron Leader Barry Matthews of the Ceremonial Office. Both of these have been taken into consideration in preparing the proposed adoption process and informed RAFAT's decision.

2. What is an adoption and how does it differ?

2.1 The presentation of an “Illuminated Address”, a simple “Resolution”, or an **“Instrument of Adoption”** can be presented by a civic authority where:

a. The civic authority is of a lesser status than a borough or equivalent and therefore does not have the power to confer a “Freedom”.

b. Importantly, the unit or establishment would not be able to fulfil the obligations associated with exercising a “Freedom”, due either to being of insufficient size or to its impending disbandment.

2.2 The Policy referred to in 1.9 provided to the Civic Office states

> “Individual squadrons or units on a station should not normally accept a Freedom as they are liable to redeployment. This does not apply to units of the Royal Auxiliary Air Force which, provided they meet with the other criteria laid out (in the policy), may accept the granting of Freedoms from civic authorities within their area of recruitment. A “Freedom” cannot be granted or accepted on behalf of the Royal Air Force as a whole, though an Illuminated Address or Resolution can potentially be accepted on behalf of the Service.”

2.3 The policy goes on to state: -

> “All applications for Honours are considered by the Assistant Chief of the Air Staff, who will make the final determination after consulting with Royal Air Force Ceremonial.”

2.4 The presentation of an “Illuminated Address”, a “Resolution” or an “Instrument of Adoption” is normally to be regarded as being the equivalent of a “Freedom”, but the policy regarding acceptance may be more flexibly applied as there will not be the same requirement incumbent on a unit or establishment periodically to exercise a “Freedom”.

2.5 In considering whether to accept a “Freedom” the Assistant Chief of the Air Staff, after consulting with Royal Air Force Ceremonial will give consideration to:

a. The historic connection between the unit or establishment and the civic authority.
b. The size of the unit or establishment and its capacity to exercise a “Freedom” unaided.
c. The likely continued existence of the unit or establishment for the foreseeable future.

d. The number of “Freedoms” already granted to the unit or establishment.
e. Criteria (b) and (c) above will be of lesser import in considering Illuminated Addresses, Adoptions etc.

3. Proposed Process by Which an Instrument of Adoption will be Considered by the Council

3.1 Given the information set out in Section 2 and RAFAT’s position as previously reported to Council, it is proposed that the same process be used, for considering Instrument of Adoptions, to that used when Granting Freedoms.

3.2 It is suggested that the Council should always, in the first instance, seek to award a Freedom but that this Honour should be amended without formal reference back to Full Council should the recipient determine under their adopted policies they unable to accept a Freedom. As such Council are requested to grant delegated authority to the Chief Executive in consultation with the Chairman of the Council to convert the ‘Awarding of a Freedom’ to the ‘Awarding of an Instrument of Adoption’, should the recipient make such a request. All Members would be notified of the decision in writing within 5 days of it being made and like a Freedom the recipient would still attend a Full Council meeting to receive the award.

3.3 Attached at Appendix 1 is the Summary and Criteria relating to an “Instrument of Adoption” and a process by which adoptions will be considered by the Council.

3.4 As previously stated this is fundamentally the same process used for Granting Freedoms. Like a Freedom the recipient would still attend a Full Council meeting to receive the award, the only exception being that the parade element would be at the discretion of the recipient.

Criteria and Role

Instrument of Adoption

Criteria

- When the unit would not be able to fulfil obligations associated with exercising a Freedom of Entry, due to either being of insufficient size or to its impending disbandment, an Adoption can bestowed.

- The honour can be bestowed on any distinguished unit of Her Majesty's Forces who are intrinsically linked/associated with the District of West Lindsey by location or service to the area

- Exceptional contribution to the district and/or country should have been made and should link to one of the themes of the Corporate Plan

- An award is given on the basis of appreciation of the services rendered to the country. Each nomination will be considered on an individual basis.

The Role of Adoption

- The Instrument of Adoption provides a dignified and satisfactory means of enabling the District to honour a distinguished unit of Her Majesty's Forces.

- The honoured unit may designate themselves as in receipt of an adoption from the District of West Lindsey.

- Representative of the unit invited to a future meeting of the Council to be presented with an Adaption Scroll. A small reception or organised Adoption Parade (at the discretion of the unit) will be held on a separate occasion for the unit by the Chairman

- A representative of the honoured unit will be invited to attend civic functions hosted by the Council and be invited to take part in civic processions.

- Have the name of the honoured unit entered on the Roll of Honour outside the Council Chamber.

- To enjoy such privileges as West Lindsey District Council may from time to time confer upon units in receipt of an Adoption.

Limitations

- No payments will be made to an honoured unit for any expenditure or service undertaken whilst in office.

INSTRUMENT OF ADOPTION PROCESS

Nomination to the Civic Officer
Must be:
- In writing
- Submitted in the strictest confidence without the nominee's knowledge
- Must be sponsored by a current Member of WLDC

Civic Officer
Call a meeting of the Honours Panel

Honours Panel
Consider if the nomination fits criteria

Criteria
- Can be bestowed on any distinguished unit of Her Majesty's Forces who are intrinsically linked/associated with the district, be this by location or service to the area.
- When the unit would not be able to fulfil obligations associated with exercising a Freedom of Entry, due to either being of insufficient size or to its impending disbandment, an Adoption can bestowed.
- Exceptional contribution to the district and/or country should have been made and should link to one of the themes in the Corporate Plan
- An award is given on the basis of appreciation of the services rendered to the country. Each nomination will be considered on an individual basis

FITS criteria

DOES NOT fit criteria

Civic Officer
Circulate nomination to all Members of the Council. If Members have any objection they must be stated in writing to Civic Officer within 14 days.

Civic Officer
Call a meeting of the Honours Panel

Honours Panel
Consider objections and decide whether candidate fits a substantial amount of criteria

NO objections or fits substantial amount of criteria

DOES NOT fit substantial amount of criteria

REJECT NOMINATION
Candidate will not be made aware of nomination if unsuccessful

Honours Panel
Request for Chief Executive to call an extraordinary meeting of Council

Civic Officer
Write an Exempt Report for Council

Extraordinary Council Meeting
Held prior or immediately following a scheduled meeting of Council

NOT APPROVED by two thirds of present Council

APPROVED by two thirds of present Council

Civic Officer
Write up minutes and contact nominee

Successful nominations made public

Representative of the unit invited to a future meeting of the Council to be presented with an Adaption Scroll. A small reception or organised Adoption Parade (at the discretion of the unit) will be held on a separate occasion for the unit by the Chairman

Governance and Audit Committee

Tuesday, 9 March 2021

Subject: Accounts Closedown 2020/21 Accounting Matters

Report by:	Assistant Director of Finance, Business Support and Property Services
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 in the preparation of the 2020/21 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 2020/21.

RECOMMENDATION(S):

1. To approve the proposed Accounting Policies (included at Appendix 1)

2. To scrutinise:

    - pension assumptions (as included at Appendix 2)
    - risk assessment (at Appendix 3)
    - key closedown dates at Section 7.6.

3. To approve the proposed materiality levels as included at section 5.

4. To accept the main accounting changes for 2020/21 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/142/21/CC

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 2020/21. 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 2020/21 is anticipated to be £42,487, the Council had already anticipated a 25% increase in fees due to the additional audit requirements and the impact of the new Audit Code. Assuming no additional work is required then a small budget pressure of £750 is expected.

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 as a result of this report

Health Implications: None arising as a result of this report

Title and Location of any Background Papers used in the preparation of this report :
The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2020/21 Accounts CIPFA Guidance Notes for Practitioners 2020/21 Accounts Both documents are held electronically

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

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**

Executive Summary

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 30 September annually (revisited for 2020/21 from 31 July previously) as proposed within the Redmond Review Report (an independent review into the oversight of local audit and the transparency of local authority financial reporting). At this time the statutory deadlines may be subject to change due to the ongoing resourcing implications of Covid-19 on the finance team as they were for the 2019/20 accounts (31 July/30 November).

The National Audit Office has introduced a new Code of Audit Practice, effective from 1 April 2020. There are a number of changes to auditing and financial reporting requirements which may have an impact on the amount of audit work required to enable a safe audit opinion on 2021/22 accounts, and to deliver the requirements on the arrangements for securing value for money. The most significant impact being the new requirements in relation to reporting on value for money arrangements.

Whilst the Public Sector Audit Appointments (PSAA) has set our audit fee at £33,420, the additional work required is likely to result in a fee variation of circa 25% bringing the total fees to an anticipated £42,487. The Government has committed to provide £15m of additional funding to local authorities to meet the anticipated rise in audit fees driven by these new requirements of the 2020 Audit Code of Practice.

In producing the Statement of Accounts, the Council follows the CIPFA Code of Practice on Local Authority Accounting 2020/21 (the Code). There has been minimal changes for 2020/21 (see Section 2).

There have been no changes to the accounting policies since the production of the 2019/20 financial statements.

The Actuary of the Pension Fund has changed from Hymans to Barnett Waddingham LLP. The assumptions used by the actuary are included in Appendix 2. At this point in time there are no known proposals in the near future that could impact on these assumptions and it is not recommended that these are challenged.

External Audit have set a materiality level for the Council of £900,000 for 2020/21 and amounts less than £27,000 are considered trivial (i.e. not significant).

An assessment of the risks associated with closing the Council's accounts and producing the Financial Statements has been undertaken and the risk assessment is attached at Appendix 3. After applying the planned mitigation, the majority of risks are coloured green (low risk) with only two risks identified as being high (red).

In 2020/21 the Council's reporting areas under the Council’s themes of ‘Our People’, ‘Our Place’ and ‘Our Council’ were restructured to reflect the new management structure. For comparison purposes the figures for 2019/20 have therefore been amended to reflect the new structure. Section 8.1 details the amendment.

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 30 September annually (changed in 2020/21 from 31 July previously)

1.2 In producing the Statement of Accounts the Council follows the CIPFA Code of Practice on Local Authority Accounting 2020/21 (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 2020/21.

1.5 External Audit – 2020/21 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 30 September respectively. There may be temporary extensions, similar to those provided for 2019/20 accounts (31 July and 30 November respectively) due to the pressures on finance teams due to the additional workloads as a result of the Covid-19 response and reporting requirements.

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 Office has introduced a new New Code of Audit Practice, effective from 1 April 2020. The main changes are:

- Commentary on Value for Money (VfM) arrangement rather than conclusion
  - Financial sustainability – *how the Council plans and manages its resources to ensure it can continue its services*
  - Governance – *how the Council ensure that it makes informed decisions and properly manages its risks*
  - Improving economy, efficiency and effectiveness - *how the Council uses information about costs and performance to improve the way it manages and delivers its services.*

- Quality control of an audit of financial statements (applicable from 2020/21 audits);
- Auditing accounting estimates and related disclosures (applicable from 2020/21 audits);
- Specific considerations – audit of group financial statements (applicable from 2020/21 audits); and
- Leases (applicable from 2021/22 audits).

The additional work required by our external auditors has resulted in a fee variation increase at just over 25%, with total fees anticipated to be £42,487.

2. Changes to the Code of Practice

2.1 The following changes to the Code are effective for the 2020/21 and future financial statements:

Code Change	Impact on WLDC	Progress
Amendments to implement and emphasise the application of *Amendments to IAS 1 and IAS 8: Definition of Material*. For example the importance of ensuring that material information is not obscured for users is specified in Section 2.1. Reference to this is also made in Section 4.1 Property, Plant and Equipment, Section 6.4 Post-Employment Benefits,	No impact, the Council understands the Code standards and definition of materiality and the importance of ensuring that material information is not obscured for the reader. Judgement is required regarding the extent of supporting disclosures that are appropriate for a specific item. In particular the materiality of an item in a primary statement	Fully compliant

and Section 7.3 Financial Instruments: Disclosure and Presentation Requirements.	does not include a presumption that all supporting information disclosures specified in the Code for that item are material. This applies for both descriptive and numerical supporting information. Judgement should be based on the needs of users. Additional information may be disclosed where this does not obscure information that is material for the users.	
Implementation of *Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement* in Section 6.4 Post-Employment Benefits, including reference to materiality requirements and specification of factors to consider in making an initial proxy assessment of quantitative materiality.	The post-employment benefits section of the code has been updated for the amendments to Plan amendment, curtailment or settlement and clarifies that disclosures should not obscure material information	Fully compliant
Reference to arrangements for the application of accounting standards arising as a consequence of the United Kingdom's withdrawal from the European Union.	No impact the Council follows the CIPFA Code of Practice and associated guidance.	Fully compliant
Legislative amendments including: i) England: The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2018 relating to investments in specified pooled investment funds that are measured at fair value through profit or loss (FVPL), and back payments following unequal pay.	Recognition in reserves of fair value gains and losses of pooled investment funds	The Council is aware of this but there is currently a statutory override in place until 2022 The Council has no back payments pending through unequal pay.
Amendment to Section 6.5 Accounting and Reporting by Pensions Funds to align specific investment asset line item descriptions in the net asset statements with the Pensions SORP.	Changes noted	Note 33 Local Government Scheme Assets will be updated with any required changes
Amendments relating to financial instruments:	Fully compliant. i) FVPL for financial instrument are	Fully compliant

i) fair value through profit or loss financial instrument entries are specified as included in the financing and investment income and expenditure line ii) clarification regarding the extent of exemption from impairment allowance treatment relating to some balances with other public sector bodies iii) clarification that the interpretation regarding LOBOs (Lenders Option/Borrowers Option loans) does not relate to compound embedded derivatives if separation of the exempted derivative is not permitted by IFRS 9 iv) clarification that the modification of financial liabilities follows the principles specified for modification of financial assets v) Allowance for soft loans to be specified at below zero (i.e. negative) interest rates.	included in the financing and investment income and expenditure line ii) The Council understands the exemption for impairment allowance treatment and applies this. Current practice is compliant iii) The Council has no LOBO's iv) Compliant – any required amendments will be identified and actioned within the working paper, no modifications are anticipated v) The Council has no soft loans	
Other amendments including: i) fees and charges for services under statutory requirements specified to include Housing Revenue Account tenancy rental income ii) references to RICS valuation guidance publications updated iii) signage used at the foot of the Comprehensive Income and Expenditure Statement should be clearly identified iv) Recognition that the presentation of a disclosure of movements in property, plant and equipment for the year may differ from Whole of Government Accounts practices.	i) Not Applicable to the Council, non HRA ii) Compliant iii) Compliant iv) Noted, the Council completes the required analysis for Whole of Government Accounts	

2.2 In 2021/22 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 31/03/2022.

2.3 No restatement will be required for the 2020/21 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 related Leases accounting policy for 2021/22).

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 have 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 2021.

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 No changes of accounting policies have been made since the production of the 2019/20 financial statements.

4. Actuarial Report and Assumptions

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

4.2 The County Council uses Barnett Waddingham LLP 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. The actuary for 2019/20 was Hymans.

4.3 The actuary completes a formal valuation of the pension fund every three years, with 2019 being the year of the latest valuation which relates to the financial years 2020/21- 2022/23.

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 Council's overall budget and spend levels, so any assumptions used for these values will inevitably have a major impact on the Council's 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 Barnett Waddingham, 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 2020/21.

4.6 The actuarial assumptions report as provided by Barnett Waddingham 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 i.e. makeup of the workforce, such as pay increases in excess of 3% or outsourcing more than 5% of the workforce.

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

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

4.10 The 2020 funding valuation liability positions did not include the changes for the updated IAS19 valuation report following changes to the McCloud case (Public Service pensions age discrimination cases) as the difference was not material. We will therefore seek assurance from Barnett Waddingham that the liabilities for the McCloud Case from the 2020 valuation data is captured in the 31 March 2021 IAS19 balance sheet figures.

4.11 We will also be asking 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 2020/21

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 £900,000 for 2020/21 and amounts less than £27,000 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 2019/20.

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 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 In order to achieve the closedown for the 2020/21 accounts, officers have been working hard over the last few years to reduce the length of time to achieve tasks and also to bring forward the deadlines.

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

7.3 Last year the Statement of Accounts was published on the Council website on 12 June 2020, this was well within the revised statutory deadline of 31 July 2020 due the Coronavirus pandemic. The finance team are committed to achieving the statutory deadline as in previous financial years.

7.4 A detailed timetable is produced (with some 300+ tasks) for officers' use that not only produces the Statement of Accounts but is also used to produce the working papers as required by the Council's External Auditors.

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

7.6 The following table shows those key tasks and dates for the 2020/21 closedown process.

	Key Dates 2020/21
Planning and Preparation	01/10/2020 - 31/12/2020
External Audit Liaison Meeting (TBC)	15/12/2020
Balance Sheet Review	03/01/2020
Finance Team Closedown Briefing	08/01/2021
Interim Audit (TBC)	08/02/2021
Budget Managers Briefings/Training	28/01/2021
Report to G&A Committee: Accounts Closedown Matters: to approve Accounting Policies & Actuaries Assumptions	09/03/2021
Close the period 12	01/04/2021
Accruals/Prepayments input to system	06/04/2021
All Accounts Closed	**30/04/2021**
Narrative Report draft	30/04/2021
Balance Sheet and CIES completed	03/05/2021
Out-turn position Report to CP&R	17/06/2021
Statement of Accounts completed	21/05/2021
Review of SoA	24/05/2021
Draft SoA for S151 sign off	26/05/2021
Authorised for Issue by S151 Officer	**28/05/2021**
Send SoA to Auditors	**28/05/2021**
Audit of Accounts	14/06/2021
WGA (subject to date of issue)	30/06/2021
G&A Approval of SoA and AGS	**20/07/2021**
Publish SoA on website and issue notice	30/09/2021

8. Accounting Changes 2020/21 and Prior Period Adjustments

8.1 In 2020/21 the Council's reporting areas under the Councils Themes of Our People, Our Place and Our Council were restructured to reflect the new management structure. For Comparison purposes the figures for 2019/20 have therefore been amended to reflect the new structure. The notes affected are:

- Comprehensive Income and Expenditure (CIES)

- Expenditure and Funding Analysis (EFA) (Note 7)
- Segmental Income Note (Note 8)
- Expenditure and Income Analysed by Nature (Note 9)

As this is not an error in the accounts, the affected notes will have a footnote to explain the amendment

The impact on the Comprehensive Income and Expenditure is as follows:

	Note	2019/20 Original			2019/20 Adjustment			2019/20 Restated		
		Gross Expend-iture £'000	Gross Income £'000	Net Expend-iture £'000	Gross Expend-iture £'000	Gross Income £'000	Net Expend-iture £'000	Gross Expend-iture £'000	Gross Income £'000	Net Expend-iture £'000
Our People		30,792	(21,302)	**9,490**	(9,430)	2,045	**(7,385)**	21,362	-19,257	**2,105**
Our Place		5,153	(2,827)	**2,326**	2,489	355	**2,844**	7,642	-2,472	**5,170**
Our Council		4,739	(195)	**4,544**	6,941	(2,400)	**4,541**	11,680	-2,595	**9,085**
Cost of Services		**40,684**	**(24,324)**	**16,360**	**0**	**0**	**0**	**40,684**	**(24,324)**	**16,360**

The proposed restatement is pending approval from our External Auditors, Mazars.

8.2 There are no major accounting changes that will affect the 2020/21 Statement of Accounts.

9. Currently the 2020/21 Statutory Deadlines are:

Statement of Accounts published by 31 May 2021
Audited Statement of Accounts published by 30 September 2021

At this time statutory deadlines may be subject to change.

1. ACCOUNTING POLICIES

i General Principles

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. 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 2020/21 (The Code) and the Service Reporting Code of Practice 2020/21, 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 or as at the balance sheet date 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 2.3% 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 31/03/2021.

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 xix 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 2020/21.

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.

xix 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
Crematorium	60
Depots & Stores	52
Shops	25-60
Public Conveniences	49
CCTV Systems/IT Equipment/Wheeled Bins/Office Equipment /Led Lighting/ Crematorium Equipment	1 to 25
Vehicles/Bin Lifters	1 to 7
Infrastructure Assets	16-28
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 reporting as at 31 March 2021

Employer briefing note pre-accounting date

Barnett Waddingham LLP

5 February 2021

Contents

Accounting reporting as at 31 March 2021

Many LGPS employers, in particular local authorities and other public sector employers, prepare accounting disclosures as at 31 March each year and these may be in accordance with the IAS19 or FRS102 standard, depending on the employer.

This note outlines some of the changes to the key financial assumptions that are used in preparing the IAS19 and FRS102 accounting numbers since the last reporting date as well as information on asset performance over the period.

This note complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

Unless requested otherwise, we prepare our reports based on our standard approach. We therefore recommend employers discuss this note with their auditors to check that the standard approach is appropriate.

How has the accounting position changed?

As we will not know the assumptions that will be adopted for accounting disclosures until 31 March 2021, we have utilised the latest market statistics available. The following analysis uses market statistics as at 31 January 2021. **It is very likely that market conditions at 31 March 2021 will be different**

As LGPS Funds are usually invested in a range of asset classes, the performance of the assets may be quite different from that of the accounting liabilities (which are linked to corporate bonds, as set out below) and so the results can be very volatile from year to year.

This note discusses our recommended assumptions for the exercise, however the responsibility for setting assumptions ultimately belongs to the employer and, therefore, if an employer was to request alternative assumptions then we would be happy to use these in producing our report. The assumptions in this report are the standards that we intend to use unless instructed otherwise. We believe that these assumptions are likely to be appropriate for most employers but we have not consulted with each employer in setting these.

The change in the balance sheet position over the year is mainly dependent on the answers to three key questions and this report is split into these three sections:

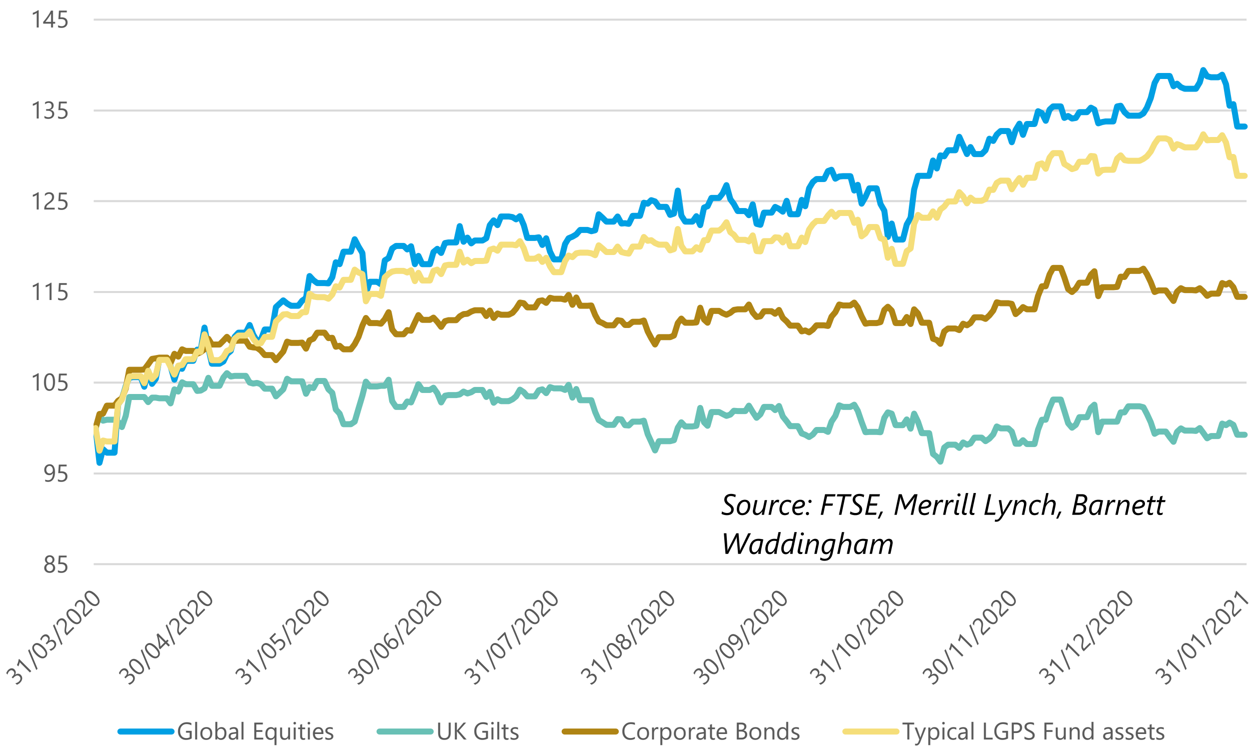
- What were asset returns for the twelve months to 31 March 2021?
- What were corporate bond yields as at 31 March 2021?
- What were market expectations of inflation as at 31 March 2021?

We appreciate that some of the terminology in this report may not be familiar and therefore we would recommend also reading our Glossary and FAQs document for a more detailed explanation on some of the jargon used here. This document has been circulated with this briefing note but please get in touch with the Fund if you would like a copy.

Please let your usual Barnett Waddingham contact know if you have any queries.

Asset returns

The following chart plots returns from the major asset classes since 31 March 2020 alongside the return that would have been achieved by a Fund invested 75% in global equities, 20% in corporate bonds and 5% in gilts.



Asset performance has been strong since 31 March 2020. Based on market indices to 31 January 2021 and the asset allocation outlined above, a typical LGPS Fund might have achieved a positive return of around 28% for the period from 1 April 2020 to 31 January 2021, but this could vary considerably depending on each Fund's investment strategy.

If Fund returns have been around this level, asset returns will have been higher than the discount rate assumed at the previous accounting date. If the actual return for the year is higher than the previous discount rate, this will lead to an actuarial gain on the assets; decreasing the accounting deficit.

However, the overall position is also influenced by the effect of market movements on the assumptions used to place a value on the defined benefit obligation. This is discussed in the next section.

Changes to financial assumptions

The key financial assumptions required for determining the defined benefit obligation under either accounting standard are the discount rate, linked to corporate bond yields, and the rate of future inflation. These assumptions are discussed below.

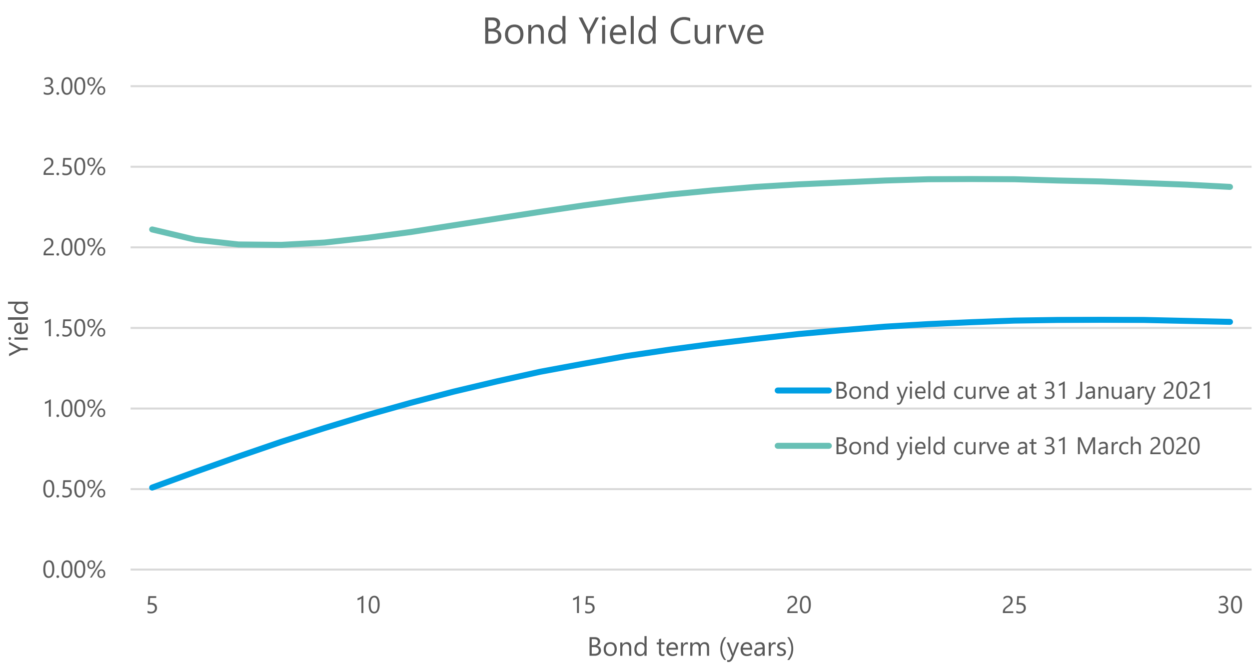
Discount rate

Under both the FRS102 and IAS19 standards the discount rate should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The approach we adopted to derive the appropriate discount rate at the previous accounting date is known as the Single Equivalent Discount Rate (SEDR) methodology. We intend to adopt the same approach for assumptions used for accounting disclosures at 31 March 2021.

We use sample cashflows for employers at each duration year (from 2 to 30 years) and derive the single discount rate which results in the same liability value as that which would be determined using a full yield curve valuation (essentially each year's cashflows has a different discount rate). This discount rate is known as the SEDR. In carrying out this derivation we use the annualised Merrill Lynch AA rated corporate bond yield curve and assume the curve is flat beyond the 30 year point.

The standard assumptions set for an employer will be based on their individual duration. For example, an employer with an estimated liability duration of 13 years will adopt assumptions consistent with those derived using the 13 year cashflows.

The below graph shows the bond yield curve at the last accounting date along with the yield curve at 31 January 2021:



These curves reflect the yields that underlie the SEDR calculations and are not the estimates of the standard discount rate assumption. Sample SEDR assumptions are set out in the table below.

You will see that the bond yield at 31 January 2021 is lower than at 31 March 2020 at all terms. As a result, the discount rate assumed for employers will be lower than that assumed at the previous accounting date. All else being equal, a lower discount rate will result in a higher value being placed on the defined benefit obligation.

Sample SEDRs are set out in the table below based on market conditions at 31 January 2021 with the equivalent 31 March 2020 SEDRs also shown for comparison:

Duration (years)	31 January 2021	31 March 2020
10	1.25%	2.30%
15	1.35%	2.35%
20	1.45%	2.35%
25	1.50%	2.35%

Assumptions are rounded to the nearest 0.05%.

The below table sets out the estimated effect of the change in discount rate assumed based on the same sample durations:

Duration (years)	Estimated effect of change in discount rate on employer's liabilities
10	Increase of 11%
15	Increase of 16%
20	Increase of 19%
25	Increase of 23%

The actual effect of the change in the discount rate assumption will depend on each employer's membership and the assumption to be adopted this year compared to last year.

Inflation expectations

Whilst the change in corporate bond yields is an important factor affecting the valuation of the liabilities, so too is the assumed level of future inflation as this determines the rate at which active members' CARE benefits and deferred and pensioner members' benefits increase.

IAS19 suggests that in assessing future levels of long-term inflation we should use assumptions that would result in a best estimate of the ultimate cost of providing benefits whilst also giving consideration to the gilt market (in line with general price levels) to give us an indication of market expectation. FRS102 simply refers to a best estimate of the financial variables used in the liability calculation.

Pension increases in the LGPS are expected to be based on the Consumer Prices Index (CPI). As there is limited market information on CPI-linked assets, to derive our CPI assumption we first make an assumption on the Retail Prices Index (RPI) then make an adjustment.

Retail Prices Index (RPI) assumption

Similar to the SEDR approach described above we intend to adopt a Single Equivalent Inflation Rate (SEIR) approach in deriving an appropriate RPI assumption.

The SEIR adopted is such that the single assumed rate of inflation results in the same liability value (when discounted using the yield curve valuation described above) as that resulting from applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield curve is assumed to be flat beyond the 30 year point and the BoE implied inflation curve is assumed to be flat beyond the 40 year point.

Following a recent review of the market, and in particular noting the muted market reaction to the likely alignment of RPI with CPIH from 2030, our view is that gilt-implied inflation rates are currently distorted by supply and demand factors at medium and longer terms. We have therefore allowed for an Inflation Risk Premium (IRP) of 0.4% each year beyond 2030. This results in an overall IRP of 0.0% p.a. - 0.3% p.a. depending on the term of the liabilities. This differs from our standard assumption at the previous accounting date where no allowance for an IRP was made.

Consistent with the SEDR approach, assumptions are rounded to the nearest 0.05% and we intend to use sample cashflows for employers at each duration year (from 2 to 30 years) in deriving the assumptions for employers.

Sample RPI assumptions are set out in the table below based on market conditions at 31 January 2021, with the equivalent 31 March 2020 SEIRs (based on our standard derivation at that time) also shown for comparison:

Duration (years)	31 January 2021	31 March 2020
10	3.15%	2.90%
15	3.00%	2.80%
20	2.85%	2.70%
25	2.80%	2.65%

Difference between RPI and CPI

In March 2019, the UK Statistics Authority proposed changing the way that RPI is calculated; specifically that the calculation methodology should be aligned with the CPIH, the Consumer Prices Index including owner occupiers' housing costs. Consent was sought from the government and, following a consultation on whether the change could take place before 2030, in November 2020 the Chancellor announced that he will not provide consent for reform prior to 2030, meaning the proposed alignment of RPI to CPIH will take effect from 2030 at the earliest.

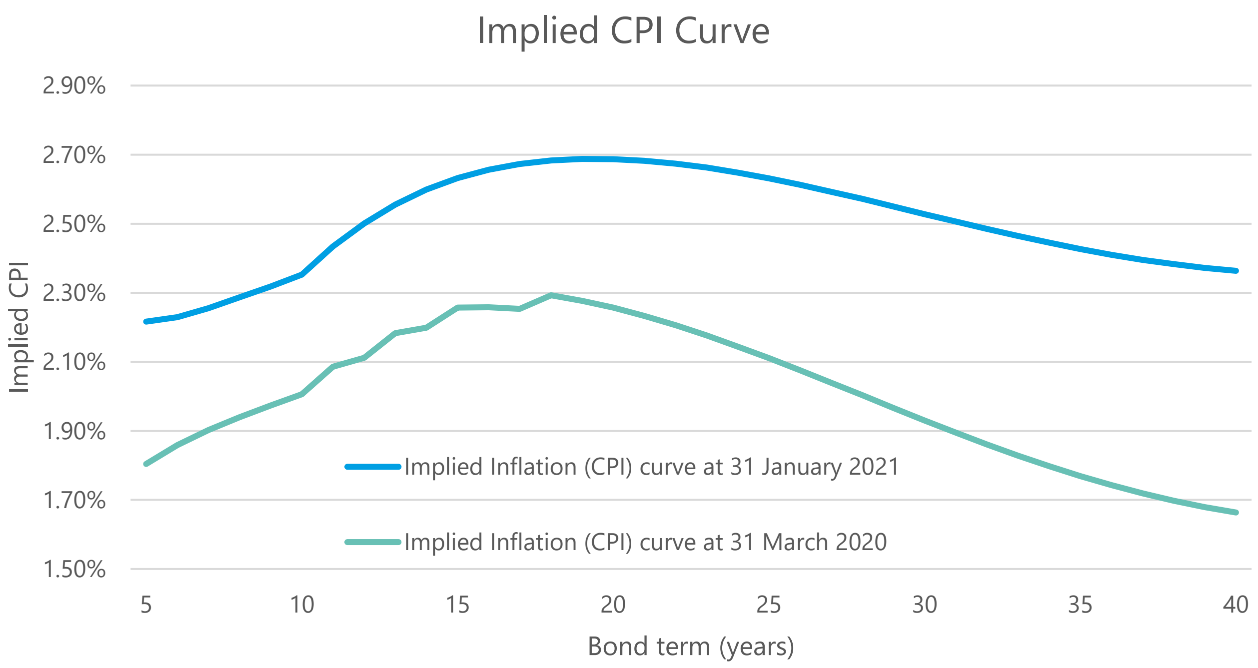
It is expected that RPI will be on average 1.0% p.a. lower than it would have otherwise been from 2030 as a result, bringing RPI inflation in line with CPIH (and CPI) from that date. We have therefore considered how this potential change and the market's reaction to the announcement affects the difference between market implied RPI and CPI inflation.

At the last accounting date we noted that the market had already started to react to this potential change and reduced our assumed gap between to the two inflation measures to 0.8% p.a. – 1.0% p.a. for terms between 10 and 30 years.

Following the November 2020 announcement, we believe the proposed reform of RPI inflation is now fully priced into the market (although noting the apparent muted reaction allowed for through the IRP we have introduced). We have therefore assumed that the annual increase in CPI inflation will be 1.0% p.a. lower than the market implied increases in RPI for each year prior to 2030, and will be in line with RPI inflation thereafter. This results in an assumed gap between the two inflation measures of 0.25% p.a. – 0.90% p.a. depending on the term of the liabilities (for terms ranging from 30 years down to 5 years).

Consumer Prices Index (CPI) assumption

The resulting implied CPI curve at 31 January 2021 is shown below along with the implied CPI curve at the last accounting date for comparison:



These curves reflect the yields that underlie the SEIR calculations and are not the estimates of the standard CPI inflation assumption. Sample SEIR assumptions are set out in the table below.

Using a similar approach described above to calculate the SEIR for our RPI assumption, we have calculated a single equivalent rate of CPI increase that results in the same liability value as would be calculated by applying the above implied CPI curve.

As shown above, the implied CPI curve at 31 January 2021 is higher at all terms. As a result, the level of future pension increases will be higher than that assumed at the previous accounting date, particularly for employers with longer liability durations since this is where the greatest difference in the curves are. If the pension increase assumption is higher than at the previous accounting date, all else being equal, this will result in an increase in the value of employers' liabilities.

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

Duration (years)	31 January 2021	31 March 2020
10	2.55%	1.90%
15	2.50%	1.95%
20	2.45%	1.90%
25	2.50%	1.85%

Duration (years)	Estimated effect of change in inflation on employer's liabilities
10	Increase of 7%
15	Increase of 8%
20	Increase of 11%
25	Increase of 17%

The actual effect of the change in pension increase assumption will depend on the assumption to be adopted this year compared to last year.

Due to the nature of SEDR and SEIR methodology, the assumptions derived are dependent on the sample cashflows used and as a result different cashflows of similar liability durations may result in alternative assumptions. Therefore, another actuary replicating the same approach set out above may derive different assumptions from those set out above. Reasonableness checks have been carried out on the cashflows used.

Salary increases

Although future benefits are not linked to final salary, benefits accrued up to 31 March 2014 will continue to be linked to the final salary of each individual member. Therefore we still need to set an appropriate long-term salary increase assumption.

Where an employer has requested a bespoke salary increase assumption last year, if still appropriate, we will continue the same salary increase assumption at 31 March 2021. For all other employers, we will adopt the standard approach set out below.

For English Funds, our standard assumption remains consistent with the 2019 actuarial valuation. This means assuming that salary increases are in line with CPI plus 1.0% p.a. with no additional allowance for a promotional salary scale.

For Scottish Funds, we intend to use the salary assumption consistent with the 2020 actuarial valuation. This means assuming that salary increases are in line with CPI plus 1.0% p.a. with no additional allowance for a promotional salary scale. This is consistent with the standard approach last year, with the exception that there is now no additional allowance for promotional salary increases as this is assumed to be incorporated in the long term salary increase assumption.

The salary increase assumption is the assumption that employers are most likely to request a specific approach for in line with their own expectations and we are happy to discuss this as required. In particular, we understand that announcements made by the Chancellor as part of the November 2021 spending review in relation to future public pay increases may affect the expected salary increases of some employers who require accounting reports at 31 March 2021. If employers believe that their salary increases in the long term or short term will differ from our standard assumptions, we would be happy to adopt alternative assumptions. However, please note that bespoke financial assumptions will incur additional fees.

Bespoke financial assumptions

As mentioned above, the responsibility for setting assumptions ultimately belongs to the employer and therefore if an employer was to request alternative assumptions then we would be happy to use these in producing our report. The approaches described above are the standard approaches we will adopt to derive financial assumptions, however, we are happy to advise individual employers on the range of assumptions they may be able to adopt.

As part of this advice we are able to provide employers with a deficit modeler which provides an indication of the impact of any changes to their accounting position.

If you would like more information on the options available to employers regarding bespoke assumptions please feel free to contact publicsector@barnett-waddingham.co.uk or your usual Barnett Waddingham contact. However, please be aware that both requesting and receiving advice on bespoke assumptions will incur additional fees.

Mortality assumption

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

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

The mortality assumptions adopted for Funds' triennial funding valuations were best estimate assumptions and we will, therefore, be using the same assumptions as standard for accounting. As part of the valuation, analysis was carried out by our specialist longevity team to assess the best estimate mortality assumption based on each Fund's experience and industry knowledge.

For Scottish Funds, our standard approach is to update the mortality assumption to be based on those adopted for the Fund's 2020 actuarial valuation. In most cases, this will mainly be an update to the base mortality assumption and an update to the CMI_2019 projections model.

For English Funds, our standard approach is to adopt the same assumption as that adopted at the last accounting date. For most employers, this is a base mortality assumption in line with the Fund's 2019 actuarial valuation, projected in line with the CMI_2018 Model published by the Continuous Mortality Investigation (CMI).

Please note that the CMI are due to publish their updated CMI_2020 Model in March 2021. We will review this model once available and will provide an update on our standard approach if required.

Other levers

2020 valuation update (Scottish Funds)

The results for each employer in Scottish Funds will incorporate the results of the 2020 valuation, which could have a positive or negative effect. The effect will depend on how experience over the intervaluation period has differed from that assumed.

Service accrued over the period

The change in employers' deficits will also be affected by the difference in the cost of benefits accrued over the period and the level of contributions paid by the employer and employees.

The service cost accrued over the year is based on the assumptions at the start of the period, i.e. at the previous accounting date. Employers' contributions may consist of contributions towards funding any deficit as well as funding the cost of benefits being accrued on an ongoing funding basis. These contributions are likely to have been calculated using different assumptions than under IAS19/FRS102 and may therefore differ from the service cost calculated for the period.

Depending on the membership profile of the employer; the cost of benefits accrued over and above the level of contributions paid may have a more significant effect on the level of deficit than the change in financial assumptions and investment performance.

Allowance for actual pension increases

We will be incorporating actual pension increase experience up to 31 March 2021 into our accounting disclosures as standard this year. Actual pension increases since the last full valuation have been less than previously assumed and we would recommend that this experience is allowed for.

This is our standard approach as we understand pension increase experience is being considered more often as part of auditor reviews. Please note that additional fees will be incurred to incorporate the actual pension increase experience and therefore the employer should opt out of this standard approach if they do not want these additional calculations to be carried out.

Treatment of settlements and curtailments

Employers accounting under the IAS19 standard

On 7 February 2018, the International Accounting Standards Board (IASB) issued amendments to the IAS19 standard which now requires that when determining any past service cost or gain or loss on settlement that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. This applies for all accounting periods starting on or after 1 January 2019 and therefore will apply for the year to 31 March 2021 accounts.

Common events for LGPS employers that this amendment may apply to include outsourcings and unreduced early retirements.

The amendment complicates the accounting disclosure as additional calculations are required to determine the cost before and after each event, and to rebase the standard roll forward approach on updated assumptions based on each event date. The amendment does, however, note that the extra remeasurement does not need to be applied where the application of that remeasurement is immaterial. The assessment of materiality will be subject to each employer and auditor's discretion. We can provide additional information to help assess materiality but we cannot conclude whether an event is material or not.

Our default approach for IAS19 reports will be to assume that all events are material and therefore will adopt the approach set out in the IAS19 amendment. We will provide each administering authority with a summary of the events we are aware of and these will be communicated to each employer. If the employer does not want to treat all the events in this way then we would strongly recommend the employer reviews these events with their auditor in advance of the preparation of their report.

Unless instructed otherwise we will proceed with our default approach and please note that additional fees will apply, details of which can be provided by the administering authority.

Employers accounting under the FRS102 standard

We note that the FRS102 standard is silent on the treatment of settlements and curtailments, and in particular there is no explicit requirement to adopt a similar approach to that set out above for the IAS19 standard.

Therefore, our default approach for FRS102 reports is to not remeasure the net defined benefit liability at the event date, and this is consistent with the approach at the last accounting date.

We are happy to adopt an approach in line with that set out above for the IAS19 reports if requested by the Employer, but please note that that will incur additional charges.

McCloud/Sargeant judgement

If an allowance was already made for McCloud at a previous accounting date in an employer's IAS19/FRS102 report then no explicit adjustment will be made in our results this year. Our standard approach unless requested otherwise was to include allowance for McCloud so we expect most employers this year will fall under this category.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published. We do not believe there are any material differences between the approach underlying our estimated allowance and the proposed remedy. A more detailed analysis at this stage would require a significant volume of member data which is not yet available. Therefore, we do not intend to make any further adjustment in light of the ongoing consultation at the accounting date.

If no allowance has been made, then our default approach will be to include an allowance this year based on GAD's analysis (further details can be found in Appendix 3) and the individual assumptions and membership profile of the employer. The effect on the employer's liabilities will be shown as a past service cost.

This will be the default approach unless employers opt out.

In order to reduce the chance of having to revise any reports we recommend that employers engage with their auditors in advance of their year-end to make them aware of our intended approach.

Please contact the administering authority of the Fund to confirm the relevant fees.

Goodwin case

We do not intend to make any adjustments to accounting valuations at 31 March 2021 as a result of the Goodwin case. Please see Appendix 4 for further details.

Impact of Lloyds judgement on past transfer values

The latest news on the Lloyds Banking Group court case involved a ruling that, in cases where a member exercised their right to a transfer value out of the scheme, the trustee had the duty to make a transfer payment that reflects the member's right to equalised benefits and remains liable if an inadequate transfer payment had been paid.

It is not yet known if, or how, this will affect the LGPS. We await further guidance from CIPFA and MHCLG on this. Our standard approach currently is to make no allowance to reflect this judgement.

Overall expected results

What does this all mean when we bring it all together?

The first caveat is that no employer is average and so any prediction of what might apply to an average employer will not apply to every, or possibly any employer.

The effect of the changes in the financial assumptions on an employer's liabilities are dependent on the assumptions adopted as well as the specific duration of the employer's liabilities. Typically, employers with greater liability durations are more sensitive to changes in financial assumptions as benefits will be paid over a longer term. The table below describes the estimated effects for employers with liability durations of exactly 10, 15, 20 and 25 years:

Duration (years)	Estimated effect of change in financial assumptions on employer's liabilities
10	Increase of 18%
15	Increase of 26%
20	Increase of 33%
25	Increase of 44%

Based on market conditions at 31 January 2021, employers of all durations would see an increase in the value of the defined benefit obligation. In addition, the value of liabilities will increase with interest accumulated over the year.

However, there will be other factors affecting the change in an employer's accounting position including (but not limited to) the effects of:

- For Scottish funds, updating to the 2020 valuation results
- Any updates to the demographic assumptions (in particular for Scottish funds, updating to be in line with those adopted for the 2020 valuation)
- Fund asset performance
- Employer cashflows, in particular the difference in the cost of benefits accrued over the period and the level of contributions paid by employers and employees

Appendix 1 - Auditor views

It should be highlighted that auditors continue to look for greater accuracy in the roll forward approach used to calculate employers' results. This includes the approach used to determine each employer's share of fund assets at the accounting date and roll forward employers' liabilities.

Asset roll forward

Given the tight timescales for employers to submit their final accounts we appreciate that it is not always possible to wait until a fund's net asset statement at the accounting date is available to begin producing accounting disclosures. As a result, we request details of funds' assets at the most recent date available and, for the remaining period, we assume that returns are in line with relevant market indices.

In order to reduce the chance of having to revise any reports we recommend that employers engage with their auditors and the administering authority of the fund as early as possible to ensure they are comfortable with the information being used to calculate results.

Liability roll forward

To calculate the value of employers' liabilities we carry out a full valuation of membership data at least every three years (as part of the triennial valuation). We then 'roll this forward' to each subsequent accounting date, allowing for the actual cashflows paid into and out of the fund in respect of the individual employer.

In addition we allow for any curtailments as a result of unreduced early retirements we are made aware of. Similarly we allow for any settlements we are made aware of such as those resulting from outsourcings or bulk transfers.

We do not, as standard, allow for actual inflation experience between full member valuations. The effect of actual experience compared to what was assumed is typically included within the experience item when full valuations are incorporated into accounting disclosures.

However, if employers wish us to allow for actual inflation experience over the inter-valuation period we would be happy to do so. It should be noted that this does fall outside the scope of what is covered in our standard report fee and will therefore incur additional fees.

Appendix 2 - Adjustments to fees

The Fund will communicate fees to employers however we would like to make you aware that there may be additional fees if there are particular features or events for an employer which need to be taken into account.

As examples of this:

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

Please get in touch with the Fund for further information on fees.

Appendix 3 – Supreme Court ruling in McCloud/Sargeant case

Background

Two employment tribunal cases were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination.

On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published.

Government Actuary's Department (GAD) impact analysis

The Scheme Advisory Board, with consent of the Ministry of Housing, Communities and Local Government (MHCLG), commissioned GAD to report on the possible impact of the McCloud/Sargeant judgement on LGPS liabilities, and in particular, those liabilities to be included in local authorities' accounts as at 31 March 2019. This followed an April 2019 CIPFA briefing note which said that local authorities should consider the materiality of the impact. This analysis was to be carried out on a "worst-case" basis, (i.e. what potential remedy would incur the highest increase in costs/liabilities). The results of this analysis are set out in GAD's report dated 10 June 2019.

Although GAD were asked to carry out their analysis on a "worst-case" basis, there are a number of other potential outcomes to the case which would potentially inflict less cost to the Employer. For example, the solution proposed by the Government would only apply the underpin to all members who were active on 31 March 2012. This would have less impact than GAD's scenario (which also includes any new joiners from 1 April 2012).

IAS19/FRS102 requires us to place a best estimate value on liabilities and costs. Consistent with the approach we adopted for the McCloud impact estimates made last year, we will adjust GAD's estimate to include only members that were active on 31 March 2012. This is in line with that proposed in the Government's consultation.

GAD's analysis compared the cost of the old pre-2014 final salary scheme with the new CARE scheme. The key parameter in assessing this cost is the assumed level of future salary increases in excess of CPI. GAD considered the following two scenarios:

1. Salaries increase at CPI plus 1.5% – on this scenario GAD assessed the average cost of implementing their worst-case scenario to be 3.2% of active liabilities at 31 March 2019 and the impact on service cost (i.e. the cost of benefits accruing) to be 3.0% of active payroll.

2. Salaries increase at CPI plus 0% p.a. – on this scenario GAD assessed the average cost to be less than 0.1% of active liabilities at 31 March 2019 and the impact on service cost to be less than 0.1% of payroll.

For the purpose of our impact estimate we will make an allowance to reflect each employer's own salary increase assumption.

Appendix 4 – Goodwin case

Background

Following a case involving the Teachers' Pension scheme, known as the Goodwin case, differences between survivor benefits payable to members with same-sex or opposite-sex survivors have been identified within a number of public sector pension schemes. As a result, the Government have confirmed that a remedy is required in all affected public sector pension schemes, which includes the LGPS.

As this has just recently been announced, we do not yet have an accurate indication of the potential impact this may have on the value of employers' liabilities or the cost of the scheme. Any indication of cost at this stage will only be a rough estimate as in a lot of cases, funds will not have this information or data to hand. It is our understanding that the Government Actuary's Department (GAD) is undertaking a review to assess the potential impact on public sector pension schemes, which we expect will be minimal for LGPS funds.

Intended approach for accounting exercise

Although we do not yet have the results of GAD's review, it's our expectation that the impact on the value of LGPS liabilities as a whole, and for the majority of employers participating in the LGPS, will not be material. However, it's possible that the impact on individual employers may vary depending on their specific membership profile; although any cases resulting in a significant impact are likely to be few and far between.

For employers who are receiving accounting disclosures at 31 March 2021, we do not currently intend to make an allowance for the potential impact of this decision. We do not yet have enough information to make an accurate estimate of the potential impact on employers' liabilities.

Indication of potential impact

The Goodwin case affects male survivors (of female members) by extending the applicable service back from 1988 back to 1978. This only impacts the amount to be paid to widower survivor benefits coming into payment after 2005. A typical fund might expect that widowers' benefits in payment represent around 0.5% of their liability profile, however this may vary at employer level.

For these widowers to be affected, the original female member would need to have pre-88 service, which is now 32 years ago. Given the average age of pensioners typically around 70 and the average member's service may be around 10 years, we expect there are very few members who will be affected by this change. If we assume even 10% meet this criteria then the impact might be 0.5% x 10% x pre 88 benefit / total benefit.

Even if the pre 88 benefit was 50% of the total (which is unlikely) then the impact would be 0.025%. There are necessarily a number of estimates and assumptions here and so this is purely to illustrate that we believe that the impact is very small and not material for the vast majority of employers.

However, as noted above, we understanding that GAD is undertaking a review of the potential impact of this decision, which may provide a more accurate assessment of the effect on employers' accounting positions.

Final Accounts 2020/21 Risk Register

ID	Date Opened	Risk Type	Event (description of risk)	Consequences of Event occurring	Existing Mitigation	Existing Assurances	Score with Existing Mitigation			Risk Option Chosen	Action	Score with Planned Mitigation			Contingency (should the Event actually occur)
							Likelihood 1 Minor 2 Moderate 3 High	Impact 1 Minor 2 Moderate 3 High	Calculated Risk Severity			Likelihood 1 Minor 2 Moderate 3 High	Impact 1 Minor 2 Moderate 3 High	Calculated Risk Severity	
1	05/11/2016	Internal Financial Systems and Funding Risks	External auditor will detect a material mis-statement in the accounts.	Could impact on the financial health of the Council and reputation of Financial Services	Regular review of GL transactions against budget, reconciliations, quality review of final account working papers, PBC owners designated	Senior officers review reconcilations and working papers. Checking systems throughout the year are in place. Tracey does a final review.	1	1	1	Accept risk as is	no further actions identified	1	2	2	Amend the financial statements and report to members
2	05/11/2016	Internal Governance - Risks around Non-Compliance re: Technical	The correct accounting treatment has not been followed due to omission, error in interpretation	Could lead to material misstatement and impact on the financial health of the Council and reputation of Financial Services	Updated procedures, up to date technical reference library, attendance at external briefings, learning & development framework	Internal audit reports. Final accounts working papers signed off by senior officer. Working papers are subject to second review by different senior officer.	2	1	2	Mitigate risk (reduce)	QA on all working papers undertaken by expert.	1	2	2	Amend the GL entries and financial statements
3	05/11/2016	Internal Financial Systems and Funding Risks	Errors are made in year end procedure for closing financial system	Could lead to late production of accounts, impact on the reputation of Financial Services and possible additional costs.	Civica closedown timetable and documented procedures	Written procedure notes	2	1	2	Accept risk as is	Balance Sheet Review to December. 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
4	05/11/2016	Risks around Employment and People	Team members do not comply or are unable to comply with the timetable	Could lead to late production of accounts, impact on the reputation of Financial Services and the Council and possible additional costs.	Final accounts closedown timetable that is clearer to follow and devolved responsibilities. Training delivered annually as part of closedown process	Flexi rules suspended, 1-2-1 meetings with PBC owners, support and learning, procedures built into working papers, code guidance	2	2	4	Mitigate risk (reduce)	More support for officers in time management, improve communication over the closedown plan. Expectation that additional hours will be required to manage	1	2	2	reprioritise work, bring in weekend working if necessary and external resources
5	05/11/2016	Risks around Employment and People	Team members leave or are ill, together with in-experienced team members taking on new roles.	Could lead to late production of accounts, impact on the reputation of Financial Services and the Council and possible additional costs.	Procedure notes for main areas	Procedures built into working papers. Earlier preparation, so QA in January, flexible working	2	2	4	Mitigate risk (reduce)	Work with PBC owners to identify issues. Mentor new officers and provide training where necessary to ensure all work areas have sufficient cover so that no one officer has the sole knowledge	1	2	2	reprioritise work, bring in overtime - external resources
6	05/11/2016	Risks around Employment and People	Team members do not provide adequate working papers	Could lead to additional audit costs by delaying time for completion.	standard template in place	Two senior officer signs off working papaers. PBC owner reviews	2	2	4	Mitigate risk (reduce)	All WP's include instructions. Officers responsible for checking against the Code. QA twice	1	2	2	Rework any defficient WPs
7	05/11/2016	Internal Financial Systems and Funding Risks	There are issues with the asset register	Could lead to material misstatement and impact on the financial health of the Council and reputation of Financial Services	Capital closedown procedure notes in place. Principal Accountant supported by the Corporate Finance Team Manager understand capital and year end requirements	Principal Accountant oversees the work area. Team Manager Review	2	2	4	Mitigate risk (reduce)	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
8	05/11/2016	Operational Service Delivery Risks	Not providing audit with correct information in a timely manner.	Could lead to additional audit costs by delaying time for completion.	New protocol established including WP's to meet PBC requirments	Regular liaison with audit	2	2	4	Mitigate risk (reduce)	Regular meeting with Audit Lead. Working Papers QA twice	1	1	1	
9	05/11/2016	Internal Financial Systems and Funding Risks	Ensuring all accounts are reconciled where there are system related imbalances	Could lead to additional audit costs by delaying time for completion.	policies established including balance sheet recs	Monitored by senior officer and at monthly team meeting	1	2	2	Accept risk as is	no further actions identified	1	2	2	
10	05/11/2016	Client Risk managed by Financial Services	Service managers do not comply with closedown timetable or provide adequate information.	Could lead to additional audit costs by delaying time for completion.	Training and Briefings. Meetings with Key Stakeholders	No issues in prior years	1	1	1	Mitigate risk (reduce)	regular liaison, no previous year issues	1	1	1	
11	05/11/2016	Client Risk managed by Financial Services	Elected members do not return related party questionnaires	Could lead to additional audit costs by delaying time for completion.	liaise with key members	Monitoring and reminders issued. Members who leave during year now complete a return as part of exit process	3	1	3	Mitigate risk (reduce)	Engage the support of the Chair/Vice Chair of G&A. Early liaison with S151 and member services. Capture disclosures from any member/officer leaving during the	1	1	1	
12	05/11/2016	Client Risk and Financial Services Risk	Material MisStatement due to Fraud	Could lead to material misstatement and impact on the financial health of the Council and reputation of Financial	Systems of internal control including internal audit	Audit reports monitored by Senior managers and CMT	1	3	3	Mitigate risk (reduce)	Regular budget and reconciliation monitoring, internal controls incl authorisations and separation of duties	1	1	1	Amend the financial statements
13	07/06/2017	Client Risk managed by Financial Services	Subsidiaries/other companies do not provide the data needed for group accounting	Not issuing the Statement for publication by 31/5/21	Liason with key officers. Financial services control accounting	Minimal and no issues last year. Group accounts not material	2	2	4	Mitigate risk (reduce)	Plan with external accounts when statement of accounts to be completed by and if they require auditiing	1	2	2	
14	05/11/2016	Statutory Deadline exceeded	Not issuing the Statement for publication by 31.5.2021	Reputation, more items identified for amendement on Audit. ISA 260 recommendations, material misstatements if estimates to be used more	Prior years working towards earlier closedown, successfully achieved	Tighter timetable monitoring, ownership of tasks, any issues picked up on audit are amended.	1	3	3	Mitigate risk (reduce)	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
15	14/11/2019	Client Risk managed by Financial Services	Impact from Brexit	Material Change to the valuation of Property at the 31/03/2021, with particular reference to those assets valued on the Direct Replaceable Cost (DRC method). Material Change to the Valuation of the Pension Fund due to fluctuations in equities and so forth. Would have significant detrimental effect on balance sheet	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 the impact of Brexit in the mid to longer term	3	3	9	Mitigate risk (reduce)	Work closely with Auditor and External Valuers to agree the level of assurance and evidence required for Property valuations 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	2	3	6	Communicate with Auditor and external experts for updated reports and assurance on valuations. Embed additional resource into the team in Janaury to provide resilience and familiarisation of processes
16	12/11/2020	Client Risk managed by Financial Services	Impact from Covid-19 Pandemic	Material Change to the valuation of Property at the 31/03/2021, with particular reference to those assets valued using rental income as a factor . Adverse effect on the economy with sustained low interest rates and volatile markets Material Change to the Valuation of the Pension Fund/Investments due to fluctuations in equities and so forth. Would have significant detrimental effect on balance sheet Staff illness and absence impacting on the resource to close the Council's accounts	Liason with key officers, external valuers Wilks, Head and Eve and Pension Fund Administrators Lincolnshire County Council and Actuary. Financial Services control accounting. Additional resource for the Finance Team to secure sustainability	Uncertainty remains on the long term impact of covid-19 and the economy, with no clear exit from the pandemic and concern about wide scaleability of of a vaccine	3	3	9	Mitigate risk (reduce)	Work closely with Auditor and External Valuers to agree the level of assurance and evidence required for Property valuations 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 31/05/2021. Embed addtional resource into the team in January for familiarisation of processes	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

Agenda Item 6c

	Governance and Audit Committee
	Tuesday 9 March 2021

Subject: External Audit Strategy Memorandum (Plan) 2020/21

Report by:	Assistant Director of Finance and Property Services and Section 151 Officer
Contact Officer:	Caroline Capon Corporate Finance Team Leader caroline.capon@west-lindsey.gov.uk
Purpose / Summary:	To present the 2020/21 External Audit Strategy from our External Auditors, Mazars

RECOMMENDATION(S):

To Approve the External Audit Strategy Memorandum Plan for 2020/21

IMPLICATIONS

Legal: None from this report

Financial : FIN/139/21

Audit Fees are set by the Public Sector Audit Appointments (PSAA).

The £33,420 Scale audit fee is contained within the budget allocation. However for the 2020/21 an additional fee of approximately £7,067 will be charged in the relation to new auditing standards which will lead to new audit work not reflected in the scale fee. This additional fee is comparable to the additional fee in the 2019/20 audit. In addition, a fee expected to be at least £2,000 will be charged in 2020/2021 this is due to additional work in relation to Value for Money statement and changes in reporting requirements as a direct result of the revised Code of Audit Practice.

In anticipation of this increase the proposed budget 2021/22 includes a 25% uplift in the audit fee. There is therefore anticipated to be a slight budget pressure of circa £750 for 2021/22.

Staffing : None from this report

Equality and Diversity including Human Rights : None from this report

Data Protection Implications : None from this report

Climate Related Risks and Opportunities: None from this report

Section 17 Crime and Disorder Considerations: None from this report

Health Implications: None from this report

Title and Location of any Background Papers used in the preparation of this report :

Risk Assessment :

Call in and Urgency:

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

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

Key Decision:

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

1 Introduction

1.1 The External Audit Strategy Memorandum (Plan) for 2020/21 is attached at Appendix A and will be presented by Michael Norman, Senior Manager at Mazars LLP.

1.2 The purpose of this document is to:

- Summarise the Audit Approach
- Highlight significant audit risks
- Highlight areas of key judgements
- Materiality Levels
- Provide details of the External Audit Team
- Fee for Audit and Other Services
- Value for Money

1.3 The main points of note are as follows:

- The audit approach is as follows:

Jan - Feb 2021	Planning
Feb - Mar 2021	Interim Audit
Jun - Sep 2021	Field Work
Sep 2021	Completion of Audit

The completion of the audit is later than in previous years due to the extension of the audit deadline from 31 July to 30 September

- Significant Audit Risks highlighted are:
- Management override of controls
- Valuation of Property, plant and equipment, investment properties and assets held for sale
- Valuation of Net Defined Benefit Liability (Pensions)

1.4 Key Judgements highlighted are:

- Minimum Revenue Provision (MRP)
- Group Accounts

1.5 Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatement in financial statements are considered material if they could reasonably expected to influence the economic decisions of users taken on the basis of the financial statements. Initial materiality levels are:

Overall Materiality	£900,000
Performance Materiality	£720,000
Triviality	£ 27,000

1.6 The Audit team for 2020/21 are, Mark Dalton, Director and Engagement Lead and Mike Norman, Senior Manager at Mazars LLP.

1.7 The annual audit fee for Code Audit Work 2020/21 is anticipated to be £42,487 (£40,487 2019/20).

Audit Strategy Memorandum

West Lindsey District Council

Year ending 31 March 2021

Contents

Governance and Audit Committee
West Lindsey District Council
Guildhall
Marshalls Yard
Gainsborough
DN21 2NA

Mazars LLP
5th Floor
3 Wellington Place
Leeds
LS1 4AP

25 January 2021

Dear Committee Members

Audit Strategy Memorandum – Year ending 31 March 2021

We are pleased to present our Audit Strategy Memorandum for West Lindsey District Council for the year ending 31 March 2021. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 8 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing West Lindsey District Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07795 506766.

Yours faithfully

Mark Dalton, Director

Mazars LLP

01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of West Lindsey District Council (the Council) for the year to 31 March 2021. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or Governance and Audit Committee, as those charged with governance, of their responsibilities.

Going concern

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Chief Finance Officer is responsible for the assessment of whether is it appropriate for the Council to prepare it's accounts on a going concern. basis As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.

Value for money

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

Fraud

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

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

Reporting to the NAO

We report to the NAO on the Council's financial statements and the matters arising from our audit which are relevant to the Council's Whole of Government Accounts (WGA) submission.

Electors' rights

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

02

Section 02:

Your audit engagement team

2. Your audit engagement team

Your external audit service continues to be led by Mark Dalton.

Who	Role	E-mail
Mark Dalton Director	Engagement Lead	mark.dalton@mazars.co.uk
Mike Norman Senior Manager	Engagement Manager	michael.norman@mazars.co.uk

Page 87

03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

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

Audit approach

Our audit approach is a risk based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

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

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

The diagram on the next page outlines the procedures we perform at the different stages of the audit and the indicative timeline at this stage (the specific deadlines for completion have not been confirmed yet).

Group audit requirements

The Council's group structure for 2020/21 will include:

- WLDC Trading Limited (the holding company)
- Surestaff Lincs Limited
- WLDC Staffing Services Limited

The Council has not in previous years prepared group accounts on the grounds that these companies were not material and are not therefore expected to fall within the scope of our audit. We will review the Council's updated assessment of these arrangements for this year's financial statements.

COVID-19 Working Arrangements and impact on our auditor's report

The accounts preparation and audit will once again be significantly impacted by the COVID-19 remote working arrangements and it is important that we continue to keep in close contact with the finance team and are able to respond to emerging issues. The outline timetable on the following page is based on our current understanding of the national deadlines and the current working arrangements.

3. Audit scope, approach and timeline

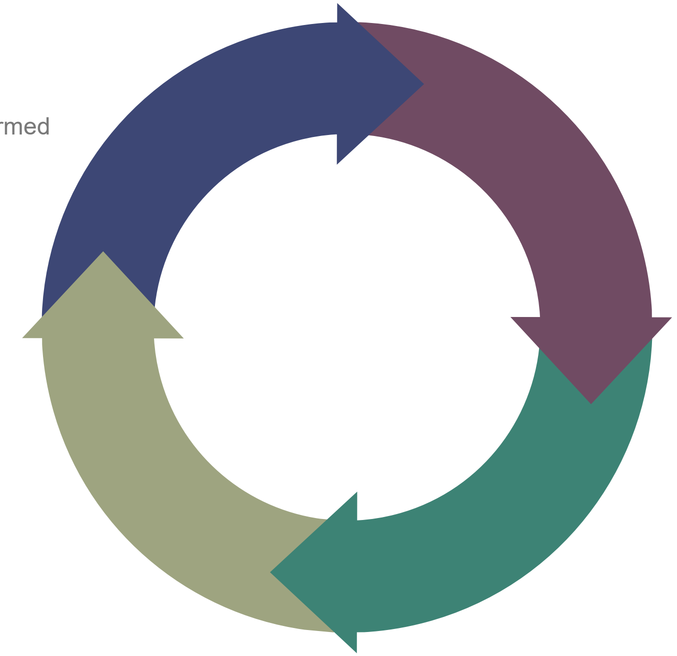
Page 90

Planning – December/January/February

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

Interim – February/March

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



Completion – September

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

Fieldwork – June to September

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting

3. Audit scope, approach and timeline

Reliance on internal audit

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

Management's and our experts

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

Item of account	Management's expert	Our expert
Defined benefit liability	Barnett Waddingham *Actuary for Lincolnshire Pension Fund*	PWC *Consulting actuary appointed by the NAO*
Property, plant and equipment valuation	Wilks, Head and Eve LLP *External valuation specialist*	Not applicable
Business Rates Appeals valuation	Inform CPI Ltd *Analyse LOCAL Valuation System*	Not applicable
Financial instrument disclosures	Link Asset Services *Treasury management advisors*	Not applicable

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Council and our planned audit approach.

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

04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other key judgement areas

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

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk

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

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

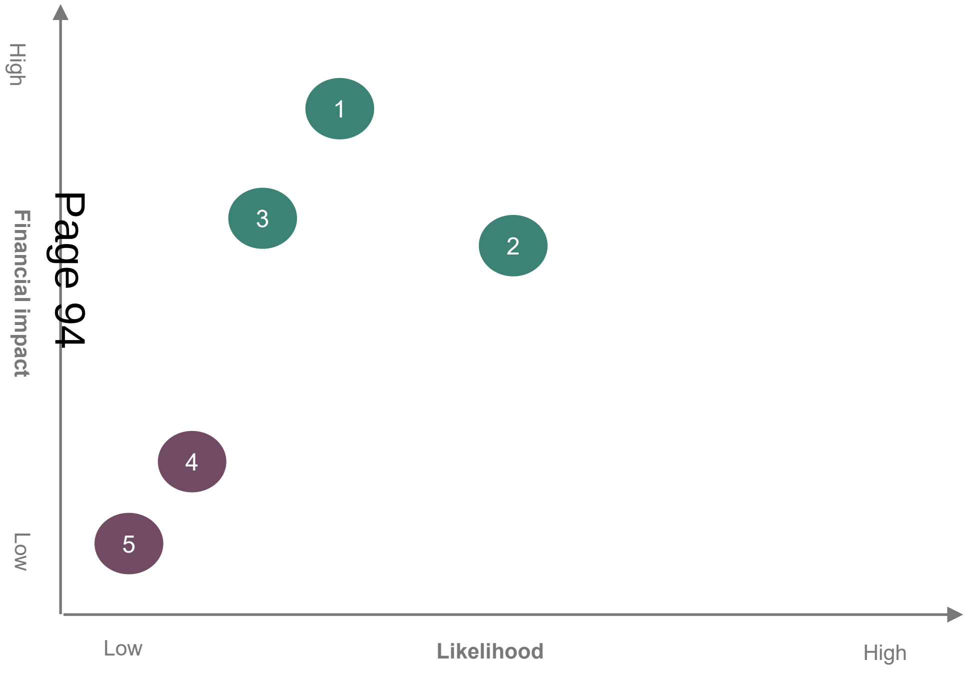
Standard risk

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

4. Significant risks and other key judgement areas

Summary risk assessment

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



1 Management override of controls

2 Net defined benefit liability valuation

3 Valuation of property, plant and equipment

4 Minimum Revenue Provision

5 Group Accounts

Key: Significant risk   Enhanced risk / significant management judgement

4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

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

Significant risks

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

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	**Net defined benefit liability valuation** The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.	○	●	●	In relation to the valuation of the Council's defined benefit pension liability we will: • Critically assess the competency, objectivity and independence of the Lincolnshire Pension Fund's Actuary; • Liaise with the auditors of the Lincolnshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; • Test payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council; • Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; and • Agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	**Valuation of property, plant and equipment** The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, and investment properties with the majority of land and building and investment property assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.	○	●	●	In relation to the valuation of property, plant & equipment, and investment properties we will: • Critically assess the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • Consider whether the overall revaluation methodologies used by the Council's valuer's are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • Critically assess the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; • Critically assess the approach that the Council adopts to ensure that any assets not subject to revaluation in 2020/21 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer's. will we also review movement in indices? e.g • Consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time; and • Test a sample of items of capital expenditure in 2020/21 to confirm that the additions are appropriately valued in the financial statements.

Page 97

4. Significant risks and other key judgement areas

Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
4	**Minimum revenue provision (MRP)** Local authorities are normally required each year to set aside some of their revenues as provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The amount to be set aside each year is not prescribed although an overarching principle of prudency is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised in determining the level of its prudent provision. Under its current policy the Council does not commit to set aside a MRP for commercial investment properties where the asset is expected to be held for a set period, at the end of which a capital receipt is expected to be realised and therefore funds will be available to repay borrowing. The policy does state that the Council may chose to make a voluntary MRP and we understand that such a payment is proposed for 2020/20. In our 2019/20 Audit Completion Report we stressed that it was important that the Council continues to ensure that, in departing from Statutory Guidance, it is able to demonstrate that it is continuing to act reasonably, that Members understand the implications, and that its approach is prudent.	○	○	●	We plan to address this judgement by: • Reviewing the Council's MRP policy to ensure that it has been developed with regard to the statutory guidance; • Assessing whether the provision has been calculated and recorded in accordance with the Council's policy; • Assessing whether the amount provided for the period is appropriate, taking into account the Council's Capital Financing Requirement; and • Challenging management's justification for the policy in the context of the Statutory Guidance and the Council's expenditure and borrowing..

4. Significant risks and other key judgement areas

Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
5	**Group Accounts** The Council has interests in companies and other entities that have the nature of joint ventures. Management's judgement in 2019/20 was that there was no material impact on the Statement of Accounts and Group Accounts were not prepared. It is expected that a similar line is to be followed for the Council's 2020/21 accounts.	○	○	●	We will review the assessment carried out by management for 2020/21 and challenge the reasonableness of judgments management has made.

05

Section 05:

Value for Money

6. Value for Money

The framework for Value for Money work

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

The new Code of Audit Practice (the Code) has changed the way in which we report our findings in relation to Value for Money (VFM) arrangements from 2020/21. We are still required to be satisfied that the Council has proper arrangements in place and to report in the auditor's report where we identify significant weaknesses in arrangements. However, the key output of our work on VFM arrangements will now be a commentary on the Council's arrangements which will form part of the Auditor's Annual Report.

Specified reporting criteria

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

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks
3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our approach

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

Identified risks of significant weaknesses in arrangements

Due to the late release of the NAO's Auditor Guidance Note and supporting information to auditors, we have not yet fully completed our planning and risk assessment work. On completion of our risk assessment, we will report any risks of significant weaknesses in arrangements identified to the Governance and Audit Committee.

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

6. Value for Money – specified criteria

Under the 2020 Code, we are required to structure our commentary on the Council's 'proper arrangements' under three specified reporting criteria, which are expanded in the supporting guidance notes produced by the National Audit Office:

Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services

- how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them
- how the body plans to bridge its funding gaps and identifies achievable savings
- how the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- how the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system
- how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Governance: how the body ensures that it makes informed decisions and properly manages its risks, including

- how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- how the body approaches and carries out its annual budget setting process
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

Improving VFM: how the body uses information about its costs and performance to improve the way it manages and delivers its services

- how financial and performance information has been used to assess performance to identify areas for improvement
- how the body evaluates the services it provides to assess performance and identify areas for improvement
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve
- where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

06

Section 06:

Fees for audit and other services

Page 103

6. Fees for audit and other services

Fees for work as the Council's appointed auditor

Details of the 2019/20 actual and planned 2020/21 fees are set out below:

Area of work	2020/21 Fees	2019/20 Actual Fee
Scale audit fee	£33,420	£33,420
Fee variations:		
Additional Testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes as a result of changes in regulatory expectations	£7,067 [1]	£7,067
Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; ISA570 (Revised) Going Concern; and ISA 600 (Revised): Specific considerations – audit of group financial statements	£2,000 [2]	-
Other additional costs	TBC	£5,032 [3]
Sub-total	**£42,487**	**£45,519**
Additional work arising from the change in the Code of Audit Practice	TBC - Expected to be at least £10,000 or 20% of the revised fee [4]	-
Total	£42,487 [5]	**£45,519**

[1] As previously reported to you, the scale fee has been adjusted to take into account the additional work required as a result of increased regulatory expectations in these areas.

[2] For 2020/21, new auditing standards have been introduced which will lead to additional audit work not reflected in the scale fee. The implementation of IFRS 16 Leases is deferred to the financial year 2021/22.

[3] The additional audit cost in 2019/20 has been disclosed within our Annual Audit Letter and presented at the January 2021 Committee. This mainly relates to additional testing and reporting of uncertainties in key estimates as a result of Covid-19.

[4] As explained in section 5, the revised Code of Audit Practice will lead to a substantial amount of additional audit work to support the new value for money commentary and the changes in reporting requirements. Our review of the Code and supporting guidance notes shows that the additional fee impact at all public sector entities is expected to be at least £10,000 or 20% of the post fee variation 2020/21 fee. The final fee will take into account the extent and complexity of any significant weaknesses in arrangements we identify.

[5] This is a proposed fee for 2020/21 at the point of the issue of our ASM. This figure is subject to change and variations will be discussed with management.

PSAA have issued a consultation on the 2021/22 audit fee scale. We will revisit our fee proposal in line with the outcome of this consultation to ensure we are consistent with sector wide changes.

6. Fees for audit and other services

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Other services - Housing Benefits Subsidy Assurance	£5,899	£5,899

07

Section 07:

Our commitment to independence

7. Our commitment to independence

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

The Ethical Standard 2019 is applicable for any non-audit services commencing on or after 15 March 2020.

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

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

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

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

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

Principal threats to our independence and identified associated safeguards in relation to the planned non-audit work for 2020/21 are set out below. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

Issue	
Housing benefit subsidy certification	We have considered threats and safeguards as follows: • Self Review: The work does not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars; • Self Interest: The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis; • Management: The work does not involve Mazars making any decisions on behalf of management; • Advocacy: The work does not involve Mazars advocating the Council to third parties; • Familiarity: Work is not deemed to give rise to a familiarity threat given this piece of assurance work used to fall under the Audit Commission / PSAA certification regimes and was the responsibility of the Council's appointed auditor; and • Intimidation: The nature of the work does not give rise to any intimidation threat from management to Mazars.

08

Section 08:

Materiality and other misstatements

Page 108

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	900
Performance materiality	720
Specific materiality: - Officers' remuneration - Members Allowances - Related Party Transactions - Audit Fees	 £5k banding 58 50 7
Trivial threshold for errors to be reported to Governance and Audit Committee	27

Materiality

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

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

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

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

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

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

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

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

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

Our provisional materiality is set based on a benchmark of total gross expenditure. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to Governance and Audit Committee.

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

8. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 2% of total gross expenditure. Based on the 2019/20 audited financial statements we anticipate the overall materiality for the year ending 31 March 2021 to be £900,000 (£850,000 in 2019/20).

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

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our third year of audit, we have cumulative audit knowledge about the Council's financial statements, and there were no significant matters arising last year. We have therefore set our performance materiality again at 80% of our overall materiality being £720,000.

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to Governance and Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £27 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Dalton.

Reporting to Governance and Audit Committee

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

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

A

Appendix: Key communication points

Appendix: Key communication points

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

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

Form, timing and content of our communications

We will present the following reports:

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

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

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

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

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

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Appendix: Key communication points

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

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

Appendix: Key communication points

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

Appendix: Key communication points

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

Mark Dalton, Director – Public Services

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

Governance & Audit Committee	
Tuesday 9th March 2021	

Subject: Combined Assurance Report 2020/21

Report by:	Monitoring Officer
Contact Officer:	Corporate Policy and Governance Manager & Deputy Monitoring Officer
Purpose / Summary:	To present the Council's Combined Assurance Report for 2020/21.

RECOMMENDATION(S): The Committee are asked to:

1. **Approve the report**
2. **Be assured that the findings illustrate that the Council's governance framework is operating effectively.**

IMPLICATIONS

Legal: None **(N.B.) Where there are legal implications the report MUST be seen by the MO**

Financial: FIN/123/21/TJB None from this report.

Staffing: None **(N.B.) Where there are staffing implications the report MUST have a HR Ref**

Equality and Diversity including Human Rights: None *NB: Please explain how you have considered the policy's impact on different groups (for example: young people, elderly, ethnic minorities, LGBT community, rural residents, disabled, others).*

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 :
Wherever possible please provide a hyperlink to the background paper/s If a document is confidential and not for public viewing it should not be listed.

Risk Assessment : None

Call in and Urgency:

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

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

Key Decision:

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

1 Introduction

1.1 The purpose of the Combined Assurance Report is to produce a record of assurances against our critical activities and risks. It provides an overview of assurance across the Council making it possible to identify where assurances are present, their source and where there are potential assurance 'unknowns or gaps'. It offers a tri-angulated view of assurance with separate opinion provided by management; corporate and/or third party assurance and Internal Audit. The Combined Assurance Report is produced annually and this report covers the year ending 31st March 2021.

2 Combined Assurance Report

2.1 This is the latest Combined Assurance Report undertaken at West Lindsey District Council. It provides a view on assurance systems and services for the year ending March 2021. The report is available as Appendix 1.

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

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

3. Findings

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

3.2 The findings bear witness to the effect that the Covid19 pandemic has had (and continues to have) on the Council over the last 12 months. Members will be aware that:

- To ensure individuals, businesses and communities were supported, work was re-prioritised to provide additional capacity where it was most required.
- The Council has been involved in much additional work related to the pandemic including administering covid-related business support grants, test and trace, advising businesses on the requirement of providing covid-safe work premises following periods of lockdown, relaying key Government communications and appointing Covid Wardens to ensure that public safety measures are well communicated and adhered to.
- The vast majority of officers reverted to home working arrangements.
- Council meetings moved to virtual arrangements
- Additional delegated decision-making powers were put in place.

3.3 The situation has been extremely fluid and fast-moving. Therefore, active risk management has been required. This has been demonstrated during the last 12 months as the Council has anticipated potential covid-related issues and put mitigations in place.

3.4 The findings of the report show that across the critical activities and emerging risks which were within the report's scope; 53% are assessed as performing well (green); 44% require some attention (amber) and 3% are in need of urgent attention (red). Reference is made below to those areas categorised as red in nature. The report contains full details on all areas under the scope of the exercise.

- Transactional Service - Gainsborough Market
- Emerging Risk – 'Breathing Space' legislation
- Key Project – Test & Trace
- Strategic Risk - ICT Security and Information Governance arrangements

3.5 Last year's findings, using the same methodology, were green (72%), amber (25%) and red (3%).

3.6 However, in light of the situation within which the Council finds itself operating, this year's findings are positive and have been welcomed by the Council's Management Team.

3.7 The 'field-work' identified a number of emerging risks which were discussed with the Management Team. It was acknowledged that the identification of emerging risks on the part of Team Managers is an essential aspect of effective service management and this input was welcomed. Further details are set out in the report itself.

4. Next Steps

4.1 The Council expects the pandemic to be an issue for the foreseeable future. Much uncertainty and risk lies ahead and this will continue be the case, even when a recovery phase can begin.

4.2 Consequently, appraisal and review across all of the Council's critical activities will be on-going and adverse impacts will continue to be appraised and evaluated. The task of prioritising and providing support where best needed will continue, to ensure the most vulnerable continue to be supported and where needs are greatest, demands can be met.

4.3 This year's report will be used as a basis for learning and improvements and business planning.

4.4 The findings of the report will also be taken into consideration when forming Internal Audit's work plan for 2021/22 and the Council's Annual Governance Statement for 2020/21.

5 Recommendation

5.1 The Committee are asked to:

a) Approve the report
b) Be assured that over the last year (and in light of the pandemic), the findings demonstrate that the Council's governance framework is operating effectively

Combined Assurance Status Report

West Lindsey District Council

January 2021

Assurance LINCOLNSHIRE
For all your assurance needs

West Lindsey DISTRICT COUNCIL

Contents

The contacts at Assurance Lincolnshire are:

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Principal Auditor

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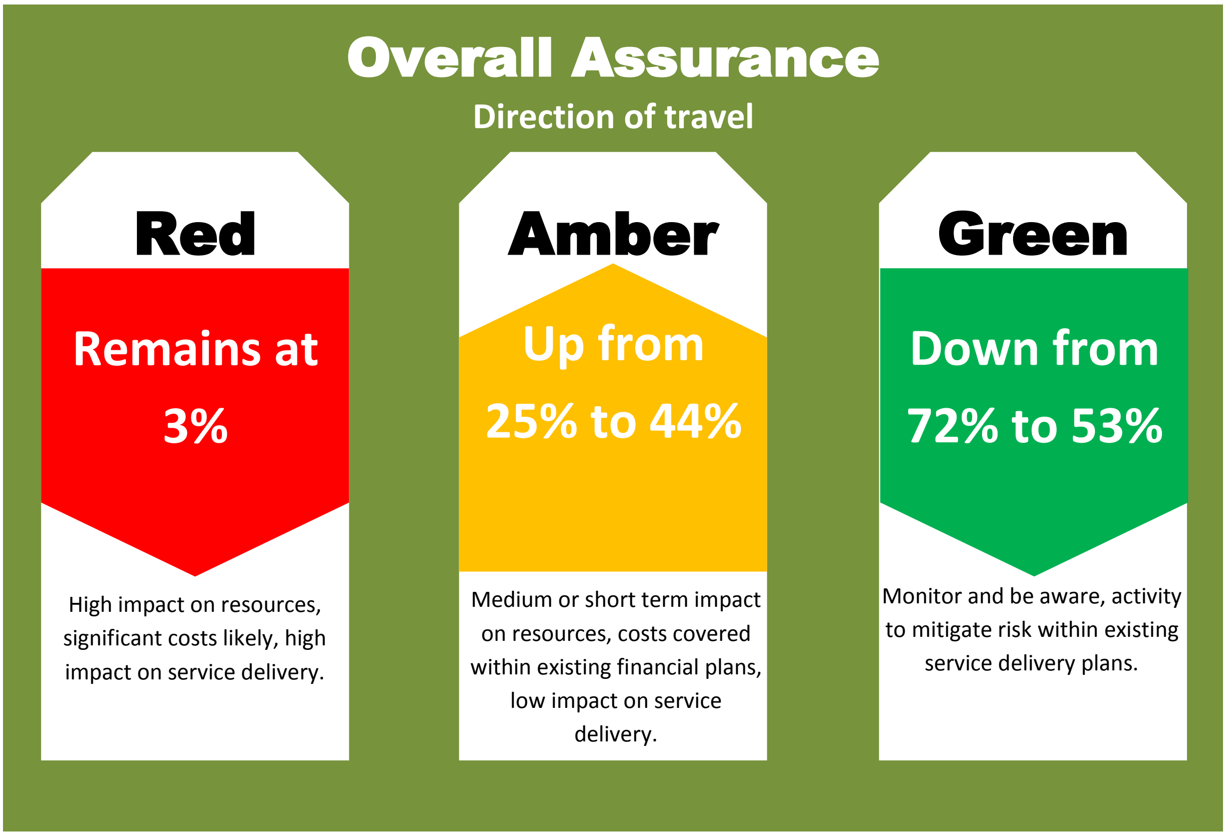
Overview of Assurance

Combined assurance is a structured means of identifying and mapping the main sources and types of assurance in the Council and coordinating them to best effect.

It enhances risk management by providing an effective and efficient framework of sufficient, regular and reliable evidence of assurance on organisational stewardship and management of major risks to the Council's success.

We do this using the three lines of defence model.



Summary

We thank Assurance Lincolnshire for producing the Council's latest Combined Assurance Report and also the Council's Team Managers for providing their input. Despite having to adopt different working methods due to the pandemic, all parties have worked in a collaborative and timely manner. The report is something that we value. It is extremely beneficial in highlighting aspects of Council business that are operating well, while also identifying other areas that require greater focus and/or some level of intervention. The findings represent a comprehensive and accurate view of our assurance position across our services, critical systems, governance processes, ICT arrangements, key projects, partnerships and risk analysis.

The impact of Covid19 over the last 12 months has challenged the Council in many ways. However, the response has been very effective, with work re-prioritised across many service areas to enable resources and capacity to be directed to support those residents and businesses across the District that have been most impacted. This support incudes the distribution of over £19m of grant aid to businesses; ensuring businesses understand and follow Covid-secure working practices and processing additional numbers of Housing Benefit and Council Tax Support claims and associated reliefs. The Council was also able to quickly implement virtual Council meetings and amend decision-making protocols.

Almost overnight, the vast majority of staff were able to work remotely and they have adapted to this in a positive manner and have been fully supported by the Council, which recognises the issues faced by many officers in juggling, for example, caring/schooling responsibilities with work commitments. Two staff surveys have been completed during this period. The results of both provided high levels of satisfaction with the support and understanding shown by the Council.

The three levels of assurance model has used to provide assurance that operations are operating as effectively as can be expected and key risks are managed appropriately. Perhaps inevitably, a number service areas have been adversely impacted as a result of additional pressures and/or resources being diverted elsewhere.

Land Charges is an area that has experienced fluctuations in performance over recent years. A number of interventions have been undertaken but improvements have not been sustained. We must now commit to a more thorough review of the service and a plan is being devised to realise long-standing improvements.

As witnessed nationally, the Council's leisure and visitor economy related services have also been impacted. Recovery plans are in place to be implemented once conditions allow and these will be monitored closely. Also, a number of revenue streams have reduced significantly including car parking fees, council tax and business rate collection rates and income from markets. All will be kept under review.

A number of areas have, or are experiencing, capacity issues including street cleansing, planning enforcement and building control; while areas including community services, health and safety and, business continuity/emergency planning are attempting to gauge the level of demand they will face as recovery takes hold.

Across all areas of concern the emphasis will be to ensure that the adverse impacts they have experienced are Covid-related and not systemic.

Despite these challenges, the Council has progressed on a number of fronts. It received positive feedback following the Peer Review held in January 2020; the new Crematorium has completed its first 12 months of operations and it won a national award. The new Market Rasen leisure facility was completed and opened on time; work has started on site for a new Waste Depot and a senior management structure was implemented. Work has also progressed on developing the Council's next Carbon Management Plan and a Sustainability, Climate Change and Environment Strategy.

Strategic Risk

Good risk management is part of the way we work. It is about taking the right risks when making decisions or where we need to encourage innovation in times of major change – balancing risk, quality, cost and affordability. This put us in a stronger position to deliver our goals and provide excellent services. Our Strategic Risk Register is regularly reviewed and our risks are effectively managed. Oversight is provided by the Governance & Audit Committee which reviews the strategic risks on a six-monthly basis.

Risk	Actions for Improvement	Current risk rating	Target risk rating
Health and Wellbeing of the District's residents does not improve	To implement a new business area for Homes and Communities and recruit to the required structure. Review the need for a Strategic Health Partnership.	9	6
Inadequate support is provided for vulnerable groups and communities	P3 project to launch to assist vulnerable communities and also improve local housing stock	9	6
Inability to raise local educational attainment and skills levels	Measure effectiveness of existing actions and draw learning Deliver against West Lindsey Employment & Skills Strategy and Delivery Plan. Development of redundancy support programme to form part of WLESP delivery plan	8	8
The local economy does not grow sufficiently	Planning for Growth initiative with Greater Lincs Review of planning policies in general and the review of the Local Plan in particular Maintain watching brief on further support for businesses and ensure capacity in place to deliver effectively	9	6
The local housing market and the Council's housing related services do not meet demand	Review the need for strategic capacity within the service Development of a Homes and Community Strategy	9	6
Insufficient action taken to create a cleaner and safe district	Produce Environment and Sustainability Strategy Build and opening of new waste depot Implement schools educational programme re recycling etc	8	4
Inability to set a sustainable balanced budget	N/A	8	8
The quality of services do not meet customer expectations	Implement CRM and ERP systems Continual development of P&D reporting	8	8
Inability to maintain critical services and deal with emergency events	Refresher training for appropriate officers Ensure effective handover to new LRF adviser	8	8

Key Messages

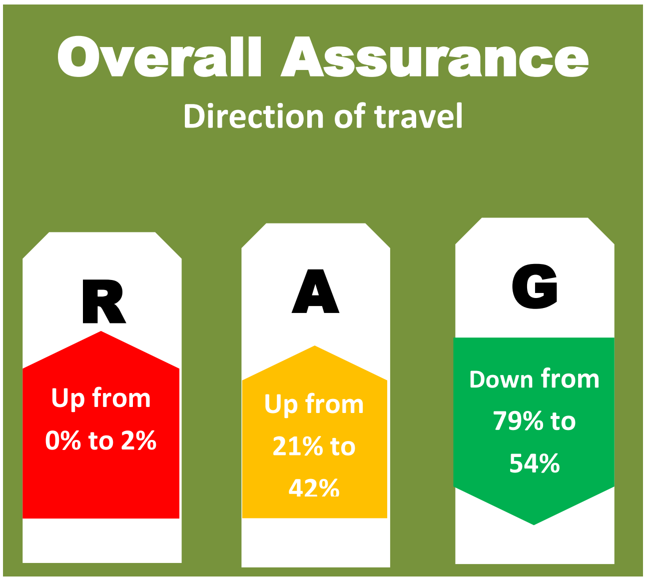
Risk	Actions for Improvement	Current risk rating	Target risk rating
Failure to comply with legislation including Health and Safety matters	Deliver new Waste Services depot to provide safer working environment	8	8
ICT Security and Information Governance arrangements are in ineffective	Deliver against 10 year infrastructure development plan Ensure the timely implementation of the succession plan for the Data Protection Officer and ensure sufficient support is provided to the new incumbent.	12	8
Inability for the Council's governance to support quality decision making	G&A Cttee to work on action plan following survey Review of report writing with a focus on recommendations to be completed	6	6

Key	Risk
Red	High impact on resources, significant costs likely, high impact on service delivery
Amber	Medium or short term impact on resources, cost covered within existing financial plans, low impact on service delivery
Green	Monitor and be aware , activity to mitigate the risk within existing service delivery plans / management arrangements

Key Messages

Transactional Services

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



Critical Activities	
Red	**Amber**
Gainsborough Market	Street Cleansing
	Commercial Waste
	Trinity Arts
	Tourism
	Complaints
	Street lighting
	Lea Field Crematorium
	Wellbeing Contract
	Communities at Risk
	Property & Estate Management (Strategic & Operational)
	Car Parking
	Building Control
	Local Land Charges
	Carbon Management Plan
	Community Broadband
	West Lindsey Lottery
	Community Services
	Regulatory Services H&S
	Planning Enforcement
	Development Management

The table above sets out the transactional services that have either been impacted by Covid19, or require attention for separate reasons. The number of services falling into this category has increased over the year.

Gainsborough Market has been rated as ‘red’ as there has been a lack of growth. The operation of the Market has been a long-standing issue and events of the last year have exacerbated the problem. To improve matters, a project is underway with a procured contractor to increase footfall by adding new growth initiatives, e.g. continental and any other style markets, publicity, etc. The decline in footfall however mirrors what is a national trend.

In Operational Services, both Street Cleansing and Commercial Waste require attention. The former, while performing well, has experienced staffing issues due to Covid19. With regard to Commercial Waste, this service must take account of emerging risks around moving depot and separate paper/card collections.

Leisure and Tourism have been hit hard over the last 12 months. Trinity Arts Centre has remained closed but has secured Culture Recovery Fund and Arts Council grant funding to support the cost of closure and planned reopening. Events to commemorate Mayflower 400 were mostly cancelled or moved on-line and staff were allocated to other priority areas of work. It is hoped however, that when recovery gathers pace, Mayflower events can be re-

Key Messages

visited and the District can harness the new-found enthusiasm for the outdoors and the environment and exploit its rurality and proximity to the Lincolnshire Wolds Area of Outstanding Natural Beauty (AONB).

It has been recognised that the Council's Customer Experience Officer requires support to add resilience to the work. This will be pursued. The Council has embarked on a project of replacing street lighting with LED lights. However, this has stalled as it has proven difficult to secure a contractor to undertake the remainder of the work. This work is important both to help to reduce carbon emissions and reduce costs.

Lea Fields Crematorium has been a success in its first year. Income is in line with projections and it won an APSE award. It is prudent though to maintain a close watch on performance against the business case expectations and to also keep abreast of updates in legislation and industry guidance.

The Wellbeing Contract requires the close attention of the partnership, as the service has witnessed an increase in demand over the last 12 months. Similarly, work must be completed to implement a number of remaining actions identified via a recent audit into Communities at Risk, to ensure such communities receive the assistance they require.

Capacity issues have arisen within Property & Estate Management (Strategic & Operational) with vacancies to be filled. A Strategic Asset Management Strategy is to be developed and a backlog of maintenance recording has accrued which needs to be addressed. In addition, improved compliance management is an area of focus.

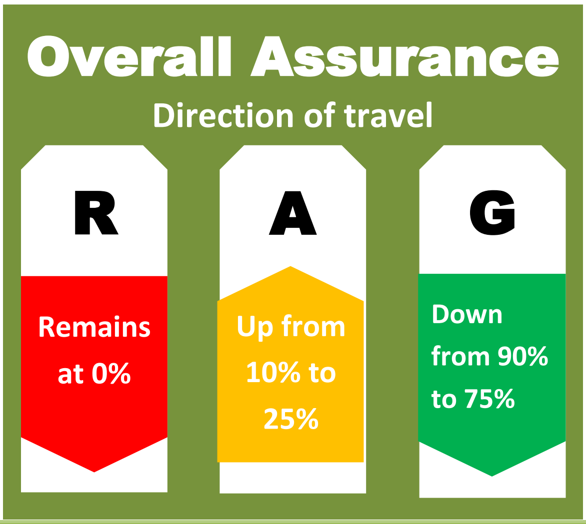
Issues relating to Car Parks, Building Control and Local Land Charges were documented within the summary. The Council is not alone in experiencing a significant drop in car parking income as a result of periods of lockdown. Although the performance of the Building Control service has remained robust, there is a level of risk around Covid19 and ongoing lack of resilience within the service due to staffing issues, with reliance placed on the use of agency staff. An ongoing project is in place with neighbouring authorities to consider a shared service or a separate company.

Issues related to an increased workload, and an antiquated system have led to poor performance being recorded by Local Land Charges. Additionally, mutings are on-going nationally about the transfer of part of the service to the Land Registry. This uncertainty has not helped matters. However, moves are afoot to address issues with a project to digitise many of the currently paper-based records.

Key Messages

Governance

Objectives – This section includes areas such as corporate governance, risk management, partnerships, information governance, procurement and contract management, Human Resources, project management and Member and Democratic Services.



Critical Activities
Amber
Business Continuity & Emergency Planning
Safeguarding
Performance Management
Procurement
Contract Management

In spite of the recent pressures placed on the Council's governance arrangements, the findings of the report show that the vast majority of our governance elements have continued to operate effectively.

It is worth stating that following the first national lockdown in March 2020, in a very short period of time the Council wrote new protocols to support the holding of virtual Council meetings, amended its delegated decision making powers, trained and supported officers and Members in the new arrangements and the changes were quickly implemented. Consequently, Council meetings have been held on a virtual basis and key decisions continue to be made.

Areas that have withstood the challenges include: Member development; Members have continued to receive training (arranged virtually), risk management, corporate health and safety (where work has been prioritised to create a Covid-safe working environment for those officers that do attend the office), Democratic Services, the management of partnerships and projects, information governance (with attention paid on reminding staff working remotely of the importance of data security) and equalities and diversity (which saw the approval of a new, three year policy in February 2020.)

Areas that are deemed to require closer attention are addressed thus. Perhaps unsurprisingly, stress has been placed on the Council's business continuity and emergency planning arrangements, with resilience tested as a result of the pandemic. The future outlook remains uncertain, therefore on-going review of the effectiveness of processes will be key.

Safeguarding matters nationally have received attention during the past 12 months. The Council recognises the need to maintain absolute focus on this area to prevent harm from occurring wherever possible.

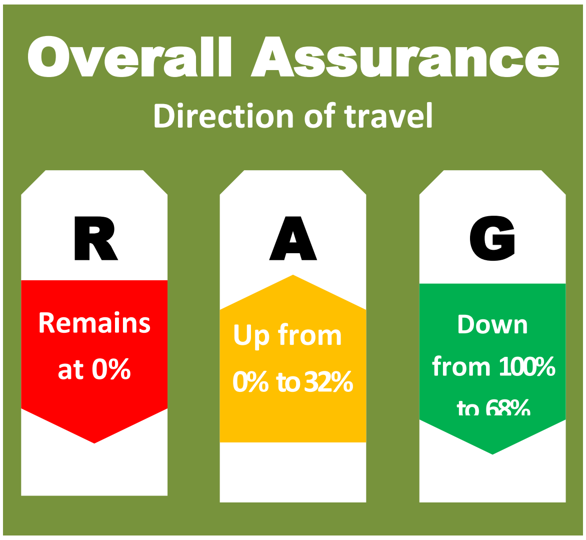
With the advent of the inclusion of performance management within the new Enterprise Resource Platform, it is key that this project is implemented effectively. This will result in performance management continuing to add value to the Council.

Last year's report raised procurement as an issue. Action to remedy, in the form of a survey of service users, analysis of findings and actions to rectify, have been delayed due to other priorities. However, at the time of writing, the survey has been completed and analysis is underway. With regard to contract management, a good overview of all contracts has been reported, but some training on supplier management is required. This will form part of an overall procurement/contracts training package for staff which it is anticipated will incorporate remedies identified via the analysis of the procurement survey.

Key Messages

Resources

Objectives – This aspect relates to the functions that support the running of the Council and ensure compliance with policies and set procedures



Critical Activities
Amber
Council Tax
NNDR
Income collection and receipting
Value Added Tax
Insurance
Grants Received

Again, the impact of the pandemic is evident across this aspect of the Council's functions. These include arrangements overseeing Council Tax, National Non-Domestic Rates (NNDR), Housing Benefits, financial management controls and the governance of grants. Over 2/3rds of all activity however, has continued to perform strongly over the last 12 months.

Despite additional demand placed on Housing Benefits and Council Tax Support, coupled with capacity issues, the service has continued to perform well. Similarly counter-fraud arrangements remain robust. Treasury Management is extremely effective, as evidenced by an audit finding of full assurance during 2020. The distribution of grants is deemed to be effective with good oversight and assurance that compliance with the conditions of acceptance are adhered to.

Arrangements to oversee commercial activity are robust. A new Commercial Performance Board is in place and the Finance Team have input into new business plans and options appraisals. The Council's financial resilience model has been developed and includes appropriate financial ratios and routine oversight and reporting, including review of earmarked reserves.

Areas to address, that have been rated as 'amber' in nature are set out in the accompanying table. These include Council Tax, where collection rates and the capacity within the service have been affected by Covid19.

Administration of National Non-Domestic Rates (NNDR) is currently undertaken by LiNK via a contract. This arrangement has been extended, however greater emphasis is required on managing key aspects of the contract. Therefore monthly liaison meetings and performance reporting will be undertaken.

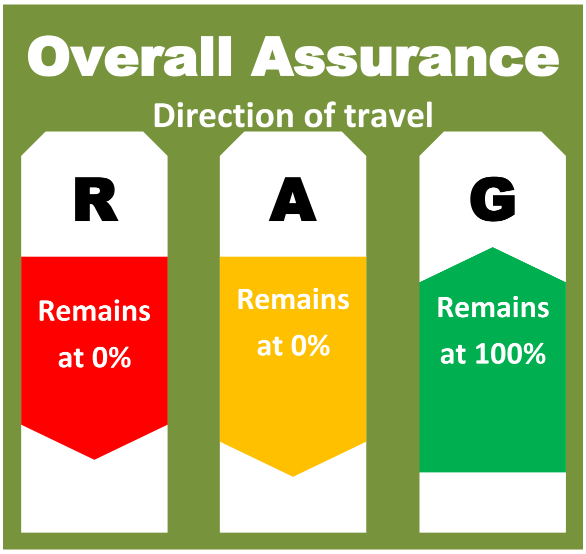
While there are no issues concerning the process of income collection and receipting, a more supportive approach to debtors has been adopted and usual enforcement measures such as court action have been postponed which has had an impact on recovery rates. This will be reviewed over the next 12 months. All deadlines for VAT matters have been met using on-line portals, however concern has been raised related to the resources required to administer this function.

Similarly, with regard to Insurance there are issues related to the level of staff resources, resilience and succession plans which will be investigated further. With respect to Grants Received, this generates a large volume of work in terms of monitoring conditions and completing returns. A new officer is training, so this function presently requires senior officer support.

Key Messages

ICT

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



The report has found that, as was the case last year, all aspects of the ICT Service have operated effectively over the last year. This has been critical in enabling the Council to function during the pandemic. It has enabled staff to work from home/remotely, enabled Council and other work related meetings to be held virtually and securely and addressed the home ICT equipment needs that some staff have had.

An important aspect of the service's work has been ensuring that the security of data and information remains a key priority; particularly with regard to the current circumstances that staff are working under. Staff and Members alike are regularly reminded of this.

The shared ICT Partnership with North Kesteven District Council continues to operate well. Work is progressing against the 10 year infrastructure development plan with the ICT Board and ICT Partnership Board retaining oversight.

The Council's Corporate Information Governance Group (CIGG) continues to operate effectively. It oversees information governance related matters; looks for trends within reported breaches and draws up arrangements for on-going communication and awareness messages and also staff training. All relevant breaches are reported to the Information Commissioner's Office (ICO); however none have been reported during the year that required further involvement on their part. A new contract has been secured to ensure a further three years of information governance related training and awareness packages for staff and Members.

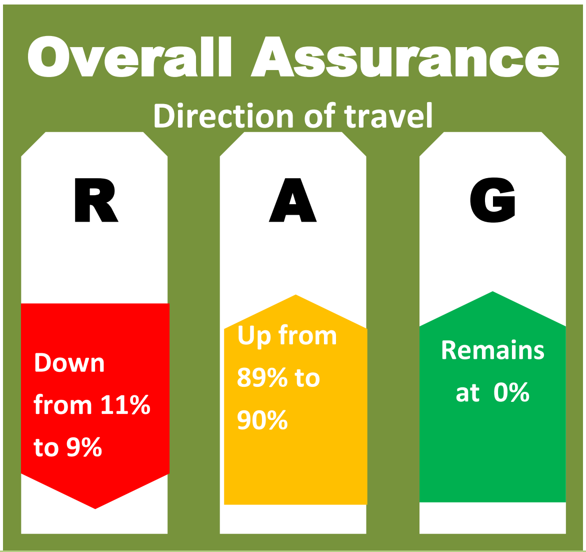
The Council received the findings of an audit into Cyber Security during 2020. This provided substantial assurance on such matters, commenting that the arrangements for managing Cyber Security risk are good, particularly at an operational level.

Two key systems have been procured for implementation. A new Customer Relationship Management (CRM) System and an Enterprise Resource Planning (ERP) system. These are major investments for the Council, intended to improve service delivery and increase efficiency. Roll-out and implementation is planned over the next few years so a keen eye will be kept on the delivery of these projects.

Key Messages

Emerging Risks

Objectives – It is impingent on all managers to undertake effective risk management and attempt to minimise the impact of any risks should they materialise. Looking ahead and horizon scanning to identify any emerging risks is a pre-requisite and it is encouraging that this activity is undertaken across the Council. During the exercise a number of emerging risks were identified and discussed, many of which are linked to the current situation.



Emerging Risks	
Red	**Amber**
Breathing Space legislation	Digimail Project
	Building Control change in regulations
	Gainsborough Town Centre – Lindsey Centre Redevelopment
	Main office repurposing
	Operational Resilience
	Housing related support contract
	Covid19 Impact & Recovery
	Food waste collection

Breathing Space legislation: These regulations are formally referred to as the Debt Respite Scheme and relate to Council Tax arrears. They are due to become law in May 2021 but as yet no finalised Government guidance is available.

Digimail project: Concerns around change management, timeline for implementation and experience of chosen provider.

Change in Building Control Regulations: Impact of a change in regulations following the Grenfell disaster have to be fully assessed.

Gainsborough Town Centre - Lindsey Centre Re-development (Potential): Impact of Covid19 means initial plans are likely to change. Report with Management Team on future direction.

Main office repurposing: Early stages of consideration.

Operational resilience: High volume of changes across the Council in 2021 including new projects, new system implementations and continued adapting to new ways of working and implementing changes to legislation. Operational capacity, adequate skill sets and service resilience to be considered in each area.

Housing related support contract: Uncertainties around the impact of changes to eligibility criteria which means some people will no longer have access to support.

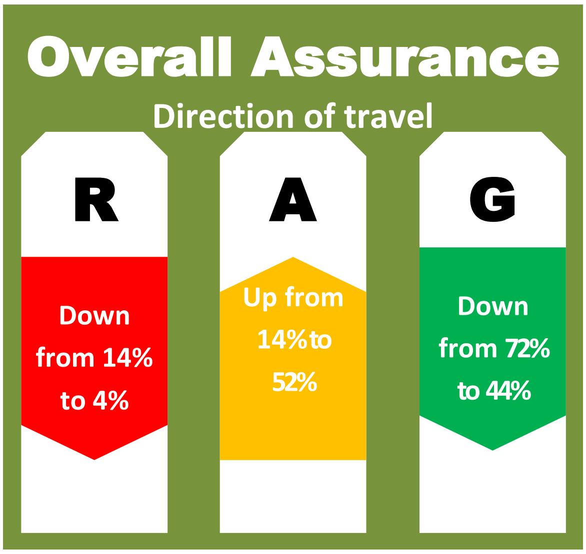
Covid19 impact and recovery: Council is very supportive of staff and good initiatives in place eg staff groups, training. Services continue to embed processes for day to day support, recognising mental health and wellbeing. Concerns around increased workloads for managers

Food waste collection: Introduction of separate paper and food waste collections is an objective of the Joint Municipal Waste Management Strategy. Have to assess impact.

Key Messages

Key Projects

Objectives – During the Combined Assurance mapping exercise, project management was deemed to be working effectively across the Council.



A number of key projects were discussed during the collation of material for the report and are set out in the accompanying table (below). They reflect the breadth of work the Council is presently involved in.

Test and Trace: The volume of applications, evidence required and timescales to make payments add pressure to team.

Housing Benefit Document Management System conversion: Staff training on new system ongoing.

Lea Fields Crematorium – Creation of Strewing area: This project is at Stage 2 and is at Commercial Board in November 2020.

Customer Services Out of Hours provision: Some concerns around delivery.

Customer Relationship Management System: New system with impact on staff in terms of training and input into the project.

Local Land Charges service transfer to HM Land Registry: Early stages with scoping underway and timescales led by HM Land Registry.

Enterprise Resource Planning system: Large project and development starts January 2021. Implementation scheduled for November 21. Managed and monitored by ICT Board but number of risks associated with project and unknown impacts on some services.

5/7 Market Place refurbishment: Business case is developing.

Carbon reduction/energy saving projects: LED Parish Lighting project has failed to attract suitable contractor. New pipeline of projects to be allocated through Climate Change programme.

Leisure (Construction Project): Market Rasen Leisure Centre Project in 12 month defect period.

Change 4 Lincs: Fairly new partnership, some staffing issues in terms of brand new service with inexperienced staff and learning, all remotely from home.

Viable Housing solution: To be delivered by partner through grant funding agreement.

RAF Scampton Community: Normalisation Strategy due to be created in 2021-2022 setting out actions to support the community during de-commissioning of RAF Scampton. Current activity is overseen through internal working group meetings and partnership meetings with key stakeholders.

Growth & Regeneration projects: Large volume of projects.

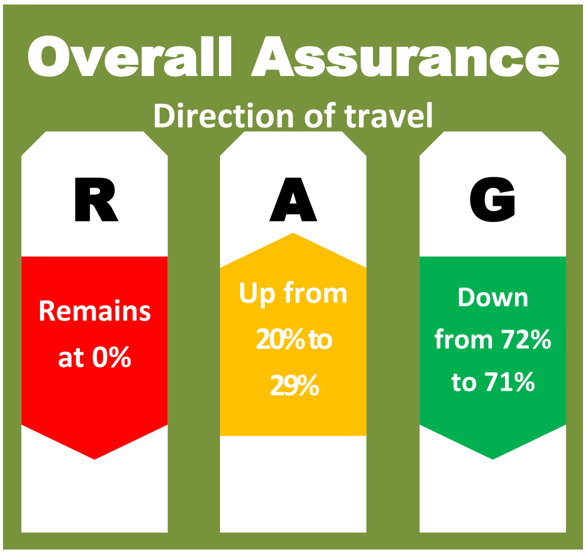
Key Messages

Key Projects	
Red	**Amber**
Test and Trace	Housing Benefit Document Management System conversion
	Lea Fields Crematorium – Creation of Strewing area
	Customer Services Out of Hours provision
	Customer Relationship Management System
	Local Land Charges service transfer to HM Land Registry
	Enterprise Resource Planning system
	5/7 Market Place refurbishment
	Carbon reduction/energy saving projects
	Leisure (Construction Project)
	Change 4 Lincs
	Viable Housing solution
	RAF Scampton Community
	Growth & Regeneration projects

Key Messages

Key Partnerships

Objectives – The Council recognises that effective partnership working is key to the achievement of many of its goals and desired outcomes. In that regard it is essential that any partnerships entered into, or are currently in operation, deliver and their on-going relevance and effectiveness are continually evaluated.



All key partnerships are recorded and updated on a central register. This provides an accurate record at any given time of such arrangements. Lead officers are required to regularly evaluate the health and on-going relevance of the partnerships they are involved in.

Within this exercise the Council's key strategic partnerships were reviewed to assess their effectiveness. Two, set out below, were rated as amber in nature:

Critical Activities	
Red	**Amber**
	Lincolnshire Waste Partnership
	Muse – the growth programme

Lincolnshire Waste Partnership: Eight partners continue to work well together and are rolling out other improvements, e.g. separate card, paper and food waste.

Muse – the growth programme: Bi-annual review of potential projects for agreement through Land Property and Growth.

The remaining partnerships were rated as being fully effective.

Partnerships	
Title	**Comment**
Employment and Skills Partnership	Terms of reference in place and a delivery plan approved by Members. Regular reporting through P&D narrative and annual reporting back to Members.
WL/NK ICT Partnership	There is an ICT Board and a Partnership Board in place, which meets regularly and has oversight for key projects across the shared service
Central Lincs Local Plan	Managed through Central Lincolnshire Joint Strategic Planning Committee with members appointed from WLDC. Central Lincolnshire Strategic Group for Chief Execs and lead officers set direction with Heads of Planning tasked with delivery
North Notts and Lincs Community Rail Partnership	Partnership has terms of reference and appropriate governance for management and decision making

	Governance & Audit Committee
	9th March 2021

Subject: Internal Audit Draft Annual Plan Report 2021/22

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) **Approve the contents of the report and be assured that the plan provides robust coverage of the Council's critical areas and services.** 2) **Note the content of the report related to the ICT Audit Plan.**

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**

Internal Audit

DRAFT 2021/22 Plan

West Lindsey District Council

February 2021

Assurance
LINCOLNSHIRE
For all your assurance needs

West Lindsey
DISTRICT COUNCIL

Contents

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The Planning Process

Introduction

This report sets out the Internal Audit Plan as at 1st April 2021. The plan details the activities to be audited and the indicative scope for each audit. The draft plan gives you an opportunity to comment on the plan and the priorities that we have established.

Our audit plan delivers assurance within agreed resources. This remains the same as last year – 190 days. Our fees remain and reflect the rates included within the current agreement.

The plan is amended throughout the year to reflect changing assurance needs.

In Appendices A to E we provide for you information details of:

- Auditable Activities
- How the draft plan achieves the requirements of the Governance & Audit Committee and Head of Internal Audit
- Our Working Protocols and Performance
- Our Quality Assurance Framework

Developing the plan

The internal audit plan has been developed using various sources including our external intelligence, local knowledge and the meetings held with Assistant Directors and the Senior Management Team as a whole. **Figure 1** shows the key sources of information that has helped inform the plan.

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

- **Significance** - how important is the activity to the Council in achieving its objectives, key plans and in managing its key risks. We look at both financial loss and strategic impact.

- **Sensitivity** - how much interest would there be if things went wrong and what would be the reputational and political impact.

- **Level of Assurance –** we assess the current level of assurance evaluating reliability and contribution to the Head of Internal Audit annual opinion on governance, risk and control.

- **Time** – when it will happen (this will determine when is the best time to do the Audit).

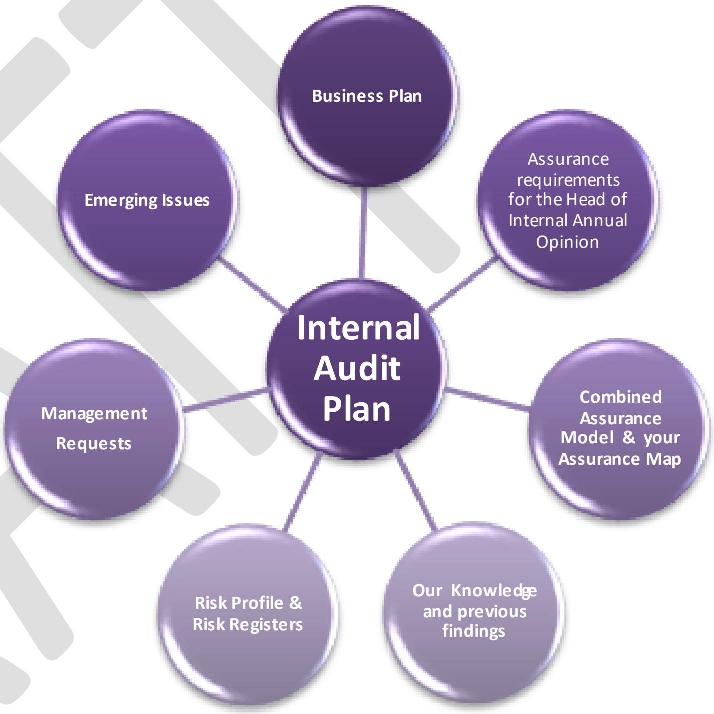

Figure 1 – Key sources of information

Updating the Plan

Through the year we will liaise with the Council and collect business intelligence that identifies emerging audits which could be included in the plan according to priority.

The primary source of business intelligence will be the regular liaison meetings between our team and the nominated liaison contact, other sources of intelligence will include:-

- Committee reports
- Performance and Risk
- Key stakeholders

Delivery and Focus

Delivering the Plan

The audit plan has been developed to enable us to respond to changes during the year. Whilst every effort will be made to deliver the plan, we recognise that we need to be flexible and prepared to revise audit activity – responding to changing circumstances or emerging risks. The plan is therefore a statement of intent – our liaison meetings with senior management will enable us to firm up audit activity during the year.

The aim is to deliver the audits included in the plan in accordance with the schedule which will be devised once the plan is agreed. The schedule will be drawn up following liaison with the various auditees and Assistant Directors. Resources will then be allocated accordingly to the audits at the specified times. It is therefore important that any changes required to the audits or the schedule are notified to Internal Audit as soon as possible to avoid abortive time being spent on audits and for us to reallocate resources.

The Council's Internal Audit Plan is **190 Days.** The core team who will be delivering your Internal Audit plan are:

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Audit Manager
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We will be using Senior Auditors from our Team to support the completion of the plan.

Audit Focus for 2021/22

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

The impact of Covid-19 on the public sector has been unprecedented, we will be carrying out some assurance work in this area during the last quarter of 2020/21and depending on the outcome of that work further work may be required during 2021/22. Our plan remains flexible to take account of these changing and emerging risks.

Appendix A outlines the various audits to be undertaken within each area. Appendix B contains those areas which we have not been able to include in the plan but management may wish to consider whether they should be included.

Area	Reason for inclusion
Financial Governance	Providing assurance that key financial controls are in place and operating effectively during the year across all areas of the Council. This work provides the Section 151 Officer with a key element of her assurance that the Council has effective arrangements for the proper administration of its financial affairs.
Governance & Risk	Providing assurance that key governance controls are in place and are operating effectively. These cross cutting audits focus on the Council's second line of assurance - corporate rather than service level systems.
Critical Activities	Our discussions with Senior Management Team identified some critical activities where a potential audit would provide independent assurance over the effectiveness of risk management, control and

Area	Reason for inclusion
	governance processes. The areas prioritised relate to Wellbeing, Flood Management and Carbon Management.
Project Assurance	There are a number of critical projects identified by the Council particularly relating to the implementation of new corporate systems. Our work will focus on two of these key projects.
ICT	Technology and associated threats and opportunities continue to evolve at a pace. The effectiveness of ICT 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. We are currently carrying out a detailed review of all ICT areas throughout our client base and will be drawing up a separate ICT Audit plan to ensure that our audit resources are used effectively at each client.
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 2022.
Consultancy Assurance	At the request of management we undertake specific reviews where they may have some concern or are looking for some advice on a specific matter or around governance, risk and controls for a developing system. Such reviews are not normally given an audit opinion.

Annual Internal Audit Opinion

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

Appendix A – Internal Audit Plan

Our current planned audits are listed below.

Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Financial Governance						
Key Control Testing	Delivery of key control testing to enable Head of Internal Audit to form an opinion on the Council's financial control environment.	N/A	N/A			
Grants awarded	To provide assurance that there are robust arrangements in place for the issuing of grants across the council and grant conditions are monitored and complied with	A	A			✓
Insurance	To provide assurance around the adequacy and effectiveness of processes within the insurance function	A	A			✓
Value for Money (VFM)	To provide assurance that the Council takes all reasonable steps to achieve Value for Money in the delivery of its services.					
Governance and Risk						
Strategic Risk - Inability to maintain critical services and deal with emergency events	To provide assurance that the processes in place to support the management of this strategic risk are operating effectively	A		✓		
Critical Activities						
Flood Management	To provide assurance that adequate arrangements are in place between the council and the LLFA to both prevent and respond to flooding - Client wide review	R	R			
Carbon Management	To provide assurance that the plans in place to tackle climate change are relevant, fit for purpose and achievable	A	A		✓	✓
Local Land Charges	To provide assurance over the operational arrangements in place with a core focus on performance management	A	A			✓
Wellbeing	Review of delivery and effectiveness of the Council's elements of the wellbeing contract. - Client wide review	A	A		✓	

Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Project Assurance						
Enterprise Resource Planning system	Consultancy review to advise and support on system controls during the implementation of this new system	A	R			✓
ICT (Joint with North Kesteven District Council)						
Disaster Recovery & Backup	To provide assurance that backups are robust, working effectively and that disaster recovery arrangements are in place and also periodically tested.	A	A			
Cloud/ Housed Services	Review of several cloud hosted solutions to ascertain the level of due diligence undertaken of selected providers and the adequacy of security arrangements in place	R	G			
Network Infrastructure & Security	Review of the network architecture and design from a security perspective to determine whether adequate security mechanisms are in place and operating effectively.	R	G			
Follow-up						
Follow-ups	To provide management with assurance that actions from previous key audits have been implemented and this has led to improved outcomes.					✓
Combined Assurance						
Combined Assurance	Updating the assurance map and completing the Combined Assurance report.			✓		✓
Days		150				

Non-Audit	
Advice and liaison	
Annual Report	
Audit Committee	
Review IA Strategy and Planning	
Attendance at Management Team	
Days	20

Grand Total	Total
Internal Audit Days	170
Housing Benefit Subsidy	20
Fee	£56,050

Appendix B –Areas not included in the current plan

Auditable Areas	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Critical Activities						
Property & Estate Management	To provide assurance over the arrangements in place for the strategic and operational management of the Council's land and buildings and the maintenance /improvement thereof.	A	A		✓	
Viable Housing Solution	Provide assurance that partnership arrangements are fit for purpose and corporate oversight is in place	A	A		✓	
Customer Services	Review of new customer experience policy to ensure it is fit for purpose and compliance	G	A			✓
Building Control	To provide assurance over the operational arrangements including the impact of potential changes in legislation.	A	A		✓	
Income collection & receipting	To provide assurance that the controls in place are working effectively	A	A		✓	
Commercial Waste	To provide assurance over the operational arrangements, objectives and targets are met.	A	A		✓	
Test & Trace Support Payments	To provide assurance that payments have been made accurately and that processes in place are adequate	R	R			

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

Appendix C – Cyclical Audits

The below shows our cyclical audits.

A new Enterprise Resource Planning (ERP) system is due to be implemented in 2021/22 which will replace the current finance system as well as extending into other areas such as performance and asset management.

System	Opinion	Last audited	Assurance Map Rating	Risk Score
Financial Due Diligence				
Income Collection & Cash Receipting	Substantial	2015/16	Amber	Amber
Bank	Substantial	2017/18	Green	Amber
Budgetary Control/Management	High	2018/19	Green	Amber
General Ledger	WIP	2020/21	Green	Amber
Budget preparation and Financial Strategy	High	2018/19	Green	Amber
Creditors	Substantial	2019/20	Green	Amber
Debtors	Substantial	2019/20	Green	Amber
Pensions	Substantial	2017/18	Green	Amber
Payroll & Human Resources	Substantial	2018/19	Green	Amber
Treasury Management	High	2020/21	Green	Amber
Property, Plant and Equipment	Substantial	2017/18	Amber	Amber
Council Tax	WIP	2020/21	Amber	Amber
Benefits	Substantial	2017/18	Green	Amber
Financial Resilience	High	2019/20	Green	Amber
Other Due Diligence				
Risk Management	Substantial	2016/17	Green	Amber
VAT/Tax	WIP	2020/21	Amber	Amber
Insurance	Substantial	2015/16	Amber	Amber

Grants	Substantial	2015/16	**Green**	**Amber**
Counter Fraud	Health Check	2017/18	**Green**	**Amber**
Contract Management	Substantial	2015/16	**Amber**	**Amber**
Equality & Diversity	High	2008/09	**Green**	**Amber**
Health & Safety	Substantial	2018/19	**Green**	**Amber**
Information Governance	Substantial	2017/18	**Green**	**Amber**
Corporate Governance	High	2020/21	**Green**	**Amber**
Partnerships	Substantial	2018/19	**Green**	**Amber**
Corporate plan/ Golden Thread	Substantial/ Limited	2019/20	**Green**	**Amber**
Business Continuity	Substantial	2010/11	**Amber**	**Amber**
Emergency Planning	Substantial	2010/11	**Amber**	**Amber**
NNDR	High	2017/18	**Amber**	**Amber**
Performance Management	Limited	2017/18	**Amber**	**Amber**
Project & Programme Management	Substantial	2019/20	**Green**	**Amber**

Appendix D – Head of Internal Audit's Opinion

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

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

Our Internal Audit Strategy

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

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

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

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

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

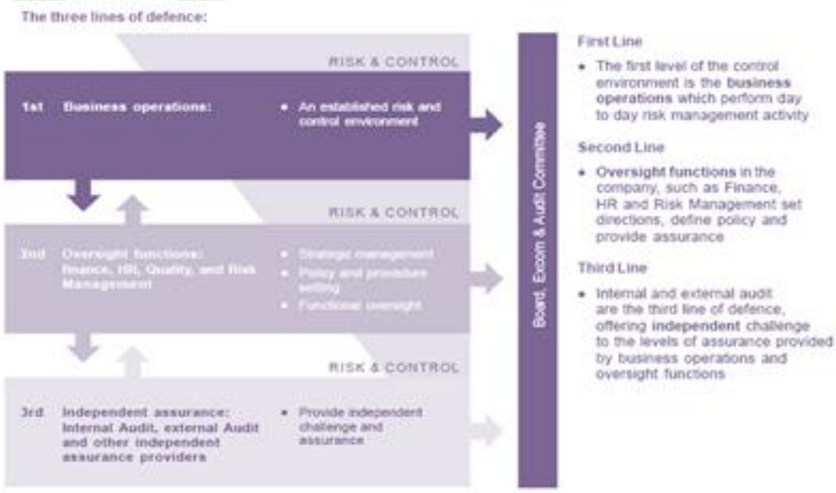


Figure 2 – The three lines of defence

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

Appendix E – Working Protocols

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

Our performance is monitored by the Director of Corporate Services 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).

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 or Teams to discuss and agree the terms of reference and scope of our work.
- We keep you informed of key findings during the audit and upon conclusion we hold a debrief meeting in person to discuss our findings and any outstanding issues.
- We communicate the results of our audit work in a clear and concise way – securing management action where control improvements are needed.

Weeks prior to fieldwork	-4	Notify key stakeholders of audit at least 4 weeks prior to fieldwork
	-0-4	Meet with Director or Business Manager (Audit Sponsor) to agree draft terms of reference (TOR) and obtain approval
Fieldwork		Initial meeting with auditees and audit sponsor
		Keep in regular contact with audit sponsor throughout the fieldwork
		Fieldwork completed
Weeks after fieldwork	+2	Draft report ready for internal review within 10 working days of fieldwork completing
	+3	Internal review
	+4	Draft issued within 5 working days of review
	+7	Closure meeting and Management response within 15 days of receipt of draft report
	+9	CMT review of draft
	+10	Final report issued within 5 days of management response

Appendix F – Our Quality Assurance Framework

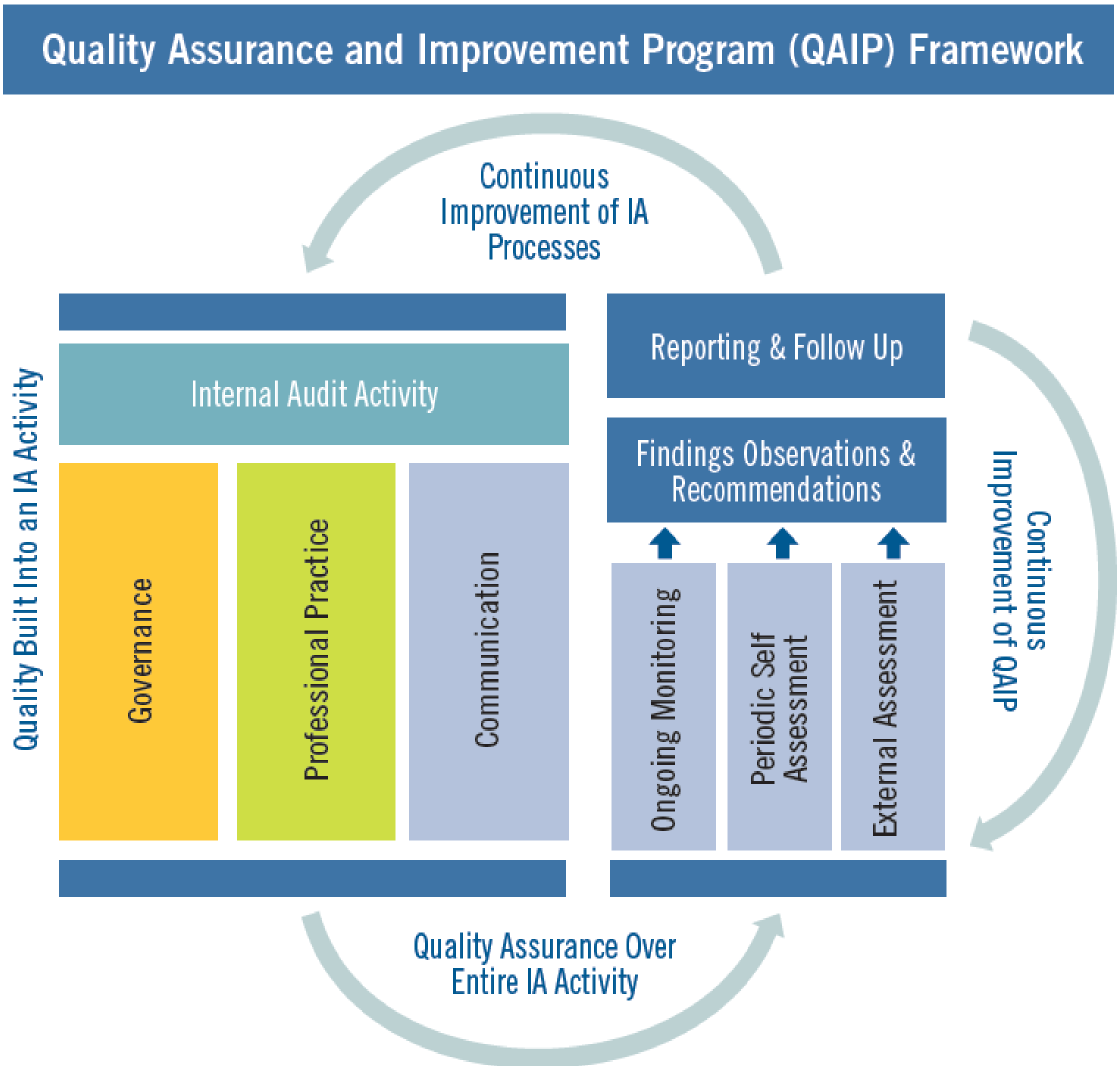
Quality is built into the way we operate – we have designed our processes and procedures to conform to best practice applicable to Internal Audit – in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

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 was reviewed in 2019 following the planned revision of the CIPFA Local Government Application Note.



For All Your Assurance Needs

**** DRAFT ****

ICT Audit Plan

Date: February 2021

What we do best...

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

...and what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

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

Assurance LINCOLNSHIRE
For All Your Assurance Needs

Contents

The contacts at Assurance Lincolnshire with this report are:

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ICT Audit Planning

Introduction

As part of our 2020/21 combined assurance work, we undertook a detailed review of ICT in order to create a proposed IT Audit plan.

The plans are presented over 3 years to give some indication of future intent. However, our audit plans are flexible and it is likely that risk profiles may change and that new, emerging risks, may present themselves. The ICT Audit Plan will be presented annually.

Developing the ICT Audit Plan

In order to create this plan we focused on mapping assurances against the ISO27001 IT security standard.

Through discussion, we examined each standard to identify what assurances were currently in place. These assurances were then categorised in accordance with the four lines of assurance.

- First Line – Business Management
- Second Line - Corporate Oversight
- Third Line - Internal Audit assurance
- Fourth Line- External Independent assurance

We assessed assurance on over 40 different aspects grouped into the following areas:

- Governance
- Infrastructure
- Operations
- Projects
- Applications
- Compliance Elements (e.g. PSN, PCI-DSS)
- Emerging Risks

ICT Audit Planning

The outcome of our Combined Assurance work was as follows:

High Assurance (Green) – 95%
Medium Assurance (Amber) – 5%
Low Assurance (Red) – 0%

The proposed ICT Audit plans are presented in Appendix A below.

High: Controls in place assessed as adequate/effective and in proportion to the risks.

Medium: Some areas of concern over the adequacy/effectiveness of the controls in place in proportion to the risks'

Low: Significant concerns over the adequacy/effectiveness of the controls in place in proportion to the risks

Annual Evaluation

The assurance map is an evolving document and although it has been used to develop a proposed ICT Audit plan it will be reviewed and updated annually to reflect the current risks and assurances affecting the organisations.

Disclaimer

The matters raised in this report are only those which came to our attention during our internal audit work. Our quality assurance processes ensure that our work is conducted in conformance with the UK Public Sector Internal Audit Standards and that the information contained in this report is as accurate as possible – we do not provide absolute assurance that material errors, fraud or loss do not exist.

This report has been prepared solely for the use of Members and Management of North Kesteven District Council and West Lindsey District Council. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose. The Head of Audit is only responsible for the due professional care in developing the advice offered to managers on risk, control and governance issues. Where managers accept our advice they accept the accountability for the consequences of implementing the advice. Internal Auditors working in partnership with managers during the consultancy assignment will not take part in any sign off decision.

Appendix A – ICT Audit Plan

2020/21 – Year One

Audit Area	Indicative Scope
ICT Disaster Recovery & Back-Up	Data backup and recovery is the process of backing up your data in the event of a loss and setting up secure systems that allow you to recover your data as a result. Data backup requires the copying and archiving of computer data to make it accessible in case of data corruption or deletion. The review will seek to provide assurance that backups are routinely taken and tested to confirm that a successful recovery can occur and that disaster recovery arrangements are in place and also periodically tested.
Cloud/Housed Services	Review of several cloud hosted solutions to ascertain the level of due diligence undertaken of selected providers, the security arrangements in place and how the arrangements compare to the Cloud Security Principles framework put forward by the National Cyber Security Centre.
Network Infrastructure & Security	Review of the network architecture and design from a security perspective to determine whether adequate security mechanisms are in place and operating effectively. The planned review will encompass the design and configuration of key elements of IT infrastructure which protect access to data, plus the policy and procedures that provide guidance on how network security should be managed by both the IT department and users.

Appendix A – ICT Audit Plan

2021/22 – Year Two

Audit Area	Indicative Scope
Network Access Controls: Internal Network Users	Review of arrangements to provide access to new starters, amend permissions for changes in duties and revocation of access for staff leaving the authority. The review will also examine the controls and effectiveness of the application used to automate elements of starters and leavers process.
Network Access Controls: Supplier Access	Review of the governance and technical arrangements to provide supplier access to Council systems.
Network Access Controls: Privileged Account Management	Review to confirm that the allocation and use of privileged access rights is restricted and controlled. Inappropriate use of system administration privileges (any feature or facility of an information system that enables the user to override system or application controls) is a major contributory factor to failures or breaches of systems.

Appendix A – ICT Audit Plan

2022/23 – Year Three

Audit Area	Indicative Scope
Cyber Security	The National Cyber Security Centre (NCSC) has identified 10 steps for cyber security to help organisations manage cyber risks. The review will cover these 10 steps, albeit at a high level, with a view to confirming that appropriate consideration has been given to these areas. Cyber Security and data security has been one of the Institute of Internal Auditors (IIA) top three priority risks identified in their Risk in Focus publications over the past five years. It is documented as the number one priority risk for 2021, and this trend is expected to continue for the next three years.
Patch Management	The review will focus on the patching of software used by Council, and the firmware used in its infrastructure, is kept up to date and safe against known exploits.

Agenda Item 6f

	Governance & Audit Committee
	9 March 2021

Subject: Internal Audit Quarter 4 Progress Report 2020/2021

Report by:	Lucy Pledge (Head of Service – Corporate Audit & Risk Management – Lincolnshire County Council)
Contact Officer:	Alan Robinson – Monitoring Officer alan.robinson@west-lindsey.gov.uk
Purpose / Summary:	The report gives members an update of progress, by the Audit partner, against the 2020/2021 annual programmes agreed by the Audit Committee in March 2020, and amended in June 2020.

RECOMMENDATION(S):	1) **Members consider the content of the report and identify any actions required.**

IMPLICATIONS

Legal: None directly arising from the report

Financial: None directly arises 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**

Internal Audit
DRAFT Progress Report

West Lindsey District Council
March 2021

Assurance LINCOLNSHIRE
For all your assurance needs

West Lindsey DISTRICT COUNCIL

Contents

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Introduction

The purpose of this report is to:

- Provide details of the audit work during the period November 2020 to February 2021
- Advise on progress of the 2020/21 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

During the period we have issued five reports and we have two audits at draft report stage.

We have reviewed our resources and the logistics around the delivery of the remainder of the plan, and we have agreed with Management to postpone our annual review of Follow ups until 2021/22. We continue to monitor audit actions as part of our quarterly reporting to this committee.

Work completed

The following audit work has been completed and a final report issued:

Assurances

- Key Project: Waste Depot – High Assurance
- Public Services Network (PSN) Compliance (joint review with NKDC) – High Assurance
- Email Security – Substantial Assurance
- Homelessness - Substantial Assurance
- Strategic Risk: Inability to raise local educational attainment & skills levels – Substantial Assurance

2
HIGH ASSURANCE

3
SUBSTANTIAL ASSURANCE

0
LIMITED ASSURANCE

0
LOW ASSURANCE

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

High Assurance

Key Project – Waste Depot

Overall, we can provide a high level of assurance that a clearly defined approach to the Waste Depot Project, that is in line with the WLDC Project Management Framework, exists.

- A comprehensive Business Case is in place, approved by Corporate Policy and Resources Committee, that clearly outlines the reason and overall objective of the project,.
- Governance and management arrangements for the Project are firmly established with regular, effective monitoring and reporting on Project delivery to both the Land Property and Growth Programme Board and Portfolio Board.
- A Project Group has been formed which includes members from relevant areas of the Council fully supported by the Performance and Programmes Team.
- Project Group meetings are held monthly, providing regular updates on the project.
- Outcomes and deliverables of the project have been identified and documented, together with how the project aligns with the Themes of the Corporate Plan. Our review confirms benefits of the project have also been established and documented, however work is ongoing to determine how they will link to the outcomes/deliverables, how they will be measured and responsibility for monitoring and reporting on their progress.
- Risks of the Waste Depot Project, including those specifically relating to procurement, have been determined and documented, with their likelihood and impact, controls and risk owners clearly identified.
- Key stakeholders have been identified and are outlined in the PID. We found regular engagement with stakeholders was clearly demonstrated.
- A detailed Communications Plan has been developed, clearly setting out its objectives, target audience, risks and how key messages will be communicated .
- Timescales and milestones for delivery of the project are regularly monitored.
- A Procurement Strategy outlines the procurement timetable and individual activities from issue of project brief to contract completion.
- Quality checks are carried out throughout the process to provide ongoing assurance to stakeholders that the project is being delivered on time, in budget and to required standards.
- A Change Management Agent has been appointed to ensure the efficient transfer of staff from existing sites to the new central depot.
- Staff, HR, and unions have been kept fully informed and consulted on all aspects relating to the transfer of staff to the new central depot

We have made one recommendation around the linkage of outcomes and deliverables to the benefits of the project and made a further three advisory points.

High Assurance

PSN Compliance (Joint audit with NKDC)	The Public Services Network (PSN) compliance process exists to provide assurance that shared services and access to data is adequately protected by all who connect to the network. Both West Lindsay and North Kesteven District Councils successfully submitted to the PSN Council in 2020, and are measured as compliant until April 2021, when a new submission will be performed. From the outset of this review, the ICT Team demonstrated a proactive approach to PSN compliance, with the implementation of effective controls and ongoing processes. This was evidenced via detailed process walkthroughs and subject matter discussions, supported by relevant documentation and system/console screenshots. During the course of this review, the ICT Team demonstrated good technical knowledge of the many elements that must be addressed when submitting a connection request to the Public Services Network, also demonstrating an understanding that compliance is not just an annual event, it is something that requires ongoing maintenance, coupled with appropriate policies and processes, strong controls and team members who fully understand the relevance of the subject matter.

Substantial Assurance

Email Security	WLDC succeeds in utilising some of the advantages of the hybrid email model, as identified as areas of good practice during the review. However, we noted that the full potential of the multi-layered security model to the hybrid email deployment has not been reached. The next steps in the upgrading of email security at WLDC are mainly related to the implementation of the available cloud email security controls. These controls will provide an additional layer of security and further reduce the email attack surface at WLDC.

Substantial Assurance

Homelessness

The Council continues to put in place appropriate measures which ensure successful implementation of the Joint Lincolnshire Homelessness Strategy and its local homelessness delivery plans. The achievement of the homelessness prevention targets is improving and overall, we are satisfied that the Council is fulfilling its statutory obligation.

Based on the audit work undertaken, we have given a Substantial level of assurance and this is supported by several factors including:-

- Senior Management Team and relevant Committee members critically review the performance indicators and there is a clear target setting process
- There has been a review of the resources allocated to the service which has led to allocation of additional human and financial resources to support the homelessness activity
- Effective joined up working arrangements with other internal teams including the Discretionary Housing Payments and the Housing and Enforcement services.
- Prioritisation in the provision of housing support to the residents who are at risk of becoming homeless
- Sufficient training arrangements are in place which ensure key staff involved in the day to day management of the homelessness activity are aware of the changes in the regulation and emerging issues

We have identified some areas where improvements are needed to ensure:-

- Improved performance outturn and achievement of targets, correct measurement of the key performance indicators
- Preparedness for the second wave of Covid-19 in order to ensure a pro-active response.
- The Home Choices' Service and Business Improvement plan is reviewed and regularly updated to ensure its completeness and reflects the emerging issues.
- Provision of sustainable landlord support to address the repeated tenancy breaches caused by problematic tenants who are highly exposed to a risk of eviction.

Substantial Assurance

Strategic Risk – Inability to raise local educational attainment and skill levels

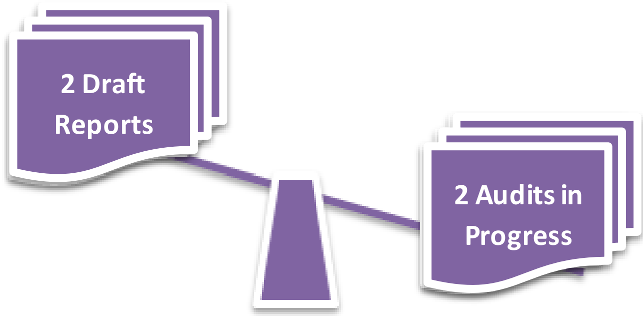
To carry out this review we met with the Communities Manager and the Senior Project and Growth Officer and viewed documentation they provided. From these discussions and review of evidence we are able to give a substantial assurance opinion.

We found that:

- The Employment & Skills Partnership (ESP) had a Strategy and delivery plan which ended in September 2020. Many of the activities had been achieved but due to the pandemic outstanding work on the delivery plan has understandably stalled. From reviewing meeting minutes we found that most of the partners regularly attend the meetings and are working well together to deliver the plan
- WLDC have appointed a Member who is Champion for Employment & Skills and is invited to attend the ESP meetings. She supports the partnership by attending careers events at the schools and offers mentoring to students
- The Senior Project and Growth Officer has an annual appraisal with targets set including around the ESP. Regular one to ones are held with her line manager with performance being reported against these targets, against the delivery plan and the corporate plan.
- There is effective stakeholder engagement by the team utilising a wide network of organisations from the Department for Work & Pensions, training providers and local businesses who want to establish training in the area so they are able to employ skilled staff. The team are proactive in their engagement.
- The team have strong links with schools and colleges carrying out mentoring, working with them on their careers curriculums and working towards better Ofsted reports where appropriate. This partnership working is directly supporting the Council's strategic objectives.

We did find two areas where improvements could be made. These are:

- Increased strategic direction from senior management at WLDC. Having a strategic remit from them would help the Officer focus her work to achieve the Council's corporate plan. There should also be regular reporting to Members and management on the work being carried out to achieve the objectives.
- The Communities Team is a small team and although there is capacity to deliver the current projects, with partners taking on responsibility for work on specific projects, there will not be the capacity to deliver larger projects within the current resources. If the Council were to look at delivering such projects then the capacity to do this should be considered.



Audit reports at draft

We have two audits at draft report stage:

- Crematorium
- Key Project CRM

Work in Progress

We have the following audits in progress from the 2020/21 plan:

- ICT Helpdesk – Fieldwork stage
- Key Controls testing – Fieldwork stage

Other Significant work

Combined Assurance

As part of the Annual Combined Assurance process we have now completed the discussions with relevant staff across all Council. Critical activities, key risks, key partnerships and key projects have been identified and assessed through our risk scoring process and rated Red, Amber or Green (RAG). This enables a clear visual map of assurances across the organisation to be created. The results of this have been reported to senior management and the Combined Assurance report is in the process of being produced for presentation to this committee.

Housing Benefit 40+ testing

We have supported the Council with the completion of cases as part of Housing Benefit 40+ testing. This testing is completed on behalf of External Audit in order to support the annual Housing Benefit Subsidy claim.

Benchmarking

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

Performance on Key Indicators as at 31 January 2021

These key performance indicators are based on the 2020/21 audit plan commencing in Q2 and work being completed across three quarters of the year.

Performance Indicator	Year-end Target	Standard Profile Target*	20/21 Profile Target**	Actual as at 31 January 21
Percentage of revised plan completed	100%	83%	77%	78%
Percentage of recommendations agreed	100%	100%	100%	100%
Percentage of recommendations implemented (of those due)	100% or escalated	100%	100%	77%

There were 13 actions due this period – 10 had been implemented

Definitions

*Standard profile target – This is the usual target where audits are scheduled and completed across 12 months

**20/21 profile target – This is the target based on the plan commencing in Q2 and work being completed across 9 months. This profile target does not take into account any Covid- 19 related delays

Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

CIPFA - Facing up to COVID-19 in the public sector

The COVID-19 pandemic presented an unprecedented challenge to public bodies. This created a challenge for public sector heads of internal audit who had to balance supporting their organisation and the wider public interest with their need to provide assurance to the leadership team and Committees as well as maintaining their professional standards.

This publication includes examples of how some internal audit teams have responded to the challenges providing some lessons to share and helping the leadership team and Committee understand the role and potential of internal audit.

Summary of the Key learning points for Maintaining effective engagement with clients, the leadership team and the audit committee

- Be proactive in putting forward suggestions in how internal audit can help.
- Make it your business to find out how the governance of your organisation's response to the crisis is being managed.
- Consider how advisory work may contribute to the head of internal audit's annual opinion.
- Consider opportunities to place reliance on other sources of assurance within the first and second lines.
- Consider how the organisation has maintained wider governance arrangements that impact on the work of internal audit.
- Prompt audit reporting and good planning and focused scoping of work.
- Consider the use of shorter report templates with focused outcomes to enable a quicker response.
- Keep the audit committee informed of your work at regular intervals.
- Discuss with your audit committee chair what information they would most value to support them in their role.

The full report can be found through this link: [Facing Up to COVID-19 in the Public Sector | CIPFA]

Summary of Key Questions for Audit Committee members to ask

1. Has the internal audit service redeployed any staff during 2020/21 to support COVID-19 related activity?
2. What impact have these had on the overall operation of the internal audit service?
3. Have key organisational risks been subject to internal audit review during 2020/21?
4. Has internal audit been able to follow up recommendations, any areas of concern?
5. Is there sufficient audit resource to deliver an internal audit opinion at the end of the year?
6. Will the head of internal audit be able to take assurance from any second line functions?
7. Which audit areas have been deferred or cancelled and the potential impact?
8. Has the head of internal audit been able to keep up to date with changes in the organisation's COVID-19 governance processes?
9. Is senior leadership providing the audit committee with regular information around key risks and governance developments arising from COVID-19?
10. Does the internal audit team need to undertake a skills assessment to ensure the skills mix is appropriate in a changing environment?

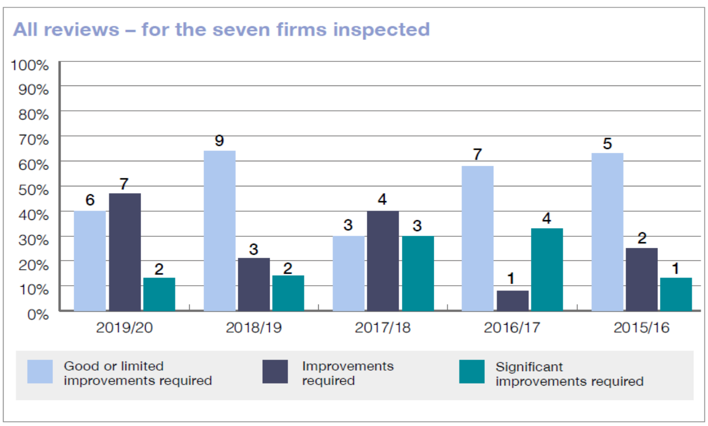
Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

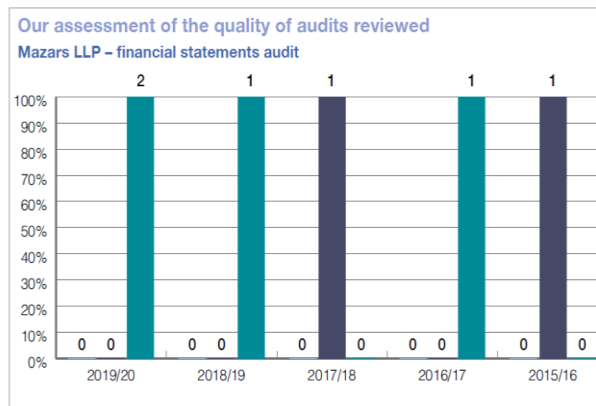
Financial Reporting Council - Major Local Audits -Audit Quality Inspection

The Financial Reporting Council is responsible for monitoring the quality of Major Local Audits. The reports sets out it's findings arising from the 2019/20 inspection of 7 audit firms completing major local audits in England.

The overall assessment results were :-



The result for Mazars was:-



Both audits selected for Mazars required significant improvement and was shown as being unacceptable, following a trend of poor inspection results. It gave the key areas of quality to focus on as audit of property valuations, group audit oversight and ensuring sufficiency of testing on income and receivables and expenditure.

Each accountancy firm provided a detailed response. Mazars response was:
Our commitment to audit quality is at the core of our values and we are dedicated to the continuous improvement of our audit work and the service we provide to our audit clients. Whilst we are pleased with the results of the AQR's reviews of our work on Value for Money conclusions (which show only limited improvements identified for a number of years), we are disappointed with its findings on our work on the audit of the financial statements at 2 of our local audit clients. The firm will robustly respond to the findings and has plans in place to improve the quality of our local audit work.

We have prepared a Local Audit Quality Plan, which is a sector-specific element of our firm-wide Audit Quality Plan. These draw together information on risks to audit quality from a range of sources including quality monitoring findings, changes to auditing and financial reporting standards, and feedback from auditors. The Local Audit Quality Plan has also taken account of the AQR's findings and emerging audit quality risks arising from the update of Practice Note 10 and the National Audit Office's Code of Audit Practice. This plan will be maintained by the firm's Audit Quality Team and subject to oversight from our Audit Board.

The full report can be found at https://www.frc.org.uk/getattachment/da3446de-8d37-4970-828d-e816d7c0826c/FRC-LA-Public-Report-30-10-20.pdf

Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

Internal Audit Standards Advisory Board – Conformance with the Public Sector Internal Audit Standards (PSIAS) during the coronavirus pandemic

This guidance has been produced to support internal audit within the public sector in it's compliance with the Public Sector Internal Audit Standards. It recognises the difficulties being experienced during the pandemic and the effects this could have on conformance with the PSIAS.

The guidance sets out some examples of how Internal Audit can protect organisational value and the challenges it might face in applying the standards. It sets out 7 key steps which the Head of Internal Audit should take.

A full copy of the document can be provided on request.

Assurance Definitions

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

Details of overdue Audit Actions at 31 January 2021

Activity	Issue Date	Assurance	Total Agreed Actions (High/Med)	Agreed Actions (AA's) Implemented	Priority of Overdue Agreed Actions		AAs not due
					High	Med	
Programme & Project Management	April 2020	Substantial Assurance	12	9	0	2	1
Key Controls Debtors & Creditors	Sept 2020	Substantial Assurance	11	10		1	

Details of the overdue Agreed Actions for all audits at 31 January 2021

Audit	Priority	Agreed Action	Owner	Original due date	Current due date	Comments
Programme & Project Management	Medium	P3M3 maturity model assessments to be implemented for all programmes	Team Manager Performance & Programmes	Dec 2020	Nov 2021	Portfolio Board agreed to postpone with a review in the Autumn 2021
Programme & Project Management	Medium	Stakeholder Management Strategy will be reviewed	Team Manager Performance & Programmes	Dec 2020	May 2021	This review is scheduled to take place in May 2021.
Key Controls Debtors and Creditors	Medium	Financial Procedure rules will be updated to reflect consistency in the write off levels	Section 151 Officer	Sept 20	May 2021	This update has been aligned with the full review of updates to the constitution which will be completed in readiness for May 2021 Full Council

Appendix 3 2020/21 Audit Plan to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
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.	Q2 July – Sept 2020	September 2020	January 2021	Substantial Assurance
Homelessness	The homelessness strategy is delivered to achieve targets on prevention and that statutory obligations are fulfilled.	Q2 July – Sept 2020	August 2020	January 2021	Substantial Assurance
Treasury Management	Provide Assurance on the Councils Treasury Management processes and controls around borrowing, investment and cash flow.	Q2 July- Sept 2020	August 2020	Novemb er 2020	High Assurance
Housing Benefit Subsidy	Test a sample of benefit cases on behalf of the external auditor to provide assurance on the subsidy claimed by the Council.	Q2 July- Sept 2020	July 2020	August 2020	High Assurance
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.	Q2/ Q3 July- Dec 2020	November 2020	January 2021	Completed
Key Project – Waste Depot	Provide assurance over the management and delivery of the Council's key project	Q3 Oct- Dec 2020	November 2020	January 2021	High Assurance
Key Project – CRM (Customer Relationship Management System)	Provide assurance over the management and delivery of the Council's key project	Q3 Oct- Dec 2020	October 2020		Draft report
Crematorium	Provide assurance that the operational arrangements for the Crematorium are robust effective and efficient	Q3 Oct- Dec 2020	September 2020		Draft report

Appendix 3 2020/21 Audit Plan to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
ICT – PSN Compliance	Joint review with NKDC to review the Council's compliance with standards and best practice	Q3 Oct- Dec 20	October 2020	January 2021	High Assurance
ICT – Email Security (2019/20)	To review the Councils compliance with standards and best practice	Q3 Oct- Dec 20	October 2020	January 2021	Substantial Assurance
Key Controls Testing – General Ledger, Council Tax & VAT	To provide assurance that key controls are in place and operating effectively	Q4 Jan – Mar 20	November 2020		Fieldwork
ICT Helpdesk	Joint review with NKDC to review the effectiveness and efficiency of the helpdesk The previously unallocated ICT days have been added to this review to enable a deeper dive into Performance & Delivery	Q4 Jan – Mar 20	November 2020		Fieldwork
Covid 19 Business Grants	To provide assurance over claims in relation to the Small Business Grant Fund (SBGF) and Retail, Hospitality and Leisure Grants (RHLG).	Q4/Q1 Mar- Jun 21			
Together 24	To provide assurance over the governance arrangements in place	Q4 Jan – Mar 21			

Appendix 4 Record of changes to the Internal Audit Plan 2020/21

Removal of audits from the Plan			
Audit	**Rationale**	**Change**	**Approval**
Key Project – Enterprise Resource Planning System (ERP) (10 days)	The Council was due to sign a contract for the implementation of an ERP finance system on 31.3.2020, however, due to the Covid-19 pandemic and the uncertainty around the financial impacts, Management Team made the decision to put the project on hold.	Deferred until 2021/22. Days will be allocated to other areas of focus – to be agreed	Governance & Audit Committee - 16th June 2020
ICT – ERP system (10 days)	The Council was due to sign a contract for the implementation of an ERP finance system on 31.3.2020, however, due to the Covid-19 pandemic and the uncertainty around the financial impacts, Management Team made the decision to put the project on hold.	Deferred until 2021/22. Days will be allocated to other areas of focus – to be agreed	Governance & Audit Committee - 16th June 2020
Wellbeing Lincs (8 days)	Joint review with NKDC and ELDC. Both ELDC & NKDC have also agreed to postpone this review. Wellbeing Lincs has been and remains pivotal during the Covid-19 pandemic and continues to work very closely with the community and other partners. Consideration to defer this review to 21/22 will allow the service to focus on the recovery phase and our audit can then review the effectiveness of the Council's elements of the contract during and post Covid-19.	Deferred until 2021/22. Days will be allocated to other areas of focus – to be agreed	Governance & Audit Committee - 16th June 2020

Appendix 4 Record of changes to the Internal Audit Plan 2020/21

Removal of audits from the Plan			
Audit	**Rationale**	**Change**	**Approval**
Audit Follow up work	As part of our quarterly reporting we follow up on all audit actions however the deep dive review of all 2019/20 limited assurance areas will be deferred until 2021/22 to allow our resources to focus on completion of audits.	Deferred until 2021/22 2020/21 Audit plan reduced by 10 days	Director of Corporate Services

Appendix 4 Record of changes to the Internal Audit Plan 2020/21

Addition of audits to the plan			
Audit	**Scope**	**Change**	**Approval**
Covid 19 Business Grants	*The purpose of this audit is to provide assurance over claims in relation to the Small Business Grant Fund (SBGF) and Retail, Hospitality and Leisure Grants (RHLG).* Our review will focus on the end-to-end process of the business grant funding from receipt of application to issue of payment and any post-event assurance undertaken. We will review a sample of applications received, undertaking due diligence on banking, business and applicant details.	Addition	Management Team
Together 24	*To provide assurance that the Governance arrangements are effective* Together 24 is the new transformational programme which aims to deliver its objectives via a series of technology-led service reviews in all front and back office service areas, it follows the closure of the Customer First programme	Addition	Director of Corporate Services

Governance and Audit Workplan as at 1 March

Purpose:
This report provides a summary of reports for Governance and Audit Committee.

Recommendation:
1. That members note the workplan

Date	Title	Lead Officer	Purpose of the report	Date First Published
13 APRIL 2021				
13 Apr 2021	CIPFA FINANCIAL MANAGEMENT CODE	Tracey Bircumshaw, Assistant Director of Finance and Property Services and Section 151 Officer	The Chartered Institute of Public Finance & Accountancy (CIPFA) has introduced a new code, The Financial Management Code 2019 (FM Code), which sets out for the first time, the standards of financial management for local authorities. The report provides Members assurance that the Council will be compliant for 2021/22	
13 Apr 2021	Annual Constitution Review and Monitoring Officer Report	Katie Storr, Senior Democratic & Civic Officer	To report to G and A, and then onto Council	
15 JUNE 2021				
15 Jun 2021	Unaudited Statement of Accounts 2020-21	Caroline Capon, Corporate Finance Team Leader	Unaudited Statement of Accounts 2020-21	04 January 2021
15 Jun 2021	Certification of Grants & Returns	Caroline Capon, Corporate Finance Team Leader	Review of the Certification of Grants and Returns	08 June 2020
15 Jun 2021	Review of Whistleblowing Activity	James Welbourn,	Yearly update report	

Page 187

Agenda Item 7

		Democratic and Civic Officer		
20 JULY 2021				
20 Jul 2021	Report to those charged with Governance - EXTERNAL AUDIT COMPLETION REPORT - ISA 260	Caroline Capon, Corporate Finance Team Leader	To present to those charged with governance, the External Audit report on the quality of the Statement of Accounts and Annual Governance Statement 2020/21.	04 January 2021
20 Jul 2021	Annual Fraud Report 2020/21	Tracey Bircumshaw, Assistant Director of Finance and Property Services and Section 151 Officer	To present to members work undertaken to mitigate fraud, report on any instances of fraud and action plan for 2021/22	
20 Jul 2021	Report on Progress Against the Committee's Effectiveness Action Plan	James O'Shaughnessy, Corporate Policy Manager & Deputy Monitoring Officer	To provide Members with an update on progress made against the Committee's effectiveness action plan	
20 Jul 2021	Audited Statement of Accounts	Caroline Capon, Corporate Finance Team Leader	Audited Statement of Accounts	04 January 2021
11 JANUARY 2022				
11 Jan 2022	Draft Treasury Management Strategy 2022-23	Caroline Capon, Corporate Finance Team Leader	Draft Treasury Management Strategy	
8 MARCH 2022				
8 Mar 2022	Accounts Closedown 2021/22 Accounting Matters	Caroline Capon, Corporate Finance Team Leader	To review and approve the accounting policies, actuary assumptions and materiality levels that will be used for the preparation of the 2021/22 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 2021/22.
8 Mar 2022	External Audit Strategy Memorandum (Plan) for 2021/22	Caroline Capon, Corporate Finance Team Leader	To present the 2021/22 External Audit Strategy from our External Auditors, Mazars.