Public Document Pack

West Lindsey District Council

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AGENDA

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

Governance and Audit Committee
Tuesday, 8th March, 2022 at 10.00 am
Council Chamber - The Guildhall

This Meeting will be available to watch live via: 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 Christopher Darcel
Councillor Mrs Caralyne Grimble
Councillor Mrs Angela White
Alison Adams
Andrew Morriss
Peter Walton

1. **Apologies for Absence**

2. **Public Participation Period**
   Up to 15 minutes are allowed for public participation. Participants are restricted to 3 minutes each.

3. **Minutes of Previous Meeting** (PAGES 3 - 9)
   To confirm and sign as a correct record the Minutes of the Meeting of the Governance and Audit Committee held on Tuesday 11 January 2022.

4. **Members Declarations of Interest**
   Members may make any declarations of interest at this point but may also make them at any point during the meeting.

5. **Matters Arising Schedule** (PAGE 10)
Matters Arising schedule setting out current position of previously agreed actions as at 28 February 2022.

6. **Public Reports for Consideration**

i) Internal Audit Draft Annual Plan Report 2022/23 (PAGES 11 - 36)

ii) Auditor's Annual Report (Year Ended 31 March 2021) (PAGES 37 - 60)

iii) External Audit Strategy Memorandum (Plan) 2021/22 (PAGES 61 - 101)

iv) Closedown Matters 2021/22 (PAGES 102 - 156)

7. **Workplan** (PAGES 157 - 159)

Ian Knowles
Head of Paid Service
The Guildhall
Gainsborough

Monday, 28 February 2022

WEST LINDSEY DISTRICT COUNCIL

MINUTES of the Meeting of the Governance and Audit Committee held in the Council Chamber - The Guildhall on 11 January 2022 commencing at 10.00 am.

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 Andrew Morriss
In Attendance:	
Tracey Bircumshaw	Assistant Director of Finance and Property Services and Section 151 Officer
Alistair Simson	Principal Auditor, Lincolnshire County Council
Amanda Hunt	Principal Auditor, Lincolnshire Audit
Emma Redwood	Assistant Director People and Democratic Services
Emma Bee	Audit Manager
Michael Norman	Auditor Mazars
Mark Dalton	Auditor Mazars
Cliff Dean	ICT Manager
Katie Storr	Democratic Services & Elections Team Manager
Andrew Warnes	Democratic & Civic Officer
Apologies:	Councillor Christopher Darcel Alison Adams Peter Walton
Membership:	No substitutes were appointed.

41 PUBLIC PARTICIPATION PERIOD

There was no public participation.

42 MINUTES OF PREVIOUS MEETING

A Member of Committee raised that his representation about his attendance at the committee, due to changing the meeting time, had not been not recorded properly. Further concerns were raised that the change in time had not been properly notified at previous meetings of the committee.

In light of these comments the following amendment was proposed, and duly seconded:

"That point 40 in the Minutes of the previous Meeting of the Governance and Audit Committee held on 9 November 2021 be corrected to reflect the point raised."

On being put to the vote the amendment was unanimously supported and on that basis it was:

RESOLVED that the Minutes of the previous Meeting of the Governance and Audit Committee held on 9 November 2021, as amended, be approved, and signed as a correct record.

43 MEMBERS DECLARATIONS OF INTEREST

There were no declarations of interests made at this point in the meeting.

44 MATTERS ARISING SCHEDULE

With the only comment from the Chairman expressing gratitude to Council for agreeing with the committee's request to send a letter regarding standards, the Matters Arising Schedule was duly **NOTED**.

45 INTERNAL AUDIT QUARTER 3 REPORT 21/22

Members considered the Internal Audit Quarter 3 Report 21/22 by Assurance Lincolnshire against the 2021/22 annual programmes agreed by the Governance and Audit Committee in March 2021.

The Report was introduced by Amanda Hunt. In the presenting report, the Officer highlighted to the Committee that two assurance audits had been completed during the period.

- Local Land Charges, which was given a 'High' assurance.
- ICT Helpdesk, which was given a 'Limited' assurance.

Of the revised plan, 50% had been completed.

Whilst Committee were advised that the Audit Plan was slightly behind target assurance was offered that it was still anticipated all work would be completed by the conclusion of Quarter 4 as planned. Notice was given regarding seven audits currently in progress with two of these at draft report stage.

The seven which were currently in progress, included:

- A follow-up on Vulnerable Communities, which was at the draft report stage.
- A follow-up on Golden Thread, which was at the draft report stage.
- A report on Insurance, which was at the fieldwork stage.
- A report on the ICT Network infrastructure, which was at the fieldwork stage.
- A report on Strategic Risk, which includes an inability to maintain critical services and deal with emergency events, which was at the fieldwork stage.

- A report on Flooding, which was in the Terms of Reference process.
- A report on the Key Project Enterprise Resource Planning System, with the review underway.

There had been some changes to the plan as priorities had changed during the year. The Wellbeing Audit had been postponed, and was replaced by a report on the certification of the flood grants. The Plan also now included a planned follow-up audit of the ICT Helpdesk, due to the limited rating. The Value for Money audit previously placed on hold would now take place in quarter 4.

The combined assurance work had commenced in the period and the report was expected to be considered by the Committee at its next meeting.

Finally, the Officer advised Committee that there were no overdue actions to report.

Debate ensued on the contents of the report, with Members questioning multiple aspects, and giving statements on the report.

During this session, the ICT Manager was asked to address the Committee. There should have been Authority specific gradings in the report, specifically on page 14. The ICT Manager explained that this report only looked at specific parts of this process managed by the ICT service, not every aspect of work undertaken.

Members enquired as to whether the Key Performance Indicators (KPIs) in this audit were made with the collaboration of the Corporate Policy and Resources Committee prior to this decision to include the Helpdesk in this report. It was stated that the ongoing KPI dashboards were present to each Authority's partnership meetings, since the meetings were Officer led. Members also learnt that the 70% reduction in the number of ICT Helpdesk tickets was based on the original 700 tickets figure.

In response to concerns raised about the lack of data in the report, it was stated to Members that there were only specific factors that were looked into, such as the set procedures for IT Helpdesk tickets. Regarding Members concerns over the 'no performance indicators' issue, it was explained by one of the audit officers that there were no indicators on that specific area.

The ICT Manager stated that the IT Service was happy with to work with Internal Audit to review their area to improve the service for both Authorities. He also highlighted the rise in service satisfaction year on year.

To facilitate the planning of the next round of internal and external audits, Members were reminded to make their representations to the Assistant Director People & Democratic Services. Similarly, in the actions of responding to the Climate Change work in Quarter 4, Members were also reminded to make their representations to the Assistant Director People & Democratic Services regarding the Authority's response. Members were advised to do so as soon as possible, as this was currently in discussion, had scope for comments, and was scheduled to be in the next report.

Members learnt that the postponement of wellbeing in this year's audit would mean it would be included in next year's planned audits, as the rise of COVID-19 cases had affected the response to the audit.

Finally, during this item, Members conferred about the usage and training of microphones during meetings, with the Vice Chairman pointing out a technique to attain better understandability within the chamber. The Chairman noted this as a formal Matter Arising.

Following much discussion and having been moved and, seconded, on being put to the vote it was:

> **RESOLVED** that having considered the content of the report, no further actions be identified.

46 DRAFT TREASURY MANAGEMENT STRATEGY 2022/23

Members considered the Draft Treasury Management Strategy 2022/23, Prudential indicators and Minimum Revenue Provision (MRP) Policy, introduced by the Section 151 (S151) Officer, and presented to the committee for scrutiny prior to being presented for approval by Full Council in March.

The Strategy incorporated the requirements of the 2017 CIPFA Prudential Code. A new Code had been issued in December 2021 for implementation by 2023/24. However, some elements were already incorporated into the Treasury Management and Capital Investment Strategies. For the Authority, new Prudential indicators were included which reflected the Borrowing Liability Benchmark which illustrated the lowest risk level for borrowing, and Commercial income as a percentage of Net Revenue Expenditure.

The Treasury Management Strategy brought together a number of strategies and policies, these being:

- 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 provide security of the investment, consider liquidity and cashflow requirements, and finally yield, all of which were considered in the context of the Authority's risk appetite.
- The MRP policy page which determined how the Authority would repay prudential borrowing on an annual basis.
- The Committee was 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. They would therefore be updated based on the final Capital Programme and Medium-Term Financial Analysis and would be further updated for the final version laid before Council. The S151 Officer also brought attention to the Non-Treasury Investments.

There was one change of note in relation to the Minimum Revenue Provision Policy, and in accordance with expected changes in legislation:

- A Minimum Revenue Provision charge is to be made on an annual basis to reduce the level of borrowing attributed to commercial investment properties. This is rather than the existing policy of a voluntary MRP reviewed on an annual basis.

In relation to the Authority's investment property portfolio, recent changes to the conditions for borrowing from the Public Works Loans Board excluded borrowing for commercial purposes that had the primary objective of securing a yield.

This meant that any additional property acquisitions (subject to legal advice) would need to be funded from the Authority's resources. However, borrowing was allowed to effectively manage the portfolio, such as for a replacement asset, should a property be sold.

The Authority would continue to ensure it acted reasonably, that Members understood the policy, and it was discussed at the recent Councillors' training session on Treasury Management that any decisions should be prudent and that any investments should be proportionate.

In addition, whist the counterparties for investment had not been amended, the authority would consider investment opportunities which promoted Environmental, Social and Governance investing where possible.

The S151 Officer then updated the Committee on Treasury Management practices. Advising that 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 the schedules were reviewed annually there had been a number of changes, these were detailed at Section 1 in the report.

The Treasury Management Function was last audited in 2020/21 and had been given a high assurance Audit rating in relation to its procedures and risk management. Scrutiny and approved changes were stated as the recommended practice.

There had been Treasury Management training open to all Members of the Council held online in the week before the meeting. However, some concerns were raised that not all Members were able to fully access the materials. Officers had undertaken to resolve any access issues.

The S151 Officer was thanked for her work and for the report. The Members of the Committee then asked a number of further questions and gave statements.

Members heard that the COVID-19 pandemic, and the policies enacted to manage it impacted on the Authority's commercial investment properties, though it was highlighted as small on its' impact. The S151 Officer stated that the spread of risks had been mitigated. It was stated that tenants had been paying their rent. It was mentioned that the Travelodge's Company Voluntary Arrangement (CVA) was ending, with rents going to back to normal levels. Also, there had been no further additions to the Authority's commercial investment portfolio since the start of the pandemic.

The Security, Liquidity, and Yield (SLY) attributes of the commercial investments were the top priority. Some Members expressed a desire for Environmental, Social, and Governance

(ESG) to be a future priority, since they were currently below SLY in importance. It was commented by one Member that the benchmarking for ESG rating for assets should be included in future reporting. It was also noted that sometimes, AAA rated funds were ESG.

Members enquired about the Voluntary Minimum Revenue Provision (VMRP) and learnt that it would not become an overpayment and would be a surplus if the Authority was to sell off its commercial investment. It was stated by the S151 Officer that there would need to be reborrowing to purchase another investment if the Authority was interested in doing so, should the original investment be sold.

Members also heard that the level of borrowing would be lower due to the £24 million of reserves. The S151 Officer noted that the cash reserves were saving the Authority money, with estimated savings of £350,000 to £400,000 from the interest rates.

Enquires were made about the definition of ‘Socio-economic’, and whether the local authority had a set definition. The S151 Officer responded that there was not a set definition by the council, and that a generic one was understood to be used. The main aspect of change, particularly social regeneration, came from the UK Government’s Levelling Up agenda.

Having been moved and seconded on being put to the vote it was

RESOLVED that:

a) Having reviewed, commented on, and scrutinised the Treasury Management Strategy, Prudential Indicators and the Minimum Revenue Provision Policy 2022/23, it be **RECOMMENDED** to Council for approval.

b) The Committee had reviewed, and scrutinised the Capital Investment Strategy in conjunction with the Treasury Management Strategy.

c) Delegated authority be granted to the Chief Financial Officer in consultation with the Chair of the Governance and Audit Committee, to make any changes to the Capital Strategy and Minimum Revenue Provision (MRP) Policy and Prudential Indicators prior to the final strategy presented to Full Council on 7 March 2022.

47 OPTING-IN TO PUBLIC SECTOR AUDIT APPOINTMENTS LTD

Members considered the Opting-In to Public Sector Audit Appointments (PSAA) Ltd. The report was introduced by the S151 Officer, who briefed the Committee on the next round of choosing external auditors, with the current external auditors (Mazars) arrangements due to expire in 2022/23.

Mazars was procured in Public Sector Audit Appointments Company, which was incorporated by the Local Government Agency in 2016. The PSAA had contacted all local authorities to participate in next round of tendering and contracting process. Members attention was drawn to both the advantages and disadvantages of entering into the PSAA process, with the S151 Officer advising that her recommendation to Members would be that the Authority entered the joint procurement process.

In response to Members' comments and questions further information was provided, during which Members' attention was brought to a number of issues.

It was explained that this procurement process happened every four years, with Lincolnshire County Council having gone through a similar process. However, it was stated by the Chairman that the procurement process may not give the same auditors again. Members' were asked to consider that there had been a previous issue with the 'over-optimism' of what the external auditors could achieve with the price quoted.

With concern of discrepancies with past accounts, including in the 2018-19 accounts, and the issue of local authorities individually accessing external auditors, there was a general consensus that working with other local authorities would allow for better bargaining and the best possible help to getting auditors. One Member raised that it would facilitate the best procurement advice. References were also made to the difficulty in the accounting sector for local authorities to get a wide array of options.

Having been moved and seconded on being put to the vote it was unanimously:

> **RESOLVED** that it be **RECOMMENDED** to Full Council that the invitation of opting into the PSAA sector led option for the appointment of external auditors for the period 2023/24 to 2027/28 be accepted.

48 WORKPLAN

There were no additional comments to the Workplan. The Workplan as set out in the report was **NOTED.**

The meeting concluded at 11.13 am.

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	Member Training Microphone Etiquette	This action is taken from the extract from the Minutes from the Governance and Audit Committee Meeting on Tuesday 11th January. Members conferred about the usage of microphones during meetings, with the Vice Chairman pointing out a technique to attain better understandability within the chamber.	Please see the above. Members discussed this at the meeting. Can this please be discussed at the next members development group meeting.	18/04/22	Ele Snow

Governance & Audit Committee	
8th March 2022	

Subject: Internal Audit Draft Annual Plan Report 2022/23

Report by:	Lucy Pledge (Head of Service – Corporate Audit & Risk Management – Lincolnshire County Council)
Contact Officer:	Emma Redwood, Assistant Director People and Democratic Services emma.redwood@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. Agree the contents of the report and be assured that the plan provides robust coverage of the Council's critical areas and services.

IMPLICATIONS

Legal: None directly arising from this report.

Financial : FIN/187/22/TJB

The audit plan includes for 166 audit days at an average cost of £350 per day, equating to £58,100 which will result in a pressure on the 2022/23 budget of £7k.

This cost reflects an 18.6% increase on the day rate, however the current rate has been £295 per day for the past 5 years.

The number of audit days is considered appropriate in view of the risk based approach to the development of the Audit Plan.

Staffing : None directly arising from this report.

Equality and Diversity including Human Rights : None arising from this report.

Data Protection Implications : None arising from this report.

Climate Related Risks and Opportunities: None arising from this report.

Section 17 Crime and Disorder Considerations: None arising from this report.

Health Implications: None arising from this report.

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

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

Risk Assessment : N/A.

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

Lincolnshire Assurance provide our Internal Audit Service and have prepared the Draft Internal Audit Plan 2022/23 (attached at Appendix 1) for your consideration. A final Audit Plan will be circulated which includes any amendments required by this Committee.

The plan has been developed taking a risk based approach and has been developed in conjunction with Management and their assessment of risks.

The report includes the level of resources, and costs of providing assurance through delivery of this plan.

The report will be presented Lincolnshire Assurance.

Internal Audit

DRAFT 2022/23 Plan

West Lindsey District Council

February 2022

Assurance LINCOLNSHIRE
For all your assurance needs

West Lindsey DISTRICT COUNCIL

Contents

The contacts at Assurance Lincolnshire are:

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The Planning Process

Introduction

This report sets out the Internal Audit Plan as at 1st April 2022. 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. Our fees have been reviewed and the figure shown in the table on page 5 reflects that.

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 **166 Days.** The core team who will be delivering your Internal Audit plan are:

Head of Internal Audit and Risk Management
Lucy Pledge
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Principal Auditor
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We will be using Senior Auditors from our Team to support the completion of the plan.

Audit Focus for 2022/23

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 remains significant, and so part of our work this year will look at the measures put in place to support WLDC staff. Our plan also 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. This will include work on the Levelling Up Fund.
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. We will be looking at the Governance Framework, Contract Management and Risk Management.
Critical Activities	Our discussions with Senior Management Team identified some critical activities where a

Area	Reason for inclusion
	potential audit would provide independent assurance over the effectiveness of risk management, control and governance processes. The areas prioritised relate to the Wellbeing Lincs Service and Staff Resilience.
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 one of these key projects – CRM
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. As part of our agreed 3 year ICT Audit Plan we will be looking at Patch Management and Hardware Asset Management.
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 2023.
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.

Audit Fee Increase

Assurance Lincolnshire has reviewed its fees to ensure that the service remains sustainable in line with current costs. The previous rate of £295 has been in place for 5 years and our review has balanced cost with remaining competitive and providing good value for money. This increase takes into account salary costs and on costs plus a 5% contribution to operating costs. Our daily blended rate from 1st April 2022 will be £350 per day.

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			
Levelling Up Fund	Assurance over the management, decision making and governance of the £10 million Levelling Up Fund received from the Government. This work will cover two phases in 22/23 – the set up process followed by a final review.	A	A			
Governance and Risk						
Contract Management	Assurance that the contract management process within WLDC is operating as planned and in line with policy.	A	A			
Governance, Risk and Resilience Framework	Health check of WLDC against the 7 governance characteristics within the Centre of Governance and Scrutiny's Governance, Risk and Resilience Framework	N/A	N/A			
Risk Management	Review of the risk management monitoring procedures in place at WLDC.	A	G	✓		
Critical Activities						
Staff resilience	Review looking at measures that WLDC have in place to manage and support staff including supervision, home workplace assessments and support mechanisms.	A	A			
Wellbeing Lincs Service	Review of delivery and effectiveness of the Council's elements of the wellbeing contract. This is a Client wide review.	A	A	✓	✓	
Project Assurance						
Key Project - CRM system	Consultancy to advise and support on new system controls.	R	A			

Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
ICT (Joint with North Kesteven District Council)						
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.	A	G	✓		✓
Asset Management - Hardware	To achieve value for money, and full use from the hardware in use it is important that all ICT hardware assets are tracked and managed appropriately. This is increasingly important where staff and equipment are no longer stationery and working from home has become a necessity in response to Covid-19.	A	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		**121**				

Non-Audit	
Advice and liaison	
Annual Report	
Audit Committee	
Review IA Strategy and Planning	
Attendance at Management Team	
Days	**25**
Total	
Internal Audit days	**146**
Housing Benefit Subsidy	**20**
Fees	**£58,100**

Appendix B – Areas not on the Audit Plan

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

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	G		✓	
Building Control	To provide assurance over the operational arrangements including the impact of potential changes in legislation.	A	A		✓	
Commercial Waste	To provide assurance over the operational arrangements, objectives and targets are met.	A	A		✓	
Fleet Management	To support management with a consultancy review as the embed their new organisational structure	A	A			
Car Parking	Review of how the organisation is managing the reduction of income due to the impact of Covid and the increase in home working.	A	A			
Safeguarding	Consultancy review to support the proposed move from a single point of contact to a corporate responsibility.	A	R	✓		
Procurement	Assurance that the procurement process follows tendering and selection rules in line with agreed WLDC policy.	A	R			

Appendix C – Cyclical Audits

The below shows our cyclical audits.

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	High	2020/21	**Green**	**Amber**
Budget preparation and Financial Strategy	High	2018/19	**Green**	**Amber**
Creditors	Substantial	2019/20	**Green**	**Amber**
Debtors	Substantial	2019/20	**Amber**	**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	High	2020/21	**Amber**	**Amber**
Benefits	Substantial	2017/18	**Amber**	**Amber**
Financial Resilience	High	2019/20	**Amber**	**Amber**
Other Due Diligence				
Risk Management	Substantial	2016/17	**Green**	**Amber**
VAT/Tax	High	2020/21	**Amber**	**Amber**
Insurance	Substantial	2021/22	**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	**Amber**	**Amber**
Information Governance	Substantial	2017/18	**Green**	**Green**
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	**Green**	**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 coordinating activities with management and other management oversight functions.

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

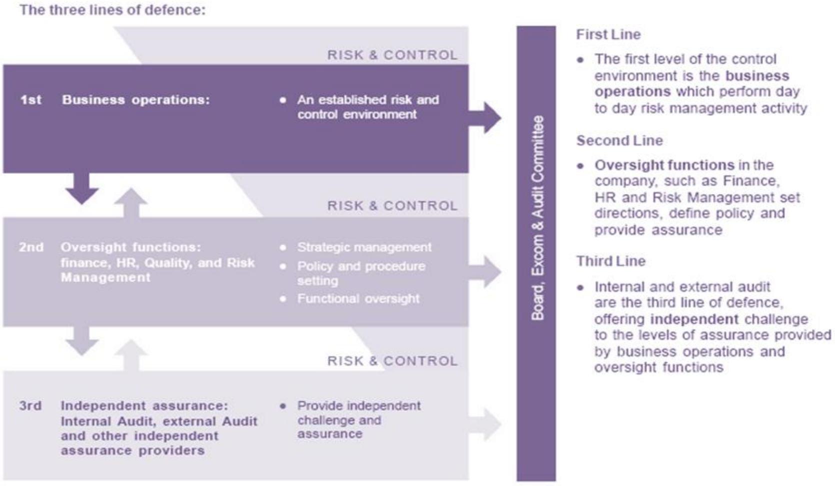


Figure 2 – The three lines of defence

Our Internal Audit Strategy also seeks to co-ordinate our work with other assurance providers where we can. In particular we liaise with External Audit to ensure the Council gets the most out of its combined audit resource – 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 Assistant Director People & Democratic Services (Interim) and Monitoring Officer, and the Governance & Audit Committee - measured against 3 key areas:

- Delivery of planned work.
- Timeliness (contemporary reporting).
- Quality and Impact of work (communicating results / added value).

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 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

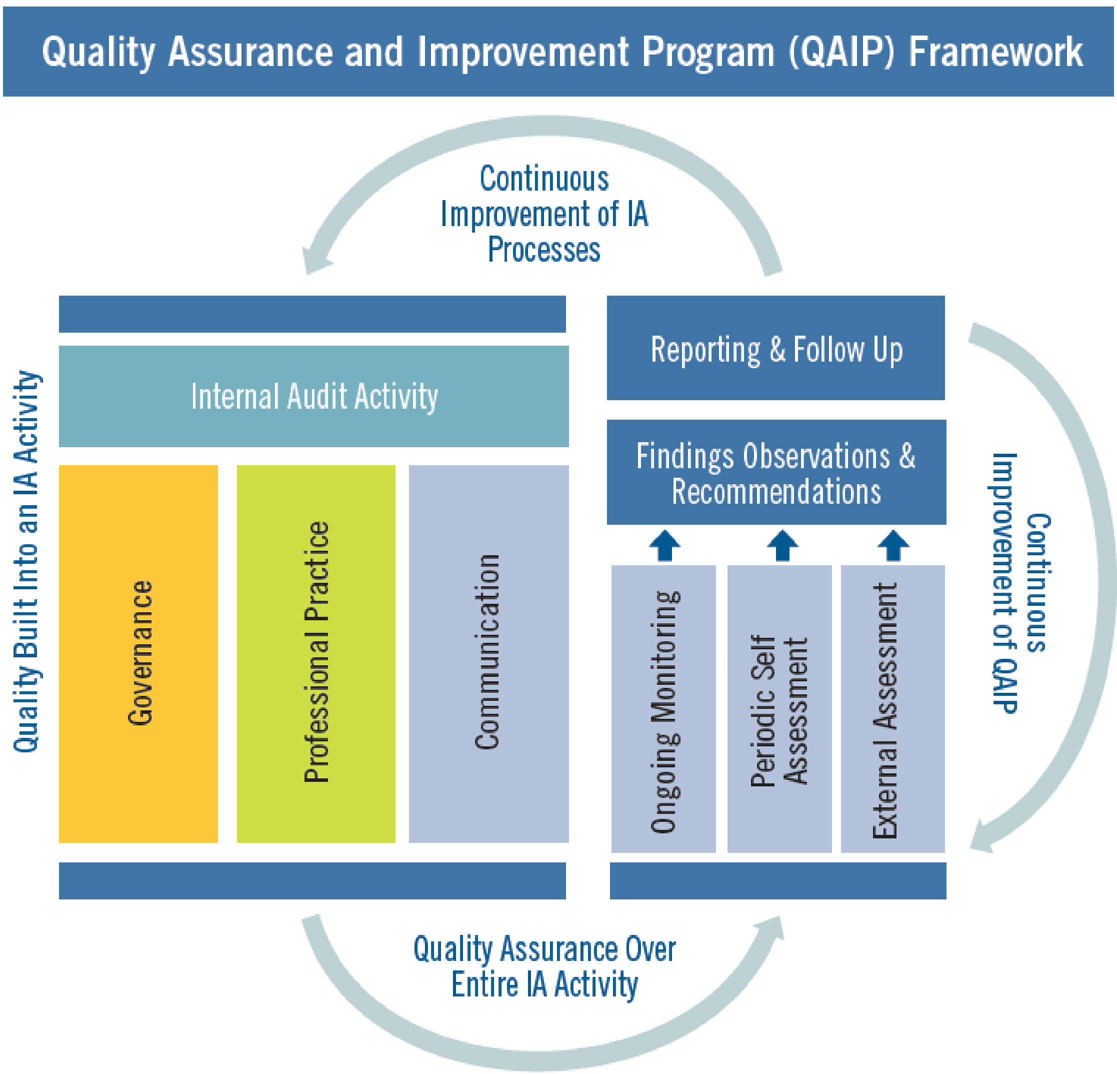
Quality is built into the way we operate – we have designed our processes and procedures to conform to best practice applicable to Internal Audit – in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

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.



Appendix G
ICT Audit Planning

Date: January 2022

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

Contents

The contacts at Assurance Lincolnshire with this report are:

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ICT Audit Planning

Introduction

As part of our combined assurance work, we undertook a detailed review of the various elements of the ICT service to create the proposed ICT Audit plan.

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

Production of the ICT Audit Plan

In order to create this plan, we focused on mapping assurances against the ISO:27001 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 areas 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) – 97%
Medium Assurance (Amber) – 3%
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 organisation.

Distribution List

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

2022/23 – Year One

Audit Area	Indicative Scope	Days
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.	**15**
Asset Management: Hardware	To achieve value for money, and full use from the hardware in use it is important that all ICT hardware assets are tracked and managed appropriately. This is increasingly important where staff and equipment are no longer stationery and working from home has become a necessity in response to Covid-19.	**15**

2023/24 – Year Two

Audit Area	Indicative Scope	Days
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	**25**

Appendix A – ICT Audit Plan

	number one priority risk for 2021, and this trend is expected to continue for the next three years.	
Virus Protection/Malware	Getting infected with malware - often ransomware - is one of the most common ways that IT systems can be compromised. Malware infection can result in theft of intellectual property, ransoming of data, and/or disruption to services provided by your organisation. As such, it's important for organisations try and prevent malware from being deployed within the Councils network. The audit will provide an objective independent opinion on the adequacy and effectiveness of the control environment with regards to Antivirus and Malware.	**10**

Appendix A – ICT Audit Plan

2024/25 – Year Three

Audit Area	Indicative Scope	Days
Network Access Controls: Starters Movers and Leavers	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.	**15**
Network Access Controls: Supplier Access	Review of the governance and technical arrangements to provide supplier access to Council systems.	**5**
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.	**15**

Governance and Audit Committee	
Tuesday, 8 March 2022	

Subject: Auditor's Annual Report (Year Ended 31 March 2021)

Report by:	Assistant Director of Finance and Property Services and Section 151 Officer
Contact Officer:	Paul Loveday Corporate Finance Manager paul.loveday@west-lindsey.gov.uk
Purpose / Summary:	To present to those charged with governance, the Auditor's Annual Report on the work undertaken by Mazar's for the year ended 31 March 2021.

RECOMMENDATION(S):

1. That members accept the content of this report.

IMPLICATIONS

Legal:

None from this report

Financial : FIN/178/22/PJL

Our External Auditor, Mazars has been appointed from 1 April 2019 as part of the Public Sector Audit Appointments (PSAA) contract awards.

The fee for the audit fee was £50k in 2020/21.

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. Background

The Report to those charged with Governance is attached at Appendix A, the headlines of which include:

- An unqualified audit opinion on the 2020/21 Statement of Accounts.

- That no significant weaknesses in Value for Money arrangements were identified and no recommendations arose from the work done.

- No questions or objections in respect of the Council's financial statements were received by the auditor's under the Local Government and Accountability Act 2014

The report will be presented by Michael Norman, Audit Manager, Mazars.

The Auditor's Annual Report is attached at Appendix A

Auditor's Annual Report

West Lindsey District Council – year ended 31 March 2021

January 2022

mazars

Contents

01

Section 01:

Introduction

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for West Lindsey District Council ('the Council') for the year ended 31 March 2021. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Opinion on the financial statements

We issued our audit report on 17 November 2021.Our opinion on the financial statements was unqualified.

Value for Money arrangements

In our audit report issued on the 17 November 2021 we reported that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Council's arrangements. No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.

Wider reporting responsibilities

We have not yet received group instructions from the National Audit Office confirming their requirements in relation to the Council's Whole of Government Accounts. We are unable to issue our audit certificate until this is formally confirmed.

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 to consider any objection made to the accounts. We did not receive any questions or objections in respect of the Council's financial statements.

02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 17 November 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

Our Audit Completion Report 2020/21, presented to the Council's Governance and Audit Committee on the 9 November 2021, provides further details of the findings of our audit of the Council's financial statements. This includes our conclusions on the identified audit risks and areas of management judgement, internal control recommendations and audit misstatements identified during the course of the audit. There are no matters raised in our Audit Completion Report 2020/21 that we need to repeat in this report.

03

Section 03:

Commentary on VFM arrangements

3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider 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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **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

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement.

The table below summarises the outcomes of our work against each reporting criteria. We did not identify any risks of significant weakness, or actual significant weakness, in the Council's arrangements On the following pages we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	**9**	No	No
Governance	**11**	No	No
Improving economy, efficiency and effectiveness	**14**	No	No

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to the Council's operating environment in 2020/21

The Council entered 2020/21 at the start of the national lockdown, and faced a significant operational impact from the effects of the pandemic. In response to the Covid-19 pandemic, central government made a series of policy announcements, a number of which have impacted on local authorities such as West Lindsey. During the 2020/21 year the Council dealt with a wide range of issues to support local residents and businesses.

Some of the Government's initiatives in response to the Covid-19 pandemic have been backed by additional funding, and the Council received a range of government grants during 2020/21 to either support local businesses/individuals or meet the Council's own costs. The Council received around £1.5m of Covid-19 Response funding to cover the Council's extra costs. The Council also received around £0.4m relating to the income compensation scheme for the sales, fees and charges income lost during the lockdown periods.

2020/21 Financial statement performance

We have carried out a high level analysis of the audited financial statements, including the Comprehensive Income and Expenditure Statement, the Balance Sheet and Movement in Reserves Statement.

The Council's financial position as reported in the balance sheet does not give us cause for concern relating to financial stability. Net current assets have increased from £1.7m to £4.2m, with cash and cash equivalents increasing by £3.1m. Short term creditors have increased from £5.5m to £12.4m, which as at other councils this year is largely due to deferred Covid-19 government grants.

The most significant change in the balance sheet relates to movements in the Council's share of the pension fund net liability (being a deficit position) of £47.4m, up from £37.8m in the prior year. It is not unusual to see material movements in the net pension liability and this is consistent with our experience at other local authorities. The deficit position is not unusual and is a recognised area of financial challenge for local authorities.

The Council's useable reserves have increased from £24.0m to £29.1m in 2020/21, with:

- General Fund and Earmarked Reserves of £25.5m, up from £20.0 in 2019/20; and
- Capital Receipts and Grants Reserves of £3.6m, a little lower than the £4.0m in 2019/20.

These reserves provide some mitigation against future financial challenges, and include specific reserves (Budget Smoothing Reserve £4.1m, Contingencies Reserve £1.9m and Investment for Growth Fund Reserve £6.3m) to address future volatility and support investment plans. The Council will need to continue to ensure that any use of reserves to smooth the financial position over the next few years is properly planned and the use of reserves cannot be relied on to provide a long term solution to funding gaps. Notwithstanding this, our work has not highlighted a risk of significant weakness in the Council's arrangements for ensuring financial sustainability.

Financial planning and monitoring arrangements

In March 2020 the Council set a balanced General Fund budget for the 2020/21 financial year. During the year the Council reported its financial position through the quarterly financial performance reports, and carried out a thorough mid-year review before agreeing the revised budget in November 2020. We reviewed a sample of reports presented for 2020/21, which contain detail on any significant variances to budget and an update on performance against savings targets. The reports also contain information on progress against the approved capital programme and reasons for over or underspends against the budget profile to provide adequate scrutiny and oversight.

The Council reported the final revenue outturn position for the 2020/21 year as a surplus of £1.4m, after approved £1.4m for carried forward budgets. The main savings were in relation to staff (£234k) and lower than expected provision for housing benefits bad debts (£237k), and an additional £111k support through the Cultural Recovery Fund. We have considered the arrangements in place in respect of budget management as part of the Governance criteria on page 11 and not identified any significant weaknesses.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria (continued)

Arrangements for the identification, management and monitoring of funding gaps and savings

The Medium Term Financial Plan (MTFP) is a current plus four year plan which sets out the Council's commitment to provide services that meet the needs of people locally and that represent good value for money within the overall resources available to it. A key part of the strategy is to highlight the budget issues that will need to be addressed by the Council over the coming financial years, by forecasting the level of available resources from all sources and budget pressures relating to both capital and revenue spending as well as assessing sufficient reserves and provisions are held for past and unknown events which may impact on the Council's resources. The MTFP is prepared alongside other plans and strategies (for example the workforce planning and Capital and Investment Strategies). There is a process in place for challenging any growth items and agreeing the achievability of planned savings.

Arrangements and approach to 2021/22 financial planning

The arrangements for the 2021/22 budget setting process have largely followed the arrangements in place for 2020/21 but with a better understanding based on the experiences during the year of the impact of Covid-19 on the Council's services. There were still though a number of unavoidable uncertainties regarding likelihood and impact of any future lifting of restrictions or lockdowns, and the availability of any further government support.

A balanced General Fund budget for 2021/22 was approved at the March 2021 Council meeting with any required savings confidently expected to be covered by actions in hand. There was an acknowledgement in preparing the MTFP that the roll over of the Local Government Funding Settlement meant that some of the expected changes from the Fair Funding Review and in relation to New Homes Bonus and any Business Rates reset were not enforced. Changes in these areas were regarded as a risk through expected loss of funding so their deferral represented a gain to the Council's immediate financial position. The continuing uncertainty does make though strategic financial planning difficult for Councils, particularly in relation to its General Fund services.

The MTFP approved in February 2021 forecast a balanced budget for 2021/22 but shortfalls for 2022/23 onwards rising to £0.9m in 2025/26. To mitigate any losses caused by funding changes and to balance its budget the Council has, as described above, established reserves to support its planned transformation and savings process and to address volatility in funding.

The Corporate Policy and Resources Committee reviewed the budget position in November 2021 as part of its Q2 budget monitoring process. The Committee confirmed that few significant changes were required to the original estimates, with most new growth items being accommodated within existing budgets.

Based on the above considerations we are satisfied there are no significant weaknesses in the Council's arrangements in relation to financial sustainability.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Risk management and monitoring arrangements

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. There is an approved Risk Management Strategy which includes the Council’s approach, guidance, the Council’s risk appetite and roles and responsibilities. The Governance and Audit Committee receives quarterly reports on the Council’s Strategic Risks and provides oversight on the risk management arrangements in place and the adequacy of the controls and proposed actions. These arrangements are consistent with what we would expect at a local authority and are adequate for the Council’s purposes.

In order to provide assurance over the effective operation of internal controls the Council has engaged Assurance Lincolnshire to provide its internal audit service. Assurance Lincolnshire’s Audit and Risk Manager acts as Head of Internal Audit and the service has been externally assessed as meeting the Public Sector Internal Audit Standards. The annual Internal Audit plan is agreed with management at the start of the financial year and is reviewed by the Governance and Audit Committee prior to final approval.

The audit plan is based on an assessment of risks the Council faces and is designed to ensure there is assurance on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control. The planned work can be supplemented if necessary by ad hoc reviews in respect of suspected irregularities and other work commissioned by Officers and Members of the Council where relevant to respond to emerging risks and issues. We have reviewed the Internal Audit plans for 2020/21 and 2021/22 and confirmed they are consistent with the risk based approach.

Internal Audit progress reports are presented to Governance and Audit Committee meetings including follow up reporting on recommendations from previous Internal Audit reports. From our attendance at meetings, we are satisfied this allows the Committee to effectively hold management to account. At the end of each financial year the Head of Internal Audit provides an Annual Report including an opinion on the Council’s governance, risk and control framework based on the work completed during the year. For 2020/21 the Head of Internal Audit concluded that the Council’s arrangements for Governance, Risk and Financial Control were ‘performing well’ (with no significant concerns identified that significantly affected the framework) and the Internal Controls arrangements ‘performing adequately’. We have reviewed the Annual Report and are satisfied that the Head of Internal Audit’s opinion does not indicate any significant weaknesses in the Council’s governance arrangements.

The Council is part of the County Fraud Partnership, has an anti-fraud and corruption policy and a whistle blowing policy. The Council carries out proactive anti-fraud work, such as the regular Council Tax Single person discount reviews, and partakes in the bi-annual National Fraud Initiative. An annual fraud report is taken to Governance and Audit Committee. We have reviewed the Annual Fraud Report 2020/21 and have not identified any significant concerns with these arrangements.

Throughout the year we have attended Governance and Audit Committee meetings. Through attendance at these meetings we have confirmed that the committee receive regular updates on both internal audit progress and risk management in the form of risk registers. We have seen active Member engagement from the Committee who challenge the papers and reports which they receive from officers, internal audit and external audit.

Arrangements for budget setting and budgetary control

The Council has an established set of arrangements in place for budget setting and control. The process is set out and approved through the Constitution, which encompasses the Budgetary and Policy Framework Procedure rules. The framework includes:

- Clear responsibilities, including the role of the Section 151 Officer in leading the budget setting process and providing professional advice, and the reservation of the approval of the Budget to the Council based on the Corporate Policy and Resources recommendation.

- Budget setting guidance to managers, with the process ensuring an early understanding of the key relevant factors and future budget requirements. Although existing budgets are in most cases used as a basis for determining the next year’s estimates, they are not merely rolled forward. There is early challenge to, amongst other things, staff number assumptions and growth and savings proposals.

- Close working between the finance team and with external advisors and neighbouring councils to determine the key budget assumptions, which are challenged and agreed through the budget review process by Management, Corporate Policy and Resources Committee and Council.

Overall commentary on the Governance reporting criteria (continued)

Following approval of the budget, budget monitoring commences to monitor progress against targets. Budget monitoring responsibilities of budget holders are documented and they are supported in this role by the finance team. Budget monitoring reports are produced on a monthly basis and there are regular meetings held, including finance team members, to discuss the financial performance and forecasts. There are rules in place regarding the reporting of budget variances and the requirement to operate within approved budgets.

There are similar processes and controls in place for development and control of the capital programme alongside the revenue budget setting. The Treasury Strategy reports (encompassing the Treasury Management and Capital Investment Strategies) are approved at the same time as the revenue budgets and monitored and reported on throughout the year.

There are the rules in place regarding virements within budget cost centres and adjustments to the original budget required by changes in Council policy must be approved by the relevant policy committee or by the Council. The opportunity to review the budget was especially important in 2020/21 given the likely impact of Covid-19 was largely unknown at the time the original budget was approved. The updated 2020/21 budget and mid-year review of the Medium Term Financial Plan was approved by the Corporate Policy and Resources Committee in November 2020.

Quarterly Financial performance monitoring reports are presented to the Corporate Policy and Resources Committee. The reports cover spend and income to date and forecast against budget, Capital Programme progress and Treasury Management activities. and forecast significant variations are investigated and reported on, together with any corrective action being taken. Our review of the relevant meeting minutes confirmed there was challenge and scrutiny of the process. The impact of Covid-19 on financial performance is apparent from the reports through 2020/21 and any material budget variances were identified and explained at an appropriate stage. There were no significant unexpected over or underspends reported at the year-end.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has published its Financial Management (FM) Code to provide guidance for good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The first full year of compliance with the FM code is 2021/22. The Governance and Audit Committee received in April 2021 a report from the Assistant Director (Finance, Business and Property Services) summarising the Council's compliance with the standards set out in the Code. The report found that the Council complied with the majority of the Code requirements already and management is working to address the small number of areas for improvement identified.

Decision making arrangements and control framework

The Council has an established governance structure in place which is set out within its Annual Governance Statement (AGS). We reviewed the AGS and observed the Governance and Audit Committee's review of the AGS and monitoring of actions throughout the year in relation to any significant governance issues.

The governance structure, as described in the AGS includes amongst other things the Constitution and the scheme of delegation which shows the levels of authority required for all key decisions. The AGS sets out the governance principles which the Council are committed to and within which the Council conducts its business and affairs. The AGS identifies the arrangements in place to enable the Council to meet the good governance principles identified.

The required Standards Committee arrangements are in place designed to promote and maintain high standards of conduct by members and co-opted Members of the District Council and of the Town and Parish Councils within the District. We have reviewed the Committee's minutes in the year and not identified any matters of concern.

The Constitution is kept under review and updated as required. The Constitution sets out how the Council operates, how decisions are made and the procedures to support the Council's aims of being transparent and accountable. The Constitution includes the Budget and Policy Framework Procedure Rules, Financial Procedure Rules and Contract and Procurement Procedure Rules and the Members' code of conduct.

There are Overview and Scrutiny Committee arrangements in place to support the work of the other Committees and the Council as a whole. The Overview and Scrutiny Committee has a work programme in place to steer their coverage of services and policy decisions taken. The Constitution includes the Overview and Scrutiny Committee procedure rules, which cover the arrangements for call in of decisions. We have reviewed the Overview and Scrutiny Committee's minutes throughout the year and not identified any concerns.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria (continued)

Regulators

There are few external regulators for district councils and we have not identified any matters reported which indicate significant weaknesses in the Council's governance arrangements. We reviewed the Local Government and Social Care Ombudsman's (LGSCO) 2020/21 report which was considered by the Governance and Audit Committee at its November 2021 meeting. The Committee report summarised management's response to the matters raised by LGSCO and included comparative information for similar councils.

Based on the above considerations we are satisfied there are no significant weaknesses in the Council's arrangements in relation to governance.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

Performance Management

The 2019-23 Corporate Plan sets out the Council's strategic aims and objectives, and key intended outcomes for the four years of the Plan. The Council has identified the key performance indicators, and target levels of performance, in relation to these priorities. The performance targets are informed by national standards, local benchmarking and experience and subject to initial challenge and confirmation.

The Council has in place a performance management framework which includes identified responsibilities of managers and processes for regular performance reporting and corrective action if required. There is quarterly reporting to the Prosperous Communities Corporate Policy and Resources Committee. These quarterly reports identify whether the performance is on/off track and its direction of travel. They include appropriate commentary to explain any significant factors which are affecting performance and actions being taken to correct performance.

On an annual basis, the Council's overall performance is summarised in the Narrative Report as part of the Statement of Accounts. This outlines the Council's progress against its ambitions, highlighting key successes and risk areas. The Narrative Report also includes an agreed plan for subsequent years, including any areas for improvement. This provides the public with an overall assessment of the Council activities for the financial year.

We have reviewed a sample of the detailed performance reports and reviewed the Corporate Policy and Resources Committee minutes which demonstrate the Committee's review and challenge of the quarterly reports. The quarterly reports demonstrate that performance has been managed throughout the 2020/21 year and any significant variances have been justified, with no major unexpected gaps in performance at the year end. The process has continued in the first half of 2021/22. Overall, we believe there is sufficient evidence to demonstrate adequate arrangements for performance monitoring and management at the Council.

Partnerships

There are a number of significant partnership arrangements in place and some key support services (for example payroll, ICT and Business Rates collection) are provided through agreements with neighbouring councils. There are relevant governance frameworks in place for these partnership arrangements and the Council continues to keep its role in these activities under review.

The Council is 100% shareholder of a group of companies. The group is made up of a holding company, an acquired limited company providing temporary staff and a 'Teckal' company that provides services solely to the Council. The Council's transactions with these companies are properly disclosed in the financial statements and there are appropriate governance arrangements in place. The turnover of these companies is not material.

The Council has also, since 2016/17, been party to a joint venture - Market Street Renewal Limited. The company was primarily set up for the development and renovation of Market Street in Gainsborough. The Council's total investment in this venture at the end of 2020/21 was around £0.35m. There is an appropriate governance and performance management framework in place for this arrangement.

Commercial investments

The Council has a significant Investment Property portfolio, valued at 31 March 2021 at £20.9m. There is an underlying strategy and appropriate framework for approving and managing these investments, including regular monitoring of performance against target returns.

The majority of the portfolio has been funded through borrowing. Local authorities are 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. The amount to be set aside each year (the Minimum Revenue Provision) has not been prescribed although an overarching principle of prudency is expected to be adopted. 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 a payment was made in 2020/21 equivalent to the amount expected in the statutory guidance.

In our 2020/21 Audit Completion Report we again highlight 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. It is important as part of its ongoing review of its MRP policy that the Council takes account of the updated (December 2021) CIPFA Prudential Code and the outcome of the current Department for Levelling Up, Housing and Communities consultation on proposed changes to MRP guidance and regulations.

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria (continued)

Procurement

The Council has Contract and Procurement Procedure Rules in place which outlines how the procurement of goods, works and services is achieved. These documents take into account latest legislative and operational changes at the Council, and provide a corporate framework for the procurement of goods, works and services. There are also controls in place designed to ensure that all procurement activity is conducted with openness, honesty and accountability. The Council works through the Lincolnshire Procurement Partnership which provides access to specialist procurement services and savings and has its own specialist procurement staff. The Council has specific arrangements through standing financial instructions and purchase order controls and our work on the financial statements has not identified any significant internal control deficiencies in these areas.

Based on the above considerations we are satisfied there are not significant weaknesses in the Council's arrangements in relation to improving economy, efficiency and effectiveness.

04

Section 04:

Other reporting responsibilities and our fees

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4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

We have not yet received group instructions from the National Audit Office confirming their requirements in relation to the Council’s Whole of Government Accounts. We are unable to issue our audit certificate until this is formally confirmed.

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum and Audit Completion Report presented to the Governance and Audit Committee in March and November 2021 respectively. We expect our final audit fees to be as follows.

Area of work	2019/20 fees	2020/21 fees
Scale fee in respect of our work under the Code of Audit Practice	£33,420	£33,420
Additional testing as a result of changes arising from increased audit quality expectations involving the work on the valuation of land and buildings and on the local government pension scheme	£7,067	£7,067*
Additional testing as a result of the implementation of new auditing standards	-	£2,000*
Other additional testing - new significant audit risks for 2020/21 (Covid-19 grant recognition) and additional testing and reporting in 2019/20 on uncertainties in key estimates as a result of Covid-19	£5,032	-
Additional work as a result of the new Code of Audit Practice and VFM reporting	-	£8,000*
Total fees	**£45,519**	**£50,487***

* Fee variations subject to approval and confirmation by Public Sector Appointments Ltd.

Fees for other work

We confirm that we undertook the following non-audit service for the Council in the year.

Certification of the 2019/20 Housing Benefit Subsidy Claim £7,819

Mark Dalton, Director – Public Services

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Mazars

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5 Wellington Place
Leeds
LS1 4AP

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.

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Governance and Audit Committee
Tuesday, 8 March 2022

Subject: External Audit Strategy Memorandum (Plan) 2021/22

Report by:	Assistant Director of Finance and Property Services and Section 151 Officer
Contact Officer:	Paul Loveday Corporate Finance Manager Paul.Loveday@west-lindsey.gov.uk
Purpose / Summary:	To present the 2021/22 External Audit Strategy from our External Auditors, Mazars

RECOMMENDATION(S):

To Approve the External Audit Strategy Memorandum (Plan) for 2021/22

IMPLICATIONS

Legal: None from this report

Financial : FIN/177/22/PJL Audit Fees are set by the Public Sector Audit Appointments (PSAA). The £33,420 Scale audit fee is contained within the budget allocation. However, as for the 2020/21, in 2021/22 there is an additional fee of approximately £7,067 which will be charged in relation to new auditing standards which will lead to new audit work not reflected in the scale fee. Additionally, a fee expected to be at least £8,000 will be charged in 2021/2022 which is due to additional work in relation to the Value for Money statement and changes in reporting requirements as a direct result of revisions in the Code of Audit Practice. A total budget of £45,300 has been provided. This will create a budget pressure of £3,187.

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 2021/22 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 2022	Audit planning and preparation work
Feb - Mar 2022	Interim Audit
Sep - Oct 2022	Field Work
Nov 2022	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 November

- 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	£990,000
Performance Materiality	£740,000
Triviality	£ 30,000

1.6 The Audit team for 2021/22 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 2021/22 is anticipated to be £48,487 (£50,487 2020/21).

Audit Strategy Memorandum

West Lindsey District Council

Year ending 31 March 2022

mazars

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

7 February 2022

Dear Committee Members

Audit Strategy Memorandum – Year ending 31 March 2022

We are pleased to present our Audit Strategy Memorandum for West Lindsey District Council for the year ending 31 March 2022. 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 7 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 and subject to completion of the full planning procedures, as being the basis for a discussion around our audit approach. 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 2022. 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

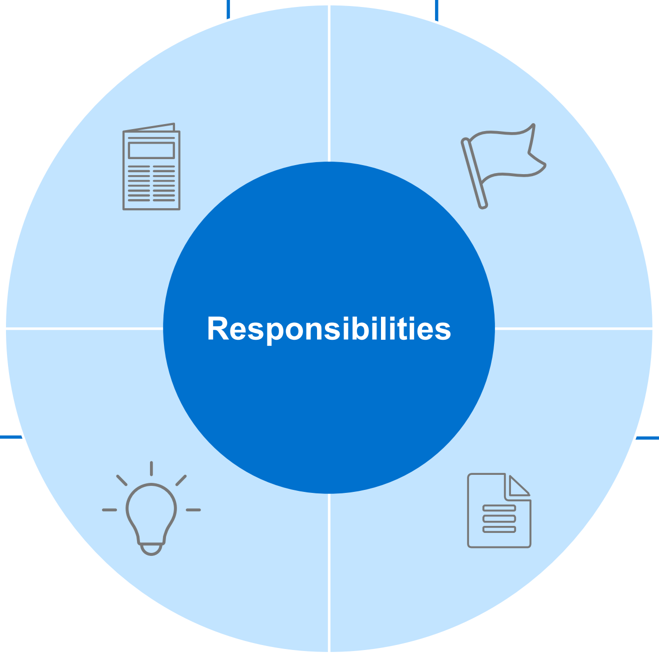
We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Governance and Audit Committee, as those charged with governance, of their responsibilities.

The Assistant Director Finance, Business Support and Property Services (the Chief Finance Officer) is responsible for the assessment of whether is it appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements.

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, including 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.



Value for money

We are also responsible for forming a commentary 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.

Wider reporting and electors' rights

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

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

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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 2021/22 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 other matters impacting on the accounts production and our audit

The national timetable for 2021/22 has now been confirmed, with draft and audited financial statements expected to be published by 31 July 2022 and 30 November 2022 respectively. The Council is introducing a new General Ledger and associated systems in February 2022 and there are a number of staffing changes within the finance team. The outline timetable on the following page reflects the national deadlines and the likely pressures on the finance team. It is important that we continue to keep in close contact with the finance team and are able to respond to any emerging issues regarding Covid-19 and the Council's working arrangements. We will keep the Governance and Audit Committee updated on progress.

3. Audit scope, approach and timeline

Planning – 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

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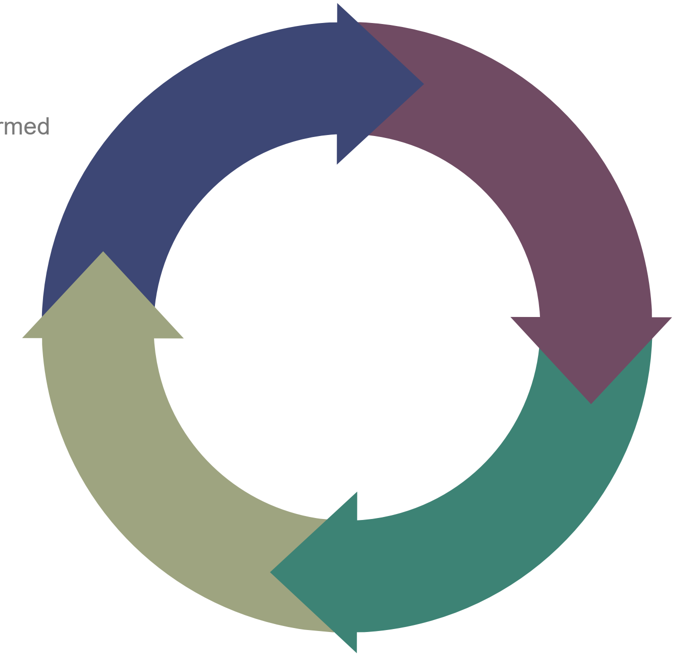
Interim – February/March

- Documenting systems and controls
- Performing walkthroughs including information of the procedures in place both before and after the deployment of the new financial systems.
- Interim controls testing including tests of IT general controls and testing the changeover from the old to the new financial systems.
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary



Completion – by 30th November

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

Fieldwork – September/October

- 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.

Audit Focus

A point of audit focus is an area requiring additional auditor consideration which has the potential to impact several items in the accounts and so cannot be addressed in the same manner as an enhanced risk. For the year ended 31 March 2022 this will include but may not be limited to the steps taken by management to effectively introduce the new general ledger in the year and to completely and accuracy transfer information between the old and new systems.

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.

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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 and Investment Properties** 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 2021/22 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer's; and • Consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that values have moved materially over that time.

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, as in the previous year, such a payment is proposed for 2021/22. In our 2020/21 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 2020/21 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 2021/22 accounts.	○	○	●	We will review the assessment carried out by management for 2021/22 and challenge the reasonableness of judgments management has made.

Areas of audit focus

Description	Planned response
IT system change The Council has changed its core financial accounting systems in the year. The Council needs to have effective arrangements in place for managing the changeover and completely and accurately transferring information between the old and new systems.	We will review the steps taken by management to ensure the changeover has been effective and test the reconciliations carried out on the systems' data transfer. We will engage our IT audit specialists to support the local audit team in this work.

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

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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

We reported our 2020/21 VFM commentary in the Annual Auditor's Report issued to the Council in January 2022. We reported that we had not identified any risks of, or actual, significant weaknesses in the Council's VFM arrangements and there were no recommendations arising from our work. We have not fully completed our 2021/22 planning and risk assessment work at this stage but have so far not identified any risks of, or actual, significant weaknesses. We will, if necessary, report any identified risks or weaknesses to the Governance and Audit Committee on completion of our planning and risk identification work.

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.

06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for work as the Council's appointed auditor

Details of the 2020/21 actual and planned 2021/22 fees are set out below:

Area of work	2021/22 Fees	2020/21 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	£7,067
Additional testing as a result of the implementation of new auditing standards	TBC	£2,000
Additional work arising from the change in the Code of Audit Practice	£8,000	£8,000
Additional work arising from the changes to the Council's core accounting systems	TBC	n/a
Total	**£48,487**	**£50,487**

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As reported to you in previous Audit Strategy Memoranda, the scale fee needs to be adjusted to take into account the additional work required as a result of increased regulatory expectations. The specific 2020/21 fee variations are still subject to PSAA approval.

We have identified in this Memorandum the additional audit work, including our IT audit specialists, expected to be required as a result of the changes to the Council's core financial systems. This work is being scoped and we will confirm the fee implications with management. This and the other 2021/22 fee variations are subject to change and any variations will be discussed with management.

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	2021/22 Expected Fee	2020/21 Actual Fee
Other services - Housing Benefits Subsidy Assurance	£5,900	£5,900

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 2021/22 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

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	990
Performance materiality	740
Specific materiality: - Senior Officers' remuneration and Exit Packages	5
Trivial threshold for errors to be reported to Governance and Audit Committee	30

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 2020/21 audited financial statements we anticipate the overall materiality for the year ending 31 March 2022 to be £990,000 (£900,000 in 2020/21).

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 are aware though that there have been changes to key staff involved in the draft accounts production, and the Council is introducing a new General Ledger in February 2022. These factors are relevant to our assessment and we have therefore set our performance materiality at 75% (80% in 2020/21) of our overall materiality being £740,000.

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 £30k 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

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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.

Agenda Item 6d

Governance and Audit Committee	
Tuesday, 8 March 2022	

Subject: Accounts Closedown 2021/22 Accounting Matters

Report by:	Assistant Director of Finance, Business Support and Property Services (S 151)
Contact Officer:	Paul Loveday Corporate Finance Team Leader Paul.Loveday@west-lindsey.gov.uk
Purpose / Summary:	To review and approve the accounting policies, actuary assumptions and materiality levels that will be used for the preparation of the 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.

RECOMMENDATION(S):

1. To approve the proposed Accounting Policies (included at Appendix 1)
2. To consider and make comment on the pension assumptions (as included at Appendix 2)
3. To consider and make comment on the risk assessment (at Appendix 3).
4. To approve the proposed materiality levels as included at section 5.
5. To consider and make comment on the key closedown dates at Section 7.
6. To accept the main accounting changes for 2021/22 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/176/22/PJL

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 2021/22. 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 2021/22 is anticipated to be £48,487, similar to 2020/21 fee. The Council has provided a budget of £45,300 for the payment of these fees.

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 :
CIPFA Code of Practice on Local Authority Accounting 2021/22 Accounts CIPFA Guidance Notes for Practitioners 2021/22 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 July (changed for both 2020/21 and 2021/22 from 31 May previously) and an Audited Statement of Accounts by 30 November annually (changed in 2021/22 from 31 July previously)

In producing the Statement of Accounts the Council follows the CIPFA Code of Practice on Local Authority Accounting 2021/22 (the Code). There has been minimal changes for 2021/22 (see Section 2).

No changes of accounting policies have been made since the production of the 2020/21 financial statements.

The Actuary for the Pension Fund is 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 therefore it is not recommended that these are challenged.

External Audit have set a materiality level for the Council of £990,000 for 2020/21 and amounts less than £30,000 are considered trivial (i.e. not significant).

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. After applying the planned mitigation the majority of risks are coloured green (low risk) with only two risks identified as being high (red).

In 2021/22 the Council reported under the themes of Our People, Our Place and Our Council. There were no changes to the management structure from that in place in 2020/21.

1 Background

1.1 The Audit and Accounts Regulations 2015 require Local Authorities to produce and publish their Statement of Accounts by 31 July (changed for both 2020/21 and 2021/22 from 31 May previously) and an audited Statement of Accounts by 30 November annually (changed for 2021/22 from 31 July previously)

1.2 In producing the Statement of Accounts the Council follows the CIPFA Code of Practice on Local Authority Accounting 2021/22 (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 2021/22.

1.5 External Audit – 2021/22 Audit Planning

The Accounts and Audit Regulations 2015 require local authorities to approve and publish their Statement of Accounts by 31 July and the audited statements by 30 November respectively for 2021/22.

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.

2. Changes to the Code of Practice

2.1 The following changes to the Code are effective for the 2021/22 and onwards financial statements:

Code Change	Impact on WLDC	Progress
Confirmation of the arrangements for the endorsement of standards arising because of the United Kingdom's withdrawal from the European Union.	No impact, purely confirmation.	Fully compliant
Confirmation of the accounting arrangements for the Dedicated Schools Grant as a consequence of the issue of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020.	No impact. Not applicable.	
Amendments to Section 3.3 (Accounting Policies, Changes in Accounting Estimates and Errors) to confirm (but not introduce) the adaption in Section 3.3 and Appendix C of the Code for standards issued but not yet adopted.		
Augmentations to Section 3.4 (Presentation of Financial Statements) for the reporting of estimation uncertainty.	No impact.	Fully compliant
Amendments to Section 7.1 (Introduction etc.) to confirm the replacement of IPSAS 29 Financial Instruments: Recognition and Measurement with IPSAS 41 Financial Instruments.	No impact	Fully compliant
Confirmation in Section 7.2 (Subsequent Measurement of Financial Assets and Liabilities) and (Financial Instruments – Disclosure and Presentation Requirements) of the reporting requirements of interest rate benchmark reform.	No impact. The Council does not hold the type of financial instrument that this would apply to.	Fully compliant

Confirmation in Appendix C (Changes in Accounting Policies: Disclosures in the 2020/21 and 2021/22 Financial Statements) of the transitional reporting requirements of the new standards introduced in the 2021/22 Code		
Confirmation in Appendix D (New or Amended Standards Introduced to the 2021/22 Code) of the new standards introduced to the 2021/22 Code		

2.2 In 2022/23 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 31/03/2023.

2.3 No restatement will be required for the 2021/22 accounts but the Council will need to convert every operating lease to a finance lease unless it is short term (<365 days) or low value (the Council's de-minimis is £10,000 for items added to the balance sheet and this will be applied to the new IRFS 16)

2.4 The Council has been preparing for these changes for the last three years, we have assessed every lease using a model which external audit has been provided with in the last two financial years audit papers. Each year we review all contracts for embedded leases and the finance business partners liaise with services for any new leases. We will have assessed all operating leases and finance leases by the end of March 2022.

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 2020/21 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.

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 Councils overall budget and spend levels, so any assumptions used for these values will inevitably have a major impact on the Councils accounts, albeit this is a long term liability which is projected to be funded within 20 years. It is appropriate therefore that they should receive special scrutiny.

4.5 Although the assumptions have been determined by 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 2021/22.

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 liabilities for the McCloud Case (public service pension age discrimination cases) were captured for the 31 March 2021 IAS19 balance sheet figures, as will be the case for 31 March 2022

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 2021/22

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 July.

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 £990,000 for 2021/22 and amounts less than £30,000 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 Council's 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 2020/21.

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.

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 2021/22 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 28 May 2021, this was well within the revised statutory deadline of 31 July 21 due the Coronavirus pandemic. The finance team are committed to achieve the end of May 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 2021/22 closedown process.

	Key Dates 2021/22
Planning and Preparation	01/10/2021 – 31/12/2021
External Audit Liaison Meeting	14/01/2022
Balance Sheet Review	19/01/2022
Interim Audit	31/01/2022
Budget Managers Briefing/Training	02/02/2022
Finance Team Closedown Briefing	09/02/2022
Report to Governance and Audit Committee: Closedown Matters	08/03/2022
Close Period 12	01/04/2022
Accruals/Prepayments Input to System	05/04/2022
All Accounts Closed	29/04/2022
Narrative Report Draft	29/04/2022
Balance Sheet and Comprehensive Income and Expenditure Statement Completed	03/05/2022
Outturn Position Report to Corporate Policy and Resources Committee	16/06/2022
Statement of Accounts Completed	23/05/2022
Review of Statement of Accounts	23/05/2022
Draft Statement of Accounts Signed Off by Section 151 Officer	25/05/2022

Send Statement of Accounts to Auditors	25/05/2022
Audit of Accounts (TBC)	12/09/2022
Whole of Government Accounts (subject to date of issue)	30/06/2022
Governance and Audit Committee Approval of Statement of Accounts and Annual Governance Statement	TBC
Publish Statement of Accounts on Website and Issue Public Notice	30/11/2022

8. Accounting Changes 2021/22

8.1 There are no major accounting changes that will affect the 2021/22 Statement of Accounts.

Appendix 1

1. ACCOUNTING POLICIES

i General Principles

The Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. 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 2021/22 (The Code) and the Service Reporting Code of Practice 2021/22, 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% 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 xviv Property Plant and Equipment) in this summary of significant accounting policies.

xiii Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

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

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

xiv. Interests in Companies and Other Entities

The Council has interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses. The judgement by the S151 Officer is that there is no material impact on the Statement of Accounts. Group Accounts are therefore not required for 2021/22.

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 2022

Employer briefing note pre-accounting date

Barnett Waddingham LLP

10 February 2022

Contents

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beyond the expected

Executive summary

This briefing note is addressed to employers participating in the LGPS and details our standard approach to the 31 March 2022 accounting exercise. It sets out our recommended assumptions along with key changes since the previous accounting date and information about what employers need to do. This document has been prepared in advance of the accounting date based on our proposed approach, and will be updated after the accounting date to reflect updated market information at the accounting date. This document is based on market conditions up to 31 January 2022.

This briefing note assumes a previous accounting date of 31 March 2021. For employers whose previous accounting date was not 31 March 2021, this briefing note provides a summary of our recommended assumptions for 31 March 2022 only; should a summary of the key changes since an employer-specific previous accounting date be required then please let us know. Additional fees will apply.

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

How has the balance sheet changed over the year?

The change in the balance sheet position over the year is dependent on the following key variables. In the table below we detail the approximate impact and each of these variables is discussed in more detail in this briefing note:

Variable/assumption	Impact on balance sheet?	Comments
Asset returns	↑	Asset returns have been higher than the discount rate assumed at the previous accounting date.
Discount rate	↑	Discount rates have increased which will improve the balance sheet position.
Inflation	↓	Inflation expectations have increased which will worsen the balance sheet position.
Allowance for actual pension increases	↓	The 2022 pension increase is higher than previously assumed which will worsen the balance sheet position.
McCloud	↔	Most employers have already made an allowance for McCloud in their previous disclosures.
Overall	↑	**Overall, we expect the balance sheet position to improve slightly compared with last year for most employers.**

Please note that these general principles are based on an average employer in an average fund with a duration of 20 years. The actual effect of the change in these variables and assumptions will depend on each employer's individual circumstances.

As a participating employer, what do I need to do?

The assumptions set out in this report are the standards that we intend to use unless instructed otherwise. We therefore recommend employers discuss this note with their auditors and agree whether the standard approach is appropriate. The salary increase assumption, for example, is often tailored by the employer to reflect their anticipated pay increase awards.

ACTION: The employer must let the fund know if they want to adopt a different approach or set of assumptions. To assist in this decision, we can provide employers with a deficit modeller which provides an indication of the impact of any changes to their accounting position.

How much will my IAS19/FRS102 report cost?

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

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

Where can I get further information?

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

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

Assets

Asset performance

Asset returns can be very volatile from year to year and will vary by LGPS fund.

A typical LGPS fund might have achieved a return of around 8% for the period from 31 March 2021. This is based on a fund investing 75% in equities, 5% in gilts and 20% in corporate bonds. This could vary considerably depending on each fund's investment strategy.

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

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How are my assets valued?

To calculate the asset share for an individual employer, we roll forward the assets allocated to each employer at the latest valuation date allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the fund by and in respect of the employer and its employees.

Valuation of the employer's liabilities

To value the employer's liabilities at 31 March 2022, we roll forward the value of the liabilities calculated for the latest full funding valuation using financial assumptions compliant with IAS19 and FRS102.

The full actuarial valuation involved projecting future cashflows to be paid from the fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated value of liabilities as at 31 March 2022 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2022 should not introduce any material distortions in the results provided that the actual experience of the employer and the fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

As required under the IAS19 and FRS102 accounting standards, we have used the projected unit credit method of valuation.

Financial assumptions

The key financial assumptions required for determining the defined benefit obligation for accounting are the discount rate, linked to high quality corporate bond yields, and the rate of future inflation.

We set out our standard approach to the derivation of these assumptions and possible outcomes using market conditions at 31 January 2022.

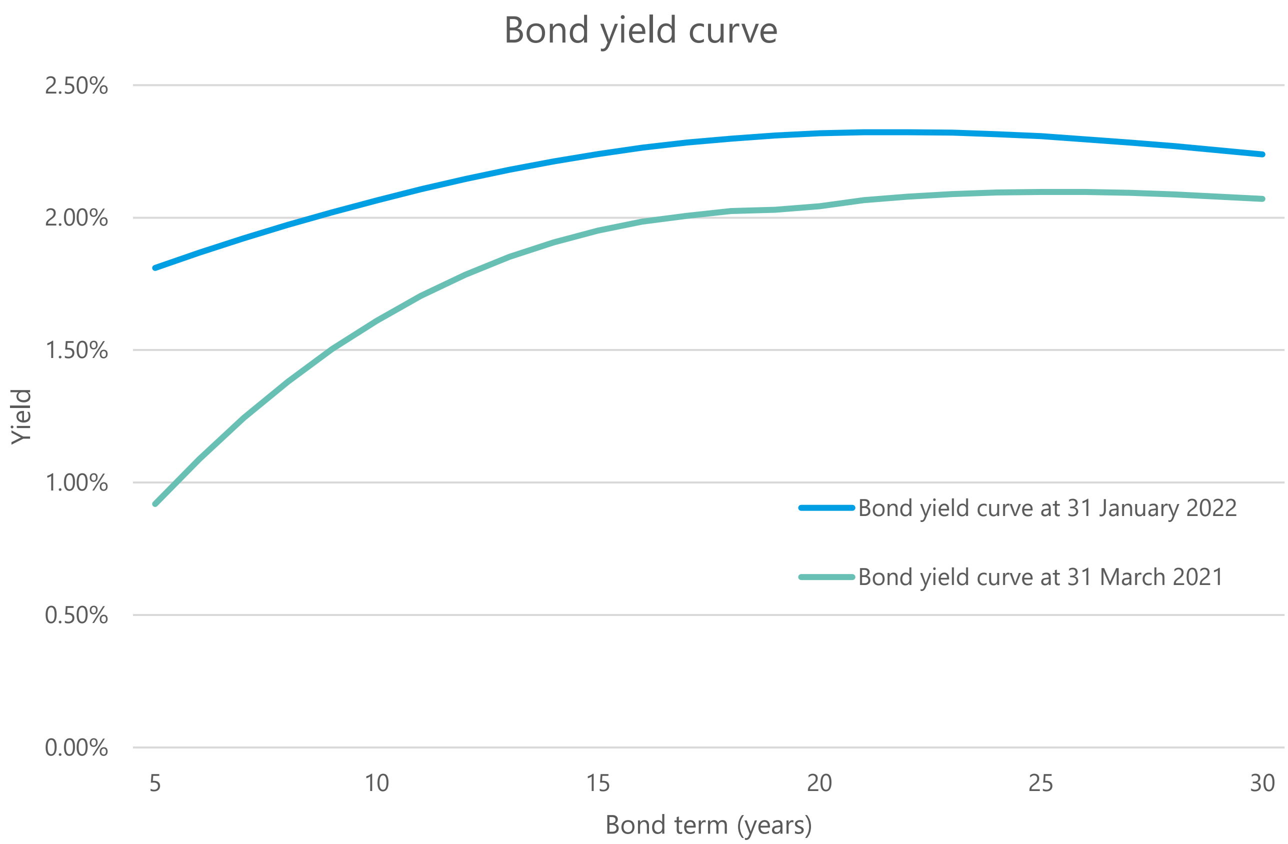
Discount rate

Under both the IAS19 and FRS102 standards the discount rate should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. Our standard approach to derive the appropriate discount rate is known as the Single Equivalent Discount Rate (SEDR) methodology.

We use sample cashflows for employers at each 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). 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 2022:



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

You will see that the bond yield at 31 January 2022 is higher at all terms than at 31 March 2021. As a result, the discount rate assumed for employers will be higher than that assumed at the previous accounting date.

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All else being equal, a higher discount rate will result in a lower value being placed on the defined benefit obligation and an improvement in the overall position.

Sample SEDRs are set out in the table below based on market conditions at 31 January 2022 with the equivalent 31 March 2021 SEDRs also shown for comparison. It also sets out the estimated effect of the change in discount rate assumed based on the same sample durations:

	Discount rate		Estimated impact of change on liabilities
Duration (years)	31 January 2022	31 March 2021	
10	2.15%	1.80%	Decrease of 3%
15	2.20%	1.95%	Decrease of 4%
20	2.25%	2.00%	Decrease of 5%
25	2.25%	2.05%	Decrease of 5%

Assumptions are rounded to the nearest 0.05%.

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

Comparison to previous accounting date

This approach is the same as the previous accounting date.

Inflation expectations

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

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

Pension increases in the LGPS are expected to be based on the Consumer Prices Index (CPI). 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. 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 (Consumer Prices Index with Housing) 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% at medium and longer terms (from 10 years). This results in an overall IRP of between 0.0% p.a. and 0.3% p.a. depending on the term of the liabilities (for terms ranging from 2 years up to 30 years).

Consistent with the SEDR approach, assumptions are rounded to the nearest 0.05% and we intend to use sample cashflows for employers at each duration year (from 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 2022, with the equivalent 31 March 2021 SEIRs (based on our standard derivation at that time) also shown for comparison:

	RPI	
Duration (years)	31 January 2022	31 March 2021
10	3.80%	3.45%
15	3.60%	3.35%
20	3.40%	3.20%
25	3.35%	3.15%

Difference between RPI and CPI

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 of the proposed alignment of RPI to CPIH (and CPI) from that date. 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 between 0.25% p.a. and 0.90% p.a. depending on the term of the liabilities (for terms ranging from 30 years down to 5 years).

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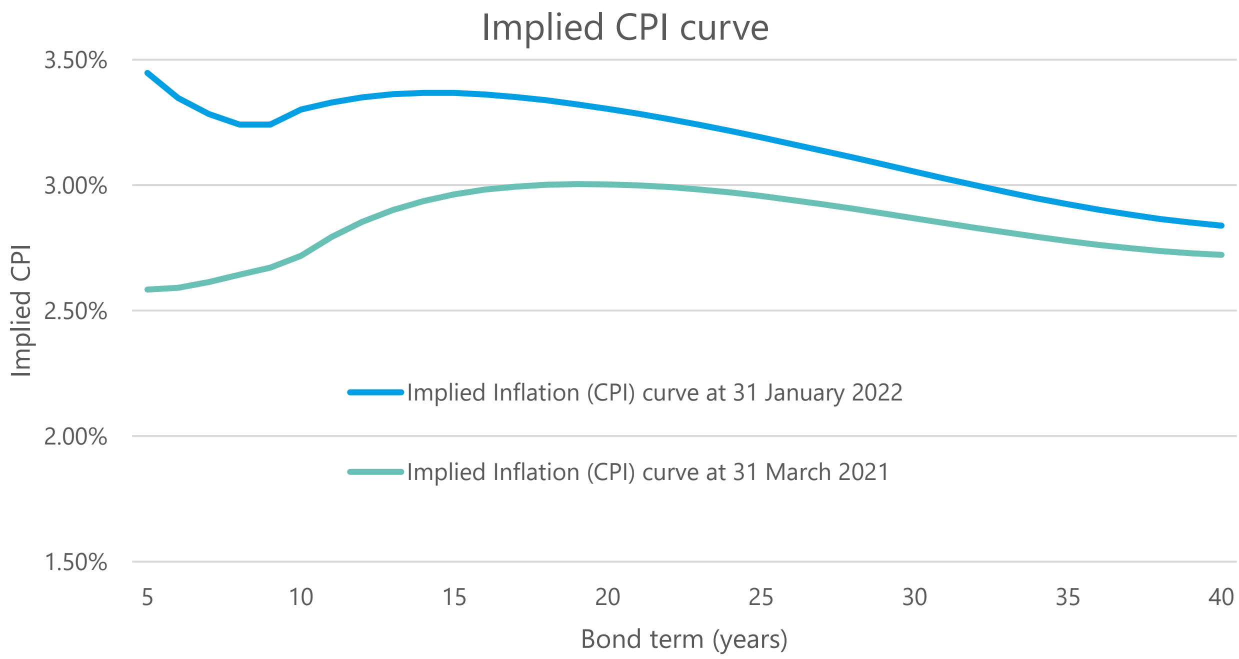
Consumer Prices Index (CPI) assumption

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

The resulting implied CPI curve at 31 January 2022 is shown below along with the implied CPI curve at the last accounting date for comparison:



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

As shown in the graph, the implied CPI curve at 31 January 2022 is higher at all terms. As a result, the assumed level of future pension increases will be higher than that assumed at the previous accounting date, particularly for employers with lower liability durations since this is where the greatest difference in the curves are.

All else being equal, a higher pension increase assumption will result in a higher value being placed on the defined benefit obligation and a worsening in the overall position.

The tables below 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:

	CPI		Estimated impact of
Duration (years)	31 January 2022	31 March 2021	change on liabilities
10	3.25%	2.85%	Increase of 4%
15	3.15%	2.85%	Increase of 4%
20	3.05%	2.80%	Increase of 5%
25	3.05%	2.85%	Increase of 5%

Assumptions are rounded to the nearest 0.05%.

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

Comparison to previous accounting date

This approach is the same as the previous accounting date.

Salary increases

Where an employer has requested a bespoke salary increase assumption last year, if still appropriate, we will continue the same salary increase assumption adopted at the last accounting date. For all other employers, we will adopt the standard approach which is in line with the latest actuarial valuation. For more information please see the latest valuation report.

ACTION: The employer must let the fund know if they want to adopt a different salary increase assumption. Please note that bespoke financial assumptions will incur additional fees.

Comparison to previous accounting date

This approach is the same as the previous accounting date.

Overall impact of changes to financial assumptions

The effect of the changes in the financial assumptions on an employer's liabilities are dependent on the assumptions adopted as well as the specific duration of the employer's liabilities. Typically, employers with greater liability durations are more sensitive to changes in financial assumptions as benefits will be paid over a longer term. The table below describes the estimated effects for employers with liability durations of exactly 10, 15, 20 and 25 years: based on assumptions derived as at 31 January 2022:

Duration (years)	Estimated effect of change in financial assumptions on employer's liabilities
10	No change
15	Increase of 1%
20	No change
25	No change

Based on market conditions at 31 January 2022, most employers will see the value of their defined benefit obligation remain broadly stable. However, the value of liabilities will increase with interest accumulated over the year.

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

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

Additional requirements

Experience items allowed for since the previous accounting date

Experience items arise due to differences between the assumptions made as part of the roll forward approach and actual experience. This includes (but is not limited to) assumptions made in respect of salary increases, pension increases, mortality, and member transfers. Any experience items accounted for will be observed in the asset and/or defined benefit obligation reconciliation tables in the appendices in the individual employer's report.

Allowance for actual pension increases

Our standard approach is to include actual pension increase experience up to the accounting date. The impact will come through as an experience item.

The 2022 pension increase is higher than previously assumed which will result in a higher value being placed on the defined benefit obligation and a worsening in the overall position. The impact may differ depending on the employer's previous assumption and if an employer has not previously allowed for actual pension increases up to 2021.

ACTION: 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.

Accounting modeller

Employers have an option to purchase our accounting modeller to help inform their decision on the financial and demographic assumptions used to produce their IAS19 or FRS102 pensions accounting report. For example, the modeller allows employers to change the 31 March 2022 assumptions to bespoke assumptions and see the impact this would have on the closing position as at 31 March 2022 and also on the Profit and Loss projections for the year to 31 March 2023. We would be happy to provide further information on the modeller features and the associated fees if required.

Valuation of unfunded benefits

Employers may need to include the value of unfunded benefits for their accounts. For these employers, they have the option of adopting a roll forward approach or carrying out a full valuation of their unfunded benefits. If a full valuation approach is required, we will request member data from the Fund in order to value the unfunded liabilities. If a roll forward approach is required, then an estimate of the unfunded liability will be calculated using the estimated liabilities at the previous accounting date.

ACTION: Our default approach is to carry out a roll forward of the unfunded liabilities from the last accounting date. We would be happy to provide further information and the associated fees around the full valuation of unfunded benefits if required.

Demographic assumptions

Our standard approach is to use demographic assumptions in line with the latest actuarial valuation. For more information please see the latest valuation report. For the assumptions as at 31 March 2022, we propose adopting the CMI_2020 model, further details of which are set out below.

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.

Base table mortality

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

Future improvements to mortality

To project future improvements in mortality, we use a model prepared by the Continuous Mortality Investigation Bureau (CMI). The CMI update their model on an annual basis, incorporating the latest mortality data in the national population.

At the last accounting date, unless an employer opted out, we updated the demographic assumptions to use the CMI_2020 Model.

The CMI are due to publish their updated CMI_2021 Model in March 2022. We do not propose to update our standard approach to use the CMI_2021 Model as we do not expect this to have a significant impact on the value of the liabilities for those employers who adopted our standard approach last year.

ACTION: The majority of employers updated their disclosure last year to use the CMI_2020 Model. For these employers, our standard approach is to continue with this assumption this year.

For any employers who did not update to use the CMI_2020 Model, our standard approach will be to update the mortality assumption to use CMI_2020 with a 2020 weight parameter of 25%. Please let us know if you would like to opt out of this approach.

We are also happy to use bespoke demographic assumptions. The employer must let the fund know if they want to adopt a different mortality assumption and we would suggest that these are agreed in advance with the employer's auditors.

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

More information on the CMI_2020 model and our rationale for moving to this model is contained in Appendix 1.

Other considerations

McCloud/Sargeant judgements

There are currently uncertainties in relation to LGPS benefits due to the McCloud and Sargeant judgements. Remedial regulations are expected in 2022 and uncertainty over the benefit changes proposed for the LGPS will remain until these have been finalised.

Impact on liabilities

The McCloud remedy may impact the value of the liabilities in respect of accrued benefits and therefore an allowance may need to be included in an employer's report.

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.

Please see FAQs for further details.

ACTION: If no previous allowance has been made, then our standard approach will be to include an allowance this year based on the Government Actuary’s Department’s analysis (further details can be found in the FAQs) 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. Please let the fund know if you do not want an allowance to be made.

Impact on projected service cost

Where the cost of McCloud has been allowed for in an employer’s report, this includes an allowance in the Current and Projected service cost in respect of the benefits members accrue each accounting period. The McCloud remedy is expected to only apply to benefits accrued up to 31 March 2022, and therefore an adjustment is required to the Projected service cost from 1 April 2022 so that no further allowance for the McCloud remedy is made. This will then feed through to the Current service cost in employers’ 31 March 2023 reports.

ACTION: If a previous allowance for McCloud has been made, then our standard approach will be to adjust the projected service cost from 1 April 2022 to ensure that no further allowance for the McCloud remedy is made. This work is required to ensure your figures correctly reflect the McCloud remedy and therefore we do not expect employers to opt out of this work.

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

Settlements and curtailments

Employers accounting under the IAS19 standard

When determining any past service cost or gain or loss on settlement IAS19 requires that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. Common events for LGPS employers that this may apply to include outsourcings and unreduced early retirements.

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

Employers accounting under the FRS102 standard

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

ACTION: Our default approach for IAS19 reports 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 that they engage with their auditor in advance of the preparation of their report to understand their materiality limit and establish which events fall outside of this.

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

Our default approach for FRS102 reports is to not remeasure the net defined benefit liability at the event date, and this is consistent with the approach at the last accounting date. We are happy to adopt an approach in line with that set out above for the IAS19 reports if requested by the employer, but please note that this will incur additional charges.

Please see FAQs for further details.

Impact of COVID-19

Employers may wish to consider whether it is appropriate to make an allowance for their actual member mortality experience over the accounting year. This would require a full valuation of updated membership data and would incur additional fees. We would encourage employers to discuss with their auditors whether they believe this approach is appropriate based on the employer's specific experience.

Our standard approach is to continue with a roll forward approach in calculating the liabilities, rather than carry out a full valuation of member data. This means that mortality experience is estimated through the benefits paid out to members. The difference between this estimate and the employer's actual mortality experience will then be incorporated once the next actuarial valuation of the fund is complete.

Any impact on service cost due to the Coronavirus Job Retention Scheme will be reflected in the report based on the payroll information we are provided with. We request information relating to unreduced early retirements each year from the administering authority and any redundancies we are made aware of as part of this are included as a curtailment where applicable.

Unless specified in the employer's report, we are not aware of any other events relating to COVID-19 that are to be allowed for in the employer's accounting results. For example, there have been no changes to funding agreements or suspension of payment of individual member transfer values.

Consideration of the mortality assumption in light of COVID-19 is set out earlier in this note.

Goodwin case

We do not intend to make any adjustments to accounting valuations as a result of the Goodwin case. Please see FAQs for further details.

Guaranteed Minimum Pension (GMP) equalisation and indexation

Impact of Lloyds 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 DLUHC on this. Whilst no guidance nor data is available, our standard approach currently is to make no allowance to reflect this judgement. Please see FAQs for further details.

GMP Indexation Consultation response

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here.

Our standard assumption for GMP is that the fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we assume that the fund will be required to pay the entire inflationary increase. Therefore, our assumption is consistent with the consultation outcome and we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome. Please see FAQs for further details.

BARNETT WADDINGHAM
beyond the expected

Associated risks of participating in a defined benefit scheme

In general, participating in a defined benefit pension scheme means that an employer is exposed to a number of risks:

Risk	Comment
Investment risk.	The fund may hold investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long term, the short-term volatility can cause additional funding to be required if a deficit emerges.
Interest rate risk	The fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
Inflation risk	All of the benefits under the fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
Longevity risk.	In the event that the members live longer than assumed a deficit will emerge in the fund. This may be mitigated by a longevity insurance contract if held by the fund. There are also other demographic risks.
Regulatory risk.	Regulatory uncertainties could result in benefit changes to past of future benefits which could result in additional costs.
Orphan risk	As many unrelated employers participate in each fund, there is an orphan liability risk where employers leave the fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers in that fund.

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

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

Appendix 1 CMI_2020

Background

The COVID-19 pandemic has led to a sharp increase in reported deaths in the general population, with the number of deaths in 2020 being significantly higher than deaths reported in other years. There were around 73,000 more deaths in the UK from the start of the pandemic to 1 January 2021 than if mortality rates were similar to those experienced in 2019.

Our view is that the pensioner mortality experience will continue to be heavier over both the short and medium term as a result of the pandemic. The short term view is based on having already seen excess deaths continue since the start of 2021. In the medium term (2-10 years), mortality rates could be expected to be higher (than would otherwise have been the case) possibly due to future waves of coronavirus, but more significantly the effects of economic contraction and the long-term health implications of lockdowns are expected to produce heavier mortality.

CMI_2020 model

The CMI have made a material change to CMI_2020 (compared to previous versions) due to the impact of abnormal mortality data in 2020. This change introduces a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results. The CMI have confirmed the core value of this parameter will be 0% (i.e. no allowance for 2020 mortality data). However, the CMI encourages users to consider the parameter in detail before adopting a certain value, and not to take the core values as the CMI's "recommendation".

Changing the 2020 weight parameter has a material impact on projected mortality improvements from 2020. Placing a higher weight on data for 2020 leads to materially lower future mortality improvements as you would expect. However the impact of the 2020 weight parameter on future mortality improvements "dissipates" over time, with the effect completely disappearing by 2040.

Our view is that the overall outlook for best-estimate future mortality improvements looks more negative than implied by the core CMI_2020, with the adverse consequences of the pandemic seeming to outweigh the positive ones.

Appendix 3

Final Accounts 2021/22 Risk Register

ID	Date Opened	Status	Service Area	Risk Type	Risk Owner	Event (description of risk)	Consequences of Event occurring	Existing Mitigation	Existing Assurances	Score with Existing Mitigation			Risk Option Chosen	Planned Mitigation (if any)		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		Action	Lead	Likelihood 1 Minor 2 Moderate 3 High	Impact 1 Minor 2 Moderate 3 High	Calculated Risk Severity	
1	05/11/2016	Open	Financial Control	Internal Financial Systems and Funding Risks	Tracey Bircumshaw	External auditor will detect a material mis-statement in the accounts.	Could impact on the financial health of the Council and reputation of Financial Services	Regular review of GL transactions against budget, reconciliations, quality review of final account working papers, PBC owners designated	Senior officers review reconciliations and working papers. Checking systems throughout the year are in place. Tracey does a final review.	1	1	1	Accept risk as is	no further actions identified	Tracey Bircumshaw	1	2	2	Amend the financial statements and report to members
2	05/11/2016	Open	Financial Control	Internal Governance - Risks around Non-Compliance re: Technical accounting	Tracey Bircumshaw	The correct accounting treatment has not been followed due to omission, error in interpretation	Could lead to material misstatement and impact on the financial health of the Council and reputation of Financial Services	Updated procedures, up to date technical reference library, attendance at external briefings, learning & development framework	Internal audit reports. Final accounts working papers signed off by senior officer. Working papers are subject to second review by different senior officer.	2	1	2	Mitigate risk (reduce)	QA on all working papers undertaken by expert.	Tracey Bircumshaw	1	2	2	Amend the GL entries and financial statements
3	05/11/2016	Open	Systems	Internal Financial Systems and Funding Risks	Tracey Bircumshaw	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/Technology One 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. Full reconciliation of data/transactions from Civica to Technology One at Go-Live.	Tracey Bircumshaw	1	1	1	Restore Civica/Technology One and re-process data with IT support
4	05/11/2016	Open	Financial Control	Risks around Employment and People	Tracey Bircumshaw	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 workload during this period	Tracey Bircumshaw	1	2	2	reprioritise work, bring in weekend working if necessary and external resources
5	05/11/2016	Open	Financial Control	Risks around Employment and People	Tracey Bircumshaw	Team members leave or are ill, together with in-experienced team members taking on new roles.	Could lead to late production of accounts, impact on the reputation of Financial Services and the Council and possible additional costs.	Procedure notes for main areas	Procedures built into working papers. Earlier preparation, so QA in January, flexible working	2	2	4	Mitigate risk (reduce)	Work with PBC owners to identify issues. Mentor new officers and provide training where necessary to ensure all work areas have sufficient cover so that no one officer has the sole knowledge	Tracey Bircumshaw	1	2	2	reprioritise work, bring in overtime - external resources
6	05/11/2016	Open	Financial Control	Risks around Employment and People	Tracey Bircumshaw	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 papers. PBC owner reviews	2	2	4	Mitigate risk (reduce)	All WP's include instructions. Officers responsible for checking against the Code. QA twice	Paul Loveday	1	2	2	Rework any deficient WPs
7	05/11/2016	Open	Systems	Internal Financial Systems and Funding Risks	Tracey Bircumshaw	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	Paul Loveday	1	2	2	re-work asset figures and transactions
8	05/11/2016	Open	Financial Control	Operational Service Delivery Risks	Tracey Bircumshaw	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	Paul Loveday	1	1	1	
9	05/11/2016	Open	Financial Control	Internal Financial Systems and Funding Risks	Tracey Bircumshaw	Ensuring all accounts are reconciled where there are system related imbalances	Could lead to additional audit costs by delaying time for completion.	policies established including balance sheet recs	Monitored by senior officer and at monthly team meeting	1	2	2	Accept risk as is	no further actions identified	Tracey Bircumshaw	1	2	2	
10	05/11/2016	Open	Financial Statement	Client Risk managed by Financial Services	Tracey Bircumshaw	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	Service Accountants	1	1	1	
11	05/11/2016	Open	Financial Statement	Client Risk managed by Financial Services	Tracey Bircumshaw	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 year	Paul Loveday	1	1	1	
12	05/11/2016	Open	Financial Statement	Client Risk and Financial Services Risk	Tracey Bircumshaw	Material MisStatement due to Fraud	Could lead to material misstatement and impact on the financial health of the Council and reputation of Financial Services	Systems of internal control including internal audit	Audit reports monitored by Senior managers and CMT	1	3	3	Mitigate risk (reduce)	Regular budget and reconciliation monitoring, internal controls incl authorisations and separation of duties	Tracey Bircumshaw	1	1	1	Amend the financial statements
13	07/06/2017	Open	Financial Statement	Client Risk managed by Financial Services	Tracey Bircumshaw	Subsidiaries/other companies do not provide the data needed for group accounting	Not issuing the Statement for publication by 31/07/22	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	Caroline Bird/ Paul Loveday	1	2	2	
14	05/11/2016	Open	Financial Statement	Statutory Deadline exceeded	Ian Knowles	Not issuing the Statement for publication by 31/07/2022	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	Paul Loveday	1	2	2	Communicate with Audtior and Members as national publication for those authorities which do not achieve deadline - reputational risk
15	12/11/2020	Open	Financial Statement	Client Risk managed by Financial Services	Tracey Bircumshaw	Impact from Covid-19 Pandemic	A de-escalation in the impact of the Covid-19 pandemic resulting in year. A lessening in the material change impact to the valuation of Property at the 31/03/2022, with particular reference to those assets valued using rental income as a factor .A lessening of adverse effect on the economy with slowly increasing interest rates and but increasing inflation rates A lessening of the material change to the Valuation of the Pension Fund/Investments due to fluctuations in equities and so forth. Weakening in the 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. However, the widespread vaccination programme and other mitigating measures are beginning to have an effect in returning to a relative state of normality.	2	2	4	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 31/07/2022. Embed addtional resource into the team in January for familiarisation of processes	Paul Loveday	1	2	2	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	14/11/2019	Open	Financial Statement	Client Risk managed by Financial Services	Tracey Bircumshaw	Impact from Brexit	A lessening in the material change to the valuation of property at the 31/03/2022, with particular reference to those assets valued on the Direct Replaceable Cost (DRC method). A lessening in the material change to the valuation of the Pension Fund due to fluctuations in equities and so forth. Would a weaker 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.	The uncertainty of the effects of Brexit have reduced with the paassing of time.	2	2	4	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 31/07/2022	Paul Loveday	1	2	2	Additional funds to be set aside to mitigate financial risk of capital loss on sale of assets. Higher contributions to pension fund over the long term

Governance and Audit Committee Workplan, as at 28 February 2022

Purpose:
The table below provides a summary of reports that are due on the Forward Plan for the remainder of the Civic Year.

Recommendation:

1. That members note the contents of this document.

Title	Lead Officer	Purpose of the report
8 MARCH 2022		
Internal Audit Draft Annual Plan 2022/2023	Alistair Simson, Principal Auditor, Lincolnshire County Council	From Assurance Lincolnshire
External Audit Strategy Memorandum (Plan) for 2021/22	Paul Loveday, Corporate Finance Team Leader	To present the 2021/22 External Audit Strategy from our External Auditors, Mazars.
Auditor's Annual Report (Year Ended 31 March 2021)	Paul Loveday, Corporate Finance Manager	To present those charged with governance the Auditor's Annual Report on the work undertaken by Mazar's for the year ended 31 March 2021
Closedown Matters 2021/22	Paul Loveday, Corporate Finance Manager	To approve the Accounting Policies and to inform members of any issues pertaining to the closure of accounts.
12 APRIL 2022		
Internal Audit Quarter 4 Report 21/22	Alistair Simson, Principal Auditor, Lincolnshire County Council	From Assurance Lincolnshire
Certification of Grants and Returns 2020/21	Paul Loveday, Corporate Finance Team Leader	To present the Housing Benefit Subsidy Claim Audit for 2020/21 from our External Auditor, Mazars
Annual Review of the Constitution 21/22 and Monitoring Officer Annual Report	Emma Redwood, Assistant Director People	To present the annual review for recommendation to Council

	and Democratic Services, Katie Storr, Democratic Services & Elections Team Manager	
Combined Assurance Report	Emma Redwood, Assistant Director People and Democratic Services	To present the tri-annual combined assurance report
6 Month Review of Strategic Risks	Emma Redwood, Assistant Director People and Democratic Services	To present the 6 month review of strategic risks
14 JUNE 2022		
Internal Audit Annual Report 2021/2022	Alistair Simson, Principal Auditor, Lincolnshire County Council	To present the annual report.
19 JULY 2022		
Internal Audit Quarter 1 Report 2022/23	Alistair Simson, Principal Auditor, Lincolnshire County Council	To present the Quarter 1 Internal Audit Report 2022/23.
11 OCTOBER 2022		
Internal Audit Quarter 2 Report 2022/23	Alistair Simson, Principal Auditor, Lincolnshire County Council	To present the Quarter 2 Internal Audit Report.s
10 JANUARY 2023		
Internal Audit Quarter 3 Report 2022/23	Alistair Simson, Principal Auditor, Lincolnshire County Council	To present the Quarter 3 Internal Audit Report.

14 MARCH 2023		
Internal Audit Draft Annual Plan 2023/24	Alistair Simson, Principal Auditor, Lincolnshire County Council	To present the Draft Annual Plan for Internal Audit for the 2023/24 committee year.
Combined Assurance Report 2022/23	Alistair Simson, Principal Auditor, Lincolnshire County Council	To present the Report from the Combined Assurance aspect for 2022/23
18 APRIL 2023		
Internal Audit Quarter 4 Report 2022/23	Alistair Simson, Principal Auditor, Lincolnshire County Council	To present the Quarter 4 report from Internal Audit.