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NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

8 April 2021

Chairman: Councillor K Vickers

Venue: Virtual Meeting
Microsoft Teams

Time: 2.00 pm

E-Mail Address:
matthew.nundy@northlincs.gov.uk

AGENDA

1. Substitutions (if any)
2. Declarations of Disclosable Pecuniary Interests and Personal or Personal and Prejudicial Interests (if any).
3. To take the minutes of the meeting held on 27 January 2021 as a correct record and authorise the chairman to sign. (Pages 1 - 6)
4. Audit Progress Report - March 2021 - Report by Mazars (Pages 7 - 22)
5. Audit Strategy Memorandum - Year Ending 31 March 2021 - Report by Mazars (Pages 23 - 56)
6. Internal Audit Plan 2021-22 (Pages 57 - 72)
7. Annual Fraud Report 2020-21 (Pages 73 - 86)
8. Treasury Management Practices 2021-22 (Pages 87 - 120)
9. Any other items which the chairman decides are urgent by reasons of special circumstances which must be specified.

Note: Reports are by the Director: Governance and Partnerships unless otherwise stated.

Member Development Session (NOT PUBLIC)

10. **The Redmond Review** 121 -
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11. **Audit Committee Self-Assessment** 125 -
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12. **Future Agenda Items**
13. **Member Development Requirements**

Public Document Pack Agenda Item 3

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

27 January 2021

PRESENT: -

K Vickers (Vice-Chair), P Clark, T Ellerby, T Foster, T Gosling, L Yeadon and D Wells

The meeting was held at the Virtual Meeting Microsoft Teams.

603 **SUBSTITUTIONS**

Councillor Wells filled the vacancy at this meeting.

604 **DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS AND PERSONAL OR PERSONAL AND PREJUDICIAL INTERESTS (IF ANY).**

There were no declarations made at this meeting.

605 **TO TAKE THE MINUTES OF THE MEETING HELD ON 23 NOVEMBER 2020 AS A CORRECT RECORD AND AUTHORISE THE CHAIRMAN TO SIGN.**

Resolved – That the minutes of the proceedings of this committee held on 23 November 2020, having been printed and circulated amongst the members, be taken as read and correctly recorded and signed by the Vice-Chairman.

606 **ANNUAL AUDIT LETTER - YEAR ENDING 31 MARCH 2020**

The council's External Auditors Mazars submitted its Annual Audit Letter for the year ending 31 March 2020, which summarised the work the external auditor had undertaken as the auditor for North Lincolnshire Council. The external auditors responsibilities were defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The key points of the report included

-
- That the financial statements gave a true and fair view of the council's financial position as at 31 March 2020 and of expenditure and income for the year then ended; and had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
- The auditor's report issued on 30 November 2020 included an opinion that the other information in the Statement of Accounts was consistent with the audited financial statements.
- The report concluded that the auditors were satisfied that in all significant respects, the council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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- That in line with group audit instructions issued by the NAO on 4 November 2020, Mazars reported to the group auditor in line with the requirements applicable to the Whole of Government Accounts return.
- The external auditor's report confirmed that they did not use its powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the council.

Members discussed the content of the report and letter with the council's external auditors.

Resolved - That the Annual Audit Letter for the year ending 31 March 2020 be noted and welcomed.

607 **AUDIT PROGRESS REPORT - JANUARY 2021**

The council's External Auditors Mazars submitted its audit progress report which provided the committee with an update on Mazars progress in delivering its responsibilities as the council's external auditors.

Mazars informed the committee that since the 23 November 2020 meeting, the external auditors had -

- completed its work on the 2019/20 financial statements, and issued an unqualified opinion;
- issued its 'follow-up letter' which concluded on all the areas of outstanding work at the time of the November 2020 Audit Committee; and
- issued its Annual Audit Letter.

The Chairman then facilitated a discussion between Mazars and the committee on the content of the audit progress report.

Resolved – That the audit progress report for the period up to the end of January 2021 be noted.

608 **INTERIM INTERNAL AUDIT REPORT 2020-21**

The Director: Governance and Partnerships circulated the interim internal audit, which provided an update on Internal Audit activity up to 20 December 2020, including the impact of COVID 19 on the delivery and content of the audit plan.

The Director informed the committee that it was a requirement of the Public Sector Internal Audit Standards (PSIAS) for the Audit Committee to receive regular updates on the activities of Internal Audit, in particular:

- providing assurance that sufficient work would be carried out to provide a reliable risk based annual opinion on the effectiveness of the control environment and any amendments to the audit plan;
- bringing to the Committee's attention any issues identified during the course of the 2020/21 audit which could impact on the annual opinion; and

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- providing assurance of Internal Audit's compliance with PSIAS.

On 20 May 2020, the Audit and Governance Committee formally approved a plan consisting of 1145 days. However, the committee was informed that due to the impact of the pandemic there was likely to be a greater degree of ongoing amendment and re-prioritisation to the plan than in previous years.

Attached as an appendix to the report was an update on the delivery of the audit plan up to 20 December 2020 by the Head of Audit and Assurance.

The appendix showed that sufficient work should be carried out by May 2021 to provide a reliable opinion on the council's control environment during the year the plan had been subject to significant change. Consequently, the ongoing impact of the pandemic meant that that risk to the delivery of the plan remained a risk that needs to be managed.

A list of final reports issued up to 20 December 2020 was shown within the report. There was currently one limited assurance report, which the committee was informed should not impact on the overall annual audit opinion.

The committee was informed that when preparing this report, the Head of Audit and Assurance also considered whether there was a need to amend the Audit Charter. The Charter defined internal audit purpose, authority, responsibility, and position within an organisation. Members heard that there was no requirement to amend it this year as there had been no changes to Internal Audit's scope or the standards.

The Director and Head of Audit and Assurance then responded to questions on the interim internal audit report.

Resolved – That the Interim Internal Audit report 2020-21 be received with thanks.

609 **ACCOUNTING POLICIES 2020-21**

The Director: Governance and Partnerships submitted a report that informed the committee that the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (The Code) required each local authority to adopt accounting policies that set principles for recording financial transactions within the council's accounts.

The report explained that The Code specified the principles and practices required to prepare a Statement of Accounts to give a true and fair view of the financial position, financial performance and cash flows of the council.

The policies proposed for North Lincolnshire are based upon guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and take account of local circumstances.

The report requested that members satisfy themselves that the Accounting

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Policies at Appendix 1 were appropriate.

The Director responded to members questions on aspects of her report.

Resolved – (a) That following consideration of the report and appendix, and discussion of their content, the Accounting Policies set out at Appendix 1 of the report be approved, and (b) that the Director: Governance and Partnerships be authorised to amend any existing policies during the production and audit of the financial statements allowing for minor amendments to be made which may be picked up during the audit. Any major amendments to accounting policies would be reported back to this committee at the time of approving the audited version of the accounts.

610 **LOCAL CODE OF CORPORATE GOVERNANCE**

The Director: Governance and Partnerships circulated the updated Code of Corporate Governance which had been compiled in accordance with guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Government Chief Executives (SOLACE) in their document “Delivering Good Governance in Local Governance Framework” (2016).

The committee heard that in April 2016 the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Government Chief Executives (SOLACE) issued their document “Delivering Good Governance in Local Government: a Framework”. It was based on seven principles underpinning the framework. Namely -

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- Ensuring openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable economic, social and environmental benefits
- Determining the interventions necessary to optimize the achievement of intended outcomes
- Developing the entity’s capacity, including the capacity of its leadership and the individuals within it
- Managing risks and performance through robust internal control and strong financial management
- Implementing good practices in transparency, reporting and audit to deliver effective accountability

The Council adopted this framework in 2016 and adopted a local code around the seven principles. The Code was subject to annual review and the latest Local Code of Corporate Governance was shown at Appendix 1 of the report.

The updated Code shows that overall the council continues to comply with the principles outlined in the CIPFA/SOLACE Framework. The effectiveness of these arrangements would be reported in the Annual Governance Statement.

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The Director responded to members questions on aspects of her report.

Resolved – That following consideration of the report and appendix, and discussion of their content, the Local Code of Corporate Governance set out at Appendix 1 of the report be approved.

611 **RISK AND OPPORTUNITY PROTOCOL**

The Director: Governance and Partnerships circulated the updated Risk and Opportunities Protocol.

The Director informed the meeting that the council's Risk and Opportunity Protocol had been reviewed and updated and was attached at Appendix 1 of the report.

The Protocol had been evaluated against best practice and described the risk management framework that was in place. The Protocol also demonstrated commitment to the promotion of sound risk management throughout the council.

The Risk and Opportunities Protocol provided a framework by which the Audit Committee could seek assurance that any significant risks to the council achieving its priorities were adequately managed. The key elements of the Protocol were:

- evaluation of the Council's risk maturity, which had been stated that "there was an organisational managed approach to risk management, based on recognised risk management principles, had been developed and communicated"
- definition of the Council's risk appetite which had been defined as "open"
- mapping out roles and responsibilities for risk management and
- setting out actions to further develop risk management in relation to the Council.

The Director responded to members questions on aspects of her report.

Resolved – That following consideration of the report and appendix, and discussion of their content, the Risk and Opportunity Protocol set out at Appendix 1 of the report be approved.

612 **RISK MANAGEMENT PROGRESS REPORT**

The Director: Governance and Partnerships submitted a report that informed the committee of the key issues arising from risk management work at the council.

The Council's strategic risks were attached to the report at Appendix 1.

Members heard that the council's strategic risks were reviewed regularly to assess the triggers, impacts and controls. Overall, with the controls and mitigations that were in place overall risk levels were assessed as low.

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The council had generated specific and risk logs to reflect the external operating environment: 'Adverse impacts arising from COVID 19' and 'EU Exit'. Controls were in place to mitigate and the risk triggers were being monitored and reviewed.

Work to further embed risk management continued. In addition to delivering workshops the latest edition of Risk Roundup had been published and was attached at Appendix 2 to the report. The newsletter included important articles on significant risk topics such as health and safety, information governance, fraud and insurance.

The Director added that a review of the Council's operational risk registers was carried out by the Strategic Lead Risk and Governance in December 2020. 18 of the 170 risks in the system either had not been reviewed by the service after the due date or had an outstanding action after the due implementation date, equating to 11%. Work was ongoing with service leads to ensure regular reviews were updated on the system.

Resolved - That following consideration of the report and appendices, and discussion of their content, that the Risk Management Progress Report provided adequate assurance in respect of the council's risk management arrangements.

613 **AUDIT OF ACCOUNTS 2019-20**

The Chairman formally thanked all council officers for their hard work, diligence and professionalism during the pandemic to finalise the council's accounts for the financial year 2019-20.

This item was deemed urgent as the meeting was the first opportunity that the committee could express its gratitude to council officers following the confirmation that the council's accounts had been signed off by the statutory deadline of 30 November 2020.

Resolved - That the Audit Committee was very satisfied that the accounts of North Lincolnshire Council continue to be ran in a good and excellent manner with the thanks of the committee members to all concerned.

Audit Progress Report

North Lincolnshire Council

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March 2021



1. Audit Progress

2. National Publications

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01

Section 01: **Audit Progress**

Audit Progress

Purpose of this report

This report provides the Audit Committee for its 8 April 2021 meeting with an update on progress in delivering our responsibilities as your external auditors.

The report also includes at Section 2 for your information a summary of recent reports which we believe are relevant to your responsibilities.

Audit progress

2020/21 Audit

We have commenced our audit planning for the 2020/21 audit and will present our Audit Strategy Memorandum (ASM) at this Audit Committee meeting as a separate agenda item. We have continued to hold regular discussions with the finance team and these help us to keep up to date with emerging issues that may impact on our external audit.

The scope of the Audit and our audit responsibilities are set out in the 2020 Code of Audit Practice. The only significant change on the previous Code is in relation to our responsibilities relating to the Value for Money Conclusion. We say more on this on the next page.

Audit Progress (continued)

External audit work on the Council's arrangements to deliver value for money in its use of resources

We reported during 2019/20 that the National Audit Office (NAO) had updated their Code of Audit Practice and that this new Code applies from 2020/21. The new Code changes the work that auditors will be required to do, and the related reporting, on Councils arrangements to deliver value for money in their use of resources.

The changes to the reporting requirements means that from 2020/21 we will no longer include a value for money conclusion in our Financial Statements Audit Report. We will report our commentary on the Council's arrangements to deliver value for money in a new Auditor's Annual Report (which replaces the Annual Audit Letter). The NAO Code requires that where auditors identify weaknesses in Council's arrangements they should report recommendations to the Council promptly through the year.

In carrying out our work we will comply with the NAO's guidance on value for money work, which identifies that the work must have regard to the following specific criteria:

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

The new Code requirements represent a significant change to the focus and reporting of our value for money conclusion work.

NAO's guidance to auditors is publicly available through the following link.

<https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2019/12/AGN-03-Auditors-Work-on-Value-for-Money-Arrangements.pdf>

NAO has still to confirm some of its specific guidance regarding the approach and reporting of this work, and our risk assessment of the Council's arrangements and any likely significant weaknesses is in progress.

We will keep the Audit Committee up to date on our progress as we complete our audit work.

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Section 02: **National Publications**

National Publications

	Publication/update	Key points	Page
CIPFA			
1	Code of Practice on Local Authority Accounting in the United Kingdom: Disclosure Checklist for 2020/21 Accounts	2020/21 Disclosure checklist	9
2	Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for 2020/21 Accounts	2020/21 Code Guidance Notes	9
3	Service Reporting Code of Practice for Local Authorities 2021/22	2020/21 SeRCOP Guidance	9
4	Guidance for Head of Internal Audit Annual Opinions 2020/21	Guidance	10
5	A Guide to Local Authority and Public Sector Asset Management	Step-by-step guide	10
6	Planning to Deliver Good Value in Demand-led Services (social care)	Good practice framework	10
7	Fraud and Corruption Tracker	CIPFA's latest information has been published.	11
8	Consultation on stronger Prudential Code	CIPFA is consulting on the Prudential Code, including proposals to strengthen the requirements for commercial investments.	11
9	CIPFA Bulletin 06 – Application of the Good Governance Framework 2020/21	Provides updated guidance and takes into account the introduction of the CIPFA Financial Management Code 2019 during 2020/21.	11
National Audit Office			
10	Local auditor reporting application	Data on local auditor reporting presented through an interactive map	12

National Publications

	Publication/update	Key points	Page
MHCLG			
11	Local authority financial reporting and external audit: government response to the Redmond review	MHCLG's response to Sir Tony Redmond's independent review	13
12	Consultation on Amendments to the Accounts and Audit Regulations 2015	MCHLG has consulted on its proposed changes to the accounts publication deadline for 2020/21 and 2021/22.	13
Financial Reporting Council			
13	Local Audit Inspections	FRC Audit Quality report	14

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NATIONAL PUBLICATIONS

CIPFA

1. Code of Practice on Local Authority Accounting in the United Kingdom: Disclosure Checklist for 2020/21 Accounts, January 2021

The 2020/21 version of the disclosure checklist has been updated to reflect the reporting requirements introduced by the 2020/21 Code of Practice. This annual publication is for finance practitioners in local authorities and external audit agencies and firms in England, Scotland and Wales.

The checklist is in the form of a series of questions. If the answer to any question is no, then a justification for departing from the Code should be given and potentially disclosed in the accounts, where the impact of departures is material.

<https://www.cipfa.org/policy-and-guidance/publications/d/disclosure-checklist-202021-print>

2. Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for 2020/21 Accounts, January 2021

This edition of the Guidance Notes provides detailed guidance on the key accounting changes introduced by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) 2020/21, and includes amendments to implement amendments to accounting standards, reference to arrangements for the application of accounting standards arising as a consequence of the UK's withdrawal from the EU and legislative amendments. The example financial statements have also been updated to reflect these changes.

<https://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-guidance-notes-202021-print>

3. Service Reporting Code of Practice for Local Authorities 2021/22, January 2021

Modern local government is constantly developing and adapting to its current economic climate. Transparency initiatives, performance and best value regimes are evolving in expectation of the government becoming more sophisticated.

SeRCOP is reviewed annually to ensure that it develops in line with the needs of local government, transparency, best value and public services reform.

In England, SeRCOP is given legislative backing under the Local Government Act 2003. In Scotland SeRCOP's Service Expenditure Analysis (SEA) and guidance is used by the Scottish Government as the basis for specifying the requirements of the Local Financial Returns (LFRs).

<https://www.cipfa.org/policy-and-guidance/publications/s/service-reporting-code-of-practice-for-local-authorities-202122>

NATIONAL PUBLICATIONS

CIPFA

4. Guidance for Head of Internal Audit Annual Opinions 2020/21, November 2020

The annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control is a requirement of the Public Sector Internal Audit Standards (PSIAS). It is an important source of assurance that supports a local government body's annual governance statement.

If sufficient assurance is not available from internal audit work completed and other sources of assurance that the head of internal audit may seek to place reliance on then they should publish a limitation of scope to explain the position and impact on the annual opinion. The guidance sets out the steps heads of internal audit, together with the leadership team and audit committee, should take.

To further support the guidance CIPFA held a free webinar on 15 December.

<https://www.cipfa.org/policy-and-guidance/standards/guidance-for-head-of-internal-audit-annual-opinions-202021>

5. A Guide to Local Authority and Public Sector Asset Management, November 2020

This step by step guide to asset management in the public sector has been produced by CIPFA Property. It takes the reader on the asset management journey, from the development of strategic asset management policies and strategies designed to deliver corporate objectives through to the development, implementation, challenge and review of asset management practices and portfolios.

<https://www.cipfa.org/policy-and-guidance/publications/a/asset-management-in-the-public-sector-a-practitioners-guide>

6. Planning to Deliver Good Value in Demand-led Services (social care), November 2020

Several local authorities successfully deliver good value in these areas, and this publication draws on their experience and best practice. It sets out a three step framework, based on a number of essential elements that recognise the challenges involved. This framework emphasises the importance of business partnering and ensuring plans reflect reality to enable improved operational and financial resilience.

<https://www.cipfa.org/policy-and-guidance/publications/p/planning-to-deliver-good-value-in-demand-led-services-social-care>

NATIONAL PUBLICATIONS

CIPFA

7. Fraud and corruption Tracker, February 2021

The latest CIPFA Fraud and Corruption Tracker (CFaCT), which includes local government data between 1 April 2019 and 31 March 2020, provides a baseline illustration about the prevalence of grant fraud in the public sector, just before unprecedented levels of COVID-19 grant funding for councils were released by the government in March of last year. The report follows previous warnings from the National Crime Agency and other law enforcement bodies of an increase in cases related to suspected COVID-19 grant fraud. Valued at an estimated loss of £36.6m, the report reveals only 161 instances of grant fraud occurred in 2019/20.

The report also shows that council tax continued to be the largest area of identified fraud for councils, with more than 30,600 cases totalling £35.9m in 2019/20. This year, 32% of respondents also stated their organisation had been a victim of a Distributed Denial-of-Service (DDoS)/hacking attack in the last 12 months, a 5% increase from the previous year. Survey respondents also expressed concern about councils' inability to tackle usual areas of fraud due to resource being re-directed into the processing and review of COVID-19 business grants.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/grant-fraud-represented-less-than-of-uk-public-sector-fraud-pre-pandemic>

8. CIPFA consults on a stronger Prudential Code, January 2021

CIPFA has launched a consultation on proposals to strengthen the Prudential Code, following growing concerns over local government commercial property investments. The Prudential Code is a professional code of practice that aims to ensure local authorities' financial plans are affordable, prudent and sustainable. To date, the provisions in the Code have not prevented a minority of councils from taking on disproportionate levels of commercial debt to generate yield. The proposed changes are intended to prevent future misinterpretations of the Code and strengthen the necessary regard to its provisions to protect local decision making and innovation. The consultation will be open for 10 weeks and responses must be submitted by 12 April 2021.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-consults-on-stronger-local-government-prudential-code>

9. CIPFA Bulletin 06, Application of the Good Governance Framework 2020/21, February 2021

This bulletin covers the impact of the continuing COVID-19 pandemic on governance in local government bodies and the requirements of the Delivering Good Governance in Local Government Framework 2016 CIPFA and Solace (the Framework). It also takes into account the introduction of the CIPFA Financial Management Code 2019 (FM Code) during 2020/21.

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-06-application-of-the-good-governance-framework-202021>

NATIONAL PUBLICATIONS

National Audit Office

10. Local auditor reporting application, December 2020

The local auditor reporting application presents the opinions of local auditors on local public bodies' financial statements and conclusions on whether they have proper arrangements in place to secure value for money. The data is presented through an interactive map which allows users to explore auditor reporting for nine different types of local body and two different audit years. The interactive map also contains pop-ups to enable users to access further information about the body, such as the local auditor's report or annual audit letter.

<https://www.nao.org.uk/other/local-auditor-reporting-application/>

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NATIONAL PUBLICATIONS

MHCLG

11. MHCLG's response to Sir Tony Redmond's independent review, December 2020

The response of the Ministry of Housing, Communities and Local Government to Sir Tony Redmond's Independent review into the oversight of local audit and the transparency of local authority financial reporting. The Redmond Review made 23 recommendations relating to the quality, timeliness and sustainability of local audit, and the transparency of local authority accounts. The department has grouped its response into 5 themes, which are summarised in Annex A to the response.

Amongst the responses MHCLG confirmed that they intend to amend existing regulations to extend the deadline for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years). At the end of this period they will review whether there is a continued need to have an extended deadline.

They also confirmed that they did not intend to create an Office of Local Audit and Regulation (OLAR) stating in their response that they "do not wish to re-create the costly, bureaucratic and over-centralised Audit Commission". They added that they "will commit to explore the full range of options as to how best to deliver Sir Tony's finding that a 'system leader' is required. This will include close consideration of whether existing bodies could take on this function."

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review>

12. MHCLG's Consultation on amendments to the Accounts and Audit Regulations 2015, February 2021

MCHLG has consulted on its proposed changes to the accounts publication deadline for 2020/21 and 2021/22.

The draft regulations includes provisions, at regulation 2 to change the publication deadline for principal authorities from 31 July to 30 September as proposed in recommendation 10 by the Redmond review, but for 2 years - 2020/21 and 2021/22. The intention is for the amended deadline to be reviewed after that period when it will be clearer as to whether the audit completion rate has improved.

The draft regulations also enable principal bodies to publish their draft accounts for inspection, linked to the later publication deadline, by removing the fixed period for public inspection, to say instead that the draft accounts must be published on or before the first working day of August. This will allow authorities and audit firms more flexibility to schedule their audits in line with the later publication deadline but, importantly, will not prevent them from being signed off earlier. This mirrors the approach taken in the Accounts and Audit (Amendment) (Coronavirus) Regulations 2020.

MCHLG's consultation closed on 1 March 2021.

NATIONAL PUBLICATIONS

Financial Reporting Council

13. Major Local Audits – Audit Quality Inspection, October 2020

The framework for the inspection of local audit work

Responsibility for the inspection of local audit work is now with the Financial Reporting Council (FRC) for 'major local audits' (those with annual expenditure which exceeds £500m) and the ICAEW for those bodies which do not meet the major local audit definition. As part of their inspection of major local audits for the 2018/19 financial year, the Audit Quality Review (AQR) team of the FRC reviewed two of our major local audits and found these to require significant improvements in respect of our audit of the financial statements. The same reviews indicated that our work on value for money arrangements for those audits was of a good standard. Our non-major local audits for 2018/19 were not subject to inspection by the ICAEW.

Our response to the FRC's findings

We are committed to delivering high-quality audits to all of our clients and have responded robustly to the AQR's findings. Our Local Audit Quality Plan incorporates the risks to audit quality identified from a range of sources and identifies that actions we have put in place, or are taking, to mitigate these risks. Our Audit Quality Team is responsible for the maintenance of the plan which is also subject to oversight and scrutiny from the firm's Audit Board.

In addition, we have undertaken a detailed root cause analysis project to identify and understand the drivers of poor audit quality in some of our local audit work. This has focused on all local audits where the need for improvement or significant improvements have been identified either through external inspections or our programme of internal quality monitoring reviews.

We have taken steps to respond to the AQR's specific findings in relation to our work in the following areas of the audit:

- Testing the valuation of property assets;
- Exercising appropriate oversight of group audits, including the direction, supervision and review of the work of component auditors; and
- Document judgements made as part of the audit process, specifically those in relation to our testing of income and expenditure.

We have also strengthened our standard procedures in relation to the audit of net defined benefit pension liabilities arising from our clients' membership of local government pension schemes.

The FRC's report on its inspection findings in relation to the quality of major local audits for the year ended 31 March 2019, can be found [here](#). This also includes our detailed response to their findings on our financial statement audits.

NATIONAL PUBLICATIONS

Financial Reporting Council

13. Major Local Audits – Audit Quality Inspection, October 2020 (continued)

What this means for the Council

As outlined above, we take the weaknesses identified by the FRC extremely seriously, and our response to the improvement areas has been robust. It is clear that on areas of the audit such as the valuation of property assets (including investment properties) and the audit of defined benefit pension liabilities, we must do more to meet the regulator’s expectations. This means the time we spend on these areas of the audit will increase and the level of challenge we apply in auditing these areas will also increase. Your finance team and your experts will have seen the increase in the scope and scale of work we have undertaken in 2019/20 in terms of the granularity and depth of testing and changes to our sample sizes in a number of key areas.

Going forward, our response and the increase in the challenge we make, is likely to include the engagement of our own experts (for example, property valuation experts) to fully consider the methodologies and judgements applied by the Council’s own experts. There will be consequential effects on the fee that we are likely to request from the Council to undertake the audit.

Contact

Mazars

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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.

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Audit Strategy Memorandum

North Lincolnshire Council

Year ending 31 March 2021

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Agenda Item 5

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- Appendix – Key communication points

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Audit Committee
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Scunthorpe
DN15 6NL

March 2021

Dear Audit Committee Members

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

Audit Strategy Memorandum – Year ending 31 March 2021

We are pleased to present our Audit Strategy Memorandum for North Lincolnshire Council for the year ending 31 March 2021. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 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 which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

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

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0113 394 2000.

Yours faithfully



Mark Kirkham

Mazars LLP

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

Tel: 0113 394 2000 – www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861. VAT number: 839 8356 73

01

Section 01:

Engagement and responsibilities summary

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1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of North Lincolnshire Council (the Council) for the year to 31 March 2021. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.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 Audit Committee, as Those Charged With Governance, of their responsibilities.



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. Our audit should not, however, be relied upon to identify all such misstatements.



Going concern

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting and the Director: Governance and Partnerships is responsible for carrying out an assessment of whether the presumption remains appropriate. As auditors, we are required to obtain sufficient appropriate audit evidence and conclude on the appropriateness of the Director: Governance and Partnerships' use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.



Value for money

We also carry out audit work to assess the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach in section 5 of this report.



Reporting to the NAO

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



Electors' rights

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

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02

Section 02:

Your audit engagement team

2. Your audit engagement team

Your external audit service continues to be led by Mark Kirkham. A summary of key team members are detailed below:

Who	Role	E-mail
Mark Kirkham	Engagement Lead	Mark.Kirkham@mazars.co.uk
Nicola Hallas	Engagement Manager	Nicola.Hallas@mazars.co.uk
Louise Stables	Engagement Assistant Manager	Louise.Stables@mazars.co.uk

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Engagement and responsibilities summary	Your audit engagement team	Audit scope, approach and timeline	Significant risks and key judgement areas	Value for money	Fees for audit and other services	Our commitment to independence	Materiality and misstatements	Appendices
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03

Section 03:

Audit scope, approach and timeline

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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.

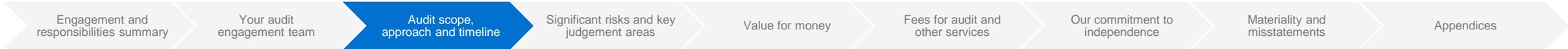
Audit approach

Our audit approach is risk based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. When 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.



3. Audit scope, approach and timeline

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Planning January – March

- 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

Completion September

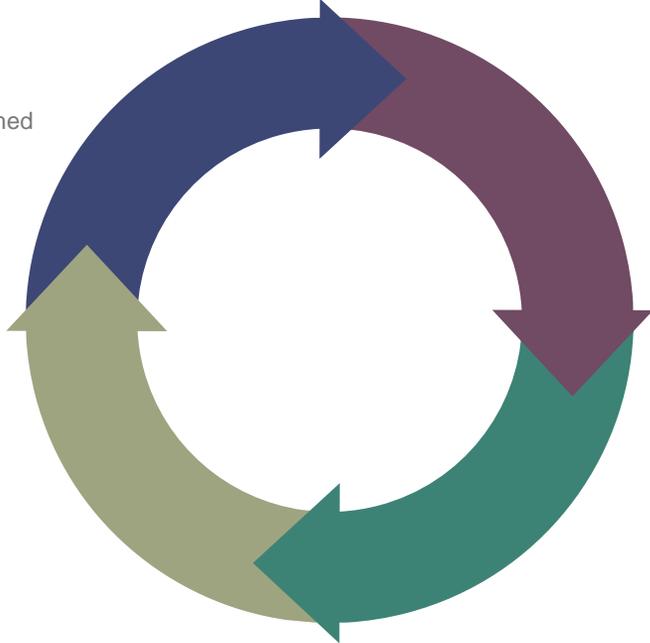
- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Audit Committee
- Reviewing subsequent events
- Signing the auditor’s report

Interim March – April

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

Fieldwork July - September

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



3. Audit scope, approach and timeline

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

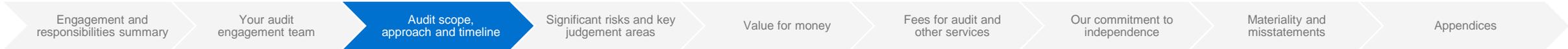
Management’s and our experts

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	Actuary (Hymans Robertsons)	NAO’s consulting partner (PWC)
Property, plant and equipment valuation	In-house valuer District Valuer	We will take into account any relevant information which is available from third parties
Financial instrument disclosures	Link Asset Services (formerly Capita)	No expert required

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. We have not identified any relevant service organisations.



04

Section 04:

Significant risks and other key judgement areas

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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

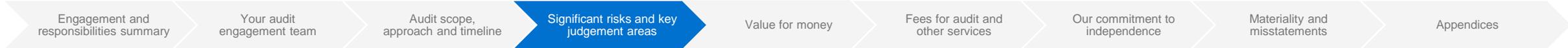
An enhanced risk is an area of higher assessed risk of material misstatement (‘RMM’) at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- 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.

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Standard risk

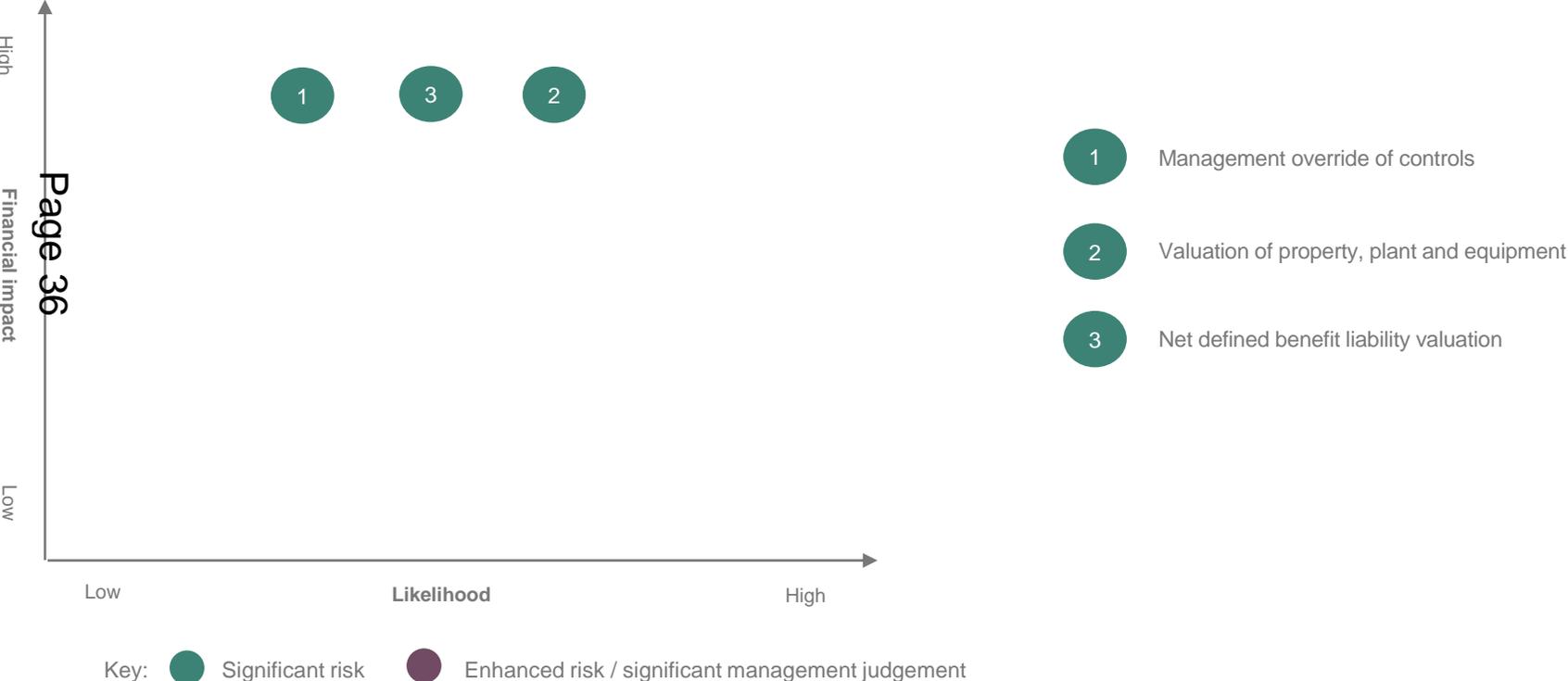
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the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



4. Significant risks and other key judgement areas

Summary risk assessment

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



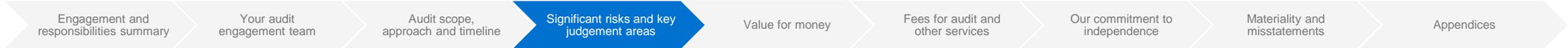
4. Significant risks and other key judgement areas

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 the Audit Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
Page 37	<p>Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>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. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries (meeting fraud risk characteristics) and significant transactions outside the normal course of business or otherwise unusual.</p>



4. Significant risks and other key judgement areas

Significant risks

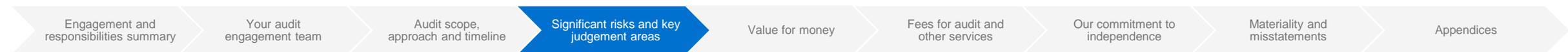
	Description	Fraud	Error	Judgement	Planned response
2	<p>Valuation of property, plant and equipment (PPE), investment properties and assets held for sale</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE, investment properties and assets held for sale.</p> <p>Although the Council employs a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE as a result of the significant judgements and number of variables involved. We have therefore identified the revaluation of PPE, investment properties and assets held for sale to be an area of risk</p>	○	●	●	<p>We plan to address this risk through the following procedures:</p> <ul style="list-style-type: none"> consider the Council's arrangements for ensuring that PPE values are reasonable; challenge the reasonableness of the valuations provided by the Council's valuer using other sources of data; assess the competence, skills and experience of the valuer and the instructions issued to the valuer; and where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate
	<p>Net defined benefit liability valuation</p> <p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none"> evaluate the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and consider the reasonableness of the actuary's assumptions that underpin the relevant entries made in your financial statements, through the use of an expert commissioned by the National Audit Office.

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International Auditing Standard (ISA) 240 includes a rebuttable presumption that the fraud risk from revenue recognition is a significant audit risk.

We recognise that the nature of revenue in local government differs significantly to the sources of income in the private sector which have driven the requirement in the ISA. We also note that the incentives in local government include the requirement to meet regulatory and financial covenants rather than share based management concerns.

Based on our understanding of the Council's revenue streams, and consistent with our approach last year, we do not consider this to be a significant risk. We have therefore rebutted this risk and do not incorporate specific work into our audit approach in this area over and above our standard procedures.



05

Section 05: **Value for Money**

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6. Value for money

The framework for our work

We are required to be satisfied that the Council has 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 and sets out 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. While we are still required to be satisfied that the Council has proper arrangements in place, we will now report by exception in our auditor's report where we have identified significant weakness in those arrangements. This is a significant change to the requirements under the previous Code which required us to give a conclusion on the Council's arrangements as part of our auditor's report.

Under the new Code, the key output of our work on arrangements will be a commentary on those arrangements which will form part of the Auditor's Annual Report.

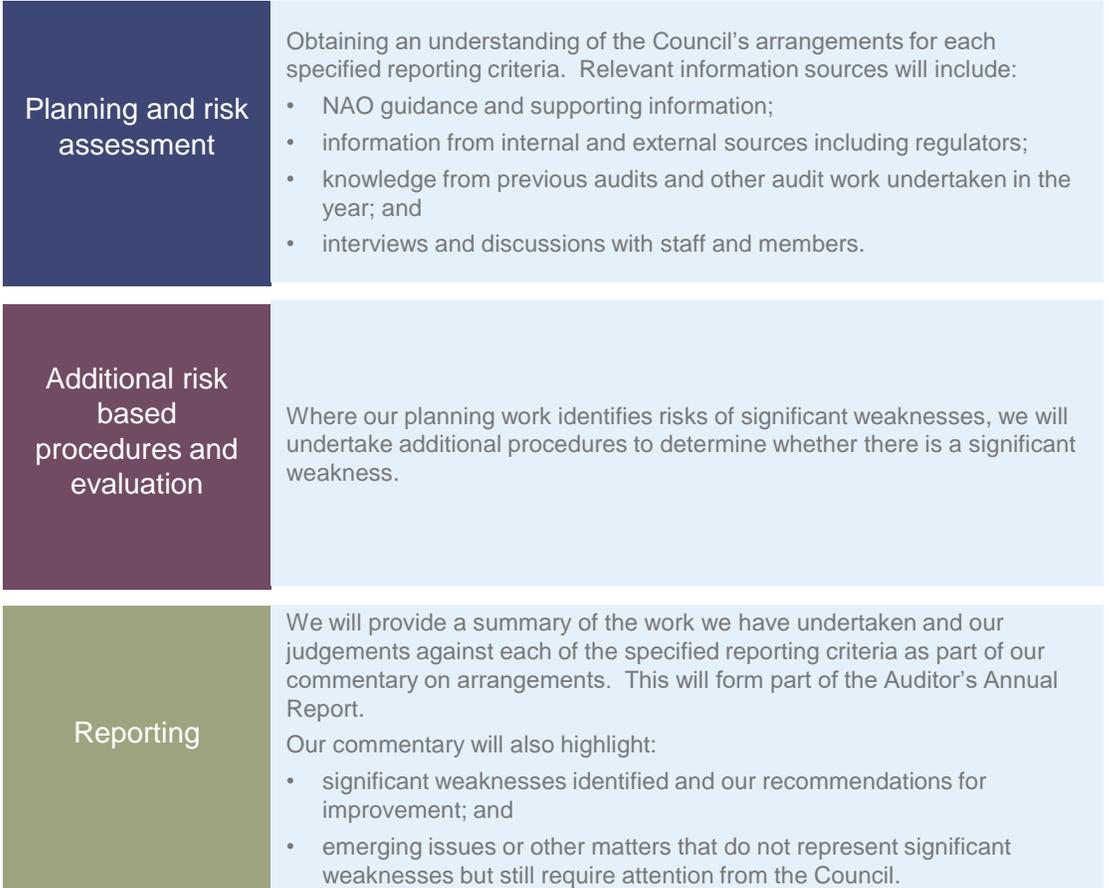
Specified reporting criteria

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

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

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we will 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.



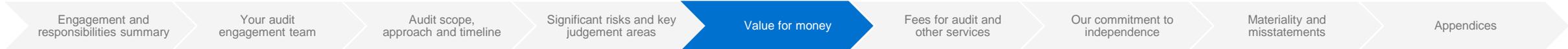
5. Value for money

Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist.

We have not identified a risk of significant weakness in arrangements at this stage. If our ongoing risk assessment work identifies such a matter we will bring it to the attention of Those Charged With Governance.

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06

Section 06:

Fees for audit and other services

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6. Fees for audit and other services

Fees for work as the Council's appointed auditor

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Scale fee ¹	£80,186	£80,186
Fee variations – opinion	To be confirmed.	£14,950 ²
Fee variations – value for money ³	To be confirmed.	
Total	To be confirmed	£95,136

¹ This scale fee was initially set by PSAA in 2018.

² The additional audit cost in 2019/20 relates to additional testing of property valuations, enhanced pension liability procedures in response to increased regulatory expectations, and reporting of uncertainties in key estimates as a result of Covid-19.

³ The new Code of Audit Practice will lead to a substantial amount of additional audit work to support the new value for money report. Our review of the Code and supporting guidance notes has led us to estimate that the additional fee impact for Code audits will be at least £10,000 or 20% of the final 2019/20 fee. The actual fee will take into account the extent and complexity of any significant weaknesses in arrangements we identify.

⁴ Our work on the Housing Benefits Subsidy for 2019/20 is still in progress.

Fees for non-audit 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.

Agreed upon procedures work	2020/21 Proposed Fee	2019/20 Actual Fee
Housing Benefits Subsidy	To be confirmed.	£7,800 ⁴
Teachers' Pensions	To be confirmed.	£3,000
Initial Teacher Training Return	To be confirmed.	£2,500

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Section 07:

Our commitment to independence

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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.

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
- approval 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.

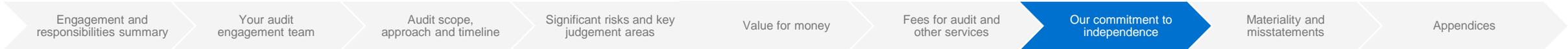
We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss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

Prior to the provision of any non-audit services Mark Kirkham 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 are set out in the table on the following page.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

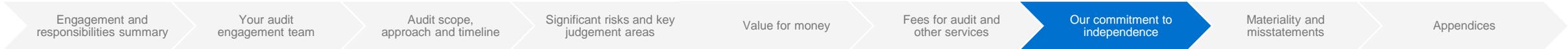
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7. Our commitment to independence

Area	Perceived threat	Safeguards and procedures
Assurance services: Housing Benefits Subsidy Assurance , Initial Teacher Training Return and Teachers' Pension return (if engaged)	Self Review	No threat identified. None of the engagements result in the auditor providing accounting services to the Council.
	Self interest	No threat identified. The fees for each of the engagements is neither significant to Mazars LLP nor the Council. Safeguards include clear rules set by PSAA which limit additional services an external auditor can provide.
	Management	No threat identified as none of the engagements require the auditor to make decisions on behalf of the Council.
	Advocacy	No threat identified as none of the engagements require the auditor advocating a position on behalf of the Council.
	Familiarity	No threat identified. Safeguards include firm policies and procedures detailed on previous page.
	Intimidation	No threat identified.

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08

Section 08:

Materiality and other misstatements

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8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	£7,000
Performance materiality	£5,250
Specific materiality:	
Senior officer remuneration	£5*
Termination payments	£50
Members Allowances	£50
Related party Transactions	£50
Trivial threshold for errors to be reported to the Audit Committee	£210

* Reflecting the movement of one banding.

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
- make reasonable economic decisions on the basis of the information reported.

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

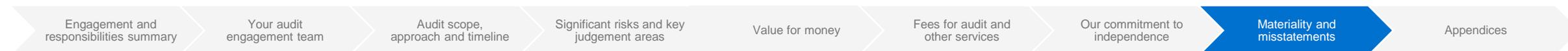
In planning our work we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing 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 approximately 1.8% of Gross Revenue Expenditure (at Surplus/deficit on Provision of Services level). We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that the Gross Revenue Expenditure (at Surplus/deficit on Provision of Services level) 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 1.8% of Gross Revenue Expenditure (at Surplus/deficit on Provision of Services level). Based on the prior year gross expenditure we anticipate the overall materiality for the year ending 31 March 2021 to be in the region of £7m.

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. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 75% of overall materiality as performance materiality.

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 the 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 £0.210m based on 3% of

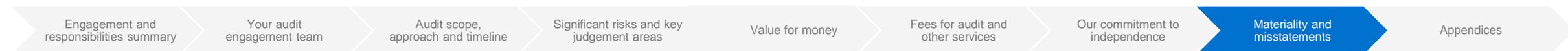
overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Kirkham.

Reporting to Audit Committee

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

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

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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:

- Audit Strategy Memorandum;
- 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.
- 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.
- Independence.

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Our commitment to independence

Materiality and misstatements

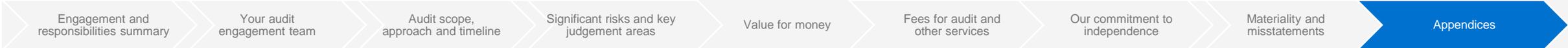
Appendices

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:

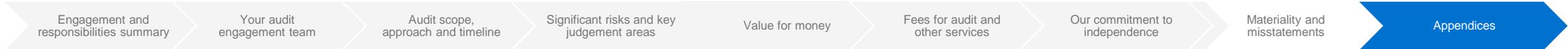
Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • enquiries of the 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 Audit Committee, Audit Planning and Clearance meetings

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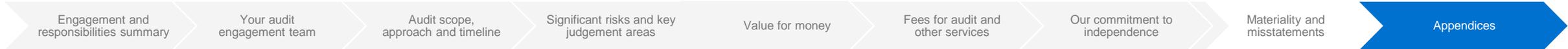
Appendix: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity’s related parties including, when applicable: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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 the 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 the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit Completion Report 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: <ul style="list-style-type: none"> • 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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*where permitted under applicable country laws.

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NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

INTERNAL AUDIT PLAN 2021/22

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To consider and approve the internal audit plan for 2021/22

2. BACKGROUND INFORMATION

- 2.1 The Accounts and Audit Regulations 2015 require the Council to ensure there are sound systems of internal control and to undertake effective internal audit to evaluate the effectiveness of its risk management, control and governance processes. Internal audit must take into account Public Sector Internal Auditing Standards (PSIAS) and guidance.
- 2.2 The PSIAS requires that an Internal Audit Plan is agreed by the Audit Committee annually. The audit plan must be risk-based and take into account the organisation's risk management framework and reflect changes in the organisation's business, risks, operations, programmes, systems and controls. The plan also confirms the resources available and required to support a reliable year-end Audit opinion.
- 2.3 The updated Audit Charter, approved by the Audit Committee in January 2020 defines the internal audit activity's purpose, authority and responsibility and defines the scope of internal audit activities. The attached audit plan prepared by the Head of Audit and Assurance provides Members with an outline of the Audit Plan, a commentary on the methodology for its compilation, and assurance on compliance with auditing standards.
- 2.4 As of 31 March 2021, the section relating to strategic and operational risk/governance is subject to further development so any risks raised through the completion of the Annual Governance Statement can be factored into the Plan. A final detailed plan will be shared with the Audit Committee later in the year.'

3. OPTIONS FOR CONSIDERATION

- 3.1 In line with the PSIAS it is a requirement for the Audit Committee to consider whether the Internal Audit plan has been produced on a proper basis and will provide sufficient assurance to form a reliable opinion on the Council's control environment.
- 3.2 There are no alternative options as it is a requirement for the Audit Committee to review the Audit Plan.

4. ANALYSIS OF OPTIONS

- 4.1 The audit plan meets the requirements of the Public Sector Internal Audit Standards (PSIAS),
- 4.2 The Head of Internal Audit and Assurance is satisfied that he has sufficient resources for the delivery of the plan and that it will provide a reliable year-end annual audit opinion on the council's control environment.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

- 5.1 The plan will be delivered from existing resources within the council's internal audit service which is provided through a Shared Service, as well as a third party specialist IT Audit support. The resource allocation is based upon assumptions about the design and operation of systems and processes; the co-operation of council staff with the audit process and estimated vacancy and absence rates. The resource allocation will be reviewed periodically to take account any changes in assumptions and the extent of emerging risks.

6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

- 6.1 The compilation of the audit plan is based on risk with those areas with the potential biggest risk to an effective control environment being prioritised. The achievement of the Council's strategic outcomes, its legislative and regulatory responsibilities and the Council's risk register are all taken into account when compiling the audit plan.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

- 7.1 An Integrated Impact Assessment is not required.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

- 8.1 The plan is subject to consultation discussion with members of the Council's Leadership team and Heads of Service.
- 8.2 The Head of Audit and Assurance also has responsibility for risk management arrangements, insurance and counter fraud. Here applicable audits in these areas will be carried out by a third-party provider to prevent a potential conflict of interest. In addition, at the beginning of each year audit team members, in line with the audit of code of conduct are required to declare any close relationships which could impact on the delivery of particular audit assignment. If relevant such assignments are provided to other members of the team.

9. RECOMMENDATIONS

- 9.1 That the Audit Committee:
- (i) considers whether the Internal Audit plan has been produced on a proper basis, and will provide sufficient assurance to form a reliable opinion on the Council's control environment
 - (ii) approves the Internal Audit Plan for 2021/22 subject to the finalisation of the section on strategic and operational risk/governance

DIRECTOR OF GOVERNANCE AND PARTNERSHIPS

Civic Centre
Church Square House
SCUNTHORPE
North Lincolnshire

Author: Peter Hanmer
Date: 31 March 2021

Background Papers used in the preparation of this report

Public Sector Internal Audit Standards
Accounts and Audit Regulations 2015
Audit Charter January 2020

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North Lincolnshire Council

Internal Audit Plan 2021/22

Authors:

Peter Hanmer	Head of Audit and Assurance
Helen Asher	Strategic Lead (Audit)
Debbie Baker	Strategic Lead (Audit)

1. INTRODUCTION

- 1.1 As recognised in the Accounts and Audit Regulations 2015 Internal Audit is a key part of the Council's control environment. Its primary objective is to provide an independent and objective opinion and advice on the Council's control environment, which comprise the systems of risk management, internal control and governance. The Audit Charter (which was last approved by the Audit Committee in January 2020) defines the mission of internal audit "*To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight*".
- 1.2 As laid out in paragraph 6.1 of the charter the Head of Audit and Assurance is responsible for "*developing an annual audit plan based on an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes, and adjust the plan in response to the organisations business, risk, operations, programmes, systems and controls*".
- 1.3 The audit plan lays out Internal Audit's priorities and work programme for 2021/22. It has been compiled to ensure that
- it meets the requirements of the Public Sector Internal Audit Standards (summarised in Appendix 1);
 - provides sufficient evidence to support a reliable year-end Audit opinion on the Council's control; and
 - adds value to the Council by providing assurance on the underlying processes and governance arrangements to support the achievement of strategic outcomes and the achievement of value for money (VfM).

2. COMPILATION OF THE AUDIT PLAN

- 2.1 As required by the standards, it has been developed on a risk-based approach. We have prioritised resources to where the need is greatest, and where potentially Audit could provide most value. In compiling the plan we have ensured that the requirements laid down in the standards have been met.
- 2.2 At the heart of the approach to Internal Audit is the "3 lines of assurance" model where:
- the first line of defence is the control environment operated by managers in individual services;
 - the second line of defence includes the oversight functions such as Finance, HR, Procurement, Legal Services, "Client side management" who provide advice, direction and support to individual services; and
 - the third line of defence, such as Internal Audit, External Audit and other external assurance providers which offer independent challenge to business functions.

The more developed the first and second lines of defence are then the greater the reliance that can be placed on the assurances obtained by services rather than directly from Internal Audit work.

- 2.3 The plan is made up of a number of key components designed to provide assurance on the effectiveness of the Council's control environment, i.e.
- the achievement of strategic outcomes;
 - those specific areas identified in the Council's code of governance;
 - effective procedures and processes;
 - reliable financial and performance information;
 - compliance with laws and regulations ; and
 - the protection of council assets, including physical assets, financial resources, people, information

Depending on the nature of their scope, audit assignments may provide assurance on more than one of these areas of the control environment. In addition, internal audit follows up the implementation of agreed actions from previous audit work with relevant managers.

- 2.4 In addition Internal Audit provides support to the Council in the following areas:
- providing assurance in relation to the control environment within maintained schools;
 - providing advice and support to management on the design of the control environment; and
 - the mandatory certification of external grant claims

- 2.5 Internal Audit takes a cyclical risk based approach in determining the content of the audit plan with those areas having the biggest potential risk to an effective control environment. It first identifies those areas which potentially have a significant impact on the control environment. The key sources of information are:
- the Council's key strategic outcomes and performance reports relating to their delivery;
 - the strategic risk register;
 - those areas in the operational risk registers where a high inherent risk has been identified;
 - areas which represent key components of the code of governance.
 - issues identified in Director assurance statements prepared as part of the preparation of the Annual Governance Statement (AGS);
 - activities in receipt of significant external grant funding.
 - the Council's statutory responsibilities.
 - cabinet and scrutiny reports to help identify areas of emerging risk; and
 - emerging national issues, including areas subject to changes in legislation and regulation.

Those areas considered to have the highest risk are prioritised for inclusion in the plan based on the likelihood of a control failure and its

impact to the organisation should it occur. A summary of what is considered in making this assessment is shown on Appendix 2

2.6 The level of estimated audit resource allocated to each assignment is dependent upon;

- previous knowledge of the function or system and the risks associated with it;
- if there have been significant changes to the design or operation of the system or function since it was last audited;
- the complexity of the function or system;
- the level of assurance which can be obtained from internal assurance mechanisms (second line of assurance) or by external sources of assurance such as the external audit and the outcome of inspections (third line of assurance); and
- the nature of the testing required to obtain assurance - for example the use of control testing and observation compared to substantive testing, and the testing methodology required. Increasingly the audit team has been using analytical techniques to obtain assurance based on wider populations compared to sample testing.

2.7 The draft plan, based on internal audit's risk assessment, is then subject to consultation with the strategic leadership team and with Heads of Service. Where appropriate amendments are made to the plan to reflect its feedback on the areas where they felt audit resource needed to be prioritised. The emerging themes which have been identified as part of the 2021/22 audit planning process include:

- council recovery following the pandemic.
- organisational change and the development of revised approaches to areas such as customer engagement, the environment, and growing the economy;
- the receipt of additional government funding such as the Towns Fund and the High Streets Fund.
- the implementation of the new human resources/ payroll system, and the new finance system;
- the appointment of a joint Director of Public Health with North East Lincolnshire Council and the potential impact anticipated national changes to the approach to Public Health;
- the implementation of the digital vision which will steer the Council's investment in ICT; and
- the requirement for internal audit to certify statements concerning the use government grants provided in relation to the pandemic.

2.8 The proposed audit plan is summarised in the table below. It shows the resources provisionally allocated to each of the main areas of the internal audit activity. As of 31 March 2021, the section relating to strategic and operational risk/ governance is subject to further development so we can take account of the Director Assurance Statements due to be completed

by 30 April. We will circulate an updated plan, including a breakdown of the planned audits to be covered under this heading once complete.

Area	Planned days	
Strategic and operational risk/governance	450	A risk-based programme of audit reviews to provide assurance on the Council's governance framework, as well as the arrangements in place to deliver key strategic and service outcomes efficiently and effectively and ensure compliance with laws and regulations
Financial systems	155	Providing assurance on the design and operation of the fundamental financial systems, including on a cyclical basis those systems which feed into them. Financial systems will be given specific emphasis in 2021/22 due to the introduction of the new finance and payroll systems.
ICT	50	Providing assurance on the effectiveness of the Council's approach to ICT and Information governance, and key ICT systems. There will be special emphasis in 2021/22 on the ICT controls to be built into the finance system and phased implementation of the digital strategy
Procurement and contract management	25	Providing assurance on the Council's procurement and contract management processes, including reviews of a sample of key procurement exercises.
Schools	100	Provide assurance on the control environment within maintained schools via a cyclical programme of schools audits
Grant Certification	60	Mandatory certification of grant claims. The time required for this element of audit activity due to a greater number of certifications due to COVID-19 related grants
Advisory	70	Providing advice and support on governance and internal control matters
Follow up	35	Follow up of previous actions
Probity and Counter Fraud	80	Proactive and reactive work to support the Council's approach to anti-fraud and corruption, to provide assurance on the controls in place designed to prevent fraud in areas of high risk
Management time	75	Includes audit planning, monitoring, liaison with the Audit Committee and senior management
Contingency	45	
Total	1145	

- 2.9 Throughout the year the audit plan will be subject to regular review to reflect the changes in the risks to the Council's control environment, and also to reflect changes in the assumptions made when the plan was first completed. For example:
- an area in which internal audit intended to work may subsequently be subject to an external inspection, in which case less audit work may be required as audit will look to seek reliance on the outcome of the inspection;
 - where a new process or system has not been implemented as quickly as anticipated and therefore the audit of it would be delayed;
 - a risk may emerge during the year which may require to be included in the audit plan so that work can be carried out to obtain assurance;
 - where issues arise during a planned audit then extra resource may be required in order to obtain sufficient assurance and /or obtain an understanding of the underlying control issues.
 - uncompleted audit work carried forward from the previous year; and
 - change in staffing levels during the year due to leavers or long-term sickness absence may require a reprioritisation of the plan.

Any significant changes to the allocations will be reported to future Audit Committees.

3 RESOURCES TO DELIVER THE AUDIT PLAN

- 3.1 The standards require the Head of Audit and Assurance to be satisfied that he or she has sufficient resources available to deliver the plan and be able to provide an opinion on the control environment and discharge their other responsibilities. In addition, under the CIPFA statement "The Role of the Head of Internal Audit" the Head of Internal Audit must "lead and direct an Internal Audit service that is resourced to be fit for purpose".
- 3.2 Based on the risks identified we can confirm that there are sufficient resources available to deliver the Audit Plan as laid out in section 2 of this report. This conclusion is due to the following:
- an assessment of resources available to the team as of 31 March 2021 taking into account annual leave, training, non-audit time etc- this includes being prudent on the potential impact of long-term sickness and unfilled vacancies that may arise given the relatively small size of the team;
 - as of 30 May 2021, taking into account the procurement of additional specialist ICT audit and the completion of the recruitment process to fill an existing vacancy, the team will be at full staffing complement: and
 - the anticipated backlog on 31 May 2021 to complete the 2020/21 plan being below that of the previous year.
- 3.3 It is recognised, however, that resourcing is a risk, and in response we will monitor the delivery of the plan on a monthly basis and will reprioritise the audit programme on a risk basis should issues arise regarding the level of resources available.

4 REPORTING AND MONITORING ARRANGEMENTS

- 4.1 For most assignments, excluding advisory work and grant certification, we will provide a report with an overall opinion on the control environment (“substantial”, “satisfactory”, “limited”, “none”) and the residual risk. There will be some areas, due to particular circumstances, where it may not be appropriate to issue a full report and/or an opinion, although in such cases a short commentary will be provided in the Annual Head of Internal Report and Opinion.
- 4.2 A summary of completed audit work will be included in the Annual report, and this will feed into the overall opinion on the control environment. Interim reports will also be presented to the Audit and Governance Committee during the year. These will include progress in achieving the annual plan, including any significant amendments to it.
- 4.2 As part of its Quality Assurance and Improvement Programme (QAIP) Internal audit has a number of performance indicators based on the three principles of Outcome Based Accountability:
- “what did we do?”;
 - how well did we do it?; and
 - how did we add value

Appendix 1: Confirmation of compliance with Public Sector Internal Auditing Standards (PSIAS) requirements

PSIAS Requirement	How we demonstrate compliance
<p>The Head of Internal Audit (HOIA) must establish risk-based plans to determine the priorities of the Internal Audit activity, consistent with the organisation's goals. (PSIAS 2010)</p>	<p>The plan is based on the Council's strategic objectives and its Code of Corporate Governance. Those activities with the greatest impact on the achievement of strategic objectives are given greatest priority. The Head of Audit and Assurance carries out a detailed risk assessment to prioritise audit work</p>
<p>The risk-based plan must take into account the requirement to produce an annual Internal Audit opinion and the assurance framework. (PSIAS 2010 public sector requirement)</p>	<p>The Audit Plan has been designed to ensure that there is sufficient evidence to provide a reliable year end opinion in relation to risk, governance and internal control.</p>
<p>The plan must incorporate or be linked to a high-level statement of how the Internal Audit service will be delivered, developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities. (PSIAS 2010 public sector requirement)</p>	<p>The Audit Charter, updated in January 2020, lays out the key objectives of internal audit, the methodology used to develop the plan and its links to organisational objectives and priorities.</p>
<p>The risk-based plan must explain how Internal Audit's resource requirements have been assessed. (PSIAS 2030 public sector requirement)</p>	<p>Considered in Section 3 of this report</p>
<p>The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.</p>	<p>The Head of Audit and Assurance carries out a detailed risk assessment to prioritise the work to be included in the audit plan. In determining priorities discussions are held with the Senior Leadership Team, Heads of Service and other stakeholders.</p>

Appendix 2: Internal Audit planning risk assessment methodology

The Council's activities/ functions are prioritised based on the likelihood of a significant control failure and its impact on the control environment

Likelihood of control failure

For the purposes of audit planning those areas which have a higher likelihood control failure include those which exhibit one or more of the following:

- Have had recent changes to system design
- There have been changes to statutory responsibilities or national guidance
- Have been identified as having high inherent risk in the Council's risk register
- Have not been subject to audit review for a number of years
- Control failures have been recently occurred.
- Identified in Director Assurance Statements as a potential area for development.
- Weaknesses identified by external inspectorates which required the Council to take action.

Impact on the control environment

Areas of high priority exhibit at least one of the following:

- Has a significant impact on the achievement of stated strategic outcomes;
- Has a material impact on the Financial Statements;
- Has a material impact on the governance arrangements of the Council, is an integral part of the Code of Corporate Governance, and impacts on the Annual Governance Statement;
- Is intended to mitigate a significant strategic risk;
- Has a significant impact on ensuring that the Council operates within applicable laws and regulations and/or prevents significant reputational risk;
- Significant inherent risk of fraud or the loss of assets;
- Significant safeguarding implications;
- Failure of the function may potentially lead to:
 1. a significant financial loss;
 2. a detrimental impact to service users; or
 3. an adverse effect on the Council's reputation.

Areas of low priority exhibit most of the following:

- The activity does not significantly contribute to the achievement of strategic outcomes;
- The activity is relatively small in value, and would not have a material impact on the Financial Statements;
- The activity does not have a material impact on the governance arrangements of the Council;
- The activity does not have a significantly impact on the Council's strategic or operational risks;
- The activity is not significantly subject to laws and regulation and/or does not have a significant reputational risk;
- Low inherent risk of fraud or the misappropriation of assets;
- Limited direct safeguarding implications;
- Failure of the function would not lead to:
 1. a significant financial loss;
 2. a detrimental impact to service users; or
 3. an adverse effect on the Council's reputation

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Report of the Director:
Governance and Partnerships

Agenda Item No:
Meeting: 8 April 2021

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

ANNUAL FRAUD REPORT 2020-21

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To demonstrate to the public, members, staff and partners the progress made during 2020/21 in developing an anti-fraud culture;
- 1.2 To publicise the actions taken when fraud or misconduct has been identified.

2. BACKGROUND INFORMATION

2.1. The council's framework to combat fraud, corruption and misappropriation was approved by Audit Committee in April 2018. The strategy and response plan are reviewed regularly. The framework follows national guidance as laid out in the document 'Fighting Fraud and Corruption Locally - The local government counter fraud and corruption strategy 2016-2019', published by the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre and is based upon three key principles:

- Acknowledging and understanding fraud risks
- Preventing and detecting fraud
- Pursue - Being stronger in punishing fraud and recovering losses

2.2. The attached annual report highlights the work carried out in each of these areas and demonstrates the Council's continuing commitment to minimise the risk of fraud.

3. OPTIONS FOR CONSIDERATION

- 3.1 The Committee is asked to consider whether the Annual Fraud Report provides sufficient assurance on the adequacy of counter fraud arrangements during 2020/21. The Committee is invited to ask questions about the contents of the report and seek clarification as necessary.

4. ANALYSIS OF OPTIONS

4.1 The report is designed to provide the Committee with the assurance required to fulfil its role effectively.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1 Regular reviews of counter fraud arrangements should safeguard the council's assets and ensure that value for money is achieved in the use of resources. Minor costs associated with the telephone and publicity for the Hotline will continue to be maintained within the Finance Service budget.

6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1 Regular reviews of counter fraud arrangements should minimise the risk of fraudulent attacks on Council finances and services.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (if required)

7.1 There is no impact assessment required for this report.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 There are no conflicts of interests to declare.

9. RECOMMENDATIONS

9.1 That the Audit Committee considers the assurance provided by the Annual Fraud Report on the adequacy of counter fraud arrangements.

DIRECTOR: GOVERNANCE AND PARTNERSHIPS

Church Square House
SCUNTHORPE
North Lincolnshire
DN15 6NL

Author: Mark Edwards
Date: 22 March 2021

Background Papers used in the preparation of this report:

None.

SAFE WELL PROSPEROUS CONNECTED

Annual Fraud report 2020-2021



Introduction

The North Lincolnshire Council Anti-fraud and corruption strategy sets out our approach to minimising the risk of fraud and corruption occurring, detecting its possible occurrence and the actions we will take when fraudulent activity is suspected and identified.

This report highlights the work which has been carried out across North Lincolnshire during 2020-2021 in response to the strategy and response plan under the three key principles of:

- Acknowledging and understanding fraud risks
- Preventing and detecting fraud
- Pursue - Being stronger in punishing fraud and recovering losses.

Acknowledging and understanding fraud risks

All public bodies are at risk from fraud in one form or another. Acknowledging this fact is vital in developing an effective anti-fraud response. Individual services need to understand where the risk of fraud lies and the consequences of those frauds (whether that be financial, reputational or other) to enable them to develop an appropriate risk-based response.

The Pandemic risk

The COVID 19 pandemic significantly increased the risk of fraud to individuals, businesses and central/local government. Fraudsters quickly targeted the public, preying on their anxieties and concerns to offer fake health care goods such as masks, hand sanitisers or even fake test kits. As the government's financial response took shape, fraudsters continued to target the public, offering fake income tax or council tax refunds and other fake financial incentives. These frauds commonly use phishing e-mails or texts (mishing) to lead individuals to a fake website where they steal personal information.

The council's response was to include warnings to businesses and the public over the risks of fraud. These were quickly placed on the COVID-19 guidance and support pages on the council website, with specific scams affecting council services (such as Council Tax) being highlighted on the relevant service areas web pages and the fraud web pages. Links to Action Fraud and the 'Take five to stop fraud' campaign have provided further information to help keep the public safe.

To implement the Government's commitments to support businesses and communities, councils were tasked with quickly designing and introducing various schemes, such as shielding hubs and business support grants schemes.

Key to the success of these schemes within North Lincolnshire was the early recognition within the council that these schemes were susceptible to fraud. The Audit & Assurance team have supported the development and ongoing implementation of these schemes to minimise the risk of fraud losses whilst enabling those who need and are entitled to receive assistance.

Whilst some of the fraud risks that have arisen from the pandemic are almost immediate, such as those in the business support grant scheme, others may only appear once the economy begins to recover. For example, an increase in the number of Council Tax Support claims may not mean an increase in fraud at the time of the claim, but as people return to work or their circumstances change, this is where there is a potential for fraud/error if these changes are not reported. We will continue to work with colleagues in Local Taxation & Benefits to ensure all suspicions are referred to investigation as appropriate, to minimise any losses.

Although the pandemic has dominated 2020-2021, we have continued to raise awareness and understanding of fraud risks. We have:

- Reviewed the Anti-Fraud and Corruption Strategy to ensure that it remains up to date and relevant in line with the latest Local Government best practice. The strategy has been revised to take account of the 'Fighting Fraud and Corruption Locally, a Strategy for the 2020's' document published in March 2020. This strategy places further emphasis on ensuring that the culture of zero tolerance toward fraud is set at the very top of the organisation. The revised strategy is currently in draft form for discussion with senior management. It will be brought to the audit committee in June or July.
- Worked with services to identify and mitigate fraud risks, such as the procurement team. This has resulted in the development of a fraud risk assessment, that has identified fraud risks throughout the procurement cycle. The workshop, run virtually via MS Teams enabled the procurement team to identify processes and procedures already in place that mitigated those risks, but also to identify actions that would further strengthen those processes. The result has been an increase in awareness of the fraud risk within the procurement cycle, with clear actions to reduce that risk and protect the council finances.
- Continually identify emerging risks from a number of sources including the National Anti-Fraud Network (NAFN) and other law enforcement agencies. These are disseminated to relevant Council teams to raise awareness. We also continue to include topical fraud risks in the 'risk round up' newsletter available to all employees. Guidance on how these frauds can be mitigated and what to do if discovered is also included to increase understanding of these risks.

The pandemic, and specifically the effect on working patterns has necessitated a review of our fraud awareness activities. Whilst online content remains available, the use of visual prompts and reminders in offices is no longer effective as the majority of colleagues continue to work from home. To ensure that the fraud awareness message is maintained and available to colleagues, we will develop a series of short online videos covering various aspects of fraud in the first quarter of 2021-22.

Preventing and detecting fraud

Although the detection and recovery of fraudulently obtained finance and assets is important, it is also costly and there is no guarantee that lost monies will be recovered. Therefore, it is imperative that we take all reasonable steps to prevent fraud from entering our systems in the first place.

The protection of assets is one of the five key elements of an effective control environment, and thus plays a critical role in the work of internal audit. When determining the Annual Audit Plan, as well as scoping the work programmes for individual assignments, the audit team consider those areas at risk of fraud and ensure that sufficient coverage is given to the identification and testing of anti – fraud controls within those services and where appropriate, carrying out substantive testing to establish the effectiveness of the controls and identify any unusual transactions. Improvements are recommended to be made to controls to mitigate any risks identified.

During 2020/21, proactive work has also been completed in relation to the recruitments of agency workers. Spot checks have also been completed on a sample of establishments who receive cash income. The overall management of imprest accounts has also been reviewed.

From the sample tested to date, no issues relating to fraud have been identified. Where appropriate, actions to improve the existing controls have been highlighted to the relevant departments.

Business support grants

Part of the Government response to the Covid pandemic has been to provide financial support to the various sectors affected. Local Councils have been tasked with administering parts of these support packages, such as the small business grants scheme.

With the emphasis being on providing support to local businesses as quickly as possible, the decision was made to verify applicant information against data already held on the local taxation system. It became apparent as part of the verification process that some ratepayers had failed to notify the council of a change in rate payer and/or business. In such cases extra information was required of the applicant to ensure that the appropriate retail or small business exemptions were applied to correct rate payer and the application could proceed to further stages in the process.

Data-matching tools were used to confirm the trading status of registered companies from the outset with insolvent companies asked to provide evidence of continued trading. As other tools became available to highlight potential insolvency they were used as part of post assurance work, an example being an insolvency checker was used to check non registered companies, as was open source data such as facebook, google and Instagram.

The council also participated in the fraudulent bank account alert system that flagged any grant paid into a suspect account. The National Fraud Initiative(NFI) service was also used to identify closed or closing businesses and bank accounts. This proved useful to identify any businesses trading in March that may have subsequently ceased trading. Finally, we have used internal data matching techniques to ensure that payments to same bank accounts and or same payee can be confirmed as separate heridaments each of which is entitled to a grant.

Our post assurance work continues on later schemes and our risk assessment is updated to reflect new and emerging risks as they are identified and notified to us via various counter fraud agencies.

Any incorrect payments are subject to full recovery processes and any frauds proven will be notified to the relevant agencies under the guidance received.

The result of these robust checks has been that the council has been able to support businesses through this pandemic whilst minimising the risk of fraudulent applications. To date, there has been one confirmed case of fraud identified through these checks and one case that was referred to the investigation team for further enquiries to be made. As a result of these enquiries the business did not pursue its application.

	Number	Value
Number of grant payments made (as at 1.3.21)	10,113	£45, 715,817
Number of grant applications declined	1265	

Due to the number of different schemes and the values of the various grant awards we are unable to calculate the actual value of grants that may have been erroneously awarded or fraudulently obtained were it not for the interventions above. However, to give an indication of potential losses had no checking been undertaken, 626 applications for the first wave of small business and retail, hospitality and leisure grants were declined. These grant awards were worth either £10,000 or £25,000 each and had they been paid would have cost the taxpayer between £6.26M and £15.65M.

The Audit team were also invited to act as ‘critical friend’ in reviewing the controls surrounding stocks of PPE.

Participation in the National Fraud Initiative (NFI)

The NFI is a Cabinet Office initiative matching data from a number of public and private organisations to identify potential fraud which takes place on a cyclical basis.

In January 2021, the latest NFI data matching results were released. The exercise has identified 6224 matches in 38 separate reports.

The Fraud and Audit teams will review these matches and take action as appropriate to ensure any losses are identified and recovered.

The previous NFI exercise has been completed. Below is a summary of its findings:

2022	Number of individual matches reviewed
1326	Closed – no issue identified
668	Closed – information in match was already known
17	Closed – match relates to Housing Benefit – referred to DWP
34	Investigations are ongoing
0	Number of frauds identified
10	Number of errors identified
£14,092.85	Amount of overpayments identified

The level of fraud/error that has been identified as a result of this exercise continues to be minimal. Less than 1% of matches have been found to be fraudulent or erroneous. This provides assurance that the Council has good data quality and processes in place to identify potential fraud issues.

Internal allegations

Nine internal allegations have been reported during 2020/21 of which one constitutes a whistleblowing allegation.

The number of internal allegations has increased slightly on the previous three years and has included three allegations of fraud or financial irregularity being committed by individuals working on the council’s COVID 19 response.

Of the allegations received, the following action has been taken:

9	Number of allegations of fraud/financial misconduct reported
0	Number referred to other agencies (e.g. Police)
8	Number of investigations completed (including 1 from previous year)
3	Resigned/Dismissed
1	Other action taken (including management advice, warnings)
4	No issue identified
2	Investigations ongoing

Of the seven investigations completed, four established that there was no wrongdoing. A fifth investigation established an intent to obtain payment for sick leave by falsifying records. A disciplinary hearing found the individual guilty of gross misconduct and they were dismissed.

Of the cases that relate to the council’s COVID response, two were in respect of alleged false recording of working hours and a third to the false recording of mileage claims. Of the first two cases, one was found to be an error on the part of the individual and this was corrected – no further action being required. In the second case the individual resigned, but disciplinary action was continued and led to a conclusion that the individual concerned would have been subject to summary dismissal.

The actions taken demonstrate that the council have robust procedures in place for dealing with internal allegations of fraud and financial misconduct and use these appropriately as necessary to reinforce the council’s zero tolerance policy.

School admissions

The process for checking school admission applications to deter fraudulent applications is now fully embedded in the admissions process and uses data matching techniques to undertake a number of matches between school admissions data and Council Tax data to identify discrepancies in the information provided.

This data matching not only identifies cases where the information provided to school admissions may be incorrect, but also where the information is inconsistent with that held for Council tax purposes, for example where a parent completes a school admissions form and provides their address, but Council Tax records show another adult liable at that property claiming they are the only adult resident. These cases are then investigated by the fraud team.

Feedback from the school admissions team indicates that this process enables them to quickly identify potential incorrect applications and take action before a child is offered a place, thus removing the emotive issue of having to withdraw an offer.

Anecdotally, this level of cross checking also provides assurance to the public in general and in particular to the families looking to place their children in schools that the Council is taking all reasonable steps to ensure that school places are allocated correctly.

2529	Applications checked
219	Number of discrepancies identified
28	Cases requiring further investigation
5	Number of school places affected
2	Cases taken to appeal
2	Appeals upheld

Reactive investigations

Allegations are received from a variety of sources, including members of the public, internal council teams, the Police, the NFI exercise and the Department for Work and Pensions (DWP).

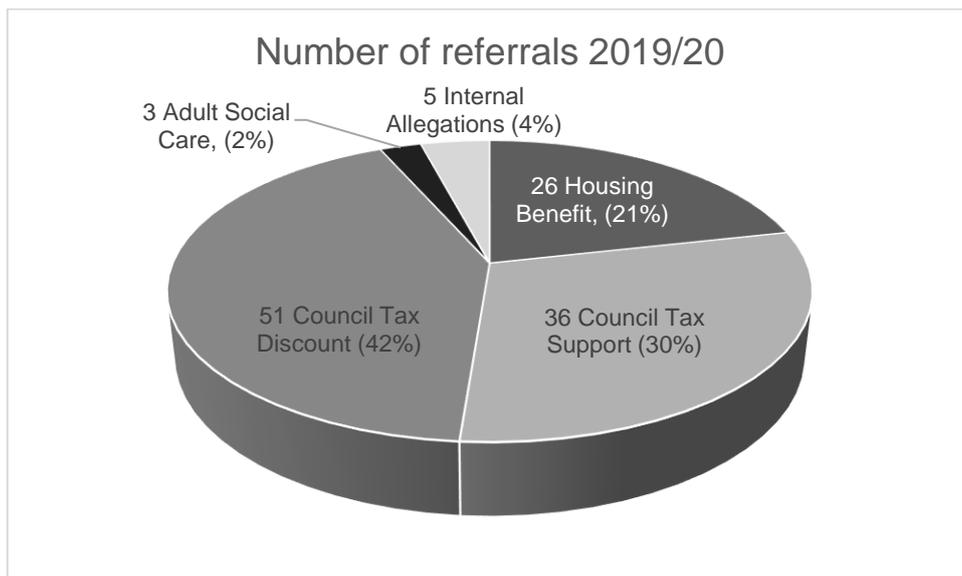
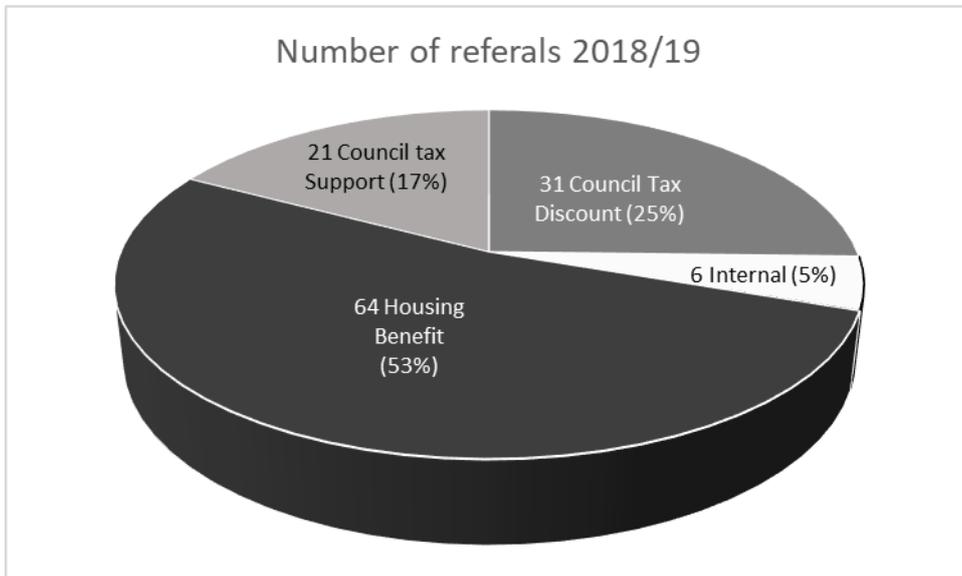
In 2020/21, the Council received 97 referrals relating to allegations of fraud or financial misconduct (to 12 March 2021).

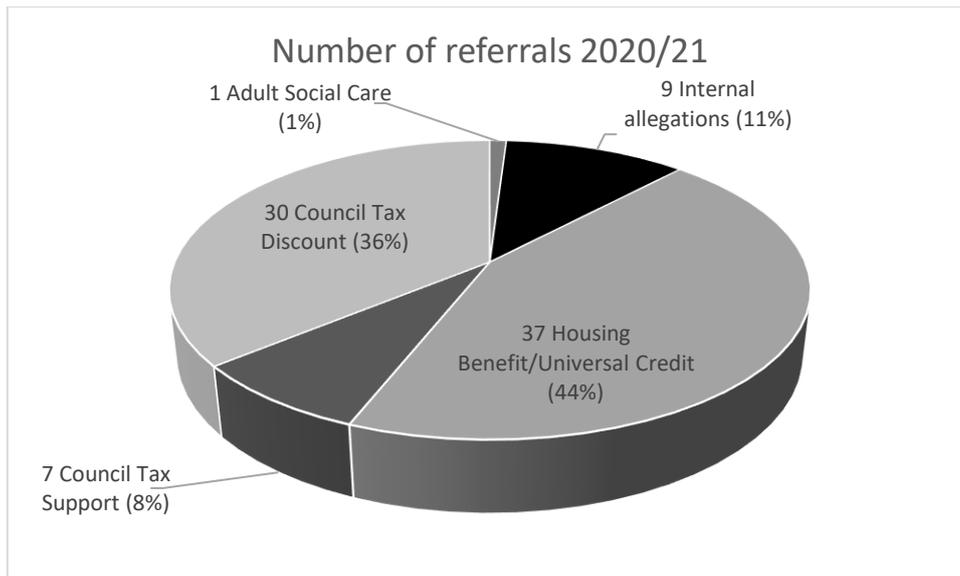
14 referrals were identified as requiring no further action, mainly as a result of there being no offence, or no benefits/discounts in payment.

A further 37 have been sent to the Department for Work and Pensions (DWP) to consider investigation for Housing Benefit or Universal Credit offences.

The number of allegations received in 2020/21 has reduced on previous years. It is likely that this is attributable to the pandemic. Internally, our employees have been stretched delivering additional support throughout the pandemic. From the public's perspective, ensuring their health and wellbeing is likely to have been the main priority. The fraud awareness videos that we will develop will help re-address this.

The pandemic has also impacted on the fraud team's ability to conduct investigations. It has not been possible to conduct face to face interviews and as a result, no interviews under caution have been conducted. However, in response to the restrictions we have developed a secure process for conducting telephone interviews to enable most investigations to continue. Interviews under caution will re-commence when council buildings re-open and it is safe to do so.





From these referrals the following outcomes have been achieved:

21	Number of Council Tax Support investigations completed
£4.5k	Reduction in the amount of Council Tax Support
£12.5k	Amount of Council Tax Support identified as recoverable
57	Number of Council Tax discount investigations completed
£11.5k	Increase in amount of Council Tax available for collection

Council Tax single residency review

This ongoing review commenced mid-March 2021 will enable quick identification of households that potentially have more than one adult in occupancy, through the matching of credit reference agency data to council tax data.

This can lead to the household no longer being entitled to single person discount and therefore increases the amount of Council Tax available for collection and thus available for use on council priorities. It is anticipated that the review will provide an additional £100k of Council Tax for collection. It will also support our response to the NFI single residency discount data match.

Information requests

The fraud team continue to play an important role in assisting other enforcement agencies to prevent and detect crime and protect the public purse.

The team are the Single Point of Contact in the Council for the Department for Work and Pensions (DWP) fraud investigation team, who have responsibility for investigating allegations of Housing Benefit Fraud; and also for other enforcement agencies including the Police, UK Border Agency and other Local Authorities.

41	Number of DWP requests for information
354	Number of Police requests for information
95	Number of 'other' enforcement agency enquiries

Pursue- Being stronger in punishing fraud and recovering losses

Post payment assurance work around business support grants is being undertaken to identify any grants that may have been paid incorrectly. This is particularly important given the Government's emphasis on getting payments out quickly to support businesses. The council will pursue recovery of any incorrectly paid/fraudulent claims.

All losses identified (including those identified from reviews of single residency discounts) are pursued in line with the Council's debt recovery strategy.

The Council will always consider prosecution of offenders where there is sufficient evidence and it is in the public interest to do so. It will also consider the use of alternative penalties in certain circumstances for less serious offences, including the offer of an administrative penalty or simple caution.

However, at present we are unable to conduct interviews under caution due to restrictions in place on 3rd party access to council premises. This will impact on our ability to prosecute appropriate cases at present.

Future developments

We will review our Fraud response Plan to ensure that it continues to reflect best practice and is compatible with other council policies and procedures, such as the Raising a Concern (whistleblowing) policy.

We will develop a new method of raising fraud within services awareness (including the use of short videos) to take account of the change in working arrangements that have been implemented as a result of the pandemic.

The Council Tax single residency review will be developed into a monthly rolling review, ensuring discounts that are no longer appropriate are removed quickly enabling the council to maximise the amount of Council Tax it can collect.

The Bribery and Anti-Money Laundering policies will be reviewed and revised as necessary to ensure the council continues to meet its obligations in respect of preventing bribery and reporting suspicious financial activity.

A draft plan for proactive fraud work to be completed in 2021/22 is also in the process of being developed. The focus of the work within this plan will relate to the change in working practices that took place during 2020 and whether this has had an impact on controls relating to expenditure and authorisation.

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

TREASURY MANAGEMENT PRACTICES 2021/22

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 The Council is required to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services (The Code) as revised in 2017.
- 1.2 In order to comply with the key requirements of the Code, the Council should create and keep under review.
 - A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities, as approved by Council.
 - Suitable Treasury Management Practices (TMPs) setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.
- 1.3 Audit Committee is responsible for ensuring effective scrutiny of the treasury management arrangements.
- 1.4 This report contains updated TMPs to reflect service structure changes during 2020-21.

2. BACKGROUND INFORMATION

The legal and regulatory framework

- 2.1 The Local Government Act 2003 requires local authorities to have regard to such guidance as the Secretary of State may by regulations specify. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020 specify the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance (The Code) as such guidance.
- 2.2 CIPFA has adopted the following as its definition of treasury management activities:

The management of the organisation's investments, borrowing and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

- 2.3 The High-Level objectives of the Council's treasury management activities are set out in the Treasury Management Policy Statement (Appendix 1).
- 2.4 The Code also requires the Council to maintain suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve its Treasury Management policies and objectives, and prescribing how it will manage and control those activities (Appendix 2).

3 OPTIONS FOR CONSIDERATION

- 3.1 To consider the Treasury Management Policy Statement and note the revised Treasury Management Practices in Appendix 1 and 2.

4 ANALYSIS OF OPTIONS

- 4.1 As a principle, a common set of Practices have been adopted for North Lincolnshire Council treasury activity.
- 4.2 Link Asset Services Ltd were re-appointed as our Treasury Advisors in January 2021 and their advice and guidance has been sought on updating our TMPs.

5 RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

- 5.1 The financial implications include primarily staffing considerations but also IT software and the retention of advisors. Adequate financial resources already exist and as such no additional resource requirements are created by this report.

6 OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)

- 6.1 Risks are covered within the Treasury Management Practices.

7 OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

- 7.1 Not applicable

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

- 8.1 Not applicable

9 RECOMMENDATIONS

- 9.1 That the Audit Committee considers the assurance provided by this report on the effectiveness of arrangements for treasury management, and:
- 9.2 That the Audit Committee notes the Treasury Management Practices for the 2021/22 financial year

DIRECTOR: GOVERNANCE AND PARTNERSHIPS

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Author: Tracy Elliott

Date: 19th March 2021

Background Papers used in the preparation of this report

Treasury Management Strategy 2021-22
CIPFA-Code of Practice in the Public Service Fully Revised 2017
CIPFA-The Prudential Code Fully Revised 2017
MHCLG Guidance
Local Government Act 2003

The Treasury Management Policy Statement

1. The Council defines its treasury management activities as:

The management of the Council's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.
3. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
4. The Council's high-level policies for borrowing, borrowing in advance and investments.
 - The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.
 - This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.
 - The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

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Treasury Management Practices

DRAFT

Version Number	1.0	Approved By:	Audit Committee
Issue Date	March 2021		

TREASURY MANGEMENT PRACTICES
PRINCIPLE AND SCHEDULES

This document has been prepared in the sequence provided by CIPFA. For ease of use, the key areas for North Lincolnshire Council treasury operations are referenced below:

	TMP Number	Page
Organisational chart of the Council's Finance and Treasury Division	TMP 5	17
Statement of duties and responsibilities	TMP 5	
Absence cover	TMP 5	
Liquidity Management, Cash flow, bank overdraft, short-term borrowing/lending	TMP 1.2	4
Cash flow forecasts	TMP 8	24
Bank statements, payment scheduling	TMP 3	12
Electronic banking and dealing	TMP 5	17
Standard Settlement Instructions, Payment Authorisation	TMP 11	26
Approved types and sources of borrowing	TMP 4	14
Approved investment instruments	TMP 4	
Counterparty and Credit Risk Management	TMP 1.1	3
Current criteria	TMP 1.1	
Electronic Banking and Dealing:	TMP 5	17
<ul style="list-style-type: none"> • Authorised dealers • Dealing limits • Settlement transmission procedures 	TMP 5.8	19-20
Reporting arrangements/Performance measurement	TMP 6	21
Officers' responsibilities for reporting	TMP 2	10
	TMP 5	17
Budget, Statement of Accounts, treasury-related information requirements for Auditors	TMP 7	23
Anti Money Laundering Procedures	TMP 9	24
Contingency Arrangements	TMP 1.7	7
External Service Providers	TMP 11	26
References to Statute and Legislation	TMP 1.6	6

TMP1 - Risk Management

1. Credit and Counterparty Policies

- 1.1.1 All treasury management activities present risk exposure for the Council. The council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.
- 1.1.2 The Director Governance and Partnerships will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties in consultation with the Council's advisors.
- 1.1.3 The criteria will be agreed by Audit Committee.
- 1.1.4 Investment with government offers the least risk but lower yields.
- 1.1.5 The Council selects countries and the institutions within them for the counterparty list after analysis and careful monitoring of:
- Credit Ratings - the Council will use credit rating criteria as the main means of assessing the creditworthiness of counterparties for placing investments with – where available this Rating information will be supplemented by additional risk indicators such as Credit Default Swap Rates.
 - Sovereign credit ratings/sovereign support mechanisms.
 - The credit rating criteria will also apply to securities issued by financial and non-financial institutions, which in some instances, might be higher than that of the issuing institution.
 - Financial limits for individual counterparties and sectors will be set to ensure a sound diversification policy.
 - Longer term and cash limits may be set for secured investments (e.g. those with underlying collateral or which are by regulation excluded from being bailed-in/restructured in the event of financial distress.)
 - Where there is no investment-specific rating, but collateral upon which the investment secured is rated, then the higher of the collateral and counterparty rating will be used to determine time and cash limits.
 - Credit Default Swap (CDS) information
 - Macro-economic indicators
 - Corporate developments, news and articles, market sentiment
 - Where one or more counterparties are part of a group a limit will be set for the aggregate for all investments with the group.
- 1.1.6 Treasury team will construct a lending list comprising time, type, sector and specific counterparty limits based on the Council's approved Treasury Management Strategy Statement.
- 1.1.7 It may be impractical to determine a specific list of non-financial counterparties in whose securities investments might be made. The minimum credit rating criteria and whether the security is secured or unsecured will determine its selection for investment.

- 1.1.8 The counterparty list will be checked in accordance with the Treasury Management Strategy Statement. Credit ratings for individual counterparties can change at any time. The Treasury Advisors notify the Council of credit rate changes which affect the Council's counterparty list and any consequent change in limits. They also provide economic summaries, CDS information (monthly) and share price information.
- 1.1.9 The treasury management officer will amend the approved list in line with the policy on criteria for selection of counterparties.
- 1.1.10 Where an entity's credit rating is downgraded so that it fails to meet the minimum criteria, then only with the explicit approval of the Director Governance and Partnerships will a lower level of investment be permitted within the Non-Specified category. This is particularly appropriate for the Council's own bankers where overnight deposits may be required for Operational purposes.
- 1.1.11 Where a credit rating is placed on review for possible downgrade (also termed 'rating watch negative') so that it may fall below the minimum approved credit criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the rating review has been completed and its outcome known. This will not apply for 'negative outlooks' which indicate a long-term direction of travel rather than a possibility of an imminent downgrade.
- 1.1.12 Credit ratings will be used as supplied from one or more of the following credit rating agencies.
- Fitch Ratings Ltd
 - Moody's Investors Services
 - Standard & Poor's
- 1.1.13 Operationally the Director Governance and Partnerships may take measures to restrict (but not extend) the criteria approved in the Treasury Management Strategy Statement.
- 1.1.14 Advisers will be informed of changes to the Counterparty List where necessary.

1.2 Liquidity

- 1.2.1 The Council will seek to maintain sufficient cash balances to meet its daily cash requirements without recourse to short-term borrowing.
- 1.2.2 Should unforeseen circumstances arise short-term borrowing will be undertaken to ensure liabilities are met as they fall due.
- 1.2.3 The Treasury Specialist maintains cash flow forecasts (see TMP8)
- 1.2.4 Approved sources of short-term borrowing are:-
- The Council agrees an overdraft facility if necessary, with its bankers.
 - The Council accesses temporary loans either through money brokers or directly from financial institutions/other local authorities

- 1.2.5. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current programme or to finance future debt maturities.

1.3 Interest Rate Risk Management

- 1.3.1 Treasury management strategies are prepared in consultation with treasury advisors to take account of interest rate forecasts (see TMP6). Trigger points for consideration of borrowing are included within the strategy where appropriate. The treasury management advisors periodically update the forecasts and any impact on trigger points. The Council may determine it is more cost effective in the short-term to fund its borrowing requirement through the use of internal resources ('internal borrowing') or through borrowing short-term loans. The benefits of such borrowing will be monitored regularly against the potential for incurring additional costs by deferring or refinancing in future years when interest rates are expected to be higher.
- 1.3.2 For its investments, the Council also considers dealing from forward periods dependent upon market conditions. The Council's counterparty term limits will apply and will include the forward period of the investment.
- 1.3.3 The Prudential Code requires the Council to determine each year upper limits on net fixed interest rate and net variable interest rate exposures are determined each year as part of the Treasury Management Indicators included in the annual Treasury Management Strategy Statement.
- 1.3.4 The upper limits on net fixed interest rate and net variable interest rate are reviewed at least annually and are approved by Council within the Treasury Management Strategy reports. The Treasury Specialist monitors compliance which is subject to regular review as part of the assurance arrangements.
- 1.3.5 Policies concerning the use of financial derivatives and other instruments for interest rate management are set out in TMP4-
- a. The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy. The authority does not currently intend to use derivatives. Should this position change, the Council will seek to develop a detailed and robust risk management framework governing the use of derivatives.
 - b. Forward Dealing – consideration will be given to forward lending or borrowing for a period no more than 60 months in advance of the transaction.

1.4 Exchange Rate

- 1.4.1 Borrowing and Lending will only be undertaken in £ Sterling.
- 1.4.2 The Authority may have some exposure to exchange rate movements from time to time because expenditure or income is denominated in a foreign currency, but these transactions will generally be small and will normally be converted out of or into sterling at the time of the transaction.

1.5. Refinancing

- 1.5.1 The Council will seek to limit refinancing exposure by ensuring that only a limited amount of loan debt will mature in any one year. This limit will be kept under review and reported annually as part of the Treasury Management Strategy. The Prudential Code requires as a specific treasury management indicator, upper and lower limits for the maturity structure of the Council's debt.
- 1.5.2 The opportunities for debt restructuring will be kept under review in line with market conditions.
- 1.5.3 All loan debt rescheduling will be reported to the Audit Committee as part of the outturn report.
- 1.5.4 The council will prepare as a minimum a three-year plan for capital expenditure. The Capital Investment Strategy and capital programme will be used as a basis for estimating the anticipated financing requirement and a three-year revenue budget for loan charges consisting of MRP, interest and expenses as well as loan repayments and forecast interest rates.
- 1.5.5 The Council sets affordable limits for borrowing to inform the capital investment plans. The main source of borrowing for the authority is the Public Works Loan Board (PWLB) and estimates shall be prepared using forecast PWLB rates.
- 1.5.6 In addition to PWLB, any other source providing best value for money and favourable terms for borrowing will be considered.

1.6 Legal and Regulatory

1.6.1 References to Relevant Statutes and Regulations

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. These are:

English Authorities

Statutes

- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Requirement to set a balanced budget - Local Government Finance Act.
- Local Government Act 2003
- Localism Act 2011
- S.I. 2020 no. 1212 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020
- S.I. 2015 no. 234 Accounts and Audit Regulations 2015
- S.I. 2021 no. 263 Accounts and Audit Regulations 2021
- All other relevant regulations/ codes of practice etc.

Guidance and codes of practice

- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2017,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2017
- CIPFA Prudential Code for Capital Finance in Local Authorities – guidance notes for practitioners 2013
- MHCLG Revised Guidance on Investments Feb 2017
- MHCLG guidance on minimum revenue provision – Feb 2017
- The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners (2018 edition)
- Practitioners' Guide to Capital Finance (2019 Edition)
- LAAP Bulletins
- Code of Practice On Local Authority Accounting In The United Kingdom
- PWLB circulars on Lending Policy
- The UK Money Markets Guide. Financial Conduct Authority's Code of Market Conduct
- The Council's Standing Orders
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

1.6.2 Where required, the Council will establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.

1.7 Fraud, error and corruption

1.7.1 TMP5 and TMP6 set out the Council's arrangements for clarity of organisation, reporting arrangements, and management information systems and controls.

Contingency management

1.7.2 Emergency and Contingency Planning Arrangements Disaster Recovery Plan.
Under established agile working practises, all members of the Treasury Management team have remote access to the required systems to enable continuity.

- An electronic record is kept of all necessary treasury management data.
- Payments can be given by instruction by hand to the Bank.
- Balances can also be obtained over the telephone.
- Capability exists to make payments off-site through agile working practices.

1.7.3 Details of systems and procedures to be followed:

Authority

- The scheme of delegation to Officers set out the appropriate delegated levels. All loans and investments, including PWLB, are negotiated by authorised persons.

Occurrence

- A detailed register of loans and investments is maintained as part of the treasury management arrangements (Treasury Live). This is confirmed to the ledger balance.
- Adequate and effective cash flow forecasting records are maintained within the treasury management arrangements to support the decision to lend or borrow.
- Confirmation of a deal is received from the counterparty or trading portal. This could be in electronic or hardcopy format.
- A broker note showing details of the loan arranged confirming all transactions placed through brokers.

Completeness

- The loans register (Treasury Live) is updated to record all lending and borrowing this includes the date of the transaction and its terms.

Measurement

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Authority.

Timeliness

- The Treasury Live system highlights when money borrowed, or lent is due to be repaid. The Dealer will obtain daily from the Authority's bankers the intraday balance, and ensure that allowance will be made for the repayment/ receipt of loans/ investment due.

Procedure

- All investment is only made to institutions on the approved list.
- All loans raised and repayments made go directly to and from the authority's designated bank account.
- Authorised limits are set for every institution, grouped entities and types of instrument.
- Every effort is made to maintain balances within approved limits.
- Transactions are cross-checked against broker notes, counterparty confirmations and schedules by dates, amounts, interest rates, maturity, interest payment dates, etc.
- Brokers will have a list of named officers authorised to perform loan transactions.
- There is adequate insurance cover for employees involved in loans management and accounting.
- The control totals on the Treasury Live system are reconciled quarterly with the ledger.
- There is a clear separation of duties between functions discussed in detail in TMP5

Security

- All Investment Payments should be authorised by a bank signatory.
- NLC Faster Payments –Payments should be authorised by relevant budget head.
- Cards, PINs and card readers are required for Barclays.net transactions.
- When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through independently obtained contact details for the payee before altering payment details.

Internal Audit

- 1.7.4 Internal Audit carries out an annual regulatory review of the treasury management function. (See TMP 7)
- 1.7.5 The Council has “Crime Stop” insurance cover. This covers the loss of cash by fraud or dishonesty of employees.

1.8 Market Risk Management

- 1.8.1 This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.
- 1.8.2 The Council will from time-to-time access instruments in which there is an active secondary market (Certificates of Deposit, Treasury Bills etc.). The capital value of these instruments will fluctuate depending on the remaining period to maturity and prevailing market conditions. However, when using such instruments the Council will always do so on the basis that it intends to hold them to maturity and thereby secure a fixed capital value.
- 1.8.3 The method for accounting for unrealised gains or losses on the valuation of financial assets will comply with the Accounting Code of Practice.

1.9 Management practices for non-treasury investments

This organisation recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

This organisation will ensure that all the organisation’s investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation’s risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The organisation will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation’s risk exposure.

The Authority intends that TMP 1-12 are replicated/applicable as far as this is relevant and practicable to its non-financial investment activity. This particularly applies to TMPs 1, 2, 5, 6, and 10.

TMP2- Performance measurement

Methodology to be applied for Evaluating the impact of Strategic Treasury Management Decisions

All strategic treasury decisions are to be evaluated to determine:

- The impact on the Council's finances
- Any resultant change in the treasury management risk characteristics.

2.1 Methods to be employed for measuring the performance of the authorities Treasury Management activities

- Prudential Indicators are local to the Council and are not intended as a comparator between authorities.
- Benchmarking information can be obtained from Advisors (where applicable), Treasury Live and/or CIPFA.
- The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e., the Council will avoid hindsight analysis.
 - For debt management the following Performance Indicators (PI's) will be used
 - Average rate on all external debt
 - Average rate on external debt borrowed in previous financial year
 - Average period to maturity of external debt
 - For new borrowing, the average PWLB borrowing rate for the period for the same maturity profile.
- For investments the following performance indicator within the TMSS regarding Security will be monitored - a portfolio credit rating of A and for liquidity total cash available with 3 months of £10m.

2.2 To assist in evaluating the impact of strategic treasury management decisions the following will be carried out

- Monitoring of Prudential, treasury indicators and compliance treasury strategy.
- Mid-year and annual report to Audit Committee and Full Council.
- Reviews with the treasury management advisors.
- Internal audit reviews

2.3 Policy Concerning Methods for Testing Value in Treasury Management

2.3.1 Frequency and Processes for tendering

Banking services and other treasury services provided by external providers shall be subject to review at least every 5 years depending on type of contract.

2.3.2 Money Broking Services

Except for approved direct dealing the Council uses money broking services in order to make deposits or to borrow from the market, and will establish charges for all services prior to using them.

Currently, council deals with following list of brokers which takes account of both prices and quality of services, to obtain funds from the money markets and to place investments in accordance with the Approved list.

- Martin Brokers
- Tullett Prebon
- ICAP (restricted to Borrowing transactions only)
- King and Shaxson Limited
- BGC Sterling
- Tradition UK
- Imperial Treasury Brokers

This list will be reviewed periodically. Use of individual brokers will be determined by the need to access the services which they provide in the first instance and by performance/cost assessment thereafter.

2.3.3 Consultants/Advisors Services

NLC's policy is to appoint full-time professional treasury management advisors; the contract will be reviewed at least every three years.

2.3.4 Policy on External Managers

The Authorities' current policy is not to appoint external investment managers, but this will be kept under review.

TMP3 - Decision making and analysis.

Documents will be retained to evidence the processes and rationale behind all decisions:

3.1 Funding, Borrowing, Lending, and New Instruments / Techniques

3.1.1 Records to be kept.

The Treasury team maintains a daily electronic record of bank balances, statements and cash flow calculations and uses specialist computer software to record all cash flow and treasury management transactions which are authorised independently.

The record will have the following details relative to each loan or investment.

- Brokers (if applicable)
- Counterparty
- Interest rate
- Repayment date
- Term of loan
- Loan type
- Commission
- Transfer arrangement
- Basis on which a particular deal was judged to be the correct one
- Confirmation of compliance with Counterparty List

In addition, the following records will be kept: -

- Broker Confirmations
- Counterparty Confirmations
- Deal Tickets

3.1.2 Processes to be pursued.

- Cash flow forecasting – 6 months ahead (daily breakdown), period of Medium-Term Financial Forecast (Monthly breakdown).
- Investment of surplus cash balances
- Temporary borrowing to cover cash deficits.
- Long-term borrowing to finance capital expenditure
- Obtaining other forms of financing where that offers best value.
- Managing the investment and debt portfolio – maturity profile, debt rescheduling opportunities etc.:
- Monitoring of actual against budget for debt charges, interest earnings and debt management expenses

3.1.3 Issues to be addressed.

In respect of every decision made the Council will have regard to the nature and extent of the risks to which the authority may become exposed

- Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.

- Be content that the documentation is adequate both to deliver the Authorities objectives and protect the authority's interests and to deliver good housekeeping.
- Ensure that third parties are judged satisfactory in the context of the Authorities creditworthiness policies, and that limits have not been exceeded.
- Be content that the terms of any transactions are competitive.

3.1.4 In respect of borrowing and other funding decisions, following activities will be carried out.

- Evaluation of the economic and market factors that might influence the manner and timing of any decision to borrow.
- Consideration of the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships.
- Consideration of the use of internal resources and/or the most appropriate periods to fund and repayment profiles to use.
- Consideration of the ongoing revenue liabilities created, and the implications for the Authorities future plans and budgets.
- Where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years.

3.1.5 In respect of investment decisions, following activities will be carried out:

- Determination of that the investment is within the Council's strategy and pre-determined instruments and criteria.
- Consideration of the optimum period, in the light of cash flow availability and prevailing market conditions.
- Consideration of the alternative investment products and techniques available, especially the implications of using any which may expose the Authority to changes in the value of its capital.
- Evaluating the credit risk associated with unsecured investments with banks and building societies.
- Determination of appropriate credit policy limits and criteria to minimise the Authorities exposure to credit worthiness and other investment risks.

TMP4 - Approved instruments, methods and techniques

4.1 Approved activities of the Treasury Management operation

- Borrowing
- Investing
- Capital Financing
- Debt Repayment and rescheduling
- Consideration, approval and use of new financial instruments and treasury management techniques.
- Managing the underlying financial risk associated with the Council's capital financing and surplus funds activities.
- Managing Cash Flow.
- Managing any underlying exchange rate risk associated with the Council's business activities.

The above list is not finite and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques; however, the Council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.

4.2 Approved Instruments for Investments

Investments will be with those bodies identified by the Council for use through the Treasury Management Strategy and may include using the following instruments:

- Deposits with the UK government, the Debt Management Agency Deposit Facility (DMADF), and UK local authorities, Term deposits, callable deposits, and forward deals with high rated banks and building societies.
- Treasury Bills, Gilts and other Government issued securities
- Certificates of deposit with high rated banks and building societies.
- AAA-rated Money Market Funds.
- Highly rated corporate bonds
- Covered bonds (i.e. those with underlying collateral)
- Unsecured corporate bonds
- Reverse Repurchase Agreements ('reverse repos')
- Floating Rate Notes
- Pooled funds i.e. Collective Investment schemes meeting the criteria in SI 2004 No 534 and subsequent amendments
- Pooled funds i.e. Collective Investment Schemes which do not meet the definition of Collective Investment Schemes in SI 2004 No 534 and subsequent amendments – these will be capital expenditure investments.

4.2.1 Implementation of MIFID II requirements

Since 3 January 2018, UK public sector bodies are defaulted to “retail” status under the requirements of MiFID II. However, for each counterparty it is looking to transact with, (e.g. financial institution, fund management operator, broker), there remains the option to opt up to “professional” status, subject to meeting certain requirements specified by MIFID II and that it has the appropriate level of knowledge and experience and decision making processes in place in order to use regulated investment products.

MIFID II does not cover term deposits so local authorities should not be required to opt up to professional status. However, some non-UK banks do not have the necessary regulatory permissions to deal with retail clients, so opting up to professional status would be required.

For investing in negotiable investment instruments, (e.g. certificates of deposit, gilts, corporate bonds), money market funds and other types of investment funds, which are covered by MIFID II, a schedule is maintained of all counterparties that the treasury management team are authorised to place investments with. This specifies for each investment instrument and for each counterparty, whether the authority has been opted up to professional status. (N.B. some money markets funds will deal with both retail and professional clients.)

A list is maintained for all permissions applied for and received for opt ups to professional status specifying name of the institution (please see below)

SCHEDULE FOR OPT UPS TO PROFESSIONAL STATUS

Institution Type	Professional Status Required	Via
Banks	None	N/A
Money Market Funds	Black Rock	ICD
	Goldman Sachs	ICD
Bond Funds	None	N/A
Others	Link Asset Services	N/A
	King and Shaxson	N/A
	BGC Partners /RP Martin	N/A
	Tradition UK	N/A
	Imperial Treasury Brokers	N/A

SCHEDULE FOR EXEMPTIONS

4.3 Approved Techniques include

Forward dealing up to 5 years in advance. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Director Governance and Partnerships has delegated powers in accordance with Financial Regulations, Standing Orders, and the Scheme of Delegation and the Treasury

Management Strategy to take the most appropriate form of borrowing from the approved sources.

Finance will only be raised in accordance with the Local Government Act 2003.

Prohibited sources of Finance:

- Lenders Option/Borrowers Option - no new LOBO loans will be entered into.
- The authority will not use standalone derivatives.

4.5 Investment & Borrowing Limits

All investment and borrowing decisions will be made within limits set in TMSS.

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TMP5 Organisation, clarity and segregation of responsibilities and dealing

5.1 Limits to Responsibilities / Discretion at Authority Level

Council

- Formal Approval of the delegation of responsibilities (Constitution).
- Budget consideration and approval.
- Set the Prudential Indicators and revise them as and when necessary.
- Formal Approval of The Treasury Management Strategy Statement which incorporates the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Code indicators.
- Receive annual report and mid-year review on treasury management.

Cabinet

- Receive reports on treasury management arrangements and activities and the approval of decisions not reserved to Council

Audit Committee

- Scrutiny and overview of treasury management arrangements and Treasury Management Activity,
- Receive the Annual Report and mid-year review.
- Approve the Treasury Management Practices (TMPs).
- Receiving and reviewing internal and external audit reports and reviewing progress on the implementation of recommendations.

Portfolio Holder

- Oversight of treasury management activities in conjunction with the Director Governance and Partnerships.

5.2 Principles and Practices concerning Segregation of Duties.

The following duties must be undertaken by separate officers:-

- Dealing
- Authorisation of deal
- Release payment from online banking system.
- Administration of user profiles on cash management and banking systems
-

5.3 Treasury Management Organisation Chart

The Director of Governance and Partnership /Section 151 Officer

Head of Finance and Commissioning / Deputy Section 151 Officer

Chief Accountant

Strategic Lead (Finance Service Desk)

Specialist (Treasury)

Finance Practitioner (Treasury)/ Reserve Finance Practitioner

5.4 Statement of Duties / Responsibilities for Each Treasury Post

5.4.1 The Director Governance and Partnership /Section 151 Officer

As per PART D Rule 6 – Financial Regulations of the Constitution

5.4.2 Head of Finance and Commissioning /Deputy s151 officer

- a) Provides absence cover for the Director Governance and Partnership on policy issues and undertakes the day-to-day treasury management duties of the Director Governance and Partnership.
- b) Maintains a strategic overview of the treasury management function.

5.4.3 Chief Accountant/ Strategic Lead (Finance Service Desk)

- a) One of the officers who can approve investments.
- b) Ensures that treasury management practices are documented and are regularly reviewed.
- c) Provide oversight of the day-to-day treasury management operations.
- d) To ensure that adequate resources are available,
- e) Ensure Training is up to date for all roles,
- f) Submitting management information reports to the Director Governance and Partnerships.
- g) Review compliance with Assurance Targets and report any exceptions.
- h) Agree reconciliation of Treasury transactions to the ledger.

5.4.4 Treasury Specialist

- Oversee the execution of transactions and ensure adequate recording takes place.
- Adherence to agreed policies and practices on a day-by-day basis.
- Maintaining relationships with banking and treasury related third parties and external service providers.
- Monitoring treasury performance on a day-to-day basis.
- Identifying and recommending opportunities for improved practices.
- Ensure Finance Practitioners are kept up to date with market developments.
- Horizon scanning for macro-economic factors.

5.4.5 Finance Practitioner

- Execution of Transactions and their recording.
- Maintenance of Dealer Duties
- The finance practitioner may enter payment details into online banking platforms and transfer funds between the Council's own accounts.

5.4.6 Treasury Management Group

- Chief Accountant, Treasury Strategic Lead and Practitioner
- Monthly operational decision-making group within the Treasury Management Strategy Statement
- Reporting quarterly to Head of Finance and Commissioning with exception reporting more frequently as needed and to include Director Governance and Partnerships.

5.4.7 Head of Legal and Democracy

- Ensures compliance by the Director Governance and Partnerships with the legislative and regulatory requirements for treasury management.
- Satisfies himself that any proposal to vary treasury practice complies with the law or any code of practice.
- Advises the Director Governance and Partnerships where his advice is sought.

5.4.8 Internal Audit

- Reviews and makes recommendations in respect of compliance with approved policy and procedures.
- Reviews and makes recommendations in respect of duties and operational practice.
- Assesses the value for money of treasury activities.
- Undertakes the probity audit of the treasury function.

5.5 Absence cover arrangements

- All roles will be covered by at least two persons who have received sufficient training.

5.6 Dealing limits:

Long term (where the period is in excess of 364 days)

Investments

All long-term investment decisions shall be authorised by the Director Governance and Partnerships by discussion and appropriate (email/Decision notice) confirmation.

Borrowing

All long-term borrowing decisions shall be approved by the Treasury Management Group (paragraph 5.4.6) by recording in minutes of the meeting setting out compliance with the Treasury Management Strategy Statement.

Settlement transmission (paragraph 5.8) to be authorised by a different bank signatory.

Short term funding and investment

In respect of the daily surplus or loan decision, approval of Bank Signatories would be required prior to making commitment with counterparty.

5.7 Direct Dealing Practices

Direct dealing is carried out with institutions and with external pooled funds identified on the counterparty list and subject to maturity limits and dealing limits.

Deal Ticket Proforma: Deals will be recorded as per the deal ticket proforma.
(Proforma maintained at Operational level)

Deal Transactions: By email, via online dealing portal or telephone.

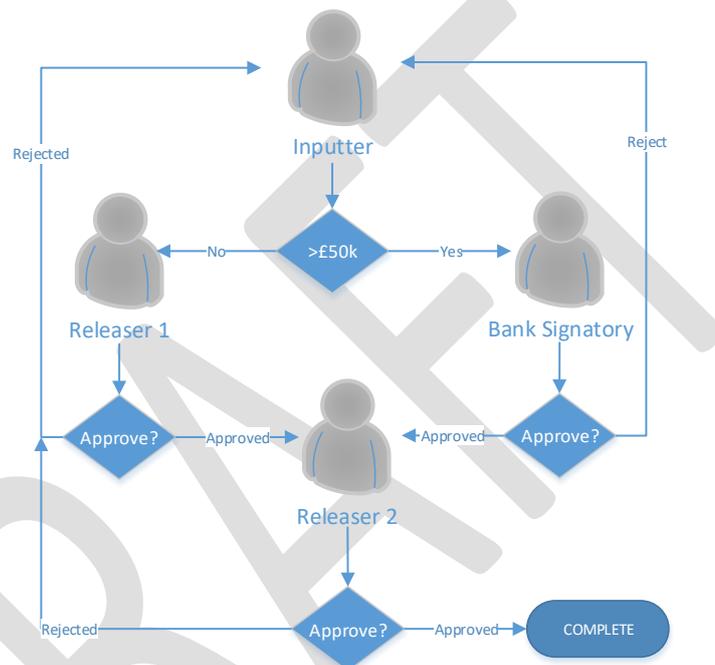
5.8 Settlement Transmission Procedures

The transfer of funds for deals arranged shall normally be made via the Council's online banking platform. Every payment on Barclays.net would require 3 different individuals for

processing. This would include Inputter, and two releasers, where over £50,000 one of the releasers will be a bank signatory:

- Bank Signatory – (strategic leads and senior staff within finance, 7 in total), authorise deals/payments on online banking system, manually or, as appropriate and reviewing their compliance with treasury management arrangements & strategy
- Releaser (Finance team, grade 8 and above) - authorisation of release of payments via online banking platform
- Inputter – treasury management team

Below process flow chart explains the online payment process on Barclays.net



5.9 Documentation Requirements:

For each deal undertaken the following will be prepared:

Investments

- Investment Deal ticket providing the investment details.
- Confirmation from the broker
- Contract notes for purchase and sale of shares/units in pooled funds from the fund's manager/administrator
- Signed standard settlement instructions (SSI) for investment of principal along with list of authorised signatories of counter parties, except DMO.

Loans

- Borrowing Deal ticket with signature to agree loan
- Confirmation from the broker OR
- Confirmation from PWLB/market counterparty
- Signed standard settlement instructions (SSI) for repayment of principal and interest along with list of authorized signatories of counter parties, except DMO.
- Completed call back for repayment of principal and interest on maturity.

TMP6 Reporting requirements and management information arrangements.

6.1 Annual reporting requirements before the start of the year

- **Treasury Management Strategy report** on proposed treasury management activities for the year comprising of the Treasury management strategy statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement
- **Capital Strategy / Capital Investment Strategy** to cover the following: -
 - give a long-term view of the capital programme and treasury management implications thereof beyond the three-year time horizon for detailed planning.
 - an overview of treasury and non-treasury investments to highlight the risks and returns involved in each and the balance, (proportionality), between both types of investments.
 - The authorities risk appetite and specific policies and arrangements for non-treasury investments
 - Schedule of non-treasury investments
- Mid-year review
- Annual review report after the end of the year

6.2 Treasury Management Strategy Statement

The Treasury Management Strategy Statement (TMSS) sets out the specific expected treasury activities for the forthcoming financial year. This Strategy will be submitted by the Director Governance and Partnerships to the Council for approval before the commencement of each financial year.

The Treasury Management Strategy is concerned with the following elements:

- The current treasury portfolio position
- The prospects for interest rates
- The expected borrowing strategy
- The expectations for debt rescheduling
- The Annual Investment Strategy (see below) The Prudential Limits placed by the Council on treasury management activities.

6.3 Annual Investment Strategy

As part of its annual TMSS for the following year, the Director Governance and Partnerships will present an Annual Investment Strategy covering the identification and approval of the following:

- The strategy guidelines for decision making on investments.
- The maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security (defined by the Council), and high liquidity investments in sterling and with a maturity of no more than a year.

- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

6.4 Prudential Indicators

Under the prudential system, the Council must determine the level of their affordable borrowing, having regard to the CIPFA Prudential Code.

The prudential indicators for the forthcoming and following years must be set before the beginning of the forthcoming year. These are included as an Appendix to the TMSS.

The Director Governance and Partnerships is responsible for ensuring compliance with these limits. Should it prove necessary to amend these limits, the Director Governance and Partnerships shall submit the changes for approval to Council.

6.5 Annual reporting requirements after the year end

An annual report will be presented to Council at the earliest practical meeting after the end of the financial year, but in any case, by the end of September.

The report will include.

- A comprehensive picture for the financial year of all treasury policies, plans, activities and results.
- Report on risk implications of decisions taken and transactions executed.
- Compliance report on approved policy, practices and statutory/regulatory requirements.
- Measurements of performance.
- Report on compliance with CIPFA code recommendations.

6.6 In year reporting requirements

A mid-year report on treasury management activity will be presented to Audit Committee and Cabinet by the Director Governance and Partnerships.

The reports will include.

- Report on risk implications of decisions taken and transactions executed.
- Measurements of performance.
- Treasury Management Indicators

6.7 Management information requirements

The Treasury Specialist will provide to the Treasury Management Group.

- Monitoring and forecast information in respect of relevant treasury budgets.

- Loan and investment balances
- Information demonstrating compliance with prudential indicators.
- Extent of compliance with Treasury Strategy and reasons for variance (if any).

The Treasury Specialist will produce for each meeting of the Treasury Management Group

- Borrowing and lending balances
- Cash flow report
- Market Intelligence

The Treasury Specialist will bring any major issues to the attention of the Chief Accountant officer outside of scheduled meetings.

TMP7 Budgeting, Accounting and audit Arrangements

7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices.

The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

7.2 Budgets/Accounts

Chief Accountant in consultation with the Treasury Specialist will prepare revenue estimates for treasury management activity and function for the medium-term financial planning period.

This will bring together all the costs involved in running the function, together with associated income, i.e.:

- Interest payable
- Interest receivable
- Debt management expenses (including bank charges, external advisors etc)

The Treasury Specialist will monitor and report on these estimates throughout the year in accordance with the Council's budget monitoring arrangements.

7.3 Information requirements of Auditors

- Related treasury information/ records will be provided upon request.

TMP8 - Cash and cash flow management

8.1 Arrangements for preparing /submitting cash flow statements

The Treasury Specialist shall keep up to date annual and daily rolling cash flow projections. The projections are prepared from the Medium Term Financial Plan and accumulated knowledge on individual cash flow items, adjusted for known changes in levels of income and expenditure (revenue and capital) and changes in payments and receipts dates. Daily Cash flow records are maintained on the Treasury Live system.

TMP9 Money Laundering

9.1 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the Proceeds of Crime Act (POCA), but are not legally obliged to apply the provisions of the Money Laundering Regulations, 2012, 2015 and 2017. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Council will do the following: -

- evaluate the prospect of laundered monies being handled by them
- determine the appropriate safeguards to be put in place
- require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
- make all its staff aware of their responsibilities under POCA
- Appoint a member of staff to whom they can report any suspicions.
- in order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
- The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is the Director of Governance and Partnerships and it shall be a requirement that all services and departments implement this corporate policy and procedures.

9.2 Procedures for establishing Identity of Lenders/Borrowers

The Council does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000.

The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Bank of England/Prudential Regulation Authority's website.

The Council will only borrow from permitted sources identified in TMP4

All banking transactions will only be undertaken by the personnel authorised to operate the Council's bank accounts.

When receiving requests for change of payment details due care is exercised to ascertain the bona fide of the request and avoid potential fraud. Checks will be made through pre-existing contact details for the payee before altering payment details.

Banking details for invoices above £50,000.00 from new vendors should be reconfirmed thorough appropriate means such as call back.

9.3 Methodologies for identifying deposit takers

In the course of its treasury activities, the council will only lend money to or invest with those counterparties that are on its approved lending list.

TMP10 - Training and Qualifications

- 10.1.1 The Director Governance and Partnerships will ensure that Council members tasked with Treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their need and those responsibilities
- 10.1.2 Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.
- 10.1.3 The Director Governance and Partnerships is committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained. Other staff involved in Treasury Management activities who are members of CIPFA must also comply with the SOPP (Statement of Professional Practice).
- 10.1.4 Details of staff training needs will be identified, as part of the training needs analysis undertaken as part of the Council's Performance Management Framework.
- 10.1.5 In addition all treasury management staff will receive appropriate training relevant to the requirements and duties of their role prior to undertaking those duties.
- 10.1.6 The training needs of each of the following roles is documented, reviewed and delivered by the Chief Accountant or his nominee:
- Dealing staff
 - Releasers
 - Authorising Staff
- 10.1.7 Training updates will be provided as required. Regular meetings will be co-ordinated by the Treasury Specialist with Dealing Staff to ensure they are up to date with developments on Treasury issues (e.g. Strategy decisions arising from TMG).

- 10.1.8 Treasury management seminars will be attended as appropriate and will be open to all relevant staff.
- 10.1.9 The Chief Accountant will ensure that there are sufficient trained staff in each of the roles to ensure:
- No disruption of effective treasury management service or standards,
 - That there is adequate cover and succession arrangements in the event of departure of key staff.
 - That there are opportunities for staff to develop their skills.

TMP11 - Use of external service providers

Responsibility for Treasury management decisions remains with the Council at all times

11.1.1 Banking Services

Barclays Bank PLC
PO Box No 3333 1 Snow Hill
Snow Hill Queensway
Birmingham B3 2WN

11.1.2 Money Broking Services

- Tullet Prebon Ltd
155 Bishopgate
London
EC2N 3DA
- BGC Partners / Martin Brokers (UK) plc
One Churchill Place
Canary Wharf
LONDON
E14 5RD
- King & Shaxson Ltd
Candlewick House
120 Cannon Street
London
EC4N 6AS
- Tradition UK
15 St. Botolph St.
London EC3A 7QX
- Imperial Treasury Services
5 Port Hill, Hertford
SG14 1PJ

Additional money brokerage service providers may be added subject to approval of Treasury Management Group.

11.1.3 Treasury Advisers

Link Asset Services

11.1.4 Deals Recording

Public Sector Live
31 Southampton Row
London
WC1B 5HJ30 day
Rolling 30 day contract

11.1.5 Money Market Funds Dealing

Institutional Cash Distributors Ltd
9 Devonshire Square
LONDON
EC2N 4YF

Bribery Act

The council is mindful of the requirements of the Bribery Act 2011 in its dealings with external providers.

TMP12 - Corporate Governance

All applicable treasury related documents will be available on council's website such as Treasury Management Strategy statement etc.

Note that in order to maintain commercial confidentiality, requests for more detailed information should be made to inforequest@northlincs.gov.uk clearly explaining the information you would like and providing a contact email or postal address.

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