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ASHFIELD DISTRICT COUNCIL

Council Offices,
Urban Road,
Kirkby in Ashfield
Nottingham
NG17 8DA

Agenda

Audit Committee

Date:	**Monday, 29th March, 2021**
Time:	**7.00 pm**
Venue:	**Ashfield District Council's YouTube Channel**

For any further information please contact:

Lynn Cain

l.cain@ashfield.gov.uk

01623 457317

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AUDIT COMMITTEE

Membership

Chairman:	Councillor David Walters

Councillors:

John Baird	Jim Blagden
Christian Chapman	Arnie Hankin
Kevin Rostance	Dave Shaw

FILMING/AUDIO RECORDING NOTICE

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SUMMONS

You are hereby requested to attend a meeting of the Audit Committee to be held at the time and on the date mentioned above for the purpose of transacting the business set out below.

Carol Cooper-Smith
Chief Executive

AGENDA		Page
1.	**To receive apologies for absence, if any.**	
2.	**Declarations of Disclosable Pecuniary or Personal Interests and Non Disclosable Pecuniary/Other Interests.**	
3.	**To receive and approve as a correct record the minutes of the meeting of the Committee held on 1 February 2021.**	5 - 8
4.	**MAZARS: Audit Progress Report - Year Ending 31 March 2021.**	9 - 22
5.	**Accounting Policies for 2020/21 and other Statement of Accounts Matters.**	23 - 44
6.	**Pension Assumptions for 2020/21 Statement of Accounts.**	45 - 88
7.	**Independent Member for the Audit Committee.**	89 - 92
8.	**Audit Progress Report.**	93 - 114
9.	**Internal Audit Plan 2021-22 and Audit Charter.**	115 - 128
10.	**Corporate Governance and Anti-Fraud Update.**	129 - 146
11.	**Whistleblowing Annual Update.**	147 - 150

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AUDIT COMMITTEE

Virtual Meeting held on Monday, 1st February, 2021 at 7.00 pm

Present: Councillor David Walters in the Chair;

Councillors Jim Blagden, Christian Chapman, Arnie Hankin and Dave Shaw.

Apology for Absence: Councillor John Baird.

Officers Present: Bev Bull, Lynn Cain, Ruth Dennis, Joanne Froggatt, Peter Hudson and Mike Joy.

In Attendance: David Hoose (Mazars), Hannah McDonald and Mandy Marples (CMAP).

AC.24 Declarations of Disclosable Pecuniary or Personal Interests and Non Disclosable Pecuniary/Other Interests

No declarations of interest were made.

AC.25 Minutes

RESOLVED
that the minutes of the meeting of the Committee held on 30 November 2020, be received and approved as a correct record.

AC.26 Mazars: Annual Audit Letter - Year Ending 31 March 2020

David Hoose, Mazars Engagement Lead, presented the Annual Audit Letter for 2019/20. The Letter provided a summary of the work undertaken by Mazars as the auditor for Ashfield District Council for the year ended 31 March 2020. The overall conclusions were positive and pleasing.

The two significant risks, having been evaluated, had not identified any material errors or uncertainties in the financial statements, or other matters that needed to be brought to Members' attention.

In relation to the auditor's report, Members acknowledged that it had been modified to include an 'emphasis of matters' paragraph, which drew attention to the fact that Covid-19 had contributed to 'material valuation uncertainty' in the valuation of the Council's land & buildings and investment properties and in the Council's share of Nottinghamshire Pension Fund's property assets. The 'emphasis of matters' paragraph was consistent across Nottinghamshire Councils and beyond.

The Value For Money (VFM) conclusion had also resulted, in all significant respects, that the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

RESOLVED
that the Annual Audit Letter for the year ended 31 March 2020, as presented to Committee, be received and noted.

AC.27 Mazars: Audit Strategy Memorandum - Year Ending 31 March 2021

David Hoose presented the Audit Strategy Memorandum for the year ending 31 March 2021 to Committee which gave an overview of the audit's scope and responsibilities, timelines and methodology for the coming financial year.

Three significant audit risks in relation to Management Override of Controls, Defined Benefit Liability Valuation and Valuation of Property, Plant and Equipment were noted as being the same as the previous year with no new risks being added for consideration.

In relation to the Value for Money (VFM) risk assessment, a new Code came into force on 1 April 2020. From 2020/21 onwards and unlike the requirements of the 2015 Audit Code, Mazars would no longer be required to report in the form of a conclusion on arrangements.

Under the new Audit Code, it would be expected that a report and recommendations would be made to the Council as soon as any significant weakness in arrangements were identified, as opposed to reporting the conclusion on arrangements at the end of the audit cycle as has previously been the case. The work would now be focussing on three criteria specified in the revised Audit Code, namely financial sustainability, governance and improving economy, efficiency and effectiveness.

Committee acknowledged the proposed audit fees, as outlined in the report, which reflected the additional work to be undertaken in the 2020/21 financial year.

RESOLVED
that the Audit Strategy Memorandum for 2020/21, as presented to Committee, be received and noted.

AC.28 Capital Strategy

Committee were requested to consider the refreshed Capital Strategy for 2021/22 as presented. Members acknowledged the key change in that the current capital programme (to be approved February 2021) did not include any plans for further commercial property investment with the last acquisition being made on 2nd April 2020 and the revised (lower) Public Works Loans Board (PWLB) rates available to those Councils not pursuing debt for yield investment strategies.

RESOLVED that

a) the contents of the Capital Strategy for 2020/21 including Annexes 1-3; as presented, be received and noted;

b) Cabinet and Council be recommended to approve the Capital Strategy, Commercial Property Investment Strategy and Commercial Property Indicators, as outlined in the report.

AC.29 Treasury Management Strategy

Committee were asked to consider the Treasury Management Strategy for the 2021/22 financial year, as presented and to note the operational boundaries and prudential indicators and the minor change in relation to the addition of allowing loans to third parties.

RESOLVED that

a) the content of the Treasury Management Strategy (TMS) for 2021/22, as presented, be received and noted;

b) Cabinet be recommended to approve the Treasury Management Policy Statement which incorporated the following:

- Treasury Management Strategy Statement (TMSS)
- Borrowing Strategy
- Annual Investment Strategy
- Minimum Revenue Provision (MRP) Policy;
- Prudential Indicators and Treasury Management Indicators
- Treasury Management Practices: Risk Management.

AC.30 Corporate Risk Update.

The Assistant Director, Corporate Services and Transformation presented the Corporate Risk Register, Corporate Risk Strategy and following a review by the Council's Internal Audit provider, the revised Risk Appetite Framework used to identify, assess and monitor risk at a corporate level.

Committee considered the methodology of the new Risk Appetite Framework which defined risk appetite together with a statement relating to the Council's position on its openness to risk. The framework also incorporated a risk rating score matrix which identified the level at which the risk would need to be monitored.

To conclude, Members discussed the current risk position and the impact on risk caused by the Covid pandemic. Areas of increased risk included universal credit and subsequent collection/enforcement of rent payments, increasing levels of rent arrears within the Housing Revenue Account (HRA) and the ongoing solidity of the Council's commercial investment portfolio.

RESOLVED that

a) the Corporate Risk Register and progress against current corporate risks including significant items, as presented, be received and noted;

b) the updated Corporate Risk Strategy and new Risk Appetite Framework be endorsed prior to Cabinet approval;

c) the Assistant Director, Corporate Services and Transformation be requested to consider the possibility of earmarking risks within the Risk Register to indicate which areas are within the Council’s control to mitigate against and which are more affected by outside influences i.e. Central Government.

The meeting closed at 8.04 pm

Chairman.

Audit Progress Report

Ashfield District Council

Year ending 31 March 2021

mazars

1. Audit Progress
2. Audit Approach Update
3. National Publications

mazars

Audit Progress

Since we presented our Audit Strategy Memorandum, we have:

- undertaken planning work for our 2020/21 audit, including liaison with relevant officers;
- undertaken interim audit work which involves documenting systems and controls; completing walkthroughs of key systems; updating our IT risk assessment; undertaking controls testing; and
- commenced some early substantive testing of transactions (including income and expenditure, payroll, journals and property, plant and equipment).

Our planned timetable of work is set out in the diagram below.

Our risk assessment is however an on-going process throughout the year.

At this stage, overall audit progress is on track, with no significant issues arising which we are required to report to the Council.

Planning January 2021

Planning visit and developing our understanding of the Council

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

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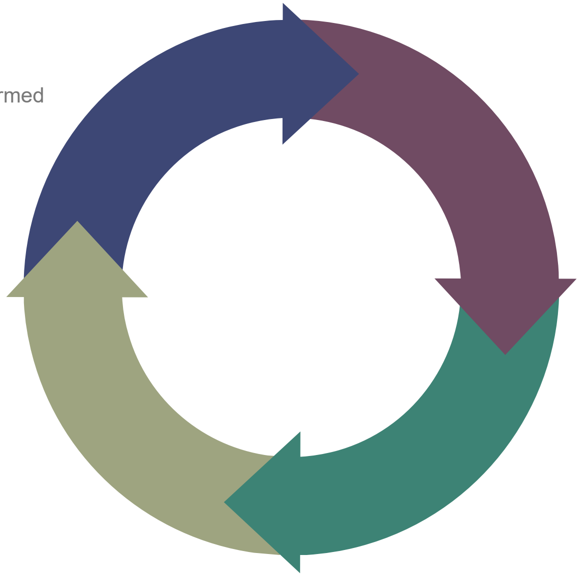

Interim February - March 2021

Documenting systems and controls

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

Fieldwork June - August 2021

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

Completion September 2021

Final review and disclosure checklist of financial statements

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

Audit Approach Update

Matter	Considerations	Implications
Service Organisations	In our Audit Strategy Memorandum, we reported that Nottinghamshire Pension Fund was a service organisation for the purposes of our audit approach. 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 re-evaluated our assessment and concluded that Nottinghamshire Pension Fund does not meet the definition of a service organisation. There is no significant impact on our audit strategy or risk assessment.
Significant Audit Risks *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.*	In setting our audit strategy, we set out the following significant audit risks: • Management override of controls • Valuation of the net defined benefit pension liability • Valuation of land & buildings, HRA dwellings, investment properties and other PPE related assets (where material).	Our work to date confirms that these risks remain appropriate for 2020/21. Valuation of land & buildings: The Council has historically sought the advice of an expert RICS valuer in the preparation of the financial statements. During 2020/21, RICS established a Material Valuation Uncertainty Leaders Forum (UK) to consider the pandemic and its impact on financial reporting. The forum recommends that material valuation uncertainty declarations may not be required for all properties, except those in retail and leisure sectors, subject to valuer discretion for individual cases. We will consider the implications on the financial statement disclosures and our auditor's report on receipt.
Additional Audit Risk: Covid-19 Grants recognition	Throughout 2020/21, the Government has provided substantial sums of financial support to local authorities. Management have had to exercise a level of judgement in relation to these specific COVID-19 grants, covering the following: • the extent to which the Council is acting as an agent or principal; and • whether conditions associated with the grants have been met at the reporting date. This creates a financial reporting risk as to whether income is appropriately recognised in the financial statements.	We will address this risk by performing work in the following areas: • reviewing the Council's approach to determine whether grants are or are not ringfenced for specified areas of expenditure; and • testing a sample of grant income recorded in the ledger to grant allocations/ notifications; and • challenge the Council's judgements as to whether it is acting as agent or principal in respect of the administration of individual grant funding streams, and the accounting treatment associated with these judgements; and • reviewing a sample of grants to ensure conditions to recognise the income in 2020/21 have been met or not.

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	Good practice framework	10
National Audit Office			
7	Local auditor reporting application	Data on local auditor reporting presented through an interactive map	11

National Publications

	Publication/update	Key points	Page
MHCLG			
8	Local authority financial reporting and external audit: government response to the Redmond review	MHCLG's response to Sir Tony Redmond's independent review	12
9	Local Authority Financial Reporting and external audit: independent review	The Redmond report	12
Financial Reporting Council			
10	Local Audit Inspections	FRC Audit Quality report	13-14
PSAA			
11	Quarterly Quality Monitoring Report for the financial year 2021-22: Q2	PSAA Audit Quality report	15
Home Office			
12	Public Service Pension Schemes Guidance	Consultation on the Remedy to McCloud / Sergeant litigation	16

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 (Governance 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. 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, 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

7. 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/

NATIONAL PUBLICATIONS
MHCLG

8. 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

9. Local Authority Financial Reporting and external audit: independent review, September 2020

This independent review, led by Sir Tony Redmond at the invitation of the Ministry of Housing, Communities and Local Government, considered the effectiveness of external audit and transparency of financial reporting in local authorities. The Redmond Report concluded that audit fees were at least 25% lower than is required to fulfil current local audit requirements effectively. Audit fees in the local authority sector have fallen significantly over the last five years, whereas audit fees in other sectors have significantly risen although audit suppliers have sought to bridge the gap with increasing fee variations, which averaged eight per cent in 2018/19. The report also suggests local authority accounts are currently too complex to make audit completion by 31 July feasible.

Redmond makes a number of recommendations in relation to:

- external audit regulation
- smaller authorities audit regulation
- financial resilience of local authorities
- transparency of financial reporting

https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review

NATIONAL PUBLICATIONS
Financial Reporting Council

10. 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

10. 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 is 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.

NATIONAL PUBLICATIONS
Public Sector Audit Appointments Limited

11. Quarterly Quality Monitoring Report for the financial year 2021-22: Q2, September 2020

Under the transitional arrangements, which followed the abolition of the Audit Commission, PSAA were responsible for monitoring the quality of the work undertaken by the audit suppliers at principal bodies. PSAA published the last report under these transitional arrangements in Autumn 2019 and Mazars received an overall amber rating, which matched the '*combined regime*' score across the 5 suppliers. This was slightly disappointing as in 2018 Mazars had been the only supplier awarded a green rating and the downgrading reflected weaknesses in the approach to auditing Property, Plant and Equipment and Pensions, which were common across suppliers.

PSAA explain in their latest quality monitoring report that they have appointed the Financial Reporting Council (FRC) and Institute of Chartered Accountants in England and Wales (ICAEW) to review audit quality from 2018/19 onwards and the results will be published in their 2020 Annual Monitoring Report, during 2021. However, they have continued to monitor delivery of local authority engagements and report any non-compliance with the terms of appointment.

The report indicates that in 2018/19 43% of local authority audits were not delivered by the 31 July 2019 deadline and eight per cent remained outstanding at 30 September 2020. Mazars were the top performer in terms of audit delivery with 20% of opinions late and two per cent still outstanding. Mazars were found to be fully compliant with the terms of appointment.

The report also notes that whilst only 18% of 2019/20 audits were reported as being at risk of being late this number was expected to increase and this forecast transpired to be accurate. The actual percentage of 2019/20 local authority audits outstanding at 30 November 2020 was 55%, an increase on 2018/19 (PSAA press release 4 December 2020).

https://www.psaa.co.uk/managing-audit-quality/audit-quality-monitoring-reports-from-2018-19/quarterly-reports/

The PSAA Press release regarding late 2019/20 opinions can be found at:

https://www.psaa.co.uk/2020/12/news-release-2019-20-audited-accounts/

NATIONAL PUBLICATIONS
Home Office

12. Public Service Pension Schemes Guidance, September 2020

This consultation, which ended in October 2020 sets out options for how the Government will remove the discrimination against some younger pension scheme members identified in the McCloud / Sergeant judgements. These options involve providing members with a choice of which set of pension scheme benefits, those under their old scheme or the new scheme, they would like to receive for the remedy period and whether to make that choice immediately or defer it until retirement. The Government is expected to publish its response and final policy decision shortly.

https://www.gov.uk/government/publications/public-service-pension-schemes-guidance

David Hoose

Mazars
Nottingham

Report To:	**AUDIT COMMITTEE**	**Date:**	**29th MARCH 2021**
Heading:	**ACCOUNTING POLICIES FOR 2020/21 AND OTHER STATEMENT OF ACCOUNTS MATTERS**		
Portfolio Holder:	**COUNCILLOR RACHEL MADDEN – CABINET MEMBER FOR FINANCE**		
Ward/s:	**N/A**		
Key Decision:	**NO**		
Subject to Call-In:	**NO**		

Purpose of Report

This report requests approval by the Audit Committee of the accounting policies that the Council proposes to adopt for the current financial year in the preparation of the Statement of Accounts 2020/21.

The report also outlines the impact of changes to the Code of Practice on Local Government Accounting on the production of the 2020/21 Statement of Accounts process.

Recommendation(s)

1) Audit Committee approve the Accounting Policies detailed at Appendix A to this report.

2) Audit Committee note that any subsequent amendments or changes to these policies and the associated financial implications will be reported back to this Committee.

Reasons for Recommendation(s)

Part 3 of the Annual Accounts and Audit Regulations 2015 (the Regulations) requires the Council to produce an annual Statement of Accounts. In accordance with International Financial Reporting Standards (IFRS), the Statement of Accounts must include a statement of accounting policies.

The Regulations require a draft of the Statement of Accounts to be prepared and certified by the responsible financial officer by 31 May under normal circumstances, the Accounts and Audit (Amendment) Regulations 2021 have extended this to the 31 July for the financial years beginning 2020 and 2021. In accordance with best practice for local authorities, the draft accounting policies should be reviewed by Audit Committee before the draft 2020/21 Statement of Accounts is produced.

In addition, where IFRS allows a degree of choice, Audit Committee should be aware of and confirm the choices made.

Alternative Options Considered

None as it is best practice for the Audit Committee to review the accounting policies.

Detailed Information

Introduction

1.1 The Accounting Policies adopted by the Council determine the accounting treatment that is applied to transactions during the financial year and in the preparation of the Statement of Accounts at the year-end. They determine the specific principles, bases, conventions, rules and practices that will be applied by the Council in preparing and presenting its financial statements. The accounting policies are published within the Statement of Accounts in accordance with the Chartered Institutes of Public Finance and Accountancy (CIPFA) Code of Practice on Local Government Accounting (the Code of Practice) and incorporate the requirements of International Financial Reporting Standards (IFRS).

1.2 The approval of the accounting policies to be applied by the Council demonstrates that due consideration has been given to the policies to adopt and apply and that those charged with corporate governance are fully informed prior to the commencement of the Statement of Accounts preparation.

Accounting Policies

1.3 The accounting policies are reviewed each year by officers to ensure all accounting policies previously approved are still relevant and are in accordance with the latest version of the Code of Practice and IFRS requirements. Any new requirements are added to the policies and any policies, which are no longer relevant or have no material effect to the Statement of Accounts, are removed.

1.4 The following accounting standards have been amended by the Code of Practice in 2020/21:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

1.5 The application date of the above amendments are the 1 April 2020.

1.6 The amendments make changes to the wording of existing accounting standards to add clarity to interpretation and understanding of the standards. They are not new accounting standards. They do not have any material effect and have not resulted in any changes to Ashfield District Council accounting policies.

1.7 The proposed accounting policies for 2020/21 are included at Appendix A.

1.8 CIPFA intend to issue an accounting Bulletin giving further guidance on matters for the production of the Statement of Accounts. At the time of this report, the Bulletin has not been issued, once issued it will be taken into account when producing the statements.

Implications

Corporate Plan:
Production of timely and accurate Statement of Accounts is a statutory requirement. Achievement of this reflects sound financial management supporting the Corporate Plan.

Legal:
The agreement of appropriate Accounting Policies is part of the process of ensuring that the Council satisfies its legal obligation to prepare a Statement of Accounts. The report also demonstrates how compliance with the Accounts and Audit Regulations is to be achieved.

Finance:
This report is effective for the Statement of Accounts 2020/21:

Budget Area	Implication
General Fund – Revenue Budget	There are no direct financial implications. The report outlines the policies to be adopted for production of timely and accurate accounts and demonstrates consideration of other legal and accounting issues attributable to their production.
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation

Human Resources:
There are no human resources impacts.

Environmental/Sustainability
There are no environmental/sustainability impacts.

Equalities:
There are no equalities impacts.

Other Implications:
There are no other impacts.

Reason(s) for Urgency
N/A

Reason(s) for Exemption
N/A

Background Papers
Appendix A – Statement of Accounting Policies.

<u>Report Author and Contact Officer</u>
Bev Bull
Chief Accountant
B.Bull@ashfield.gov.uk
01623 457424

Appendix A

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the financial year 2020/21 and its position at the year-end 31st March 2021. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These Regulations require the accounts to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise of the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and International Financial Reporting Standards (IFRS).

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

2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

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

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than one working day.

Cash Equivalents are highly liquid investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the cash flow statement, cash and cash equivalents are shown net of any bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

4. Exceptional Items

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

6. Charges to Revenue for Non-Current Assets

Service revenue accounts, support services and trading accounts are charged with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.

- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserves against which the losses can be written off.
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation, impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

7. Employee Benefits

a. Benefits payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and accumulated flexi time for current employees and are recognised as an expense for the services in the year in which the employees render service to the Council. An accrual is made for the cost of holiday entitlements etc. earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus and Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

b. Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy in exchange for those benefits. These are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

c. Post Employment Benefits

Most employees of the Council contribute to the Nottinghamshire Pension Fund, the Local Government Pension Scheme administered by Nottinghamshire County Council. The scheme provides defined benefits (retirement lump sums and pensions) earned as employees work for the Council.

The Nottinghamshire Pension Fund is accounted for as a defined benefit scheme:

- The liabilities of Nottinghamshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions including mortality rates, employee turnover rates and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices using a discount rate based on an appropriate rate of return on high quality corporate bonds.

- The assets of the Fund attributable to the Council are included in the Balance Sheet at their fair value.

  a) Quoted securities – current bid price
  b) Unquoted securities – professional estimate
  c) Unitised securities – current bid price
  d) Property – market value

The change in the net pension liability is analysed into the following components:

- Service Cost comprising

  a) Current Service Cost - the increase in liabilities as result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Account to the services for which the employees worked

  b) Past Service cost - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Account as part of Non-Distributed Costs

  c) Net interest on the net defined liability (asset), i.e. the net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments

d) Re-measurement comprising:

- the return on plan assets – excluding amounts included in net interest on the defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- actuarial gains and losses - changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

e) Contributions paid to Nottinghamshire Pension Fund - Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable to the fund but unpaid at the year-end.

The negative balance that arises on the Pensions reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

- **Discretionary Benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

8. Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified;

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events,

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts. For the purposes of consideration, Post Balance Sheet events can occur up to approval of the Statements by the Audit Committee.

9. Financial Instruments

a. Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument, which are initially measured at fair value, and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate of interest for each instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally borrowed.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

b. Financial Assets

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

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

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost.

Financial Assets measured at amortised costs

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Investments are classed as either long-term assets, if repayable after 12 months or longer, or current assets, if repayable within 12 months. Investments are shown in the Balance Sheet at amortised cost, using the effective interest rate that applies to the individual loans that comprise the total borrowing held by the Council. The amount shown in the Balance Sheet represents the outstanding principal due to be repaid to the Council and the interest that is credited to the Comprehensive Income and Expenditure Statement is the amount receivable in the year under the loan agreement.

c. Expected Credit Loss Model

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

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

10. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Non-specific Grants

These are general grants allocated by central government directly to local authorities as additional revenue funding. They are non-ring-fenced and are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement. For example, New Homes Bonus funding.

11. Intangible Assets

Expenditure on assets that do not have a physical substance but are identifiable and controlled by the Council are capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

During 2020/21, no Council assets met the ‘Intangible Assets’ definition.

12. Interests in Companies and Other Entities

The Council has no material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts.

(a) Joint Crematorium Committee

The Council is a constituent member of a joint crematorium committee with neighbouring authorities of Mansfield and Newark and Sherwood District Councils. Current activities are split between all the councils based on the number of residents of each district area cremated. The balance sheet is apportioned based on the current year’s cremations from each area. The Council’s share of running costs and income has been included in the Comprehensive Income and Expenditure Statement and the share of assets included within the Balance Sheet using these apportionments. Due to the nature of the relationship of the Council within the committee, Group Accounts are not required for this entity. Information on the Council's share of the income and expenditure and associated assets and liabilities is shown in note 39 to the Core Financial Statements.

13. Inventories and Long Term Contracts

Inventories are included on the balance sheet at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

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

14. Investment Properties

The Council does hold properties for investment purposes.

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

15. Leases

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

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

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

a. Operating Leases

The Council as Lessee

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

The Council as Lessor

The Council does act in the capacity as lessor for the leases of land and properties it owns. Rents due under operating leases are accounted for on a straight-line basis as they become due. Land and property leased under operating leases are held as non-current assets within the Balance Sheet and valued in accordance with appropriate valuation practices.

b. Finance Leases

The Council as Lessee

Plant and Equipment held under finance leases are recognised on the Balance Sheet at the lower of the fair value of the asset at the lease inception and the present value of the minimum lease payments. The value of the asset is matched by a liability to pay the finance lessor.

The Council does not have any finance leases where it acts as lessee.

The Council as Lessor

The Council does not have any finance leases where it acts as lessor.

16. Overheads and Support Services

The cost of overheads and support services are charged to service segments in accordance with the authority’s arrangements for accountability and financial performance.

17. Property, Plant and Equipment

Assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis are classed as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not extend the previously assessed standard of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

Property, Plant and Equipment may also include assets held under finance leases, which have been capitalised and included in the Balance Sheet at a value reflecting the fair value of the asset.

A de-minimis asset value of £10,000 has been set and expenditure on new assets of less than this amount is charged to the service revenue account as a proxy for depreciation, unless the expenditure forms part of a larger scheme.

Measurement

Assets are initially measured at cost, which comprises all expenditure that is directly attributable to bringing an asset into working condition for its intended use. The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:

Asset Category	**Basis of Valuation**
Property, Plant and Equipment	Fair value determined in the existing use of the asset
Dwellings	Fair value in the existing use value for social housing
Investment Properties	Fair value to reflect market conditions at the end the reporting period
Infrastructure, community assets and assets under construction	Depreciated historic cost once the asset become operational

Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate for fair value.

Where assets have a short useful life then depreciated historical cost is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are re-valued where there have been material changes in their value, but as a minimum every 5 years. The Council's housing stock is re-valued annually by applying an appropriate housing price index to a series of beacon values at the start of the financial year.

Increases in valuations are matched by a credit to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Where decreases in value are identified they are accounted for by a debit to the Revaluation Reserve to the extent that an accumulated gain has been recorded against that asset; where there is no balance or an insufficient balance on the revaluation reserve for that asset the write down of the asset value is charged against the relevant service within the Comprehensive Income and Expenditure Statement.

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

Costs of dismantling assets such as roofs, windows and heating systems in Council Dwellings are included in the costs paid to the main contractor. The main contractor is responsible for the disposal of the dismantled assets. The dismantled assets have been assessed by the valuer as only having a negligible value.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where there is an indication that there is a material impairment in the value of an asset when compared to the carrying value an impairment loss is recognised. The impairment loss is written down to the revaluation reserve to the extent that any balance for that asset is held within the revaluation reserve. Where there is no balance or an insufficient balance then the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than continued service use then it is reclassified as an asset held for sale. The asset is re-valued immediately before classification and then carried at the lower of this amount or fair value less costs of disposal. Where there is a subsequent decrease in the valuation determined on classification to Asset held for sale then a loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in the fair value of assets held for sale are only recognised to the extent that they reverse a previous loss recognised within the Comprehensive Income and Expenditure Statement. Depreciation is not charged on Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying value of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains relating to the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Capital Receipt Reserve within the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance within the Movement in Reserves Statement.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment over a period of their estimated useful lives; freehold land is determined to have an infinite economic life and is not depreciated, assets under construction are not depreciated until they become operational in providing services. Depreciation is calculated using the straight-line method. Assets are depreciated over the estimated economic life of the asset, which has been assessed as being the following periods:

Council dwellings	40 years
Other HRA assets	10 - 80 years
Other Buildings	10 - 80 years
Vehicles, plant and equipment	3 - 10 years
Infrastructure	10 - 40 years
Community Assets	20 years

Revaluation gains are also depreciated. The difference between the depreciation on the current value and that, which would have been charged on the historic value, is transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

The Council allocates the costs of an individual asset to its various components to calculate depreciation charges where the value of the asset exceeds £500K and more than one individual component exceeds 20% of the asset value. The impact on depreciation charges for assets below the threshold is not considered material. The componentisation is based on the following elements of the asset:-

- Boilers, heating and plant systems
- Lifts
- Roofs
- Windows and doors

In terms of Council Dwellings, these assets are collectively valued in excess of £500K. However, when comparing the value of depreciation charged on a component basis compared to the current 40-year life straight-line methodology, the difference is not considered material. Council Dwellings are therefore not currently subject to componentisation but the policy is to be reviewed on an annual basis.

18. Heritage Assets

The Council's Heritage Assets held are Historical Monuments, Statues and Artwork. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, no depreciation is charged on Heritage Assets as they are deemed to have an indeterminate life and have a high residual value.

Historical Monuments
The Council has seven Cenotaphs that are located at various outside locations throughout the District. These monuments are reported in the Balance Sheet on an average replacement cost basis, which has been agreed following discussions with our internal valuer.

Statues and Artwork Collection
The collection includes Statues, Sculptures and Mosaics situated within the local town and village streets throughout the Council. The collection depicts the Council's mining and engineering history to ensure the knowledge, culture and understanding of our heritage is preserved for future generations. An artwork example would be The Flight of Fancy sculpture that represents the Rolls Royce Flying Bedstead thrust measuring machine that was developed to research the use of direct lift. These items are reported in the Balance Sheet on an historic cost basis or on an insurance valuation basis and were mainly purchased from grant funding.

Non Balance Sheet Items
The Council also holds a collection of items that are not recognised on the Balance Sheet as cost information is not readily available and the Council believes that the benefits of obtaining the valuation for these items would not justify the cost. These items are believed to have a value of £10k or less. The majority of the collection is street mosaics, murals and sculptures purchased through grant funding or produced by the public art events. The Council has also received a number of donations including a Knitting machine and a Stocking machine dating back to the 18th and 19th century, both of which are believed to be forerunners to the Spinning Jenny. It is

difficult to obtain a valuation on these two items as there is no comparable item that provides a market value. Most assets are located on public streets, in parks or are on display within public council buildings. A few items are stored securely in the Council's Council Offices and not currently available for public viewing however, ways of making these items more accessible are being developed.

Heritage Assets – General
Heritage Assets are reviewed by the Council for impairments such as where an item has suffered physical deterioration or breakage. Any impairment is measured and recognised within the Revaluation Reserve. The Council works closely with the Ashfield War Memorial Committee to preserve and maintain the local historical monuments. All other Heritage Assets are reviewed and maintained as required. Disposal proceeds are disclosed separately in the notes to the financial statements and accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

19. Provisions, Contingent Liabilities and Contingent Assets

a. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year; where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

b. Contingent Liabilities

A Contingent Liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent Liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent Liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

c. Contingent Assets

A Contingent Asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent Assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

20. Reserves

The Council sets aside specific amounts as reserves for future policy purposes, or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate revenue account in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

The level of reserves and balances is reviewed annually to ensure they are appropriate. The General Fund Balance, Earmarked Reserve and Reserves arising from Capital Receipts together with Capital Grants Unapplied are deemed to be usable reserves in that they may be used to fund future expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments retirement benefits and employee benefits; these are termed unusable reserves and are not available to be used to fund future expenditure.

21. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of non-current assets has been charged as expenditure to the relevant service in the Comprehensive Statement of Income and Expenditure in the year. Where the Council has decided to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account reverses out the amounts so that there is no impact on the level of council tax.

22. Value Added Tax

Value Added Tax (VAT) is excluded from all income and expenditure received and paid by the Council except where it is classed as irrecoverable by HM Revenue and Customs.

23. The Collection Fund

i) Council Tax

The Council includes its share of the accrued Council Tax due for the year within its Comprehensive Income and Expenditure Statement. The difference between this sum and the local precept for Council and parish activities is reversed through the General Fund Balance to ensure only the level of Council Tax required to pay for Council activities is credited to the General Fund in the year. The balance is taken to the Collection Fund Adjustment Account, within the Balance Sheet.

Amounts collected on behalf of the other preceptors of Nottinghamshire County Council, Nottinghamshire Police Authority and Nottinghamshire Fire Authority are treated as either debtors or creditors depending upon the respective share of the Collection Fund attributable to these bodies at 31st March.

ii) Business Rates

The Council includes its share of accrued Business Rates due for the year within its Comprehensive Income and Expenditure Statement. The difference between this sum and the forecast amount due to the Council is reversed through the General Fund Balance to ensure only the level of Business Rates required to pay for Council activities is credited to the General Fund in the year. The balance is taken to the Collection Fund Adjustment Account, within the Balance Sheet.

Amounts collected on behalf of the other partners of the pool (Central Government, Nottinghamshire County Council and Nottinghamshire Fire Authority) are treated as either debtors or creditors depending upon the respective share of the Collection Fund attributable to these bodies at 31st March.

24. Fair Value Measurement

The authority measures some of its non-financial assets such as investment properties and potentially some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

- Level 3 – unobservable inputs for the asset or liability.

Agenda Item 6

Ashfield
DISTRICT COUNCIL

Report To:	**AUDIT COMMITTEE**	**Date:**	**29th March 2021**
Heading:	**PENSION ASSUMPTIONS FOR 2020/21 STATEMENT OF ACCOUNTS**		
Portfolio Holder:	**COUNCILLOR RACHEL MADDEN – CABINET MEMBER FOR FINANCE**		
Ward/s:	**ALL**		
Key Decision:	**N/A**		
Subject to Call-In:	**N/A**		

Purpose of Report

The report is to allow members to consider the proposed assumptions to be used by the Pension Fund Actuary in preparing the International Accounting Standard (IAS) 19 – Employee Benefits figures to be reported in the Council's Annual Statement of Accounts for 2020/21.

Recommendation(s)

Members are asked to consider the Actuary's briefing note attached as Appendix A and the proposed IAS 19 assumptions detailed within it, and to agree the assumptions as the basis for the calculation of the pension figures required for the 2020/21 Statement of Accounts.

Reasons for Recommendation(s)

It is best practice that the actuarial assumptions intended to be used in preparing the IAS 19 figures in the Statement of Accounts are considered prior to their application and use in the compilation of the Actuary's report. As such, this report delivers the Council's obligations as part of the closure of the 2020/21 Statement of Accounts.

Alternative Options Considered

Members could recommend that a bespoke report be used for the calculation of the Council's figures. This would incur an additional cost and require reasoning for the departure from the proposed assumptions.

Detailed Information

1.1 IAS 19 - Employee Benefits, is one of the financial reporting standards that the Council must comply with when producing its annual Statement of Accounts. IAS 19's basic requirement is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.

1.2 To calculate the cost of earned benefits for inclusion in the Statement of Accounts, the Nottinghamshire County Council Pension Fund schemes Actuary, Barnett Waddingham, use certain assumptions to reflect expected future events, which may affect those costs. The assumptions used are designed to lead to the best estimate of the future cash flows that will arise under the scheme liabilities. Any assumptions that are affected by economic conditions should reflect market expectations at the balance sheet date.

1.3 The calculated costs and the underlying assumptions, based upon the advice of the Actuary and the administering authority, Nottinghamshire County Council will be used in preparing the Council's 2020/21 Accounts.

1.4 The calculation of Ashfield District Council's net pension liability (the difference between the assets held and projected liabilities) as at 31 March 2020 was £92.892m. This is a material component of the Council's balance sheet, and therefore its net worth. As such it is important that the Council is supportive of the assumptions being made by the actuary in their calculations. This year's net position will be affected by the assumptions used.

1.6 The results of the overall valuation can be volatile from year to year as the fund's investments are in a range of asset types whose performance will vary from year to year while liabilities are assessed on the basis of corporate bond yields. The results to some degree reflect the relative movements in these financial instruments.

1.7 The responsibility for setting the assumptions rests with the employer and alternative assumptions can be used by the Actuary. However, the Actuary would impose additional fees for this work. The accounting requirements of IAS 19 do not require that every individual estimate is a "best estimate". Directors (or equivalent) of the organisation should be satisfied that the combined effect of the assumptions as a whole is reasonable.

1.8 The value of the Pension Fund's assets and liabilities are heavily dependent on the underpinning assumptions. The Employer is ultimately responsible for the assumptions used, and this year's proposed assumptions are listed below and detailed in the Actuary's briefing note at Appendix A.

1.9 The proposed financial assumptions for 2020/21 are:

- **Expected Return on Assets.** The Actuary anticipates that a typical local Government Pension Fund might achieve a return of around 28% to 31 January 2021. Although this may vary depending on the individual funds investment strategy.
- **Discount Rate.** The discount rate is applied to the employer's liabilities to calculate their future values. This discount rate applied by the Actuary is derived by reference to market yields on high quality corporate bonds and by calculating a Single Equivalent Discount Rate (SEDR). The rates used are those that match the duration of the employer's liability. This is consistent with the approach proposed by the Actuary and adopted by Ashfield District Council last year.
- **Inflation Expectations.** The increases in pensions in the Local Government Pension are based on the Consumer Prices Index (CPI). As there is limited information on CPI- linked assets the Actuary derives an implied Retail Prices Inflation (RPI) assumption and adjusts for the differences between RPI and CPI. The levels of future Retail Prices Inflation (RPI) are assessed based on the yields on fixed interest and index linked government securities over the period of the duration of the liabilities by calculating a Single Equivalent Inflation Rate

(SEIR). The Actuary has assessed the gap between RPI and CPI going forward to be a reduction of between 0.25% and 0.9% depending on the duration of the employer liabilities.

- **Salary Increases** – The Actuary has proposed to use the assumption that salary increases are in line with CPI plus 1.0% p.a. This is consistent with the standard approach proposed by the Actuary and adopted by Ashfield District Council last year.

1.10 The overall impact of the assumptions for an average employer is set out below. It is to be noted that individual employer's circumstances vary, in particular the average age of their overall liabilities and therefore the results for Ashfield may be different from the assessment below.

Estimated effect of changes in Actuary's assumptions on employers liability in 2020/21

Assumption	Duration of Individual Employee Liability (Years)			
	10	**15**	**20**	**25**
Discount Rate (SEDR)	Increase of 11%	Increase of 16%	Increase of 19%	Increase of 23%
Inflation (SEIR)	Increase of 7%	Increase of 8%	Increase of 11%	Increase of 17%
Overall Expected Impact	Increase of 18%	Increase of 26%	Increase of 33%	Increase of 44%

1.11 The assumptions are based on the pre accounting date pension briefing note, provided by the Actuary on the 5th February 2021 and it is based on market information to 31 January 2021. The briefing note states it is very likely that market conditions at 31 March 2021 will be different. This is due to the on-going impact of the Covid-19 pandemic and the impact of the Brexit deal from the 1 January 2021.

Supreme Court ruling in McCloud/Sargeant case

1.12 Two employment tribunal cases were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015.

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

1.14 On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. We still have to wait for a remedy to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS. An adjustment to reflect the decision of the Supreme Court was made in Ashfield's accounts for 2018/19.

1.15 On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published. The Actuary does not believe there will be any material differences between their approach underlying the estimated adjustment included in the Council’s accounts and the proposed remedy.

Implications

Corporate Plan:
There is no impact to the Long Term Outcomes and Corporate Priorities.

Legal:
There are no legal implications.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	There are no direct financial implications as a result of this report. It sets out assumptions that the Actuary uses to calculate the pension position for the Council under IAS 19 to show the estimated net value of the Council’s portion of the pension fund (assets less liabilities). Changes in assumptions will affect the net position, but this has a nil overall change in the resources available to the Council on the balance sheet as any changes to the income and expenditure statement are reversed through statutory accounting entries.
General Fund – Capital Programme	None
Housing Revenue Account – Revenue Budget	As above in General Fund
Housing Revenue Account – Capital Programme	None

Risk:

Risk	Mitigation
Employee Benefits figures reported in the Council’s Annual Statement of Accounts for 2020/21 are misstated.	Assumptions are as advised by the Pension Fund Actuary. The assumptions are considered by Audit Committee.

Human Resources:
There are no human resources impacts

Equalities:
There are no equalities impacts

Environment/Sustainability:
There are no environmental or sustainability issues.

Other Implications:
None

Reason(s) for Urgency
N/A

Background Papers
Appendix A – Barnet Waddington Briefing Note including Glossary and FAQ's.

Report Author and Contact Officer

Bev Bull
Chief Accountant
B.Bull@ashfield.gov.uk
01623 457424

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Accounting reporting as at 31 March 2021

Employer briefing note pre-accounting date

Barnett Waddingham LLP

5 February 2021

Contents

Accounting reporting as at 31 March 2021

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

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

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

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

How has the accounting position changed?

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

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

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

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

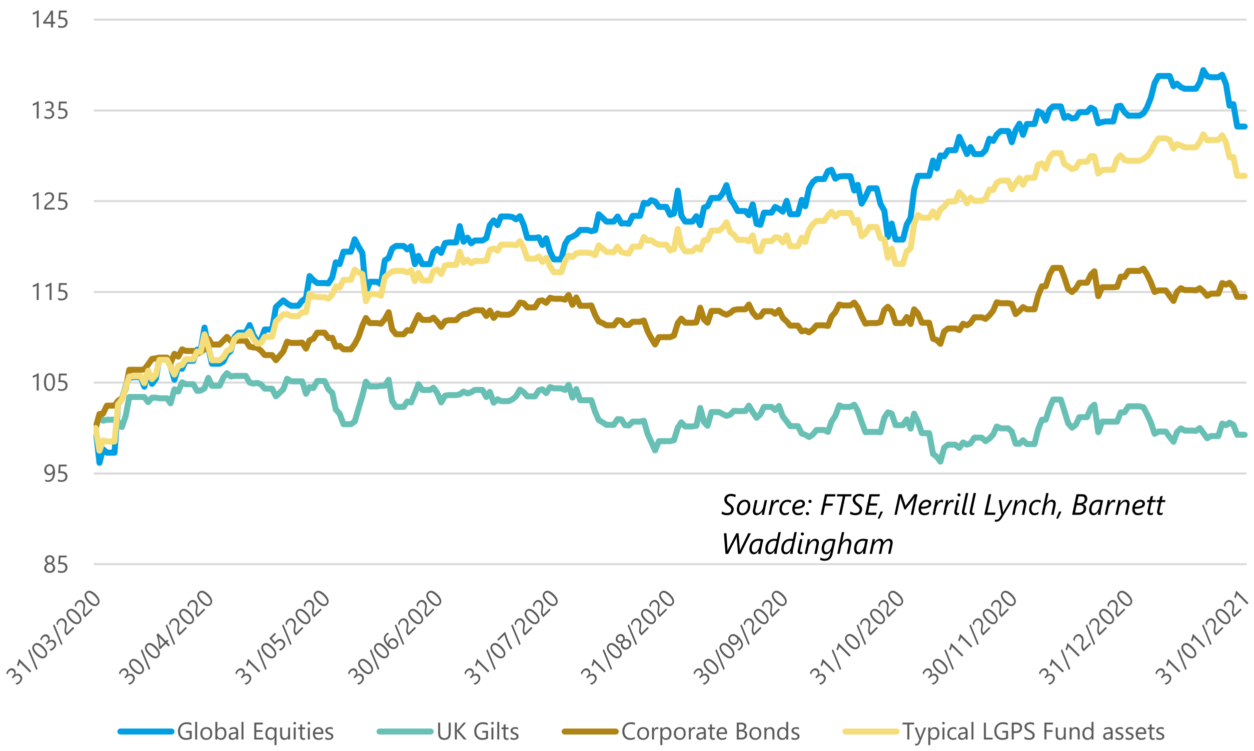
- What were asset returns for the twelve months to 31 March 2021?
- What were corporate bond yields as at 31 March 2021?
- What were market expectations of inflation as at 31 March 2021?

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

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

Asset returns

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



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

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

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

Changes to financial assumptions

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

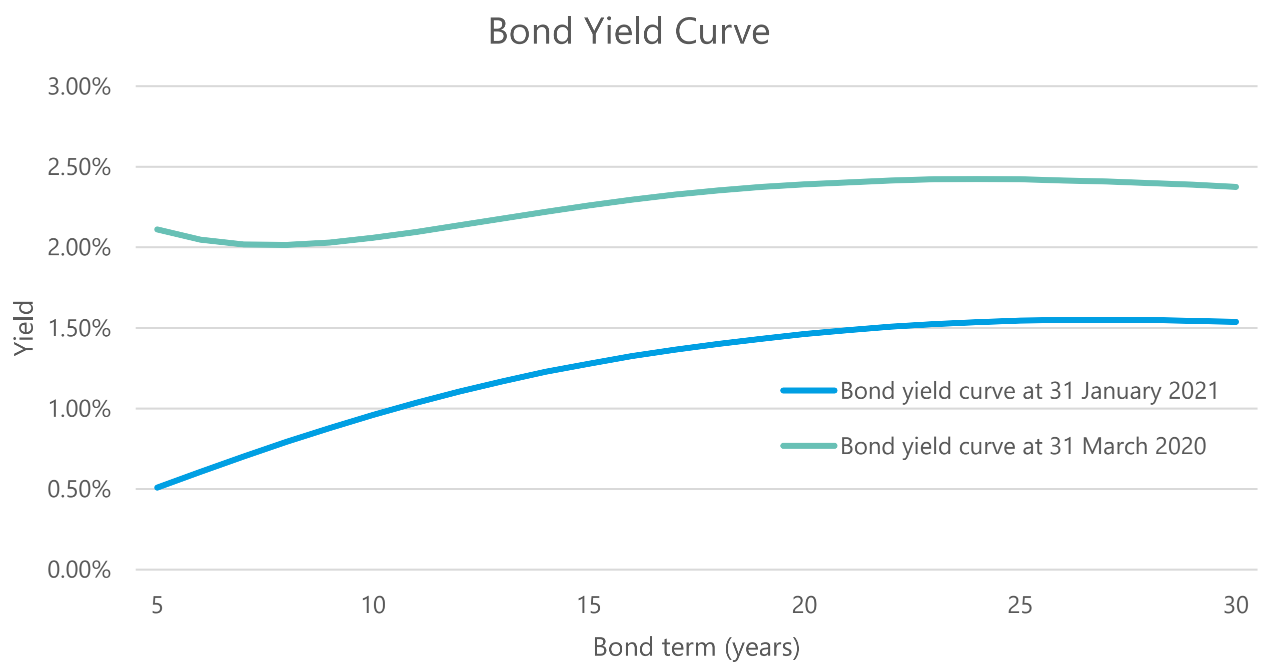
Discount rate

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

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

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

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



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

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

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

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

Assumptions are rounded to the nearest 0.05%.

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

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

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

Inflation expectations

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

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

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

Retail Prices Index (RPI) assumption

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

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

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

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

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

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

Difference between RPI and CPI

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

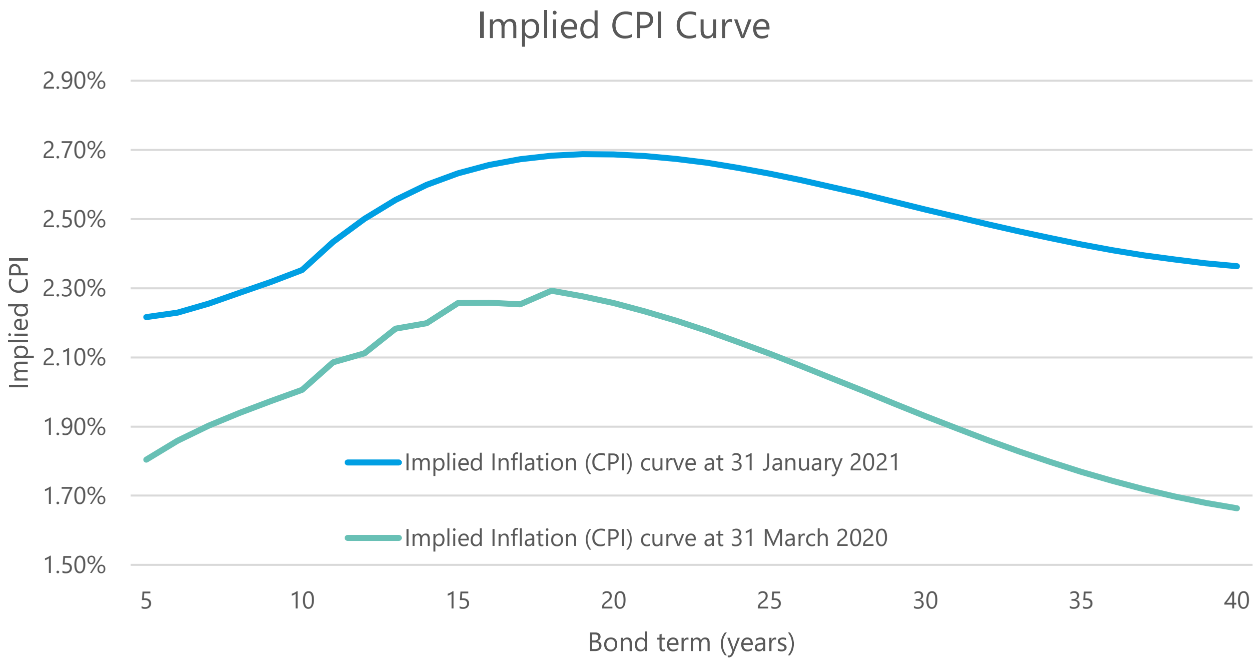
It is expected that RPI will be on average 1.0% p.a. lower than it would have otherwise been from 2030 as a result, bringing RPI inflation in line with CPIH (and CPI) from that date. We have therefore considered how this potential change and the market's reaction to the announcement affects the difference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

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

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

Consumer Prices Index (CPI) assumption

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



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

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

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

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

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

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

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

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

Salary increases

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

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

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

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

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

Bespoke financial assumptions

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

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

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

Mortality assumption

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

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

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

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

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

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

Other levers

2020 valuation update (Scottish Funds)

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

Service accrued over the period

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

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

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

Allowance for actual pension increases

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

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

Treatment of settlements and curtailments

Employers accounting under the IAS19 standard

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

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

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

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

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

Employers accounting under the FRS102 standard

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

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

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

McCloud/Sargeant judgement

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

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

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

This will be the default approach unless employers opt out.

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

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

Goodwin case

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

Impact of Lloyds judgement on past transfer values

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

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

Overall expected results

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

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

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

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

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

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

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

Appendix 1 - Auditor views

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

Asset roll forward

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

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

Liability roll forward

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

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

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

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

Appendix 2 - Adjustments to fees

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

As examples of this:

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

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

Appendix 3 – Supreme Court ruling in McCloud/Sargeant case

Background

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

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

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

Government Actuary's Department (GAD) impact analysis

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

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

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

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

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

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

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

Appendix 4 – Goodwin case

Background

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

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

Intended approach for accounting exercise

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

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

Indication of potential impact

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

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

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

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

BARNETT WADDINGHAM
beyond the expected

FRS102/IAS19 Glossary and FAQs

The purpose of this note is to provide LGPS Fund employers and their advisers with some further explanatory details about the reports we produce in accordance with Financial Reporting Standard 102 (FRS102) and International Accounting Standard 19 (IAS19).

It is divided into a glossary of terms followed by some frequently asked questions (FAQs). Where certain terms are explained in more detail in the glossary these are highlighted in **bold**.

A topical briefing note discussing assumptions and an indication of the likely trend in results is also issued after each of the main accounting dates. In contrast, this briefing note describes the fundamentals of the accounting standards and is only expected to be updated occasionally (e.g. when the standards change). Please get in touch if you would like a copy of any of these notes.

If you have any questions please get in touch with the Fund in the first instance.

Background

Sponsors of defined benefit pension schemes are required to account for the cost of providing retirement benefits and reserve for any outstanding liabilities associated with the schemes they sponsor. They are also required to make certain disclosures about these schemes in the notes to their accounts.

FRS102 and IAS19 are accounting standards that set out the accounting treatment for retirement benefits. For UK listed companies and local authorities IAS19 applies; for other UK entities FRS102 applies. Companies with overseas parents may need to make disclosures under other standards.

A key feature of both standards is the requirement for liabilities to be valued using a discount rate assumption set with reference to yields on “high quality” corporate bonds.

It should be noted that the actual contribution rates required by employers for each Fund are calculated every three years following a triennial actuarial valuation and these are calculated using assumptions set by the Fund Actuary. The discount rate assumption in particular is generally set with reference to expected future investment returns of the Fund unlike the accounting standards which value the liabilities using solely the yields on corporate bonds.

Therefore, the contribution rates paid by employers are not affected by the accounting results.

Glossary of terms

Included in this section:

Actuarial gains & losses

This item reflects the extent to which the movements of the assets and liabilities over the accounting year have not been as assumed at the previous accounting date, and also the effect on the liabilities of changes to the assumptions used to value them.

The components of the actuarial gain or loss on assets are:

- the difference between the actual investment return on the assets over the year, and the interest on assets, plus
- an experience item, if applicable.

The components of the actuarial loss on liabilities are:

- the effect of the change in assumptions used to value the liabilities compared to the previous year, plus
- an experience item, if applicable.

There is a requirement to split the change of assumptions into those of a financial nature (discount rate, assumed future inflation growth etc.) and those of a demographic nature (future mortality rates etc.).

For more details on experience items, please see the "Gains and Losses" section of the FAQs.

Administration expenses

Both accounting standards require the administration expenses to be recognised when the administration services are provided and to be reported as a separate item in the Profit and Loss (P&L) statement.

Note that this does not include expenses in relation to investment management as this is incorporated in the Return on Fund assets.

Change in demographic assumptions

This shows the impact on the value of the liabilities of any changes in the demographic assumptions since the previous accounting date. More detail is provided on what is included in demographic assumptions is detailed in the Demographic assumptions section.

The same demographic assumptions may be adopted between triennial funding valuations and so there may not be a change in demographic assumptions item each year.

The demographic assumption which is most likely to have an effect on the value of liabilities are the assumptions in relation to mortality i.e. how long members will live.

For example, when changes in mortality assumptions results in a decrease in the life expectancy of members this will result in a decrease in the value of liabilities. This is because the term that members are expected to live in retirement would be shorter so less benefits will be paid.

Change in financial assumptions

This shows the impact on the value of the liabilities of any changes in the financial assumptions since the previous accounting date.

Financial assumptions reflect market conditions at the accounting date and so are likely to change each year.

The assumptions which have the most significant impact on the value of liabilities are the discount rate and the assumed rate of pension increases.

If the assumed discount rate is higher than at the previous accounting date this will result in a decrease in the value of liabilities. Conversely, if the assumed rate of pension increases is higher than at the previous accounting date this will result in an increase in the value of liabilities.

Contributions by employer including unfunded

This is the total value of the contributions paid by the employer to the Fund including the normal contributions in respect of benefit accrual by active members, contributions towards any deficit and any early retirement strain contributions. If **unfunded benefits** (usually pensions in payment) are paid through the Fund and are to be included in the accounting report, then payments in respect of unfunded benefits are included here as well.

For more information on the inclusion of **unfunded benefits**, please see the "Do I need to include unfunded benefits on my balance sheet?" section of the FAQs.

Current service cost

The **current service cost** represents the cost to the employer of the benefits earned by active members during the accounting year calculated on an FRS102/IAS19 basis. This is added to the liabilities and is not the same figure as the employer contributions paid to meet these 'new' benefits. It is calculated using assumptions at the start of the accounting year which means that it is not a fixed percentage of payroll and it is expected to vary from year to year as assumptions change.

Under both standards this is a component of the **Service cost** in the P&L.

Curtailment

These will typically be the FRS102/IAS19 equivalent of early retirement costs. The actual strain payments to the Fund are calculated by the administering authority using a different set of assumptions and so the calculation of this amount under FRS102/IAS19 is unlikely to be the same as the strain payment cash amounts.

Under both standards the loss on these is a component of the **Service cost** in the P&L.

Defined benefit obligation

This is the value of the past service liabilities, calculated using service to the accounting date (estimated where necessary) and allows for several assumptions such as future increases to salaries, future mortality rates, future inflation rates etc. The key assumption used to calculate these liabilities is the discount rate.

Discount rate

Pensions and lump sums will be paid at some point in the future and so a rate known as the **discount rate** is used in order to express these expected future payments as a single current value.

It is analogous to a rate of interest; to illustrate this, if we put £100 into a savings account today, it is expected to grow with interest every year to become a higher amount in the future. Similarly, if we are aiming to have £100 at a future date then we only need deposit a smaller amount now which will accumulate with interest to give £100 later.

A higher **discount rate** means that the future payments have a smaller value now i.e. a lower pension liability.

The accounting standards prescribe that the **discount rate** should be based on market yields at the reporting date of a 'high-quality corporate bond' of equivalent currency and **term** to the scheme liabilities.

The discount rate can be derived using a number of different approaches. The current Barnett Waddingham approach is to use the Single Equivalent Discount Rate (SEDR) method which replaced the spot rate approach. For more information please see the "What is the difference between the Single Equivalent Discount Rate (SEDR) and Spot rate approach for deriving the discount rate?" section of the FAQs.

Duration

When we talk about the **duration** of the liabilities we mean the average time to payment of benefits. This is used interchangeably with the **term** of the liabilities.

Further details of the approach used to estimate the duration please see the "How is the employer duration calculated?" section of the FAQs.

Demographic assumptions

These are the assumptions used to generally provide estimates of the likelihood of benefits and contributions being paid and for how long. This consists of all the non-financial assumptions used to value the liabilities including the mortality assumptions (i.e. how long members are likely to live for), the rates of members retiring early and the rate at which members exchange pension for cash at retirement.

The same demographic assumptions may be adopted between triennial funding valuations, however, if there are changes in an employers' membership, or the population as a whole, it may be appropriate to review demographic assumptions.

Interest cost

Over the accounting year the existing pension benefits come closer to payment than they were at the start, and so the value of the liabilities increases as a year's worth of interest is added on. This forms part of the **net interest on defined liability** (in the P&L).

Interest on assets

The expected return on assets has been replaced with an interest on assets item which is calculated with reference to the **discount rate.** It is therefore based solely on the expected returns on corporate bonds. This forms part of the **net interest on defined liability** (in the P&L).

Liabilities

These are also referred to as the **defined benefit obligation**.

Net interest on defined liability

The accounting standards assume that assets increase in line with the **discount rate**. This is combined with the **interest cost** on liabilities to form the net interest on the defined liability which is a component of the P&L.

Past service cost

Additional benefits granted during the accounting year give rise to a **past service cost**, for example, an employer decision to award additional service to a retiring employee.

Under both standards this is a component of the **Service cost** in the P&L.

Present value of defined benefit obligations

This is also referred to as the past service liabilities. This is the value of the benefits accrued by all members to date, calculated using service to the accounting date and allows for several assumptions such as future increases to salaries, future mortality rates, future inflation rates etc. The key assumption used to calculate the value of these liabilities is the **discount rate**.

Re-measurements

Re-measurements are recognised in Other Comprehensive Income and is effectively the total of the **actuarial gains and losses** from the changes in the assets and liabilities over the accounting period. This will include the investment return on the assets in excess of interest, change in assumptions (financial and demographic) as well as any experience adjustments. More detail about this is in the "Gains and Losses" section of the FAQs.

Return on assets less interest/ Return on Fund assets in excess of interest

This item is the investment return on Fund assets above (or below) that which was assumed at the previous accounting date. The investment return on Fund assets is net of investment management expenses and is provided in the 'Assets' section of your report. Under IAS19 and FRS102 the interest/assumed return on assets is the discount rate assumed at the previous accounting date.

If the return on Fund assets is higher than the discount rate assumed at the previous accounting date this will result in an actuarial gain. Conversely, if lower than the discount rate this will result in an actuarial loss.

The magnitude of this item will be dependent on how much the actual return on Fund assets differs from the discount rate at the previous accounting date.

Service cost

Service cost is a component of the P&L and includes current service cost, past service cost and any actuarial gains or losses on settlements and curtailments.

Settlement

A **settlement** will generally occur where there is a bulk transfer of members in to or out of the Fund or an employer's share of the Fund. The **settlement** loss or gain reflects the difference between transferred asset share, and the value of the transferred liabilities when calculated on an FRS102/IAS19 basis. This value may be different when compared to figures calculated for non-accounting purposes due to different assumptions being used.

Under both standards this is a component of the **Service cost** in the P&L.

Term

Please see definition of **duration** above.

Unfunded benefits

Unfunded benefits are pensions arising from additional service awarded on a discretionary basis e.g. Compensatory Added Years (CAY) pensions. Such benefits are usually charged to the employer as they are paid. Other **unfunded benefits** include gratuities and enhanced teacher's pensions which are recharged to the employer, and pensions in respect of some other public sector pension schemes.

This is in contrast to funded pensions, which are paid for out of the assets of the Fund, and which the employer has responsibility for funding by paying contributions to the Fund.

Frequently asked questions (FAQs)

Included in this section:

Balance sheet

How are my assets calculated?

The assets shown are an estimate of the employer's notional share of the total Fund assets at the accounting date. A full assessment of each employer's asset share is made at each triennial valuation. For interim FRS102/IAS19 reporting the approach is to take the asset share at the start of the accounting year and roll this forward to allow for the employer's own cashflows to and from the Fund during the year and actual (or estimated) Fund returns.

Thus, the employer's asset share is not a fixed percentage of the Fund and is expected to vary over time.

The assets will change from year to year: increasing with contributions paid into the Fund and investment returns earned; and decreasing as benefits (such as lump sums and pensions) are paid out of the Fund.

More details on how we calculate employers' assets can be found in the below Appendix

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What is the Defined Benefit Obligation and how is this calculated?

The Defined Benefit Obligation is the accounting label for what is usually known as the value of the pension liabilities of the employer. The pension liabilities are the promised benefit payments (e.g. pensions, lump sums) due in the future from the Fund to its members. The Defined Benefit Obligation is the value of these liabilities calculated using a set of assumptions on an FRS102/IAS19 basis, which includes how these payments will increase over time both before and after retirement, how long they will be paid out for (i.e. how long each member is likely to live for) and the **discount rate** to apply to them to give a current value.

The Defined Benefit Obligation depends on the amount of the benefits so will increase as benefits are accrued and reduce as benefits are paid out. The value will also increase or decrease as the assumptions used to calculate their value change. For example, if the **discount rate** assumption decreases, the Defined Benefit Obligation will increase. Therefore, even if your assets have performed well, if the Defined Benefit Obligation increases at a rate faster than the assets increase, then the deficit on the balance sheet will increase.

Do I need to include unfunded benefits on my balance sheet?

Unfunded benefits may be paid through the Fund and recharged to the employer.

FRS102 and IAS19 both state that all retirement benefits should be accounted for when the member earns the benefit and not when it is paid by an employer. Therefore when a member retired and was awarded **unfunded benefits** the value of all future payments should have been taken into account at the point of retirement. This value would generally be expected to reduce over time as the benefits are paid out.

We can only value unfunded benefits that we are aware of and usually these will be those that are paid via the Fund.

Assumptions

What is the difference between assumptions for an ongoing funding valuation and an accounting valuation?

Contributions payable by employers are derived using the assumptions from the ongoing funding valuation and this is essentially the purpose of the ongoing valuation. An accounting valuation is prepared to meet statutory disclosure requirements and is included in the employer's annual accounts. Therefore, the purposes are different.

The results from the two valuation types can be significantly different due to the different assumptions used.

The assumptions adopted for an ongoing funding valuation are set by the Fund Actuary following discussion with the administering authority and in line with the LGPS Regulations. Broadly, they are set with reference to the long-term expected cost of providing LGPS benefits and take into account the investment strategy of the Fund and the expected return on each asset class that the Fund invests in.

In contrast, FRS102 and IAS19 are fairly prescriptive accounting standards which aim to allow employers' pension obligations to be compared with each other.

Generally, the demographic assumptions used for both valuations are the same and determined every three years as part of the ongoing triennial valuation. The main area where funding valuations for our Funds and accounting valuations differ is in the derivation of the **discount rate**.

For ongoing valuations, the **discount rate** adopted is based on the expected investment return of the assets actually held by the Fund. For FRS102/IAS19, the **discount rate** is required to be determined with reference to the market yield on 'high quality' corporate bonds and with consideration of the **duration** of the employer's liabilities. Generally, corporate bond yields will be lower than the return assumed for an ongoing valuation as the Fund is likely to invest in a mixture of assets include higher return seeking assets such as equities and property. Therefore we would expect that employers' costs and liabilities under FRS102/IAS19 to be higher than those calculated in an ongoing funding valuation if the **discount rate** used is lower.

However, it is important to note that the accounting position has no bearing on the amounts that the employers actually pay into the Fund, this being determined with reference to the ongoing funding position with contributions being reviewed every three years as part of the triennial valuation.

What is the difference between the single equivalent discount rate (SEDR) and spot rate approach for deriving the discount rate?

The spot rate is derived by looking at each employer's projected cashflows and determining the duration of these cashflows – broadly speaking the number of years until the average benefit payment is made. The duration is typically 15-20 years. We would then take the annualised Merrill Lynch AA rated corporate bond yield curve and look up the yield at that duration on the curve.

The single equivalent discount rate or SEDR approach has been developed over the last few years. Under this approach, rather than discount future cashflows with a single **discount rate** equal to the spot rate on the yield curve, this approach estimates the single equivalent rate that would produce the same liability as discounting each individual projected cashflow using a yield curve for AA rated bonds. So we use the 1 year yield to discount cashflows in year 1, the 2 year yield for cashflows in year 2 and so on and then see what liability value is then generated and then work out what single equivalent discount rate gives you the same answer.

Depending on the shape of the yield curve, what curve you use in the first place, the bonds underlying that curve and how you fit the curve to the data points, you are unlikely to get the same discount rate under each approach although the difference should not usually be that significant.

In our view either of these approaches satisfy the requirement of paragraph 85 of IAS19 as indeed would some other alternatives. Given the nature of the wording in IAS19, and as with most assumption setting processes, there is no singularly "correct" approach.

We have taken a similar approach to the derivation of the inflation assumption which we refer to as the single equivalent inflation rate (SEIR). For more information please see "Why is the inflation assumption different to current inflation levels?"

Why is the inflation assumption different to current inflation levels?

The current level of inflation that is widely reported each month is a measure of how prices have increased in the recent past, usually over the last year. However, in order to project cashflows to and from the Fund over the future lifetime of the Fund, we are interested in what inflation will do in the future and therefore we have to make an assumption about expected future levels of inflation over the long term. We do this by using information published by the Bank of England.

Similar to the SEDR approach, the SEIR adopted is such that the single assumed rate of inflation results in the same liability value (when discounted using the yield curve valuation described above) as that resulting from applying the BoE implied inflation curve.

How much scope is there for 'tweaking' the assumptions?

One of the objectives of FRS102 and IAS19 is to ensure that organisations all account for pension costs on a consistent market-related basis so there is not intended to be a huge amount of scope to deviate away from typical market assumptions. We do provide a recommended set of assumptions but the employer is ultimately responsible for the assumptions that are adopted.

One key area in which the employer can exercise more control is the assumption about future levels of pay increases and they will have more knowledge of likely future pay awards for their staff.

If you would like more information on the options available to employers regarding bespoke assumptions please feel free to contact publicsector@barnett-waddingham.co.uk or your usual Barnett Waddingham contact.

Pension costs

How are settlements/curtailments/past service costs treated under IAS19?

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

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

The amendment complicates the accounting disclosure as additional calculations are required to determine the cost before and after each event, and to rebase the standard roll forward approach on updated assumptions based on each event date. The amendment does, however, note that the extra remeasurement does not need to be applied where the application of that remeasurement is immaterial. The assessment of materiality will be subject to each employer and auditor's discretion. We can provide additional information to help assess materiality but we cannot conclude whether an event is material or not. If relevant, the employer should also consider any guidance in relation to this set out by The Chartered Institute of Public Finance & Accountancy (CIPFA) in its most recent *Code of Practice on Local Authority Accounting in the United Kingdom*.

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

Please note that there is no explicit requirement to treat events in such a way under the FRS102 standard and therefore our standard approach for FRS102 reports is to not remeasure at each event date but we would be happy to treat differently as required.

Why is the current service cost different from the contributions paid?

Contributions are required from the employer to meet the cost of the benefits being earned by current employees, and to pay off any past service deficit. Minimum contributions are certified when a new employer joins the Fund and then again at each triennial valuation. These certified contributions are calculated using assumptions made at each valuation and reflect, amongst other things, the return assumed to be earned by the assets actually held by the Fund.

The **current service cost** in FRS102/IAS19 only includes the employer cost of benefits being earned by current employees and does not include the cost of paying off any past service deficit. The assumptions used for FRS102/IAS19 are usually different to those used for the triennial valuation. In particular, the **discount rate** is prescribed by FRS102/IAS19 and is unlikely to reflect the Fund's actual asset allocation. This means the **current service cost** calculated for FRS102/IAS19 is likely to be different to the cost covered by the certified minimum contributions.

Why is the current service cost different from the previous year?

The **current service** cost is the cost of benefits accrued over the period based on the assumptions at the start of the period i.e. the assumptions at the previous accounting date or the most recent remeasurement date.

Therefore this will be affected by:

- the difference in the assumptions adopted at the previous accounting date (and any remeasurement dates) compared to the assumptions adopted at the accounting date preceding the previous accounting date; and
- the change in payroll over the accounting period compared to that over the previous accounting period.

What if the reported contributions paid are different to the actual contributions paid?

The discrepancy may be because cashflows for less than the full twelve months were provided in order to enable us to produce figures in the timescales required. We can revise the disclosure to take account of the actual contributions paid but we recommend that you agree with your auditor that this is necessary on the grounds of materiality.

Gains and losses

What is an experience gain or loss?

Accounting reports are prepared each year using a number of estimates and approximations in the roll-forward process on both the assets and the liabilities. This experience adjustment is essentially a correction of the estimates made in previous accounting reports.

Employers are likely to see an experience item in an accounting report prepared following a full membership valuation, such as a triennial valuation, to allow for actual experience such as member movements and mortality experience.

Alternatively, employers may choose to allow for inflation experience since the last full member valuation. This would result in an experience gain or loss depending on how pension increase experience compared to what was assumed at previous accounting dates.

What does actual less expected return on Fund assets mean?

The "expected" return on the Fund assets for a year is simply based on the **discount rate** assumption at the start of the period (or the last remeasurement date). If actual Fund returns, net of investment management expenses, have been higher than the **discount rate** assumption this figure will be positive but if they were lower this will be negative.

Why is there an experience gain or loss on the assets?

To determine the employer asset share for an accounting report we are provided with various pieces of financial information, including contributions received, benefits paid and a recent total Fund value. These cashflows may only be for part of the accounting year, and the total Fund value may be at a date earlier than the accounting date. This total Fund value will not be a fully audited number and is unlikely to be exactly accurate. We pro rata the cashflows if necessary to get full year numbers, and roll forward the assets with market returns to get an estimate of the asset value as at the accounting date.

However, at a triennial valuation we do get full cashflow data for each year and actual audited Fund asset values. We then determine each employer's asset share accurately at the triennial valuation date and the experience item emerges as the difference between the three years' worth of estimated rolled-forward assets and the accurate figure. At the triennial valuation we may also adjust employer assets if necessary to take into account any transfers or outsourcings that may not have been resolved in time to be included in the relevant accounting years.

Why is there an experience gain or loss on the liabilities?

To determine the value of the employer liabilities for an accounting report we roll forward the results from the most recent funding valuation, using the financial and demographic assumptions set for accounting purposes.

Therefore, after each triennial valuation we recalculate the accounting liabilities using up to date membership data and results. An experience item emerges as the difference between the actual experience of the members of the Fund, and the experience that had been assumed for them in the previous accounting reports. For example, if members died earlier than assumed this will result in an **actuarial gain** as the liabilities will be lower than estimated in the roll forward, or if members received higher than assumed salary increases then there will be an **actuarial loss** as the liabilities will be higher than estimated.

Similarly, employers may choose to allow for inflation experience since the last full member valuation. This would result in an experience gain or loss depending on how pension increase experience compared to what was assumed at previous accounting dates.

What is the change in assumptions?

This is a combination of the impact on the value of the liabilities due to any changes in the financial and demographic assumptions since the previous accounting date. See the change in demographic assumptions and change in financial assumptions sections above for more detail.

Miscellaneous

What is the impact of the recent GMP equalisation ruling?

It is our understanding that HM Treasury have confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes". More information on the current method of equalisation of public service pension schemes can be found here.

On 22 January 2018, the Government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. HM Treasury published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found here.

Our valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary increase. Therefore we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome.

Does the McCloud/Sargeant judgement have any impact on LGPS liabilities?

The recent Court of Appeal judgment on the McCloud and Sargeant cases, relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of sex and race, based on the correlation between these two factors reflected in the judicial membership. The Tribunal ruled against the Government, deeming the transitional provisions as not a proportionate means of achieving a legitimate aim.

The Government subsequently applied to the Supreme Court to appeal the judgement but their application was denied on 27 June 2019. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. The consultation closes on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published.

The Scheme Advisory Board, with the consent of MHCLG, had commissioned GAD to report on the possible impact of the McCloud case on LGPS liabilities – in particular those liabilities to be included in local authorities' accounts under IAS19 as at 31 March 2019. This followed the April 2019 CIPFA briefing note which said that local authorities should consider the materiality of the impact. GAD have now issued their report dated 10 June 2019, which is intended to help authorities assess that materiality.

The potential cost of the judgement on the liabilities is very much dependent on the membership profile of the employer and assumed future salary increases. For example, for an employer who has a high proportion of active members (and very few deferred and pensioner members), and a salary increase assumption of CPI + 1.5% p.a. the outcome of the McCloud judgement could increase the employer's liabilities by around 3% according to the GAD analysis. However, for an employer with a small proportion of active members and a salary increase assumption equal to (or less than) CPI, the impact of the McCloud judgement is likely to be negligible.

We have taken the view to include an allowance for the McCloud judgement as a default unless an employer chooses to opt out.

Does the outcome of the Goodwin case have any impact on LGPS Liabilities?

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

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

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

At this time, we do not intend to make an allowance for the potential impact of this decision. We do not yet have enough information to make an accurate estimate of the potential impact on employers' liabilities.

Is the Projected unit method being used?

We use the Projected unit method in our calculations.

How are Investment expenses allowed for?

Investment expenses are included in the estimated return on fund assets. Therefore, the 'Return on assets less interest' element of the asset reconciliation and includes allowance for Investment expenses.

This is not included in 'Administration expenses' and are therefore not contained within in the Profit and Loss statement but is included in the Re-measurements in other comprehensive income.

What checks are carried out on the data underlying the liability calculations?

One of the key items of data underlying our calculations is the member data used for the starting point of the liability roll forward. The member data is generally that from the most recent actuarial valuation and therefore has been passed through a vigorous data checking process as part of the valuation. As the member data has been sufficiently cleansed for the purpose of the actuarial valuation, we believe it is also reasonable for the purpose of the accounting roll forward. The key checks carried out on the data include:

- Consistency of static member data items (such as sex and date of birth) to previous valuation
- Consistency of changeable member data items to previous valuation. For example:
  - Reasonable change in salary for active members
  - Reasonable level of accrual for active members
  - Deferred and pensioner member pensions have increased as expected based on LGPS pension increases
- Reconciliation of employer membership to ensure that all previous members accounted for (or no longer in data as expected) and new members look reasonable

How is the employer duration calculated?

The method we use to calculate the duration is to measure the sensitivity of the liabilities to a change in the financial assumptions. Namely to use the formula:

Duration of the liabilities = $LN(PV_2 / PV_1) / LN((1+i_1) / (1+i_1+0.1\%))$

Where:

- PV_1 is the total present value of the liability on a discount rate of i_1
- PV_2 is the total present value of the liability using a discount rate of i_1 +0.1% -

What commutation factor is used in the calculations?

A commutation factor of 12 is adopted for our calculations in line with the benefit structure set out in the LGPS Regulations.

Appendix 1 Employer asset allocation

One of the most common questions we are asked by employers is how their asset amount has been calculated. This short paper sets out exactly how we do this and is aimed at both employers and their advisers.

Notional assets

Assets are not separately held for each employer; the Fund holds assets in respect of all the employers in the Fund and each employer has a notional share of these assets. For example, the contributions an employer makes into the Fund are not paid into a separate employer account and invested independently, but are paid into the Whole Fund along with all other employers' contributions and invested as a whole. However, they are taken into account when calculating a notional asset figure for actuarial valuations and employer work.

Asset Calculation – Actuarial Valuations

Assets are fully re-apportioned at each triennial funding valuation. To do this for an employer, we accumulate the notional market value of assets from the previous funding valuation with respect to the Fund's returns from the published accounts. We also allow for the cashflows in respect of the employer which include employer and employee contributions, pensions and retirement lump sums paid, and transfers in and out etc. If we know the exact date of the cashflow then we allow for this in our calculation, otherwise we assume the cashflow occurs halfway through the year. This will include any notional transfers within the Fund between the employers, even though no actual cash has been paid into or out of the Fund.

We also adjust the assets by a smoothing factor to be consistent with our measurement of the liabilities. We essentially look at the asset value over each day for the six month period around the valuation date (based on published market indices) and take the average.

Asset Calculation – Accounting valuations

In order to calculate asset values for accounting valuations, the starting point is the most recent valuation and the process is then similar to the above but may involve approximations. For example, if the Fund's actual returns have not yet been calculated for any period, we will calculate the notional return based on suitable market indices.

We use the estimated market value for FRS102 and IAS19 calculations therefore no smoothing factor is applied.

Auditor views

Auditors continue to look for greater accuracy in the roll forward approach used to calculate employers' results. This includes the approach used to determine each employer's share of fund assets at the accounting date.

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

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

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Report To:	**Audit Committee**	**Date:**	**29th March 2021**
Heading:	**INDEPENDENT MEMBER FOR THE AUDIT COMMITTEE**		
Portfolio Holder:	**COUNCILLOR RACHEL MADDEN – CABINET MEMBER FOR FINANCE**		
Ward/s:	**ALL**		
Key Decision:	**No**		
Subject to Call-In:	**No**		

Purpose of Report

To enable Members of the committee to consider the appointment of an Independent Member to the Audit Committee as per the CIPFA Best Practice Guidance, National Audit Office (NAO) Guidance and the Redmond Review Recommendations.

Recommendation(s)

To review and discuss the proposal to appoint an Independent Member onto the Audit Committee.

Reasons for Recommendation(s)

CIPFA Best Practice Guidance, National Audit Office (NAO) Guidance and the Redmond Review Recommendations requires that Audit Committees must actively explore the appointment of at least one independent member to the Committee.

Alternative Options Considered

Not to require the Audit Committee to consider the appointment of at least one independent member to the Committee, which would be not be in adherence with best practice.

Detailed Information

1.1 CIPFA best practice considers that Audit Committees must actively explore the appointment of at least one independent member to the Committee. This is to demonstrate good governance principles and independence from the executive and other political allegiances.

1.2 Good practice shows that an appointed independent members is beneficial to the audit committee. It is a requirement for police audit committees, English combined authorities and for local authorities in Wales, and it is usual practice for non-executives to be committee members in health and central government audit committees. The injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:

- To bring additional knowledge and expertise to the committee;
- To reinforce the political neutrality and independence of the committee; and
- To maintain continuity of committee membership where membership is affected by the electoral cycle.

1.3 CIPFA do though acknowledge where authorities make use of independent members there are also limitations:

- Over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee;
- Lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports;
- Effort is required from both independent members and officers to establish an effective working relationship and establish appropriate protocols for briefings and access to information.

1.4 In January 2019 The National Audit Office (NAO) reported on Local Authority Governance and recommended that central government work with local authorities and stakeholders to assess the implications of, and possible responses to the effectiveness of audit committees and how to increase the use of independent members.

1.5 In October 2020 the Audit Committee considered a report outlining the recommendations arising from Sir Redmond's Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting. The Redmond review recommended consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee.

1.6 MHGLG have responded to the Redmond review and has agreed with the above recommendation. MHCLG have pledged they will work with key stakeholders such as CIPFA, the NAO and the LGA to ensure that, where appropriate, new guidance is issued which addresses the recommendations relating to the appointment of an independent member(s) to audit committees.

1.7 At present there are no statutory requirements on the authority to appoint an independent member to the audit committee.

1.8 Analysis across Nottinghamshire shows that only one of the other District Authorities currently have independent members appointed onto their audit committees. This is Mansfield District Council and the current remuneration for their independent member is £530 per annum. Newark and Sherwood District Full Council accepted a recommendation from its Audit and Accounts Committee to appoint an independent member in March 2021.

1.9 As outlined in paragraph 1.2 and 1.3 guidance from CIPFA notes both positive and cautionary reasons for such appointments and decisions of this nature need to take account of each local authority's own circumstances.

Implications

Corporate Plan:
The Audit Committee provides scrutiny of the authority's financial and non-financial performance and therefore forms part of the governance process to reflect sound financial management in supporting the Corporate Plan.

Legal:
An independent member would be a Co-opted Member of the Committee for the purposes of the application of the Code of Conduct.

There is no legislative requirement at this time for the Council to appoint an independent member to the Audit Committee.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	The independent member would be paid an allowance and be reimbursed for travel and subsistence expenses. These costs are not currently provided for in the annual budget or MTFS.
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
Audit Committee do not consider the appointment of an Independent Member to the Audit Committee.	This report is being considered by Audit Committee.

Human Resources:
None

Environmental/Sustainability
None

Equalities:
None

Other Implications:
None

Background Papers
CIPFA Audit Committees Practical Guidance for Local Authorities and Police
NAO Report – Local Authority Governance
Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting.
MHCLG Response to the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting.

Report Author and Contact Officer
Bev Bull
CHIEF ACCOUNTANT
b.bull@ashfield.gov.uk
01623 457424

central midlands audit partnership

Ashfield District Council – Audit Progress Report

Audit Committee: 29 March 2021

Contents Page

Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

Contacts

Richard Boneham CPFA
Head of Internal Audit (DCC) &
Head of Audit Partnership
c/o Derby City Council
Council House
Corporation Street
Derby, DE1 2FS
Tel. 01332 643280
richard.boneham@derby.gov.uk

Adrian Manifold CMIIA
Audit Manager
c/o Derby City Council
Council House
Corporation Street
Derby
DE1 2FS
Tel. 01332 643281
adrian.manifold@centralmidlandsaudit.co.uk

Mandy Marples CPFA, CCIP
Audit Manager
c/o Derby City Council
Council House
Corporation Street
Derby
DE1 2FS
Tel. 01332 643282
mandy.marples@centralmidlandsaudit.co.uk

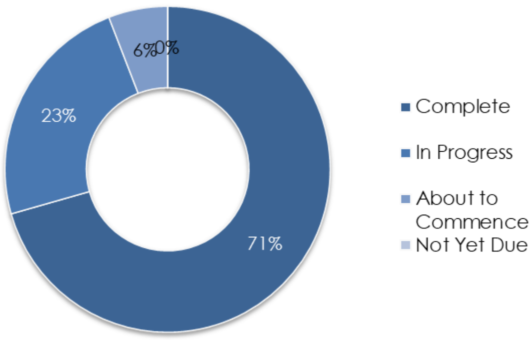
CMAP central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

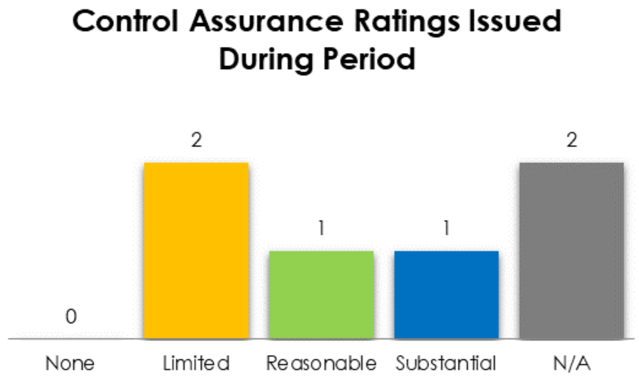
Ashfield District Council – Audit Progress Report

AUDIT DASHBOARD

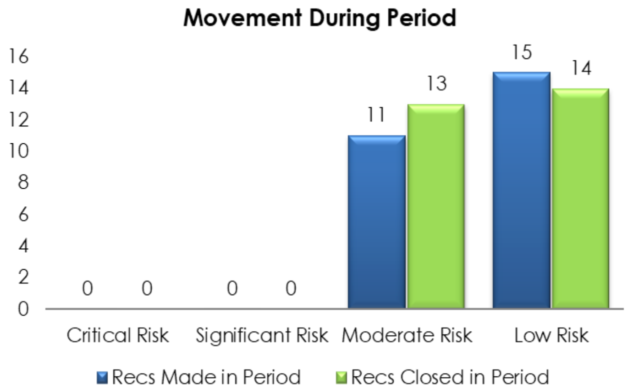
Plan Progress



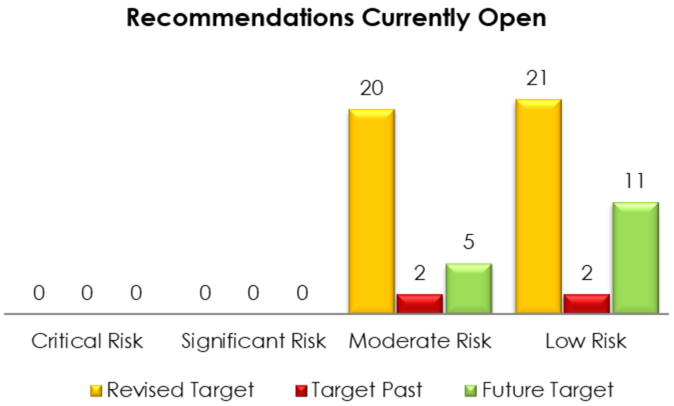
Assurance Ratings



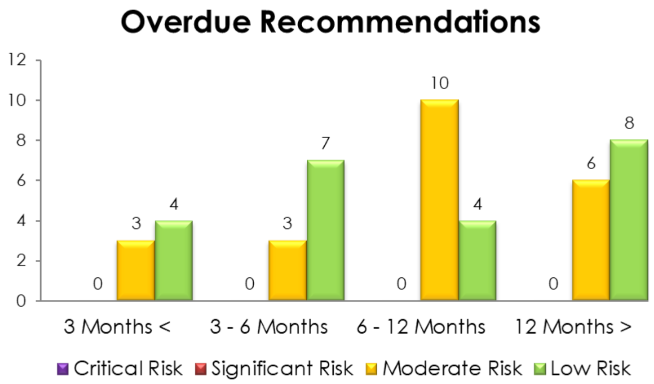
Recommendations



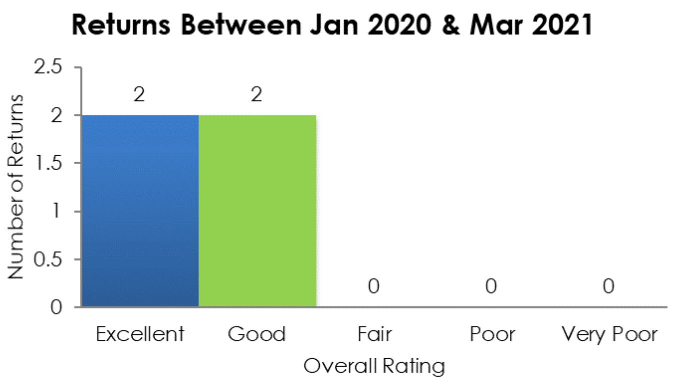
Recommendations



Recommendations



Customer Satisfaction



AUDIT PLAN

Progress on Audit Assignments

The following table provides the Committee with information on how audit assignments were progressing as at 17 March 2021.

2020-21 Jobs	Status	% Complete	Assurance Rating
Management of Fraud Risk	Draft Report	95%	
Delegated Decisions	Allocated	0%	
Teleworking Security	In Progress	45%	
Risk Management 2020-21	Final Report	100%	Not Applicable
Support Grants – Second Round Payments	Final Report	100%	Not Applicable
Procurement	Final Report	100%	Substantial
People Management	In Progress	90%	
Business Support Grants	Final Report	100%	Reasonable
Financial Health & Resilience	In Progress	65%	
Complex Case Work	Final Report	100%	Limited
Disabled Facilities Grants	Final Report	100%	Reasonable
Rent Control	Final Report	100%	Reasonable
B/Fwd Jobs	**Status**	**% Complete**	**Assurance Rating**
Medium Term Financial Plan	Final Report	100%	Reasonable
Creditors 2019-20	Final Report	100%	Substantial
Anti-Fraud & Corruption 2019-20	Final Report	100%	Reasonable
Digital Transformation	Final Report	100%	Reasonable
Transformation Project Assurance	Final Report	100%	Limited

Audit Plan Changes

With the agreement of the Council's Director of Legal and Governance (& Monitoring Officer) a change was made to the Internal Audit Plan to address an emerging risk. Management requested that Internal Audit assist the Council with some data matching for Local Restrictions Support Grants and Additional Restrictions Grants (2nd Tranche). As such the time originally assigned to the audit of the Contracts Register has been utilized and the audit withdrawn from the 2020-21 plan.

AUDIT COVERAGE

Completed Audit Assignments

Between 18 November 2020 and 17 March 2021, the following audit assignments have been finalised since the last progress update was given to the Audit Committee.

Audit Assignments Completed in Period	Assurance Rating	Recommendations Made				% Recs Closed
		Critical Risk	Significant Risk	Moderate Risk	Low Risk	
Risk Management	N/A	0	0	0	0	n/a
Procurement Follow-Up	Substantial	0	0	0	3	0%
Complex Case Work	Limited	0	0	5	4	56%
Transformation Project Assurance - Planning Systems	Limited	0	0	4	5	11%
Support Grants – Second Round Payments	N/A	0	0	0	0	n/a
Business Support Grants	Reasonable	0	0	2	3	80%
TOTALS		**0**	**0**	**11**	**15**	**38%**

Risk Management

Assurance Rating - Not Applicable

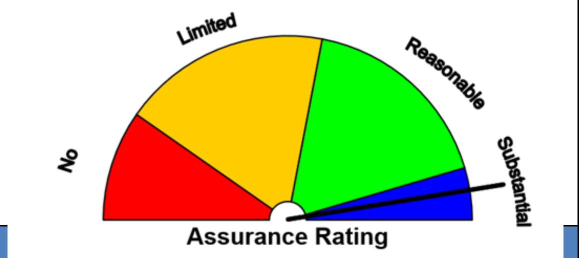
The Risk Management audit was an advisory piece of work to help the Council understand how to best accommodate the Regulator of Social Housing's view of health and safety risk mitigation and reporting alongside that of the general activities of the Council. The audit focused on providing a consultancy review of the management and reporting of housing health and safety risks arising from the Council's role as social landlord.

The audit also compared the reporting of risks with other local authority approaches and best practice to ensure that the Council complies with Housing Regulations.

Potential Risk	Mitigating Action
The lack of definition within the Council's Risk Management framework as to what constitutes a corporate risk is allowing for multiple interpretations and risk appetites. This is highlighted in the Corporate Risk Register for September 2020 with risks that appeared to be at all levels; corporate, service and project level with risk scores from the very low to very high. That could lead to the potential issue of the boards time being wasted on risks that would be better managed elsewhere, such as departmentally or at project level. It could also lead to key risks being overlooked.	We suggest that definitions of what constitute an operational risk, corporate risk and the threshold between them is clearly defined within the Corporate Risk Management Strategy & Process to ensure a consistent and proportionate corporate response. The social landlord risks should then be considered in light of these definitions. It is anticipated they would be included and encapsulated where necessary.
The removal (or deactivation) of risks from the active Corporate Risk Register whilst they still could impact on the	We suggest that identified risks that could impact on the objective should remain on the risk register until they no

Council's objectives, impairs the reviewing phase of the risk management cycle and could result in the risk manifesting and resources being wasted.	longer have that potential.

Procurement Follow-Up



Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
That appropriate action had been taken to address the issues identified during the 2019/20 Procurement Audit.	4	1	3	0
TOTALS	**4**	**1**	**3**	**0**

Summary of Weakness	Risk Rating	Agreed Action Date
The Service Level Agreement for the provision of procurement services was not fit for purpose regarding the management and monitoring of the services listed in Schedule 1.	Low Risk	26/02/2021
The information included in the Council's Contract Register failed to fully meet the requirements of the Transparency Code 2015.	Low Risk	31/07/2021
Details of invitations to tender were not being published in a transparent manner.	Low Risk	31/07/2021

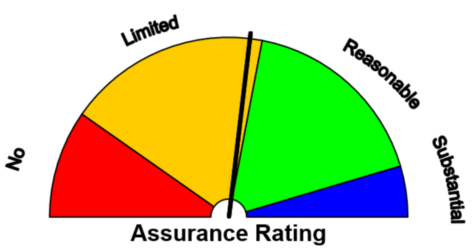
Complex Case Work

Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
The complex case workflow process ensures work is accurate and complete.	6	1	3	2
The service area is well managed and controlled.	5	2	3	0
The service area has measurable and adequate performance information.	2	1	0	1
The service area has practices in place to manage the Council's response to the Covid-19 pandemic.	1	1	0	0
TOTALS	**14**	**5**	**6**	**3**

Summary of Weakness	Risk Rating	Agreed Action Date
Complex case work procedural guidance did not detail the entire process and did not	Low Risk	01/04/2021

include instruction on how and when to use the various forms that were in place.		
Management were not actively monitoring and reviewing open cases: this had led to a lack of information regarding progress on cases assigned to the Change Grow Live charity and cases not being reassigned when Complex Case Work officers left the team.	Moderate Risk	01/04/2021
Insufficient evidence was stored on the E-cins case management system to demonstrate the actions taken and status of cases.	Moderate Risk	01/02/2021
The case numbers in the New Demand Case spreadsheet, which is used to monitor cases, did not match those recorded in E-cins.	Moderate Risk	01/02/2021
There was a lack of evidence to show management approval to close cases. The report that should be used to document the closure of cases lacked a section to record management approval.	Moderate Risk	01/02/2021
Due to the changes in management during course of the audit, the management controls in place were found to be limited and difficult to evidence.	Moderate Risk	01/02/2021
Team meetings had not been appropriately documented and recorded.	Low Risk	20/01/2021
Only half of the required one to one supervision meetings had been completed during 2019-20 and there was no evidence that 2020-21 one to one meetings had been taking place.	Low Risk	01/02/2021
Performance data was inconsistent between the three records – Pentana, the CCT Performance spreadsheet and the New Demand Case spreadsheet. Additionally, the CCT Performance Spreadsheet was not available for the current year.	Low Risk	01/04/2021

Transformation Project Assurance (Planning Systems)



Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
Ensure that all server side components of the Planning system are configured and managed in line with recognised best practices.	17	10	0	7
Ensure that management of the Planning systems complies to the Council's ICT Systems Administrators Policy.	7	4	0	3
TOTALS	**24**	**14**	**0**	**10**

Summary of Weakness	Risk Rating	Agreed Action Date
The latest quarterly Oracle security updates had not been applied to the live iPlan database server.	Low Risk	30/04/2021
Local administrator group membership for a sample of servers in the infrastructure behind the planning systems had not been appropriately restricted.	Low Risk	30/04/2021
Access control permissions on the EDRM_Cache$ share on the Northgate Assure live and test servers had not been applied in line with data protection principles, exposing personal documents.	Moderate Risk	30/04/2021
Access control permissions on numerous file shares on the NODE31 server had not been applied in line with data protection principles, exposing personal information.	Moderate Risk	30/04/2021
Oracle default passwords had not been assigned custom passwords for a number of accounts in the live iPlan database.	Low Risk	30/04/2021
Not all administrative accounts in the live and test document management (W360) system had been set with passwords.	Moderate Risk	30/04/2021
Records of user or permissions changes were not being recorded in line with the ICT Systems Administrators Policy.	Low Risk	31/05/2021
Access to systems admin documentation had not been appropriately restricted on the file server.	Low Risk	31/05/2021
Revenues and Benefits text files containing personal and sensitive data had not been appropriately restricted, breaching data protection principles.	Moderate Risk	Implemented

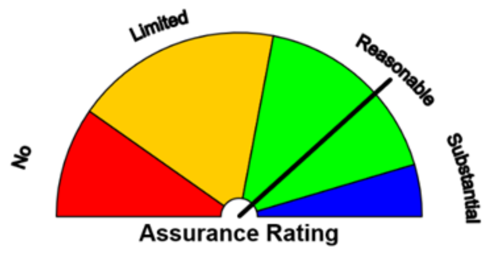
Support Grants – Second Round Payments

Assurance Rating - Not Applicable

The Council commenced payment of the 2nd tranche of Local Restrictions Support Grants (LRSG) and the Additional Restrictions Grants (ARG) on 19th November 2020 and continued until the 13th January 2021. Internal Audit were asked to complete a data matching exercise for every proposed payment for the LRSGs and ARGs to look for signs of fraud and error. We examined 773 grants with a total value of £2.4m approximately. A number of data matches were highlighted for further investigation.

There were no fraudulent grants identified and we made no recommendations in relation to this piece of work.

Business Support Grants



Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
The Council has operated in line with Government guidance on the administration and payment of Business Support Grants.	10	8	1	1
The Council has made reasonable efforts to deter and prevent fraudulent claims for all types of Business Support Grants.	8	5	3	0
Prepayment checks for Discretionary Business Grants are robust.	3	3	0	0
Post payment checks in order to detect fraudulent payments are robust and effective.	4	2	1	1
TOTALS	**25**	**18**	**5**	**2**

Summary of Weakness	Risk Rating	Agreed Action Date
The Council's payment assurance plans lacked detail including; • what testing would be completed • how the testing would be completed • evidence of the testing or checking undertaken • approval and final sign-off of checks • payment approval	Low Risk	Implemented
There was no formal reconciliation of the Business Grants ledger code to the listing of grants paid.	Low Risk	Implemented
The COVID-19 Business Grants page of the Council's website and the grant application forms did not include statements to deter applicants from making false declarations in order to obtain grants fraudulently.	Low Risk	Implemented
There were no checks with neighbouring councils to ascertain if businesses had already made grant claims for the same accounts in different jurisdictions.	Moderate Risk	31/03/2021
Further enforcement action for the 2 remaining fraudulent payments was on hold due to the lack of guidance from the Department of Business, Energy and Industrial Strategy.	Moderate Risk	Implemented

RECOMMENDATION TRACKING

Final Report Date	Audit Assignments with Open Recommendations	Assurance Rating	Recommendations Open		
			Action Due	Being Implemented	Future Action
14-Feb-19	Risk Registers	Reasonable	1	0	0
10-Jan-19	Depot Investigation	Limited	0	6	0
27-Mar-18	Rent Arrears	Substantial	0	1	0
24-Apr-18	ICT Performance Management	Reasonable	0	2	0
22-Jun-18	Health & Safety	Substantial	0	1	0
11-Jan-18	Anti-Fraud & Corruption	Reasonable	0	1	0
16-Aug-19	Fire Safety	Reasonable	0	1	0
28-Mar-18	ECINS Security Assessment	Limited	0	1	0
12-Mar-19	Treasury Management & Banking Services	Reasonable	0	1	0
03-Dec-19	Data Quality & Performance Management	Reasonable	0	4	0
29-Nov-19	Anti-Social Behaviour	Reasonable	0	1	0
29-Nov-19	Anti-Fraud	N/A	0	2	0
31-Jan-20	Information Governance	Reasonable	0	4	0
30-Apr-20	Creditors 2019-20	Substantial	0	2	0
27-May-20	Medium Term Financial Plan	Reasonable	0	6	0
08-Jul-20	Anti-Fraud & Corruption 2019-20	Reasonable	1	1	1
09-Jul-20	Digital Transformation	Reasonable	0	6	0
27-Jul-20	Rent Control	Reasonable	0	1	0
16-Nov-20	Disabled Facilities Grants	Reasonable	0	0	1
26-Jan-21	Procurement Follow Up	Substantial	1	0	2
02-Feb-21	Complex Case Work	Limited	1	0	3
18-Feb-21	Transformation Project Assurance	Limited	0	0	8
16-Mar-21	Business Support Grants	Reasonable	0	0	1
		TOTALS	**4**	**41**	**16**

Action Due = The agreed actions are due, but Internal Audit has been unable to ascertain any progress information from the responsible officer.

Being Implemented = The original action date has now passed and the agreed actions have yet to be completed. Internal Audit has obtained status update comments from the responsible officer and a revised action date.

Future Action = The agreed actions are not yet due, so Internal Audit has not followed the matter up.

Ashfield District Council – Audit Progress Report

Audit Assignments with Recommendations Due	Action Due			Being Implemented		
	Significant Risk	Moderate Risk	Low Risk	Significant Risk	Moderate Risk	Low Risk
Risk Registers	0	0	1	0	0	0
Depot Investigation	0	0	0	0	4	2
Rent Arrears	0	0	0	0	0	1
ICT Performance Management	0	0	0	0	2	0
Health & Safety	0	0	0	0	0	1
Anti-Fraud & Corruption	0	0	0	0	0	1
Fire Safety	0	0	0	0	1	0
ECINS Security Assessment	0	0	0	0	1	0
Treasury Management & Banking Services	0	0	0	0	0	1
Data Quality & Performance Management	0	0	0	0	1	3
Anti-Social Behaviour	0	0	0	0	0	1
Anti-Fraud	0	0	0	0	2	0
Information Governance	0	0	0	0	3	1
Creditors 2019-20	0	0	0	0	0	2
Medium Term Financial Plan	0	0	0	0	1	5
Anti-Fraud & Corruption 2019-20	0	1	0	0	0	1
Digital Transformation	0	0	0	0	4	2
Rent Control	0	0	0	0	1	0
Procurement Follow Up	0	0	1	0	0	0
Complex Case Work	0	1	0	0	0	0
TOTALS	**0**	**2**	**2**	**0**	**20**	**21**

Ashfield District Council – Audit Progress Report

Highlighted Recommendations

The following significant or moderate risk rated recommendations, that have not yet been implemented, are detailed for Committee's scrutiny.

Being Implemented Recommendations

Data Quality & Performance Management	Rec No. 4
Summary of Weakness / Recommendation	Risk Rating
The Data Quality Strategy required updating and had not been formally approved by the Council. We recommend that the Data Quality Strategy is reviewed to ensure it is up to date specifically with current processes and organisational structure. The updated strategy should be approved in accordance with the Council's Constitution.	Moderate Risk
Management Response/Action Details	Action Date
The strategy will be reviewed and presented for approval.	30/04/2020
Status Update Comments	Revised Date
We have successfully recruited to a Business Improvement Lead position in the last month; this role will lead effective delivery of our performance management framework. This action will be deferred to December 2020 to enable us to not only update the strategy but also make significant changes in alignment with our digital transformation programme.	31/12/2020

Information Governance	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
Not all Council employees had undertaken the required GDPR e-learning training. We recommend that the Council actively promote the mandatory requirement for all employees (including Managers) to complete the GDPR training (including refresher training). Where training has not been completed, the Council should actively pursue employees. Where necessary, the Council should consider implementing a regime of escalation to Senior Officers, for those employees who continually fail to undertake and complete the training.	Moderate Risk
Management Response/Action Details	Action Date
All GDPR training and its frequency is to be reviewed to include a mixture of e-learning and face to face. Once this programme is finalised and being rolled out, a process will be put in place to ensure failure to complete the training is escalated to managers/directors.	30/06/2020
Status Update Comments	Revised Date
Unfortunately, due to staff absence and COVID, we have not been able to complete the action in line with the initial timeframe. Action date revised to 31 October 2020. No further progress has been made due to absence of officer completing this work. Action date revised to 30 April 2021 to allow a return to work and sufficient time for this to be progressed further.	30/04/2021

Information Governance	Rec No. 3
Summary of Weakness / Recommendation	Risk Rating
Data Protection Impact Assessments had been completed but had not been subject to review or sign off by the Data Protection Officer, as per the Councils guidance. We recommend that Council officers are adequately trained and reminded, at periodic intervals, of the need to complete a DPIA when undertaking any projects which involve the processing of personal data. Management should consider incorporating the completion of DPIAs into a project checklist as part of key project documents. Then, as per the Council's guidance on DPIAs, on completion, consultation should be undertaken with the Council's Data Protection Officer. The DPIA should be signed off by the Data Protection Officer to evidence that a consultation and comprehensive review has taken place.	Moderate Risk
Management Response/Action Details	Action Date
All GDPR training and its frequency is to be reviewed to include a mixture of e-learning and face to face. Training and guidance specifically in relation to DPIAs will be reviewed and developed to include checklists as appropriate. Interim arrangements have been put in place regarding completion and sign off of DPIAs. This will be publicised on Message of the Day.	30/06/2020
Status Update Comments	Revised Date
Unfortunately, due to staff absence and COVID, we have not been able to complete the action in line with the initial timeframe. Work has commenced in relation to the action including an interim approach to DPIAs. One of the Senior Solicitors has also attended an external training session to specifically assist us in improving our approach to DPIA's. The work on this recommendation has progressed but is not fully complete. Revised documents and guidance will be published on the intranet shortly. Proposed training slides have been drafted and training arrangements are being discussed. Revised action date to be provided. No further progress has been made due to absence of officer completing this work. Action date revised to 30 April 2021 to allow a return to work and sufficient time for this to be progressed further.	30/04/2021

Information Governance	Rec No. 4
Summary of Weakness / Recommendation	Risk Rating
Sensitive, personal data was being stored in locations which were not suitably restricted to only those officers with a genuine business need to access such information. We recommend that management take appropriate action to ensure that all personal, sensitive data is secured in files, within restrictive sub-folders, with access limited to only those officers who have a genuine business need to access such information.	Moderate Risk
Management Response/Action Details	Action Date
The IT Security Policy Framework is under review. As part of this review we will ensure it is updated to take account of GDPR requirements. Specifically, we will introduce the following measures to assist with ensuring access to data is suitably restricted to only those officers with a genuine business need to access such information: - Starters/Transfers/Leavers E-Form – to be completed by the Section Manager. This form will identify access rights of starters, amendments for staff transferring internally and identify when staff leave the Council. This will be used in conjunction/cross-references with the report received from HR on a quarterly	30/06/2020

basis. - E-Form for completion by Managers/Directors for folder access changes. - Introduction of new file structure guidelines and cascade through ELT/ALT, DMTs and MOD. - Provision of Group Access Permission lists on a quarterly basis to Service Managers for checking and confirmation/amendment. IT to meet with individual Managers to confirm, amend and clarify what is required of Managers as part of this new process.

Status Update Comments	Revised Date
Action on hold due to Covid-19.	30/09/2020

ECINS Security Assessment	Rec No. 10
Summary of Weakness / Recommendation	**Risk Rating**
Current administrators of the system did not appear to have been sufficiently trained on the accessibility and whereabouts of security related reports that would need to be utilised for effective systems and security management. We recommend that management defines, documents and implements comprehensive security based training to all users granted organisation admin rights to allow them to effectively manage the security of the system and its users.	Moderate Risk
Management Response/Action Details	**Action Date**
This will be raised to the project lead (PCC office) as per audit recommendations for this to be included in training for persons with organisation admin rights. The Ecins lead for the Council will prepare documents with project lead for review and sign off.	30/09/2018
Status Update Comments	**Revised Date**
The PCC hold the contract with the service supplier and pay for the system on behalf of the County. There is a countywide Ecins meeting with the programme manager (appointed by the OPCC) as well as local meetings between ADC and the programme manager and all audit recommendations have been raised. ECINS does provide reporting that can highlight the volume of access by users in terms of when it was last accessed, by who, how much data they have added to the system etc. It would be up to ADC to set regulations and conventions around what policies they would like to see enforced against this data, e.g. users who have not logged on for thirty days or more get access suspended. These functions are all available through the stats and lists function of ECINS. Nottingham City Council are developing a number of guidelines/conventions and best practice approaches which upon completion will be shared across the programme. The Ecins Manager is happy to discuss at the next local delivery group what might be a good approach at ADC. The Ecins Manager is in the process of finalising an organisational best practice guide. The training provided by the programme at present is basic user training reflecting the agreed usage conventions for the system across the county (now echoed across the east midlands). The idea for more advanced organisation admin training is a good one and something which the Ecins manager is looking into. An appropriate training programme has been requested from the supplier. New ECINS lead has agreed to pursue the supplier and if nothing is forthcoming, to create Administrator's guidance with other ECINS users.	30/04/2021

Ashfield District Council – Audit Progress Report

ICT Performance Management	Rec No. 1
Summary of Weakness / Recommendation	Risk Rating
Despite commitment to performance management in the Councils latest Technology Strategy, we could not find any documented performance management metrics and goals to support this. Similarly, performance metrics for IT did not appear to be subject to annual review, or agreed or monitored by the Council. We recommend that Management defines performance management metrics for the IT service, and implements policies and procedures for monitoring and reporting compliance. Metrics, goals and targets should also be subject to annual review.	Moderate Risk
Management Response/Action Details	Action Date
There is a review of the ICT Helpdesk due shortly where performance metrics will be defined and agreed.	01/09/2018
Status Update Comments	Revised Date
This action will fall in line with the new service desk application. Action on hold due to COVID-19.	29/01/2021

ICT Performance Management	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
Reviews of the team's performance in relation to the resolution of incidents and service requests did not appear to comply with a formal schedule, and evidence of previous reviews could not be provided as the actions/discussions were not documented in minutes. We recommend that Management defines a schedule for reviewing performance of incident and request resolution times, and ensures any agreed actions are documented in minutes which are retained.	Moderate Risk
Management Response/Action Details	Action Date
There is a review of the ICT Helpdesk due shortly where performance metrics will be defined and agreed.	01/09/2018
Status Update Comments	Revised Date
This action will fall in line with the new service desk application. Action on hold due to COVID-19.	29/01/2021

Depot Investigation	Rec No. 1
Summary of Weakness / Recommendation	Risk Rating
The Zeus time recording system was not being used fully and consistently across the Service. We recommend that Management ensure that employee time is recorded accurately, fully and consistently. Management should perform adequate checks to ensure time recording systems are being used as expected and hold staff to account where appropriate. Training should be given to staff where required and supported by procedural guidance notes.	Moderate Risk
Management Response/Action Details	Action Date
Review of time recording systems and policy. Training and reminder messages for managers and officers. Introduce spot checks.	30/09/2019
Status Update Comments	Revised Date
Policy has been reviewed and circulated to trade unions. Training is still to be finalised. Due to other commitments, deadline needs to be extended.	31/10/2020

Depot Investigation	Rec No. 2
Summary of Weakness / Recommendation	**Risk Rating**
Management and staff were not always adhering to the Council's Leave Policy with meeting requests being used to request and approve leave. We recommend that Management ensure they are complying with the Councils Leave Policy and use the official process to authorise and record leave. After the year end, a sample of leave records should be examined by Management, independently of authorising Managers, to check for accuracy and review the appropriateness of records maintained.	Moderate Risk
Management Response/Action Details	**Action Date**
Review policy. Implementation of electronic leave request and approval system through MyView. Training and reminder messages for managers and officers. Introduce sample checks	01/04/2020
Status Update Comments	**Revised Date**
Policy has been reviewed and circulated to trade unions. Training is still to be undertaken. This has been put on hold due to retirement of the System Administrator and COVID-19. MyView is being rolled out to all Services, this is behind schedule due to COVID-19 however the roll out has recommenced using a virtual platform for the training and assistance.	31/07/2021

Depot Investigation	Rec No. 3
Summary of Weakness / Recommendation	**Risk Rating**
We were informed by the Investigating officer that the Transport Manager's Purchase card had been photocopied and was available for use, unsecured in the general office. We recommend that all Purchase Card holders are reminded of the corporate policy and their personal responsibilities in relation to holding a card. Management should take appropriate action where instances of misuse are found.	Moderate Risk
Management Response/Action Details	**Action Date**
Carry out a review of the policy and procedure and then roll out to officers through the provision of information and training.	31/10/2019
Status Update Comments	**Revised Date**
The use of Purchase Cards is currently under review and restrictions are being placed on cards aligned to the specific nature of services provided. Policy will be revised and training provided in accordance with the revised Policy by no later than 30 November 2020.	30/11/2020

Ashfield District Council – Audit Progress Report

Depot Investigation	Rec No. 4
Summary of Weakness / Recommendation	Risk Rating
There were variances between Directorates over the controls in place for the authorisation and the recording and retention of supporting information for Purchase card usage. We recommend that corporate guidance is provided to Card holders which detail how they should be authorising and recording card purchases and the requirements for supporting information retention. The use of Purchase cards should be subject to regular Management oversight.	Moderate Risk
Management Response/Action Details	Action Date
Carry out a review of the policy and procedure and then roll out to officers through the provision of information and training. The revised policy will include a process for ensuring management oversight.	31/10/2019
Status Update Comments	Revised Date
The use of Purchase Cards is currently under review and restrictions are being placed on cards aligned to the specific nature of services provided. Policy will be revised and training provided in accordance with the revised Policy by no later than 30 November 2020.	31/03/2021

Anti-Fraud	Rec No. 1
Summary of Weakness / Recommendation	Risk Rating
The Anti-fraud Sub-group had not met regularly for some months and the Baseline Assessment had not been completed. Therefore, the review of the Council's anti-fraud measures could not be completed. We recommend that the Service Manager, Revenues & Benefits, resumes the Anti-fraud Sub-group meetings with a priority action to complete the Baseline Assessment. This will enable the group to compare the Council's anti-fraud activities with good practice in each service area and produce a development plan. Regular updates should then be provided to Management, the Anti-Fraud Group and the Audit Committee.	Moderate Risk
Management Response/Action Details	Action Date
Data-matching Sub-Group Meetings will resume and will report on its actions to the main Anti-Fraud Officer Working Group.	31/03/2020
Status Update Comments	Revised Date
Action on hold due to COVID-19.	30/09/2020

Ashfield District Council – Audit Progress Report

Anti-Fraud	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
The Council's use of the NFI and Data Matching exercises to identify fraud and error had been limited. We were unable to identify the Council's plans for further development in this area. We recommend that the Service Manager, Revenues & Benefits, evaluates the current NFI and Data Matching provision within the Council and explores results of the NFI and Data Matching exercises to determine which of the matches should be pursued and appropriately resourced. The Service Manager, Revenues & Benefits should also evaluate the suggested further actions in the Anti-Fraud Review and make appropriate recommendations to the Anti-Fraud Group in order to develop and embed an anti-fraud culture within the Council.	Moderate Risk
Management Response/Action Details	Action Date
The Council is considering its current arrangements and will review these in light of best practice in order to develop an action plan designed to embed an anti-fraud culture within the Council including carrying out NFI and data matching exercises.	31/03/2020
Status Update Comments	Revised Date
Action on hold due to COVID-19.	30/09/2020

Fire Safety	Rec No. 5
Summary of Weakness / Recommendation	Risk Rating
Not all entrance doors to flats comply with Fire Safety Regulations. We recommend that the Council reviews all flat entrance doors to identify those which do not comply with Fire Safety Regulations, or those that have failed recent government tests. The Council should then take action to ensure the appropriately accredited fire safety doors are installed at the entrances to all flats.	Moderate Risk
Management Response/Action Details	Action Date
An assessment of all flat entrance doors has been completed and the results forwarded to the Assets & Investment Section for building into future door replacement programme(s). However, due to uncertainties around the manufacture, testing, certification and subsequent affected supply of composite fire doors, it is currently not possible to identify a definitive timescale for completion. The option to use alternative timber fire doors of the appropriate fire safety standards and specification are currently being looked into.	31/03/2020
Status Update Comments	Revised Date
Assessments have been done, and project has been mobilised, however, due to restrictions on COVID-19 all major works have been postponed. Major works were on hold due to COVID 19, however now approval has been granted and meeting will take place with the contractor in near future to undertake work.	30/04/2021

Ashfield District Council – Audit Progress Report

Digital Transformation	Rec No. 1
Summary of Weakness / Recommendation	Risk Rating
Budget holders within service areas have the ability to purchase and upgrade applications without consultation and approval from the Digital Services Transformation Board. We recommend that management consider transferring the application budgets from the service area budget holders to an appropriate central control point to ensure that future purchases and upgrades support the Council's transformation agenda and are value for money.	Moderate Risk
Management Response/Action Details	Action Date
Recommendation accepted. Solution/ application budgets will be transferred into a central budget and appropriate processes put into place for requests for future purchases and governance of such.	31/08/2020
Status Update Comments	Revised Date
	30/04/2021

Digital Transformation	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
There were no formally documented governance requirements for budget holders when purchasing new applications or upgrading existing applications. We recommend that Management issue procedures which set out the processes to be followed for the purchase or upgrade of applications. These should ensure that purchases and upgrades are aligned with the Council's Digital Transformation programme.	Moderate Risk
Management Response/Action Details	Action Date
Recommendation accepted. Solution/ application budgets will be transferred into a central budget and appropriate processes put into place for requests for future purchases and governance of such.	31/08/2020
Status Update Comments	Revised Date
	30/04/2021

Digital Transformation	Rec No. 5
Summary of Weakness / Recommendation	Risk Rating
The Council did not have signed, up to date and adequate contracts in place for some of the applications tested. We recommend that a review is undertaken to ensure that the Council has a signed, up to date and adequate contract in place for all Council applications. Where contracts are not in place, the Council should take action to formalise the provision and maintenance of applications in use.	Moderate Risk
Management Response/Action Details	Action Date
Solution architecture review to be completed across the portfolio.	31/10/2020
Status Update Comments	Revised Date
	30/04/2021

Ashfield District Council – Audit Progress Report

Digital Transformation	Rec No. 6
Summary of Weakness / Recommendation	Risk Rating
The contracts register did not include accurate detail for the applications reviewed as part of the audit. We recommend that the Council ensure all application contracts are included in the contracts register where appropriate, and any upgrades or new contract details are recorded on the register on a timely basis.	Moderate Risk
Management Response/Action Details	Action Date
Solution architecture review to be completed across the portfolio.	31/10/2020
Status Update Comments	Revised Date
	30/04/2021

Rent Control	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
There was no evidence of which officers had completed and reviewed the annual housing rent reconciliation. There were also a number of reconciling items from prior years which needed to be reviewed and adjustments made to the system where possible to remove these prior year balancing items on the reconciliation. We recommend that documentary evidence is retained to evidence the completion and review of the annual housing rent reconciliation. Also, that the prior year reconciling items are reviewed, and adjustments made to the system where possible to remove these prior year balancing items on the reconciliation.	Moderate Risk
Management Response/Action Details	Action Date
Part 1. This has been completed for 2019/20 but this was after the internal rent audit. Reviewed by B.Bull. Documented on the audit deliverables presented to Mazars. Agree to continue to complete the review annually. Part 2. These reconciling items are to do with system problems within the Open Housing Rent module this has caused errors with some transactions. System fixes are required to correct the balances in the rent groups on the Open Housing System. Until the fixes are completed, this carries forwards incorrect balances, by including these problems, on the Open Housing System. These prior year reconciling items are itemised and documented and do not change year on year. If separate system fixes to the current errors are not possible in the Open Housing System then a forced fixed will be required to the Open Housing System balance on the rent group. A time frame will be set as to when to make this adjustment failing the production of a fix from the software company. Other balances for example minor variance balances and the domestic alarm issue from 2016/17 will be adjusted as soon as possible	30/09/2020
Status Update Comments	Revised Date
Part 1 completed. Part 2 as mentioned in the action details column relies on system fixes by the software provider and is being worked with IT (Out of our hands regarding completion date, if at all). The other items are complete.	31/03/2021

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Agenda Item 9

CMAP central midlands audit partnership

Ashfield District Council –
Internal Audit Plan 2021-22 & Audit Charter

Audit Committee: 29 March 2021

Ashfield DISTRICT COUNCIL

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Our Vision

To bring about improvements in the control, governance and risk management arrangements of our Partners by providing cost effective, high quality internal audit services.

Contacts

Richard Boneham CPFA
Head of Internal Audit (DCC) &
Head of Audit Partnership
c/o Derby City Council
Council House
Corporation Street
Derby, DE1 2FS
Tel: 01332 643280
Richard.boneham@derby.gov.uk

Adrian Manifold CMIIA
Audit Manager
c/o Derby City Council
Council House
Corporation Street
Derby
DE1 2FS
Tel. 01332 643281
adrian.manifold@centralmidlandsaudit.co.uk

Mandy Marples CPFA, CCIP
Audit Manager
c/o Derby City Council
Council House
Corporation Street
Derby
DE1 2FS
Tel. 01332 643282
mandy.marples@centralmidlandsaudit.co.uk

CMAP central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

Introduction

Purpose of Report

The purpose of this report is for the Board to approve the Internal Audit Charter and Annual Internal Audit Plan for 2021-22.

Role of Internal Audit

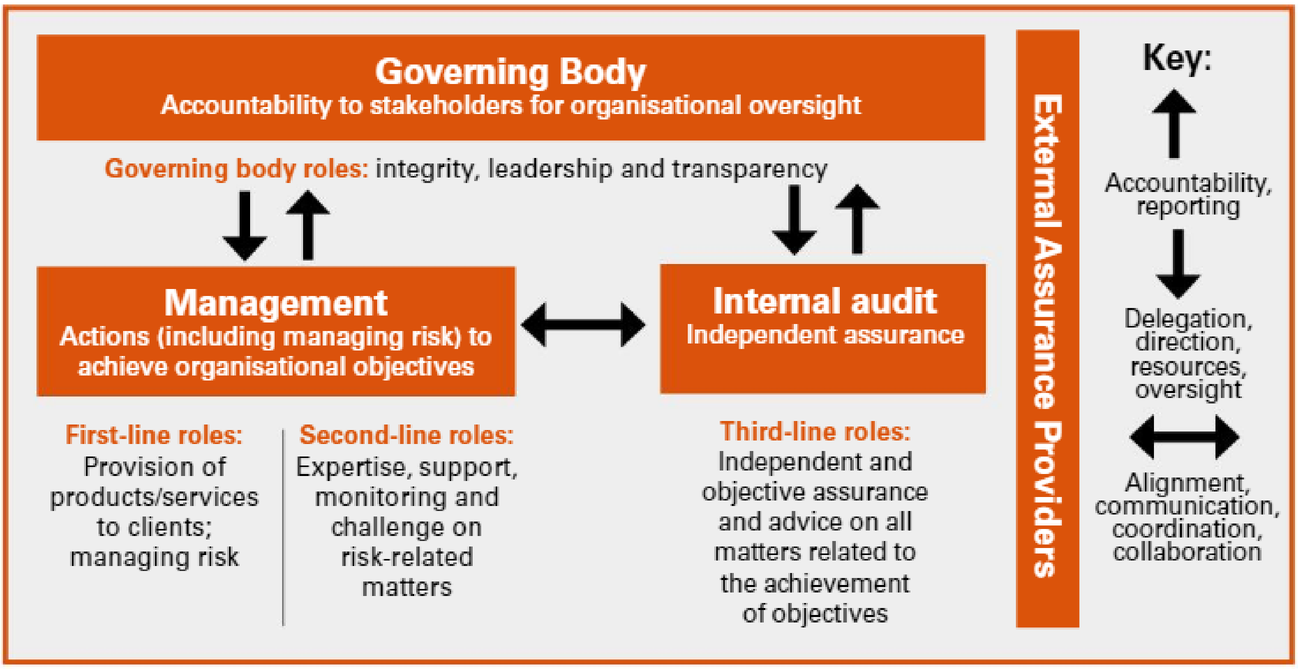
All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015.

The organisation's Internal Audit service is provided by Central Midlands Audit Partnership (CMAP). The Partnership was formed as a Joint Board under section 101 of the Local Government Act 1972. It currently serves 6 public sector organisations and Derby City Council is the host authority. The legal agreement between the Partners has recently been renewed and runs for 5 years until 31 March 2025.

Internal Audit provides the Audit Committee and senior management with objective assurance on the organisation's overall control environment, comprising the systems of governance, risk management, and internal control and highlights control weaknesses together with recommendations for improvement. This helps senior management demonstrate that they are managing the organisation effectively. Internal Audit's work significantly contributes to the organisation's statutory Annual Governance Statement (AGS).

Internal Audit is part of the organisation's governance framework which can be summarised in the three lines model shown below.

IIA Global's Three Lines Model:

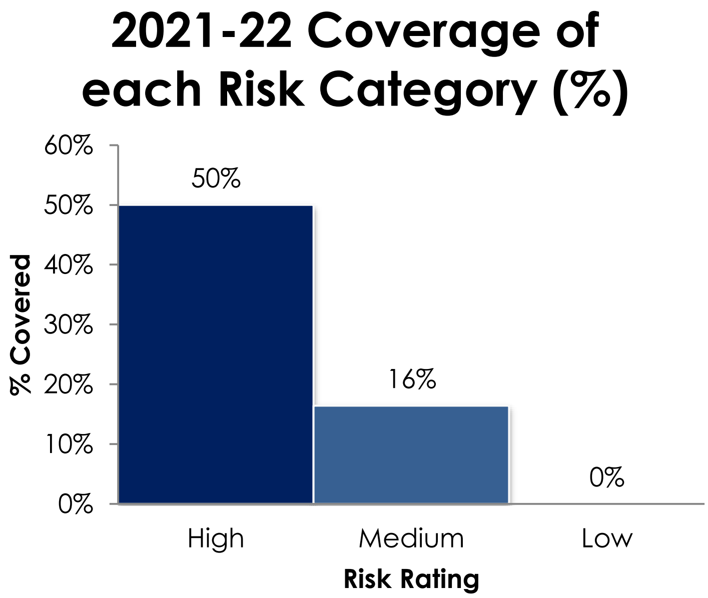


Internal Audit Plan

The Public Sector Internal Audit Standards (PSIAS) state that annually the Chief Audit Executive is responsible for developing a risk-based plan. In this instance, the Chief Audit Executive is Mandy Marples, Audit Manager.

The annual Audit Plan sets out proposals on how this will be achieved in the year ahead. It is a flexible Plan that allows Internal Audit to respond to emerging and changing risks during the year.

The Audit Plan must incorporate sufficient work to enable the Chief Audit Executive to give an opinion on the adequacy of the organisation's overall control environment. Equally Internal Audit must be adequately resourced with the necessary level of skilled and experienced staff to deliver the Audit Plan.



Progress in completing the audit plan, will be submitted to the Audit Committee as part of regular Internal Audit Progress reports.

Internal Audit Charter

An Internal Audit Charter is a formal document that defines internal audit's purpose, authority, responsibility and position within an organisation. The Internal Audit Charter describes how internal audit will provide value to the organisation, the nature of the services it will provide and the specific focus or emphasis required of internal audit to help the organisation achieve its objectives.

Having an Internal Audit Charter also establishes the internal audit activity's position within the organisation, including reporting lines, authorising access to records, personnel, and physical properties relevant to the performance of engagements; also defining the scope of internal audit activities. A copy of the current Internal Audit Charter is attached at Appendix B. It is the role of the Audit Committee to review and approve the 'Internal Audit Charter' on an annual basis.

Approach to Audit Planning

Internal Audit takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, Internal Audit must determine its own judgment of risks following a thorough consultation process. We endeavour to consult with relevant managers to further understand the risk areas where internal audit assurance will be appropriate.

A risk based audit plan has been compiled in consultation with the organisation's Management, using the organisations' risk registers and CMAP's bespoke risk assessment model which considers the following 8 measures of risk

Impact	Materiality	Potentially, how much money could the organisation lose if this area is not properly controlled?
	Criticality	How critical is this function to the effective running of the organisation's core activities?
	Sensitivity	How important is this area in the opinion of senior management and the Board?
	Strategic Effect	How does this function affect the organisation's long term aims and objectives?
Likelihood	Changes	What changes (staffing, procedural, IT, legislative) has this area been subject to?
	Complexity	How complex is the area under review?
	Review Process	How often is this area reviewed by audit and other agencies?
	Inherent Risks	How susceptible is this area to fraud and irregularity?

Once the scores for each of the 80 auditable areas identified have been input to the risk model, along with the date when the area was last audited, the risk model will automatically generate a plan of suggested audit coverage. Senior management are consulted on the proposed plan and their views are taken account of before producing the final, ranked list of areas to audit. This year's risk assessment identified 12 High risk areas, 67 Medium risk areas and 1 Low risk area.

The organisation's External Auditors were also consulted to ensure that the proposed coverage, where possible, complements their work.

Types of Audit Work

Key Financial Systems Audit - Much of Internal Audit's assurance work comes from the review of the risks and controls associated with the organisation's financial systems. External Audit will also review the work on the key financial systems to assist them when determining their opinion on organisation's annual accounts.

Systems / Risk Based Audits - The auditor's prime role is to review the internal control systems developed by management to mitigate operational risks and report upon the adequacy of those controls (see below for control examples). An organisation's overall internal control system is the product of all of those systems and processes that the organisation has created to deliver its business objectives, both financial and non-financial.

Control categories with examples

Preventive
Separation of duties, access controls, authorisation

Detective
Exception Reports, reconciliations, control totals, error reports

Directive
Accounting manuals, documented procedures, training and supervsion

Corrective
Error, incident and complaint handling, virus isolation

Separation of Duties
Division of duties between the appointment and payment of staff

Organisational
Budgets, Performance taregts and KPI's

Authorisation
Authority Levels, spending limits, passwords and user ID

Personnel
Recruitment and selection, staff appraisal procedures

Supervision
Day-to-day oversight of staff and physical activities

Physical
Door entry systems, restricted access to files

Accounting
Control account and bank reconciliation

Management
Team meetings and briefings, CRSA

Source: Chartered Institute of Internal Auditors – Resources – Control

IT Audit – Typically our IT auditing coverage focuses on the following:

- **Infrastructure** - Infrastructure audits cover perimeter defences, authentication, management and monitoring, and devices. Infrastructure audits help provide assurance that the organisation's private network is protected from internet attacks, unauthorised or inappropriate access via local or remote attacks, and also ensure the organisation has the necessary monitoring and incident analysis to maintain and analyse the Network.
- **Applications** - Application audits cover thin and fat client applications, and both internal (Intranet) or external (Web) applications. Applications audits typically focus on CIAA (**C**onfidentiality, **I**ntegrity, **A**vailability and **A**ccountability risks) to ensure attackers cannot exploit vulnerabilities to gain unauthorised access to sensitive corporate data.

Governance/Ethics Reviews - The governance framework comprises the systems and processes, and culture and values, by which the organisation is directed and controlled. Internal Audit reviews corporate systems such as Risk Management, Health & Safety, Data Quality, Anti–Fraud and should consider organisational ethics, values and culture.

Procurement/Contract Audit - Procurement involves the process of acquisition from third parties, and spans the whole life cycle from the initial concept (determining the need), through buying and delivery, to the end of a service contract. The audit approach to procurement should primarily concern the organisation's corporate procurement strategy and associated management structures and processes, including contract procedure rules and detailed procurement guidance.

Client Support Work

To support the organisation, a number of days have also been set aside for the following:

Audit Management – There are certain management tasks that are specific to each Partner organisation, such as, reporting to Audit Committee, Audit Risk Assessment & Planning etc. These require a contingency of days to be planned.

Advice & Emerging Issues - On an ad-hoc basis, Audit is called upon to provide risk and control advice on issues throughout the organisation. This consultancy work is a very important service and requests for Audit input are considered to be a good measure of the quality of the Audit service and of the satisfaction of our clients.

Anti-Fraud/Probity/Investigations - Internal Audit has an important role to play in ensuring that management has effective systems in place to detect and prevent corrupt practices within the Organisation. Internal Audit's role includes promoting anti-fraud best practice, testing and monitoring systems through probity work and advising on change where it is needed. Internal Audit also may be involved in the investigation of suspected internal fraud, theft or major irregularity (where there is some form of alleged financial irregularity, which may have resulted in financial loss to the organisation).

Follow-up Audits - Internal Audit is committed towards ensuring that control improvements are achieved and all agreed actions are acted upon. We have developed a recommendation tracking database, which allows us to monitor, follow-up and report upon the status of all management's actions in respect of agreed audit recommendations.

Brought Forward Jobs - Any incomplete audits from the 2020-21 Audit Plan will need to be concluded in 2021-22.

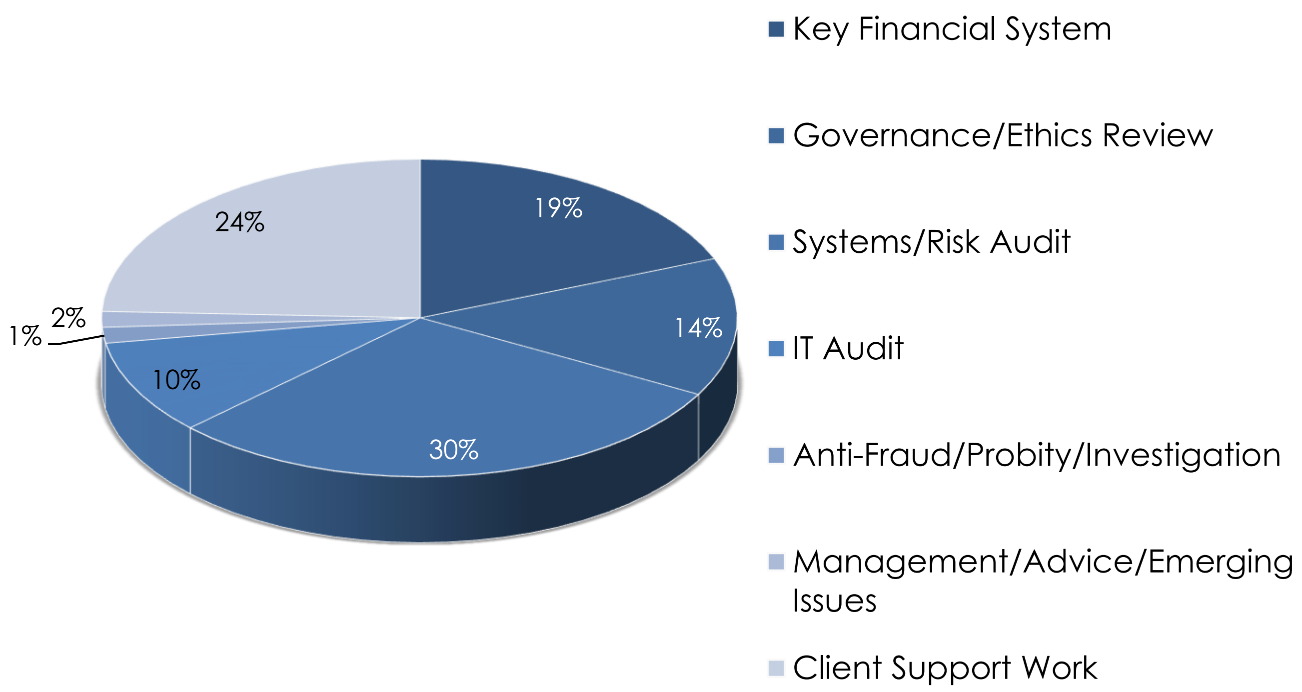
Appendix A - Audit Plan Detail

Our risk assessment of the organisation activities, in consultation with senior management, has concluded that the following audits will be undertaken in 2021-22:

Audit Plan Assignments	Risk Rating	Indicative Quarter
Key Financial Systems Reviews		
Accounting Systems	High	Q4
Creditors (including purchase cards)	Medium	Q3
Debtors	Medium	Q3
Payroll	High	Q2
Governance/Ethics Reviews		
Risk Management	Medium	Q3
Environmental Health	Medium	Q1
Scrutiny	Medium	Q3
Anti-Fraud/Probity/Investigation		
Anti-Fraud & Corruption	Medium	Q1
System/Risk Reviews		
Outdoor Recreation	Medium	Q2
Housing Health & Safety Statutory Compliance	Medium	Q1
Planning	Medium	Q3
People Management	Medium	Q4
Corporate Improvement/Transformation	High	Q1
Selective Licensing	Medium	Q2
IT Audit Reviews		
IT Applications/Infrastructure	High	Q2
IT Asset Inventory	High	Q1
Management/Advice		
COVID Related Work	High	Q1

The detailed scope of each audit assignment will be agreed with the relevant managers nearer the commencement of the audit. The cost of the Internal Audit Service is £105,249 as agreed by the Operational Group.

Audit Plan 2021-22 per Type of Audit



Appendix B - Audit Charter

Purpose & Mission

The purpose of the Organisation's internal audit service is to provide independent, objective assurance and consulting services designed to add value and improve the Organisation's operations. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The internal audit service helps the Organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Standards for the Professional Practice of Internal Auditing

The internal audit service will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' (IIA) International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Chief Audit Executive will report periodically to **senior management**[1] and the **Board**[2] regarding the internal audit service's conformance to the Code of Ethics and the Standards.

Authority

The Chief Audit Executive will report functionally to the Audit Committee and administratively (i.e., day-to-day operations) to the Director of Legal & Governance. To establish, maintain, and assure that the Organisation's internal audit service has sufficient authority to fulfil its duties, the Audit Committee will:

- Approve the internal audit service's charter.
- Approve the risk-based internal audit plan.
- Approve the internal audit service's budget and resource plan.
- Receive communications from the Chief Audit Executive on the internal audit service's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the Chief Audit Executive to determine whether there is inappropriate scope or resource limitations.
- The Chief Audit Executive will have unrestricted access to, and communicate and interact directly with, the Audit Committee, including in private meetings without management present.

[1] The PSIAS defines **senior management** as "Those responsible for the leadership and direction of the Council" which in this instance is the organisation's **Corporate Leadership Team.**

[2] The Standards require that Internal Audit report to the **Board.** CIPFA have via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that 'Board' may refer to an audit committee to which the governing body has delegated certain functions. In this instance this would be the **Audit Committee**.

The Audit Committee authorises the internal audit service to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of the organisation, as well as other specialised services from within or outside the organisation, in order to complete the engagement.

Independence & Objectivity

The Chief Audit Executive will ensure that the internal audit service remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Chief Audit Executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for the organisation or its affiliates.
- Initiating or approving transactions external to the internal audit service.
- Directing the activities of any organisation employee not employed by the internal audit service, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Chief Audit Executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.

- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Chief Audit Executive will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit service.

The Chief Audit Executive will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the organisation. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the organisation's strategic objectives are appropriately identified and managed.
- The actions of the organisation's officers, directors, employees, and contractors are in compliance with the organisation's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the organisation.
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Chief Audit Executive will report periodically to senior management and the Audit Committee regarding:

- The internal audit service's purpose, authority, and responsibility.
- The internal audit service's plan and performance relative to its plan.
- The internal audit service's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.

- Any response to risk by management that may be unacceptable to the organisation.

The Chief Audit Executive also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit service may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit service does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The Chief Audit Executive has the responsibility to:

- Submit, at least annually, to senior management and the Audit Committee a risk-based internal audit plan for review and approval.
- Communicate to senior management and the Audit Committee the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in the organisation’s business, risks, operations, programmes, systems, and controls.
- Communicate to senior management and the Audit Committee any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit service collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact the organisation are considered and communicated to senior management and the Audit Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit service.

- Ensure adherence to the organisation's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Committee.
- Ensure conformance of the internal audit service with the Standards, with the following qualifications:
  - If the internal audit service is prohibited by law or regulation from conformance with certain parts of the Standards, the Chief Audit Executive will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
  - When the Standards are used in conjunction with requirements issued by CIPFA, the Chief Audit Executive will ensure that the internal audit service conforms with the Standards, even if the internal audit service also conforms with the more restrictive requirements of CIPFA.

Quality Assurance & Improvement Programme (QAIP)

The internal audit service will maintain a quality assurance and improvement programme that covers all aspects of the internal audit service. The program will include an evaluation of the internal audit service's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit service and identify opportunities for improvement.

The Chief Audit Executive will communicate to senior management and the Audit Committee on the internal audit service's quality assurance and improvement programme, including results of internal assessments (both on-going and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the internal audit service.

CMAP
Central Midlands
Audit Partnership

Ashfield
DISTRICT COUNCIL

Report To:	**AUDIT COMMITTEE**	**Date:**	**29 MARCH 2021**
Heading:	**CORPORATE GOVERNANCE AND ANTI-FRAUD UPDATE**		
Portfolio Holder:	**NOT APPLICABLE**		
Ward/s:	**NOT APPLICABLE**		
Key Decision:	**NO**		
Subject to Call-In:	**NO**		

Purpose of Report

Robust Corporate Governance ensures organisations are doing the right things in the correct manner in an open, honest, inclusive and accountable way. Good governance leads to good management, performance and outcomes.

The Council has a framework of policies and procedures in place which collectively make up its governance arrangements. The Council should have in place various policies and procedures which set out its approach to preventing, detecting and investigating fraud and corruption. These policies and procedures were updated and approved by this Committee in February 2020.

The report also considers whether the Local Code of Corporate Governance requires amendment and updates the Committee in relation to the Annual Governance Statement.

The report provides an overview and update in relation to the Council's approach to Anti-Fraud activity which has also recently been reviewed in light of a new Government Functional Standards (GovS 013: Counter Fraud) and reviews anti-fraud work as part of the COVID-19 related grant payments.

Recommendation(s)

Committee is asked to note the:

1. **Local Code of Corporate Governance as appended to the report and that no changes are required at this time;**
2. **Process for preparing the 2020/21 Annual Governance Statement;**
3. **Summary updates relating to Anti-Fraud audit reviews undertaken during 2020/21.**

Reasons for Recommendation(s)

It is best practice for the Local Code of Corporate Governance to be reviewed annually to inform the Governance Framework for the following year.

Fraud and Corruption are serious issues which can affect the services the Council provides, undermine the achievement of corporate objectives and impact upon the public's confidence in the integrity of Council Officers and Elected Members. The Council is therefore committed to the prevention, detection and investigation of all forms of fraud and corruption whether these are attempted from within or external to the organisation. The Council is committed to creating an environment that is based on the prevention of fraud and corruption. This is achieved by promoting openness and honesty in all Council activities.

Alternative Options Considered

The report is for noting.

Detailed Information

CORPORATE GOVERNANCE

Introduction

Robust Corporate Governance ensures organisations are doing the right things in the correct manner in an open, honest, inclusive and accountable way. Good governance leads to good management, performance and outcomes.

The Council has a framework of policies and procedures in place which collectively make up its governance arrangements. This includes various policies and procedures which set out the Council's approach to preventing, detecting and investigating fraud and corruption. The following policies and procedures were updated and approved by this Committee in February 2020:

- Anti-Fraud and Corruption Strategy
- Anti-Bribery Policy
- Anti-Money Laundering Policy Statement and Procedures
- Fraud Response Plan
- Prosecution Policy
- Whistleblowing Policy
- Local Code of Corporate Governance

These policies will be reviewed during the course of 2021/2022 to be consider by a future meeting of this Committee.

Local Code of Corporate Governance

The Local Code of Corporate Governance sets out the Council's arrangements and is based on the guidance "Delivering Good Governance in Local Government" published by CIPFA (the Chartered Institute of Public Finance and Accountancy) and SOLACE (the Society of Local Authority Chief Executives) in 2016.

The CIPFA/SOLACE guidance identifies seven core principles and various sub principles; the recommended Local Code of Corporate Governance is based on these seven core principles. The seven principles are:

A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

B. Ensuring openness and comprehensive stakeholder engagement

C. Defining outcomes in terms of sustainable economic, social and environmental benefits

D. Determining the interventions necessary to optimise the achievement of the intended outcomes Developing the Council's capacity, including the capability of its leadership and the individuals within it

E. Managing risks and performance through robust internal control and strong public financial management

F. Implementing good practices in transparency, reporting and audit to deliver effective accountability

The Local Code of Corporate Governance informs the Annual Governance Statement. The Local Code of Corporate Governance is subject to annual review to inform the governance framework for the following year. The Code is attached as Appendix 1; there are no recommended changes at this time.

Annual Governance Statement

The Annual Governance Statement (AGS) is prepared in order to publicly report on the extent to which the Council has complied with its Local Code of Corporate Governance. The AGS looks at how the effectiveness of the Council's governance arrangements have been monitored and evaluated during the year and looks at any planned changes.

Due to the COVID-19 Pandemic the arrangements for the preparation and publication of the AGS for 2019/20 were changed to reflect the demands placed upon Local Authorities. Instead of the AGS being finalised by the end of May 2020 and approved as part of the Statement of Accounts at the July 2020 Audit Committee, the AGS was amended and updated to reflect COVID-19 impacts and presented to the Committee on 19 October 2020.

<u>Proposed Process for the Preparation of the Annual Governance Statement 2020/21</u>

The deadline for the Council to prepare the draft Statement of Accounts has again been extended in light of COVID-19 and work pressures to 31 July 2021 with the audited accounts to be signed off by Audit Committee and published by 30th September 2021. Whilst the aim is to have drafted the AGS by the end of May 2021, due to work pressures the timeframe in practice may be extended to closer to 31 July. The process below, assumes the longer timeframe will be needed.

- The initial review of the effectiveness of the Council's governance framework will be conducted by the Council's Director of Legal and Governance (Monitoring Officer) supported by the Assistant Director - Corporate Services and Transformation.

- To inform the process, the Corporate Leadership Team will carry out a Corporate Assurance Assessment and each Director will provide a Statement of Assurance.

- The Constitution review, performance reporting and risk management arrangements will also be taken into account.

- The results of all this review work will be set out in a draft Annual Governance Statement prepared by the Director of Legal and Governance (Monitoring Officer). This draft is currently being prepared.

- The Corporate Leadership Team will review the draft Statement and consider whether the improvements proposed represent an appropriate and proportionate response to any significant governance issues identified.

- The draft Governance Statement, modified to reflect the views of the Corporate Leadership Team, will be considered by a Member Working Group made up of the Council's Audit Committee.

- The Director of Legal and Governance (Monitoring Officer) will finalise the Annual Governance Statement by the end of July 2021 in readiness for the finalisation of the 2020/21 Statement of Accounts.

- The Audit Committee at its meeting in September 2021 will be asked to formally approve the Annual Governance Statement as part of the Statement of Accounts.

ANTI-FRAUD

Overview

Fraud and Corruption are serious issues which can affect the services the Council provides, undermine the achievement of corporate objectives and impact upon the public's confidence in the integrity of Council Officers and Elected Members.

The Council is therefore committed to the prevention, detection and investigation of all forms of fraud and corruption whether these are attempted from within or external to the organisation. The Council is committed to creating an environment that is based on the prevention of fraud and corruption. This is achieved by promoting openness and honesty in all Council activities.

In order to ensure the Council takes a corporate approach to dealing with fraud and corruption, the Anti-Fraud and Corruption Strategy Group was established a few years ago and ordinarily meets on a quarterly basis. The Group consists of the Director of Legal and Governance (Monitoring Officer) and representatives from Finance, Legal, Estates, Revenues and Benefits, Housing, CMAP, Communications, Procurement and Human Resources with other officers brought on to the group as necessary. The Group develops and delivers an annual work plan. Unfortunately, due to the pressures and changed priorities for the Council caused by the COVID-19 Pandemic, particularly on the Director of Legal and Governance (Monitoring Officer) and the Service Manager, Revenues and Benefits, the Group has not met for some time and development and delivery of the work plan has been limited during the past 12 months.

During 2020/21 the main elements of anti-fraud activity being reported to the Committee are:

a) Management of Fraud Risk - Audit Review;
b) COVID-19 Business Grants;
c) Data Matching for Local Restrictions Support Grants and Additional Restrictions Grants

The two Internal Audit reviews relating to COVID-19 grants were added to the work plan in light of the business support schemes introduced by the Government involving large sums of money and complex rules and criteria.

Management of Fraud Risk - Audit Review

In June 2020 the Government Functional Standards (GovS 013: Counter Fraud) was published. The Council took the opportunity for Internal Audit to compare its management of fraud risk to this new standard to inform the Council's future approach and arrangements for fraud management. This report is currently being finalised in discussions with Internal Audit. The report focuses on the weaknesses in the Council's systems of control that were highlighted by this audit and recommends appropriate control improvements. The report contains a number of recommendations (largely low risk with a couple of moderate risks). Once finalised, this report will be formally reported to the Committee as part of CMAP's update report and the agreed recommendations will form the basis for the Anti-Fraud and Corruption Strategy Group's work plan for 2021/22. A number of the recommendations relate to improvements to existing policies and strategies and more clearly defined and consistent roles and responsibilities. The recommendations also suggest that the Council needs to identify sufficient specialist resources for investigating potential fraud.

This Internal Audit report and the lack of progress by the Anti-Fraud and Corruption Strategy Group in relation to the Anti-Fraud work plan during 2020/21 (due to the refocusing of efforts on the Council's response to the COVID-19 pandemic) have collectively highlighted the reliance on the Director of Legal and Governance (Monitoring Officer) to steer the programme of work and the lack of operational resilience and resources currently available to the Council. In light of this, discussions between the Chief Executive and Director of Legal and Governance (Monitoring Officer) to consider how to address this organisationally have already started.

COVID-19 Business Grants

In March 2020 the Secretary of State for the Department of Business, Energy and Industrial Strategy issued instructions to local authorities to administer the payment of Small Business Grant Fund (SBGF) and the Retail, Hospitality and Leisure Grant Fund (RHLGF). In May 2020 the instruction was given to Local Authorities to also administer the Discretionary Grants Fund.

Internal audit subsequently reviewed the payments and control of the administration and allocation of the first round of these grants awarded during the COVID-19 pandemic. **The report concluded that there was reasonable control assurance provided by the grant payment processes put in place; there was generally a sound system of governance, risk management and control**. This report contains 5 recommendations from Internal Audit, 3 are considered a low risk and 2 a moderate risk; another 2 minor risk issues have also been highlighted for management's consideration. 4 of the recommendations have already been implemented and the fifth will be completed shortly.

The review looked at:

a) Pre-payment checks;
b) Post-payment checks;
c) Data matching to assist the Council in identifying potential fraudulent grant applications and payments.

a) <u>Pre-payment checks</u>

Internal Audit considered the application processes and due diligence undertaken before payments were made. Discussions with various officers within Corporate Finance and the Revenues service areas confirmed that prepayment checks which highlighted suspicious applications had been investigated and documented. Internal Audit reviewed documentation for the investigations that had taken place and found that detailed notes had been made about the outcomes of the investigations. Investigations involved requesting additional evidence via email, phone calls and emails with landlords or agencies, and also visiting the business premises to ensure they were trading with the correct retail status.

b) Post-payment checks

Internal Audit completed post payment checks on a sample of 25 Business Rates Grants and 15 Discretionary Grants verified back to original documentation stored on file. They also checked data supplied to open source data, Companies House information, held discussions with landlords, reviewed data in the NDR system and data in the creditors system. They also, where necessary, physically viewed individual business premises. For the sample selected Internal Audit recalculated the grant awarded, completed checks of bank statements to ensure bank account numbers were the same as previously paid (if applicable) and checked the bank account numbers paid were the same numbers as the ones provided in the data and bank statements. Internal Audit ensured the eligibility checks of Discretionary Grants had been completed and highlighted any areas where we had concerns to Corporate Finance.

Post payments checks highlighted 8 payments that were considered suspicious. The Council subsequently investigated all 8 payments. The Council found 3 payments were legitimate and no action was required, and 5 payments were not legitimate. Of the 5 that were not legitimate, 3 payments have been returned by the recipient on request. The remaining 2 refused to repay the grant and recovery action will be undertaken by the Council.

c) Data Matching

Internal Audit assisted with checking bank accounts checking to check for fraudulent accounts. The exercise highlighted 3 matches:

- 1 had already received a Business Rate Support Grant. The Council stopped the payment of the Discretionary Grant once this match was highlighted.
- The 2 other matches were payments made to a potentially fraudulent bank account. These were referred to Non-Domestic Rates officers for investigation, however, correspondence with the grant recipient showed them to be legitimate.

Internal Audit then completed a post payment data matching verification exercise on all Business Rate Support Grants paid. The data was analysed for:

- Duplicate applications with the same data across multiple fields (e.g. contact information, addresses, business names, bank account information);
- Applications for different businesses/accounts but with the same bank account information (possible sign of a fraudulent bank account being used across multiple businesses);
- Applications with bank account information which matches to known frauds detailed. newsletters.

This data matching identified 181 payments which had 2 or more payments to the same account which meant there were 79 matches. Internal Audit investigated every match and confirmed that the bank account matches had reasonable explanations; for example, the same business having 2 or more premises within the District.

Data Matching for Local Restrictions Support Grants and Additional Restrictions Grants

The Council commenced payment of the second tranche of Local Restrictions Support Grants (LRSG) and the Additional Restrictions Grants (ARG) on 19 November 2020 and continued until 13 January 2021. Internal Audit were asked to complete a data matching exercise for every proposed payment for the LRSGs and ARGs.

The exercise involved analysing data for:

- Duplicate applications with the same data across multiple fields (e.g. contact information, addresses, business names, bank account information).

- Applications for different businesses/accounts but with the same bank account information (possible sign of a fraudulent bank account being used across multiple businesses).

- Applications with bank account information which matches to known frauds.

Internal Audit examined 773 grants with a total value of around £2.4m. Data matching highlighted 33 proposed grants where the bank account was documented more than once. Every match was investigated and confirmed that the bank account matches had reasonable explanations; for example, the same business having 2 or more premises within the District.

Data matching also highlighted 2 cases which were referred back to Council Officers to investigate and take action:

- 1 case where the Company Registration Number (CRN) was typed incorrectly, this number was adjusted before payment.
- 1 case which was pulled from payment to allow Corporate Finance to check the legitimacy of the payment. The payment was confirmed to be valid.

Grants Summary

To put the Internal Audit reviews and data matching exercises relating to COVID-19 grants into context, the table below sets out the number of grants paid out to date and their values:

Type of Grant	Number of Grants Paid	Value of Grants Paid (£)
Small Business Grants	1396	13,960,000
Retail, Hospitality and Leisure Grant Fund	250	4,480,000
Discretionary Grants	101	845,637
Additional Restrictions Grants	1623	3,222,000
Local Restrictions Support Grants	3880	6,981,318
TOTALS	**7250**	**29,488,955**

The 2 reviews and data matching exercises regarding COVID-19 grants demonstrates the Council had strong due diligence in place when processing applications and making payments but also enabled identification and checking of the very small number of potential fraudulent claims. The data matching has enabled 3 claims which were not legitimate to be recovered and 2 further payments continue to be chased for recovery.

As can be seen, the number of potential fraudulent claims identified was remarkably low compared to the number of applications processed and the financial amounts at play and should assure the Committee of the robustness of the Council's due diligence processes which will continue to be in place for ongoing and future COVID-19 payments.

Implications

Corporate Plan:

The aim of the Council is to ensure that we continue to remain financially sustainable, whilst at the same time ensuring that we continue to provide the key services on which our residents and businesses rely. It is important that the Council has the most effective infrastructure and support to enable:

- The delivery of the Corporate Plan
- Financial sustainability to continue to deliver key services
- A productive workforce that delivers services well

Legal:

The Council's Local Code of Corporate Governance is based on the CIPFA/SOLACE guidance as set out in the report.

The Council is required by law to undertake an annual review of the effectiveness of its systems of control and produce an annual governance statement – Regulation 6 of the Accounts and Audit Regulations 2015.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	There is a budget of £10k which is specifically for the purpose of funding costs associated with fraud which falls to the Monitoring Officer to release and monitor.
General Fund – Capital Programme	As above
Housing Revenue Account – Revenue Budget	As above
Housing Revenue Account – Capital Programme	As above

Risk:

Risk	Mitigation
Local Code of Corporate	

Failure to review the Local Code of Corporate Governance would mean the governance framework is not complied with and would impact on the annual governance statement process. Anti-Fraud	The review ensures compliance with the governance framework and assists with the annual governance review.
Failure to have in place adequate anti-fraud policies and processes could lead to serious issues which can affect the services the Council provides, undermine the achievement of corporate objectives and impact upon the public's confidence in the integrity of Council Officers and Elected Members.	The implementation of the recommendations of the recent audit as set out above will ensure the Council's policies and procedures are improved in line with the recent Government Functional Standard.
Failure to put in place adequate due diligence and post payment checks for fraudulent Business Grant payments could cause fraudulent payments to be made in the first place and then prevent such payment from being recovered.	The Internal Audit reviews and data matching checks firstly demonstrated the Council had strong due diligence in place and secondly, enable identification and checking of potential fraudulent claims. The data matching has enabled 3 potentially fraudulent claims to be recovered and 2 further payments are being chased for recovery.

Human Resources:

There are no Human Resource issues identified in the report.

Environmental/Sustainability

There are no Environmental/Sustainability issues identified in the report.

Equalities:

There are no Equalities issues identified in the report.

Other Implications:

None.

Report Author and Contact Officer

Ruth Dennis
DIRECTOR OF LEGAL AND GOVERNANCE
(Monitoring Officer)
r.dennis@ashfield.gov.uk
01623 457009

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ASHFIELD DISTRICT COUNCIL

LOCAL CODE OF CORPORATE GOVERNANCE

Director of Legal and Governance
(Monitoring Officer)

APPROVED:
Audit Committee – 10 February 2020

REVIEW:
November 2020

Version Control

Version Number	Date Issued
Original	November 2017
V2	December 2018
Revised v3	February 2020
Reviewed (no changes)	March 2021

Introduction

Governance ensures organisations are doing the right things in the correct manner in an open, honest, inclusive and accountable way. Good governance leads to good management, performance and outcomes. It ensures the Council delivers the visions and priorities set out in its Corporate Plan.

Corporate governance is part of the overall control framework and contributes to the Council's robust governance arrangements.

Ashfield District Council is committed to good corporate governance. The Council has a framework of policies and procedures in place which collectively make up its governance arrangements. This Local Code of Corporate Governance sets out the Council's arrangements and is based on the guidance "*Delivering Good Governance in Local Government*" published by CIPFA (the Chartered Institute of Public Finance and Accountancy) and SOLACE (the Society of Local Authority Chief Executives) in 2016.

The Guidance assumes that each Council will develop its own approach to governance, ensuring its resources are directed to its individual priorities and in accordance with its own policies.

The fundamental principles of corporate governance are openness, inclusivity, integrity and accountability. The CIPFA/SOLACE guidance identifies seven core principles and various sub principles; the Council's Local Code of Corporate Governance is based on these seven core principles.

The seven principles are:

- 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 optimise the achievement of the intended outcomes

- Developing the Council's capacity, including the capability of its leadership and the individuals within it

- Managing risks and performance through robust internal control and strong public financial management

- Implementing good practices in transparency, reporting and audit to deliver effective accountability

The Code sets out the documents, systems, processes and actions the Council undertakes to fulfil its commitment to and compliance with this Code. The Code supports the Council's review of the effectiveness of its system of internal control and informs the Annual Governance Statement which accompanies the Annual Statement of Accounts.

The Audit Committee is responsible for approving the Code. The Chief Executive and the Monitoring Officer are responsible for ensuring the Code is kept up to date and reviewed annually.

APPENDIX A

The Principles

The Council aims to achieve good standards of governance by:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
B. Ensuring openness and comprehensive stakeholder engagement
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
D. Determining the interventions necessary to optimise the achievement of the intended outcomes
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
F. Managing risks and performance through robust control and strong public financial management
G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Putting principles into effect

	Principle	This will be achieved by
A	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	• Corporate Plan • The Constitution • Member's Code of Conduct • Employees' Code of Conduct • Anti-Fraud and Corruption Policy & Strategy • Equalities policies • Whistle-blowing Policy • Anti-Bribery Policy Statement and Procedures • Anti-Money Laundering Policy Statement and Procedures • Member/Officer Protocol • Registers of Interests – Members and officers • Registers of Gifts and Hospitality • Officer and Member development strategies • Corporate Complaints procedures • Modern Slavery and Human Trafficking Transparency Statement • Modern Slavery and Human Trafficking Policy Statement • Member Complaints Process • Annual Governance Statement • Financial Regulations • Contract Procedure Rules • Social Media Policy – Members and officers • Standards and Personnel Appeals Committee • Overview and Scrutiny function • Audit Committee • Licensing Committee • Planning Committee • Report template for decision-making which incorporates financial, legal, HR, equalities and risk appraisal. Each of the statutory officers is able to operate with the appropriate independence; the organisational culture respects and supports their integrity and provides the staffing arrangements to support their work.
B	Ensuring openness and comprehensive stakeholder engagement	• The Constitution • Corporate Plan • Community Engagement and Consultation Strategy • Forward Plan

		• Council Website – includes meeting agendas and minutes of current and archived meetings and decisions • Public Questions at Council • Public speaking at Planning Committee • Petition Scheme • Publications Scheme • Overview and Scrutiny functions • Council Social Media • Citizens' Panel • Engagement with Youth Forum • Ashfield Community Partnership • Co-location with DWP and Police • Partnership Protocols • Formal shared service arrangements • External audit assessment of Value for Money • Satisfaction Surveys • Budget consultation/engagement • The Council's booklet "*Ashfield Matters*"
C	Defining outcomes in terms of sustainable economic, social, and environmental benefits	• Corporate Plan • Forward Plan • Corporate report templates including legal, financial, Human Resource, equalities and risk appraisal • Corporate Risk Management framework • Audit Committee review of risks • MTFS • Capital Programme including Capital Gateway assessment process • Project Management Framework • Business Case development • Weighted Benefit Model • Service Plans • Performance management processes • Contract Procedure Rules • Procurement Strategy
D	Determining the interventions necessary to optimise the achievement of the intended outcomes	• The achievement of its Corporate Plan objectives are planned through a number of Programme Boards, which encompass: o Regeneration o Commercial Investment Working Group

		◦ Digital and Service Transformation Board ◦ Health and Well Being ◦ Discover Ashfield ◦ Efficiency • Business cases • Project framework • Weighted Benefit Mode • MTFS, capital programme • Budget setting and monitoring processes • Corporate report templates including legal, financial, human resource and risk appraisal • Council’s website • Overview and Scrutiny functions • Consultation arrangements • Service Plans • Weekly Corporate Leadership Team meetings • Regular Senior Leadership Team Meetings • Directorate Management Team meetings • 1-2-1 meetings • Performance framework and reporting • Value for Money assessment by external auditor
E	Developing the entity’s capacity, including the capability of its leadership and the individuals within it	• Corporate Plan • The Constitution • Members’ Code of Conduct • Employees’ Code of Conduct • Equalities policies • Officer and Member development strategies • Personal Development Reviews • Officer Competency framework • Clearly defined roles – job descriptions, person specifications • Recruitment and selection procedures • Staff surveys • Peer Challenge
F	Managing risks and performance through robust internal control and strong public financial management	• Corporate Risk Register is regularly updated and considered by the Audit Committee • Directorate risk registers • Performance monitoring and reporting • Corporate report templates including legal, financial, human resource, equalities and risk appraisal

		• Overview and Scrutiny function • MTFS • Capital Programme • Financial Regulations • Budget reporting and monitoring • Anti-Fraud and Corruption Policy & Strategy • Equalities policies • Whistle-blowing Policy • Anti-Bribery Policy Statement and Procedures • Anti-Money Laundering Policy Statement and Procedures • Emergency Planning and procedures and Business Continuity Plans • Information management policies and procedures including implementation of GDPR • Publication Scheme • Procurement Strategy • Contract Procedure Rules • Assessment of Value for Money by external auditors • Health and Safety Policies and Procedures
G	Implementing good practices in transparency, reporting, and audit to deliver effective accountability	• Council’s website and social media channels • Council Website – includes meeting agendas and minutes of current and archived meetings and decisions • Community Engagement and Consultation Strategy • Pay Policy published • Publication Scheme • Local Code of Corporate Governance – updated annually • Annual Governance Statement and Corporate Assurance Checklist are updated annually • Reporting of performance • Publication of Annual Report and Statement of Accounts • External auditors annual audit letter is published • Audit Committee • Peer Challenge

Report To:	**AUDIT COMMITTEE**	**Date:**	**29 MARCH 2021**
Heading:	**WHISTLEBLOWING ANNUAL UPDATE**		
Portfolio Holder:	**NOT APPLICABLE**		
Ward/s:	**NOT APPLICABLE**		
Key Decision:	**NO**		
Subject to Call-In:	**NO**		

Purpose of Report

The report provides the Committee with an annual update in relation to how the Whistleblowing Policy has operated in the preceding 12 months.

Recommendation(s)

Committee is asked to note:

1. **That no changes to the Whistleblowing Policy are required; and**
2. **How the Whistleblowing Policy has operated during 2020/21.**

Reasons for Recommendation(s)

To ensure the Committee is adequately informed to enable it to monitor the operation of the Whistleblowing Policy in accordance with the Committee's Terms of Reference as set out in the Constitution.

Alternative Options Considered

None as the report is for noting and comment.

Detailed Information

Whistleblowing Policy

The Council has in place a Whistleblowing Policy which sets out a process for people to confidently report concerns, such as fraud. This policy makes it clear that people can report their concerns without fear of reprisals.

Paragraph 8.1 of the Whistleblowing Policy states that: “The Monitoring Officer has overall responsibility for the maintenance and operation of this policy. This Officer maintains a record of concerns raised and the outcomes (but in a form which does not endanger your confidentiality) and will report these to the Standards and Personnel Appeals Committee and the Audit Committee once a year. The Whistleblowing Policy will also be reviewed on a bi-annual basis.”

This Committee approved minor changes to the Policy at its meeting in March 2020. A review of the policy has been undertaken and no changes are necessary at this time.

The Standards and Personnel Appeals Committee will receive a Whistleblowing Update report at its meeting on 24 March 2021.

Application of Policy during the Preceding 12 Months

During the period starting April 2020 to the present, there has been 1 reported incident of whistleblowing drawn to the Monitoring Officer’s attention.

Given the confidential nature of the complaints this report can only refer anonymously and in high level terms. A summary of the complaint received during 2020/21 is set out below:

COMPLAINT REFERENCE	NATURE OF COMPLAINT	STATUS OF COMPLAINT	OUTCOME/ACTION TAKEN
2020-01	Anonymous complaint received via UNISON. The complaint related to the work of the Environment Section and included allegations of environmental crime, fraud, corruption and bribery.	Closed.	A lengthy investigation was carried out by the Monitoring Officer in conjunction with the Chief Executive. There was no evidence of environmental crime, fraud, corruption and bribery. No disciplinary action was taken in relation to individual officers. Both Trade Unions have been debriefed along with the Director of Place and Communities. Management recommendations were made to improve and document procedures.

Previous Application of Policy

The following table sets out the application of the Whistleblowing Policy for the past 6 years to the present date:

YEAR	TOTAL NUMBER OF COMPLAINTS	NO FURTHER ACTION	MANAGEMENT RECOMMENDATIONS	DISCIPLINARY/GRIEVANCE INVESTIGATION
2015	2	1	1	0
2016	2	0	1	1
2017	3	1	1	1
2018	3	1	0	2
2019	4	3	1	0
2020	1	0	1	0

All complaints made in 2018, 2019 and 2020 were made anonymously. The Policy encourages complainants to put their name to complaints and take advantage of the protections the Public Interest Disclosure Act 1998 afford such complainants. Concerns raised anonymously are much less powerful but are considered at the discretion of the Monitoring Officer in consultation with the Chief Executive. The Monitoring Officer and Chief Executive have had discussions with both Unions in relation to this to consider how to encourage complainants to come forward.

Implications

Corporate Plan:

To ensure we deliver high-quality public services we have adopted a set of corporate values which underpin the successful delivery of our priorities. How we work is as important as what we do. The Council’s values are:

- People Focussed
- Honest
- Proud
- Ambitious

It is important that the Council has the most effective infrastructure and support to enable:

- The delivery of the Corporate Plan
- Financial sustainability to continue to deliver key services
- A productive workforce that delivers services well

Legal:

The policy has been written to take account of the Public Interest Disclosure Act 1998 which protects workers making disclosures in good faith.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	None

General Fund – Capital Programme	None
Housing Revenue Account – Revenue Budget	None
Housing Revenue Account – Capital Programme	None

Risk:

Risk	Mitigation
Failure to maintain integrity and confidence in the policy and its applications.	Annual reporting to the Audit Committee and Standards and Personnel Appeals Committee. Annual update on the application of the policy. Update reporting in accordance with the policy to the Whistleblower (if identified). Identification of trends in disclosure to inform Management.

Human Resources:

Regular review, maintenance and consistent application of the Whistleblowing Policy infers good employment practices. As such it is important to maintain the integrity of the policy.

Environmental/Sustainability

There are no Environmental/Sustainability issues identified in the report or the policies reviewed.

Equalities:

There are no equalities issues identified as a direct result of the report. Equalities issues would be considered as part of any whistleblowing investigation.

Other Implications:

None.

Report Author and Contact Officer

Ruth Dennis
DIRECTOR OF LEGAL AND GOVERNANCE
(Monitoring Officer)
r.dennis@ashfield.gov.uk
01623 457009