

ASHFIELD DISTRICT COUNCIL



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

Agenda

Audit Committee

Date: **Thursday, 21st March, 2024**

Time: **7.00 pm**

Venue: **Committee Room, Council Offices, Urban Road,
Kirkby-in-Ashfield**

For any further information please contact:

Lynn Cain

lynn.cain@ashfield.gov.uk

01623 457317

If you require an adjustment to enable you to participate or access the meeting, please contact the Democratic Services team at least 48 hours before the meeting.

Audit Committee

Membership

Chairman: Councillor Will Bostock

Councillors:

Ian Briggs
Sarah Lewsey
Nicholas Parvin

Dawn Justice
Sarah Madigan
John Smallridge

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/place and on the date mentioned above for the purpose of transacting the business set out below.



Theresa Hodgkinson
Chief Executive

AGENDA

Page

1. To receive apologies for absence, if any.
2. **Declarations of Disclosable Pecuniary or Personal Interests and/or Non-Registrable Interests.**
3. To receive and approve as a correct record the minutes of the meeting of the Committee held on 29 February 2024. 5 - 8
4. **MAZARS: External Audit Progress Report.** 9 - 14
5. **Accounting Policies for 2023/24 and other Statement of Accounts Matters.** 15 - 36
6. **Pension Assumptions for 2023/24 Statement of Accounts.** 37 - 68
7. **Internal Audit Plan 2024-25 & Audit Charter.** 69 - 82

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AUDIT COMMITTEE

Meeting held in the Committee Room, Council Offices, Urban Road, Kirkby-in-Ashfield,
on Thursday, 29th February, 2024 at 7.00 pm

Present: Councillor Will Bostock in the Chair;
Councillors Ian Briggs, Sarah Lewsey and
John Smallridge.

Apology for Absence: Councillor Dawn Justice.

Officers Present: Lynn Cain, Ruth Dennis, Theresa Hodgkinson,
Peter Hudson and Andrew Page.

In Attendance: Mark Surrige (MAZARS)
Mandy Marples and Hannah McDonald (CMAP).

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

No declarations of interest were made.

AC.25 Minutes

RESOLVED

that the minutes of the meeting of the Committee held on 1 February 2024, be received and approved as a correct record.

AC.26 MAZARS: Audit Completion Report

Mark Surrige presented the Audit Completion report for Mazars to those charged with governance for 2022/23.

Section 2 - Executive Summary

Committee Members acknowledged that the audit work was substantially complete and an unqualified opinion, without modification on the financial statements, was anticipated. In respect of the Value For Money audit, it was also anticipated that there would be no significant weaknesses in arrangements to report, in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources

Section 4 - Significant Findings

In relation to 'Management Override of Controls' as a significant risk as outlined in Section 4 of the report, it was noted that no issues from the audit had been identified that needed to be brought to the attention of Members.

The Pension Scheme liability/asset valuation had now been completed and based on the work completed, one immaterial misstatement had been identified arising from information provided by the Pension Fund auditor but management had chosen not to adjust due to the immaterial value of the misstatement.

The Valuation of Land and Buildings had proved difficult to complete for a number of reasons and some control recommendations on these matters have duly been raised with management. However, on completion of the audit, assurances were provided as required.

Internal Control Recommendations

With regard to internal control recommendations, no significant findings or recommendations in relation to internal controls had been noted at the present time.

Summary of Misstatements

To conclude, Members were asked to note action taken in respect of the two misstatements, as outlined in the summary.

RESOLVED

that the Audit Completion report for 2022/23, as presented to Committee by Mazars, be duly received and noted.

AC.27 MAZARS: Auditor's Annual Report

Mark Surridge presented the Auditor's Annual Report which summarised the work that Mazars had undertaken as the auditor for Ashfield District Council, for the year ended 31 March 2023.

Value For Money Conclusion

In relation to the three control areas namely, Financial Sustainability, Governance and Improving Economy, Efficiency and Effectiveness, Members were advised that all procedures were in place and no significant weaknesses or risks associated with the same, had been identified.

Cabinet and Council had received detailed reports for budget setting purposes including an update on the Council's Medium Term Financial Strategy, with the content adequately reflecting the limitations of financial planning through the current one-year local government finance settlements.

In respect of Risk Management, adequate arrangements were in place but the Audit Committee had not received any report updates during 2022/23. As the Committee was responsible for ensuring that the Authority's risk identification, measurement and management processes were operating efficiently this would need to be addressed moving forward.

Mazars were satisfied that work on the Local Plan was progressing and facilitation of the Towns Fund development had adequate governance arrangements in place.

RESOLVED

that the Audit Completion report for 2022/23, as presented to Committee by Mazars, be duly received and noted.

AC.28 Audited Statement of Accounts 2022/23

The Corporate Resources Director (and Section 151 Officer) presented the Council's audited Statement of Accounts for 2022/23 to Committee for approval.

RESOLVED that

- a) having considered the outcomes from the External Auditors Completion Report 2022/23 presented in the previous item, the audited Statement of Accounts for 2022/23, be approved;
- b) delegated authority for the final approval of the audited Statement of Accounts for 2022/23 be granted to the Corporate Resources Director (Section 151 Officer), subject to a satisfactory outcome of outstanding items and to report back to Audit Committee details of any changes, if required.

Following the vote, two copies of the audited Statement of Accounts for 2022/23 were duly signed by the Audit Committee Chairman and responsible officers accordingly.

AC.29 Audit Progress Report

Mandy Marples, CMAP's Audit Manager, presented the report and summarised audit progress as at 29 February 2024. Committee Members were advised that good progress was being made against the Audit Plan and all programmed audit assignments were now underway.

Five pieces of work had been finalised since the last update and a synopsis of each of the completed assignments was presented regarding the following:

Markets 2023-24
Revenues System 2023-24
Members' Code of Conduct
Anti-Fraud & Corruption 2023-24
Responsive Repairs 2023-24.

Members were asked to note that in respect of Anti-Fraud & Corruption 2023-24, work had been undertaken as a consultancy review to provide the Council with a position statement on their outstanding recommendations in this area, and to identify further areas of best practice where the Council could improve its fraud risk management framework.

RESOLVED

that audit assignment progress as at 29 February 2024, as presented to Committee, be received and noted.

AC.30 Corporate Governance Update

The Executive Director of Governance and Monitoring Officer presented the report which advised on the arrangements for preparing the Annual Governance Statement for 2023/24 and also provided a summary on how the Council's Whistleblowing Policy had operated during the preceding 12 months. Members were asked to note that no changes had been made to the Whistleblowing Policy on this occasion.

RESOLVED

that the following be received and noted:

- a) the process for preparing the 2023/24 Annual Governance Statement;
- b) the details regarding the operation of the Whistleblowing Policy during 2023/24.

The meeting closed at 7.49 pm

Chairman.

Ashfield District Council

External Audit Progress Report

Pages
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March 2024



Audit Progress: Executive Summary

Purpose of this report

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). This report provides the March 2024 Audit and Governance Committee meeting with an update on progress in delivering our responsibilities as your external auditors as summarised below. It also includes, at Appendix A, a summary of recent national reports and publications for your information.

2022/23

Our 2022/23 audit is complete and we issued our audit report on 29 February 2024, accompanied with the Auditor's Annual Report, which is to be published on the Council's website

We are unable to issue the audit certificate, until the certificate for 2021/22 is signed and the NAO issues final instructions regarding sampled components for the purposes of the Whole of Government Accounts.

2023/24

We have commenced planning the 2023/24 timetable, however there are areas that require further clarification prior before we are able to issue our Audit Strategy Memorandum, mainly being:

- 1) Consultation Changes to the Code of Audit Practice are underway which may influence the scope of our work;
- 2) CIPFA are consulting on potential changes to the accounting arrangements on land and building valuation and pensions.

Once finalised, we will be able to confirm our approach and will update the Committee at a future meeting. This includes considering the progress the Council makes to improve the quality and timeliness of supporting working papers for us to perform our work.



Appendix A: Insights and publications

Public and Social Sector Insights

Click [here](https://www.mazars.co.uk/Home/Industries/Public-Social-Sector/Public-and-Social-Sector-insights) to find and subscribe to our public and social sector articles (or copy and paste this link: <https://www.mazars.co.uk/Home/Industries/Public-Social-Sector/Public-and-Social-Sector-insights>).

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Beyond efficiency: what's left for local government?

Today, the financial stability of local authorities is no longer guaranteed, placing public services and employment increasingly at risk. All of which means: it's time to take action.

Based on survey data, the 'Beyond efficiency report' looks to understand Councils' approaches to financial sustainability and risk



Supporting vulnerable communities

Against a backdrop of political uncertainty, unprecedented strike action and the prevailing cost of living crisis – itself a consequence of the conflict in Ukraine among other factors – many of the UK's most vulnerable communities are at risk of becoming more marginalised and face more hardship.



A global public and social sector study (2023)

The public and social sector is in a time of transformation. Expectations of organisations in the sector are higher than ever while financial constraints and regulatory burdens are increasing.

To understand some of the challenges leaders in this sector face and the steps they are taking to tackle them, we surveyed more than 100 public sector executives in five countries.



Why culture is critical to local government

The extent to which an organisation's culture supports the execution of its strategy, the management of risk and the treatment of its service users is increasingly under the spotlight, and weaknesses in culture are now frequently blamed for failings in these areas.

National publications

Publication / Update	Key points	Link
National Audit Office (NAO)		
NAO report – Government Resilience: Extreme Weather 5 December 2023	The NAO has published its report Government Resilience: Extreme Weather which examines how well-prepared the country is for future extreme weather events	Government resilience: extreme weather - NAO report
NAO Departmental overview: Department for Work and Pensions 2022-23 – 5 December 2023	The NAO has published its Departmental Overview of the Department for Work and Pensions (DWP) 2022-23. overview summarises information and insights gained from the NAO’s examinations of DWP and related bodies and DWP’s annual report and accounts.	Department for Work and Pensions 2022-23 - NAO overview
NAO insight: Good practice in annual reporting – 19 February 2024	The NAO has published a good practice guide on annual reporting which sets out principles of annual reporting that includes real-world examples of good practice for annual reporting from organisations from the public, private and charity sectors, who are leading the way.	Good practice in annual reporting - National Audit Office (NAO) insight
Whistleblowing in the civil service - 21 February 2024	The NAO has published a guide for people who deal with whistleblowers, investigate concerns or manage whistleblowing processes in government organisations.	Whistleblowing in the civil service - NAO insight
Page 13 NAO good practice - Digital transformation in government: a guide for senior leaders and audit and risk committees 27 February 2024	The NAO has published a guide for senior leaders and audit and risk committees on Digital transformation in government. The guide can support those tasked with overseeing large-scale digital change to understand the core issues and pitfalls to avoid.	Digital transformation in government: a guide for senior leaders and audit and risk committees - NAO insight
Chartered Institute of Finance and Accountancy (CIPFA) and Department for Levelling Up, Housing and Communities (DLUHC)		
Consultation on changes to statutory guidance and regulations: Minimum Revenue Provision - 21 December 2023	DLUHC is consulting on the statutory guidance and final form of the Minimum Revenue Provision Regulations. The deadline for responses was 16 February.	Consultation on changes to statutory guidance and regulations: Minimum Revenue Provision - Department for Levelling Up, Housing and Communities - Citizen Space
Consultation on the Code of Practice on Local Authority Financial Reporting in the United Kingdom short term England-only measures to aid the recovery of local authority reporting and audit – 29 February 2024	CIPFA has launched its Invitation to Comment on short term proposals intended to help address the backlog of local authority audits. After considering a wide range of options CIPFA LASAAC decided to explore two approaches. These would affect the 2023/24 and 2024/25 Codes, by providing: > An option to simplify measurement of operational property plant and equipment using specified indexation, and > Reduced disclosures for pensions reporting, by aligning that reporting with FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland.	Consultation on short term England only measures in the Code CIPFA

Mark Surridge

Mazars

2 Chamberlain Square

Birmingham

B1 3AX

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

*where permitted under applicable country laws.

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Report To:	AUDIT COMMITTEE
Date:	21ST MARCH 2024
Heading:	ACCOUNTING POLICIES FOR 2023/24 AND OTHER STATEMENT OF ACCOUNTS MATTERS
Executive Lead Member:	EXECUTIVE LEAD MEMBER FOR FINANCE, REVENUES AND BENEFITS – CLLR RACHEL MADDEN
Ward/s:	ALL
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 2023/24.

The report also outlines the impact of changes to the Code of Practice on Local Government Accounting on the production of the 2023/24 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. In accordance with best practice for local authorities, the draft Accounting Policies should be reviewed by Audit Committee before the draft 2023/24 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

- 1.1 The Accounting Policies adopted by the Council determine the accounting treatment 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 Institute 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 introduced or amended by the Code of Practice in 2023/24:
 - Definition of Accounting Estimates (amendments to IAS 8);
 - Disclosure of Accounting Policies (amendments to IAS 1 and IFRS Practice Statement 2);
 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (amendments to IAS 12);
 - Updating a Reference to the Conceptual Framework (amendments to IFRS 3).
- 1.5 The application date of the above amendments is the 1 April 2023.
- 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 2023/24 are included at Appendix A. Members should note that the 2023/24 Code has added requirements to disclose only material accounting policies relating to the Council. All relevant policies are included in the appendix and will not be disclosed in the Accounting Statements if not material.

1.8 IFRS 16, which concerns the treatment of leases is due for implementation from 1st April 2024. This will not affect the 2023/24 Statement of Accounting Policies. Suitable policies will be included in this report in March 2025. It is important that the Council has prepared for its implementation and can demonstrate this has been done. Officers have already undertaken preparatory work in connection with this. Further review will be undertaken during 2023/24 and 2024/25 to make sure that the outcome of previous reviews is still correct for the Council's circumstances for the preparation of the 2024/25 Statement of Accounts.

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. [RLD 07/03/2024]

Finance: [PH 05/03/2024].

Budget Area	Implication
General Fund – Revenue Budget	There are no direct financial implications. The report outlines the policies to be adopted for the 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
The Accounting Policies adopted are not updated and in accordance with Code of Practice on Local Government Accounting.	The changes to the Code of Practice on Local Government Accounting Code are reviewed annually and the impact is considered and any updates to the accounting policies are reported to Audit Committee.

Human Resources:

There are no human resource implications. [KB 07/03/2024]

Environmental/Sustainability

There are no environmental or sustainability implications.

Equalities:

There are no equality implications.

Background Papers

Appendix A – Statement of Accounting Policies.

Report Author and Contact Officer

Clive Howey

INTERIM CHIEF ACCOUNTANT

Clive.howey@ashfield.gov.uk

01623 457548

Sponsoring Director

Craig Bonar

EXECUTIVE DIRECTOR – TRANSFORMATION

Craig.bonar@ashfield.gov.uk

01623 457203

Statement of Accounting Policies**1. General Principles**

The Statement of Accounts summarises the Council's transactions for the financial year 2023/24 and its position at the year-end 31st March 2024. 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 2023/24 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 Statement 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 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 Council 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 Council'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 Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 Council 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 Council.

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

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.

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 38 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 Council'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 of the reporting period

Infrastructure, community assets and assets under construction: Depreciated historic cost once the asset becomes 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 Comprehensive 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 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 Reserves 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 Income and Expenditure Statement 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 Council 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 Council 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 Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.



Report To:	AUDIT COMMITTEE
Date:	21ST MARCH 2024
Heading:	PENSION ASSUMPTIONS FOR 2023/24 STATEMENT OF ACCOUNTS
Executive Lead Member:	EXECUTIVE LEAD MEMBER FOR FINANCE, REVENUES AND BENEFITS – CLLR RACHEL MADDEN
Ward/s:	ALL
Key Decision:	NO
Subject to Call-In:	NO

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 2023/24.

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 2023/24 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 preparation of the 2023/24 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 2023/24 Statement of 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 2023 was £26.811m. 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.
- 1.5 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.
- 1.6 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.
- 1.7 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.
- 1.8 The proposed financial assumptions for 2023/24 are:
 - **Expected Return on Assets.** The Actuary anticipates that a typical local Government Pension Fund might achieve a return of around -9% to 31 January 2024. Although this may vary depending on the individual fund's 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 in previous years.
 - **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 0.2% and 0.75% 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.

1.9 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. The assessment for 2023/24 is based on the consideration of maturity of employers.

- Employers may be considered “Very Mature” if they have a liability duration under 10 years at the accounting date;
- Employers may be considered “Mature” if they have a liability duration of between 10 and 20 years at the accounting date;
- Employers may be considered “Immature” if they have a liability duration over 20 years at the accounting date.

Estimated effect of changes in Actuary’s assumptions on employers’ liability in 2023/24

Discount Rate (SEDR)	Discount Rate		
	31 st January 2024	31 st March 2023	Estimated impact of change on liabilities
Very Mature	4.7% to 4.85%	4.8% to 4.85%	Decrease of 0% to Increase of 1%
Mature	4.85% to 5%	4.8%	Decrease of 0% to 4%
Immature	5.00%	4.80%	Decrease of 4% to over 5%
Inflation (SEIR)			
	31 st January 2024	31 st March 2023	
Very Mature	3.25% to 3.50%	3.40% to 3.50%	
Mature	3.00% to 3.25%	3.20% to 3.40%	
Immature	2.95% to 3.00%	3.15% to 3.20%	
Inflation CPI	CPI Inflation		
	31 st January 2024	31 st March 2023	Estimated impact of change on liabilities
Very Mature	2.70% to 2.80%	2.65% to 2.85%	Decrease of 1% to Increase of 1%
Mature	2.70% to 2.80%	2.85% to 2.95%	Decrease of 1% to 4%
Immature	2.70% to 2.75%	2.85% to 2.90%	Decrease of 2% to 4%
Overall Expected Impact	Estimated effect of change in financial assumptions on employer’s liabilities		
Very Mature	Decrease of 1% to Increase of 1%		
Mature	Decrease of 1% to 7%		
Immature	Decrease of 7% to over 9%		

1.10 The assumptions are based on the pre accounting date pension briefing note, provided by the Actuary on the 13th February 2023 and it is based on market information to 31 January 2023.

Supreme Court ruling in McCloud/Sargeant case

1.11 Regulations in respect of the McCloud and Sargeant judgements came into force on 1 October 2023. These may affect the value of the liabilities in respect of accrued benefits and therefore an allowance may need to be included in an employer's report. An allowance for the McCloud remedy will have been made in the liabilities which is consistent with the method adopted at the last actuarial valuation.

Implications

Corporate Plan:

There is no impact to the long-term outcomes and corporate priorities.

Legal:

There are no legal implications. [RLD 11/03/2024]

Finance: [PH 11/03/2024].

Budget Area	Implication
General Fund – Revenue Budget	There are no direct financial implications as a result of this report. The report 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). This is a balance sheet figure and charges to the Comprehensive Income and Expenditure Statement are reversed through statutory accounting entries.
General Fund – Capital Programme	None
Housing Revenue Account – Revenue Budget	As above
Housing Revenue Account – Capital Programme	None

Risk:

Risk	Mitigation
Employee Benefits figures reported in the Council’s Annual Statement of Accounts for 2023/24 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 implications. [KB 12/03/2024]

Environmental/Sustainability:

There are no environmental or sustainability issues.

Equalities:

There are no equalities implications.

Background Papers

Appendix A – Barnet Waddington Briefing Note

Appendix B - Barnet Waddington Glossary

Report Author and Contact Officer

Clive Howey

INTERIM CHIEF ACCOUNTANT

Clive.howey@ashfield.gov.uk

01623 457548

Sponsoring Director

Craig Bonar

EXECUTIVE DIRECTOR - TRANSFORMATION

Craig.bonar@ashfield.gov.uk

01623 457203

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Accounting reporting as at

31 March 2024

Employer briefing note pre-accounting date

Barnett Waddingham LLP

14 February 2024



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Introduction and executive summary







This briefing note is addressed to employers participating in the LGPS and details our standard approach to the 31 March 2024 accounting exercise. This document is based on market conditions as at 31 January 2024. It sets out our recommended assumptions along with any key changes since the previous accounting date. Unless noted otherwise in this briefing note, or in the employer's results report, the approaches adopted as at 31 March 2024 are in line with the approaches set out in this briefing note and are consistent with that at the employer's last accounting date.

This briefing note assumes a previous accounting date of 31 March 2023. For employers whose previous accounting date was not 31 March 2023, this briefing note provides a summary of our recommended assumptions for 31 March 2024 only; should a summary of the key changes since an employer-specific previous accounting date be required then please let us know. Additional fees will apply.

This note complies with Technical Actuarial Standard 100: General Actuarial Standards (TAS 100).

How has the balance sheet changed over the year?

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

Variable/assumption	Impact on balance sheet?	Comments
Asset returns		Asset returns for a typical LGPS fund have been higher than the discount rate assumed at the previous accounting date which will improve the balance sheet position. Please note that actual returns will vary between different LGPS funds.
Discount rate		Discount rates have increased for most employers which will improve the balance sheet position.
Inflation		Future inflation assumptions have decreased slightly for most employers which will improve the balance sheet position.
Allowance for inflation experience		The 2024 pension increase at 6.7% is higher than the long-term average assumed. However, most employers will have made an allowance for observed inflation up to March 2023 at the previous accounting date. Inflation observed to December 2023 has been broadly in line with the long-term assumption. Therefore, we expect the experience to be fairly neutral for most employers.
Mortality		We intend to update our mortality assumptions to adopt the 2022 Continuous Mortality Investigation (CMI) 2022 core projections model. The impact of this will be a further small reduction to life expectancies and improvement in the balance sheet position. For employers participating in Scottish LGPS funds we will allow for the updated assumptions of the 2023 actuarial valuation so may see an additional impact on their balance sheet position.
Overall		Overall, we expect the balance sheet position to improve compared with last year.

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

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

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

How much will my IAS19/FRS102 report cost?

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

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

Where can I get further information?

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

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

We also publish regular briefings and webinars on our website. You can keep up to date on the latest information by joining our mailing list [here](#).

Valuation of the employer's assets

Asset performance

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

A typical LGPS fund might have achieved a return of c9% for the period from 31 March 2023 to 31 January 2024. This is based on a fund investing 75% in equities, 5% in gilts and 20% in corporate bonds. This could vary considerably depending on each fund's investment strategy and depending on asset performance for the remaining two months to 31 March 2024.



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

How are my assets valued?

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

We also make an allowance for administration expenses which are paid in respect of the fund. For the purposes of our calculations, we distribute fund administration expenses amongst the employers in the fund in proportion to their individual asset shares.

Valuation of the employer's liabilities

To value the employer's liabilities at 31 March 2024, we roll forward the value of the liabilities calculated for the latest full funding valuation using financial assumptions compliant with IAS19 and FRS102. Please note that for employers participating in English or Welsh funds, this will involve an update this year to be based on the fund's 2022 funding valuation.

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

The projected unit method (PUM) is used to calculate the future service cost. For accounting valuations, the control period is set to one year.

It is not possible to assess the accuracy of the estimated value of liabilities as at 31 March 2024 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2024 should not introduce any undue distortions in the results provided that the actual experience of the employer and the fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

Where members have been granted unreduced retirement on the grounds of redundancy or efficiency, an additional strain is placed on the liabilities. We request details of such events from the fund and calculate an additional strain which is then allowed for as a curtailment cost.

Where employees are known to have transferred their employment to or from the employer during the accounting period, an allowance is made for the transfer of assets and liabilities as a settlement event.

Financial assumptions

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

We set out our standard approach to the derivation of these assumptions and sample assumptions using market conditions at 31 January 2024.

Discount rate

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

We use sample cashflows for employers at each year 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).

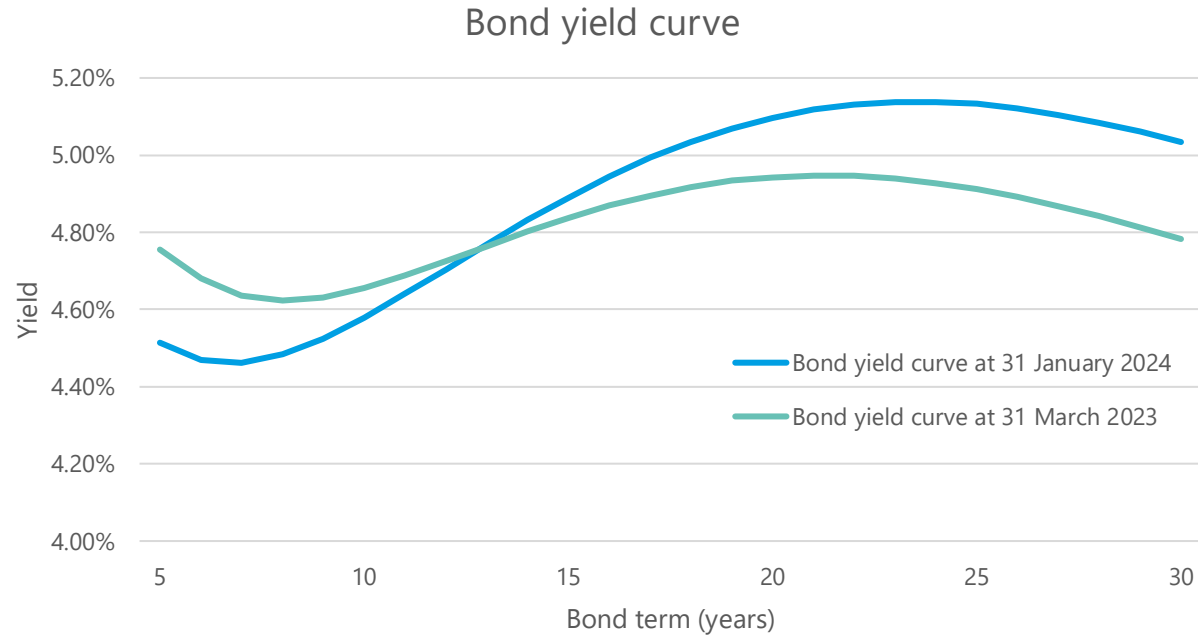
These sample cashflows are prepared by Barnett Waddingham on a triennial basis. Employers are grouped together into 'maturity brackets' based on the duration of their future cashflows. Each maturity bracket is linked to a term on the yield curve, up to the 30 year point, resulting in 30 sets of sample cashflows. All employers in the same maturity bracket share the same set of sample cashflows which is used at each accounting date to set the relevant financial assumptions.

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 new yield curve at the accounting date is used to discount the sample cashflows to calculate a single equivalent discount rate proposed for use in the employer's accounting valuation.

The sample cashflows are used to set the assumption used, however when calculating the change in financial assumption item on the employer's balance sheet we discount the employer's unique cashflow profile with the new single equivalent discount rate. The impact of a change in the discount rate compared with the previous accounting date will therefore vary by employer depending on their own unique cashflow profile. Individual employer cashflow profiles were derived as at the last valuation date and are assumed to remain unchanged between triennial actuarial valuations.

The below graph shows the bond yield curve at the last accounting date along with the yield curve at 31 January 2024:



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

You will see that the bond yield at 31 January 2024 is higher at the longer terms than at 31 March 2023, but lower at shorter terms. For most employers, the discount rate will be typically higher than that assumed at the previous accounting date.

Source: Merrill Lynch



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

The impact of a change in the discount rate compared with the previous accounting date will vary by employer depending on their own unique cashflow profile. Cashflow profiles were derived as at the last full triennial valuation date and are assumed to have remained unchanged since then.

- Employers may be considered “Very Mature” if they have a liability duration under 10 years at the accounting date
- Employers may be considered “Mature” if they have a liability duration of between 10 and 20 years at the accounting date
- Employers may be considered “Immature” if they have a liability duration over 20 years at the accounting date

Maturity	Discount rate		Estimated impact of change on liabilities
	31 January 2024	31 March 2023	
Very Mature	4.70% to 4.85%	4.80% to 4.85%	Decrease of 0% to Increase of 1%
Mature	4.85% to 5.00%	4.80%	Decrease of 0% to 4%
Immature	5.00%	4.80%	Decrease of 4% to over 5%

Assumptions are rounded to the nearest 0.05%.

Please note this is illustrative only. The actual effect of the change in the discount rate assumption will depend on each employer’s membership and the assumption to be adopted this year compared to last year.

Comparison to previous accounting date

Unless specified otherwise in the employer’s results report, this approach is the same as at the previous accounting date.

Inflation expectations

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

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

Pension increases in the LGPS are expected to be based on the Consumer Prices Index (CPI). To derive our CPI assumption we first make an assumption for the Retail Prices Index (RPI) then make an adjustment.

Retail Prices Index (RPI) assumption

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

The SEIR adopted is such that the single assumed rate of inflation results in the same liability value (when discounted using the yield curve valuation described above) as that resulting from applying the BoE implied inflation curve. The BoE implied inflation curve is assumed to be flat beyond the 40 year point, and flat over the initial short-end period up to the 3 year point.

Consistent with past periods, our view remains that gilt-implied inflation rates are distorted by supply and demand factors at medium and longer terms. We allow for an IRP which varies by the term of the employer's liabilities with the resulting assumption falling between 0.0% p.a. and 0.25% p.a. (for terms ranging from 1 year up to 30 years).

Consistent with the SEDR approach, assumptions are rounded to the nearest 0.05% and we intend to use sample cashflows for employers at each duration year (from 1 to 30 years) in deriving the assumptions for employers.

RPI assumptions under the three maturity scenarios are set out in the table below and based on market conditions at 31 January 2024, with the equivalent 31 March 2023 SEIRs (based on our standard derivation at that time) also shown for comparison:

Maturity	RPI Inflation	
	31 January 2024	31 March 2023
Very Mature	3.25% to 3.50%	3.40% to 3.50%
Mature	3.00% to 3.25%	3.20% to 3.40%
Immature	2.95% to 3.00%	3.15% to 3.20%

Difference between RPI and CPI

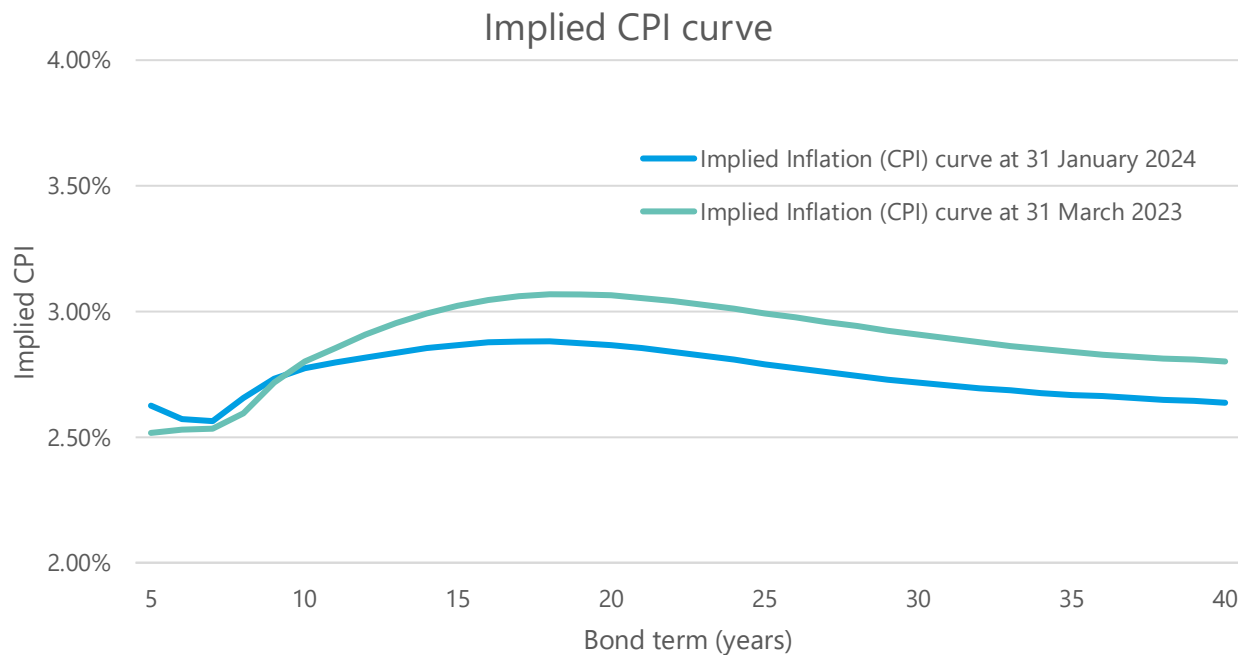
It is expected that CPI will be on average 1.0% p.a. lower than RPI for the period up to 2030. We have therefore assumed that the annual increase in CPI inflation will be 1.0% p.a. lower than the market implied increases in RPI for each year prior to 2030, and will be in line with market-implied inflation from the Bank of England inflation curve thereafter. This results in an assumed gap between the two inflation measures of between 0.20% p.a. and 0.75% p.a. depending on the term of the liabilities (for terms ranging from 30 years down to 5 years).

While we recognise that post-2030, implied inflation will represent CPIH (i.e. including housing costs), and historically CPIH has (on average) been around 0.1% pa above the rate of CPI, we understand that since 2003 CPI has actually been slightly higher than CPIH, rather than lower. Based on the composition of the two indices before the ONS announcement in December 2023, we do not believe there was a compelling argument for the two indices to differ (on average) in the long term. We therefore take the post-2030 market implied inflation as our CPI assumption directly, making no allowance for any potential CPI-CPIH difference.

Consumer Prices Index (CPI) assumption

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

The resulting implied CPI curve at 31 January 2024 is shown below along with the implied CPI curve at the last accounting date for comparison:



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

As shown in the graph, the implied CPI curve at 31 January 2024 is lower compared to 31 March 2023, with the exception of the very short end. As a result, the assumed level of future pension increases will generally be lower than that assumed at the previous accounting date.

Source: Barnett Waddingham based on Bank of England data



All else equal, a lower pension increase assumption will result in a lower value being placed on the defined benefit obligation and improve the balance sheet position.

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

Maturity	CPI inflation		Estimated impact of change on liabilities
	31 January 2024	31 March 2023	
Very Mature	2.70% to 2.80%	2.65% to 2.85%	Decrease of 1% to Increase of 1%
Mature	2.70% to 2.80%	2.85% to 2.95%	Decrease of 1% to 4%
Immature	2.70% to 2.75%	2.85% to 2.90%	Decrease of 2% to 4%

Assumptions are rounded to the nearest 0.05%.

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

Comparison to previous accounting date

Unless specified otherwise in the employer's results report, this approach is the same as at the previous accounting date.

Salary increases

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

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

Comparison to previous accounting date

Unless specified otherwise in the employer's results report, this approach is the same as at the previous accounting date.

Overall impact of changes to financial assumptions

The effect of the changes in the financial assumptions on an employer's liabilities are dependent on the assumptions adopted as well as the specific duration of the employer's liabilities. Typically, employers with greater liability durations are more sensitive to changes in financial assumptions as benefits will be paid over a longer term. The table below describes the estimated effects for employers based on assumptions derived as at 31 January 2024 under the three maturity scenarios:

Maturity	Estimated effect of change in financial assumptions on employer's liabilities
Very Mature	Decrease of 1% to Increase of 1%
Mature	Decrease of 1% to 7%
Immature	Decrease of 7% to over 9%

Based on market conditions at 31 January 2024, most employers will see the value of their defined benefit obligation decrease. However, the extent of this will depend on the employer's membership profile, cashflows over the year, experience and any bespoke assumptions or approaches.

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

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

Demographic assumptions

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 judgment involved and we naturally have to refine our view on this over time.

Base table mortality

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

For employers participating in an English or Welsh LGPS fund, the last actuarial valuation was at 31 March 2022.

For employers participating in a Scottish LGPS Fund, our standard approach is to update the mortality assumption to be based on those adopted for the fund's 31 March 2023 actuarial valuation. Employers may have had the option to allow for the fund's 2023 valuation mortality assumption in their 31 March 2023 accounting disclosure.

Future improvements to mortality

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

The CMI have released the 2022 version of their model and so we intend to further update our mortality assumptions to use the 2022 core model as standard for all employers. This represents a change from the last accounting date when either the 2020 or 2021 version of the model was used for most employers. The latest version of the core model places no weight on the exceptional mortality experienced during 2020 and 2021 as a result of the Covid pandemic, but places some reliance on mortality data that has been observed during 2022. Specifically, a weighting of 25% is applied to mortality in 2022. The impact of updating the model is expected to be a slight reduction in life expectancies for all employers, largely reflecting the heavier than average mortality that was experienced during 2022.

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

Please note that any changes to demographic assumptions, including changes to be in line with the fund's latest actuarial valuation or the latest CMI model, will incur additional fees.

Other demographic assumptions

Unless stated otherwise in the employer's accounting report, the other key demographic assumptions are:

Assumption	Detail
Commutation	Members will exchange pension to get 50% of the maximum available cash on retirement. For every £1 of pension that members commute, they will receive a cash payment of £12 as set out in the Regulations
Normal retirement	Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age
50:50 take up	The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same

This is in line with the assumption adopted for the fund's latest actuarial valuation.

Additional requirements

Experience items allowed for since the previous accounting date

2023 valuation update

For employers in Scottish LGPS funds, the liability roll forward will be updated to be based on the fund's 2023 valuation. This update ensures the accounting results are based on the latest information available. The impact of this update will result in experience items on the liabilities and the assets, and could be a positive or negative effect. The experience item reflects how experience over the intervaluation period has differed from that assumed as part of the roll forward approach.

For employers in England and Wales, an allowance for the most recently completed actuarial valuation will have already been made at the previous accounting date.

Further detail on the experience item can be provided on request and will incur additional fees.

Allowance for inflation experience

Our default approach is to allow for actual pension increases which will apply at the accounting date as confirmed by the HM Treasury Order. In addition we allow for actual inflation experience from September 2023 (which determines the next pension increase order) to the most recent known date available. Any difference between this and the pension increase previously assumed will give rise to an experience item.

For most employers, an allowance for part-year inflation experience was made when preparing their 2023 year-end accounting balance position. This would have allowed for ONS CPI inflation up to March 2023, or the most recent available data at the time the report was prepared. The inflation experience to 31 March 2024 will allow for ONS CPI inflation observed over the year to March 2024.

ACTION: Please note that additional fees will be incurred to incorporate an allowance for inflation experience. The employer must let the fund know if they do not wish to allow for inflation experience.



The CPI inflation observed from last time's accounting date up to the most recent information has been broadly in line with the long term rate of inflation assumed over the same period for a typical LGPS employer. Therefore, the impact on the defined benefit obligation is likely to be fairly neutral for most employers.

Accounting modeller

Employers have an option to purchase our accounting modeller to help inform their decision on the financial and demographic assumptions used to produce their IAS19 or FRS102 pensions accounting report. For example, the modeller allows employers to change the 31 March 2024 assumptions to bespoke assumptions and see the impact this would have on the closing position as at 31 March 2024 and also on the Profit and Loss projections for the year to 31 March 2025. We would be happy to provide further information on the modeller features and the associated fees if required.

Asset ceilings

The accounting standards state that if an employer has an accounting surplus, it should only be recognised to the extent that it is able to recover the surplus either through reduced contributions in the future, or through refunds. The present value of such economic benefits is commonly referred to as the “asset ceiling”.

Our default approach for all employers will be to allow for an asset ceiling. For employers accounting under IAS19, the calculation will be based on our interpretation of IFRIC 14 *“The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”*. For employers reporting under FRS102, the accounting standards are less prescriptive regarding the methodology underpinning an asset ceiling calculation, however in the absence of any other guidance we consider it reasonable to have regard to IFRIC 14 which applies under the international standard.

IFRIC 14 itself is open to multiple interpretations and, since the last accounting date, auditors’ preferences have been evolving and have only recently coalesced around a generally preferred approach. Guidance was also released from CIPFA dated November 2023 regarding their interpretation of IFRIC 14’s applicability in the LGPS. In light of these developments, we intend to adopt the below methodology as standard:

Asset ceiling methodology

Our calculations assume that:

- There is no unconditional right to a refund of surplus, as such a payment would be at the discretion of the relevant LGPS fund.
- The appropriate time horizon to consider for calculating the economic benefit associated with potential reductions in future contributions will depend on the type of body and the nature of any applicable admission agreement:
 - If the employer is a scheduled body, or an admission body which is open to new members with no anticipated contract end date, we will assume they will participate indefinitely. Our calculations will therefore assess the cost of future accrual, and contributions payable in respect of future accrual, in ‘perpetuity’.

- If the employer is an admitted body which is closed to new members, the appropriate time horizon to consider will be the shorter of any anticipated contract end date and the average future working lifetime of active members. Our calculations will therefore assess the cost of future accrual, and contributions payable in respect of future accrual, with reference to an annuity corresponding to this period.
- If the employer is currently already receiving a reduction in contributions in respect of a funding surplus, these will be deducted from the contributions that would otherwise be required to be paid towards the cost of future accrual, for so long as that reduction is expected to remain in force.
- For employers reporting under IAS19 only, any requirement to make contributions towards a funding deficit is considered as an additional minimum liability. The time horizon for assessment of the additional minimum liability is the deficit recovery period used to determine the level of secondary contributions certified.

If your auditor has a preferred approach which differs from that outlined above, this should be communicated to Barnett Waddingham, otherwise our default method will be used.

The default approach may differ from the approach which was used to prepare last time's accounts, however as above this largely reflects updated guidance which has been released since then.

Please get in touch if you or your auditor require any further details regarding our approach.

ACTION: Employers should contact their auditor to consider which approach is most appropriate to use in the event a surplus is revealed on their 31 March 2024 position. Please note that additional fees will be incurred to allow for an asset ceiling calculation.

Valuation of unfunded benefits

Employers may need to include the value of unfunded benefits for their accounts.

For employers in English or Welsh funds, the unfunded liability will continue to be based on a roll forward of the results at the previous accounting date.

For employers in Scottish funds, where the unfunded benefits are included as part of the latest actuarial valuation data, the unfunded liability roll forward will be updated to be based on the fund's 2023 valuation. Where separate unfunded benefits are included in an employer's accounts, we will be in touch separately about the approach required.

New discretionary benefits awarded or recognised in the accounting period are allowed for as a past service cost.

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

Other considerations

McCloud/Sargeant judgments

Regulations in respect of the McCloud and Sargeant judgements came into force on 1 October 2023. These may affect the value of the liabilities in respect of accrued benefits and therefore an allowance may need to be included in an employer's report. An allowance for the McCloud remedy will have been made in the liabilities which is consistent with the method adopted at the last actuarial valuation.

For employers in Scottish LGPS funds, the estimated cost of McCloud will be updated as part of the 2023 valuation update and this will reflect the approach adopted at the valuation in estimating the cost of the McCloud remedy. The difference between this cost and the cost previously incorporated into the employer's accounting liabilities will be reflected in the liability experience item.

Please see [FAQs](#) for further details.

Settlements and curtailments

Employers accounting under the IAS19 standard

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

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

Employers accounting under the FRS102 standard

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

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

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

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

Details of whether the remeasurement approach has been adopted at an event date or not will be set out in the employer's report.

Please see [FAQs](#) for further details.

Goodwin case

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

Guaranteed Minimum Pension (GMP) equalisation and indexation

Impact of Lloyds judgment on past transfer values

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

It is not yet known if, or how, this will affect the LGPS. We await further guidance from CIPFA and DLUHC on this. Whilst no guidance nor data is available, our standard approach currently is to make no allowance to reflect this judgment. Please see [FAQs](#) for further details.

GMP Indexation Consultation response

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

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

Associated risks of participating in a defined benefit scheme

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

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

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

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



Ashfield District Council – Internal Audit Plan 2024-25 & Audit Charter

Audit Committee: 21 March 2024



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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 CMIA
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



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 2024-25.

Role of Internal Audit

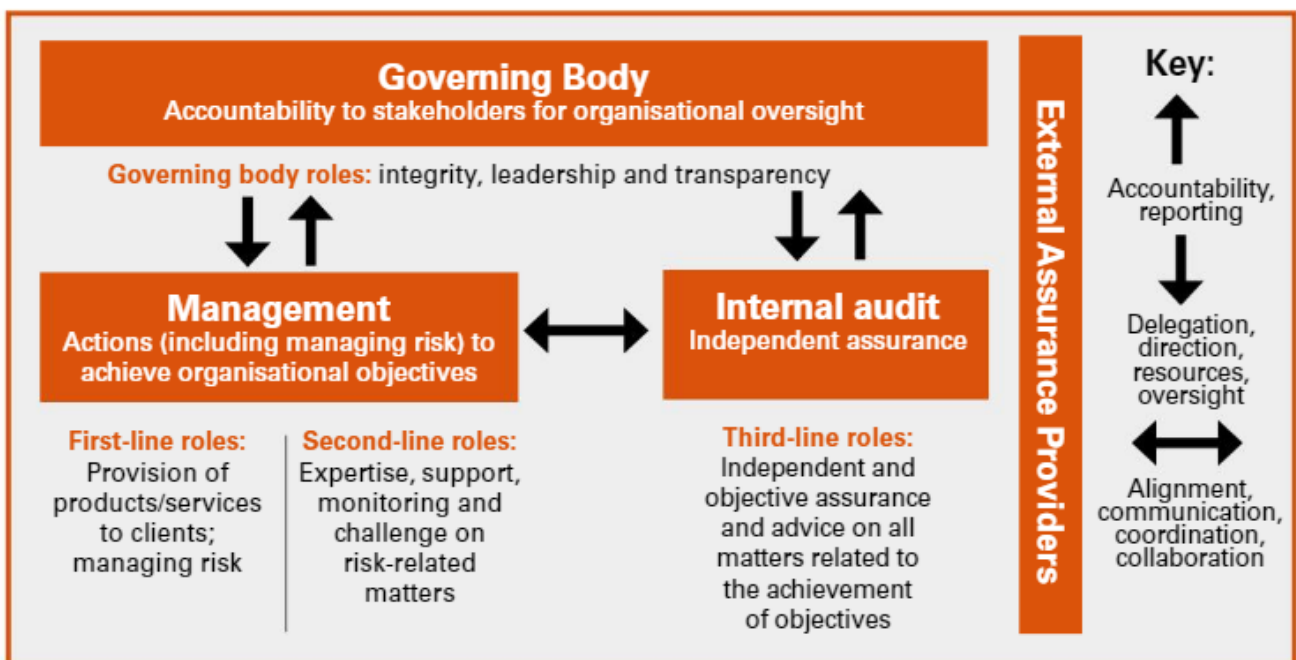
All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015.

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. A seventh partner will join CMAP in April 2024.

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:

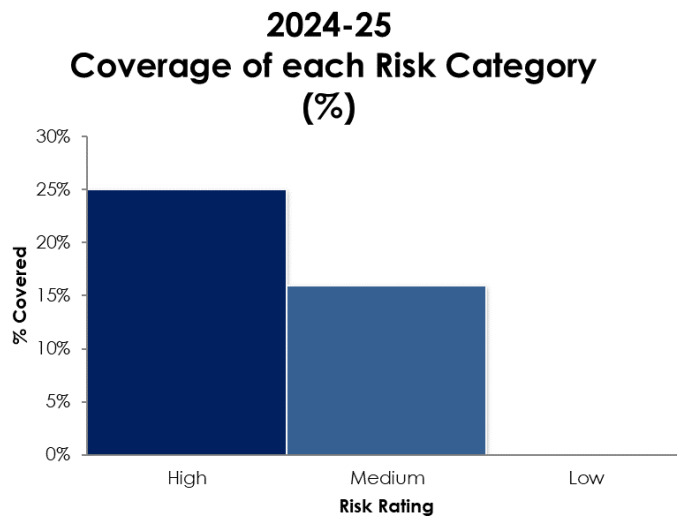


Internal Audit Plan

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.

The International Professional Practices Framework (IPPF) has undergone a comprehensive restructure, resulting in new Global Internal Audit Standards. The new standards will be effective as of 9th January 2025. The implications of the new standards on our Internal Audit Charter are yet to be determined.

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 88 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, 69 Medium risk areas and 7 Low risk area.

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



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.

Ashfield District Council – Audit Plan 2024-25

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.

Consultancy - Consultancy work may be driven by risk-based planning but may also be at the request of management where its risk and control systems and processes are embryonic or not yet mature or being subject to review and amended. Consultancy work adds to CMAP's knowledge base and contributes to the overall internal audit opinion and/or assurance rating. The consultancy activities that CMAP undertake are designed to add value to the organisation's effectiveness, efficiencies and above all, achievement of strategic goals, aspirations and aims.

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 2023-24 Audit Plan will need to be concluded in 2024-25.

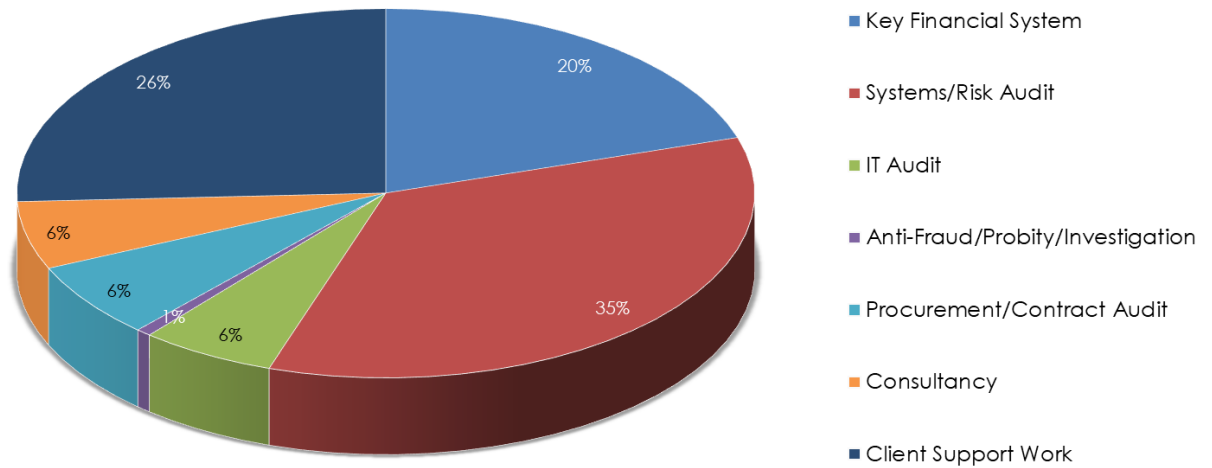
Appendix A - Audit Plan Detail

Our risk assessment of the organisation activities, in consultation with senior management, has concluded that the following audits will be undertaken in 2024-25:

Audit Plan Assignments	Risk Rating	Indicative Quarter
Key Financial Systems Reviews		
Main Accountancy – Data Assurance	High	Q3
Council Tax	High	Q2
Housing Rents	Medium	Q1
Grant Certification	Medium	Q1 - 4
Anti-Fraud/Probity/Investigation		
Anti-Fraud & Corruption	Medium	Q1
System/Risk Reviews		
Health & Safety – Damp & Mould	Medium	Q1
Training Records	Medium	Q1
Right to Buy	Medium	Q1
Food Safety	Medium	Q4
Housing Stocks & Stores	Medium	Q2
Transport Stocks & Stores	Medium	Q2
IT Audit Reviews		
Application Audit - IKEN	High	Q3
Consultancy		
Depot Project	Medium	Q1
Procurement/Contract		
Contract Monitoring	Medium	Q3

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 £119,999, as agreed by the Operational Group.

Audit Plan 2024-25 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 **Strategic 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.



Central Midlands
Audit Partnership