



CITY OF  
*Lincoln*  
COUNCIL

**Chief Executive & Town Clerk**

City Hall, Beaumont Fee

Lincoln, LN1 1DB

Telephone: (01522) 873387

Facsimile: (01522) 542569

Website: [www.lincoln.gov.uk](http://www.lincoln.gov.uk)

Minicomms: (01522) 873693 - Reception

**TO ALL AUDIT COMMITTEE MEMBERS**

**Democratic Services** are dealing with this matter

Direct Line: (01522) 873387

E-Mail: [democraticservices@lincoln.gov.uk](mailto:democraticservices@lincoln.gov.uk)

Date: 19 September 2019

**AUDIT COMMITTEE - THURSDAY, 26 SEPTEMBER 2019**

Dear Councillor,

Further to the previously issued agenda for the Audit Committee meeting of Thursday, 26 September 2019, please find attached the following additional papers:

1. Confirmation of Minutes - 17 September 2019 (Pages 3 - 6)

If you require any further information please feel free to contact me using the information provided above.

Yours faithfully,

*A Hewson*

**Democratic Services Officer**

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<b>Present:</b>	Councillor Geoff Ellis ( <i>in the Chair</i> )
<b>Councillors:</b>	Thomas Dyer, Gary Hewson, Jackie Kirk, Rebecca Longbottom and Laura McWilliams
<b>Independent Member:</b>	Jane Nellist
<b>Apologies for Absence:</b>	Councillor Ronald Hills

**17. Confirmation of Minutes - 18 July 2019**

RESOLVED that the minutes of the meeting held on 18 July 2019 be confirmed.

**18. Declarations of Interest**

No declarations of interest were received.

**19. External Audit: Audit Completion Report**

The Council's external auditors presented the audit completion report which summarised the findings from the 2018/19 audit.

The external auditor's work on the financial statements was substantially complete and, subject to satisfactory conclusion of any outstanding work, they would propose issuing an unqualified audit opinion by 30 September 2019. As part of the audit, the internal controls in place relevant to the preparation of the financial statements had been considered, with three recommendations resulting from this work made as follows:

- production of draft accounts and working papers;
- incomplete disclosures for pension fund plan assets;
- investment property valuations.

Further details of these recommendations were outlined in section 4 of the external auditors' report at Appendix A.

In relation to misstatements in the accounts, there were a number of misstatements identified that were above the threshold level of £53,000, all of which were adjusted for as part of the audit process and had been reflected in the Statement of Accounts. Other thresholds for specific areas were highlighted in the report. Further details of these misstatements were provided in section 5 of the auditors' report at Appendix A. It was reported that there were no unadjusted misstatements.

The Statement of Accounts included on the agenda for this meeting at item 20 reflected a fully amended version of the document.

It was reported that the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources were adequate. The external auditors therefore proposed issuing an unqualified opinion on the Council's value for money arrangements.

As part of presenting this item, the external auditors took the Committee through each page of the report and highlighted any key issues, particularly with regard to:

- the audit approach;
- significant findings;
- internal control recommendations;
- summary of misstatements;
- value for money conclusion.

Councillor Tom Dyer made the point that the external auditor's report was two months late and therefore took the opportunity, on behalf of the Committee, to thank the City Council's staff who had worked overtime to ensure that everything could be submitted on time.

With regard to the recommendation regarding investment property valuations, Councillor Dyer asked whether this would create a cost implication for the Council. It was noted that this work would not incur additional cost, but it would incur additional officer time, however, the Property Team had been reviewing in-year valuations already and this should not create an additional burden on the team.

Councillor Jackie Kirk sought some clarity as to the language used in the report, particularly under the production of draft accounts and working papers under section 4 of the report, which stated that 'although the team managed to prepare a complete set of financial statements by the statutory deadline, which were received on 31 May 2019, these were of a standard that fell below our expectations'. She requested an explanation as to the words 'fell below our expectations'.

The external auditors explained that the draft accounts received were below the standard that was expected and gave a number of examples such as the accounts not adding up or matching with the balance sheet, changes in processes to supplementary notes not having been made and several issues that they had been made aware of regarding the Statement of Accounts which meant that they were not of good quality. This included a series of problems that the external auditors thought should have been addressed prior to having received the accounts. In addition, a number of things had been identified as part of this audit which had not been picked up in previous audits. Taking all of this into account, the external auditors reported that the additional work required to be undertaken by them as a result of this had contributed to the delay in the completion of the audit.

It was acknowledged by the external auditors that two key members of the Financial Services Team had left the authority at a time which did have a significant impact on everything associated with the closure of the accounts and the production of the Statement of Accounts. The Council's Chief Finance Officer reported that, from a staffing point of view, turnover was low in the Financial Services Team. It was unfortunate that the Group Accountant and Financial Services Manager had both left the authority at the end of last year, however, a new Financial Services Manager had been appointed who commenced their post in March 2019. The accounts were therefore closed with one key post down and it was accepted that the accounts were not at the quality expected as a result of this. The Chief Finance Officer reported that an action plan was now in place and the quality of accounts should be improved for next year, highlighting that the Council had a good track record in recent years so there was no reason to believe that this situation would occur again.

Discussion ensued on the lack of flexibility due to reduced funding in local government generally. Jane Nellist, Independent Member, suggested given the circumstances that consideration should be given to ensuring that there were no more budget cuts in relation to the Financial Services Team and the Audit Team. It was noted that a review and restructure was currently underway within the Financial Services Team with a view to saving £50,000. The review included introducing career grades in order to close the gap between different posts and increasing opportunities for career progression within the team. This review and restructure had already gone through consultation with staff and would be considered by the City Council and Employee Joint Consultative Committee. It was agreed that the Joint Consultative Committee was the appropriate body to consider this.

It was RESOLVED:

- (1) That the financial statements be recommended to Council for approval.
- (2) That the draft letter of representation on behalf of the Council be approved, before the external auditors issue an opinion, conclusion and certificate, and that any further amendments to the letter, should any additional issues be raised by the external auditors prior to 30 September 2019 be delegated to the Chief Finance Officer and Chair of the Audit Committee, which any changes reported back to the Audit Committee.
- (3) That any further changes that may be required to the Statement of Accounts as identified during the conclusion of the audit, be delegated to the Chief Finance Officer and Chair of the Audit Committee, with any changes reported back to the Audit Committee.

## **20. Statement of Accounts 2018/19**

The Council's Chief Finance Officer:

- (a) presented the Statement of Accounts for the financial year ended 31 March 2019.
- (b) reported that the Statement of Accounts for 2018/19 provided a comprehensive picture of the Council's financial circumstances and were compiled to demonstrate probity and stewardship of public funds.
- (c) reported that the Council was statutorily required to publish its Statement of Accounts for 2018/19 with an audit opinion and certificate by no later than 31 July 2019.
- (d) reported that, following updated information on pension judgements, changes had been made to the Statement of Accounts to adjust for the impact of the amended Actuary report. The impact of these judgements to the Council was £621,000 in relation to the McCloud judgement and £294,000 for the GMP equalisations changes.
- (e) reported that the Council must make the Statement of Accounts available for public inspection for 30 working days. Following notification from the Council's external auditors, this ran from 3 June 2019 until 11 July 2019 and the external auditor was available to answer questions during this period. It was reported that no questions had been asked.

- (f) reported that the Council was required to provide a documented annual review of the effectiveness of its governance arrangements which sat alongside the Statement of Accounts, known as the Annual Governance Statement. The overall level of assurance provided in 2018/19 was substantial and was in line with the Council's Code of Corporate Governance. It was noted, however, that IT Disaster Recovery had been defined as a significant issue which would be the focus of 2019/20 and regularly reported by management to the Audit Committee.
- (g) presented the following aspects of the Statement of Accounts:
- the Comprehensive Income and Expenditure Statement;
  - the Balance Sheet;
  - general balances;
  - earmarked reserves;
  - liquidity;
  - debtors;
  - creditors;
  - non-current assets;
  - pensions;
  - officer remuneration;
  - borrowing;
  - investments.
- (h) invited members' questions and comments.

It was RESOLVED that the Statement of Accounts be recommended to Council for approval, with any further changes to the Statement of Accounts arising from the conclusion of the external audit being delegated to the Chief Finance Officer who will report any such changes to the Chair of the Audit Committee.