

Public Document Pack



Please note that the following documents were published separately from the main agenda for this meeting of the Audit Committee to be held on Tuesday, 15th November 2022 at 6.00 pm in Committee Rooms 1-2, City Hall.

3. Annual Complaints Summary Report 2021-22 (Pages 3 - 10)
8. External Audit - Audit Completion Report (21/22) (Pages 11 - 62)
9. External Audit Progress Report (Pages 63 - 116)
11. Statement of Accounts 2021/22 Replacement Report (Pages 117 - 126)
12. Request for Audit Committee Approval of Mazars' 2021/22 Non-Audit Services (Pages 127 - 132)

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SUBJECT:	ANNUAL COMPLAINTS SUMMARY REPORT 2021-2022
REPORT BY:	CHIEF EXECUTIVE AND TOWN CLERK
LEAD OFFICER:	JOANNE CROOKES, CUSTOMER SERVICES MANAGER

1. Purpose of Report

- 1.1 To present an annual complaints report including details from the Annual Review of Local Authority Complaints issued by the Local Government and Social Care Ombudsman (LGSCO) and the decisions of the Housing Ombudsman Service (HOS).
- 1.2 To report on the overall number of complaints received by the Council on a Directorate basis for the full year 2021-2022, including response times and the percentage of complaints which are upheld.

2. Background

- 2.1 The council's complaints procedure includes two levels in response to formal complaints. Once the complaint has been considered and responded to by two separate officers the complainant is advised that if they are not satisfied with the final response, they can seek redress from the LGSCO. The LGSCO will investigate both the merits of the complaint and the way that the council dealt with it.
- 2.2 Complaints relating to the landlord function of the council, as a provider of social housing, are escalated to a separate authority, namely the Housing Ombudsman Service.
- 2.3 In July 2020, the Housing Ombudsman published a Complaint Handling Code (CHC), and all registered social landlords were required to complete a self-assessment and publish the findings. The CHC sets out best practice in complaint handling and requires that compliant organisations:
 - Clearly define what a complaint is.
 - Make the complaints procedure accessible and ensure that residents are aware of it and how to use it, including their right to access the appropriate Ombudsman services.
 - Have a good structure to the procedure - only two stages are necessary.
 - Set out clear timeframes for responses.
 - Ensure fairness in complaint handling with a process focussed on the customer.
 - Take action to put things right with appropriate remedies
 - Create a positive complaint handling culture through continuous learning and improvement.

- Demonstrate learning in annual reports.

2.4 As a result of this guidance, and in consultation with our Resident Involvement Panel, we introduced time targets for the handling of complaints. The timescales are:

- Initial acknowledgement within 5 days
- Level 1 complaints to be responded to within 10 working days, and
- Level 2 complaints to be resolved within 20 working days.

3. Internal Formal Complaints – Annual Performance

3.1 The number of complaints received over the year has increased on the previous year. Please see the figures in the table below at 3.3. There were some council services who had suspended their operations for several months, in the year 2020-2021 and this will have reduced the potential for something to go wrong. However, the total number of complaints is the highest that it has been in the last 5 years

3.2 Following the publication of the Housing Ombudsman’s Complaint Handling Code we no longer report on the average time taken to respond to complaints. Our new measure, introduced at the start of the 2021-2022 year, is the percentage of complaints resolved within the agreed target time of 10 or 20 days for level one and level two complaints respectively. The Local Government and Social Care Ombudsman (LGSCO) guidelines are less specific. In their published best practice guidance for the public on how to complain, it indicates that local authorities should reply to customers within a reasonable time which should normally be within 12 weeks.

3.3

Year	Number of complaints	Average response time
2017-2018	361	6.2 days
2018-2019	291	7.6 days
2019-2020	338	7.4 days
2020-2021	260	8.1 days
2021-2022	392	66% within target

4 Breakdown of Complaints

4.1 Of the 392 complaints received for 2021-2022 the broad categories they relate

to are set out in the table below. The figures for the previous 2 years are included for comparative purposes.

4.2

Service area or responsibility	2019-2020	2020-2021		2021-2022
Responsive repairs	96	79		166
Tenancy issues	63	49		67
Housing Solutions	34	25		64
Council Tax / NNDR	36	18		27
PPASB service	8	16		13
Events (Christmas Market)	9	2		10
Community Services	13	12		7
Parking	18	4		7
Housing Investment	20	10		6
Planning and building control	7	9		5
Benefits	12	4		4
Major developments	2	3		3
Private Housing	2	5		2
Customer Services	2	2		2
Licensing	1	1		1
Environmental Health	5	2		1
Bus Station	0	0		1
Human Resources	0	0		1
Property Services	0	0		1
Central Market and Cornhill	0	12		0
Legal Services	0	3		0
Recreation and Leisure	7	3		0
Bereavement Services	0	1		0
Democratic Services	3	0		0
Total complaints	338	260		392

4.3 Upheld complaints: Of the 392 complaints responded to in 2021-2022, 49% (193) were upheld. This is an increase on the percentage upheld in the previous two years which was 39% and 40% respectively. In instances where a complaint is upheld customers are offered an explanation and an apology. In certain circumstances they may also be offered some other form of redress. Additionally, the officer upholding the complaint completes a feedback form for the directorate complaint monitoring officer outlining lessons learned, training needs and any recommended changes to procedures.

4.4 The lessons learned are reported through each Departmental Management Team (DMT) by the Directorate Monitoring Officer. DMT are therefore fully aware of the complaints received. Where any changes to procedure are required or potential policy developments are needed these are discussed and taken forward as appropriate.

5. Local Government and Social Care Ombudsman Annual Review Report

- 5.1 The LGSCO Advice team provides comprehensive information and advice to both the public and local authorities on complaints. It also produces an annual review of local government complaints which includes an overview of trends, followed by statistical tables detailing the numbers of complaints received from each local authority area broken down into general service areas. This data is published on their website.
- 5.2 The second data set details the number of decisions made and the outcome of those complaints which the LGSCO has undertaken to investigate fully. In terms of outcome the only data published is whether the investigation has led to the complaint being upheld or not upheld. Details of the complaints themselves, the decision and any recommendations are now only available in the form of individual published decisions as they are released throughout the year.
- 5.3 In the year to 31 March 2022 the LGSCO made decisions on 11 new complaints about City of Lincoln Council services. This is in line with expected numbers and demonstrates a small decrease on the previous two years, which saw 12 and 14 complaints respectively moving to the Ombudsman stage.

The general service areas of these were as follows:

Service Area	2020-2021	2021-2022
Environmental Services	4	1
Housing	3	3
Revenues and Benefits	2	6
Corporate Services	1	0
Highways and Transport	1	0
Planning and Development	1	1
Totals	12	11

- 5.4 Two of the complaints was entirely dismissed and deemed invalid.
- 5.5 Two of the complaints were referred back for local resolution: These had not been through our own complaint's procedure, and we had therefore not had the opportunity to investigate or resolve the complaint before the customer involved a third party in the issue. In effect they are not LGSCO complaints.
- 5.6 Five of the complaints were closed after initial enquiries: These complaints are where the Ombudsman has decided that it could not or should not investigate the complaint; usually because the complaint is outside LGSCO's jurisdiction, and they cannot lawfully investigate it. The early assessment of a complaint may also show there was little injustice to a complainant that would need an LGSCO investigation of the matter, or that an investigation could not achieve anything, either because there was no fault, or the outcome a complainant wants is not one that the LGSCO could achieve, for example overturning a court order.
- 5.7 In one case there was advice given: These are cases where the LGSCO would not look at a complaint because they had previously looked at the same

complaint from the complainant, or another complaint handling organisation or advice agency was best placed to help them.

- 5.8 There was just one complaint which was deemed appropriate for a full investigation. This compares with two investigations undertaken in the previous year and three for the year before that.
- 5.9 This fully investigated complaint was upheld. This is reported and published as an “Uphold rate” of 100%.
- 5.10 The complaint upheld by the LGSCO was as follows:

The complaint was decided in July 2021 and involved both Private Housing team and Housing Solutions.

This resident complained about the Council’s actions after he applied for housing on the grounds of his privately rented home being unsafe. On the evidence considered, the Council was found to be not at fault in terms of how the matter was handled, the decisions made and adhering to policy. However, a finding of maladministration was recorded because of the council’s failure to communicate effectively and in a timely manner. There were long delays in responding to the initial complaint and there was criticism from the LGSCO that the response was not coordinated across service areas. It was also noted that the level two complaint response directed the complainant to the Housing Ombudsman Service rather than the LGSCO. The remedial action that we were directed to take was a written apology and financial redress of £150.00

6. Housing Ombudsman Service Complaints

- 6.1 Tenancy related complaints i.e., those which are classed as a landlord function, are referred to The Housing Ombudsman Service (HOS), rather than being dealt with by the LGSCO.
- 6.2 In 2021-2022 there was just one complaint fully investigated by the HOS. The outcome of this investigation which was into a tenant’s allegations of problem plumbing noise in her property, was that there was no maladministration.

7 Complaint Trends

- 7.1 In the full year to 31 March 2022 there has been an increase in the number of complaints received compared to the previous year.
- 7.2 Complaints from our tenants about repairs to their homes, continue to be our most common complaint.
- 7.3 Complaints about tenancy issues, allocations, anti-social behaviour, and Council Tax have all increased on the previous year. This is to be expected given that the services are dealing with a backlog of issues following the Covid-19 pandemic and there was a period where only emergency housing allocations and investigations were undertaken.

7.4 Housing Investment team complaints, complaints about Community Services which includes refuse collection, and Parking Services have all seen a reduction in the number of complaints received.

8 Compliments

8.1 On a more positive note, despite the current challenges and pressures, the council continues to receive regular compliments from the public. These tend to acknowledge the professionalism of staff and occur across all service areas. Residents often take the time to appreciate the care and consideration demonstrated by our staff.

9. Organisational Impacts

Strategic Priority: High Performing Services

9.1 Finance – There are no direct financial implications arising from this report

9.2 Legal – There are no direct legal implications arising from this report

9.3 Equality and Diversity –The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

To ensure that we deliver our Equality Duty we accept complaints from customers via all communication channels. Customers can complain in person, verbally, in writing or via our online complaints template. Customers who need assistance to log a complaint can get help from Customer Services to ensure that they are heard. All complaints received are dealt with equally regardless of how they are made.

9.4 Community engagement and communications. We welcome feedback from customers and clearly promote the Complaints procedure on our website and in our public buildings

10. Recommendation

To consider and comment on the complaints report for 2021-2022.

Is this a key decision?	No
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	None
List of Background Papers:	None

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SUBJECT: EXTERNAL AUDIT: AUDIT COMPLETION REPORT

DIRECTORATE: CHIEF EXECUTIVE & TOWN CLERK

REPORT AUTHOR: COLLEEN WARREN, FINANCIAL SERVICES MANAGER

1. Purpose of Report

- 1.1 This report summarises the findings from the 2021/22 audit, which is substantially complete. It identifies the key issues that Members should consider before an opinion, conclusion and certificate are issued.
- 2.1 This report includes only matters of governance interest that have come to the external auditor's attention in performing the audit. It is not designed to identify all matters that might be relevant to the Authority.
- 2.2 The report will be presented at the meeting by the Council's External Auditors, Mazars.

2. Executive Summary

- 2.1 The Council's financial statements are an important means by which the Council accounts for its stewardship of public funds. Council Members have final responsibility for the financial statements. It is therefore important that the Audit Committee consider Mazars findings before recommending the adoption of the financial statements to Full Council.

3. Opinion on the financial statements

- 3.1 At the time of preparing this report, Mazars work on the financial statements was substantially complete. Subject to the satisfactory conclusion of any outstanding work, Mazars anticipate issuing an unqualified audit opinion without modification (a report to those charged with governance (IAS 260) is attached at Appendix A).
- 3.2 As part of the audit work undertaken Mazars have considered the internal controls in place relevant to the preparation of the financial statements. The findings of this work has resulted in 1 low recommendation being made in respect of:

- Journal processing

Further detail of the findings and recommendation are provided in section 5 of the attached report.

- 3.3 In relation to misstatements in the accounts there was one misstatement identified that was above the threshold level of £37k. This misstatement was adjusted for as part of the audit process and has been reflected in the version of the Statement of Accounts that is presented elsewhere on this agenda.

Further details of these misstatement is provided in section 6 of the attached report.

There were no unadjusted misstatements identified during the course of the audit above the threshold level of £37k.

- 3.4 A fully amended copy of the Statement of Accounts is presented elsewhere on this agenda.

4. Value for Money conclusion.

- 4.1 Mazars are yet to complete their work in respect of the Council's arrangements in securing economy, efficiency and effectiveness in its use of resources. At the time of preparing this report, no significant weaknesses in arrangements, that require a recommendation to be made, have been identified. However, work continues to be undertaken on the Council's arrangements and a commentary on these arrangements will be provided in the External Auditor's Annual Report in December 2022.

5. Strategic Priorities

- 5.1 The Council's Statement of Accounts are a financial summary of the Council's activities in support of its Vision 2025 and Strategic Priorities during the financial year 2021/22.

The external audit of the Council's financial statements and VFM conclusion is a statutory requirement and as such contributes towards the fitness for purpose of the Council's governance arrangements.

6. Organisational Impacts

- 6.1 Finance

There are no direct financial implications arising as a result of this report.

- 6.2 Legal Implications including Procurement Rules

In accordance with the Accounts and Audit (Amendment) Regulations 2022 the Statement of Accounts must be approved and published by the Council, together with the audit opinion and certificate, by the 30th November 2022.

- 6.3 Equality, Diversity and Human Rights

There are no equality, diversity or human rights issues arising as a result of this report.

7. Risk Implications

- 7.1 There are no risk implications arising as a result of this report.

8. Recommendation

8.1 Audit Committee are asked to:

- a) Consider the matters raised in the report before recommending the financial statements for approval by Full Council;
- b) Approve the draft letter of representation, attached at Appendix B, on behalf of the Council before Mazars issue an opinion, conclusion and certificate and delegate any further amendments to the letter, should any additional issues be raised by Mazars, to the Chief Finance Officer and Chair of this Committee, with any changes reported back to this Committee.

Is this a key decision? No

Do the exempt information categories apply? No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply? No

How many appendices does the report contain? Two

List of Background Papers: Draft Statement of Accounts 2021//22 – Audit Committee 19th July 2022.

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Audit Completion Report

City of Lincoln Council – Year ended 31
March 2022

15

November 2022



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Appendix A: Draft management representation letter

Appendix B: Draft audit report

Appendix C: Independence

Appendix D: Other communications

Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.



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7 November 2022

Dear Committee Members

Audit Completion Report – Year ended 31 March 2022

We are pleased to present our Audit Completion Report for the year ended 31 March 2022. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks, key audit matters and other areas of management judgement, was outlined in our Audit Strategy Memorandum. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks, key audit matters and other areas of management judgement remain appropriate.

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2022. At the time of writing this report there are some areas where work is still in progress (summarised at Section 2) which we expect to complete before giving our audit opinion. We will update the Committee if any reportable matters result from this work..

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me at mark.surridge@mazars.co.uk

Yours faithfully

Mark Surridge

Mazars LLP

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01

Section 01:
Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2021/22 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks, key audit matters and areas of management judgement. The key audit matters that were of most significance in our audit of the Financial Statements for disclosure in our auditor's report:

- Valuation of the net defined benefit pension liability
- Valuation of plant, property and equipment, investment properties and assets held for sale

Section 4 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control

Misstatement and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements. Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021. At the time of writing this report there are some areas where work is still in progress, and these are summarised at Section 2.

We will provide updates to you in relation to any significant matters identified at Section 2 through our normal follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



Value for Money

We anticipate having 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. Further detail on our Value for Money work is provided in section 7 of this report.



Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.



Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. No such correspondence from electors has been received.

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Appendices




02

Section 02: **Status of the audit**

2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Net Defined Benefit Pension Liability valuation		We are awaiting the final assurances from the Pension Fund auditor before we can complete our testing in this area. No material issues have been identified so far.
Property valuations		We are clearing the small number of remaining queries arising from our audit testing.
Whole of Government Accounts (WGA)		NAO Group Instructions for local authority audits are not yet available and WGA returns and audit certificates cannot be issued at the present time. We provide more information on this matter at page 17.
Audit Quality Control and Completion Procedures		Our audit work is undergoing final stages of review by the Engagement Lead and Engagement Quality Reviewer and is subject to further quality and compliance checks. In addition, there are residual procedures to complete, including updating post balance sheet event considerations to the point of issuing the opinion and obtaining final management representations.

-  Likely to result in material adjustment or significant change to disclosures within the financial statements.
-  Potential to result in material adjustment or significant change to disclosures within the financial statements.
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements.

We will provide the Audit Committee with a verbal update at its 15 November 2022 meeting in relation to these outstanding matters and any additional matters. We will provide the Committee with a further follow-up letter, prior to signing the auditor’s report.



03

Section 03: **Audit approach**

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum. We have not made any changes to our audit approach since we issued our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £1.23m using a benchmark of 1.5% of gross operating expenditure. Our final assessment of materiality, based on the final financial statements, is £1.23m using the same benchmark.

Use of experts

In our Audit Strategy Memorandum we identified the following experts planned to be used by management in preparing the financial statements, and by ourselves in carrying out our audit. There are no changes to the planned approach or matters arising to report.

Item of account	Management's expert	Our expert
Defined benefit liability	Barnett Waddingham <i>Actuary for Lincolnshire Pension Fund</i>	PWC <i>Consulting actuary appointed by NAO</i>
Property, plant and equipment, Investment Properties and Assets held for Sale valuation	Paul Clifton, MRICS <i>The Council's internal valuer</i>	Not applicable
Property, plant and equipment valuation	DVS Property Services <i>External valuation specialist for Council Dwellings</i>	Not applicable
Property, plant and equipment valuation	Banks Long & Co <i>External valuation specialist</i>	Not applicable
Business Rate Appeals valuation	Inform CPI Limited <i>Analyse Local Valuation System</i>	Not applicable
Financial instrument disclosures	Link Asset Services <i>Treasury management advisors</i>	Not applicable

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. In our Audit strategy Memorandum we identified the following service organisation as relevant to the Council and have summarised our response. There are no changes to the planned approach or matters arising to report.

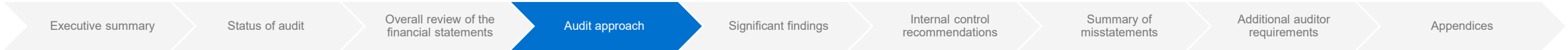
Items of account	Service organisation	Audit approach
Payroll Expenditure	North Kesteven District Council <i>The payroll entries that form part of the Council's financial statements are material and are derived from the processing of monthly payrolls. The payroll processing is undertaken and administered by North Kesteven District Council on behalf of the Council.</i>	We reviewed the controls at the Council over these transactions and gained an understanding of the work of the service organisations. We concluded that the Council has sufficient controls in place over the services provided by the payroll service and we were able to audit these items of account based on the records held at the Council.



3. Audit approach

The table below sets out our audit approach to the Significant risks identified in our Audit Strategy Memorandum and summarises our findings and conclusions.

	Risk description	Risk of fraud	Risk of error	Management judgement	Key Audit Matter	Audit approach	Control observations	Identified misstatements	Overall conclusion
24 Significant risks	Management override of controls	●	-	-	-	Substantive testing	Level 3 control observation. See section 5.	No	Other than the control observation noted in section 5, we have no matters to bring to the Committee's attention
	Valuation of the defined benefit liability	-	●	●	●	Substantive testing	No	Adjusted misstatement 1. See Section 7.	Other than the adjusted material misstatement summarised at Section 7 we have no matters to bring to the Committee's attention.
	Valuation of property assets	-	●	●	●	Substantive testing	No	No	Based on the work performed, we have no significant matters to bring to the Committee's attention at this stage.



04

Section 04: **Significant findings**

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our findings on key audit matters, including:
 - why the matter was considered;
 - why the matter was considered to be one of the most significance in the audit and therefore determined to be a key audit matter;
 - how the matter was addressed in the audit including a summary of the auditor’s response to those risks;
 - where relevant, key observations arising with respect to those risks; and
- a clear reference to the relevant disclosures in the financial statements.
- if applicable (only in exceptional cases), depending on the facts and circumstances of the entity and the audit (these facts must be clearly explained), the auditor’s determination that there are no key audit matters to communicate in the auditor’s report. [ISA 701 Para. A60–A63]
- our audit conclusions regarding other significant risks, key audit matters and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 16 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

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4. Significant findings

Key audit matters

Valuation of net defined benefit pension liability

Relevant Account balances as set out in Note 44 of the financial statements presented for audit: Net defined benefit pension liability = £84,949k

Description of the key audit matter

The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of the Lincolnshire Pension Fund, which had its last triennial valuation completed as at 31 March 2019. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2021/22.

How our audit addressed the key audit matter and our observations

We have:

- Obtained an understanding of the skills, experience and qualifications of the actuary, and considered the appropriateness of the instructions to the actuary from the Council;
- Obtained confirmation from the auditor of the Lincolnshire Pension Fund over the controls in place at the Pension Fund. This included the controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation of the gross asset and liability is complete and accurate;
- Reviewed a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluated whether the outcome of their work would affect our consideration of the council's share of Pension Fund assets. The Pension Fund auditor work included comparing the asset values used for the actuarial valuation to those subjected to audit by the Pension Fund auditor;
- Reviewed the appropriateness of the Pension Asset and Liability valuation methodology applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by the consulting actuary engaged by the National Audit Office; and
- Agreed the data in the IAS 19 valuation report provided by the Pension Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the financial statements and considered the implications of the revised IAS 19 valuation report on the Council's disclosures.

We have, subject to completion of the steps set out in Section 2, obtained sufficient appropriate evidence to conclude that the valuation of the defined benefit pension liability included in the financial statements is reasonable. We have reported at Section 6 the material adjustments made to the draft financial statements to reflect the updated IAS19 valuation report required from the actuary in response to the notified material increase in the estimated Pension Fund assets.

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4. Significant findings

Key audit matters

Valuation of council dwellings, land and buildings (within plant, property and equipment), investment properties and assets held for sale

Relevant Account balances as set out in the financial statements presented for audit:

- Note 14, Council Dwellings net book value £299,437k
- Note 14, Land & Buildings, net book value £77,897k
- Note 14, Surplus Assets, net book value £21,490k
- Note 14, Investment Properties £36,016k
- Note 22, Assets Held for Sale, £1,500k

Description of the key audit matter

The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five-year cycle, with investment properties and assets held for sale being revalued annually.

The valuation of these assets involves the use of management experts (the valuers) and incorporates assumptions and estimates which impact materially on the reported values. There are risks relating to the valuation process. As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not held in the balance sheet at their materially correct fair value.

Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing (EUV-SH). The Social Housing adjustment factor is prescribed in MHCLG guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council's area they can use their more accurate local factor. There is a risk that the Council's application of the valuers' assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence.

How our audit addressed the key audit matter and our observations

We have:

- Obtained an understanding of the skills, experience and qualifications of the valuer, and considered the appropriateness of the instructions to the valuers from the Council;
- Obtained an understanding of the basis of valuation applied by the valuers in the year;
- Obtained an understanding of the Council's approach to ensure that assets not subject to revaluation in 2021/22 are materially fairly stated;
- Sample tested the completeness and accuracy of underlying data provided by the Council and used by the valuers as part of their valuations;
- Used relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2022; and
- Tested the accuracy of how valuation movements were presented and disclosed in the financial statements.

We have, subject to completion of the steps set out in Section 2, obtained sufficient appropriate evidence to conclude that the valuation of council dwellings, land and buildings, investment properties and assets held for sale included in the financial statements is reasonable.

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4. Significant findings

Significant risks

Management override of controls	<p>Description of the risk This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>
	<p>How we addressed this risk We addressed the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>
	<p>Audit conclusion Other than the low level control observation noted in section 5, there are no matters arising from the areas of our work completed against this risk.</p>

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4. Significant findings

Qualitative aspects of the Council’s accounting practices

We have reviewed the Council’s accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to the Council’s circumstances.

The draft Statement of Accounts was published by the 31 July 2022 publication deadline.

Significant matters discussed with management

There are no significant matters that we need to highlight in this report.

Significant difficulties during the audit

During the course of the audit we have had the full co-operation of management. The audit was again carried out remotely and we have worked with management to overcome any difficulties in carrying out our normal audit procedures and obtaining the audit evidence required to complete the audit. We continue to work with management to complete any remaining audit work and resolve audit queries and are grateful for the co-operation and support provided.

Accounting estimates

We specifically considered the following areas of accounting estimates:

Estimate	PPE/IP/AHFS Valuation	Net Pensions Liability	Provision for Business Rate appeals	Financial Instruments
Note(s)	14, 16, 22	44	24	18
Value in 2020/21	Net book value of: CDs £299.4m L&B £77.9m IP £36.1m AHFS £1.5m	£84.9m	£2.1,	A number of long term and short term assets and liabilities.
Audit Risk	Significant	Significant	Standard	Standard
Comments	Property valuation estimates are derived using the professional opinion of the Council’s external valuers. Our testing to date has not identified any significant valuation issues.	We reviewed the actuarial methodology for calculating IAS19 liabilities and confirmed the key assumptions used by the actuary were in the expected ranges as provided by our expert. An adjusted misstatement has been recorded at Section 6 of this report.	Valuation estimates are derived using the opinion of management’s expert. Our testing has not identified any significant issues to report.	Valuation estimates are derived using the opinion of management’s expert, and management’s own analysis and research. Our testing has not identified any significant issues to report.



4. Significant findings

Audit fees

As set out in our Audit Strategy Memorandum, we identified the need for a variation to the published scale fee to take account of several matters. Our current estimate is set out below:

- Additional work to recognise the Council’s designation as a Public Interest Entity - £5,000
- Additional testing as a result of changes arising from increased audit quality expectations involving the work on the valuation of land and buildings and on the local government pension scheme - £7,200.
- Additional testing as a result of the implementation of new auditing standards – £2,800
- Additional work as a result of the new Code of Audit Practice and VFM reporting – £9,000

We will agree the final fee, and any further variations, with management prior to reporting to the Audit Committee.

Modifications required to our audit report

Our draft audit report has not needed to be modified and is set out in Appendix B.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2021/22 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such objections have been raised.

Delay in the audit certificate

The issue of the Audit Certificate confirms that we have discharged all of our audit responsibilities and that the audit is formally ‘closed’. The Audit Certificate would normally be published in our Auditor’s Report on the Statement of Accounts.

The 2020/21 Audit Certificate is still outstanding as the National Audit Office has not finalised its auditor reporting requirements in respect of that year’s Whole of Government Accounts (WGA) return. The NAO has also not issued its auditor instructions for the 2021/22 return.

We expect to issue the 2021/22 audit report but delay the issue of the 2021/22 Audit Certificate until:

- the 2020/21 WGA auditor procedures are completed and that year’s Audit Certificate has been issued;
- the 2021/22 WGA auditor procedures have been completed; and
- the 2021/22 Auditor’s Annual Report has been issued.

We will update the Audit Committee when more information is known but at this stage the draft Auditor’s Report at Appendix B assumes that we are not able to issue the Audit Certificate at this stage.

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05

Section 05: **Internal control recommendations**

5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	0
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	1



5. Internal control recommendations

Deficiencies in internal control – Level 3

Description of deficiency

Our testing identified a relatively large number (88) of processed journals where the narrative/explanation sections had not been completed. We have discussed these with management and the omissions have been attributed to human error during a busy period for the finance team. We have reviewed the detailed journals and are satisfied they were raised for expected business purposes.

Potential effects

Not fully completing all the fields in the journals makes it difficult for reviewers to determine the journals are legitimate.

Recommendation

Improve the journal completion and processing arrangements to enforce the requirement to complete all relevant sections.

Management response

The macro in the journal voucher template has now been edited to prevent journals being posted with lines without descriptions.



5. Internal control recommendations

Follow up on previous internal control points

Description of deficiency

Property valuation

We identified a small number of differences in our sample testing of the inputs used to develop the Land and Buildings and Council Dwellings valuations:

- Land and Buildings – the number of car park spaces used in 3 of asset valuations sampled was different to the latest records held. We estimated impact on the total valuation (£3.7k understatement) to be trivial.
- Council Dwellings – our testing of a sample of beacons identified that one valuation had been processed incorrectly. The difference in valuation was trivial for the specific item and the beacon group total (£9.6k and £38k, being the total for the 4 properties in the group). We have estimated the impact on the total Council Dwellings valuation as an understatement of £114.5k, which is not material.

Potential effects

Although these differences have lead to trivial and non-material misstatements it is important that the inputs used to develop and process valuations are correct as inconsistencies can lead to significant errors.

Recommendation

Take steps to ensure the specific inputs identified above are correct for the 2021/22 valuation and ensure there are broader arrangements to confirm the accuracy of the information being used.

2021/22 update

Our audit testing in 2021/22 did not identify any differences in the inputs used to develop the Land and Buildings and Council Dwellings valuations.



06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £37k.

Adjusted misstatements

The table below summarises the material adjustments made to the draft financial statements during our audit work to date.

	Details	Assets £000s	Liabilities £000s	Reserves £000s	Comprehensive Income and Expenditure Statement £000s	Commentary
37	1 Dr Net Pension Liability		1,183			The Lincolnshire Pension Fund team have advised the employer organisations of a material difference between the total investment asset value used by the Fund's actuary to prepare the IAS19 valuation reports (which has been used to prepare the Council's July 2022 published Financial Statements) and the audited Pension Fund Financial Statements. The Council obtained an updated IAS19 valuation report from the Fund's actuary in October 2022 and these adjustments reflect changes required to bring the Financial Statements in line with the new report.
	Cr Unusable Reserves (Pensions Reserve)			(1,183)		

Unadjusted misstatements

There are no unadjusted misstatements identified during the course of the audit which are above the trivial threshold for adjustment of £37k.

Disclosure amendments

A small number of disclosure amendments to the notes to the Statement of Accounts have been agreed with management to correct minor errors. None of these are significant and we are not required to highlight them in this report.

We will update the Audit Committee if any further reportable misstatements are identified as a result of the remaining work summarised at page 7.



07

Section 07: **Value for Money**

7. Value for Money

Approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

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

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

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

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report in December 2022.

Status of our work

We have not completed our work in respect of the Council's arrangements for the year ended 31 March 2022 but we have not identified any risks of or actual significant weaknesses in arrangements that we are required to report to you or on which we need to make a recommendation. Our draft audit report at Appendix B confirms the status of our work in this area. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report in December 2022.



Appendices

A: Draft management representation letter

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B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

Mazars LLP
2 Chamberlain Square
Birmingham
B3 3AX

xx November 2022

Dear Mark

City of Lincoln Council - audit for year ended 31 March 2022

This representation letter is provided in connection with your audit of the financial statements of City of Lincoln Council (the 'Council') for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as S151 Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.



Appendix A: Draft management representation letter

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable.

I confirm that I am satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with my knowledge. I confirm that all settlements and curtailments have been identified and properly accounted for. I confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and

the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.



Appendix A: Draft management representation letter

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as S151 Officer, for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
43 management and those charged with governance;
- employees who have significant roles in internal control; and
- others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment and intangible assets below their carrying value at the balance sheet date.



Appendix A: Draft management representation letter

Charges on assets

All the Council's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

War in Ukraine

We confirm that we have carried out an assessment of the potential impact of Russian Forces entering Ukraine on the Council, including the impact of mitigation measures and uncertainties, and that the disclosure in the Narrative Report in the Statement of Accounts fairly reflects that assessment.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

I continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

Annual Governance Statement

I am satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and I confirm that I am not aware of any significant risks that are not disclosed within the AGS



Appendix A: Draft management representation letter

Narrative report

The disclosures within the Narrative Report fairly reflect my understanding of the Council's financial and operating performance over the period covered by the financial statements

Unadjusted misstatements

I confirm that the effects of any uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Yours faithfully

Jacyln Gibson

FCCA Chief Finance Officer (s151)

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Appendix B: Draft audit report [Subject to consultation process and completion of remaining audit procedures]

Independent auditor's report to the members of City of Lincoln Council

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of City of Lincoln Council ("the Council") for the year ended 31 March 2022, which comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the HRA Income and Expenditure Statement, Movement on the Housing Revenue Account Statement and Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2022 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Note 3 of the financial statements explains how the Chief Finance Officer formed their judgement that it is appropriate to adopt the going concern basis of preparation for the Council.

In accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, our review of management's assessment of going concern was focused on the extent to which there are any indications that the functions of the Council will not continue in operational existence for the foreseeable future.

Our audit procedures to evaluate the Chief Finance Officer's assessment of the Council's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- undertaking an initial assessment at the planning stage of our audit to identify events or conditions that may cast significant doubt on the Council's ability to continue as a going concern in the context of the guidance in Practice Note 10;
- obtaining an understanding of the relevant controls relating to the Chief Finance Officer's going concern assessment;

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Appendix B: Draft audit report

- making enquiries of the Chief Finance Officer to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Council's continuation of service;
- obtaining and reviewing the Chief Finance Officer's written going concern assessment, as approved by the Audit Committee, as those charged with governance; and
- considering whether the Chief Finance Officer's assessment is proportionate to the risks associated with going concern for the local government sector.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.



Appendix B: Draft audit report

Key audit matter	Our response and key observations
<p>Valuation of property, plant and equipment, investment properties and assets held for sale</p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five-year cycle, with investment properties and assets held for sale being revalued annually.</p> <p>The valuation of these assets involves the use of two management experts (the valuers) and incorporates assumptions and estimates which impact materially on the reported values. There are risks relating to the valuation process. As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value.</p> <p>Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing (EUV-SH). The Social Housing adjustment factor is prescribed in MHCLG guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council's area they can use their more accurate local factor. There is a risk that the Council's application of the valuers' assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the valuer, and considered the appropriateness of the instructions to the valuers from the Council; • Obtaining an understanding of the basis of valuation applied by the valuers in the year; • Obtaining an understanding of the Council's approach to ensure that assets not subject to revaluation in 2021/22 are materially fairly stated; • Sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuers as part of their valuations; • Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2022; and • Testing the accuracy of how valuation movements were presented and disclosed in the financial statements. <p>Key observation</p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of property, plant and equipment, investment properties and assets held for sale included in the financial statements is reasonable.</p>



Appendix B: Draft audit report

Key audit matter	Our response and key observations
<p>Valuation of net defined benefit liability</p> <p>The net pension liability represents a material element of the Council’s balance sheet. The Council is an admitted body of the Lincolnshire Pension Fund, which had its last triennial valuation completed as at 31 March 2019. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council’s overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Council’s valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council’s employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in valuing the Council’s pension obligation are not reasonable or appropriate to the Council’s circumstances. This could have a material impact to the net pension liability in 2021/22.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary from the Council; • Obtaining confirmation from the auditor of the Lincolnshire Pension Fund that the controls in place at the Pension Fund are operating effectively. This included the controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation of the gross asset and liability is complete and accurate; • Reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluating whether the outcome of their work would affect our consideration of the council’s share of Pension Fund assets. The Pension Fund auditor work included comparing the asset values used for the actuarial valuation to those subjected to audit by the Pension Fund auditor; • Reviewing the appropriateness of the Pension Asset and Liability valuation methodology applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PwC LLP, consulting actuary engaged by the National Audit Office; and • Agreeing the data in the IAS 19 valuation report provided by the Pension Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the financial statements and considering the implications of the revised IAS 19 valuation report on the Council’s disclosures. <p>Key observations</p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of the defined benefit pension liability included in the financial statements is reasonable.</p>

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Appendix B: Draft audit report

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures, and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£1,229k
Basis for determining materiality	1.5% of gross expenditure at the Surplus/Deficit on Provision of Services level
Rationale for benchmark applied	Gross expenditure at the Surplus/Deficit on Provision of Services level was chosen as the appropriate benchmark for overall materiality as this is a key measure of financial performance for users of the financial statements
Performance materiality	£922k
Reporting threshold	£37k

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the Chief Finance Officer made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the Council, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our tests included, but were not limited to:

- obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by irregularities including fraud or error;
- review of minutes of board meetings in the year; and
- enquiries of management.

As a result of our procedures, we did not identify any key audit matters relating to irregularities, including fraud.



Appendix B: Draft audit report

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of the Chief Finance Officer’s Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and prepare the financial statements on a going concern basis, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, the Local Government and Housing Act 1989 and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Chief Finance Officer’s incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.



Appendix B: Draft audit report

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- 52 discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

As a result of our procedures, we did not identify any key audit matters relating to irregularities. The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under “Key audit matters” within this report.

We are also required to conclude on whether the Chief Finance Officer’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in September 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.



Appendix B: Draft audit report

Report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in December 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2022.

We will report the outcome of our work on the Council's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control
recommendations

Summary of
misstatements

Value for Money

Appendices

Appendix B: Draft audit report

Other matters which we are required to address

We were appointed as the Council's auditor by Public Sector Audit Appointments Ltd, in its role as appointing person under the Local Audit (Appointing Person) Regulations 2015, on 14 December 2017. The period of total uninterrupted engagement, including previous renewals and reappointments of the firm, is four years covering the audit of the financial years ending 31 March 2019 to 31 March 2022.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Council and we remain independent of the Council in conducting our audit.

In addition to the audit, we provided the following services to the Council during the period 1 April 2021 to 31 March 2022, that have not been disclosed separately in the Statement of Accounts:

- Assurance services on the Housing Capital Receipts return for 2020/21
- Assurance services on the Housing Benefit Subsidy return for 2020/21
- Assurance services through the Homes England Compliance Audit Programme for 2020/21

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of the audit report

This report is made solely to the members of City of Lincoln Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack; and
- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Mark SurrIDGE, City of Lincoln Key Audit Partner
For and on behalf of Mazars LLP

2 Chamberlain Square
Birmingham
B3 3AX



Appendix C: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

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Appendix D: Other communications

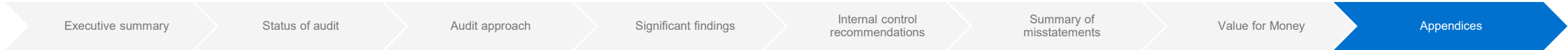
Other communication	Response
Compliance with Laws and Regulations	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
External confirmations	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
Related parties	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	<p>We have not identified any evidence to cause us to disagree with the Chief Finance Officer that City of Lincoln Council will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>



Appendix D: Other communications

Other communication	Response
Subsequent events	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
Matters related to fraud	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Audit Committee, confirming that</p> <ol style="list-style-type: none"> a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ol style="list-style-type: none"> i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.

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Mark Surridge - Director

Mazars

2 Chamberlain Square
Birmingham
B3 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.



Chief Executive & Town Clerk

Angela Andrews CPFA

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Mark Surridge
Director
Mazars LLP
2 Chamberlain Square
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B3 3AX

Jaclyn Gibson

is dealing with this matter

E-mail : jaclyn.gibson@lincoln.gov.uk

Direct Line: 01522 873258

15th November 2022

Dear Mark

City of Lincoln Council - audit for year ended 31 March 2022

This representation letter is provided in connection with your audit of the financial statements of City of Lincoln Council (the 'Council') for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation), sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other material.
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as s151 Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been properly recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

I confirm that I am satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with my knowledge. I confirm that all settlements and curtailments have been identified and properly accounted for. I confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains not already disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as s151 Officer, for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements of the Council may be materially misstated as a result of fraud.
- all knowledge of fraud or suspected fraud affecting the entity involving:
 - management and those charged with governance.
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment and intangible assets below their carrying value at the statement of financial position date.

Charges on assets

All the Council's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

War in Ukraine

We confirm that we have carried out an assessment of the potential impact of Russian Forces entering Ukraine on the Council, including the impact of mitigation measures and uncertainties, and that the disclosure in the Narrative Report in the Statement of Accounts fairly reflects that assessment.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

I continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

Annual Governance Statement

I am satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and I confirm that I am not aware of any significant risks that are not disclosed within the AGS

Narrative report

The disclosures within the Narrative Report fairly reflect my understanding of the Council's financial and operating performance over the period covered by the financial statements

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Yours faithfully



Jaclyn Gibson, FCCA
Chief Finance Officer (s151)

SUBJECT: EXTERNAL AUDIT: AUDIT PLANNING UPDATE & PROGRESS REPORT

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: JACLYN GIBSON, CHIEF FINANCE OFFICER

1. Purpose of Report

1.1 To present the External Audit Progress Report to Audit Committee.

2. Executive Summary

2.1 This report provides Audit Committee with an update on progress in delivering responsibilities of the External Auditors.

3. Background

3.1 The External Auditor provides periodic update reports to the Audit Committee. Mazars are currently appointed as the Council's External Auditor.

4. External Audit Progress Report

4.1 The External Audit progress report attached (Appendix A) covers the following areas:

- Audit planning update and progress report: and
- a summary of recent relevant national reports and publications.

4.2 External Audit will be in attendance at the meeting to present the progress report.

5. Strategic Priorities

5.1 There are no direct implications for the Council's strategic priorities. The external audit of the Council's financial statements and VFM conclusion is a statutory requirement and as such contributes towards the fitness for purpose of the Council's governance arrangements.

6. Organisational Impacts

6.1 Finance (including whole life costs where applicable)

The Audit fee for 2021/22 is £36,332, set in accordance with the scale fees set by the PSAA. The fee includes work on the VFM conclusion and the audit of the financial statements. In addition, additional fees of £25,666 have been charged in relation to the Council's status as an EU Public Interest Entity, additional work required on property valuations and the net pension liability valuation, additional testing as a result of new auditing standards, additional working arising from changes in the Code of Audit Practice for VFM reporting and additional testing as

a result of Covid19 grant income. These additional fees have been determined in accordance with 17(2) of the Local Audit (Appointing Persons) Regulations and will be considered by the PSAA. The PSAA's work includes looking in detail at the fee variation categories submitted to ensure these reflect the areas of work covered. This brings the total audit fee to £61,992 for 2021/22.

6.2 Legal Implications including Procurement Rules

There are no direct legal implications. The External Auditor is required to satisfy themselves that the Council's accounts comply with statutory requirements and that proper practices have been observed in compiling them.

6.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

There are no specific equality, diversity and human rights issues arising as result of this report.

7. Risk Implications

7.1 There are no specific risk implications arising as a direct result of this report. The annual Audit Strategy Memorandum sets out the key risks, as identified by the External Auditor, relevant to the audit of the financial statements.

8. Recommendation

8.1 Audit Committee is asked to note the content of the latest External Audit Planning Update and Progress Report.

Is this a key decision?	No
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	One

List of Background Papers:

None

Lead Officer:

Jaclyn Gibson, Chief Finance Officer
Telephone (01522) 873258

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Audit Planning Update and Progress Report

City of Lincoln Council

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Audit Committee November 2022



1. Audit Planning Update and Progress Report

2. National publications

Appendix 1 – Audit Strategy Memorandum 2021/22

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01

Section 01: **Audit Progress**

Purpose of this report

This report provides the Committee's November 2022 meeting with updates on:

- the 2021/22 audit and any significant matters to date; and
- recent relevant reports and publications for your information (Section 2).

2021/22 Audit

We reported the key planning issues for the 2021/22 audit to the Committee at its June 2022 meeting. Our report confirmed, amongst other things, the Scope of the Audit and the key members of the Engagement Team, our planned outputs, the audit risks identified, the materiality thresholds for the year and our initial VFM risk assessment. There have been no changes to the key elements reported to the Committee and as this is the first opportunity to do so since the June 2022 meeting we have at Appendix 1 attached for completeness our formal Audit Strategy Memorandum.

We have summarised below on the following page the current position on the key elements of our planned audit work. .

2021/22 Statement of Accounts Audit

Our audit is substantially complete and our Audit Completion Report is included on the Committee's November agenda, alongside the audited Statement of Accounts 2021/22 for approval. Our report provides the Committee with a summary of our findings and conclusions and we will provide further updates to the Committee should we identify any additional reportable matters.

Value for Money

We have continued to update our risk assessment and our understanding of the Council's arrangements. We have not identified any risks of or actual significant VFM risks that we need to report. We will provide our full commentary on the Council's arrangements in our 2021/22 Annual Auditor's Report, which we expect to issue alongside or shortly after the Audit Opinion on the 2021/22 Statement of Accounts. There are no matters regarding the VFM commentary that we need to bring to the Committee's attention at this stage. .

Whole of Government Accounts (WGA)

National Audit Office has not yet finalised its auditor instructions for the 2020/21 or 2021/22 WGA process.

Audit Certificate

The Audit Certificate will be issued, and the audit formally 'closed', when the remaining stages set out above have been completed.

2021/22 Audit

Non-audit work

We expect to again agree separate engagements for the following pieces of non-audit work:

- Housing Benefits Grant Certification
- Pooling of Housing Capital Receipts Return Certification

We are satisfied there are appropriate safeguards in place regarding any threats to our independence in relation to this and our core audit work. The Audit Committee is to be asked at its November meeting to approve these engagements and the work is to be carried out in December 2022 and January 2023.

02

Section 02: **National publications**

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountability (CIPFA)		
1	CIPFA : Audit Committees Practical Guidance for local authorities and police	Guidance and resources for audit committee members.
Department for Levelling Up, Housing and Communities		
2	Consultation on Infrastructure Asset Accounting	The Government is consulting on a proposed temporary Statutory Override to unlock the difficulty in agreeing an accounting solution to this matter.
National Audit Office (NAO)		
3	Guide to Corporate Finance in the Public Sector	The guide uses insights from NAO stakeholder engagement and draws on NAO experience of auditing government interventions and corporate finance activities
4	Improving government data: A guide to senior leaders	The aim of the guide is to encourage decision-makers to realise the benefits of better use of data by helping them understand in more detail the core issues to be addressed which have held back progress in the past
Financial Reporting Council		
5	Major Local Audits – Audit Quality Inspection	The Financial Reporting Council has published its annual report on the quality of local audit work. This follows its 2022 inspections of files for the 20/21 audit cycle.

NATIONAL PUBLICATIONS

CIPFA

1. CIPFA : Audit Committees Practical Guidance for local authorities and police 2022 edition – October 2022

The guidance and suite of publications (only available for those with a subscription) has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee. New aspects include legislation changes in Wales and new expectations in England following the Redmond Review.

The link to the publication is here: <https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition>

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities

2. Consultation on Infrastructure Asset Accounting – October 2022

CIPFA and CIPFA LASAAC have been seeking to assist in the resolution of this issue through changes to the Code of Practice on Local Authority Accounting (the Code). An accounting solution has not so far been found that satisfies all stakeholders for the amount to be derecognised. The government, therefore, undertook to review the necessity for an accounting statutory override whereby, under the Local Government Act 2003, it may make provision for local authority accounting practices.

The government is proposing to put in place a statutory accounting override to allow local authorities to treat the value of any replaced component of infrastructure assets as nil, without the need to further evidence that this is the case. The override also removes the requirement for authorities to make prior period adjustments to infrastructure asset balances. The override will not include any provision for matters relating to gross cost or accumulated depreciation, as these matters are anticipated to be addressed through the Code. Use of the override is expected to be optional, and authorities may choose not to apply it.

It is the government's view that this is a necessary, short-term solution to avoid the widespread qualification of local authority accounts. The government recognises that a long-term solution is required, but due to the complexity of the issue this will necessarily take time, and there is an immediate need to mitigate the risks of widespread qualifications and delays to audit. The proposed override applies to all local authority accounts for which an audit certificate has not been issued, and is time limited such that the last financial year to which it applies will be 2024/25. The government is conducting this call for evidence to seek views from sector stakeholders on the effectiveness and clarity of the proposed statutory override.

The consultation includes a draft Statutory Instrument and Explanatory Memorandum. The Indicative date when this Statutory Instrument could take effect is 25 December 2022, so it is unlikely that auditors will be able to issue any audit opinions on clients with material infrastructure assets until January 2023.

[The Local Authorities \(Capital Finance and Accounting\) \(England\) \(Amendment\) Regulations 2022: call for evidence - Department for Levelling Up, Housing and Communities - Citizen Space](#)

NATIONAL PUBLICATIONS

National Audit Office

3. Guide to Corporate Finance in the Public Sector - September 2022

The NAO recently published a guide to corporate finance in the public sector. The guide uses insights from NAO stakeholder engagement and draws on NAO experience of auditing government interventions and corporate finance activities. It covers 14 themes over three core areas:

- Principles and concepts
- Organisations and functions
- Transactions

The interactive guide contains insights from 139 NAO reports and sets out key questions for senior decision-makers to consider when overseeing corporate finance activities. It may also be of interest to professionals supporting the government to deliver a range of transactions, including commercial investments, loans and guarantees. While not directly focussed on local public services the guide may be of interest to local auditors and audited bodies.

<https://www.nao.org.uk/insights/guide-to-corporate-finance-in-the-public-sector/>

NATIONAL PUBLICATIONS

National Audit Office

4. Improving government data: A guide to senior leaders - July 2022

The NAO has published Improving government data: A guide for senior leaders aimed at accounting officers, chief executives, director generals, directors and chief operating officers and people responsible for government services. The aim of the guide is to encourage decision-makers to realise the benefits of better use of data by helping them understand in more detail the core issues to be addressed which have held back progress in the past. The guide focusses on data to support the operational delivery of public services, but much of the guide will also be relevant to data for decision-making and to improve performance

<https://www.nao.org.uk/insights/improving-government-data-a-guide-for-senior-leaders/>

NATIONAL PUBLICATIONS

Financial Reporting Council

5. Major Local Audits – Audit Quality Inspection – October 2022

The Financial Reporting Council (FRC) has published its annual report on the quality of local audit work. This follows its 2022 inspections of files for the 20/21 audit cycle.

The headlines from the FRC report are that:

- The number of audits categorised as good or limited improvements required has remained consistent with the prior year. FRC assessed 70% of financial statements audits as requiring no more than limited improvements, the same as in the previous year. This is an improvement on the 46% average over the preceding three years. However, FRC identified the increased number of audits assessed as requiring significant improvements (15% in 2021/22 and none in 2020/21) as unacceptable and states that inconsistency is preventing firms from eradicating poor quality audits.
- Based on their inspections, FRC state that the quality of auditors' work on VfM arrangements remains high at all but one firm. Of the work inspected, 93% was categorised as good or limited improvements required (100% in the previous two years).

FRC is concerned at the timeliness of reporting in the sector and raises this as a priority improvement area for audited bodies and auditors.

<https://www.frc.org.uk/getattachment/aeb9149f-7bf9-45f2-802d-ca7b055b457e/Major-Local-Audits.pdf>

Appendix 1
Audit Strategy Memorandum 2021/22

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Audit Strategy Memorandum

City of Lincoln Council

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Year ending 31 March 2022



Appendix 1

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Appendix – Key communication points

This document is to be regarded as confidential to City of Lincoln Council. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Members of the Audit Committee
City of Lincoln Council
City Hall
Beaumont Fee
Lincoln
LN1 1DD

Mazars LLP
Two Chamberlain Square
Birmingham
B3 3AX

Date: July 2022

Dear Audit Committee Members

Audit Strategy Memorandum – Year ending 31 March 2022

We present our Audit Strategy Memorandum for City of Lincoln Council for the year ending 31 March 2022. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 8 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;

- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing City of Lincoln Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

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

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me at mark.surridge@mazars.co.uk.

Yours faithfully

Mark Surridge

Mazars LLP

Mazars LLP – Two Chamberlain Square, Birmingham, B3 3AX

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

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

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Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

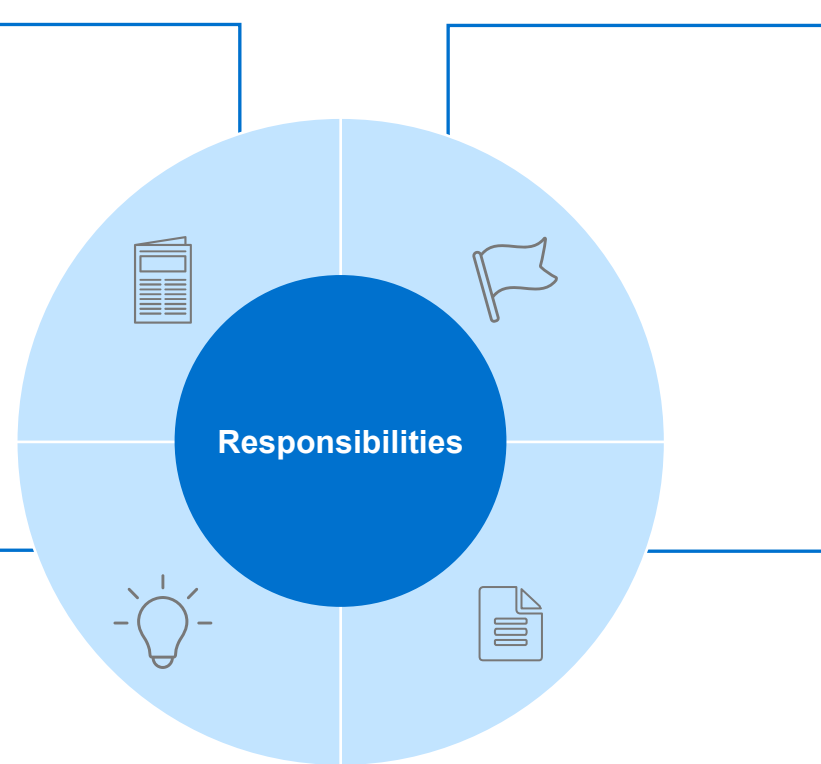
We are appointed to perform the external audit of City of Lincoln Council (the Council) for the year ended 31 March 2022. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

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

The S151 Officer is responsible for the assessment of whether it is appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the S151 Officer's use of the going concern basis of accounting in the preparation of the financial statements.

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Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.

Value for money

We are also responsible for forming a commentary on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Wider reporting and electors' rights

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

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



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Section 02:

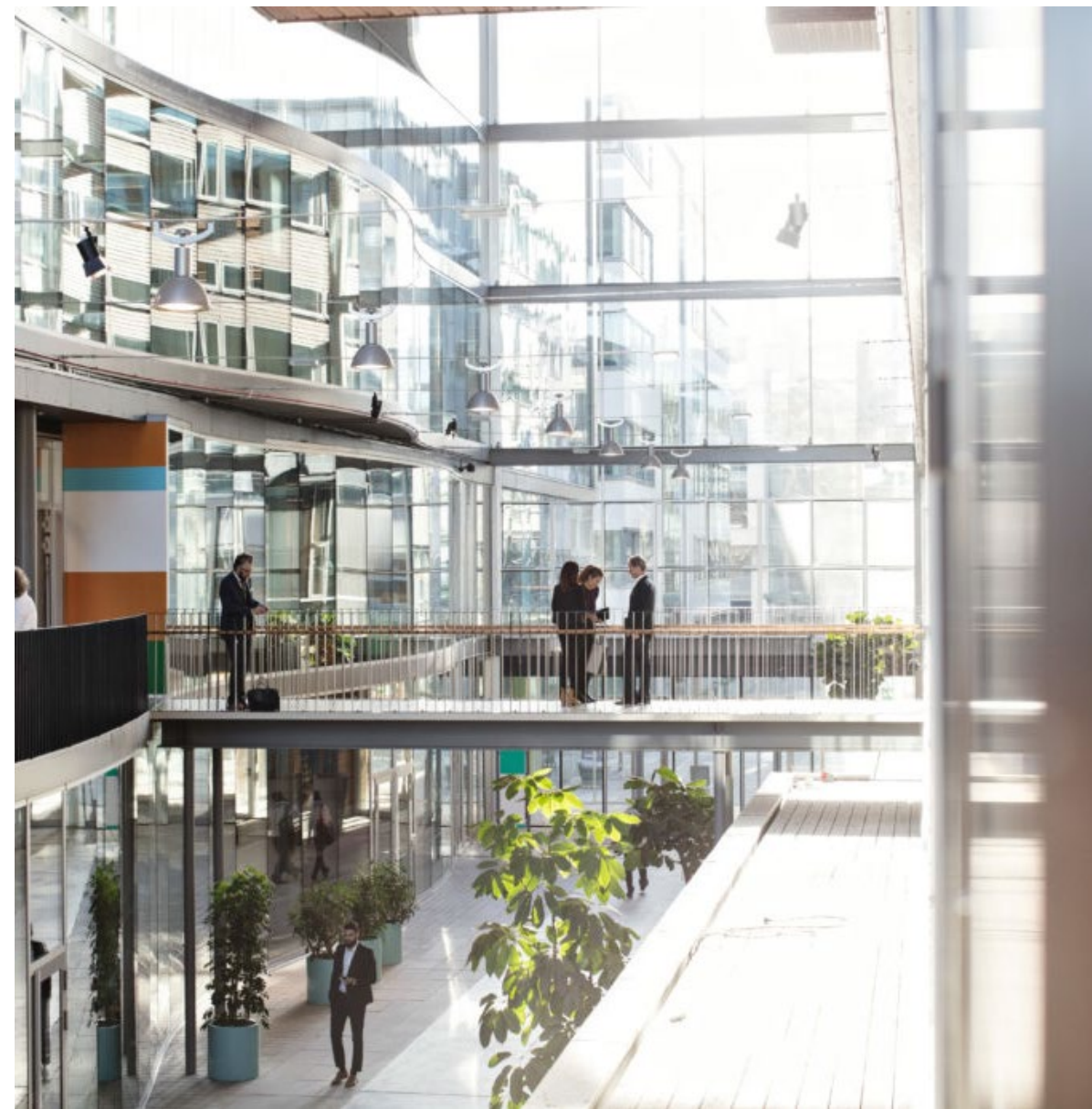
Your audit engagement team

Appendix 1

2. Your audit engagement team

Who	Role	Email
Mark Surrige Director and Key Audit Partner	Engagement Lead	Mark.Surrige@mazars.co.uk
Michael Norman Senior Manager	Engagement Manager	Michael.Norman@mazars.co.uk
Garima Garg Assistant Manager	Engagement Senior	Garima.Garg@mazars.co.uk

In addition, an engagement quality control reviewer has been appointed for this engagement.



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Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may make a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 9.

The diagram on the next page outlines the procedures we perform at the different stages of the audit and the indicative timeline at this stage based on the national timetable set out in the Accounts and Audit Regulations. The specific dates are subject though as always to:

- the timely provision of information by third parties; and
- us being able to fully complete the audit procedures to the required quality standards.



3. Audit scope, approach and timeline

Planning – February/March

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

Completion – by 30th November

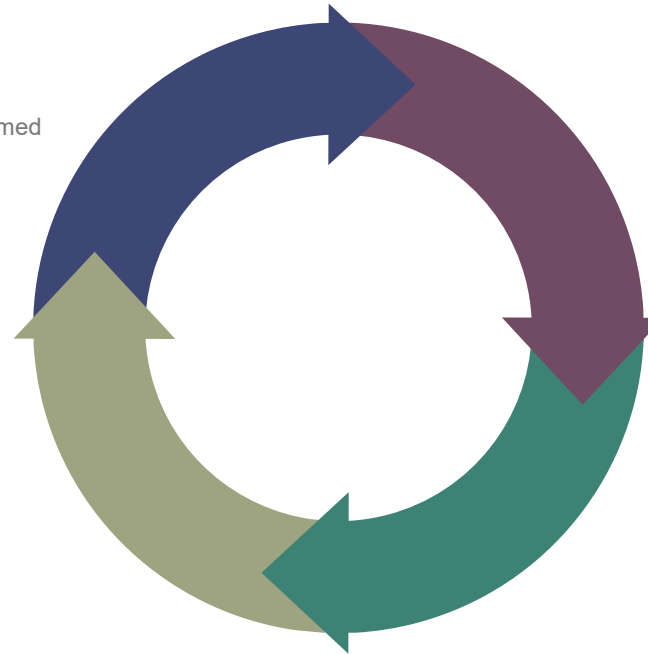
- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Agreeing content of letter of representation
- Reporting to the Audit Committee
- Reviewing subsequent events
- Signing the auditor’s report

Interim – March/April

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

Fieldwork – July to September

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



The 2021/22 draft accounts and audited accounts deadlines have been confirmed as 31st July 2022 and 30th November 2022 respectively.



3. Audit scope, approach and timeline

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures, and we will take the Head of Internal Audit's Annual Report findings into account in forming our Value for Money Conclusion.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Defined benefit liability	Barnett Waddingham <i>Actuary for Lincolnshire Pension Fund</i>	PWC <i>Consulting actuary appointed by NAO</i>
Property, plant and equipment, Investment Properties and Assets held for Sale valuation	Paul Clifton, MRICS <i>The Council's internal valuer</i> Banks Long & Co <i>External valuation specialist</i>	We may seek to engage our Internal Valuer to support our audit testing.
Property, plant and equipment valuation (Council Dwellings only)	DVS Property Services <i>External valuation specialist</i>	
Business Rate Appeals valuation	Inform CPI Limited <i>Analyse Local Valuation System</i>	
Financial instrument disclosures	Link Asset Services <i>Treasury management advisors</i>	Not applicable

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. We have not identified any service organisations which are relevant to the Council.

Items of account	Service organisation	Audit approach
Payroll Expenditure	North Kesteven District Council <i>The payroll entries that form part of the Council's financial statements are material and are derived from the processing of monthly payrolls. The payroll processing is undertaken and administered by North Kesteven District Council on behalf of the Council.</i>	We will review the controls at the Council over these transactions and gain an understanding of the work of the service organisations. We will conclude whether the Council has sufficient controls in place over the services provided by the payroll service and whether we will be able to audit these items of account based on the records held at the entity.



04

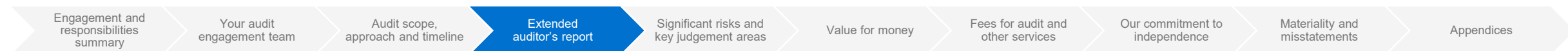
Section 04: **Extended auditor's report**

4. Extended auditor’s report

Layout of extended auditor’s report and implications for the audit

The extended auditor’s report for the Council is expected to follow the format and structure below for the year ending 31 March 2022 assuming that no emphasis of matter or qualification is required.

Paragraph heading in order	Summary of key content
Opinion on the financial statements	What we have audited and our opinion thereon.
Basis for opinion	Confirms that the audit is undertaken under the ISAs (UK). Specific confirmation of our independence including with the FRC’s Ethical Standard. Specific confirmation re sufficiency and appropriateness of audit evidence obtained to provide a basis for our opinion.
Conclusions relating to going concern	Reporting by exception on the Council’s: <ul style="list-style-type: none"> • use of the going concern basis of accounting • disclosure of any material uncertainties
Key audit matters	Includes definition of key audit matters. Clarifies that these matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and that we do not provide a separate opinion on these matters. For each key audit matter identified: <ul style="list-style-type: none"> • A description of the most significant assessed risk(s) of material misstatement; • A summary of our response to those risks including significant judgements applied; and • Where relevant, key observations arising with respect to those risks including clear reference to relevant disclosures in the financial statements.
Our application of materiality and an overview of the scope of our audit	Explanation of how we applied the concept of materiality in planning and performing the audit. The overall materiality threshold for the financial statements as a whole, performance materiality and triviality. Overview of the scope of the audit, including an explanation of how the scope addressed each key audit matter and was influenced by our application of materiality.
Other information	Responsibilities of the S151 Officer and of the auditor for Other information included in the annual report.



4. Extended auditor's report

Paragraph heading in order	Summary of key content
Responsibilities of the S151 Officer	Cross reference to the full Statement of the S151 Officer's Responsibilities.
Auditor's responsibilities for the audit of the financial statements	Explanation of the 'reasonable assurance' objective of the audit. Cross-reference to our responsibilities for the audit on the FRC's website. Explain to what extent the audit was considered capable of detecting irregularities, including fraud.
Value for money arrangements	Report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
Matters on which we are required to report by exception	Report in the public interest under section 24 of the Local Audit and Accountability Act 2014. Recommendation under section 24 of the Local Audit and Accountability Act 2014. Exercise of any other special powers of the auditor under the Local Audit and Accountability Act 2014.
Other matters which we are required to address	Confirms that we have not carried out any prohibited non-audit services and that we remain independent on the Council. Confirms that our audit opinion is consistent with the Audit Completion Report.
Use of the audit report	Who we are reporting to and what the report may be used for.
Audit certificate	Sets out that we have completed the audit of the Council in accordance with the Local Audit and Accountability Act 2014.

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05

Section 05:

**Significant risks, key audit matters
and other key judgement areas**

5. Significant risks, key audit matters and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk

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

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

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

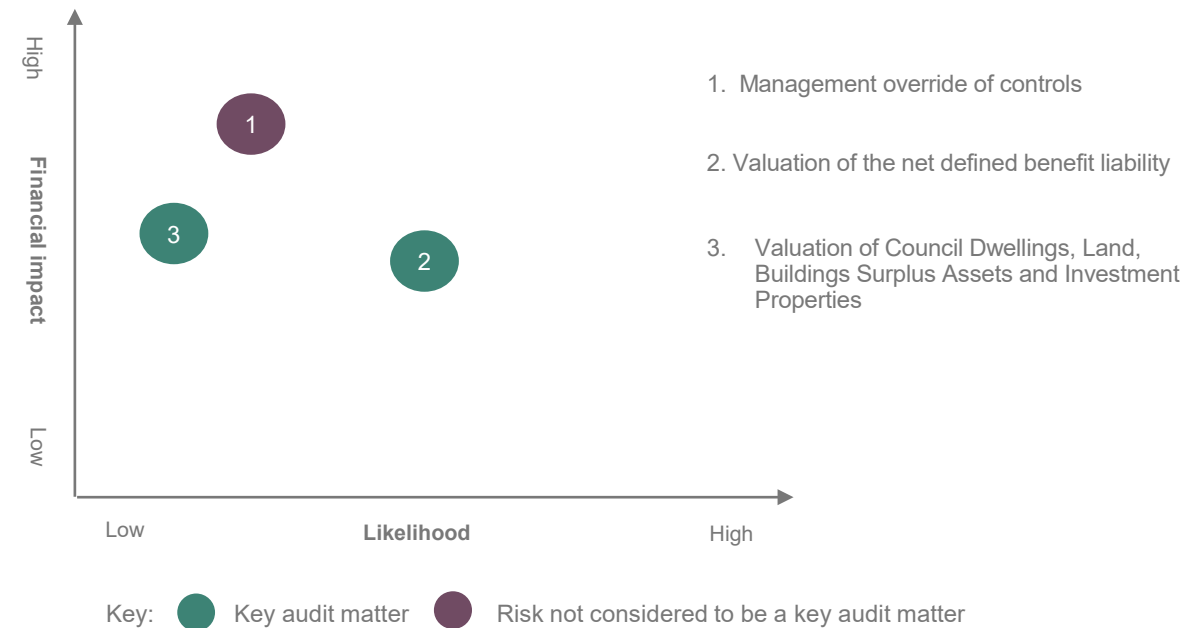
Key audit matters

Key audit matters are defined as those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

It is important that you understand and have the opportunity to discuss with us why something is being communicated as a key audit matter and the way this is described. This section highlights which of the significant risks and other key judgement areas are considered by us at the planning stage to be key audit matters. It should be noted, however, that other key audit areas may be identified during the course of the audit.

Summary risk assessment

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



5. Significant risks, key audit matters and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
1 96	<p>Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	-	-	-	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.



5. Significant risks, key audit matters and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
3 86	<p>Valuation of Council Dwellings, Land and Buildings, Surplus Assets and Investment Properties</p> <p>Property related assets are a significant balance on the council's balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements.</p> <p>Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p> <p>This risk covers (figures have been taken from the 2020/21 financial statements, Note 14):</p> <ul style="list-style-type: none"> • Council Dwellings (£274.5m) • Land & Buildings (£79.8m) • Surplus Assets (£20.9m) • Investment Properties (£34.2m) 	-	●	●	●	<p>We plan to address this risk by:</p> <ul style="list-style-type: none"> • critically assessing the Council's valuers' scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA code of practice and the Council's accounting policies; • assessing whether valuation movements are in line with market expectations by considering valuation trends; • critically assessing the approach that the Council adopts to ensure that assets that are not subject to revaluation in 2021/22 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Councils valuers.

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Section 06: **Value for money**

6. Value for Money

The framework for Value for Money work

We are required to form a view as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

2021/22 will be the second audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

Specified reporting criteria

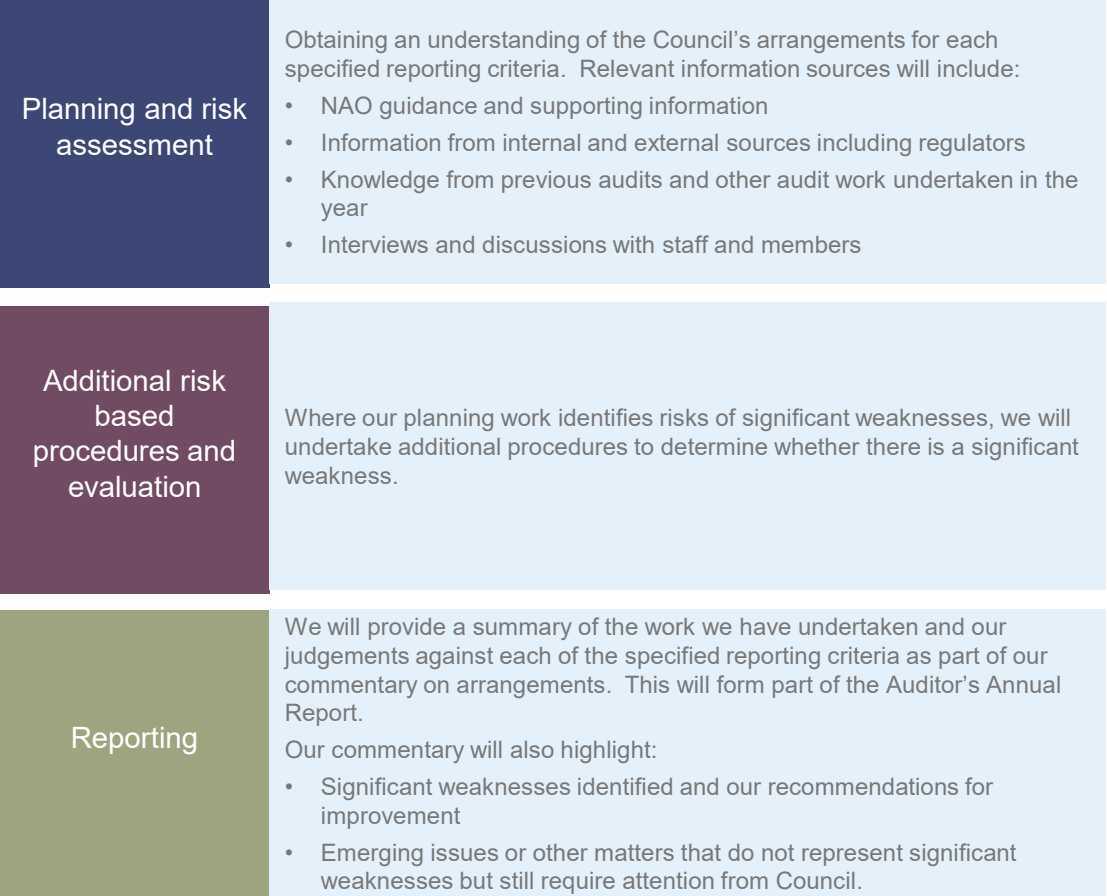
The Code requires us to structure our commentary to report under three specified criteria:

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

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

We reported our 2020/21 VFM commentary in the Auditor's Annual Report issued to the Council in June 2022. We reported that we had not identified any risks of, or actual, significant weaknesses in the Council's VFM arrangements and there were no recommendations arising from our work. We have completed our 2021/22 planning and risk assessment work and at this stage have not identified any risks of, or actual, significant weaknesses. We will keep our risk assessment up to date as the audit progresses and will report our full commentary and any recommendations in our current year's Auditor's Annual Report.



Section 07:

Fees for audit and other services

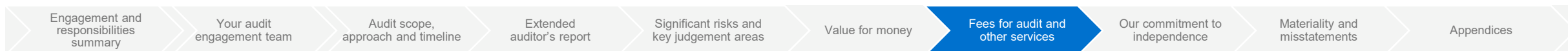
7. Fees for audit and other services

Fees for work as the Council's appointed auditor

Details of the 2020/21 Actual and indicative 2021/22 Audit fees in line with PSAA and other reporting mechanisms are set out below.

Area of work	2021/22 Proposed Fee	2020/21 Actual Fee
Scale Audit fee	£36,332	£36,332
<i>Fee variations:</i>		
Additional work to reflect the Council's designation as a Public Interest Entity	£5,000	£5,000
Additional work in response to regulatory recommendations, including audit work on defined benefit liability schemes and the valuation of Council Dwellings, land and buildings and Investment Properties	£7,200	£7,067
Additional testing as a result of Covid-19 grant income	-	£1,500
Additional testing as a result of the implementation of new auditing standards	£2,800	£2,800
Additional work arising from changes in the Code of Audit Practice and VFM Reporting	£9,000	£9,293
Total	£60,332	£61,992

This is a proposed fee for 2021/22 at the point of the issue of our ASM. This figure is subject to change and additional costs will be discussed with management.



7. Fees for audit and other services

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been, or expect to be, separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 8.

Area of work	2021/22 Expected Fee	2020/21 Actual Fee
Other services – Housing Benefits Grant Certification	£6,600	£6,600
Pooling of Housing Capital Receipts Return Certification	£3,250	£3,250
Homes England – Compliance Return	n/a	£3,500

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08

Section 08:

Our commitment to independence

8. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC’s Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

The Ethical Standard 2019 is applicable for any non-audit services commencing on or after 15 March 2020.

We have not made arrangements for any of our activities as auditor to be conducted by another firm that is not a Mazars’ member firm. In section 3 we have outlined the experts that we intend to use as part of our audit. We will write to these experts seeking confirmation of their independence and will report this within our Audit Completion Report for the audit committee.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

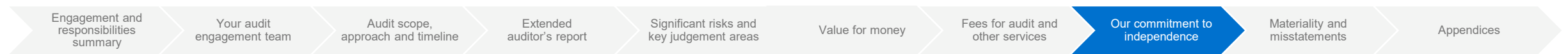
We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss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

Prior to the provision of any non-audit services Mark Surridge will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Principal threats to our independence and identified associated safeguards are set out below.

Area of work	Safeguards and commentary
Housing Benefits Grant Certification (2021/22 and 2021/20)	We have considered threats and safeguards as follows: <ul style="list-style-type: none"> • Self Review: The work does not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars and the Homes England Compliance Return was performed by a separate engagement team based on relevant skills and independence;
Pooling of Housing Capital Receipts Return Certification (2021/22 and 2020/21)	<ul style="list-style-type: none"> • Self Interest: The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis; • Management: The work does not involve Mazars making any decisions on behalf of management; • Advocacy: The work does not involve Mazars advocating the Council to third parties;
Homes England – Compliance Return (2020/21 only)	<ul style="list-style-type: none"> • Familiarity: Work is not deemed to give rise to a familiarity threat given this piece of assurance work used to fall under the Audit Commission / PSAA certification regimes and was the responsibility of the Council’s appointed auditor; and • Intimidation: The nature of the work does not give rise to any intimidation threat from management to Mazars.

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



09

Section 09: **Materiality and misstatements**

9. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	1,234
Performance materiality	925
Specific materiality – Officers’ Remuneration (note 35 of the Statement of Accounts)	5
Trivial threshold for errors to be reported to the audit committee	37

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

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

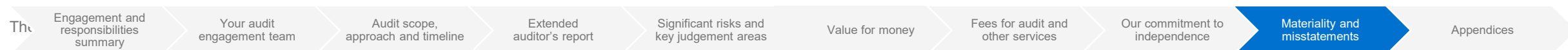
Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of the Comprehensive Income and Expenditure Statement (CIES) total gross expenditure. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the audit committee.

We consider that the total gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



9. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 1.5% of gross revenue expenditure, as explained on the previous page.

In setting materiality, we considered, among other matters:

- The nature of the Council's business, being provision of public services to the local community
- Nature of the Council's ownership, being a public body, led by elected members and paid officers, which includes the statutory roles - Head of Paid Services, Chief Financial Officer (s151), and Monitoring Officer;
- Council's access to financing, with the Council having access to the Public Works Loan Board (PWLB) for borrowing which are non-complex arrangements.

Based on the 2020/21 audited financial statements we anticipate the overall materiality for the year ended 31 March 2021 to be in the region of £1.234m.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our fourth year of audit, we have cumulative audit knowledge about the Council's financial statements, and there were no significant matters arising last year. We have therefore set our performance materiality again at 75% of our overall materiality being £0.925m.

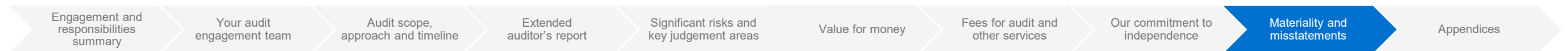
Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the audit committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £37,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Surridge.

Reporting to the Audit Committee

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

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





Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

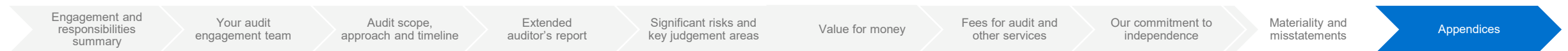
Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;

- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.



Appendix 1

Appendix: Key communication points

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks/ key audit matters.	Audit Strategy Memorandum
<p>⇒ With respect to misstatements:</p> <p>→ uncorrected misstatements and their effect on our audit opinion;</p> <ul style="list-style-type: none"> • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant. 	Audit Completion Report
<p>With respect to fraud communications:</p> <ul style="list-style-type: none"> • enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud. 	Audit Completion Report and discussion at the Audit Committee, Audit planning and clearance meetings

Engagement and responsibilities summary

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Audit scope, approach and timeline

Extended auditor's report

Significant risks and key judgement areas

Value for money

Fees for audit and other services

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Appendix 1

Appendix: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> • non-disclosure by management; • inappropriate authorisation and approval of transactions; • disagreement over disclosures; • non-compliance with laws and regulations; and • difficulty in identifying the party that ultimately controls the entity. 	Audit Completion Report
Significant findings from the audit including: <ul style="list-style-type: none"> • our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Committee in the context of fulfilling their responsibilities. 	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report



Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit Completion Report and Audit Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> • whether the events or conditions constitute a material uncertainty; • whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and the adequacy of related disclosures in the financial statements.	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

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Appendix 1

Appendix: Key communication points

Required communication	Where addressed
Identification of each key audit partner involved in the audit	Audit Strategy Memorandum
Description of nature, frequency and extent of communication with the Audit Committee and other relevant bodies including dates of meetings	Audit Strategy Memorandum
Description of methodology used, including which categories of the balance sheet have been directly verified and which categories have been verified based on system and compliance testing, including an explanation of any substantial variations compared to the previous year	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Disclosure of quantitative level of materiality applied to the audit, any specific materiality levels applied to particular classes of transactions, account balances or disclosures, and qualitative factors considered when setting materiality	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Explanation of judgements about events or conditions identified during the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty, and provide a summary of all guarantees, comfort letters, undertakings of public intervention and other support measures that have been taken into account when making a going concern assessment	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Reporting on significant deficiencies including whether or not the deficiency in question has been resolved by management	Audit Completion Report

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Appendices

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*where permitted under applicable country laws.

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AUDIT COMMITTEE

15 NOVEMBER 2022

SUBJECT: STATEMENT OF ACCOUNTS 2021/22
REPORT BY: CHIEF EXECUTIVE AND TOWN CLERK
LEAD OFFICER: COLLEEN WARREN, FINANCIAL SERVICES MANAGER

1. Purpose of Report

1.1 To present, for information, the final Statement of Accounts for the financial year ending 31st March 2022, following substantial completion of the audit opinion.

2. Executive Summary

2.1 The Statement of Accounts (SOA) for 2021/22 provide a comprehensive picture of the Council's financial circumstances and are compiled to demonstrate probity and stewardship of public funds.

2.2 The Council is statutorily required to publish its Statement of Accounts for 2021/22 with an audit opinion and certificate by no later than 30th September 2022. This date has been extended, for a period of 5-years, from the ordinary deadline of 31st July in response to a recommendation made by Sir Tony Redmond in his independent report into the effectiveness of external audit and transparency of financial reporting in local authorities and is intended to reduce the pressure on authorities (and auditors) to comply with legal deadlines. However, the Accounts and Audit (Amendment) Regulations 2022 further amended the audit deadline for the 2021/22 Statement of Accounts 30th November 2022.

2.3 The Audit Committee should note that the Statement of Accounts for 2021/22 are still subject to final verification by external audit. The audit of the accounts is being finalised by Mazars, who commenced the audit in July. The majority of the audit work has now been completed by Mazars, however should any material changes be necessary as a result of this final external work, these will be reported back to a meeting of this Committee by the Chief Finance Officer.

2.4 The Council must make the Statement of Accounts available for public inspection for 10 working days. Following notification from Mazars, this ran from 1st August until 12th August 2022 and the External Auditor was available to answer questions during that period, however no questions were received.

2.5 During the completion of the external audit only one material misstatement above the threshold level of £37k was found. The mis statement was in relation to the update Pension report and the Statement of Accounts have been amended accordingly.

2.6 The Council is also required to provide a documented annual review of the

effectiveness of its governance arrangements (Annual Governance Statement), which sits alongside the Statement of Accounts. The overall level of assurance provided in 2021/22 was substantial (green) and is in line with our Code of Corporate Governance. However, there is one significant issue that has been identified. This is in respect of IT Disaster Recovery, an issue which was included in the previous year's AGS. Although progress has been made over the last twelve months it was felt that this issue should remain on the list of significant issues, and progress against the actions will be regularly reported by management to the Audit Committee. There were no new significant issues identified in 2021/22.

3. Background

3.1 The Accounts and Audit Regulations 2015 require the Statement of Accounts to be certified by the Council's Chief Finance Officer by the 31st May each year. However, amended Regulations in 2021 have relaxed to this date until 31st July for the financial years 2020/21 and 2021/22. The Accounts were then released to be audited by the Council's external auditor, Mazars. After completion of the audit the accounts must be published with the audit opinion and certificate, and before that must have been approved by Full Council, normally by no later than 31st July each year, in line with the amended Regulations, however, this date has also been relaxed to 30th November 2022. The timescales involved with the approval of the Statement of Accounts for 2021/22 are subject to confirmation:

a) Report draft accounts to Audit Committee	19 th Jul 2022
b) Report to Audit Committee	15 th Nov 2022
c) Report to the Executive	21 st Nov 2022
d) Approval by Council	29 th Nov 2022

3.2 In order to ensure that the current statutory deadline of 30th November is met Mazars must complete their audit and issue the relevant audit opinion. Should any material changes be necessary as a result of this external audit work, these will be reported to a meeting of this Committee when the audited Statement of Accounts will be presented for approval. The Audit Committee will also receive the Audit Opinion from Mazars at that meeting.

3.3 There is a great deal of technical detail contained in the statutory rigid format of the Accounts that is not always easily understood by the reader unless they are familiar with accounting and audit standards. To assist members in their understanding of the accounts:

- Training has been provided to members
- A short summary of the accounts has been produced at Appendix A
- The remainder of this report sets out a short summary highlighting the key figures in the financial statements.

4. Summary of Key Issues in the Financial Statements

4.1 The Comprehensive Income and Expenditure Statement

4.1.1 **The Comprehensive Income and Expenditure Statement (CIES)** (SOA page 25) – in line with statutory accounting practice the Comprehensive Income and Expenditure Statement (CIES) shows the Council's actual performance for the year measured in terms of the resources consumed and generated over the last 12 months. It should not be misinterpreted as the financial outturn position of the Council as this statement contains a number of accounting entries required under International Financial Reporting Standards (IFRS). Regulation allows local authorities to reverse these amounts out of the accounts before determining their outturn position. There is a note to the accounts (Expenditure & Funding Analysis (SOA page 55)) that adjusts the expenditure that is chargeable to general fund and the HRA balances (as per the actual outturn position) to the accounting entries in the CIES under IFRS. To further assist members interpretation of the CIES the table below summarises the reconciliation between the net surplus on the Provision of Services of £18.924m in the CIES to the outturn position of a decrease in General Fund Balances of £0.465m and a decrease on HRA balances of £0.049m as reported in the Financial Outturn report (Executive 20th June 2022).

	£m	£m
Net (surplus)/deficit on the Provision of Services		(18.924)

Of which:

General Fund	£m	£m
Net (surplus)/deficit on the Provision of Services		3.412
Adjust for:		
Depreciation, revaluation losses and gains & impairment of non-current assets	(2.888)	
Revenue expenditure funded from capital under Statute	(1.677)	
Direct Revenue financing of capital expenditure	0.194	
Gain/loss on the sale of non-current assets	0.03	
Contribution to/from the pensions reserve	(3.284)	
Debt repayment and premiums & discounts on debt	1.444	
Short-term compensated absences	0.064	
Contribution to Government's Housing Capital Receipts Pool	(0.529)	
Capital grants & contributions unapplied credited to CI&ES	3.539	
Adjustment for Collection Fund	7.558	
Adjustment for Financial Instruments	0.002	
Transfer to/from Earmarked reserves	(7.400)	
Total Adjustments		(2.947)
(Increase)/decrease in General Fund Balances		0.465

Of which:

HRA	£m	£m
Net (surplus)/deficit on the Provision of Services		(22,336)
Adjust for:		
Depreciation, revaluation losses and gains & impairment of non-current assets	16.071	
Direct Revenue financing of capital expenditure	0.021	

Gain/loss on the sale of non-current assets	0.904	
Contribution to/from the pensions reserve	(1.697)	
Short-term compensated absences	0.037	
Capital grants & contributions unapplied credited to CI&ES	4.353	
Transfer to/from the HRA	2.365	
Transfer to/from Earmarked reserves	0.331	
Total Adjustments		22.385
(Increase)/decrease in HRA Balances		0.049
Overall (Increase)/decrease in Balances		(0.514)

4.1.2 Clearly the most significant issue for Members to be aware of from the Comprehensive Income and Expenditure Statement is how the Council performed financially in 2021/22, in comparison to the revised budget for the year. As previously reported, there was a projected underspend against the General Fund budget of £0.057m at quarter 3, this underspend has decreased and provisional outturn is now an overall budget surplus of £0.009m.

4.1.3 The Housing Revenue Account is reporting a provisional underspend against the revised budget of £0.019m. Allowing for this adjustment, HRA balances were £1.025m and the HRA Repairs Accounts balance was £1.354m as at 31st March 2022.

4.1.4 Further details on these are provided in the Narrative Report in the Statement of Accounts (SOA page 3) and were subject to a separate report to Performance Scrutiny Committee and Executive 16th June 2022 and 20th June 2022 respectively.

4.2 The Balance Sheet (SOA page 26)

4.2.1 **The Balance Sheet** is fundamental to understanding the Council's financial position at the year-end. It shows the Council's balances and reserves, long-term indebtedness, and the non-current and current assets employed in the Council's operations. The key information for members to be aware of in the Balance Sheet as at 31st March 2022 are:

4.2.2 **General Balances** – General balances have decreased by £0.514m during the year, as analysed below:

Description	Opening Balance £m	Closing Balance £m	Increase/ (Decrease) £m
General Fund balances	2.668	2.203	(0.465)
HRA balances	1.074	1.025	(0.049)
HRS	0	0	0
Total	3.742	3.228	(0.514)

4.2.3 **Earmarked Reserves** - in total monies carried forward to pay for specific future commitments (including the insurance fund) have decreased by £7.068m, as analysed below:

Description	Opening Balance £m	Closing Balance £m	Increase/ (Decrease) £m
Other Specific Reserves	26.043	18.975	(7.068)

This is due to a number of contributions to and from earmarked reserves as reported as part of the 2021/22 Provisional outturn to the Executive 23rd June 2022 and as detailed in Note 10 (Transfers to/ from Earmarked Reserves) in the Statement of Accounts (SOA page 64). The most significant use of reserves relates to Business Rate Reliefs awarded in response to Covid19. Funding of £7.8m was utilised from the Business Rates Volatility Reserve, which had been received from the Government in 20/21 to finance the Collection Fund deficits which had occurred due to the Reliefs awarded in 21/22.

4.2.4 **Liquidity** – a reliable indication of liquidity is the ratio of current assets (excluding inventories) to current liabilities. The Council’s current assets (excluding inventories) of £76.19m exceed current liabilities of £58.862m by a ratio of 1.3:1, which represents a decrease from the previous year’s ratio of 1.49:1. This is due to an increase in short-term borrowing and short-term creditors.

4.2.5 **Debtors** – debtors have decreased by £3.473m to £24.916m. The decrease is mainly due to decreases in balances on the Central Government and County Council shares of the Council Tax and Business Rates Collection Fund deficits (£4.1m). These deficits were higher in 20/21 due to the level of Business Rate Reliefs awarded in comparison to the levels awarded in 21/22.

4.2.6 **Creditors** – have increased by £10.115m to £43.929m. This is mainly due to the receipt of the CT energy rebate grant and the Townsfund Grant paid in advance of being awarded in 2022/23.

4.3 Cross Cutting Key Issues

4.3.1 There are a number of areas that have significant impacts or are of particular interest that sit both within the Comprehensive Income and Expenditure Statement and the Balance Sheet. To aid members understanding of the Accounts these are summarised below:

4.3.2 **Non-Current Assets** are shown in the Balance Sheet and represent the Council’s land, building, heritage, community and intangible assets.

- **The value of non-current assets and assets held for sale in the Balance Sheet has increased by £25m (9.4%) to £455m between 31st March 2021 and 31st March 2022 (see the Balance Sheet and Notes 14,**

15 and 16 for further detail). This net increase is the result of a number of factors:

- **Revaluations** - The Council's Assets are valued on a rolling programme, which ensures each asset is re-valued every 5 years as at the 31st March. In addition to this, all assets are reviewed for any material change in their value at the end of each financial year. The results for 21/22 have seen an **overall increase in value of £15.5m**, which is the net result of valuation gains and losses across a range of assets.

Accounting rules require that where a balance has not built up on the Revaluation Reserve for an individual asset (a reserve which holds accumulated gains following previous revaluations upwards) then any revaluation losses (downwards revaluation in asset values) must be recognised in the Comprehensive Income and Expenditure Statement (CI&ES) and then reversed out in the Movement in Reserves Statement before it impacts on Council Tax payers. Accounting rules also require that where a revaluation loss previously recognised in the CI&ES on an individual asset is subsequently reversed by an upwards revaluation, then the revaluation gain should be recognised in the Comprehensive Income and Expenditure Statement up to the value of the original revaluation loss. Within the £15.5m net upwards movements due to revaluation gains and losses in 21/22, there were:

- **£14.7m of net revaluation gain** required to be charged to Cost of Services in the CIES. This is mainly due to reflecting the social housing value of housing stock (£16.071m).
- **£0.815m of net upwards revaluations** were reflected in the Revaluation Reserve (shown in Other Comprehensive Income and Expenditure in the CIES). This was mainly due to the upward revaluation (£1.8m) an increase in the council's land and buildings.
- **Additions - New capital investment in assets belonging to the Council totalled £20.218m.** The main areas of expenditure include £11.4m spent on the Council's new build and acquisition programme, £3.8m improving Council dwellings including re-roofing, kitchens and landscaping, £2.5m on refurbishing the crematorium and £0.512m improving our leisure facilities, parks and open spaces. To pay for this investment, the Council has used £9.8m of capital grants and contributions, £1.34m of capital receipts, £3.84m of the Major Repairs Reserve, £6.68m of unsupported borrowing, and £0.215m of direct revenue financing.
-
- **Depreciation** – a charge is made to the Comprehensive Income and Expenditure account for depreciation to reflect the use of

assets in the provision of services during the year. The value of non-current assets in the Balance Sheet is reduced by an equivalent amount. For General Fund services this charge is reversed out in the Movement in Reserves Statement (MiRS) and replaced with a statutory charge for the repayment of debt. In the HRA under self financing, depreciation is a real charge to the service however, it is set aside in the Major Repairs Reserve for future investment in the housing stock. **In 2021/22 total depreciation was £9.251m** (of which £1.9m was charged for non-HRA dwellings and was replaced in the MiRS with £1.5m for the repayment of debt and £7.4m depreciation was charged to the HRA which is available in the Major Repairs Reserve for future investment).

- **Disposals – assets valued at £2.340m in the Balance Sheet were disposed** of in 2021/22. This included 55 Right to Buy sales of council dwellings.

4.3.3 **Pensions** – the payments made by the Council to the Lincolnshire County Council Pension Fund each year as employer contributions to the scheme and any addition costs relating to pension strain etc are reflected in the financial outturn position of the Council. However, accounting practice requires that in the Statement of Accounts pension costs are shown when the Council is committed to give them, even if the actual giving may be years into the future. This means that:

- The costs of providing retirement benefits to employees are recognised in the accounting period in which the benefits are earned by employees, and the related finance costs and any other changes in value of assets and liabilities are recognised in the accounting periods in which they arise.
- The financial statements reflect the liabilities arising from the Council's retirement obligations.
- The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities

Full details are provided in Note 44 to the accounts – Defined Benefit Pension Schemes (*SOA page 104*). The impact of these accounting requirements in the core financial statements are:

- **Comprehensive Income & Expenditure Statement (CIES)** - The cost of retirement benefits in the CIES is shown as an actuarial estimate of £5.233m reflecting the retirement benefits earned during 2021/22 and to be funded in the future. This includes £7.803m current service costs and a net interest cost on the defined benefit obligations of £2.077m. This net cost is reversed out in the Movement in Reserves Statement (MiRS) and is replaced by the actual amount charged for pension contributions in the year of £4.899m.

- **Balance Sheet** – The Pension Reserve shows the underlying commitments that the Council has in the long term to pay retirement benefits based on an assessment by the pension schemes actuary. The balance on the Pensions Reserve is the net position of the scheme’s liabilities and assets. During 2021/22 the net liability has decreased by £21.190m to £84.949m. The actuarial assumptions are detailed in note 44 to the accounts ‘Defined benefit pension scheme’.

It is important for members to be aware that the statutory arrangements for funding the remaining liability of £84.949m means that this deficit will be made good by the increased level of annual employer contributions payable to the Pension Fund over the remaining estimated average working life of our employees in the Pension Scheme. The financial position of the Council remains healthy.

4.3.4 **Officer remuneration** – note 35 to the accounts (SOA page 94) details senior staff salaries and the number of employees receiving more than £50k remuneration during the year (this includes receipt of any redundancy payments). Also detailed within the note is the redundancy/pension/payment in lieu costs paid in year, in line with Executive approvals of Towards Financial Sustainability business cases and the Council’s redundancy policy.

4.3.5 **Borrowing** – the Council takes borrowing to fund capital expenditure. It also occasionally takes short-term borrowing for cash flow purposes.

- Between 31st March 2021 and 31st March 2022, the Council’s total borrowing increased to £125.18m (excluding accrued interest which is shown in the Balance Sheet under short-term borrowing as at 31st March 2022).
- The total borrowing can be split between short term borrowing (payable within 12 months) of £13.215m and long-term borrowing of £111.962m.
- The average rate of interest payable on borrowing was 3.02% which is a slight decrease on 2020/21 (3.25%) and due to the new low rate shorter-term loans taken being.
- The Comprehensive Income and Expenditure Statement for 2021/22 includes £3.797m interest payable on borrowing (excluding leases) of which £1.372m relates to the General Fund and £2.425m to the HRA.

The maturity profile of the outstanding borrowing as at 31st March 2022 is as follows:

Within	£m	% of Total Debt
1 year	13.2	10.55%
1 – 2 years	2.5	2.00%
2 – 5 years	2.897	2.31%
5 -10 years	11.462	9.16%
10 years and over	95.103	75.98%

Total	125.177	100.00%
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4.3.6 **Investments** – in line with its Treasury Management Strategy, the Council invests surplus cash on the money markets, typically for periods less than one year to approved organisations, although core cash balances may be invested for periods over 1 year if interest rates and market conditions are favourable.

- As at 31st March 2022, total investments had increased by £15.95m from £33.9m to £49.85m compared to the previous year end.
- Average investment balances during 2021/22 were £44.7m, compared to £35.8m in 2021/21.
- The average interest rate received on investments in 2021/22 was 0.19% (a decrease of 0.01% on the average rate achieved in 2020/21 due to the low yield available on balances). This rate is no longer compared to the LIBID rate which ceased in December 2021.

5. Strategic Priorities

5.1 The Council's Statement of Accounts are a financial summary of the Council's activities in support of its Vision 2025 and Strategic Priorities during the financial year 2021/22.

5.2 Communication - The final Statement of Accounts will be published on the Council website by 30th November 2022, in addition the summary version of the accounts published in the Council's Annual Report.

6. Organisational Impacts

6.1 Finance - The financial implications are contained throughout this report.

6.2 Legal - In accordance with the Accounts and Audit (Amendment) Regulations 2022 the Statement of Accounts must be approved and published by the Council, together with the audit opinion and certificate, by the 30th November 2022.

6.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

Due to the nature of the report, no specific Equality Impact Analysis is required.

7. Risk Implications

7.1 There are no direct risk implications arising as a result of this report.

8. Recommendation

8.1 The Audit Committee are asked to note the final Statement of Accounts 2021/22, noting that the external audit is substantially complete.

8.2 The Audit Committee are asked to delegate any further changes to the Statement of Accounts arising from the conclusion of the external audit to the Chief Finance Officer who will report any changes to the Chair of the Audit Committee.

Key Decision No

Key Decision Reference No. N/A

Do the Exempt Information Categories Apply No

Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply? No

Does the report contain Appendices? Yes

List of Background Papers: Medium Term Financial Strategy 2021-2026
Financial Performance - Outturn 2021/22

Lead Officer: Colleen Warren, Financial Services Manager
Telephone 873361

SUBJECT: EXTERNAL AUDIT: NON AUDIT SERVICES

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: JACLYN GIBSON, CHIEF FINANCE OFFICER

1. Purpose of Report

- 1.1 This report requests the Audit Committee to approve the proposed engagement of the Council's external auditor, Mazars, to undertake the:
- Housing Benefits – Reporting Accountants report on the 2021/22 return and;
 - Pooling of Housing Capital Receipts – Reporting Accountant report on the 2021/22 return.

2. Background

- 2.1 For 2018/19, for a period of 5 years, Mazars have been appointed to undertake the external audit of the Councils financial statements under a formal tender process, administered by Public Sector Audit Appointments (PSAA), under the Local Audit and Accountability Act 2014.
- 2.2 This arrangement does not cover the provision of an Independent Reporting Accountant, required for the certification work on the Housing Benefit subsidy which is undertaken on behalf of the Department for Work and Pensions (DWP). Neither does the arrangement cover the provision of an Independent Reporting Accountant, required for the certification work on the Pooling of Housing Capital Receipts Scheme, which is undertaken on behalf of the Department for Levelling Up, Homes and Communities (DLUHC). These appointments need to be made separately.
- 2.3 The requirement to obtain an independent report on these returns is set by the relevant Government department (DWP and DLUHC) and the work is carried out in line with the instructions and work programmes issued by the departments. The reporting deadline for this work is end of January 2023.
- 2.4 The Council has, since 2018/19, appointed Mazars to perform the certification work required for these two returns. The appointment for the Housing Benefits return was undertaken through a direct approach to Mazars through the Crown Commercial Service: Management Consultancy Framework and was awarded for a period of 5-years. The appointment for the Housing Capital Receipts Scheme is awarded on an annual basis through a direct approach to Mazars.

3. Engagement for 2021/22

- 3.1 It is proposed that for 2021/22 the Council engages Mazars to perform the certification for required for the two returns. Historically this has not required the approval of the Audit Committee, however Mazars have requested that the

engagements for 2021/22 are formally approved by the Audit Committee, as per the attached letter.

- 3.2 External Audit will be in attendance at the meeting to answer any questions the Audit Committee has regarding these returns.

4. Strategic Priorities

- 4.1 There are no direct implications for the Council's strategic priorities. The external certification and independent report of these returns is a requirement of relevant Government Department and as such contributes towards the fitness for purpose of the Council's governance arrangements.

5. Organisational Impacts

- 5.1 Finance (including whole life costs where applicable)

The estimated fees for these two engagements are £6,000 for the Housing Benefits report and £3,250 for the Pooling of Housing Capital Receipts. Budget provision for these costs is already provided for with the Council's Medium Term Financial Strategy.

- 5.2 Legal Implications including Procurement Rules

There are no direct legal implications. The procurement of Mazars for these non-audit works has been undertaken in accordance with the Council's Contract Procedure Rules.

- 5.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

There are no specific equality, diversity and human rights issues arising as result of this report.

6. Risk Implications

- 6.1 The work undertaken by Mazars provides external assurance to the Council on the effectiveness of arrangements for the accurate payment and recording of benefit expenditure and the housing capital receipts.

7. Recommendation

7.1 Audit Committee is asked approve the engagement of Mazars to undertake the additional non-audit work.

Is this a key decision? No

Do the exempt information categories apply? No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply? No

How many appendices does the report contain? One

List of Background Papers: None

Lead Officer: Jaclyn Gibson, Chief Finance Officer
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7 November 2022

Dear Committee Member

City of Lincoln Council – Non-Audit Services 2021/22

As in previous years we expect to be separately engaged by management to carry out additional work as set out below.

- Housing Benefits – Reporting Accountant's report on the 2021/22 Return (estimated fee £6,000)
- Pooling of Housing Capital Receipts – Reporting Accountant report on the 2021/22 Return (estimated fee £3,250)

The requirement to obtain an independent report on these returns is set by the relevant Government department (DWP and DLUHC) and the work is carried out in line with the instructions and work programmes issued by the departments. The reporting deadline for this work is end of January 2023.

Before engaging with the Council to undertake any additional work we are required to consider whether there are any actual, potential or perceived threats to our independence and if necessary ensure there are sufficient safeguards in place to eliminate these potential threats or reduce them to an acceptable level. The threats to be considered include the threats of self-interest, self-review, management, advocacy, familiarity and intimidation. We have completed this assessment and we are satisfied there are sufficient safeguards in place to address any perceived or actual threats to our independence on these pieces of work.

We now need the Audit Committee to approve these proposed engagements so we can agree the signed Engagement Letters with management and start the work. We ask the Audit Committee to grant the approval at its 15 November 2022 meeting and will be happy to answer any questions the Committee has regarding these returns and the work required.

Yours sincerely



Mark SurrIDGE
Key Audit Partner
For and on behalf of Mazars LLP

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