



Audit Progress Report

City of Lincoln Council

Year ending 31 March 2020

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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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9 November 2020

Dear Members

Audit Progress Report – Year ended 31 March 2020

We are pleased to present our Audit Progress Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions on the work performed to date. Our Audit Completion Report will be provided alongside the final set of financial statements.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we issued in March 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Council was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Despite the revised deadlines we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

We expect, unfortunately, that we are unlikely to be able to issue our Audit Report by 30 November. The main reasons being a potential delay in the receipt of sufficient audit evidence supporting the judgements made in the valuation of property, plant & equipment. This is exacerbated by recent staff sickness in our audit team creating last minute capacity pressures.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07875 974 291.

Yours faithfully

Mark Surrige
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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.
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1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Progress Report sets out the findings from our audit of City of Lincoln ('the Council') for the year ended 31 March 2020, and forms the basis for discussion at the Audit Committee meeting in November 2020.

The detailed scope of our work as your appointed auditor for 2019/20 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 of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum. The significant audit risks we identified were:

- Management override of control
- Revenue and Expenditure recognition
- Valuation of Property, Plant and Equipment and Investment Properties
- Valuation of net pensions liability

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

Based on the work performed to date, We anticipate issuing an unqualified opinion on the financial statements.

Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Whole of Government Accounts (WGA)

The NAO released their group instructions on 4 November 2020 with a requested return of 4 December 2020..This is likely to lead to a delay in issuing the Audit Certificate.

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. We received no such objections or questions. Further details on the exercise of our wider powers are provided in section 2.

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. The matters outstanding at the time of preparing this report, including the normal review and completion processes, are summarised below. We will provide the Audit Committee with an update in relation to these and any other matters in a follow-up letter, prior to signing the auditor's report.

Audit area	Status	Description of outstanding matters
Property, plant and equipment and Investment Properties	●	We are finalising our work in relation to the significant audit risk identified regarding valuations, including obtaining suitable and appropriate audit evidence to support the basis of valuations and judgements made. No material issues have been identified from the work carried out to date. We are expecting an emphasis of matter paragraph in the audit opinion in response to the disclosed material uncertainty in property valuations caused by Covid19. We say more on this at page 8.
Pensions	●	No material issues have been identified from the work carried out to date. Part of our assurance over the net pensions liability is derived from specified procedures carried alongside the Lincolnshire Pension Fund audit, which has not yet been received. We anticipate this will include a disclosure of material valuation uncertainty on the Lincolnshire Pension Fund property assets that will be reflected in the Council's own financial statements.
Income & Expenditure: cut-off Debtors	●	We have a small number of queries and outstanding evidence to finish our testing in these areas.
Audit Quality Control Completion Procedures	●	Our audit work is undergoing final stages of review by the Engagement Lead and other internal consultation and we are addressing any remaining review points. 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.

Status

- 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

Whole of Government Accounts

There have been changes to the timetable to the national local authority Whole of Government Accounts (WGA) process, reflecting the changes to this year's accounts publication and audit deadlines. NAO Group Instructions for local authority 2019/20 audits were issued on 4 November and the deadline for auditor reporting is expected to be in early December 2020.



2. AUDIT APPROACH

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in February 2020

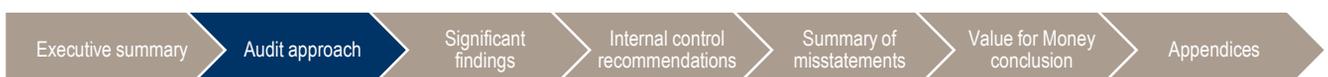
Materiality

We set materiality at the planning stage of the audit at £1.8m using a benchmark of 1.5% of 2018/19 Gross Revenue Expenditure at Surplus/deficit on Provision of Services level. Our final assessment of materiality, based on the final financial statements and qualitative factors is £1.642m, using the same benchmark: 1.5% of 2019/20 Gross Revenue Expenditure at Surplus/deficit on Provision of Services level. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee, at £49k based on 3% of overall materiality.

We confirm that there were no qualitative factors which we considered when setting the level of materiality for the Council.

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that adjustments of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We set specific materiality for the following items of account/disclosures:

- Officers' Emoluments – Senior Employees (Note 35): £5k
 - On the basis that readers of the accounts may take additional interest in this disclosure note
- Termination payments (Note 35): £13k
 - On the basis that readers of the accounts may take additional interest in this disclosure note
- Members allowances (Note 34): £61k
 - On the basis that readers of the accounts may take additional interest in the allowances paid to elected Members.
- External audit fee (Note 36): £9k
 - On the basis that readers of the accounts may take additional interest in this disclosure note particularly if non-audit services are provided to an entity.



2. AUDIT APPROACH (CONTINUED)

Key summary of audit approach and findings

We have summarised the key information regarding our approach, risks and significant findings for the Comprehensive Income and Expenditure Statement and Balance Sheet in the tables below. Further information on the findings are provided in Sections 3 and 5.

Comprehensive Income and Expenditure Statement

Account area	Material misstatement risk	Risk description	Key Audit Matter	Changes to audit approach	Sufficiency of controls	Significant audit findings
Net cost of services	Significant	Revenue Recognition Risk	No	None	●	Non-material adjustment
Other operating expenditure	Standard	-	No	None	●	Non-material adjustment
Financing and investment I&E	Significant	Accuracy of pensions interest costs	Yes	None	●	Non-material adjustment
Taxation and non-specific grant I&E	Standard	-	No	None	●	None
Other comprehensive I&E	Significant	Accuracy of movements in pensions liability	Yes	None	●	None

Sufficiency of controls

- High-priority control deficiency noted
- Medium-priority control deficiency noted
- Low-priority control deficiency noted
- No control deficiency noted / not evaluated

Executive summary

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money conclusion

Appendices

2. AUDIT APPROACH (CONTINUED)

Balance Sheet

Account area	Material misstatement risk	Risk description	Key Audit Matter	Changes to audit approach	Sufficiency of controls	Significant audit findings
Property, plant and equipment	Significant	Valuation of property, plant and equipment, investment properties and assets held for sale risk	Yes	None	●	Work ongoing
Heritage assets	Standard	-	No	None	●	None
Investment properties	Significant	Valuation of property, plant and equipment, investment properties and assets held for sale risk	Yes	None	●	Work ongoing
Assets held for sale	Significant	Valuation of property, plant and equipment, investment properties and assets held for sale risk	Yes	None	●	None
Investments	Standard	-	No	None	●	None
Short term debtors	Significant	Revenue recognition risk	No	None	●	None
Cash and cash equivalents	Standard	-	No	None	●	None
Short term creditors	Standard	-	No	None	●	None
Borrowings	Standard	-	No	None	●	None
Provisions	Standard	-	No	None	●	None
Other long term liabilities	Significant	Valuation of pensions liability	Yes	None	●	Work ongoing
Reserves	Minimal	-	No	None	●	None

3. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our findings on key audit matters, including:
 - 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 our response;
 - where relevant, key observations arising with respect to each matter; and
 - a clear reference to the relevant disclosures in the financial statements
- our audit conclusions regarding significant risks 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 12 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;
- any significant difficulties we experienced during the audit.

As part of our planning procedures we considered the risks of material misstatement in the Council’s financial statements that required special audit consideration. Although we report identified key audit matters and significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new key audit matters and significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

The table below reaffirms the significant risks and Key Audit Matters identified in our Audit Strategy Memorandum.

Description of risk	Key Audit Matter
Valuation of property, plant and equipment, investment properties and assets held for sale	Y
Valuation of net defined benefit liability	Y
Management override of controls	N
Revenue recognition	N



2. SIGNIFICANT FINDINGS (CONTINUED)

Key Audit Matter Description of the risk

Valuation of Property, Plant and Equipment and Investment Properties

The Council's accounts contain material balances and disclosures relating to its holding of Property, Plant and Equipment, and Investment Properties with the majority of these assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.

Relevant balances:

- Note 14: Property, Plant & Equipment – Council Dwellings £257,587k; Land & Buildings £86,763k
- Note 14: Investment Properties £34,646k

How we addressed this risk

In relation to the valuation of property, plant & equipment, investment properties and assets held for sale we:

- Critically assessed the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;
- Considered whether the overall revaluation methodologies used by the Council's valuer's were in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;
- Assessed whether valuation movements are in line with market expectations by using information available from other sources;
- Critically assessed the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; and
- Critically assessed the approach that the Council adopted to ensure that any assets not subject to revaluation in 2019/20 were materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers.

Audit Findings to Date

Our work is drawing to a close and no material issues have been identified to date.

The Council has highlighted the material valuation uncertainty raised by its valuation expert caused by the impact of Covid-19, which will be reflected in our Audit Report.

We will update the Committee if any significant reporting issues emerge from these areas.

2. SIGNIFICANT FINDINGS (CONTINUED)

Key Audit Matter	Description of the risk
Valuation of net pensions liability	The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we determined there is a significant risk in this area.

Relevant balances:

- Note 29: Net Pension Liability £81,989k

How we addressed this risk

In relation to the valuation of the Council's defined benefit pension liability we:

- Critically assessed the competency, objectivity and independence of the Lincolnshire Pension Fund's Actuary, Hymans Robertson;
- Liaised with the auditors of the Pension Fund to gain assurance that the controls in place at the Pension Fund which support the IAS 19 valuation process were operating effectively. This includes the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate;
- Reviewed the appropriateness of the Pension Asset and Liability valuation methodologies 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 Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

Current Position

The procedures we have undertaken to date have not identified any material errors or uncertainties in the financial statements.

Part of our assurance over the net pensions liability is derived from specified procedures commissioned from the external auditors of the Nottinghamshire Pension Fund. We are yet to receive their final report over the procedures we are seeking assurance over for our consideration. These assurances will also inform us of any concerns relating to the valuation of pension fund assets as a result of any uncertainty caused by Covid19. We will need to consider the impact of this on the Council's share of the pension fund assets as show in the balance sheet before issuing our opinion. This may give rise to additional disclosures in the Council's financial statements and also additional 'emphasis of matter' explanation in our Audit Report.

We will update the Committee if any significant reporting issues emerge from these areas.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Management override of controls	<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, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p> <hr/> <p>How we addressed this risk</p> <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none">• Accounting estimates impacting on amounts included in the financial statements;• Consideration of any identified significant transactions outside the normal course of business; and• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. <hr/> <p>Audit Conclusion</p> <p>Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to management override of controls.</p>

Significant risk	Description of the risk
Revenue Recognition	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. Having considered the factors for revenue recognition, we believe the risk is focused on the year-end balance sheet and in particular the existence and accuracy of receivables and the cut-off of revenue.</p> <p>Relevant balances:</p> <ul style="list-style-type: none">• Note 20: Short Term Debtors £11,506k• Note 8: Fees, Charges and other Service Income £64,890k <hr/> <p>How we addressed this risk</p> <p>We evaluated the design and implementation of controls to mitigate the risk of material receivables being recognised in the wrong period. We tested receivables to ensure that they are supported by sufficient and appropriate evidence and have been accounted for correctly.</p> <p>Our audit approach also incorporated a range of other substantive procedures, including, but not limited to the testing of receipts around the year-end to provide assurance that any material items of income had been recorded in the correct financial year.</p> <hr/> <p>Audit Conclusion</p> <p>Our audit work is being finalised, but our audit procedures in relation to this risk to date have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to your attention.</p>

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures. We have provided feedback on the draft financial statements and agreed amendments in any areas where disclosures could be strengthened. We are satisfied that the final statements comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

Significant matters discussed with management

Significant matters discussed with management during our audit and which had implications for our audit testing and reporting included:

- The impact of COVID-19 on the Council's business, including any potential impact on risks of material misstatement. This included the disclosures made regarding the key sources of estimation uncertainty that management has made in preparing the Statement of Accounts. The Council's valuers have followed RICS guidance and as expected their valuation report concludes that, due to the impact of COVID-19 on the property market, there is "material uncertainty" over the valuation of land and buildings and investment properties at the balance sheet date.
- The Council's adoption of the 'going concern' principle in preparing the Financial Statements. The 'going concern' status is confirmed through the 2019/20 local government accounting code, and must also follow International Accounting Standard (IAS) 1: Presentation of Financial Statements. We must comply with a revised ISA (UK) 570 Going Concern, effective for periods commencing on or after 15 December 2019. The above, combined with the impact of COVID-19, meant an additional level of scrutiny was required over the going concern assertion in 2019/20. The Council is preparing an additional paper for the Audit Committee to review and approve.
- Impact of changes in audit scope on the external audit fee. We have provided management with a fee estimate and final fees will be agreed with management prior to inclusion and cover the following matters identified to date:
 - As explained in our Audit Strategy Memorandum, we continually strive to maintain high standards of audit quality. One mechanism for doing this is to consider the outcome of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers. In particular, we have increased the level of work we do on defined benefit pension schemes and valuation of property, plant and equipment. Alongside this, as the Council is designated as a 'Public Interest Entity', we have also needed to include additional levels of supervision and review to meet regulators' expectations. We expect these factors to lead to a permanent uplift to the audit fee and have provided management with an estimate, to be confirmed on completion of our work, of between £12,000 and £13,000.
 - Additional audit risks arising from COVID-19. We have discussed with management the additional audit testing and audit work required relating to pension assets and liabilities as well as adjustments for 'McCloud'; uncertainty in the valuation of land and buildings; going concern; and other areas. Our fee estimate is between £6,750 and £9,000.



2. SIGNIFICANT FINDINGS (CONTINUED)

Significant difficulties during the audit

During the course of the audit we have had the full co-operation of management. Officers have been very helpful and responsive in addressing our audit queries. The changes to the Council's and Mazars' working arrangements' in response to COVID-19 and other pressures across the sector has lead to a number of challenges during the year-end accounts closedown and audit process. There have understandably been some difficulties in carrying out our normal audit procedures and obtaining the audit evidence required.

We are grateful for the co-operation and support provided.

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 2019/20 audit.

The 2014 Act also 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.

Potential Delay in 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 alongside the accounts opinion and value for money conclusion. The NAO only issued its Group Instructions for local authority audits on 4 November with a request for return on 4 December 2020. We may then issue the Auditor's Report without the Audit Certificate.



4. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is 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. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor 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.	1
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.	2
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	Nil

4. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Significant deficiencies in internal control – Level 1

Description of deficiency

IT General Controls

In our testing of IT General Controls, we identified that six incidences where employee leavers still have an 'active' directory record. In most cases it was because notification to delete the user had not been received by the IT team. Action was taken to disable these accounts.

Potential effects

Inappropriate IT access and IT vulnerabilities

Recommendation

The Council needs to:

- Remind all staff to promptly notify IT for all leavers
- Revisit protocols and processes to ensure there is an appropriate control in place to capture any non-notified leavers on IT systems.

Management response

The Council will remind all managers to ensure that appropriate IT forms are filled in to remove leavers from all systems

Other deficiencies in internal control – Level 2

Description of deficiency

Expected Credit Loss Model

Our review of the Council's debt impairment calculations have confirmed that these are not fully in accordance with the expected credit loss model as required under IFRS 9 and the CIPFA Code.

Potential effects

The Council is failing to comply with the requirements of current accounting standards and the CIPFA Code. This may lead to the incorrect debt impairment figure being calculated and disclosed within the financial statements.

Recommendation

The Council should review its approach to the calculation of its debt impairment to ensure that this accords with the requirements of IFRS 9 and the CIPFA Code.

Management response

To be considered as part of the 2020/21 reporting cycle.

4. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Other deficiencies in internal control – Level 2

Description of deficiency

Asset Valuation inputs

There were instances identified where the floor area, for couple of samples selected as part of our testing of asset valuations, which differed from what was quoted on the Council's systems. The floor area does affect the property valuation, but differences in floor area between information sources raises concern over the accuracy of the Council's records for. In this instance, it was confirmed the correct floor area was used

Potential effects

Books and records are not up-to-date, potentially leading to a misstatement in the carrying value of assets.

Recommendation

The Council should perform an annual reconciliation of key valuation inputs prior to providing information to the nominated valuer.

Management response

The Council will consider undertaking a review in 20/21.

5. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £49k.

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2019/20

There are no unadjusted misstatements to report.

Estimation: Debt Impairment

The Council's debt impairment calculations are consistent with the methodology applied in the prior year, but this is not fully compliant with IFRS9. The provision is made up from:

- Business Rates and Council Tax: £0.3m
- General Fund: £1.85m
- HRA: £1.78m

We are satisfied that the risk of material misstatement is not high, however, could lead to a change in 2020/21. Our calculations showed a potential range of -£0.2m to +£0.3m. Our calculations are not sufficient to present a factual error in the financial statements, but does show that due to differences in estimation technique, calculated balances could be different.

5. SUMMARY OF MISSTATEMENTS (CONTINUED)

Adjusted misstatements

A detailed list of adjustments is included at Appendix D. The following table sets out those that impact the primary financial statements:

Description	Accounts	Original/ Value £000	Debit £000	(Credit) £000	Revised Value £000
Incorrect disclosure of MRR movement within the MiRS	MiRS - Major repairs reserve - Adjustments between accounting basis.....	10,234		(6,790)	3,444
	MiRS - Major repairs reserve - Transfers (to)/from earmarked reserves	(6,790)	6,790		0
	MiRS - Capital receipts reserve - Adjustments between accounting basis...	723		(150)	573
	MiRS - Capital receipts reserve - Transfers (to)/from earmarked reserves	(150)	150		0
Incorrect disclosure of the fair value movements in its investment properties	CIES - Cost of services - Corporate services - Expenditure	2,696		(2,716)	(20)
	CIES - Cost of services - HRA - Expenditure	17,254		(25)	17,229
	CIES - Note 12 Financing and investment income and expenditure - (Surplus)/Deficit on trading operations	(1,418)	2,766		1,348
	CIES - Note 12 Financing and investment income and expenditure - Fair value movements of investment properties that are not trading operations	0		(25)	(25)
	This has an impact on associated notes 7 and 32 to the financial statements:				

Because some of these items relate to capital accounting, they have a ripple effect through the financial statements impacting on several disclosure notes.

Disclosure amendments

Our work has also identified adjustments to the following disclosures:

- Note 8 – Expenditure and Income Analysed by Nature
- Note 9 – Adjustment between Accounting Basis and Funding Basis under Regulations
- Note 11 – Other Operating Expenditure
- Note 12 - Financing and Investment Income and Expenditure
- Note 13 – Taxation and Non-Specific Grant Income
- Note 14 – Non-Current Assets including Property, Plant & Equipment, Investment Properties and Intangible Assets
- Note 26 – Unusable Reserves
- Cashflow notes 27, 28, 29, 30 and 31
- Note 39 – Capital Expenditure and Capital Financing
- Note 35 – Officers' Remuneration: to correct the remuneration disclosure of the Chief Executive; and correct banding of exit packages
- Note 44 – Defined Benefit Pension Scheme

3. VALUE FOR MONEY CONCLUSION

Our approach to Value for Money

We are required to form a conclusion 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 conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate.

In our Audit Strategy Memorandum, we reported that we not identified any significant risk to our VFM Conclusion. We continually assess whether any matters come to our attention through the course of our audit that lead us to conclude that a risk to our VFM conclusion does exist. Based on our updated assessment, we are satisfied that no additional Significant VFM Risks have arisen relating to the 2019/20 VFM Conclusion.

We do however, have the following matters to note.

Covid19 and financial resilience

Prior to Covid19 and lockdown, in March 2020, the Council adopted a net General Fund Revenue budget of £12.96m and a Medium Term Financial Strategy that required £5.1m savings over the period to 2024/25. The Council's general fund and earmarked reserves per the draft financial statements was £2.2m in the general fund and £11.6m earmarked revenue reserves.

In May, the Council was mentioned in the trade press as considering a s114 notice as a result of Covid19.

On 27 July, Executive received the financial outturn for 2019/20, which set out a provisional overspend of £133k on the general fund and £72k underspend against budget on the HRA. In September, Executive received an update that explained, for 2020/21 the Council's General Fund summary was projecting a forecast overspend of £0.08m. The Council continues to monitor and respond to the impact of Covid19 on its finances and service provision, which will be considered as part of our 2020/21 VFM Conclusion.

The £5.1m of savings originally planned over the period of the Medium Term Financial Strategy have been disrupted and the Council should not rely solely on existing reserves to cover the financial gap and will need to review and revisit its financial and service strategy.

As noted above, we have not judged there to be a significant weakness in the Council's arrangements supporting the VFM Conclusion for 2019/20.

Our overall Value for Money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.



APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Mark Surridge

Mazars LLP

45 Church Street
Birmingham
B3 2RT

xx November 2020

Dear Sirs

City of Lincoln Council - audit for year ended 31 March 2020

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 2020 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 2018/19 (the Code).

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 Trust 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 undertaken by the Council 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.

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DRAFT MANAGEMENT REPRESENTATION LETTER

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).

Material Valuation Uncertainty

The outbreak of COVID-19, has impacted global financial markets and as such identified that less weight can be attached to the previous market evidence for comparison purposes and to inform opinions of value. The current response to COVID-19 has resulted in an unprecedented set of circumstances on which to base judgement, resulting in the valuations recognised within the Statement of Accounts being reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Given the unknown future impact that COVID-19 might have on the real estate market. I am satisfied that sufficient and appropriate disclosures have been made in the Statement of Accounts to reflect the impact of 'material valuation uncertainty' on the Council's assets.

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. We have 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.

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DRAFT MANAGEMENT REPRESENTATION LETTER

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. In particular, I have considered the impact of Covid-19 on our Investment Properties. An impairment review is therefore not considered necessary.

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.

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 have updated our going concern assessment in light of the Covid-19 pandemic. 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. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours faithfully

Jacyln Gibson

Chief Finance Officer & s151 Officer

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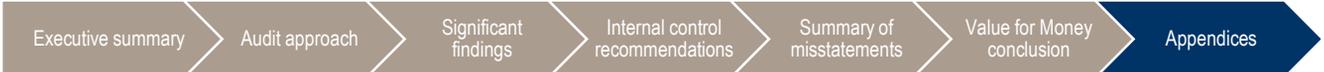
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APPENDIX B

DRAFT AUDITOR'S REPORT

The Draft Audit Report is subject to internal consultation to ensure compliance with PIE and Key Audit Matter requirements as well as consultation over the potential inclusion of an Emphasis of Matters Paragraph relating to 'material valuation uncertainty' on property assets.

The Audit Report will be shared at a later date.



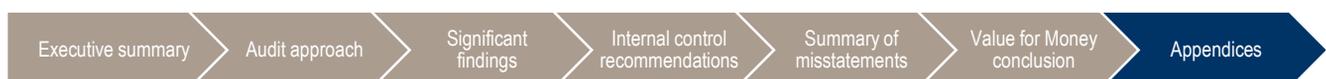
APPENDIX C INDEPENDENCE

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.

During the audit the following issues arose which could be perceived as a threat to our independence. The table below details these potential threats and the safeguards put in place to mitigate the risk.

Issue	Perceived threats	Safeguards
Homes England Compliance Audit The procedures for this audit are set by Homes England and independent auditors undertake a review of evidence that the local authority provides to conform or deny compliance with the regulation. The auditor does not give an opinion on compliance, and produce only a report of factual findings.	Self-interest threat Self-review threat	The fee for the Non-Audit Service is £3,500, which is substantially less than the Audit Fee. The work has been performed by a team completely independent of the audit team.

We have received confirmation from our auditors external expert (PWC via the NAO as consulting actuary) regarding their independence.



APPENDIX D

SCHEDULE OF CHANGES

Description	Accounts	Original Value £000	Debit £000	(Credit) £000	Revised Value £000
Incorrect disclosure of MRR movement within the MiRS	MiRS - Major repairs reserve - Adjustments between accounting basis.....	10,234		(6,790)	3,444
	MiRS - Major repairs reserve - Transfers (to)/from earmarked reserves	(6,790)	6,790		0
	MiRS - Capital receipts reserve - Adjustments between accounting basis.....	723		(150)	573
	MiRS - Capital receipts reserve - Transfers (to)/from earmarked reserves	(150)	150		0
Incorrect disclosure of MiRS Adjustments within other account entries	D - Note 9 Adjustments between... - Housing Revenue Account - Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	11,863		(4,336)	7,527
	D - Note 9 Adjustments between... - Housing Revenue Account - Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	3,008		(74)	2,934
	D - Note 9 Adjustments between... - Capital receipts reserve - Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(3,008)	74		
	D - Note 9 Adjustments between... - Capital receipts reserve - Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	0		(150)	(150)
	D - Note 9 Adjustments between... - Major repairs reserve - Posting of HRA resources to the Major Repairs Reserve	0		(3,637)	(3,637)
	D - Note 9 Adjustments between... - Capital grant unapplied - Application of Capital grants to finance capital expenditure	1,535	223		1,758
	D - Note 14 Property, plant and equipment - Assets under construction - Additions	1,126		(53)	1,073
	D - Note 14 Property, plant and equipment - Assets under construction - Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(53)	53		0
	D - Note 26 Capital adjustment account - Charges for depreciation and amortisation of non-current assets	8,664	48		8,712
	D - Note 26 Capital adjustment account - Other movements of depreciation	0		(48)	(48)
	D - Note 26 Capital adjustment account - Revaluation (gains)/losses and impairments on property, plant and equipment	(5,344)		(791)	(6,135)
	D - Note 26 Capital adjustment account - Fair value movements on investment properties	0	2,741		2,741
	D - Note 26 Capital adjustment account - Revenue expenditure funded from capital under statute	2,429		(1,950)	479
	D - Note 26 Capital adjustment account - Assets under construction written off to revenue	53		(53)	0
	D - Note 26 Capital adjustment account - Use of capital receipts to finance new capital expenditure	(1,535)	53		(1,482)
	D - Note 39 Capital expenditure and capital financing - Capital investment - Property, plant and equipment	21,500		(53)	21,447
	D - Note 39 Capital expenditure and capital financing - Sources of finance - Capital receipts	(1,534)	53		(1,481)
Incorrect disclosure of salary amount for Chief Executive	D - Note 35 Officers' Remuneration - Salary - Chief executive	127	3		130

APPENDIX D

SCHEDULE OF CHANGES

Description	Accounts	Original Value £000	Debit £000	(Credit) £000	Revised Value £000
Incorrect disclosure of the value of exit packages on the wrong line.	D - Note 35 Officers' Remuneration - Exit packages - £0 - £20,000	36		(36)	0
	D - Note 35 Officers' Remuneration - Exit packages - £20,001 - £40,000	0	36		36
Incorrect inclusion of REFCUS expenditure as Depreciation, Amortisation and Impairment within Note 14	D - Note 8 Expenditure and income analysed by nature - Depreciation, amortisation and impairment	5,547		(479)	5,068
	D - Note 8 Expenditure and income analysed by nature - REFCUS expenditure	0	479		479
Incorrect disclosure of the fair value movements in its investment properties	CIES - Cost of services - Corporate services - Expenditure	2,696		(2,716)	(20)
	CIES - Cost of services - HRA - Expenditure	17,254		(25)	17,229
	CIES - Note 12 Financing and investment income and expenditure - (Surplus)/Deficit on trading operations	(1,418)	2,766		1,348
	CIES - Note 12 Financing and investment income and expenditure - Fair value movements of investment properties that are not trading operations	0		(25)	(25)
Incorrect classification of gains arising on the disposal of its investment properties under other operating expenditure rather than financing and investment income and expenditure	CIES - Note 11 Other operating expenditure - (Gains)/losses on the disposal of non-current assets	(766)	22		(744)
	CIES - Note 12 Financing and investment income and expenditure - (Gains)/losses on the disposal of investment properties	0		(22)	(22)
Incorrect classification of investment property additions within Note 14	D - Note 14 Non-current assets including property, plant and equipment , investment properties and intangible assets - Investment properties - Additions (cost)	0	6,888		6,888
	D - Note 14 Non-current assets including property, plant and equipment , investment properties and intangible assets - Investment properties - Other movements in cost or valuation	6,929		(6,888)	41
Incorrect classification of grant income within Note 13	D - Note 13 Taxation and non-specific grant income - Retained business rates income and expenditure	(6,062)	290		(5,772)
	D - Note 13 Taxation and non-specific grant income - Non ring-fenced government grants	(488)		(290)	(778)
	D - Note 37 Grant income - S31 grants included in non-domestic rate income	(1,953)	290		(1,663)

APPENDIX D

SCHEDULE OF CHANGES

Description	Accounts	Original Value £000	Debit £000	(Credit) £000	Revised Value £000
	D - Note 27 Cash flow statement - Operating activities - Interest received	183	4		187
	D - Note 27 Cash flow statement - Operating activities - Interest paid	(3,345)		(293)	(3,638)
	CFS - Note 28 Cash flow statement - Adjustment to surplus or deficit on provision of services for non-cash movements - Depreciation	8,552	48		8,600
	CFS - Note 28 Cash flow statement - Adjustment to surplus or deficit on provision of services for non-cash movements - Impairment and downward valuations	(4,553)		(1,582)	(6,135)
	CFS - Note 28 Cash flow statement - Adjustment to surplus or deficit on provision of services for non-cash movements - Increase/(decrease) in creditors	5,490	524		6,014
	CFS - Note 28 Cash flow statement - Adjustment to surplus or deficit on provision of services for non-cash movements - (Increase)/decrease in debtors	(1,080)		(629)	(1,709)
	CFS - Note 28 Cash flow statement - Adjustment to surplus or deficit on provision of services for non-cash movements - Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	2,168		(20)	2,148
Incorrect calculation of cash flow entries	CFS - Note 28 Cash flow statement - Adjustment to surplus or deficit on provision of services for non-cash movements - Other non-cash items charged to the net surplus or deficit on the provision of services	131	1,587		1,718
	CFS - Note 29 Cash flow statement - Adjustment to surplus or deficit on the provision of services for items that are investing & financing activities - Proceeds from sale of PPE, investment property and intangible assets	(3,008)	74		(2,934)
	CFS - Note 30 Cash flow statement - Investing activities - Purchase of property, plant and equipment, investment property and intangible assets	(22,051)	76		(21,975)
	CFS - Note 30 Cash flow statement - Investing activities - Purchase of short-term and long-term investments	(131,362)		(193)	(131,555)
	CFS - Note 30 Cash flow statement - Investing activities - Proceeds from the sale of property, plant and equipment, investment property and intangible assets	3,008		(74)	2,934
	CFS - Note 31 Cash flow statement - Financing activities - Cash receipts of short & long-term borrowing	34,705		(9,704)	25,001
	CFS - Note 31 Cash flow statement - Financing activities - Repayments of short- and long-term borrowing	(30,098)	9,897		(20,201)

CONTACT

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