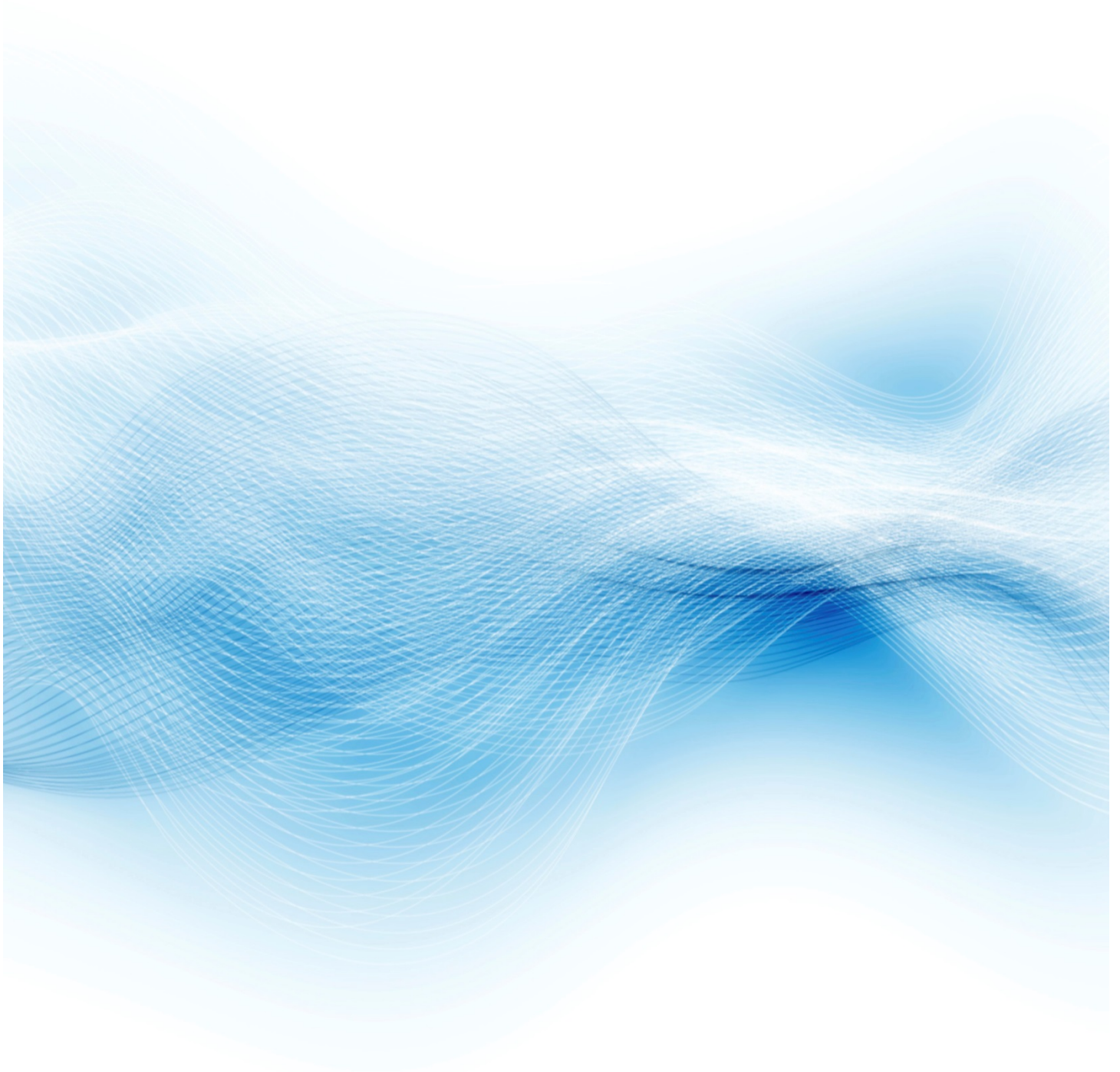
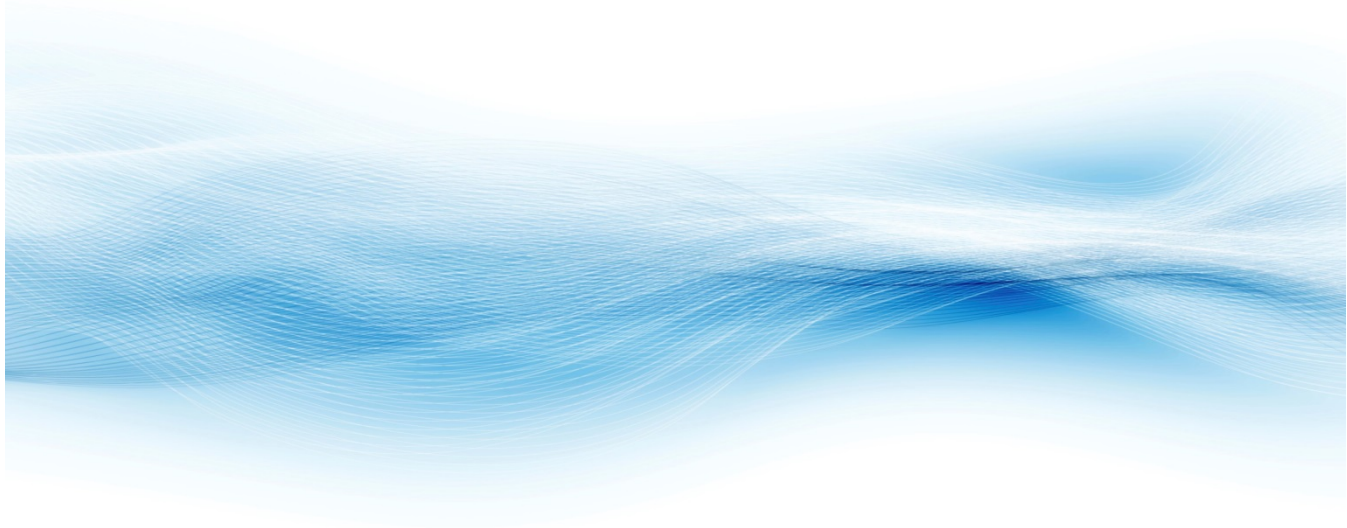


# Audit Completion Report

City of Lincoln Council

Year ended 31 March 2020





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Appendix C – Independence

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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Members of the Audit Committee  
City of Lincoln Council  
City Hall  
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30 March 2021

Dear Members

### **Audit Completion Report – Year ended 31 March 2020**

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. 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 dated 27 February 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, key audit matters and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Fund 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.

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](mailto:mark.surrIDGE@mazars.co.uk).

Yours faithfully



Mark SurrIDGE  
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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](http://www.auditregister.org.uk) under reference number C001139861.  
VAT number: 839 8356 73



# 1. Executive summary

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of City of Lincoln Council ('the Council') for the year ended 31 March 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 3 and 6 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 3 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control;
- Revenue recognition in relation to fees and charges;
- Valuation of property, plant and equipment, investment properties and assets held for sale; and
- Valuation of net defined benefit 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

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 conclusion

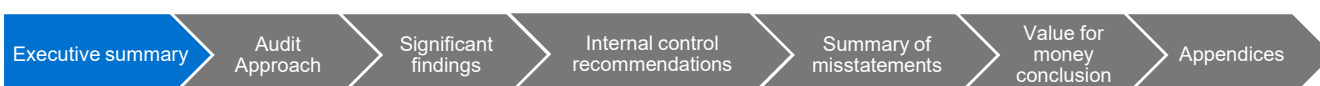
We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

### Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO.

### 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 relating to 2019/20.



# 1. Executive summary (continued)

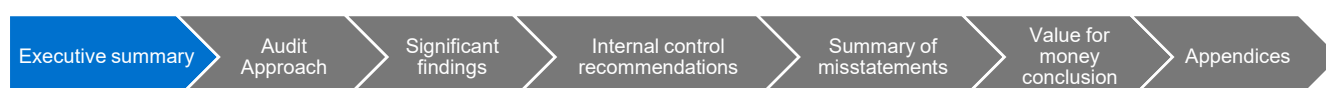
## **Status of our audit work**

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. At the time of preparing this report there are no significant matters outstanding.

## **Misstatements and internal control recommendations**

Section 4 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 5 outlines the misstatements noted as part of our audit.



## 2. Audit approach

### Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in February 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

### Materiality

We set materiality at the planning stage of the audit at £1,800k using a benchmark of 1.5% of total gross expenditure at the surplus/deficit on provision of services level. Our final assessment of materiality, based on the final financial statements and qualitative factors is £1,642k, using the same benchmark. 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.

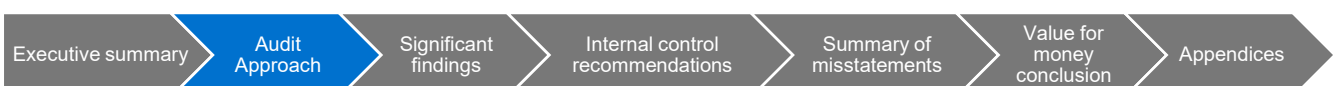
We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the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

Item of account/disclosure	Specific materiality
Officers' remuneration bandings (Note 35)	£5,000*
Termination payments (Note 35)	£13,000
Members allowances (Note 34)	£61,000
External audit costs (Note 36)	£9,000

- Reflecting movement from one salary band to another

### 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 over the page. Further information on the findings are provided in section 3.



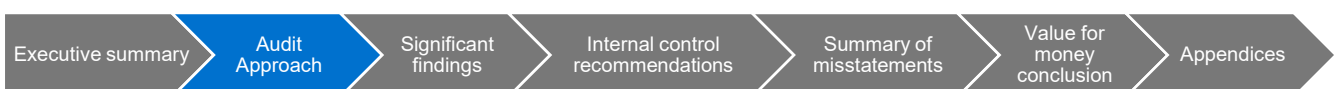
## 2. Audit approach (continued)

### 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	●	Adjusted and unadjusted misstatements
Other operating expenditure	Standard	-	-	None	●	Adjusted misstatement
Financing and investment I&E	Standard	-	-	None	●	Adjusted misstatement
Taxation and non-specific grant I&E	Standard	-	-	None	●	None
Other comprehensive I&E	Standard	-	-	None	●	Adjusted and unadjusted misstatements

#### Sufficiency of controls

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





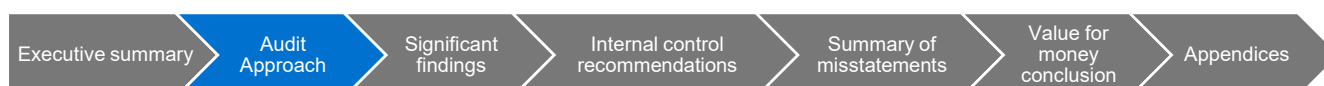
## 2. Audit approach (continued)

### 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 risk	Yes	None	●	None
Heritage assets	Standard	-	-	None	●	Adjusted misstatement
Investment properties	Significant	Valuation risk	Yes	None	●	None
Assets held for sale	Significant	Valuation risk	Yes	None	●	None
Investments	Standard	-	-	None	●	None
Short term debtors	Significant	Revenue recognition risk	No	None	●	None
Cash and cash equivalents	Standard	-	-	None	●	None
Short term creditors	Standard	-	-	None	●	None
Borrowings	Standard	-	-	None	●	None
Provisions	Standard	-	-	None	●	None
Other long term liabilities	Significant	Valuation risk (Net Pension Liability)	Yes	None	●	Unadjusted misstatement
Reserves	Standard	-	No	None	●	Adjusted misstatement

#### Sufficiency of controls

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





### 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 13 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.

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.

#### Key audit matters

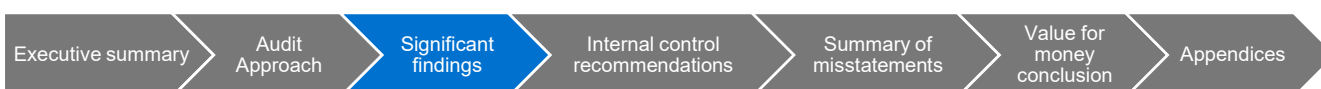
##### Valuation of property, plant and equipment, investment properties and assets held for sale

##### 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 two management experts (the valuers) and incorporates assumptions and estimates which impact materially on the reported values. There are audit 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. In addition, as some of the valuations are undertaken at the start of the year, there is a risk that the fair value of the assets may be materially different at the year end.

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 valuer's assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence.



### 3. Significant findings (continued)

#### Valuation of property, plant and equipment, investment properties and assets held for sale (continued)

#### How we addressed the key audit matter

We have:

- Obtained an understanding of the skills, experience and qualifications of the valuers, 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 2019/20 are materially fairly stated;
- Obtained an understanding of the Council's approach to ensure that assets revalued through 2019/20 are materially fairly stated at the year end;
- 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 2020;
- Obtained an understanding of the valuers' consideration of RICS guidance on material uncertainty relating to valuations, and considered whether there was evidence of material uncertainty; and
- Tested the accuracy of how valuation movements were presented and disclosed in the financial statements.

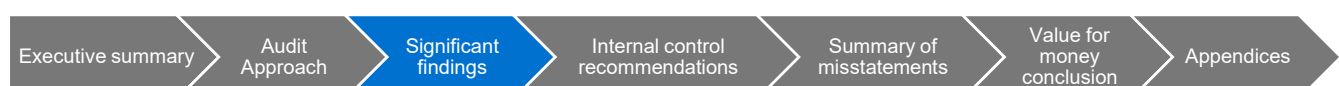
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#### Observations and conclusions

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.

We draw attention to Note 4 of the financial statements, which discloses a material valuation uncertainty relating to the valuation of the Council's property, plant and equipment, investment properties and assets held for sale. We have included reference to this disclosure in our audit report at Appendix B but highlight that our audit opinion is not modified in respect of this matter.

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### 3. Significant findings (continued)

#### Valuation of net defined benefit liability

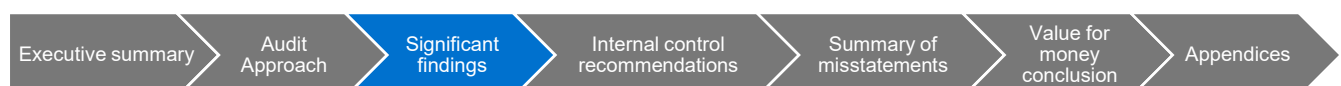
#### Description of the key audit matter

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 2019/20.

In addition our work considered two issues that emerged through 2020. In July 2020, MHCLG consulted on the proposed remedy for the 'McCloud' case, an estimate of which was originally included in the Council's liability in 2018/19. The proposed remedy indicates that the actuarial estimate of the original liability made in 2018/19 was likely to be overstating the pension fund liability but not materially. A second emerging issue this year is the 'Goodwin' case which also relates to groups of pension fund members suffering discrimination. In both issues, we engaged with the Council's actuary and reviewed the evidence provided by the pension fund and the Council's actuary in order to conclude on the material accuracy of the liability.

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### 3. Significant findings (continued)

#### Valuation of net defined benefit liability (continued)

#### How we addressed the key audit matter

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 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;
- 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 actuarial allocation of Pension Fund assets to the Council by the actuary, including comparing the Council's share of the assets to other corroborative information;
- Reviewed the appropriateness of the Pension Asset and Liability valuation methodology applied by the actuary, and the key assumptions included within the valuation. This included comparing it to expected ranges, utilising information provided by PwC LLP, consulting actuary engaged by the National Audit Office; and
- Agreed the data in the IAS 19 valuation report provided by the 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.

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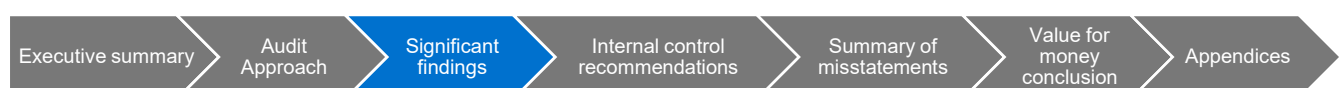
#### Observations and conclusions

We obtained sufficient appropriate evidence to conclude that the valuation of the net defined benefit pension liability included in the financial statements is reasonable.

Whilst a revised actuarial report was obtained to incorporate the estimate of the proposed 'McCloud' and 'Goodwin' remedies its impact on the financial statements was judged by the Council to be not material. Consequently the financial statements have not been amended to reflect this updated estimate and an unadjusted misstatement is reported in Section 5.

We draw attention to Note 4 of the financial statements, which discloses the material uncertainty, disclosed in the Lincolnshire Pension Fund accounts, relating to the valuation of the Pension Fund property investment assets. The valuation of the Council's share of the Pension Fund property investment assets as disclosed in Note 44 is £11.48m. We have included reference to this disclosure in our audit report at Appendix B but highlight that our audit opinion is not modified in respect of this matter.

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### 3. Significant findings (continued)

#### Significant risks

##### Management override of controls

##### Description of the risk

In all entities, 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.

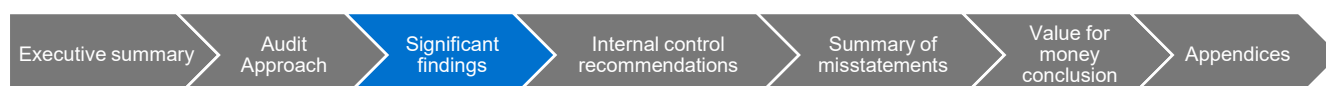
##### How we addressed this risk

We addressed this risk through performing audit work over:

- 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.

##### Audit conclusion

There are no matters arising from the areas of our work completed against this risk.



### 3. Significant findings (continued)

#### Revenue recognition

#### Description of the risk

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition although, based on the circumstances of each audit, this is rebuttable.

Having considered the factors for revenue recognition and the Council's revenue streams, we have concluded that this can be rebutted with the exception of fees and charges. In this respect, we believe the risk is focused on the year-end position and in particular the cut-off of revenue.

This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.

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#### How we addressed this risk

We addressed this risk through performing audit work over:

- Evaluating the design and implementation of controls to mitigate the risk of material manual debtors being recognised in the wrong period;
- Testing material manual debtors to ensure that they are supported by sufficient and appropriate evidence and have been accounted for correctly;
- Testing from receipts pre and post year-end to ensure revenue has been posted to the correct period; and
- Testing material year end journals.

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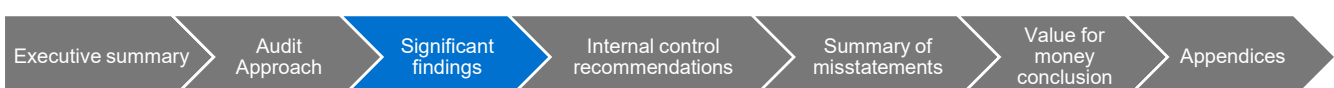
#### Audit conclusion

There are no matters arising from the areas of our work completed against this risk.

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#### Valuation methods

We are required by International Standard on Auditing 260 to report to the Audit Committee the methods of valuation the Council has adopted in its financial statements and whether there have been any changes in those valuation methods. We have set out in this section the valuation methods for property, plant and equipment, investment properties, assets held for sale and the net defined benefit pension liability. There are no changes in the valuation methods from the previous year. The other balance sheet categories have been valued in accordance with the CIPFA Code of Practice on Local Authority Accounting and applicable International Financial Reporting Standards. There are no changes in those valuation methods from the previous year.



### 3. Significant findings (continued)

#### Qualitative aspects of the Council's accounting practices

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting (the 'Code'). We have considered the appropriateness of the use of the going concern assumption and have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 31 August 2020. Both staff turnover during the year and the consequential impacts of staff absences and re-deployments as a result of the Covid-19 pandemic, led to increased pressure on finance staff during the accounts production cycle. Whilst draft accounts were produced by the revised statutory deadline there were:

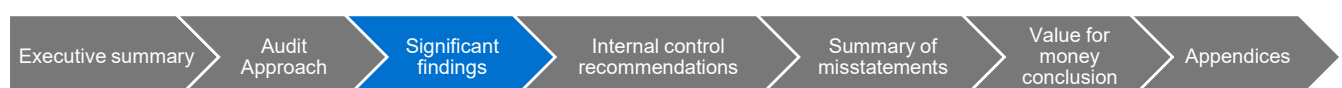
- The incidence of a significant number of misstatements being identified;
- Numerous casting errors;
- Inconsistencies between amounts recorded on the primary statements and those detailed in supporting notes; and
- Inconsistencies between inter-related figures.

We noted improvements in working papers over the previous year, although further work is required to ensure all working papers meet the consistent standard. It is imperative that the Council takes the steps necessary to re-establish robust arrangements and staffing to support the 2020/21 year end and we have raised a recommendation relating to this area of improvement in Section 4.

#### Significant matters discussed with management

The significant matters we discussed with management during the audit included:

- The impact of Covid-19 on the entity's business, including potential impact on risks of material misstatement, notably:
  - Valuation uncertainty  
The Council's valuers have followed RICS guidance and, as expected, their valuation reports conclude that, due the impact of Covid-19 on the property market, there is 'material uncertainty' over the valuation of land and buildings, investment properties and assets held for sale at the balance sheet date. This extends to property assets held by the Pension Fund.
  - Going concern  
The Council's 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, means an additional level of scrutiny is required over the going concern assertion in 2019/20. In particular management's explicit considerations of whether the financial statement disclosure for going concern should more explicitly describe the impact of Covid-19.  
  
This is also a matter for consideration as part of our work on the value for money conclusion.
  - Financial instruments  
Whilst the Government has introduced a number of measures to ease financial hardship, the Council needed to consider the impact on expected credit losses or the impairment of financial assets.





### 3. Significant findings (continued)

- Sources of estimation uncertainty  
The Council is required to provide disclosures regarding the key sources of estimation uncertainty that management has made in preparing the financial statements, specifically those with a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the ensuing financial year.
- The Council's response to relevant legal cases which impact on the valuation of pension fund liabilities, notably:
  - McCloud and Sargeant  
In July 2019, MHCLG consulted on the proposed remedy for the 'McCloud' and 'Sargeant' cases. This indicates that the approach adopted for 2018/19 and 2019/20 is likely to have led to an overstatement of the pension fund liability as at 31 March 2020.
  - Goodwin  
The Goodwin case brought against the Secretary of State for Education earlier this year regarding discrimination owing to sexual orientation in the Teachers' Pension Scheme. MHCLG have commissioned the Government Actuary Department to undertake a review of the potential impact and at a local level, there is an additional risk to evaluate as to whether the scheme is materially misstated.
- The accounting treatment in respect of a material heritage asset, where we identified that effective control of the asset had passed from the Council to a third party. As the date of this control passing occurred a number of years ago the removal of this asset from the Council's financial statements has been effected through a Prior Period Adjustment, with a restatement of asset and revaluation reserve balances for prior periods.

In addition, as a result of independent quality reviews of audit suppliers' work, in particular by the Financial Reporting Council, we have increased the level of work we carry out on defined benefit pension schemes and the valuation of property, plant and equipment, investment properties and assets held for sale. This and other issues emerging during the year have had an impact on the level of work and time required to complete the audit and we will discuss any fee variation request with management on completion of our audit work and update the Committee. All fee variation requests are subject to approval from PSAA.

#### Significant difficulties during the audit

The impact of the Covid-19 pandemic on the audit was significant. Although we have had the full co-operation of the finance team and management through the audit, the pandemic has posed a number of logistical challenges in completing the audit, including staff availability and access to the Council's staff, assets and records. These issues are being resolved through the dedication and excellent support from the Council, but have delayed the audit significantly.

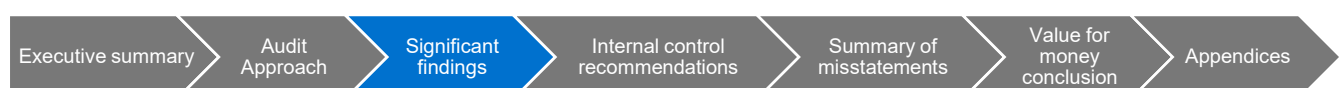
#### Wider responsibilities

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 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. We have not received any questions or objections during our audit from electors.



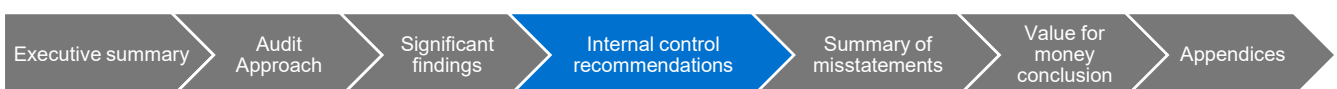
## 4. Internal control recommendations

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
<b>1 (high)</b>	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
<b>2 (medium)</b>	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	3
<b>3 (low)</b>	In our view, internal control should be strengthened in these additional areas when practicable.	0



## 4. Internal control recommendations (continued)

### Significant deficiencies in internal control – Level 1

There were no significant deficiencies in internal control arising from our 2019/20 audit.

### 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 in accordance with its stated accounting policy which establishes the use of the expected credit loss model as required under IFRS 9 and the CIPFA Code.

#### Potential effects

The Council is not fully complying 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

The Council will review IFRS 9 and the CIPFA Code and will amend the working papers to ensure compliance in the calculation of the debt impairment.

#### Description of deficiency

##### Continuing Access to Active Directory Following Termination of Employment

Our review and testing of the Council's general IT arrangements identified a number of instances where leavers access rights on the Active Directory had not been removed promptly.

#### Potential effects

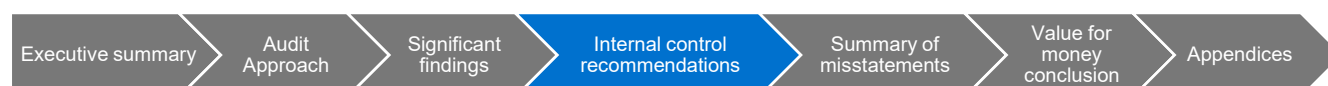
There is a risk of the Council's IT infrastructure assets being accessed inappropriately using the credentials of staff who have ceased employment with the Council.

#### Recommendation

The Council should review its approach for identifying and actioning the removal of Active Directory access following an employees termination of employment.

#### Management response

All managers have been reminded that they need to fill out the appropriate forms when members of the team leave the authority. IT are actioning any leavers notifications promptly.



## 4. Internal control recommendations (continued)

### Description of deficiency

#### Production of draft accounts and working papers

Both staff turnover during the year and the consequential impacts of staff absences and re-deployments as a result of the Covid-19 pandemic, led to increased pressure on finance staff during the accounts production cycle, resulting in higher than expected levels of audit adjustments and impacting the quality of working papers.

### Potential effects

The presentation of imbalanced accounts and poor quality working papers can lead to inefficiencies for both the Council and auditors, as staff time is required to investigate, discuss and resolve issues and may, in certain circumstances, lead to delays in the audit timescales.

### Recommendation

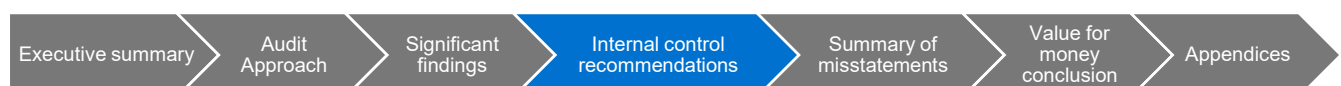
It is important that the Council takes the steps necessary to re-establish robust arrangements and staffing to support the 2020/21 year-end. Quality control procedures in respect of the accounts preparation process need to be strengthened and the Council, in its closedown procedures for 2020/21, should include sufficient time for a robust quality control process to be implemented.

### Management response

Completion of the SOA and audit for 2019/20 was undertaken at a time when there were significant resource pressures on the Financial Services due to the Covid19 pandemic and a need to support the Council in its response phase. Alongside this officers were remotely working which created some early issues for the team, which were eventually resolved. There were also a number of complexities to the SOA created by the pandemic which required additional work to be undertaken. During the completion of the SOA and audit two members left the team as part of natural turnover. Taking these factors into account it is a testament to the team that the accounts were produced in time for the statutory deadline. It is acknowledged that due to these issues the quality of the working papers was not to the high standard we would expect. The Financial Services team are now fully staffed to support the 20/21 year end process and have ensured additional time is built into the closedown timetable for quality checking.

### Other recommendations on internal control – Level 3

There were no other recommendations on internal control arising from our 2019/20 audit.



## 4. Internal control recommendations (continued)

### Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year

#### 1. Production of draft accounts and working papers

The Council's finance team experienced turnover in several key posts during 2018/19. This resulted in a loss of detailed knowledge over particular aspects of the accounts production and ledger processes leading to increased pressure on staff time during the busy year-end period. Although the team managed to prepare a complete set of draft financial statements by the statutory deadline, which were received on 31 May 2019, these were of a standard that fell below our expectations.

Given the pressures on staff the working papers provided in support of the financial statements were also found to be variable in quality and in some instances fell below the standard we would expect to see.

#### 2019/20 update

Whilst the finance team had started to make improvements in its internal processes staff absences and re-deployments as a result of the Covid-19 pandemic, and further staff vacancies has impacted it negatively. This has again led to deficiencies being noted in respect of the production of its 2019/20 financial statements and supporting working papers.

#### 2. Incomplete disclosures for pension fund plan assets

The Council relies on its actuary to provide it with the information necessary to meet CIPFA's Code of Practice disclosure requirements, including the accurate split of its pension fund plan assets into various classifications. Our audit has identified that the information provided by the actuary for this note is inaccurate and does not provide a full analysis for the Council to produce its accounts note accurately.

#### 2019/20 update

Early engagement with the actuary during 2019/20 by the finance team enabled this information to be commissioned from and provided by the actuary for the year.

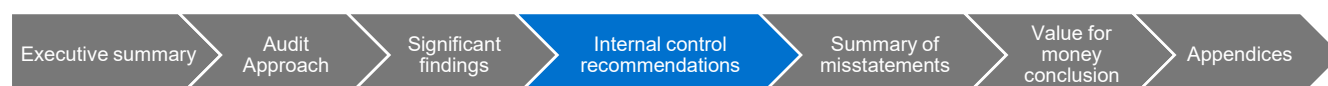
#### 3. Investment property valuations

The Council is required to measure its investment properties at their fair value at the end of each reporting period. This fair value must reflect market conditions at the end of the reporting period and thus annual revaluations will be necessary unless the Council can demonstrate that the carrying value is not materially different from the fair value at that date.

Our testing has identified that the Council employs a rolling 5 year programme of valuations as at 1 April each year for its investment properties, supported by a material change review as at 31 March. This has resulted in 35 investment properties not being subject to a formal revaluation during the course of the year, and represents a departure from the stated accounting policy in respect of these assets.

#### 2019/20 update

The Council has updated its policy to ensure that a full revaluation of its investment properties is undertaken each year.



## 5. Summary of misstatements

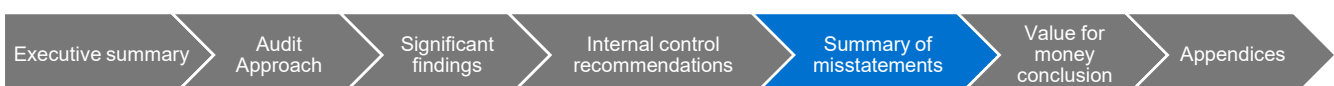
We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £49k.

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

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Property, plant and equipment			86	
Cr: Unusable reserves – Revaluation reserve				86
<i>The Council incorrectly calculated its required re-valuation adjustment in respect of a single asset. This error also has consequential impacts for the Movement in Reserves Statement and Other Comprehensive Income and Expenditure.</i>				
2 Dr: Unusable reserves – Pensions reserve			340	
Cr: Other long term liabilities				340
Dr: MiRS – General fund – Adjustments			100	
Cr: Corporate services – Gross expenditure				
		100		
<i>The net pensions liability decreased following the receipt of an updated IAS 19 report to reflect the impact of the Goodwin and changes to the remedy for the McCloud legal cases. This error also has consequential impacts for the Movement in Reserves Statement, the cash flow statement, the Expenditure and Funding Analysis and Notes 7, 7A, 8, 9, 26, 28 and 44.</i>				
<b>Total unadjusted misstatements</b>	<b>0</b>	<b>100</b>	<b>526</b>	<b>426</b>



## 5. Summary of misstatements (continued)

### Adjusted misstatements 2019/20

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1			48	
Dr: Unusable reserves – Capital adjustment account				
Dr: MiRS Major repairs reserve – Adjustments			6,742	
Cr: MiRS Major repairs reserve – Transfers to earmarked reserves				6,790
Dr: MiRS Capital receipts reserve – Adjustments			150	
Cr: MiRS Capital receipts reserve – Transfers to earmarked reserves				150
<i>The Council incorrectly reported its Movement in Reserves adjustments within other account entries. This error also has consequential impacts for Notes 9, 14, 26b, 39, HRA 3, HRA 4 and HRA 6.</i>				
2				
Dr: HRA – Gross expenditure	25			
Cr: Corporate services – Gross expenditure		2,766		
Dr: Other operating expenditure	22			
Dr: Financing and investment income and expenditure	2,719			
<i>The Council incorrectly disclosed the movements on its Investment Properties within Net Cost of Services and Other Operating Expenditure rather than including these within Financing and Investment Income and Expenditure. This error also has consequential impacts on the Expenditure and Funding Analysis and Notes 11, 12, and 32.</i>				
3				
Dr: Unusable reserves – Revaluation reserve			3,185	
Cr: Heritage assets				3,185
<i>The Council incorrectly included a Heritage Asset within its financial statements that should have been removed following a re-consideration of the effective control of the asset. This error also has consequential impacts for the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement and Notes 1, 15 and 26a. Additionally this adjustment has necessitated the inclusion of a prior period adjustment.</i>				



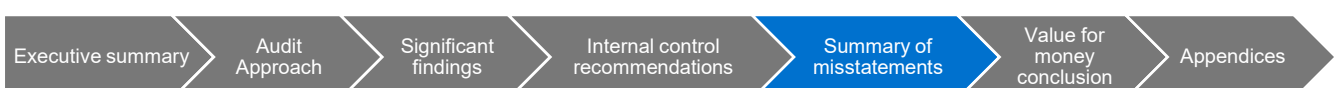


## 5. Summary of misstatements (continued)

### Disclosure amendments

In addition to the above numerical errors that relate directly to the primary statements or their related notes, the Council has made a number of amendments to the disclosures in the financial statements. Among these were contextual or presentational adjustments made to:

- Amend the disclosure of Other Comprehensive Income and Expenditure within the Comprehensive Income and Expenditure Statement by £2,040k to reflect the corresponding figure reported in the Movement in Reserves Statement;
- Correct the Expenditure and Funding Analysis and related disclosures in Notes 7 and 7A to reflect the transactions of the Council;
- Amend the analysis of Expenditure by Nature in Note 8;
- Amend the analysis of Taxation and Non-Specific Grant Income in Note 13 with a further adjustment to Note 37;
- Amend the analysis of Non-Current Asset movements and valuation profile in Note 14;
- Amend some of the disclosure entries in Notes 18 and 47 to reflect the correct categorisation and reporting of the Council's Financial Instruments;
- Amend the analysis of Debtors and Creditors in notes 20 and 23 to reflect the balances reported on the Balance Sheet;
- Amend the analysis of Revaluation Reserve movements in Note 26a;
- Amend the analysis of Financial Instruments Revaluation Reserve movements in Note 26e;
- Amend the analysis of Cash Flow movement in Notes 27, 28, 29, 30 and 31;
- Amend the analysis of Officers' Emoluments and Exit Packages in Note 35;
- Amend the analysis of Capital Expenditure and Financing in Note 39;
- Amend the analysis of Pension Fund Assets in Note 44; and
- Amend the analysis HRA transactions in HRA Notes 1, 4 and 5.



## 6. 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; and
- 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.

#### *Covid-19 and financial resilience*

On 27 July, Executive received the financial outturn for 2019/20, which set out a provisional overspend of £0.1m on the General Fund and £0.1m underspend against budget on the HRA.

Prior to Covid-19 and lockdown, in March 2020, the Council adopted a net General Fund revenue budget of £13.0m and a Medium Term Financial Strategy that identified the requirement to achieve recurrent savings of £1.3m by 2022/23. At this time the Council's General Fund and earmarked reserves per the draft financial statements were £2.2m and £11.6m respectively.

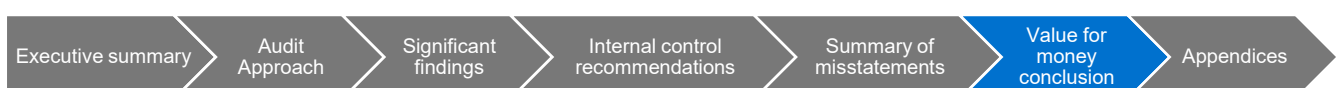
Subsequent monitoring of the Council's delivery of its 2020/21 General Fund financial plan, as reported to the Council's Executive, showed that at the end of quarter 1 an overspend of some £0.1m was forecast rising to £0.2m at quarter 2. Following the implementation of a number of successful remedial measures the latest quarter 3 position is predicting an underspend of some £0.1m for the year. Whilst we note that there are a significant number of forecast year-end variations in income and expenditure against the approved budget, these are as a result of the impact of Covid-19 and the measures taken to address its impact including the financial support provided by Government. The Council continues to monitor and respond to the impact of Covid-19 on its finances and service provision, and the full impact of this will be considered as part of our 2020/21 VFM conclusion work.

Despite the impact of Covid-19 the Council's savings and transformation plans remain on track with recurrent savings of £0.6m being delivered in 2020/21 making a significant contribution towards achieving its target of £1.3m by 2022/23. Despite this delivery the Council's latest Medium Term Financial Strategy indicates that some reliance on revenue reserves may be required as a short term measure whilst savings are delivered in order to maintain a balanced budget.

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

Mazars LLP  
45 Church Street  
Birmingham  
B3 2RT

8 February 2021

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 2019/20 (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.

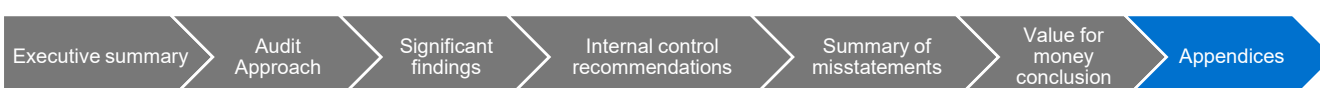
As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

#### Accounting records

I confirm that all transactions that have a material effect on the financial statements have been 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.



# Appendix A

## Draft Management Representation letter (continued)

### 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).

### 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.

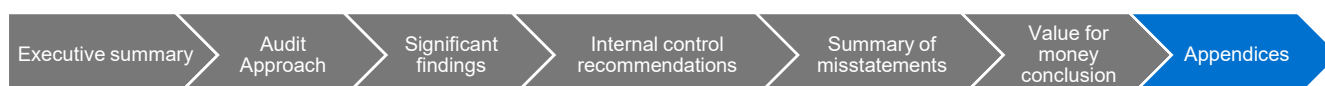
There are no contingent gains which should be disclosed.

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.

### 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.



# Appendix A

## Draft Management Representation letter (continued)

### 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:
  - o management and those charged with governance;
  - o employees who have significant roles in internal control; and
  - o 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. I have considered the impact of COVID-19 on the Council's 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.

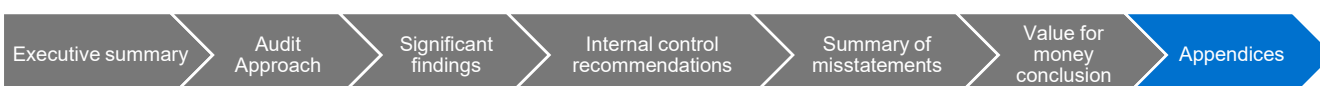
### Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code 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.

### COVID-19

We confirm that we have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties, and that the disclosure in the Statement of Accounts fairly reflects that assessment.



# Appendix A

## Draft Management Representation letter (continued)

### **Brexit**

We confirm that we have carried out an assessment of the potential impact of the United Kingdom leaving the European Union, including the potential outcomes at the end of the Implementation Period, and that the disclosure 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 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**

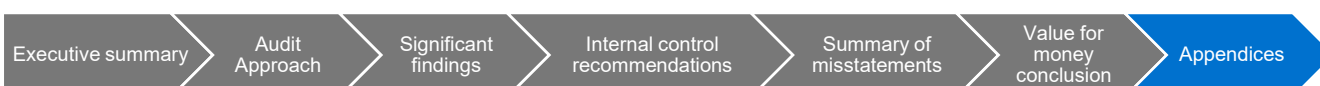
The disclosures within the Narrative Report fairly reflect my understanding of the Council's financial and operating performance over the period covered by the financial statements

### **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**  
S151 Officer



# Appendix B

## Draft Auditor's report

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

#### Report on the financial statements

##### Opinion

We have audited the financial statements of City of Lincoln Council for the year ended 31 March 2020, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of City of Lincoln Council as at 31st March 2020 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 2019/20.

##### 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.

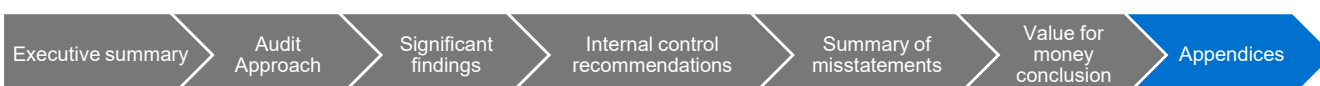
##### Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of property, plant and equipment, investment properties, assets held for sale and pension fund property investment assets

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's property, plant and equipment, investment properties, assets held for sale and the valuation of the Council's share of Lincolnshire Pension Fund's property investment assets. As disclosed in Note 4 of the financial statements, the Council's and Pension Fund's valuers included a 'material valuation uncertainty' declaration within their reports as a result of the Covid-19 pandemic. Our opinion is not modified in respect of this matter.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.





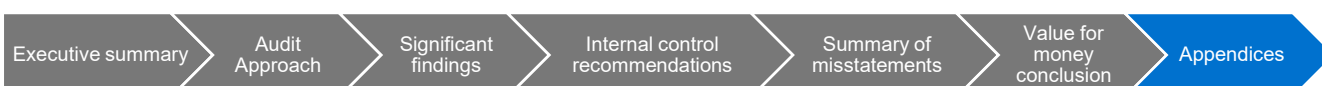
# Appendix B

## Draft Auditor's report (continued)

### 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.

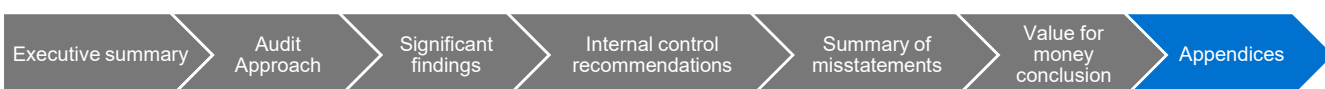
Key audit matter	Our response and key observations
<p><b>Valuation of property, plant and equipment, investment properties and assets held for sale</b></p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the fair value at that date. 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. In addition, as some of the valuations are undertaken at the start of the year there is a risk that the fair value as the assets is materially different at the year end.</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"> <li>• Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the instructions to the valuer from the Council;</li> <li>• Obtaining an understanding of the basis of valuation applied by the valuer in the year;</li> <li>• Obtaining an understanding of the Council's approach to ensure that assets not subject to revaluation in 2019/20 are materially fairly stated;</li> <li>• Obtaining an understanding of the Council's approach to ensure that assets revalued through 2019/20 are materially fairly stated at the year end;</li> <li>• Sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuer as part of their valuations;</li> <li>• Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2020;</li> <li>• Obtaining an understanding of the valuers' consideration of RICS guidance on material uncertainty relating to valuations, and considering whether there was evidence of material uncertainty; and</li> <li>• Testing the accuracy of how valuation movements were presented and disclosed in the financial statements.</li> </ul> <p><b>Key observation</b></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> <p>We draw attention to Note 4 of the financial statements, which discloses a material valuation uncertainty relating to the valuation of the Council's property, plant and equipment, investment properties and assets held for sale. Our opinion is not modified in respect of this matter.</p>



# Appendix B

## Draft Auditor's report (continued)

Key audit matter	Our response and key observations
<p><b>Valuation of net defined benefit liability</b></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 2019/20.</p> <p>In addition our work focused on two issues that emerged through 2020. In July 2020, MHCLG consulted on the proposed remedy for the 'McCloud' case, an estimate of which was originally included in the Council's liability in 2018/19. The proposed remedy indicates that the actuarial estimate of the original liability made in 2018/19 was likely to be overstating the pension fund liability but not materially. A second emerging issue this year is the 'Goodwin' case which also relates to groups of pension fund members suffering discrimination. In both issues, we engaged with the Council's actuary and reviewed the evidence provided by the pension fund and the Council's actuary in order to conclude on the material accuracy of the liability.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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;</li> <li>• 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;</li> <li>• Reviewing the actuarial allocation of Pension Fund assets to the Council by the actuary, including comparing the Council's share of the assets to other corroborative information;</li> <li>• 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</li> <li>• 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.</li> </ul> <p><b>Key observation</b></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> <p>We draw attention to Note 4 of the financial statements, which discloses a material valuation uncertainty relating to the valuation of the Council's share of the Lincolnshire Pension Fund's property investment assets. Our opinion is not modified in respect of this matter.</p>



# Appendix B

## Draft Auditor's report (continued)

### Our application of materiality

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	£1,642k
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	£1,231k
Reporting threshold	£49k

### An overview of the scope of our audit

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.

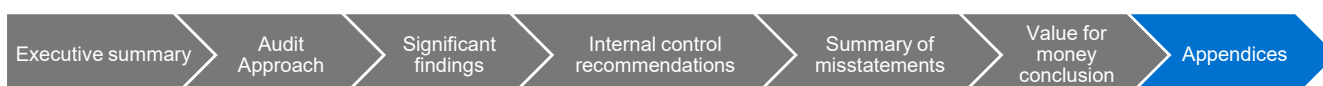
We gained an understanding of the legal and regulatory framework applicable to the Council and the sector in which it operates. We considered the risk of acts by the Council which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements. We focused on laws and regulations that could give rise to a material misstatement in the financial statements.

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 our risk assessment, our understanding of the Council's accounting processes and controls and its environment, and considered 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 Auditor's report (continued)

The primary responsibility for the prevention and detection of irregularities including fraud rests with both Those Charged with Governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under 'Key audit matters' within this report.

### Other information

The Chief Financial 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 Financial Officer for the financial statements

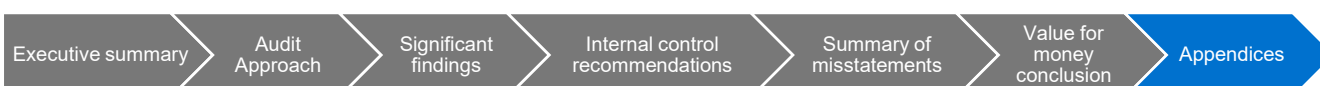
As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view. The Chief Financial Officer is also responsible for such internal control as the Chief Financial 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 Financial Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Chief Financial 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.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.



# Appendix B

## Draft Auditor's report (continued)

### 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.

### Conclusion on City of Lincoln Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, City of Lincoln Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

#### Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

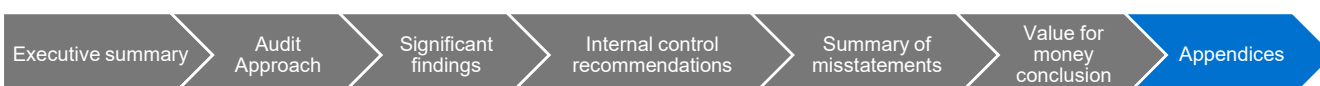
We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

#### 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. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. 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.



# Appendix B

## Draft Auditor's report (continued)

### 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 two years covering the audit of the financial years ending 31 March 2019 to 31 March 2020.

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 2019 to 31 March 2020, that have not been disclosed separately in the Statement of Accounts:

- Assurance services on the Housing Capital Receipts Pooling return for 2018/19
- Assurance services on the Housing Benefit Subsidy return for 2018/19.

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

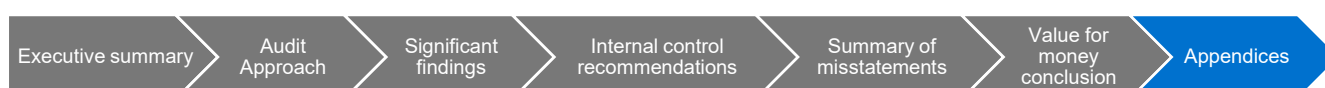
### Use of the audit report

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.

### Certificate

We certify that we have completed the audit of City of Lincoln Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Mark Surridge  
For and on behalf of Mazars LLP

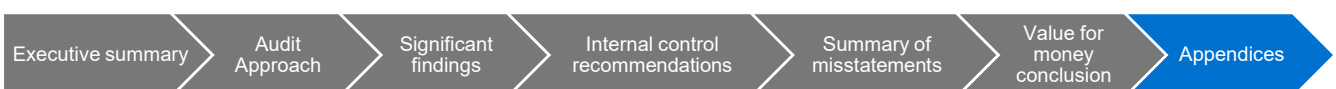


# Appendix C

## 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.



## CONTACT

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\*where permitted under applicable country laws

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