

Audit Completion Report

City of Lincoln Council– Year ended 31
March 2021

December 2021



Contents

- 01** Executive summary
- 02** Status of the audit
- 03** Audit approach
- 04** Significant findings
- 05** Internal control recommendations
- 06** Summary of misstatements
- 07** Value for Money

Appendix A: Draft management representation letter

Appendix B: Draft audit report

Appendix C: Independence

Appendix D: Other communications

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2 December 2021

Dear Committee Members

Audit Completion Report – Year ended 31 March 2021

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions.

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

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

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

Yours faithfully



Mark Surridge

Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

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

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

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

- Management override of control
- Expenditure recognition

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

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021. At the time of writing this report there are a small number of areas where work is still in progress and these are summarised at Section 2. We will provide an update to you in relation to any significant matters identified at Section 2 as outstanding through our normal follow up letter. Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



Audit opinion

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



Value for Money

Whilst we are yet to complete our work in respect of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we anticipate having no significant weaknesses in arrangements to report. Further detail on our Value for Money work is provided in section 7 of this report.



Whole of Government Accounts (WGA)

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



Wider powers

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

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices

02




Section 02:

Status of the audit

2. Status of the audit

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

Audit area	Status	Description of the outstanding matters
Income and Expenditure	●	We are clearing the final queries in relation to our income and expenditure cut-off testing.
Covid-19 Government Grants	●	We are clearing the final queries in relation to our testing of these grants.
Whole of Government Accounts (WGA)	●	NAO Group Instructions for local authority audits are not yet available and WGA returns and audit certificates cannot be issued at the present time. We provide more information on this matter at page 18.
Audit Quality Control and Completion Procedures	●	Our audit work is undergoing final stages of review by the Engagement Lead and Engagement Quality Reviewer and is subject to further quality and compliance checks. In addition, there are residual procedures to complete, including updating post balance sheet event considerations to the point of issuing the opinion and obtaining final management representations.

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



03

Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

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

Materiality

Our provisional materiality at the planning stage of the audit was set at £1.45m using a benchmark of 1.5% of gross operating expenditure. Our final assessment of materiality, based on the final financial statements, is £1.63m using the same benchmark.

Use of experts

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

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

Service organisations

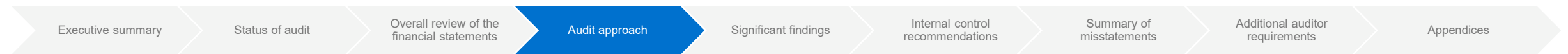
International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as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

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



3. Audit approach

	Risk description	Risk of fraud	Risk of error	Management judgement	Key Audit Matter	Audit approach	Control observations	Identified misstatements	Overall conclusion
Significant risks	Management override of controls	●				Substantive testing	-	-	Based on the work performed, we have no significant matters to bring to the Committee's attention at this stage.
	Expenditure recognition	●		●		Substantive testing	-	-	Based on the work performed, we have no significant matters to bring to the Committee's attention at this stage.
	Valuation of the net defined benefit pension liability		●		●	Substantive testing	-	Adjusted misstatement 1. See Section 7.	Other than the adjusted material misstatement summarised at Section 7 we have no matters to bring to the Committee's attention.
	Valuation of property assets		●		●	Substantive testing	-	Adjusted misstatement 2. See Section 7.	Other than the adjusted material misstatement summarised at Section 7 we have no matters to bring to the Committee's attention.
Key areas of management judgement and enhanced risks	Recognition of Covid-19 government grants		●	●		Substantive testing	-	-	Based on the work performed, we have no significant matters to bring to the Committee's attention at this stage.



04

Section 04: **Significant findings**

4. Significant findings

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

- our findings on key audit matters, including:
 - why the matter was considered;
 - why the matter was considered to be one of the most significance in the audit and therefore determined to be a key audit matter;
 - how the matter was addressed in the audit including a summary of the auditor’s response to those risks;
 - where relevant, key observations arising with respect to those risks; and
 - a clear reference to the relevant disclosures in the financial statements.
- if applicable (only in exceptional cases), depending on the facts and circumstances of the entity and the audit (these facts must be clearly explained), the auditor’s determination that there are no key audit matters to communicate in the auditor’s report. [ISA 701 Para. A60–A63]
- our audit conclusions regarding other significant risks, key audit matters and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 18 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.



4. Significant findings

Key audit matters

Valuation of net defined benefit pension liability

Relevant Account balances as set out in Note 44 of the financial statements presented for audit: Net defined benefit pension liability = £109,240k

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 2020/21.

How our audit addressed the key audit matter and our observations

We have:

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

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

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices

4. Significant findings

Key audit matters

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

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

- Note 14, Council Dwellings net book value £274,468k
- Note 14, Land & Buildings, net book value £79,781k
- Note 14, Surplus Assets, net book value £19,457k
- Note 14, Investment Properties £34,203k
- Note 22, Assets Held for Sale, £1,500k

Description of the key audit matter

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

The valuation of these assets involves the use of 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 held in the balance sheet at their materially correct fair value.

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

How our audit addressed the key audit matter and our observations

We have:

- Obtained an understanding of the skills, experience and qualifications of the valuer, and considered the appropriateness of the instructions to the valuers from the Council;
- Obtained an understanding of the basis of valuation applied by the valuers in the year;
- Obtained an understanding of the Council's approach to ensure that assets not subject to revaluation in 2020/21 are materially fairly stated;
- Sample tested the completeness and accuracy of underlying data provided by the Council and used by the valuers as part of their valuations;
- Engaged an auditor's expert to support our testing on the valuation of Investment Properties;
- Used relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2021; and
- Tested the accuracy of how valuation movements were presented and disclosed in the financial statements.

We have obtained sufficient appropriate evidence to conclude that the valuation of council dwellings, land and buildings, investment properties and assets held for sale included in the financial statements is reasonable. We have reported at Section 6 the material adjustments made to the draft financial statements to reflect the reclassification of an asset held for sale as a surplus asset within the plant, property and equipment balance as set out in Note 14.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices

4. Significant findings

Significant risks

Management override of controls	<p>Description of the risk This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p> <p>How we addressed this risk We addressed the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p> <p>Audit conclusion There are no matters arising from the areas of our work completed against this risk.</p>
Risk of fraud in expenditure recognition	<p>Description of the risk Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council (FRC), which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end and in particular whether cut-off (recognition in the correct financial year) is materially accurate. From our consideration of the Council's expenditure streams, we believe the risk is focused on Other Services Expenses.</p> <p>How we addressed this risk We addressed this risk by performing work in the following areas:</p> <ul style="list-style-type: none">• ensuring the accounting policies in relation to expenditure recognition and recognition of accruals are appropriate and consistently applied; and• carrying out cut-off testing, and testing for unrecorded liabilities, to confirm expenditure has been coded to the correct accounting year. <p>Audit conclusion As mentioned at Section 2 we have some residual audit queries to clear, but our audit procedures have not so far identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention.</p>



4. Significant findings

Key areas of management judgement, key audit matters and enhanced risks

We identified the following matter as an enhanced risk in our Audit Strategy Memorandum:

<p>Recognition of Covid-19 government grants</p>	<p>Description of the management judgement Throughout 2020/21, the Government has made available and provided substantial sums of grant support to local authorities including the general support grant, the Income Compensation and Job Retention schemes and grants that have been passed through to businesses.</p> <p>There is a risk the correct accounting treatment has not been applied, with the focus of our testing for this enhanced risk on the completeness and accuracy of this income in 2020/21.</p> <hr/> <p>How our audit addressed this area of management judgement To address this enhanced risk we:</p> <ul style="list-style-type: none"> • Reviewed the Council’s approach in determining whether grants are ringfenced for specified areas of expenditure; • Tested grant income recorded in the ledger to grant allocations/ notifications; and • Reviewed a sample of grants to establish whether conditions to recognise the income in 2020/21 have been met. <hr/> <p>Audit conclusion As mentioned at Section 2 we have some residual audit queries to clear but our audit procedures have not so far identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members’ attention.</p>
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4. Significant findings

Qualitative aspects of the Council’s accounting practices

We have reviewed the Council’s accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council’s circumstances.

The draft Statement of Accounts was published 12 July 2021, well ahead of the 31 July publication deadline.

Significant matters discussed with management

Significant matters discussed with management during the year include the on-going impact of Covid-19 on the Council’s business, including any potential impact on risks of material misstatement. This included the disclosures required regarding the key sources of estimation uncertainty that management has made in preparing the Statement of Accounts. There are no matters that we need to highlight in this report.

Significant difficulties during the audit

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

Going Concern

The Council’s financial statements are prepared on the assumptions that it is a going concern and will continue its operations for the foreseeable future. International Auditing Standard ISA (UK) 570, requires auditors to ‘obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern’.

Following the issue of Supplementary Guidance Note 1 (SGN1) by the National Audit Office, we have adopted a sector-specific approach to our work on going concern, which follows the principles of Practice Note 10 (PN10) and the guidance provided in SGN1. The SGN1 and PN10 make it clear that the auditor’s focus for non-trading public sector bodies should be on the extent to which there are any indications that the services provided by an entity will cease or transfer outside of the public sector (termed the Continued Provision of Service approach (‘CPoS’)).

Accounting estimates

We specifically considered the following areas of accounting estimates:

Estimate	PPE/IP/AHFS Valuation	Net Pensions Liability	Provision for Business Rate appeals	Financial Instruments
Note(s)	14, 16, 22	44	24	18
Value in 2020/21	Net book value of: L&B £387.9m IP £34.2m AHFS £1.5m	£109.2m	£2.4,	A number of long term and short term assets and liabilities.
Audit Risk	Significant	Significant	Standard	Standard
Comments	Property valuation estimates are derived using the professional opinion of the Council’s external valuers. Our testing to date has not identified any significant valuation issues, although an adjusted classification misstatement has been recorded at Section 6 of this report.	We reviewed the actuarial methodology for calculating IAS19 liabilities and confirmed the key assumptions used by the actuary were in the expected ranges as provided by our expert. An adjusted misstatement has been recorded at Section 6 of this report.	Valuation estimates are derived using the opinion of management’s expert. Our testing has not identified any significant issues to report.	Valuation estimates are derived using the opinion of management’s expert, and management’s own analysis and research. Our testing has not identified any significant issues to report.



4. Significant findings

Audit fees

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

- Additional work to recognise the Council's designation as a Public Interest Entity - £5,000
- Additional testing as a result of changes arising from increased audit quality expectations involving the work on the valuation of land and buildings and on the local government pension scheme - £7,067.
- Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; ISA570 (Revised) Going Concern – £2,800
- Additional testing as a result of Covid-19 grant income - £1,500
- Additional work as a result of the new Code of Audit Practice and VFM reporting – ongoing with our current estimate being £10,000 depending on the extent of any risks of significant weaknesses requiring additional work.

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

Modifications required to our audit report

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

Wider responsibilities

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

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

We have not exercised any of these powers as part of our 2020/21 audit.

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

Delay in the audit certificate

The issue of the Audit Certificate confirms that we have discharged all of our audit responsibilities and that the audit is formally 'closed'. The Audit Certificate would normally be published in our Auditor's Report on the Statement of Accounts. We expect to issue the audit report but delay the issue of the Audit Certificate until the following procedures are complete:

- Value for Money - We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2021 and expect to report our findings in the 2020/21 Annual Auditors Report within 3 months of giving our audit opinion. At the time of preparing this report, we have not identified any significant weaknesses in the Council's arrangements that require us to make a recommendation.
- Whole of Government Accounts - The NAO has not yet issued its Group Instructions for local authority audits.

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

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices

05

Section 05:

Internal control recommendations

5. Internal control recommendations

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

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

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

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



5. Internal control recommendations

Significant deficiencies in internal control – Level 3

Description of deficiency

Property valuation

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

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

Potential effects

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

Recommendation

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

Management response

The original errors were identified by the District Valuer and our internal valuer and so the primary information will be updated as a result of this. In terms of the ongoing accuracy of information this has been raised with the people involved and ongoing checks will be carried out.



5. Internal control recommendations

Follow up on previous internal control points

Description of deficiency

Expected Credit Loss Model - Level 2

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.

2020/21 Update

The Council has reviewed IFRS 9 and the CIPFA Code and updated its working papers in relation to debt impairment. Management's approach takes account of the debtor circumstances and is viewed by them as pragmatic and prudent.

Description of deficiency

Continuing Access to Active Directory Following Termination of Employment - Level 2

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.

2020/21 Update

Our review and testing of the Council's general IT arrangements did not identify a reoccurrence of this finding.



5. Internal control recommendations

Follow up on previous internal control points (continued)

Description of deficiency

Production of draft accounts and working papers - **Level 2**

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.

2020/21 Update

The quality and completeness of the published draft financial statements has improved, reflecting the improvements made to processes and staffing in the year. The closedown process, alongside the finance team's normal duties, has again been challenging but the number of audit matters arising has been fewer than in the previous year. There are no material unadjusted items disclosed at Section 6. We are continuing to work with management to clear the few remaining queries on the audit (as summarised at Section 2).



06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £49k.

Adjusted misstatements

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

	Details	Assets £000s	Liabilities £000s	Reserves £000s	Comprehensive Income and Expenditure Statement £000s	Commentary
1	Dr Net Pension Liability		3,101			The Lincolnshire Pension Fund team have advised the employer organisations of a material difference between the total investment asset value used by the Fund's actuary to prepare the IAS19 valuation reports (which has been used to prepare the Council's July 2021 published Financial Statements) and the audited Pension Fund Financial Statements. The Council obtained an updated IAS19 valuation report from the Fund's actuary in September 2021 and these adjustments reflect changes required to bring the Financial Statements in line with the new report.
	Cr Unusable Reserves (Pensions Reserve)			(3,101)		
2	Cr Assets held for sale	(1,500)				The asset classified as an asset for sale does not meet all of the relevant criteria under the accounting standard (IFRS5). The standard requires, amongst other things, that the sale of the asset is highly probable within 12 months of its classification. The asset was classified as 'held for sale' at 31/3/2020 and at the date of this report it is uncertain if the sale will be completed by 31/3/2022.
	Dr Plant, Property and Equipment – Surplus Assets	1,500				

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

Executive summary

Status of audit

Audit approach

Significant findings

Internal control
recommendations

Summary of
misstatements

Value for Money

Appendices

6. Summary of misstatements

Unadjusted misstatements

The table below summarises the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £49k, which management do not propose to adjust in the financial statements.

	Details	Assets £000s	Liabilities £000s	Reserves £000s	Comprehensive Income and Expenditure Statement £000s	Commentary
1	Dr Plant, Property and Equipment - Council Dwellings	112				As explained on page 21, following our sample testing of the inputs used, an extrapolated £112k understatement of the year end Council Dwellings valuation.
	Cr Unusable Reserves – Revaluation Reserve			(112)		
2	Dr Current Liabilities – Short Term Creditors		534			As part of our Creditors testing we identified 2 items that did not relate to 2020/21 and had been incorrectly included. Because we apply a sampling approach, where we cannot confirm the error is isolated, we must extrapolate the impact of the error across the remainder of the population being tested, leading to a total reported error of £534k.
	Cr Operating Expenses				(534)	
3	Dr Operating Income				340	As part of our Income testing we identified 1 item that had been double counted, with a credit note issued in 2021/22. Because we apply a sampling approach, where we cannot confirm the error is isolated, we must extrapolate the impact of the error across the remainder of the population being tested, leading to a total error of £306k.
	Cr Current assets – Short Term Debtors	(340)				

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

Disclosure amendments

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



07

Section 07:

Value for Money

7. Value for Money

Approach to Value for Money

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

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

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

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

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

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. In line with NAO guidance we plan to issue the Auditor's Annual Report within three months of the issue of the audit opinion.

Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2021. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on the Council's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Council's arrangements. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report.



Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

Mazars LLP
2 Chamberlain Square
Birmingham
B3 3AX

xx December 2021

Dear Mark

City of Lincoln Council - audit for year ended 31 March 2021

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 2021 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 2020/21 (the Code) and applicable law.

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

My responsibility for the statement of accounts and accounting information

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

My responsibility to provide and disclose relevant information

I have provided you with:

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

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

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



Appendix A: Draft management representation letter

Accounting records

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

Accounting policies

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

Accounting estimates, including those measured at fair value

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

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

Contingencies

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

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

the amount of the loss can be reasonably estimated.

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

There are no contingent gains which should be disclosed.

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



Appendix A: Draft management representation letter

Laws and regulations

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

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

Fraud and error

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

I have disclosed to you:

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

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

Related party transactions

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

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

Impairment review

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



Appendix A: Draft management representation letter

Charges on assets

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

Future commitments

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

Subsequent events

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

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

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.

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



Appendix A: Draft management representation letter

Narrative report

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

Unadjusted misstatements

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

Yours faithfully

Jacyln Gibson

FCCA Chief Finance Officer (s151)



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

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

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of City of Lincoln Council ("the Council") for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2021 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 2020/21.

Basis for opinion

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

Conclusions relating to going concern

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

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

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

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

- undertaking an initial assessment at the planning stage of our audit to identify events or conditions that may cast significant doubt on the Council's ability to continue as a going concern in the context of the guidance in Practice Note 10;
- obtaining and reviewing the Chief Financial Officer's written going concern assessment; and
- considering whether the Chief Finance Officer's assessment is proportionate to the risks associated with going concern for the local government sector.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control
recommendations

Summary of
misstatements

Value for Money

Appendices

Appendix B: Draft audit report

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

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

Key audit matters

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

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

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



Appendix B: Draft audit report

Key audit matter	Our response and key observations
<p>Valuation of property, plant and equipment, investment properties and assets held for sale</p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five-year cycle, with investment properties and assets held for sale being revalued annually.</p> <p>The valuation of these assets involves the use of two management experts (the valuers) and incorporates assumptions and estimates which impact materially on the reported values. There are risks relating to the valuation process. As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value.</p> <p>Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing (EUV-SH). The Social Housing adjustment factor is prescribed in MHCLG guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council's area they can use their more accurate local factor. There is a risk that the Council's application of the valuers' assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the valuer, and considered the appropriateness of the instructions to the valuers from the Council; • Obtaining an understanding of the basis of valuation applied by the valuers in the year; • Obtaining an understanding of the Council's approach to ensure that assets not subject to revaluation in 2020/21 are materially fairly stated; • Sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuers as part of their valuations; • Engaging an auditor's expert to support our testing on the valuation of Investment Properties; • Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2021; and • Testing the accuracy of how valuation movements were presented and disclosed in the financial statements. <p>We have, as summarised at Section 2, a small number of residual queries to clear, but we expect to obtain sufficient appropriate evidence to conclude that the valuation of council dwellings, land and buildings, investment properties and assets held for sale included in the financial statements is reasonable. We have reported at Section 6 the material adjustments made to the draft financial statements to reflect the reclassification of an asset held for sale as a surplus asset within the plant, property and equipment balance as set out in Note 14.</p> <p>Key observation</p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of property, plant and equipment, investment properties and assets held for sale included in the financial statements is reasonable.</p>



Appendix B: Draft audit report

Key audit matter	Our response and key observations
<p>Valuation of net defined benefit liability</p> <p>The net pension liability represents a material element of the Council’s balance sheet. The Council is an admitted body of the Lincolnshire Pension Fund, which had its last triennial valuation completed as at 31 March 2019. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council’s overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Council’s valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council’s employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in valuing the Council’s pension obligation are not reasonable or appropriate to the Council’s circumstances. This could have a material impact to the net pension liability in 2020/21.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary from the Council; • Obtaining confirmation from the auditor of the Lincolnshire Pension Fund that the controls in place at the Pension Fund are operating effectively. This included the controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation of the gross asset and liability is complete and accurate; • Reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluating whether the outcome of their work would affect our consideration of the council’s share of Pension Fund assets. The Pension Fund auditor work included comparing the asset values used for the actuarial valuation to those subjected to audit by the Pension Fund auditor; • Reviewing the appropriateness of the Pension Asset and Liability valuation methodology applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PwC LLP, consulting actuary engaged by the National Audit Office; and • Agreeing the data in the IAS 19 valuation report provided by the Pension Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the financial statements and considering the implications of the revised IAS 19 valuation report on the Council’s disclosures. <p>Key observations</p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of the defined benefit pension liability included in the financial statements is reasonable.</p>



Appendix B: Draft audit report

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

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

Overall materiality	£1,633k
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	£1,225k
Reporting threshold	£49k

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

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

Our tests included, but were not limited to:

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



Appendix B: Draft audit report

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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

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

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



Appendix B: Draft audit report

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

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

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

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

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

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

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

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

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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

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

Executive summary

Status of audit

Audit approach

Significant findings

Internal control
recommendations

Summary of
misstatements

Value for Money

Appendices

Appendix B: Draft audit report

Responsibilities of the Council

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

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

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

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

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

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

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

We have nothing to report in these respects.

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 three years covering the audit of the financial years ending 31 March 2019 to 31 March 2021.

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 2020 to 31 March 2021, that have not been disclosed separately in the Statement of Accounts:

- Assurance services on the Housing Capital Receipts return for 2019/20
- Assurance services on the Housing Benefit Subsidy return for 2019/20
- Assurance services through the Homes England Compliance Audit Programme for 2019/20

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

Executive summary

Status of audit

Audit approach

Significant findings

Internal control
recommendations

Summary of
misstatements

Value for Money

Appendices

Appendix B: Draft audit report

Use of the audit report

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

Delay in certification of completion of the audit

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

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

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

2 Chamberlain Square
Birmingham
B3 3AX

xx December 2021



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.



Appendix D: Other communications

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



Appendix D: Other communications

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



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