# Progress report to the Audit and Governance Committee

## City of Lincoln Council

**Progress report for the year ended 31 March 2024**

23 September 2024

# Audit risks and our audit approach

## 1 Valuation of land and buildings

### Significant audit risk

- The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle, with land and buildings outside the full revaluation subject to a desktop review. The Authority engages the District Valuer for all Housing property and employs an in-house valuer for all other land and buildings.
- This creates a risk that the carrying value of assets not revalued in year differs materially from the year end current value.
- A further risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the Council's valuer and the District Valuer.

### Our findings to date

- We have critically assessed the independence, objectivity and expertise of the Council's valuer and the District Valuer, the latter used in developing the valuation of the Council's properties at 31 March 2024 and not identified any issues in this regard.
- We have inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We are in the process of comparing the accuracy of the data provided to the valuers for the development of the valuation to underlying information.
- We have evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used. Management do not document a formal review of the report including the assumptions used. We will raise a control deficiency relating to the management review of the valuation report.
- We are in the process of challenging the appropriateness of the valuation of land and buildings including challenging key assumptions within the valuation as part of our judgement through discussions with the valuer.
- Our testing is ongoing with regards to agreeing the calculations performed of the movements in value of land and buildings and verifying that these have been accurately accounted for in line with the requirements of the CIPFA Code; and
- Once the above work is complete, we will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

# Audit risks and our audit approach

## 2 Valuation of Investment Properties

### Significant audit risk

- The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property. As at March 2023, the value of investment properties was £36.6m.
- There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.

### Our findings to date

- We have critically assessed the independence, objectivity and expertise of the Council's valuer engaged in developing the valuation of the Council's investment properties at 31 March 2024 and not identified any issues in this regard.
- We have inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We are in the process of comparing the accuracy of the data provided to the valuers for the development of the valuation to underlying information.
- We have evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used. Management do not document a formal review of the report including the assumptions used. We will raise a control deficiency relating to the management review of the valuation report.
- We are in the process of challenging the appropriateness of the valuation of land and buildings including challenging key assumptions within the valuation as part of our judgement through discussions with the valuer.
- Our testing is ongoing with regards to agreeing the calculations performed of the movements in value of land and buildings and verifying that these have been accurately accounted for in line with the requirements of the CIPFA Code; and
- Once the above work is complete, we will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

# Audit risks and our audit approach (cont.)

## 3 Management override of controls[(a)]

### Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is 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.
- We have not identified any specific additional risks of management override relating to this audit.

### Our findings to date

- We will raise a control deficiency in respect of the review process for reviewing journals before they're posted to the ledger. For the purposes of our audit, we are unable to rely on this control as there is not a clear audit trail to evidence that an appropriate review process took place before posting the journal.
- Our testing is ongoing in relation to high-risk and post-close journals.
- To date, we have not identified any bias in any accounting estimates.
- We have not identified any issues to date with the selection and application of accounting policies.
- We have not identified any significant transactions outside of the Council's normal course of business.
- We have not identified any changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.

Note: (a) Significant risk that professional standards require us to assess in all cases.

# Audit risks and our audit approach (cont.)

## 4 Valuation of post retirement benefit obligations

### Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

### Our findings to date

- We have evaluated the competency and objectivity of the actuaries to confirm their qualifications and the basis for their calculations.
- We have understood the processes the Council has in place to set the assumptions used in the valuation.
- We have performed inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets.
- We have agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation.
- We have evaluated the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability. Management do not document a formal review of the assumptions. We will raise a control deficiency relating to the management review of the report.
- We have challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data.
- We have confirmed that the accounting treatment and entries applied by the Council are in line with IFRS and the CIPFA Code of Practice.
- We have considered the adequacy of the Council's disclosures in respect of the sensitivity of the net liability to these assumptions and not identified any issues.
- We have assessed the impact of the asset ceiling on the net liability and confirmed the amount recorded is appropriate.
- We have recommended a number of updates to disclosures and shared these with management.

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