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**Open Report on behalf of Andrew Crookham - Executive Director - Resources**

|            |                                                                              |
|------------|------------------------------------------------------------------------------|
| Report to: | <b>Audit Committee</b>                                                       |
| Date:      | <b>15 November 2021</b>                                                      |
| Subject:   | <b>External Auditor's Annual Report and Audit Completion Reports 2020/21</b> |

**Summary:**

The external audit of the Council's accounts by Mazars is nearing its conclusion, with the Pension Fund audit already complete.

The auditor has provided a Value for Money Progress Report for Lincolnshire County Council for the year ended 31 March 2021 and this is attached as Appendix A. It will not be finalised until after the audit has concluded (see paragraph 1.3 for further information).

The auditor has also provided an Audit Completion Report for Lincolnshire Pension Fund, and a draft Audit Completion Report for Lincolnshire County Council. These are attached as Appendices B and C respectively. A final Audit Completion Report for Lincolnshire County Council will be issued after the audit has concluded.

A supplementary item has also been provided by Mazars, which is the conclusion of pending matters relating to the Audit Completion Report for the Lincolnshire Pension Fund attached at Appendix D.

Mazars representatives will be in attendance at the meeting to present these reports. This covering report explains the broad content of the appended reports.

**Recommendation:**

It is recommended that the Audit Committee considers the draft Auditor's Annual Report and the Audit Completion Reports and identifies any further information or actions that may be required.

## **Background**

- 1.1 The Auditor's Value for Money Progress Report and two Audit Completion Reports provide updates on the findings of our external auditor arising from their audit work this year. Mazars representatives will be in attendance at this meeting to present their findings, allowing members of the Committee to ask questions and make comments following the presentation.
- 1.2 The Value for Money Progress Report (Appendix A) includes a commentary on their findings relating to the Council's value for money (VFM) arrangements.
- 1.3 The report covers Council's arrangements in respect of financial sustainability, governance and improving service delivery. Generally the VFM conclusions refer to no adverse indications, although there are some recommendations for improvement in a small number of areas. The Auditor's Annual Report is in draft format because a report from Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services is due to be published in December 2021 following their inspection of Lincolnshire Fire & Rescue Service this year. Mazars are awaiting the issuing of this inspection report to confirm whether or not it impacts on their VFM assessment.
- 1.4 The Audit Completion Report 2020/21 for Lincolnshire Pension Fund (Appendix B) is a final report, and it concludes that there are no significant control deficiencies and no unadjusted misstatements to be reported to the Audit Committee. An unqualified audit opinion is expected to be issued and the timing of this will be alongside the audit opinion on the Lincolnshire County Council accounts. The Summary of Misstatements section includes reference to the valuation updates for unquoted assets which have been adjusted for in the accounts. Mazars have also provided a conclusion of pending matters in addition to the Audit Completion Report for the Pension Fund and this is attached at Appendix D.
- 1.5 The draft Audit Completion Report for Lincolnshire County Council (Appendix C) sets out the areas of the audit which are still in progress in section 2. The Summary of Misstatements section includes details of a number of misstatements. The most significant of these is the material adjustment to the Pension Liability following the receipt of a revised actuarial report which reflected the updated unquoted asset valuations. There are also some lower value misstatements reported which, when extrapolated, indicate a more significant level of misstatement. The report also includes four internal control recommendations in section 5. A management response to all reported items is in the process of being collated.
- 1.6 The two Audit Completion Reports include draft audit opinions and draft management representation letters. Once we are advised by Mazars that the audit opinions are almost ready to be issued, we will arrange for the management representation letters to be signed by the Executive Director of Resources.

## **Conclusion**

- 2.2 The audit has not yet concluded for Lincolnshire County Council, which means that further changes may be required to the accounts, and final reports will need to be issued by Mazars. Any further changes will be notified to the Chairman of the Audit

Committee and, if these are significant, they will be reported to a future meeting of the Committee.

## **Consultation**

### **a) Risks and Impact Analysis**

## **Appendices**

|                                                               |                                                                            |
|---------------------------------------------------------------|----------------------------------------------------------------------------|
| These are listed below and attached at the back of the report |                                                                            |
| Appendix A                                                    | Auditor's Value for Money Progress Report 2020/21                          |
| Appendix B                                                    | Audit Completion Report Lincolnshire Pension Fund 2020/21                  |
| Appendix C                                                    | Draft Audit Completion Report Lincolnshire County Council 2020/21          |
| Appendix D                                                    | Audit Completion Report Lincolnshire Pension Fund 2020/21 follow up letter |

## **Background Papers**

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Michelle Grady, who can be contacted on 01522 553235 or [michelle.grady@lincolnshire.gov.uk](mailto:michelle.grady@lincolnshire.gov.uk).

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# Value for Money Progress Report

Lincolnshire County Council – year  
ended 31 March 2021

Page 7  
November 2021



# Contents

**01** Approach

**02** Initial observations on arrangements:

- 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

Page 8

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

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# VFM arrangements – Progress Report

## Approach to Value for Money arrangements work

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 so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in 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 there are further risks of significant weaknesses.

Our assessment of what constitutes a significant weakness is a matter of professional judgement, based on our evaluation of the subject matter in question, including adequacy of the Trust's responses. The National Audit Office's guidance states that a weakness may though be said to be significant if it:

- Exposes (or could reasonably be expected to expose) the body to significant financial loss or risk;
- Leads to (or could reasonably be expected to lead to) significant impact on the quality or effectiveness of service or on the body's reputation;

- Leads to (or could reasonably be expected to lead to) unlawful actions; or
- Involves a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. To arrive at our assessment, we performed a variety of work to obtain an understanding of the Trust's arrangements for each specified reporting criteria. This included performing a detailed risk assessment, drawing from a variety of sources, including, but not limited to:

- Meeting with management and reviewing management's self-assessment;
- Considering the views of the Audit and Risk Committee;
- Reviewing supporting guidance from the National Audit Office, including indicators of significant weaknesses;
- Considering our understanding of sector developments and any local issues;
- Reading and reviewing Board and Committee reports;
- Reviewing the Trust's Annual Governance Statement and Annual Report;
- Considering the outcomes from the work of internal audit;
- Reading risk registers and risk management reporting; and
- Considering the work of regulators and inspectorates.

# VFM Progress Report

Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

Page 10



# Initial observations: financial sustainability

## Covid-19: Context & Financial Impact

We obtained Local authority Covid-19 financial impact monitoring information published by the Ministry of Housing, Communities & Local Government and Department for Levelling Up, Housing and Communities, which is summarised in the following tables. It shows £6.9billion in additional expenditure and £5.1billion in income losses.

The Council has described the financial impact of Covid-19 in Note 4 of the financial statements, which is summarised as:

- £75m expenditure included in the cost of services; and
- £88m in government grants and reimbursements

With the net amount carried forward into 2021/22 for ongoing costs. Our testing of the financial statements, including grant income did not identify any significant issues.

As set out in the 2021/22 budget, the Government has supported the additional costs and losses the Council has incurred in response to the Covid-19 pandemic. The Council's budget for 2021/22 assumes immediate costs and losses will continue to be supported via these government grants and the papers set out the types of pressures the Council expects to face.

There is no denying the financial impact of the pandemic, but as long as the Government remains committed to supporting public finances, there is no indication of a significant weakness in the Council's arrangements for financial sustainability as a result of Covid-19.

|                       | 2020-21 Additional expenditure due to Covid-19 by class of authority (£'m) | 2020/21: Income losses due to Covid-19 by class of authority (£'m) |
|-----------------------|----------------------------------------------------------------------------|--------------------------------------------------------------------|
| Shire District        | 330                                                                        | 1,308                                                              |
| Shire County          | 2,111                                                                      | 259                                                                |
| Unitary Authority     | 1,791                                                                      | 1,114                                                              |
| Metropolitan District | 1,504                                                                      | 1,053                                                              |
| London Borough        | 1,127                                                                      | 1,343                                                              |
| <b>Total</b>          | <b>6,863</b>                                                               | <b>5,077</b>                                                       |

| 2020-21: Additional expenditure due to Covid-19 by class and service area (£'m) |                |              |                   |                       |                |              |
|---------------------------------------------------------------------------------|----------------|--------------|-------------------|-----------------------|----------------|--------------|
|                                                                                 | Shire District | Shire County | Unitary Authority | Metropolitan District | London Borough | Total        |
| Adult Social Care – total                                                       | -              | 1,255        | 849               | 663                   | 414            | <b>3,181</b> |
| Children's social care - total (excluding SEND)                                 | -              | 95           | 131               | 90                    | 63             | <b>379</b>   |
| Housing - total (including homelessness services) excluding HRA                 | 63             | 5            | 75                | 42                    | 113            | <b>299</b>   |
| Environmental and regulatory services - total                                   | 34             | 68           | 68                | 67                    | 64             | <b>299</b>   |
| Finance & corporate services - total                                            | 48             | 53           | 84                | 77                    | 78             | <b>341</b>   |
| All other service areas not listed in rows above                                | 185            | 635          | 585               | 565                   | 395            | <b>2,364</b> |
| <b>Total</b>                                                                    | <b>330</b>     | <b>2,111</b> | <b>1,791</b>      | <b>1,504</b>          | <b>1,127</b>   | <b>6,863</b> |

| 2020-21: Income losses due to Covid-19 by class and source of income (£'m) |                |              |                   |                       |                |              |
|----------------------------------------------------------------------------|----------------|--------------|-------------------|-----------------------|----------------|--------------|
|                                                                            | Shire District | Shire County | Unitary Authority | Metropolitan District | London Borough | Total        |
| Business rates                                                             | 276            | -            | 194               | 207                   | 538            | <b>1,216</b> |
| Council tax                                                                | 399            | -            | 218               | 191                   | 233            | <b>1,041</b> |
| Sales fees and charges                                                     | 516            | 195          | 554               | 397                   | 476            | <b>2,138</b> |
| Commercial income                                                          | 82             | 24           | 121               | 204                   | 52             | <b>484</b>   |
| Other                                                                      | 33             | 40           | 27                | 54                    | 45             | <b>199</b>   |
| <b>Total</b>                                                               | <b>1,308</b>   | <b>259</b>   | <b>1,114</b>      | <b>1,053</b>          | <b>1,343</b>   | <b>5,077</b> |

# VFM Progress Report – initial observations on arrangements for financial sustainability

## Matters brought forward from 2019/20

As reported in our Audit Completion Report for 2019/20, we confirmed we had:

- reviewed the 2019/20 financial performance and forecasts during the year and considered the Council's financial outturn position as presented in the financial statements.
  - Reviewed the 2020/21:
    - Revenue and Capital budgets and Medium Term Financial Plan;
    - Treasury Management Strategy, incorporating the Minimum Revenue Provision Policy and Capital and Investment Strategies;
    - Considered the Council's latest financial monitoring information and its updated medium term outlook.
- Updated our risk assessment for any new or emerging issues through discussions with management and updating our review of committee reports.
- Reviewed the Council's Annual Governance Statement for any significant issues.
  - Considered the general findings from our audit work in other areas.

Our 2019/20 Conclusion was that "On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, Lincolnshire County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020."

We therefore have no risks of a significant weakness in the Council's arrangements brought forward from 2019/20 into the current year.

## 2020/21 Financial Statement Performance

We have carried out a high level analysis of the financial statements subject to our audit, including the Movement in Reserves Statement and the Balance Sheet, our work has not highlighted any risks of significant weakness in arrangements or indicators of a risk to the Council's financial sustainability.

The Council's useable reserves have increased from £337m to £366m in 2020/21, with:

- General Fund & Earmarked Reserves of £247m, up from £211m in the prior year
- School Reserves of £26m, up from £25m in 2019/20
- Capital Reserves of £93m, down from £102m in 2019/20 in line with funding of capital expenditure.

The Council's reserves position does not indicate a risk of significant weakness in VFM arrangements for financial sustainability.

# VFM Progress Report – initial observations on arrangements for financial sustainability

## 2020/21 Financial Statement Performance (continued)

The Council's balance sheet remains stable over the prior year, with large movements in cash and cash equivalents offset by the movement in short-term investments, such that net current assets (being current assets less current liabilities) have increased by 3% from £203m to £209m.

The most significant change in the balance sheet relates to movements in the Council's share of the pension fund net liability (being a deficit position) of £801m, up from £617m in the prior year as shown in Note 29 of the financial statements. The main movements being:

- an increase in the value of pension assets from £1,147m to £1,400m
- offset by a larger reduction in the value of pension liabilities from £1,763m to £2,200m.

The Fire-fighters Pension Fund net liability has increased from £240m to £311m.

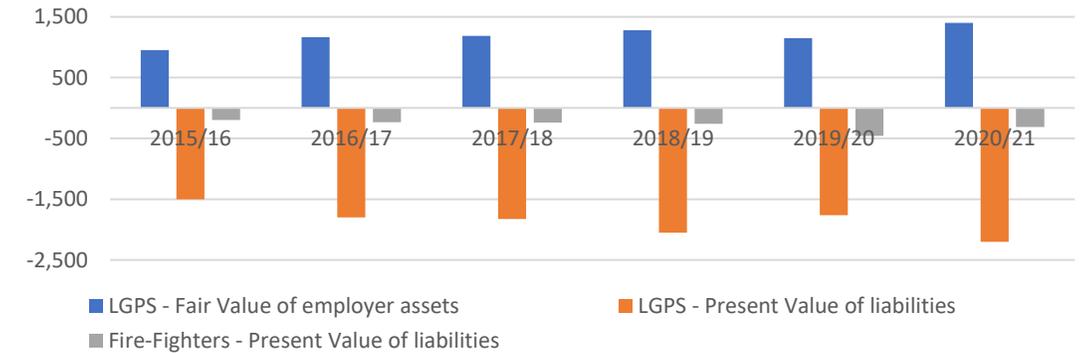
In the past few years, it is not unusual to see material movements in the net pension liability and this is consistent with our experience at other councils.

We have tracked the movement in the net pension liability over a five year period to illustrate the changes and summarised in the table below and the charts opposite.

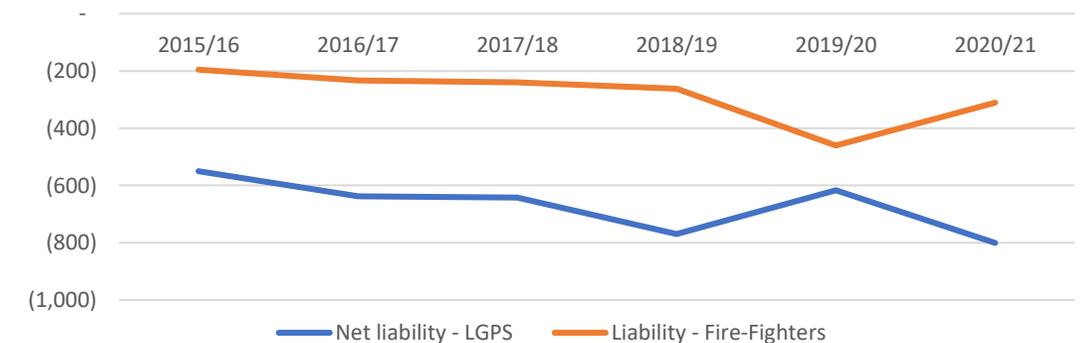
The deficit position is not unusual to Lincolnshire County Council and is a recognised area of financial challenge for local authorities.

|                           | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | Increase since 2015/16 |
|---------------------------|---------|---------|---------|---------|---------|---------|------------------------|
| Net liability - LGPS      | (550)   | (638)   | (643)   | (770)   | (617)   | (801)   | (251)                  |
| Liability - Fire-Fighters | (196)   | (233)   | (240)   | (263)   | (461)   | (311)   | (115)                  |

Pension fund assets and liabilities over time (£'m)



Pension fund net liabilities over time (£'m)



# VFM Progress Report – initial observations on arrangements for financial sustainability

## 2020/21 Financial Performance: Net Revenue Expenditure

We have met regularly with Officers during the year and read the Quarterly Reports to Executive. Each report summarises the financial position of the Council and is supported by a set of appendices that adequately enable Members to assess revenue performance by service (such as Children’s Services, Place etc). We note the reports explain the variance to budget, which increased in size from Quarter 3 through to the year end: this is shown in the table below. The reports also include an adequate summary and explanations of the financial impact of Covid-19.

Reports to Executive include the monitoring of planned savings of £9.4m for 2020/21 and £12m for 2021/22. These savings are built into budgets and triangulate with the individual service level reports included in the supporting appendices to the Quarterly Revenue reports to Executive. There are no material unidentified saving or funding gaps for 2020/21 or 2021/22.

We also reviewed Note 14 of the financial statements, setting out earmarked reserves, and in particular the Financial Volatility Reserve that was established to help the Council deal with the future uncertainties around Local Government funding. The Council used £12.2m of this reserve in the year, leaving a balance of £40m as at 31 March 2021.

In July 2021, the Executive were informed that there had been:

- A £15m underspend on Services (3.5%) and £13m underspend on other budgets (16.5%), mainly being capital charges of £9m linked to underspending on the capital programme.
- £14m underspend via dedicated schools grant (169%).
- Paragraph 1.21 explains that these underspends are mainly the result of Covid-19.

Overall, the Council’s arrangements for reviewing revenue financial performance are adequate, however there are areas for improvement and management are considering areas alongside our suggestions for:

- Incorporation of specific and agreed financial performance indicators in each report (such as cashflow headroom, debtor days, creditor payment days)
- More integrated reporting with the Council’s resources, such as workforce (such as staff sickness, agency costs, headcount), estates (such as asset utilisation), and key performance indicators (covering each service)

| Source                                                                                      | Short Heading   | Total including schools |          |          | Total excluding schools |          |          |
|---------------------------------------------------------------------------------------------|-----------------|-------------------------|----------|----------|-------------------------|----------|----------|
|                                                                                             |                 | Budget                  | Forecast | Variance | Budget                  | Forecast | Variance |
| Revenue Budget Monitoring Report 2020/21 - Quarter 1. Executive, September 2020, Appendix A | Q1 2020/21      | 489,894                 | 491,974  | (2,080)  | 492,570                 | 496,125  | (3,555)  |
| Revenue Budget Monitoring Report 2020/21 - Quarter 2. Executive, December 2020, Table 1     | Q2 2020/21      | 509,191                 | 510,805  | (1,614)  | 497,598                 | 495,626  | 1,972    |
| Revenue Budget Monitoring Report 2020/21 - Quarter 3. Executive, March 2021, Table 1        | Q3 2020/21      | 510,256                 | 498,951  | 11,305   | 496,663                 | 481,285  | 15,378   |
| Review of Financial Performance 2020/21, Table B. Executive, July 2021                      | Outturn 2020/21 | 525,218                 | 482,920  | 42,298   | 516,966                 | 488,644  | 28,322   |
| Revenue Budget Monitoring Report 2021/22 - Quarter 1. Executive September 2021, Appendix A  | Q1 2021/22      | 511,427                 | 510,018  | 1,409    | 505,494                 | 504,299  | 1,195    |

Excluding schools, there has not been more than 5% movement in reported figures, which we do not judge to be indicative of a significant weakness in arrangements

# VFM Progress Report – initial observations on arrangements for financial sustainability

## 2020/21 Financial Performance: Capital Programme

We have reviewed capital expenditure as presented in the financial statements and tested capital additions, with no material issues arising over the £132m additions to Property, Plant & Equipment set out in Note 15 of the financial statements.

We also reviewed the “Review of Financial Performance 2020/21” presented to Executive on 6 July 2021. Paragraph 1.12 explains the Council spent £168m on the County's major assets, in particular on road schemes and schools. We have reconciled this to the financial statements, noting a trivial variance of £0.6m between the figures reported to Executive and that in the financial statements.

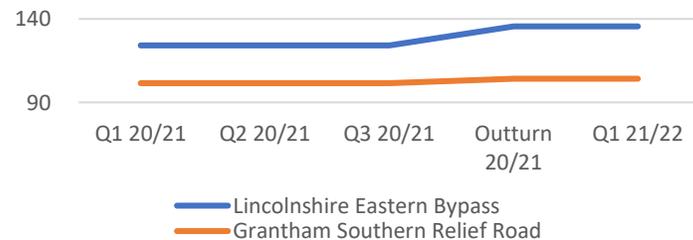
We reviewed the capital outturn report to the July meeting of the Executive, who informed that the capital outturn for 2020/21 was 53% less than planned (para 1.36), with Highways being underspent by £34m (para 1.47) mainly: the Lincoln Eastern Bypass, the Grantham Southern Relief Road, the A46 Welton Roundabout, the Holdingham roundabout and the A52 Skegness Roman Bank reconstruction; and the Highways Asset Protection block budget. Appendix A to the Report provides a status report on major schemes, which provides members a summary of capital project including:

Page 15

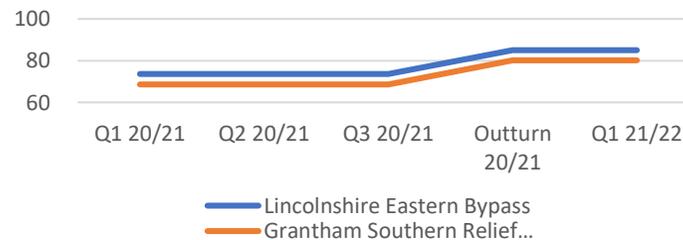
- Spending for the financial year
- Changes in the budget
- Whole life-time financial information
- Purpose and performance of the scheme

This demonstrates adequate arrangements for monitoring the capital programme, not just on a year to year basis, but over the life of the project.

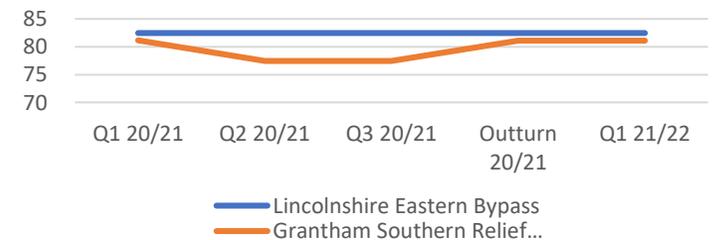
Gross Expenditure Budget (£'m)



Net expenditure budget (£'m)



Scheme total forecast (£'m)



## Capital Monitoring

We reviewed a sample of capital budget monitoring reports for 2020/21, starting with the “Capital Budget Monitoring Report 2021/22 - Quarter 1 to 30 June 2021” discussed at Executive on 7 September 2021 as well as the comments from the Overview and Scrutiny Management Board that supported the paper. This process demonstrates an appropriate level of scrutiny through Member oversight of the capital programme.

We also considered the consistency of capital programme monitoring, by reviewing a sample of reports to the Executive, reconciling inputs and considering the consistency of narrative. In our review of the capital programme, we considered the progress reports on three largest schemes: Lincolnshire Eastern Bypass, Grantham Southern Relief Road, which showed the Gross Expenditure Budget increased by £14m between Quarter 1 2020/21 and Quarter 1 2021/22, **this is shown in the charts below**. Separately, we noted Spalding Western Relief Road (Phase 5) also increased by £16m between Quarter 1 2020/21 and Quarter 1 2021/22.

The reports provide sufficient detail to understand the programme as a whole, as well as the current position and any significant matters arising. However, the reporting could be improved and management are considering options alongside our suggestions:

- Reporting could be improved by including the start and end date of projects in order to more clearly set out the uncertainty and risk in forecast whole life projects, including the impact of any re-profiling. For example, in July outturn report, members were informed that £18m of costs on the Grantham Southern Relief Road has been moved into 2021/22, but there is no explanation on whether this also pushes out the expected completion date of the project.
- Reporting would also be improved by Risk Rating the forecast and capital schemes. For example, in reporting the performance of the Lincoln Eastern Bypass scheme, there has been a consistent concern raised on forecasts risks and uncertainties, however there is no quantification of this in the report.

# VFM Progress Report

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Page 16



# VFM Progress Report – initial observations on arrangements for governance

## 2021/22 Budget Setting and the Medium Term Financial Strategy

In 2019, the Council received an LGA Peer Assessment that we have reviewed. It includes the following comments that remain relevant to 2020/21:

- “There is financial stability in the organisation and the Council has a proven track record of delivering savings while maintaining front-line services
- The budget process for 2020/21 is strong with good engagement of Members and the Corporate Leadership Team (CLT) carrying out deep dives”

We have read a variety of reports to Overview & Scrutiny Management Board, the Executive and Council covering budget setting for 2021/22 and the Medium Term Financial Strategy. We have also held a number of meetings with Officers throughout the year.

Each service directorate supports the development of the budget, identifying cost pressures and delivery needs within the Corporate Plan before presenting a combined report on the budget and Medium Term Financial Strategy for scrutiny by the corporate leadership team, Overview & Scrutiny Management Board, the Executive and full Council. The arrangements in place for budget setting and updating the Medium Term Financial Strategy are as expected for a County Council, with arrangements for: consultation, scrutiny, evaluation of financial risk, alignment to directorate/business plans and sources of funding.

There is no indication that the Council’s Medium Term Financial Strategy and budget setting process is not aligned to supporting plans given the Council has a track record of delivering against budget, albeit with some variation this year due to unpredictability arising from Covid-19.

A budget consultation presentation was made to Overview & Scrutiny in January 2021 adequately summarises the financial context of the authority, including the impact of Covid-19 cost pressures, which were c£94m in additional expenditure and income loss during 2020/21, mostly covered by government grant. Whilst the costs

are significant, there is recognition that there will be future support to councils to continue to tackle covid-19 impacts such as local lockdowns. Members are aware of the Council’s positive track record in financial delivery, which is consistent with our knowledge, including the ability to maintain financial balance with minimal use of reserves.

Budget reports presented to Executive and Overview & Scrutiny Management Board include management’s assertion, and Members’ agreement that “The budget proposals reflected the level of government funding expected to be available to the Council and a proposal to increase general Council Tax in 2021/22 by 1.99%. A thorough review of the Council’s services was carried out during the budget process which had identified unavoidable cost pressures, some savings with minimal or no impact on the level of service provided and the capital programme had been reviewed. The budget proposals therefore aimed to reflect the Council’s priorities whilst operating within the resources available to it.” We are satisfied that these reports adequately describe the risks and proposals for setting the 2021/22 Budget and the Medium Term Financial Strategy.

We read the assumptions underpinning the Medium Term Financial Strategy as included in reports to the January meeting of the Executive and the January 2021 meeting of Overview & Scrutiny Management Board. In our view, these include an adequate level of detail over the assumptions and cost pressures facing the council, which are consistent with our experience at similar sized authorities and therefore not unreasonable. In addition, there is sufficient narrative to explain the rationale and key financial risks.

With regard to the 2021/22 Budget and Medium Term Financial Strategy, we have noted:

- it adequately sets out the context and approach to delivering the financial strategy
- It sets out an immaterial deficit over 2021/22 to 2023/24 of c£13m, which is sufficiently covered by reserves.

We have not identified a risk of significant weakness in arrangements.

# VFM Progress Report – initial observations on arrangements for governance

## CIPFA Financial Management Code

The Chartered Institute of Public Finance and Accountancy (CIPFA) has published its Financial Management (FM) Code to provide guidance for good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The first full year of compliance with the FM code is 2021/22.

In June 2021, the Audit Committee received management's assessment of compliance against the CIPFA Financial Management code. We have discussed the document with Officers to confirm the arrangements described in the document have been in place through 2020/21. The areas where the Council aims to improve are not, in our view, areas of significant weakness in arrangements, but are areas for the Council to focus on for 2021/22 and we expect the Audit Committee to receive an update on progress during 2021/22:

Longer term financial planning, with clear links to the corporate plan, service performance, asset management strategies and capital investment.

Clear methodology for options appraisal, to support decision making with full consideration of value for money.

- More transparency of our financial resilience assessment, including management of risks, and key areas of risk in our balance sheet (e.g. debtors).
- Continued improvement in our reporting particularly of our MTFP assumptions and LCC Companies.
- Improved stakeholder engagement.
- Continued development of financial literacy in the organisation, and skills in the finance team, supporting an enabling financial management style.

## Governance

The Authority has a full suite of governance arrangements in place. These are set out in the Annual Governance Statement, which is reviewed as part of our audit where we confirmed they were consistent with our understanding of the Council's arrangements in place for 2020/21.

We confirmed that the Council has an [approved constitution](#) that is regularly reviewed and updated. The Constitution explains how the Council operates and makes decisions. It ensures that the Council is efficient, transparent and accountable for what it does:

- The Council comprises of all 70 councillors, meeting together to make decisions about policies and to set the Councils' budget. All 70 councillors take part in the business of the Council.
- The Executive is currently made up of nine councillors, from the majority political group, and is chaired by the Leader of the Council. Each Executive Councillor is allocated a particular area of responsibility. The full terms of reference for the Executive are set out in Part 2 of the Council's Constitution.
- The Council's Chief Officer group form a corporate leadership team and each Executive Director is responsible for their specific area.

We consider the committee structure of the Authority is sufficient to provide assurance that decision making, risk and performance management is subject to appropriate levels of oversight and challenge.

We have reviewed Council and Committee Reports and minutes during the year as well as key documents in relation to how the Council ensures that it makes informed decisions and properly manages its risks. Our review of Council and Committee papers confirms that a template covering report is used, ensuring the purpose, consultation, and recommendations are clear. We have confirmed with the Monitoring Officer that every decision-making report that comes before the County Council, the Executive or an individual Executive Councillor is required to contain a Legal Comment. As a result there is a process for identifying the legal issues raised by any proposed decision and ensuring that these are addressed in the Report.

Minutes are published and reviewed by each committee to evidence the matters discussed, challenge and decisions made.

# VFM Progress Report – initial observations on arrangements for governance

## Risk management

The Audit Committee is responsible for overseeing the effectiveness of the Council's risk management arrangements, challenging risk information and escalating issues to the Executive. A Quarterly report is prepared on behalf of the Executive Director – Resources for the Audit Committee.

We reviewed the Risk Management Progress Reports presented to Audit Committee during the year, including that reported in March 2021. The report provides an update on the activities being undertaken and the key strategic and operational issues facing the Council since the last update in September 2020. The report shows 22 high risks and 15 high issues, with most of the risks remaining static or improving. The main category of risk continues to be within the area of People, with the main issues being Technology and Economic. Appendix 1 to the Report sets out a breakdown of the risks, issues and status by directorate.

From our attendance at the meeting and review of the minutes, we note that, with regard to the limited assurance on market supply for adult care, it was advised that the Executive Director of Adult Care and Community Wellbeing, as the risk owner, would be asked to attend a future meeting on mitigating factors. Similarly, in relation to the assessment of safeguarding children, the Executive Director for Children's Services, as the risk owner, would be invited to attend a future meeting to discuss this topic.

In our view, there is sufficient evidence of Member oversight of risk management, including holding Officers to account.

We reviewed the Strategic Risk Register reported to the March 2021 Audit Committee and determined it is adequate for the Council's purposes, given it links the risk to the corporate strategy, includes a risk owner and current and target risk scores, assurance status and existing controls. In our view, however, there are aspects that would improve clarity and understanding of the risk and its impact on the Council, including:

- Tracking the risk score by quarter
- Separating controls from assurances and including gaps in controls and gaps in assurances

- Confirming the date of last review by the risk owner
- Setting risk appetite (eg treat, tolerate)
- Specifying actions required (and confirming when these have been implemented).

## Combined Assurance Report

The Audit Committee receive a 'Combined Assurance Report' to provide the Audit Committee with insight on the assurances across all the Council's critical services, key risks, partnerships and projects. We obtained and read the report to the February 2021 audit committee confirming that each Executive Director, with the Chief Executive's overview, is responsible for the annual Combined Assurance Status Report. Each Executive Director provides an overall assurance level, based on information across:

- critical service delivery activities;
- key risks;
- key projects;
- key partnerships.

The Combined Assurance report provides the Audit Committee with a good understanding about the level of assurances in place. It overlays the Strategic Risk Register, but in a more understandable format. The report and its content is demonstrative of adequate arrangements in place over risk management.

# VFM Progress Report – initial observations on arrangements for governance

## Audit Committee

The Trust has an established Audit Committee that comprises seven councillors, who represent the political balance of the Council, plus two independent persons who are not a councillor, or an officer of the Council. The Audit Committee is responsible for establishing and maintaining an effective system of governance in a way that supports the organisation's objectives. It achieves this by:

- Reviewing the work and findings of internal audit and external audit;
- Reviewing the Annual Governance Statement and the financial statements; and
- Reviewing reports on risk management and internal control.

We have reviewed supporting documents and confirmed the Audit Committee meets regularly and reviews its programme of work to maintain focus on key aspects of governance and internal control. In response to Covid-19, the Council moved Committee meetings on-line. Our attendance at Audit Committee has confirmed there is an appropriate level of effective challenge.

## Internal Audit

We have met with management and the Head of Internal Audit regularly during the year, reviewed Audit Committee reports and attended Audit Committee to observe the performance of Internal Audit and the Audit Committee. We have documented our understanding of the Internal Audit function, which is provided by an in-house team which operates as part of Assurance Lincolnshire - supported by additional resources procured via external support framework contracts. The Council's Financial Regulations set out Internal Audit requirements and the Head of Internal Audit has direct access to all levels of management, all employees and to all elected members and particularly to those charged with governance

We reviewed the Head of Internal Audit Annual Report that was presented to Audit Committee on 12 July 2021, where the overall opinion is split across four themes:

- Governance – “performing adequately” being a consistent rating as the prior year.

- Risk – “performing well”, showing improvement over the prior year.
- Internal control – “performing adequately” being a consistent rating as the prior year.
- Financial control – “performing adequately” being a consistent rating as the prior year.

In our view, the Head of Internal Audit Opinion is sufficiently detailed to explain how each rating was determined. We confirmed there are no “High Priority” recommendations overdue, with only one Internal Audit review cited as “low assurance” (being the lowest possible ranking) and relating to the Implementation of Mosaic Finance. The facility to hold officers to account therefore exists and we attended the June 2021 Audit committee where this report was presented, where the responsible officers for the project were in attendance to respond to questions on this issue, but none were raised.

We have confirmed that the Head of Internal Audit Opinion has been adequately reflected in the Annual Governance Statement to provide assurance that there is no significant weakness in arrangements for 2020/21.

## Whistleblowing & Counter-fraud

We reviewed the annual whistle-blowing report presented to the July meeting of Audit Committee. The report provides a summary and analysis of whistleblowing disclosures received by the Council during the period from April 2020 to March 2021. The number of whistleblowing concerns (29) raised around Lincolnshire County Council activity in 2020/21 represented the first decrease on the previous period's activity in several years.

We also reviewed the Annual Counter Fraud Report as presented to the July Audit Committee. The Counter Fraud Annual Report provides an overview of the investigation and proactive counter fraud work completed in 2020/21. The level of fraud referrals remained consistent with those recorded in the previous year and we identified an increase in the number of cases involving procurement fraud.

There are no systemic or material matters impacting our Value For Money considerations and the existence of the programme, its work and progress reporting to Audit Committee is evidence of adequate arrangements for counter-fraud.

We are unaware of any allegations or incidences of major fraud or corruption.

# VFM Progress Report – initial observations on arrangements for governance

## Monitoring officer and Conduct

The Monitoring Officer has three main roles:

1. To report on matters he/she believes are, or are likely to be, illegal or amount to maladministration;
2. To be responsible for matters relating to the conduct of Councillors and officers; and
3. To be responsible for the operation of the Constitution.

We have reviewed the Monitoring Officer's Annual Report presented to the Audit Committee in July 2021 and met with the Monitoring Officer throughout the year. Our observations being:

• The report confirms there were no occasions where the Monitoring Officer had to issue a formal report relating to the lawfulness of a decision.

In 2020/21 there were 48 referrals to the Local Government and Social Care Ombudsman (LGO), down from 55 in 2019/20. On 16 March 2021 the Ombudsman issued a public report finding maladministration in the way that the Council charged a flat rate for short term care which he found was not in accordance with Guidance. This is further considered in Table 2c row 2 – the financial impact being £0.5m and immaterial.

- Standards Complaints: From 1 April 2020 to 31 March 2021 there were 5 complaints of breach of the Code of Conduct. This is two less than in 2019/20
- No issues reported in relation to the Register of Councillors' disclosable pecuniary interests or the Register of Officers' Interests.

The annual report of the monitoring officer demonstrates arrangements are in place to monitor and support lawful and informed decision making, with no indications of a significant risk in arrangements.

## Scrutiny

In September 2021, Full Council received and approved the Annual Report for Overview and Scrutiny for 2020/21. We have read the report which highlights the scrutiny work that has taken place throughout the last year. The report focuses on the key successes and achievements of Overview and Scrutiny over the past year. The Annual Report is usually put before the annual meeting of the County Council for approval. In years when

elections are held, the Annual Report is considered at the first appropriate meeting after the annual meeting.

As set out in the first page of the report "Despite the impact of the pandemic, 67 scrutiny committee meetings were held, and 65% of all formal decisions were considered by a scrutiny committee in 2020/21 prior to them being made".

There is no evidence of inadequate arrangements in informed decision making in this report.

## Covid-19: Governance

We have reviewed the Annual Governance Statement, which includes a specific section on the Council's response to Covid-19. We are satisfied that the Annual Governance Statement is a reasonable reflection of the Council's arrangements.

The Government asked councils to develop local political leadership through setting up outbreak management boards with key local partners. If small outbreaks in communities, schools or even an individual street are identified, a Local Outbreak Engagement Board can take measures to isolate the problem. Instead of national lockdowns, individual isolation and local action will tackle an outbreak. We confirmed the Local Outbreak Engagement Board had approved a Local Outbreak Management Plan in July 2020, which was revised in March 2021 and submitted to the Department of Health and Social Care to comply with an assurance process with the regional Public Health England team.

We have reviewed Committee Reports of the Executive and the Health and Wellbeing Board, including the Director of Public Health Annual Report presented in March 2021. The Director of Public Health has a statutory duty to produce an independent report on the state of health of the people they serve on an annual basis, which must be published by the Council. We read the report, which is focused on Covid-19 and its impact on Lincolnshire. The report highlights:

- health inequalities that exist in Lincolnshire; and
- that there will be long-term impacts such as increased issues in mental health.

Whilst there are clear challenges arising from Covid-19 in governance and the management of risk, there is no evidence of a significant weakness in the Council's arrangements.

# VFM Progress Report – initial observations on arrangements for governance

## Regulators

We reviewed regulatory reports, including OFSTED and the Care Quality Commission, where inspections were paused as a result of Covid-19. The Council's rating's are carried forward from 2019:

- OFSTED rate Children Services as "Outstanding"
- The Care Quality Commission rate Lincolnshire County Council as a provider as "Good"

Her Majesty's Inspector for Fire & Rescue Services was due to inspect Lincolnshire Fire & Rescue Service in 2020/21, however this was postponed due to Covid, therefore its official rating for 2020/21 remains "Good"

## Local Government Ombudsman

On the 16 March 2021 the Local Government Ombudsman published a public report following an investigation into how Lincolnshire County Council charged individuals for respite care. It found that the policy of charging a "flat rate" did not accord with the Care Act 2014.

We reviewed the Monitoring's Officers Annual Report to Committee that was presented to Audit Committee before being considered by Executive in September 2021. The Council has calculated the financial effect to be £0.5m and has taken steps to address the root cause in April 2020, by removing the flat rate charge and requesting all individuals to complete a financial assessment. Overall, we do not believe this indicates a significant weakness in the Council's arrangements.

# VFM Progress Report

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

Page 23



# VFM Progress Report – initial observations on arrangements for improving economy, efficiency and effectiveness

## Local Government Association - Peer review

We revisited the 2019 LGA Peer Assessment, which includes the following comments that, based on discussions with management and our cumulative audit knowledge and experience, remain relevant to 2020/21:

- “Lincolnshire County Council is a stable, reliable and solid organisation delivering good quality services to its residents
- There is a transparent system of governance within the Council

There is financial stability in the organisation and the Council has a proven track record of delivering savings while maintaining front-line services

The Council has a wealth of knowledge, data and experience which needs to be utilised more effectively as part of its development

Lincolnshire County Council has sound knowledge of the local place and context generally and a deeper understanding of service needs within individual departments, albeit with a silo view of localities.

- The budget process for 2020/21 is strong with good engagement of Members and the Corporate Leadership Team (CLT) carrying out deep dives
- Whilst the Council has clearly adapted to and survived austerity well, it is well behind in terms of having ongoing major transformation programmes”

In our view, the Peer review does not indicate a significant weaknesses in the Council’s arrangements for financial sustainability, governance or improving economy, efficiency and effectiveness.

## Corporate Plan

The Council’s arrangements are consistent with the prior year with the Council’s Corporate Plan setting out what it wants to achieve for local residents and communities and is published on its website.

The Corporate Plan underpins the ‘One Council’ approach, which aims to ensure all services are working towards shared goals and will help different areas of the Council work together more effectively. The Council’s overall financial objectives and strategy are documented in the Council’s budget and Medium Term Financial Strategy which is reviewed and updated annually. The Council’s budget endeavours to ensure the provision of the appropriate resources required to deliver the Council’s Plan, and the types of action necessary to enable them to be affordable, to allow balanced budgets to be delivered.

## Performance monitoring

The Executive and Overview and Scrutiny Management Board receive regular reporting on the measures contained within the Council Business Plan. The Council has chosen key performance measures and targets to demonstrate to elected members and the public that the directorate is achieving the priorities within each strategy area.

We reviewed reports to Executive as evidence of the Council’s approach to evaluating performance. Reports are presented to Committee by the Performance and Equalities Manager contain sufficient narrative, including the appendices, to demonstrate that there are adequate arrangements for scrutiny in assessing performance and identifying areas for improvement. We also reviewed the performance outturn for 2020/21 presented to Executive in July 2021, where performance against the Corporate Plan shows that Covid-19 was continuing to have an impact, with 66% of the 53 activities with milestones due to be reported in Quarter 4 either On plan or Ahead of plan.

Our review of the minutes shows that the Chairman of the Overview and Scrutiny Management Board confirmed that the Board had recorded its support for the recommendations to the Executive. Minutes also record Member challenge, such as requesting further information in relation to the life expectancy for Lincolnshire residents, and evaluation, such as reflecting on the reduction in people Killed or Seriously Injured on Lincolnshire’s roads.

Overall, we believe this is sufficient evidence to demonstrate adequate arrangements for performance monitoring at the Council.

# VFM Progress Report – initial observations on arrangements for improving economy, efficiency and effectiveness

## Performance monitoring (continued)

We reviewed minutes and reports to Overview and Scrutiny Management Board during 2020/21 including the Quarter 3 HR Management Information and Workforce Plan Update from July 2021 as evidence of arrangements to consider workforce performance indicators. The report provides an overview of staff headcount, sickness absence, agency costs and the health and wellbeing of the workforce. Members were informed that a regular review and monitoring of HR Management data at both Directorate Leadership Team (DLT) level and by Corporate Leadership Team (CLT) was enabling oversight of the workforce and HR performance at both a local level and for the organisation and helping Officers identify priorities and solutions required to address current and future workforce challenges, in particular to attract, recruit and retain skills in high risk areas. The report adequately summarises key issues and, alongside Member scrutiny, is indicative of adequate arrangements in monitoring workforce indicators.

## Core Spending Power

We have also considered the Council's financial position in relation to spending power using publicly available information published by the Ministry of Housing, Communities & Local Government in February 2021.

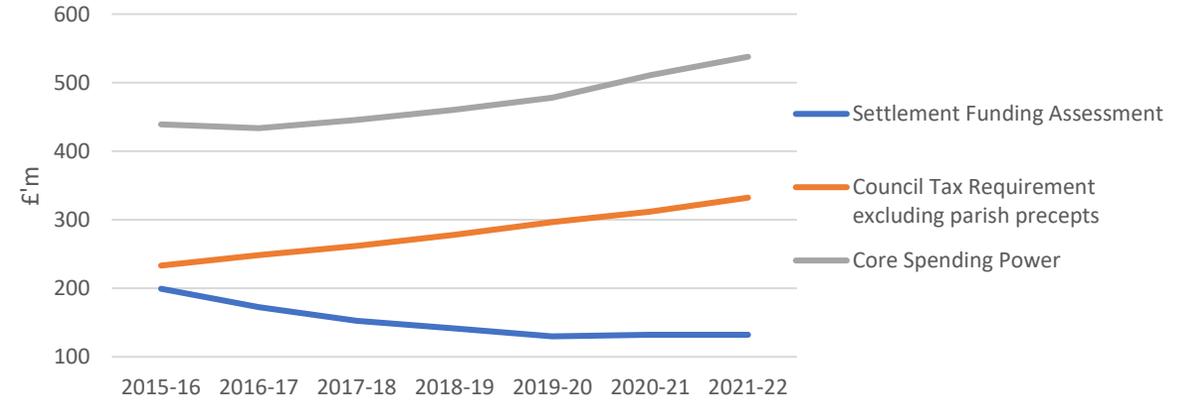
Overall spending power has increased year on year and in line with all English Councils. The increase in the council tax requirement compensates for the reduction in the settlement funding assessment, which is in line with Government Policy, which includes the ability to add a social care premium in the more recent years. For Lincolnshire, there has also been an additional Social Care Grant of £20m in 2020/21 and £26m in 2021/22.

There is no indication of a significant weakness in arrangements.

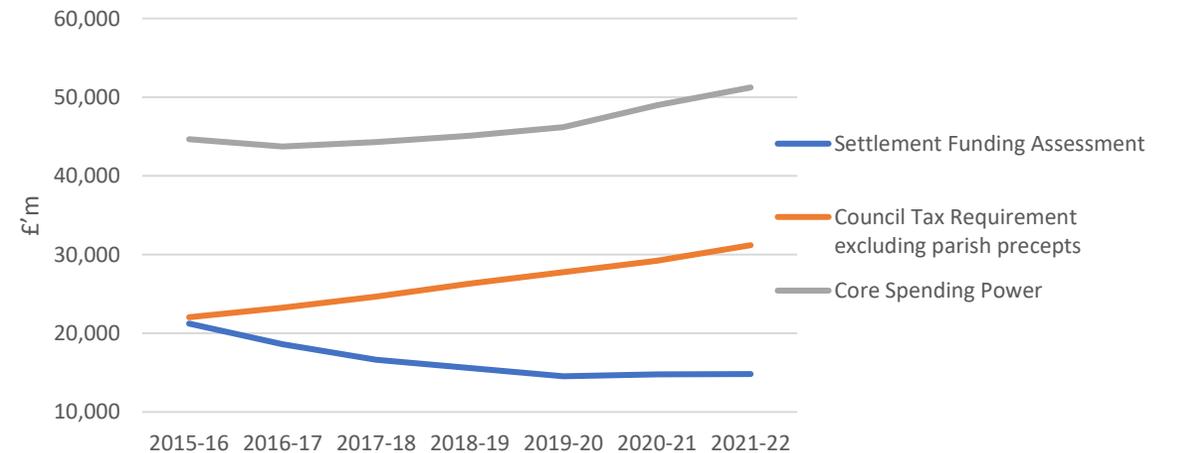
## Benchmarks

We reviewed a selection of benchmarking data available to us, including the CIPFA financial resilience index and the VFM profiles provided via the Local Government Association (called LG Inform Vfm available from the following link: <http://vfm.lginform.local.gov.uk/>). We did not identify any indicators of a significant weakness in arrangements for 2020/21.

## Lincolnshire County Council: Core Spending Power



## England: Core Spending Power



# VFM Progress Report – initial observations on arrangements for improving economy, efficiency and effectiveness

## Partnerships and Commissioning

### One Council Commissioning Framework 2021-2024

In 2020, the Council undertook a piece of work with external consultants, Impower, to review the current commissioning model and overall approach in use across the Council to consider how current commissioning practices could be more effective. This was partially in response to the Peer Review in December 2019, which we reviewed as part of our prior year audit.

We reviewed the report presented to the Overview and Scrutiny Management Board on 17 March 2021, which considers the Draft One Council Commissioning Framework 2021-2024, subsequently to be presented to the Executive on 07 April 2021. The views of the Board were reported to the Executive as part of its consideration of this item.

Having read the document, we are satisfied this is indicative of adequate arrangements for strategic commissioning.

### Better Care Fund (BCF)

Note 33 of the Council's Financial Statements explains the Council is the host for pooled budgets relating to: Proactive Care, Specialties including Learning Disabilities, Integrated Community Equipment Service, and Child & Adolescent Mental Health Services; and is responsible for their financial administration. Outside this Better Care Fund is a stand-alone Section 75 Agreement for Sexual Health. Our testing of the financial statements has not identified any material issues over these disclosure notes, which show each pooled budget remains in balance.

We also reviewed minutes and reports to Lincolnshire Health and Wellbeing Board, including the year end report on the Better Care Fund presented on 22 June 2021. An update regarding the Better Care Fund was received by the Board in March 2021, which clarified that although the financial elements of the 2021/22 plan had been agreed, there is no further information regarding the next planning cycle or the assurance model to be used. It has however been indicated that a further roll over year is expected pending the multi-year spending review expected in the autumn. The Better Care Fund has an annual assurance and reporting mechanism into NHS

England/Improvement. Due to the Covid-19 pandemic 2020/21 assurance has been more light touch; however an end of year finance report has been submitted and there has been quarterly performance and finance reports throughout the year, with notable highlights being:

- Plans covering all mandatory funding contributions have been agreed by Health and Wellbeing areas and minimum contributions are pooled in a section 75 agreement (an agreement made under section 75 of the NHS Act 2006).
- The contribution to social care from the Clinical Commissioning Group the Better Care Fund is agreed and meets or exceeds the minimum expectation.

We have not identified any significant weakness in arrangements.

### Serco contract

We reviewed a report from the Assistant Director, Commercial, and the Serco Contract Manager, on the Performance of the Corporate Support Services Contract presented to Overview and Scrutiny Management Board in March 2021. The report provided an update of Serco's performance against contractual Key Performance Indicators specified in the Corporate Support Services Contract covering the period October 2020 to February 2021. The last report to the Overview and Scrutiny Management Board was on 29 October 2020.

The report highlighted that the majority of Key Performance Indicators were either at and above the Target Service Level and the number in mitigation as a result of Covid-19 had fallen to just one in January and February. The Customer Service Centre had continued to be under significant pressure, showing some sharp increases in abandoned call rates towards the end of 2020. However, the situation had been much improved in January and February, and Members were informed that Serco deployed additional resource in response to the continuing high call handling times in the Care and Wellbeing Hub and also no longer required Council support.

The role of the Overview and Scrutiny Management in reviewing performance of major contracts, and the report not identifying any significant issues, means there is no indication of a significant weakness in the Council's arrangements.

# VFM Progress Report – initial observations on arrangements for improving economy, efficiency and effectiveness

## Fire & Rescue Regulatory Compliance

Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) independently assesses the effectiveness and efficiency of police forces and fire & rescue services – in the public interest. Lincolnshire was due for inspection of the fire service for 2020/21, however this was postponed due to Covid.

HMICFRS did conduct a Covid-19 inspection and we reviewed the report it issued report in January 2021, which:

1. Highlights areas of good governance, such as business continuity planning, working effectively with the Lincolnshire Local Resilience Forum and that the service's financial position hadn't been significantly affected by the pandemic.

However, paragraph 6 of the of the Report states: "while Lincolnshire Fire and Rescue Service maintained its response and prevention functions, it didn't offer the range of protection measures expected during the early stages of the pandemic. Between April and June 2020, it stopped the majority of its routine protection activity, thereby not auditing for compliance with fire safety regulations those buildings it had identified as being at the highest risk from fire. This approach was not in line with national expectations. While this work has since restarted, at the time of our inspection it had a considerable backlog of premises to work through."

We have discussed this with Officers and obtained further information to put the findings into context:

- As set out in the Comprehensive Income and Expenditure Statement in the financial statements provided for audit, the net expenditure for Fire & Rescue and Community Safety was £26m for 2020/21. Officers have shown us that the budgeted cost of the 'Protection' service, which is that referred to in the second bullet point, is £0.9m.
- For the period where protection measures were paused, this was due to Covid-19 challenges and Officers have informed us that these were not statutory services.

- At the end of 2020/21, the official rating of the service remains "Good".
- The delayed HMICFRS inspection was carried out during summer 2021, with a report due to be published in December 2021.

Because the report may contain information on the existence of arrangements that were in place for 2020/21 and it is due to arrive shortly, we have deemed it prudent to wait until the report is received, so that we can reflect on any findings before finalising our commentary.

# VFM Progress Report – initial observations on arrangements for improving economy, efficiency and effectiveness

## Lincolnshire Sustainability And Transformation Partnership (Covid-19: Improving economy, efficiency and effectiveness)

Sustainability and transformation partnerships (STPs) were introduced in 2016. They bring together local NHS organisations and local authorities (county/ unitary councils) to develop proposals to improve health and the quality of care to provide better services for patients in the areas they serve.

The Council is part of the Lincolnshire Sustainability And Transformation Partnership, along with:

- NHS Lincolnshire CCG
- United Lincolnshire Hospitals NHS Trust
- Lincolnshire Community Health Services NHS Trust
- Lincolnshire Partnership NHS Foundation Trust
- East Midlands Ambulance Service NHS Trust
- LinCA
- Lincolnshire VET.

During 2020/21, the Care Quality Commission (CQC) undertook a review of how providers have worked collaboratively during the response to Covid-19. The CQC have reviewed arrangements in 11 systems, of which Lincolnshire is one. This review focused on the Local Authority area of Lincolnshire, the geographical footprint of which, is consistent with the Lincolnshire sustainability and transformation partnership (STP).

We reviewed the feedback provided by the CQC, which noted the following:

- Joint working across the STP was led and coordinated through a local resilience forum (LRF) and comprehensive cell structure, which included representation from a broad range of stakeholders.

- There was good oversight of the needs of the population with recognition of health inequalities in those areas of deprivation across Lincolnshire STP. Partnership working across the health and social care footprint connected residents with local support networks and mechanisms.
- In the early phase there was a rapid development of command and control and strategic cell structure with the focus very much on finding solutions at pace.
- Outputs from this review suggest the STP has an effective platform to progress to Integrated Care System status from 2021.

We are therefore satisfied that there is no indication of a significant weakness in arrangements.

# Mark Surridge

## Mazars

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Page 29

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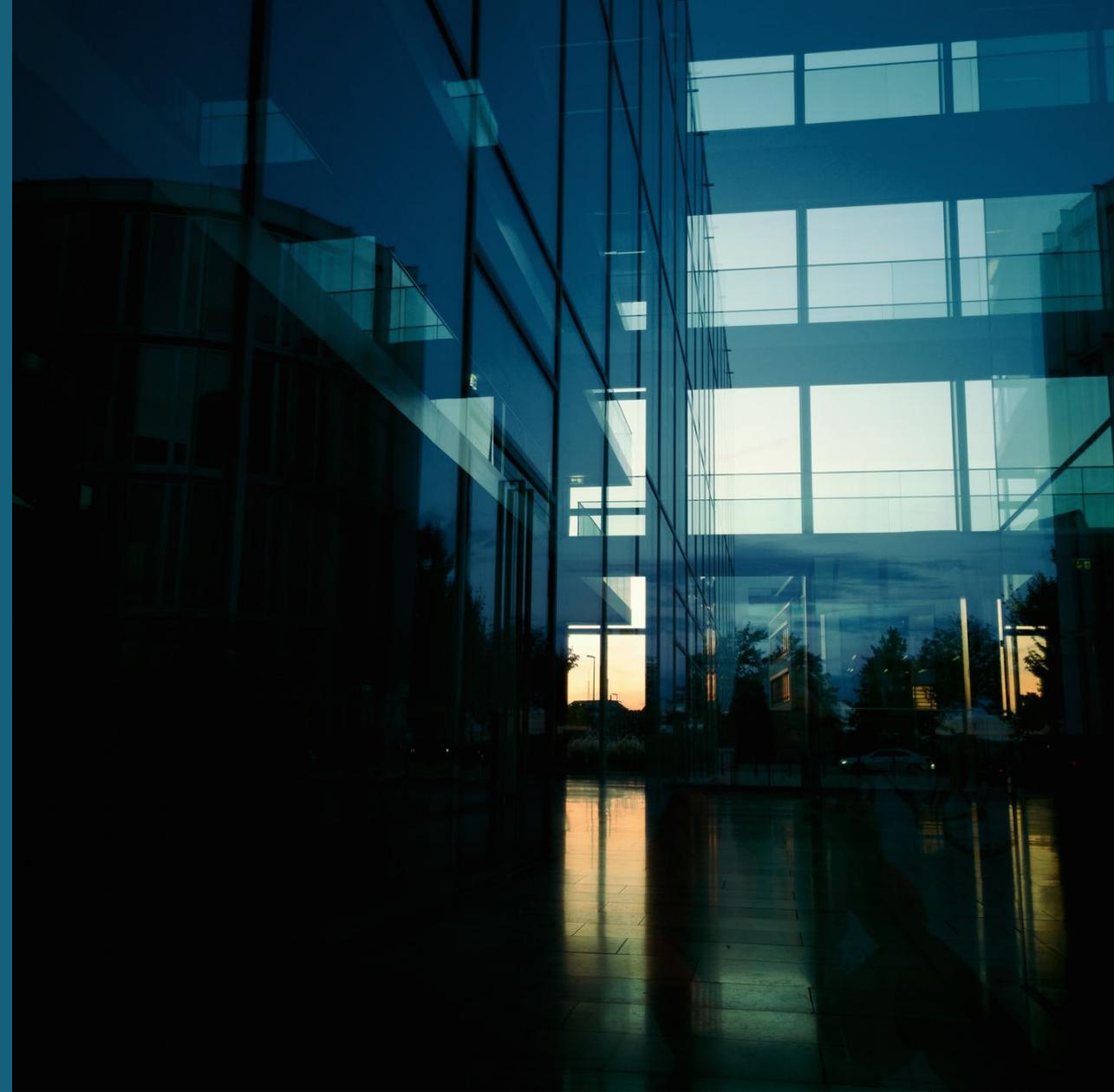
\*where permitted under applicable country laws.

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# Audit Completion Report

Lincolnshire Pension Fund – Year ended  
31 March 2021

Page 31  
October 2021



# Contents

|    |                                  |
|----|----------------------------------|
| 01 | Executive summary                |
| 02 | Status of the audit              |
| 03 | Audit approach                   |
| 04 | Significant findings             |
| 05 | Internal control recommendations |
| 06 | Summary of misstatements         |

Page 32

Appendix A: Draft management representation letter

Appendix B: Draft audit report

Appendix C: Draft consistency report

Appendix D: Independence

Appendix E: Other communications

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

Members of the Audit Committee  
Lincolnshire County Council  
County Offices  
Newland, Lincoln  
LN11YL

12 October 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 and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 14 June 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks 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 on 078 1375 2053 .

Yours faithfully

Signed: `{{_es_:signer1:signature}}`

Cameron Waddell (Key Audit Partner)

Mazars LLP

Mazars LLP  
The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

# 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.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls; and

Valuation of investments within level 3 of the fair value hierarchy.

Based on the audit work completed to date there are no identified significant control deficiencies and no unadjusted misstatements that we are required to report to the Audit Committee.

## Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021. At this present time we envisage giving our opinion in November 2021 alongside the opinion on Lincolnshire County Council's financial statements.

At the time of preparing this report, there are some matters outstanding as outlined in section 2. We will provide an update to you in relation to the matters outstanding through issuance of a 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.



### Consistency report

We anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of Lincolnshire County Council. Our draft consistency report is provided in Appendix C.



### 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 Fund and to consider any objection made to the accounts. No objections or questions from local electors have been received.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

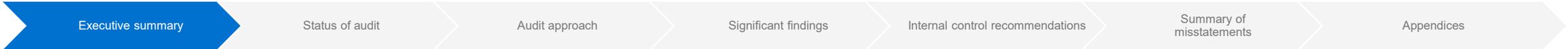
Appendices

# 1. Executive summary

## COVID-19 impacts

The implications of the pandemic required remote working in relation to this audit. Whilst auditing on a remote basis was challenging, we have been able to work in liaison with the finance team to deliver the audit and wish to thank them for their support.

Page 36



# 02

## Section 02: **Status of the audit**

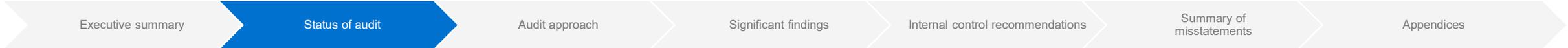
# 2. Status of the audit

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                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-------------------------------------------------|-----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Finalised financial statements                  |  | The Pension Fund has revised its financial statements to reflect the updated valuations it has received from fund managers. We are completing our checks on the finalised financial statements before giving our opinion.                                                                                                                                                                                                                                                                                            |
| Audit Quality Control and Completion Procedures |  | Our audit work, including the specific procedures carried out in relation to the significant audit risks identified, is yet to undergo the final stages of review by the Engagement Lead. In addition, there are residual procedures to complete, including completing our internal technical consultations on the proposed audit opinion and the updated financial statements, 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.

Page 38



# 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 in May 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

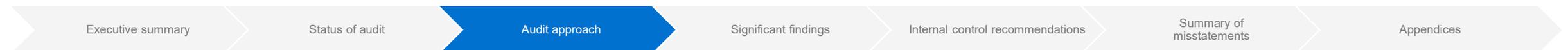
## Materiality

Our provisional materiality at the planning stage of the audit was set at £26.6 million using a benchmark of 1% of net assets available to pay benefits. We set a provisional specific materiality for the fund account of £10.4 million at the planning stage of the audit using a benchmark of the higher of 10% of contributions receivable and 10% of benefits payable.

Our final assessment of materiality, based on the final financial statements and qualitative factors was set using the same benchmarks:

- Statement materiality £27.4 million.
- Fund account specific materiality £11.4 million.

Page 40



# 04

## Section 04: **Significant findings**

# 4. Significant findings

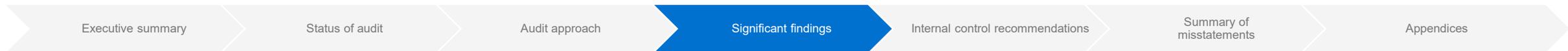
In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. We currently envisage concluding that the financial statements have been prepared in accordance with the financial reporting framework; and
- any significant difficulties we experienced during the audit.

Page 42

## Significant risks

| Management override of controls | Description of the risk                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                 | In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits. |
|                                 | <b>How we addressed this risk</b><br>We addressed this risk through performing audit work over: <ul style="list-style-type: none"><li>• Accounting estimates impacting amounts included in the financial statements;</li><li>• Consideration of identified significant transactions outside the normal course of business; and</li><li>• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li></ul>                  |
|                                 | <b>Audit conclusion</b><br>Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.                                                                                                                                                                                                                                                                                                            |



## 4. Significant findings

| Valuation of investments within level 3 of the fair value hierarchy | Description of the risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                     | <p>At 31 March 2021 the Pension Fund held investments which were not quoted on an active market with a fair value of £344.0 million, accounting for 12.5 per cent of the Fund's net investment assets. This included: Alternatives (£274.3 million), Property (£6.9 million), Infrastructure (£50.4 million) and Private Equity (£12.4 million). Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.</p> <p>As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances for 2020/21 due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.</p> |

### How we addressed this risk

We addressed this risk by completing the following additional procedures:

- agreeing the valuation included in the Pension Fund's underlying financial systems to supporting documentation including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation;
- agreeing holdings from fund manager reports to the custodian's report;
- agreeing the investment manager valuation to audited accounts or other independent supporting documentation, where available;
- reviewing the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager, where required;
- where audited accounts are available, check that they are supported by a clear opinion; and

| Valuation of investments within level 3 of the fair value hierarchy (cont'd) | How we addressed this risk (continued)                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                              | <ul style="list-style-type: none"> <li>• where available, reviewing independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Pension Fund's financial statements.</li> </ul>                                                                                                                                                                                                                               |
|                                                                              | <h3>Audit conclusion</h3> <p>Our work has provided the assurance we sought in the above areas. It has however highlighted a material difference between the valuation of investments in the initial set of accounts prepared and the final version of the accounts on which we will be giving our opinion. This difference resulted from the timing of valuations received from fund managers. The adjusted misstatement involved is detailed on page 18 of this report.</p> |

# 4. Significant findings

## Qualitative aspects of the Trust's accounting practices

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

In line with our expectations, there have been no significant changes to accounting policies for the year ended 31 March 2021.

Draft accounts were received from the Fund on 22 June 2021 and were of a good quality.

## Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. It is however worth noting that our audit work has been completed through remote working arrangements as a result of the constraints imposed by the COVID-19 pandemic. Whilst challenging at times, through the effective use of technology and close liaison with finance and other officers of the Trust these challenges were overcome.

## 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 questions or objections have been raised.

Page 44

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**

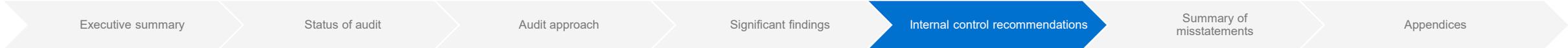
# 5. Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported in this section are limited to those deficiencies and other control recommendations that we 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. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our work has not identified any internal control issues to bring to your attention.

Page 46



# 06

Section 06:

## **Summary of misstatements**

## 6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit to date, above the trivial threshold for adjustment of £0.8 million. Where the draft accounts are formally signed and published in accordance with the Regulations any subsequent amendments are referred to as misstatements. This is the case even if such amendments are inevitable and result from the timing of the information available from investment fund managers as is the case this year. The change to the accounts detailed below was identified and proposed by officers from proactively tracking the asset changes from the information received. Last year we did our audit on the basis of a later set of accounts which already incorporated such changes. This explains why these valuation changes are highlighted in our report this year. There are no unadjusted misstatements in relation to the Pension Fund's 2020/21 financial statements. The table below outlines the misstatements that have been adjusted by management.

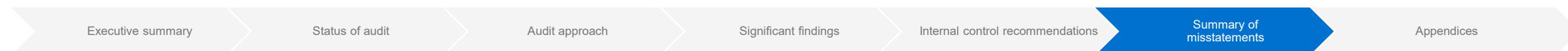
### Adjusted misstatements

|                                     | Fund Account                                                                                                                                                                                               |         | Net Assets Statement |         |
|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|----------------------|---------|
|                                     | Dr (£m)                                                                                                                                                                                                    | Cr (£m) | Dr (£m)              | Cr (£m) |
| 1                                   | Dr: Investments – Managed Funds<br>Cr: Change in Market Value<br>Difference between valuation of unquoted investments per pension fund accounts and third party confirmations received after the year-end. | 33.948  | 33.948               |         |
| <b>Total adjusted misstatements</b> |                                                                                                                                                                                                            | 33.948  | 33.948               |         |

Page 48

### Disclosure amendments

A number of minor disclosure amendments were made in response to the review of the Pension Fund's financial statements by our technical team. All such matters have been addressed in the final version of the Pension Fund's financial statements.



# Appendices

A: Draft management representation letter

B: Draft audit report

C: Draft consistency report

D: Independence

E: Other communications

# Appendix A: Draft management representation letter

Mazars LLP  
Salvus House  
Aykley Head  
Durham  
DH1 5TS

XX November 2021

Dear Cameron

## Lincolnshire Pension Fund - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of the Lincolnshire Pension Fund ('the Pension Fund') 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 the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code).

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

### My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code.

### My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are 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 Pension Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Executive Director of Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

### Accounting records

I confirm that all transactions that have a material affect 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 Pension Fund and Committee meetings, have been made available to you.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Appendices

# Appendix A: Draft management representation letter

### 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 Pension Fund'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 Pension Fund in making accounting estimates, including those measured at fair value, are reasonable.

### 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 Pension Fund 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.

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

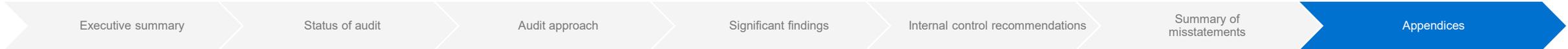
### Fraud and error

I acknowledge my responsibility as Executive Director of Resources 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 Pension Fund 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 Pension Fund's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Page 51



# Appendix A: Draft management representation letter

### Assets

I confirm that all assets held are free from liens, charges or any other encumbrance.

### 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.

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

### 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.

### Specific representation on unquoted investments

Unquoted investments are included in the net assets statement at the value estimated by the general partner managing each fund in accordance with the guidelines used by the industry, and based on the latest information to hand at the time of the valuation. I am satisfied, based on the knowledge I have, with the valuations, and am not aware of any subsequent events that would have a material impact on the estimated value of the unquoted investments.

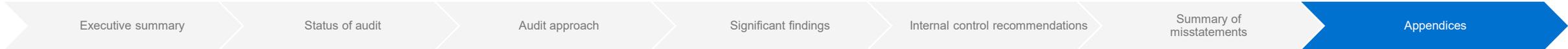
### Unadjusted misstatements

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

### Subsequent events

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

Page 52



# Appendix A: Draft management representation letter

**Going concern**

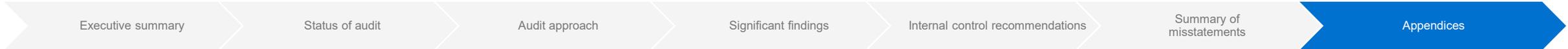
To the best of my knowledge there is nothing to indicate that the Pension Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date 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 Pension Fund'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 Pension Fund's needs. We believe that no further disclosures relating to the Pension Fund's ability to continue as a going concern need to be made in the financial statements.

Yours sincerely

Executive Director of Resources

Date.....

Page 53



# Appendix B: Draft audit report

## Draft Independent auditor's report to the members of Lincolnshire County Council Report on the financial statements of the Lincolnshire Pension Fund

### Opinion on the financial statements of the Lincolnshire Pension Fund

We have audited the financial statements of Lincolnshire Pension Fund ('the Pension Fund') for the year ended 31 March 2021, which comprise the Fund Account, the Net Assets Statement, 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 transactions of Lincolnshire Pension Fund during the year ended 31 March 2021, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2021; 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, as administering authority for the Pension Fund, 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, 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 Executive Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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 Pension Fund'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 Executive Director of Resources with respect to going concern are described in the relevant sections of this report.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Appendices

# Appendix B: Draft audit report

### Other information

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

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

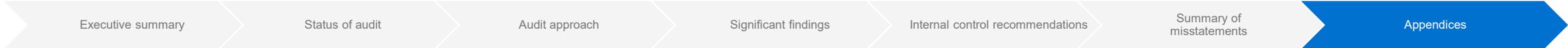
We have nothing to report in this regard.

### Responsibilities of the Executive Director of Resources for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund’s 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 Executive Director of Resources is also responsible for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Executive Director of Resources 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, unless the Council is informed of the intention for dissolution of the Pension Fund without transfer of services or function to another entity. The Executive Director of Resources is responsible for assessing each year whether or not it is appropriate for the Pension Fund to prepare the accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Page 55



# Appendix B: Draft audit report

### Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund’s 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.

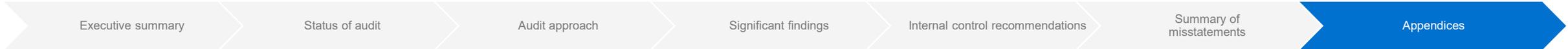
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Pension Fund, we identified 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) and the Local Audit and Accountability Act 2014 (and associated regulations made under section 32), and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Executive Director of Resources 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.

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:

- 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 \* discussing with management Pension Fund which were contrary to applicable laws and regulations, including fraud.

Page 56



# Appendix B: Draft audit report

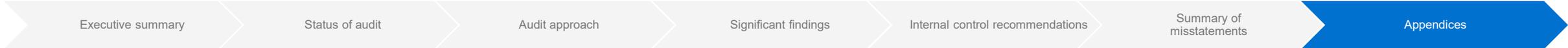
Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management 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.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Executive Director of Resources 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.



# Appendix B: Draft audit report

## 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.

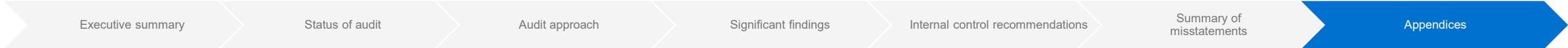
We have nothing to report in these respects.

## Use of the audit report

This report is made solely to the members of Lincolnshire County Council, as a body and as administering authority for the Lincolnshire Pension Fund, 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.

Page 58

Ameron Waddell  
 for and on behalf of Mazars LLP  
 The Corner  
 Bank Chambers  
 26 Mosley Street  
 Newcastle upon Tyne  
 NE20 9NE  
 XX November



# Appendix C: Draft consistency report

Independent auditor's statement to the members of Lincolnshire County Council on the pension fund financial statements included within the Lincolnshire Pension Fund annual report

## Report on the financial statements

### Opinion

We have examined the Pension Fund financial statements for the year ended 31 March 2021 included within the Lincolnshire Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including the summary of significant accounting policies.

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of Lincolnshire County Council for the year ended 31 March 2021 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

### Respective responsibilities of the Executive Director of Resources and the auditor

As explained more fully in the Statement of the Executive Director of Resources' Responsibilities, the Executive Director of Resources is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of Lincolnshire County Council as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of Lincolnshire County Council. We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of Lincolnshire County Council describes the basis of our opinions on the financial statements.

### Use of this auditor's statement

This report is made solely to the members of Lincolnshire County Council, as a body and as administering authority for the Lincolnshire Pension Fund, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of Lincolnshire County Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Lincolnshire County Council and Lincolnshire County Council's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Cameron Waddell  
For and on behalf of Mazars LLP

The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF  
XX November

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of  
misstatements

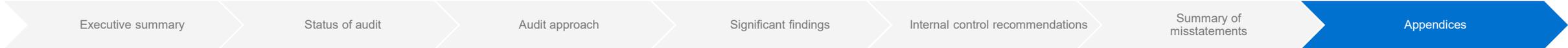
Appendices

# Appendix D: 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.

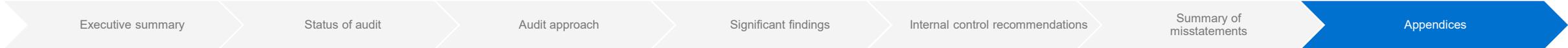
Page 60



# Appendix E: Other communications

| Other communication                         | Response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Compliance with Laws and Regulations</b> | <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>                                                                                                                                                                                                                                                                            |
| <b>External confirmations</b>               | <p>We did not experience any issues with respect to obtaining external confirmations.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Related parties</b>                      | <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"> <li>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</li> <li>b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.</li> </ul>                                                                                           |
| <b>Going Concern</b>                        | <p>We have not identified any evidence to cause us to disagree with the view of the Executive Director of Resources that the Lincolnshire Pension Fund 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> |

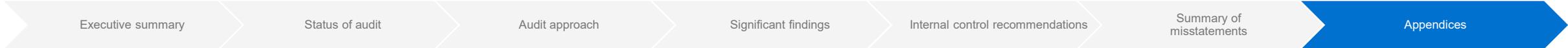
Page 61



# Appendix E: Other communications

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

Page 62



# Cameron Waddell

## Mazars

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Bank Chambers  
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Newcastle upon Tyne  
NE1 1DF

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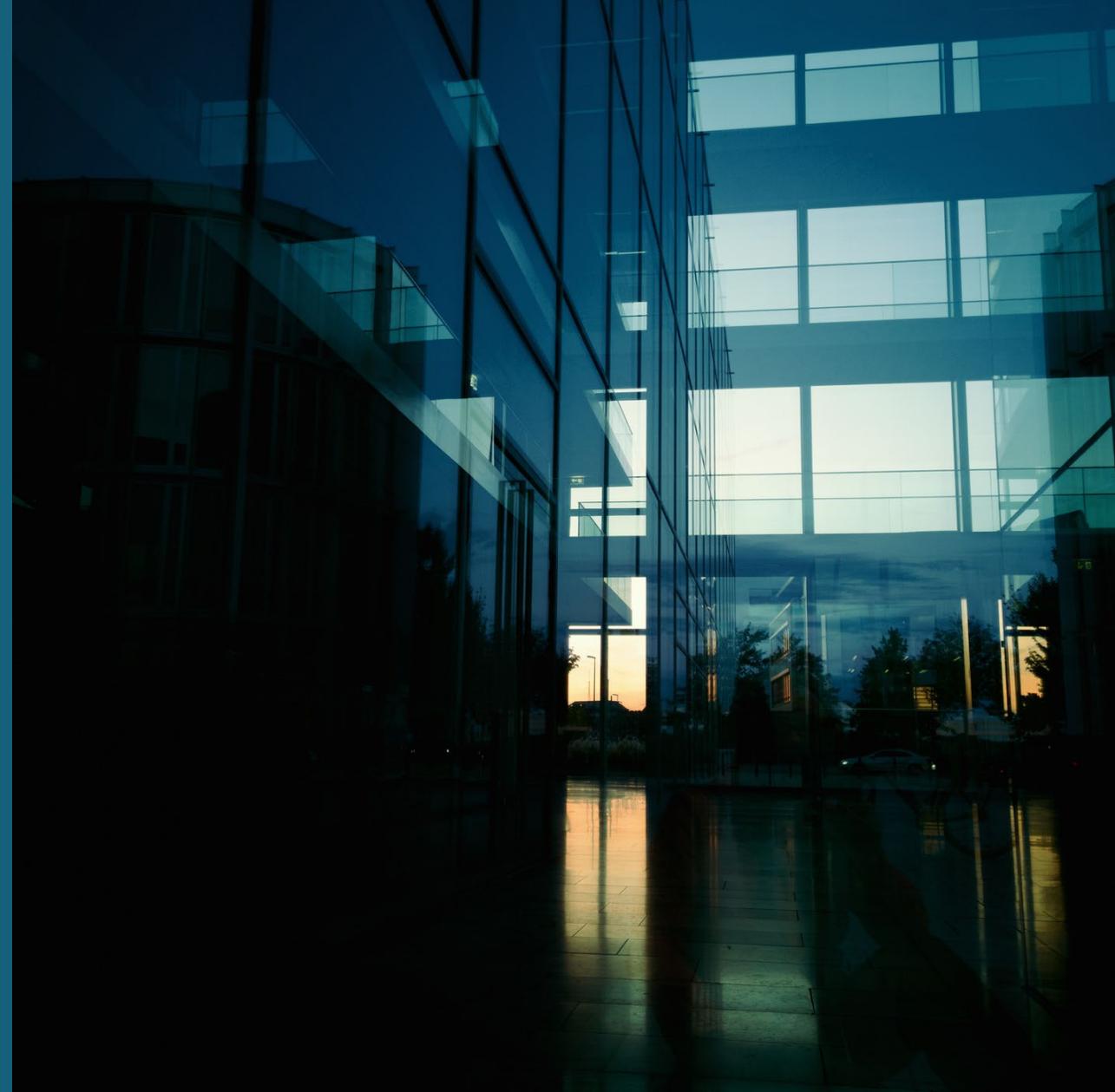
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# Audit Completion Report

Lincolnshire County Council - Year ended  
31 March 2021

November 2021  
Page 65



# Contents

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

Page 66

Appendix A: Draft management representation letter

Appendix B: Draft audit report

Appendix C: Independence

Appendix D: Other communications

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

## Audit Committee

Lincolnshire County Council  
County offices  
Newland  
Lincoln  
LN1 1YL

4 November 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 and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 19 March 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks 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 on [mark.surridge@mazars.co.uk](mailto:mark.surridge@mazars.co.uk)

Yours faithfully

Mark Surridge

Mazars LLP

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First floor  
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B3 3AX

# 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.

In section 4 of this report, we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls;
- Net defined benefit liability valuation;
- Property valuation;
- Expenditure recognition; and
- COVID-19 Grants recognition.

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements, including unadjusted misstatements with gross debits of £15m and an adjusted misstatement of £28m.

Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

## Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021.

At the time of preparing this report, there are matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the matters outstanding through issuance of a 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, but with an emphasis of matters, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



### Value for Money

Our work on the Annual Auditor's Report and arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources is ongoing. 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.

# 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                                                                                                                                                                                                                                                                                                                  |
|------------------------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Valuation of land & buildings                  |    | We are awaiting evidence to support the calculations supporting the valuation of schools.<br>Further, the evidence only recently provided on the General Fund assets we have tested shows a potential error arising from unsubstantiated floor areas (a key component of the valuation) that could result in an adjustment to the financial statements. |
| Accounting and presentation of Covid-19 grants |    | We are awaiting evidence and response from a number of queries to help support our testing.                                                                                                                                                                                                                                                             |
| IT Control Environment                         |    | Although, not expected to result in a material adjustment or significant change to the financial statements, we are still yet to complete our review of the Council's general IT controls for 2020/21. This has been flagged as a significant difficulty within section 4.                                                                              |
| Provisions and contingencies                   |    | We are awaiting a response from management relating the classification of provisions within the financial statements.                                                                                                                                                                                                                                   |
| Whole of Government Accounts                   |    | We have not received the instructions from the National Audit Office on the 2020/21 process and this is not due until December 2021.                                                                                                                                                                                                                    |
| Completion procedures                          |  | Procedures such as our quality control, review for post balance sheet events, and management representations are ongoing, and will remain as such, through to the date of issuing the auditor's report.                                                                                                                                                 |
| Value for money                                |  | We are waiting for the publication and regulatory judgement from Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS). This is due in December.                                                                                                                                                                              |



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 dated 19 March 2021

We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum and subsequent Progress Report.

## Materiality

Our provisional materiality at the planning stage of the audit was set at £22,817k using a benchmark of 2% of gross operating expenditure.

Our final assessment of materiality, based on the final financial statements and qualitative factors is £23,590k using the same benchmark.

Specific materiality thresholds also used are:

| Threshold            | £'000s |
|----------------------|--------|
| Officer remuneration | 5*     |
| Members allowances   | 258    |

\*Bandings within the note are £5k, so therefore a one band move is considered material

## Reliance on internal audit

No reliance has been placed on internal audit for the 2020/21 financial audit. Enquiries have been undertaken to aid our understanding of the control environment at the Council.

## Use of experts

Information below was disclosed within our Audit Strategy Memorandum, dated 19 March 2021. No changes to our audit approach have been identified.

| Item of account                                      | Management's expert                                                                                                        | Our expert                                                                                                                                                                                          |
|------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Property Plant and Equipment & Investment Properties | <b>Keir Property Services</b><br>The Council's external valuer for PPE (where held at valuation) and Investment Properties | We have engaged with our own internal valuer to help support challenge and review.<br><br>We have used third party evidence provided via the NAO to support our challenge of valuation assumptions. |
|                                                      | <b>Savills LLP</b><br>The Council's external valuer for Investment Properties                                              |                                                                                                                                                                                                     |
| Pensions                                             | <b>Barnett Waddingham</b><br>Actuary for Lincolnshire Pension Fund (LGPS)                                                  | PWC<br><br>(Consulting actuary appointed by the NAO).                                                                                                                                               |
|                                                      | <b>Hymans</b><br>Actuary for Lincolnshire Fire Authority Pension fund                                                      |                                                                                                                                                                                                     |
| Financial Instrument disclosures                     | <b>Link Asset Management (LAM)</b><br>Treasury management advisors                                                         | None.                                                                                                                                                                                               |



# 3. Audit approach

## Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third-party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Council.

| Items of account                            | Service organisation                                                                                                                                           | Audit approach                                                                                                                                                                                               |
|---------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Pay and non-pay expenditure<br>Other income | <b>Serco</b><br>The Council's provider of financial and other support services, including the processing of payroll, accounts payable and accounts receivable. | We did not seek a controls assurance report as we were able to perform procedures ourselves, which included reviewing the controls operating at the Council over these transactions and substantive testing. |

Page 74



# 04

## Section 04: **Significant findings**

# 4. Significant findings

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

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 15 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.

## Significant risks

|                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Management override of controls</b> | <b>Description of the risk</b> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p> |
|                                        | <b>How we addressed this risk</b> <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"><li>• Accounting estimates impacting amounts included in the financial statements;</li><li>• Consideration of identified significant transactions outside the normal course of business; and</li><li>• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li></ul>                                                                                                                  |
|                                        | <b>Audit observations</b> <p>Our considerations of estimates is set out on page 18. We did not identify any significant transactions outside the normal course of business. We applied a combination of audit judgement and computer aided audit tools to analyse and perform tests over journal entries.</p>                                                                                                                                                                                                                                                                          |
|                                        | <b>Audit conclusion</b> <p>No issues have been identified that need to be brought to the attention of Members.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

Page 76



## 4. Significant findings

### Defined benefit liability valuation

#### Description of the risk

The defined benefit liability relating to the Local Government Pension Scheme and the Fire-Fighters Pension Scheme represents a significant balance on the Council's balance sheet. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk of misstatement in this area.

Relevant Account Balances (taken from the 2020/21 draft financial statements provided for audit):

- £1,112m – Note 25 and 28 (Net pension liability), made up from:
  - Local Government Pension Scheme - £801m
  - Fire-Fighters Pension Scheme - £311m

#### How we addressed this risk

We addressed this risk by:

- critically assessed the competency, objectivity and independence of the both actuaries;
- liaising with the auditors of the Lincolnshire Pension Fund to gain assurance that the controls in place at the Pension Fund are designed effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate;
- reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the actuaries, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information by our consulting actuary; and
- agreeing the data in the IAS 19 valuation report provided by the actuaries for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

#### Audit Observations

The Council's share of the pension fund net liability (being a deficit position) of £801m has increased from £617m in the prior year as shown in Note 29 of the financial statements. The main movements being an increase in the value of pension assets from £1,147m to £1,400m; offset by a larger increase in the value of pension liabilities from £1,763m to £2,200m. The Fire-fighters Pension Fund net liability has increased from £240m to £311m.

From the work performed, a material £28m misstatement has been identified and adjusted for in relation to the movement on the Local Government Pension Fund assets. Further details are in part 6 of this report.

#### Audit conclusion

Aside from this adjustment, there are no further issues noted from our testing that need to be brought to the attention of Members.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices

## 4. Significant findings

| Valuation of land & buildings and investment properties | Description of the risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                         | <p>Property related assets are a significant balance on the council's balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements. Due to the high degree of estimation uncertainty associated with such valuations, we have determined there is a significant risk in this area. This risk covers (figures have been taken from the draft 2020/21 financial statements):</p> <ul style="list-style-type: none"><li>• Land &amp; Buildings (£493m - Note 15)</li><li>• Investment Properties (£108m – Note 17)</li></ul> |

### How we addressed this risk

We addressed this risk by:

- critically assessing the Council's valuers scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;
- considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;
- testing a sample of valuations, including using our own expert to review the Council's approach to the Country Farms within Investment Properties;
- assessing whether valuation movements are in line with market expectations by using third party information to provide information on regional valuation trends; and
- assessing the approach that the Council adopts to ensure that assets are not subject to revaluation in 2020/21 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers.

### Audit observations

We engaged our own specialist to support our review of the Council's valuation of investment properties, this found that principles of the valuation were reasonable. We have, however, requested additional disclosures to be include where the method applied to Investment Properties include 'special assumptions' relating to the limitations and restrictions on sale and how this coincides with the Fair Value valuation method. Our expert confirmed that 'special assumptions' are not permitted in this valuation methodology, but as this assumption applies to £14m of the inherent valuation it is unlikely to lead to a change in the estimated valuation.

Similar to the prior year, the Council's valuer has included a 'material valuation uncertainty' clause over its valuations which are dated April 2020. We have challenged the valuer and are satisfied that the declaration is consistent with relevant RICS guidance. We will therefore include an emphasis of matter paragraph in our auditor's report to draw attention to the relevant disclosures in the financial statements.

The Council's valuer uses a number of Global assumptions to aid their valuation process, including the level of external works linked to an asset. We challenged the valuer whether, in their professional judgement, they were satisfied that external works had been appropriately considered. This identified that the calculations for external works had not been updated since 2014. The valuer's approach allows for a level of judgement and we are, overall, satisfied that an informed judgement has been applied. The Council will be carrying out a full update in 2021/22.

Through our pre-year end testing of property, plant and equipment, in particular school disposals, we identified one school (disposal amount £2,078k), where the Council had correctly accounted for the transaction. Upon receipt and inspection of the evidence, we confirmed that the disposal should have taken place a number of years ago, given the ending of the lease and transfer to Academy status. We were satisfied that the amount is not significant enough to warrant a prior period adjustment.

### Audit conclusion

In line with section 2 of this report, a number of significant queries remain outstanding and we are yet to finalise and confirm our findings

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices

## 4. Significant findings

### Expenditure recognition

#### 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 balance sheet 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 Premises, transport, and supplies & services (being £675m per Note 10 of the draft 2020/21 financial statements).

#### How we addressed this risk

We addressed this risk by:

- 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.

#### Audit observations

As set out on page 17, 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.

As part of our expenditure cut-off testing, we identified an understatement of expenditure/ creditors of £2,787k that officers have currently chosen not to adjust for. This is included in section 6 of the report.

#### Audit conclusion

The work performed has obtained the assurances we sought and there are no further matters to bring to the attention of Members.

# 4. Significant findings

## COVID-19 grants recognition

### Description of the risk

Over March and April 2020, the government provided £3.2 billion of emergency grant funding and over £5 billion of cashflow support to support local authorities through COVID-19. Throughout 2020/21, the Government has continued to provide substantial sums of financial support to local authorities, including Lincolnshire County Council.

Management have had to exercise a level of judgement in relation to these specific COVID-19 grants, including:

- the extent to which the Council is acting as an agent or principal and therefore whether to account for the grant income on a gross or net basis; and
- whether conditions associated with the grants have been met at the reporting date.

Overall therefore, we believe there is a significant audit risk relating to the completeness and accuracy of Covid-19 grant income in the 2020/21 financial statements.

### How we addressed this risk

We addressed this risk by:

- reviewed the Council's approach to determine whether grants are or are not ringfenced for specified areas of expenditure;
- tested a sample of grant income recorded in the ledger to grant allocations/ notifications;
- challenged the Council's judgements as to whether it is acting as agent or principal in respect of the administration of individual grant funding streams, and the accounting treatment associated with these judgements;
- reviewed a sample of grants to ensure conditions to recognise the income in 2020/21 have been met or not.

### Audit observations

In line with section 2 of this report, a number of queries remain outstanding.

### Audit conclusion

At this point in time, no significant concerns have been identified that need to be brought to the attention of Members.

# 4. Significant findings

## Qualitative aspects of the Council’s accounting practices

Draft accounts were received from the Council on 30 June 2021 in advance of the 31 July deadline. We have experienced a number of delays in the provision of a complete set of working papers not just in readiness for the start of our audit, but throughout; one example of this around the requirements and supporting evidence in order to help address our COVID19 grant recognition significant risk. This had led to some issues in carrying out our normal audit procedures and delays in obtaining the audit evidence required to complete the audit.

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.

Consistent with 2019/20, the Council does not fully comply with IFRS9 – Financial Instruments in respect of accounting for the impairment of debtors. The Council undertakes its own review based on specific circumstances and believe this to be a more pragmatic and prudent approach. We are satisfied that the model used would not cause a material variance between IFRS9 and the current model and adequate disclosure has been made by the Council documenting its non-compliance from the accounting standard.

## 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’)).

## Significant matters discussed with management

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

- The 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. The Council’s valuer has followed RICS guidance, and their valuation report concluded that, due to the impact of Covid-19 on the property market there is a ‘material uncertainty’ over the valuation of land and buildings at the balance sheet date. This has been disclosed in the notes to the financial statements.

Page 81



# 4. Significant findings

## Accounting estimates

We specifically considered the following areas of accounting estimates:

| Estimate         | Land & Building Valuations                                                                                                                                                                                                                                                                                                                         | Investment Property Valuations                                           | Net Pensions Liability                                                                                                                                                                                                                                                                                                                                                                                        | Financial Instruments                                            |
|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|
| Note(s)          | 15                                                                                                                                                                                                                                                                                                                                                 | 17                                                                       | 25 and 28                                                                                                                                                                                                                                                                                                                                                                                                     | 19                                                               |
| Value in 2020/21 | The net book value of land, buildings at 31 March 2021 was £493.2m                                                                                                                                                                                                                                                                                 | The net book value of investment properties at 31 March 2021 was £107.8m | Local Government Pension Scheme - £801m<br>Fire-Fighters Pension Scheme - £311m                                                                                                                                                                                                                                                                                                                               | Number of long and short term assets and liabilities.            |
| Audit Risk       | Significant                                                                                                                                                                                                                                                                                                                                        | Significant                                                              | Significant                                                                                                                                                                                                                                                                                                                                                                                                   | Standard                                                         |
| Comments         | Property valuation estimates are derived using the professional opinion of the Trust's external valuer.<br><br>We have identified the need for additional disclosures to be made by management in response to 'special assumptions' being used within their investment property farm asset.<br><br>We have set out further observations on page 14 |                                                                          | We reviewed the actuarial methodology for calculating IAS19 liabilities and are satisfied that the model is compliant with actuarial standards.<br><br>We reviewed the key assumptions used by the actuary, confirming these were in in the expected range as provided by our expert.<br><br>An adjusted misstatement has been identified due to a change within the Pension Fund Assets. Refer to section 6. | Our testing has not identified any significant issues to report. |

Page 82



# 4. Significant findings

## 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.

We have encountered difficulties in undertaking our work on the Council's IT controls, with significant delays in gaining the relevant assurance over the Council's IT controls and overarching control environment, our queries were raised in June and remain unresolved. 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.

## 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.

## 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 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 - **£12,273**
- 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; and ISA570 (Revised) Going Concern – **£4,644**
- Additional testing as a result of new significant audit risk relating to Covid-19 grants - **£2,000**
- Additional work as a result of the ongoing disclosure and reporting implications of 'material valuation uncertainty' declarations on land and building valuations, as well as additional work arising from errors and control weaknesses leading to extended testing - **£4,000**
- Additional work as a result of the new Code of Audit Practice and VFM reporting – ongoing with our estimate being at least **£12,000** 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 final fees to Committee.



# 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 |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| <b>1 (high)</b>   | In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately. | 0                |
| <b>2 (medium)</b> | In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.                                                                                                             | 4                |
| <b>3 (low)</b>    | In our view, internal control should be strengthened in these additional areas when practicable.                                                                                                                                                                   | 0                |

Page 85



# 5. Internal control recommendations

## Medium deficiencies in internal control – Level 2

### Matter arising

Within our substantive testing of Taxation and Non Specific Grant Income, we identified one grant, where the Council had breached the conditions of the grant during 2020/21. The Council has accounted for the breach by creating an accrual for the amounts to be repaid (total accrued amount was £727k).

### Description of deficiency

The Council's controls did not identify the breach in terms and conditions and therefore require review.

### Potential effects

There is a risk that where the Council fail to comply with specific grant conditions, a clawback of the associated income may occur.

### Recommendation

Upon inspection of the grant in question, we confirmed that the Council had correctly accounted for the breach of conditions within the financial statements. Our substantive work did not identify any additional concerns that would suggest the financial statements are materially misstated.

The Council needs to ensure close monitoring of all grants is undertaken within a timely manner to allow for the grant monies to be fully utilised and services delivered.

### Management response

Management have noted the recommendation and will respond in due course.

## Medium deficiencies in internal control – Level 2

### Matter arising

Through our pre-year end testing of property, plant and equipment, in particular school disposals, we identified one school (disposal amount £2,078k), where the Council had correctly accounted for the transaction. Upon receipt and inspection of the evidence, we confirmed that the disposal should have taken place a number of years ago, given the ending of the lease and transfer to Academy status. We were satisfied that the amount is not significant enough to warrant a prior period adjustment.

### Description of deficiency

The Council's arrangements to monitor lease agreements to correctly derecognise (or potentially recognise) asset were not operating effectively.

### Potential effects

There is a risk that property, plant and equipment, in particular school related assets is overstated within the financial statements, as the Council no longer has legal ownership of the school and therefore, should be disposing of such asset. There is also a risk that the Council are not undertaking timely monitoring of any school, or any other asset, that contain a lease.

### Recommendation

No additional concerns were identified through our testing that would suggest the financial statements are materially misstated. The Council need to ensure that their processes are reviewed and updated to ensure that such disposals are being identified and accounted for in the correct financial year.

### Management response

Management have noted the recommendation and will respond in due course.

# 5. Internal control recommendations

## Medium deficiencies in internal control – Level 2

### Matter arising

There has been an increase in financial control and financial reporting errors this year leading to, as per section 6, £15m in errors currently recorded as unadjusted misstatements within the financial statements.

### Description of deficiency

Inaccuracies in financial reporting.

### Potential effects

Although below our performance materiality threshold of £17,693k, the cumulative extrapolated impact of unadjusted misstatements still represents a large amount and all indicate an under-recording of expenditure in the Council's financial statements.

### Recommendation

The Council needs to consider the impact of these unadjusted errors and whether the closedown process of the Council for 2021/22 will reduce the risk of significant recurrence. In addition, the Council should ensure finance teams are made aware of the root cause of the errors to aid training and development.

### Management response

Management have noted the recommendation and will respond in due course.

## Medium deficiencies in internal control – Level 2

### Matter arising

In 2014 an additional allowance was made to include external works in the baseline for building cost indices (BCIS) for the valuation of schools, fire stations and libraries. These have been increased annually so that external works costs have remained included in the build costs for these valuations.

### Description of deficiency

The Council has not maintained an up-to-date assessment of variables to support valuation estimates.

### Potential effects

Valuation methodology permits valuer judgement, however using an approach developed more than six years ago creates unnecessary risk in the accuracy of calculations.

### Recommendation

For 2021/22, management have told us that build costs have been obtained via BCIS for each individual asset type and the Council has discussed the figures with the Quantity Surveyors and, rather than adopting an annual All In -TPI increase as in previous years, the external works will be updated to reflect the increase in the cost of completing a new build project as a result of the Covid-19 pandemic and Brexit issues.

The calculation and judgements used to perform this review needs to be retained and a process built in to prevent such a long interval between the next detailed review.

### Management response

Management have noted the recommendation and will respond in due course.

# 5. Internal control recommendations

## Follow up on previous internal control points

### Description of deficiency

#### Agresso Access Control

As part of our testing of the operation of controls over user access, we compared the details of Agresso users who had left the Council in the year to those listed in the latest 'Active Directory' of users to establish whether their user accounts had been disabled. We identified that 173 (out of the 624 tested) of these user accounts had not been disabled at the date of our review. Further testing identified that at the time of our assessment 7 of these 'live' exceptions had logged in after their leaving date. The specific user exceptions highlighted at our review have been followed up by management and addressed.

### Potential effects

If former employees still have a Council IT asset and are set up on the Council's network with a valid active directory then they are able to continue to access the systems they formerly used in the course of their duties. It is acknowledged that the completeness and accuracy of active user accounts and ability to access the system is dependent on the timing and completeness of information actions required by line managers (for example the return of IT assets).

### Recommendation

The Business World (BW) team should work with the Council's HR provider to ensure it has the appropriate information to enable the user accounts are accurate and up to date.

### Management response – 2019/20

The BW team acknowledge that the information exchange process between the HR provider and managers can make it difficult to minimise any time lags in the disabling of user access. The Team is working as part of the BW ERP redesign with colleagues on other projects (specifically the introduction of Microsoft 365) on improving controls over identity management to strengthen the link between the setting up/deletion of User and Resource IDs. In the meantime the Team will continue to liaise with HR provider (including review of weekly 'leavers' reports) and other Council colleagues with a view to addressing any current issues.

### Management update – 2020/21

The BW team do attempt to close the user accounts of employees who have left the Council, but they are sometimes unable to close accounts immediately if transactions initiated by those users are still in progress. A review process is now in place to ensure that where accounts remain open initially, these are revisited regularly to see if they can now be closed. It is felt that any risk arising from unauthorised activity is managed, because employees who have left should also have access to the LCC network removed, which would prevent them from accessing the BW system. In addition to this, the controls built into the system would also help to manage the risk of inappropriate activity within the system.

### Control recommendation – remain open or closed?

As our IT audit for 2020/21 still remains outstanding as per section 2 of this report, we are yet to confirm whether we have gained reasonable assurance to confirm whether this recommendation can be closed.

Page 88



# 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 £708k. The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

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

### Adjusted misstatements

Mazars advised management of a matter brought to their attention by the Lincolnshire Pension Fund auditors. The Pension Fund auditors had identified a 1.39% difference (increased) between the estimated 2020/21 Fund investment asset value used by the Actuary to prepare the employers' IAS19 valuation reports and the 2020/21 Fund financial statements being audited.

The Council's share of the Fund's estimated pension scheme assets at 31/3/2021 was £1,399,575k. The 1.39% difference was estimated as £19,454k. Whilst this is below our materiality threshold, it is greater than our performance materiality threshold and therefore, we recommended that the Council obtained an additional report to quantify the total impact.

Management chose, on the grounds of materiality, to obtain an updated IAS19 valuation report. The total adjustment identified was £27,823k which results in an increase in both Total Net Assets and Total Reserves.

|                                     |                                  | Balance Sheet |               |
|-------------------------------------|----------------------------------|---------------|---------------|
|                                     |                                  | Dr (£'000)    | Cr (£'000)    |
| 1                                   | Dr: LGPS Pension Asset Account   | 27,823        |               |
|                                     | Cr: LGPS Pension Reserve Account |               | 27,823        |
| <b>Total adjusted misstatements</b> |                                  | <b>27,823</b> | <b>27,823</b> |

### Disclosure amendments

Based on our work undertaken, we have identified a number of disclosure amendments to the accounts:

- The audit fees note has been updated to accurately reflect our additional costs in line with the statutory audit;
- The senior officer remuneration note has been updated to reflect employer pension contributions;
- The investment asset note has been updated to reflect specific circumstances in relation to the Council's farming asset; and
- A number of disclosures have been amended in line with our internal quality review to ensure compliance with the Code.

### Unadjusted misstatements

Unadjusted misstatements identified to date are set out on the following page.

The gross total value of unadjusted misstatements is below our performance materiality threshold of £17,693k. We have, however, raised a medium internal control recommendation regarding the Council's closedown process, recognising the need for improvement.

# 6. Summary of misstatements

## Unadjusted misstatements

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                  | Comprehensive Income and Expenditure Statement |              | Balance Sheet |              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|------------------------------------------------|--------------|---------------|--------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                  | Dr (£'000)                                     | Cr (£'000)   | Dr (£'000)    | Cr (£'000)   |
| 1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Dr: Creditors/Payables           |                                                |              | 5,901         |              |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Cr: Cost of Services Expenditure |                                                | 5,901        |               |              |
| <p>As part of our testing of operating expenditure, we identified an overstatement of expenditure. A payment in relation to residential care long term, interfaced through the sub-system Abacus, had been duplicated. The Council has tried to recoup the money, but no payment has been made to date. This has been attributed to human error. 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 £5.9m.</p> |                                  |                                                |              |               |              |
| 2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Dr: Cost of Services Expenditure | 2,787                                          |              |               |              |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Cr: Creditors/Payables           |                                                |              |               | 2,787        |
| <p>As part of our expenditure cut off testing, we identified an understatement of expenditure/ creditors. This arose where invoices, dated in February 2021, had been received by the Council, but the transaction itself had not been recognised within the General Ledger, nor accrued for at year-end. We cannot confirm the error is isolated.</p>                                                                                                                                                                                                                        |                                  |                                                |              |               |              |
| 3                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Dr: Cost of Services Revenue     | 1,148                                          |              |               |              |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Cr: Debtors/Receivables          |                                                |              |               | 1,148        |
| <p>As part of our debtors testing, we identified an overstatement to debtors/revenue. An invoice was raised by the Council, dated March 2021, but, in April 2021, a credit note was raised for the same amount to offset the original invoice following updated information that the Council was not expecting to receive the money in question. The error cannot be attributed to an isolated incident.</p>                                                                                                                                                                  |                                  |                                                |              |               |              |
| 4                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Dr: Cost of Services Expenditure | 5,300                                          |              |               |              |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Cr: Creditors/Payables           |                                                |              |               | 5,300        |
| <p>As part of our creditors testing, we identified an understatement of creditors/ expenditure where the Council made a number of manual accruals for 2020/21. However, there were large variances to the actual invoices compared to the original estimate. These are not isolated errors.</p>                                                                                                                                                                                                                                                                               |                                  |                                                |              |               |              |
| <b>Total unadjusted misstatements</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                  | <b>9,235</b>                                   | <b>5,901</b> | <b>5,901</b>  | <b>9,235</b> |

Page 91



# 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.

Our assessment of what constitutes a significant weakness is a matter of professional judgement, based on our evaluation of the subject matter in question, including adequacy of the Trust's responses. The National Audit Office's guidance states that a weakness may though be said to be significant if it:

- Exposes (or could reasonably be expected to expose) the body to significant financial loss or risk;
- Leads to (or could reasonably be expected to lead to) significant impact on the quality or effectiveness of service or on the body's reputation;
- Leads to (or could reasonably be expected to lead to) unlawful actions; or
- Involves a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

Our progress report summarises our initial observations on the Council's arrangements where, to arrive at our assessment, we performed a variety of work to obtain an understanding of the Council's arrangements for each specified reporting criteria. This included performing a detailed risk assessment,

drawing from a variety of sources, including, but not limited to:

- Meeting with management and reviewing management's self-assessment;
- Considering the views of the Audit Committee;
- Reviewing supporting guidance from the National Audit Office, including indicators of significant weaknesses;
- Considering our understanding of sector developments and any local issues;
- Reading and reviewing Committee reports;
- Reviewing the Annual Governance Statement;
- Considering the outcomes from the work of internal audit;
- Reading risk registers and risk management reporting; and
- Considering the work of regulators and inspectorates.

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.

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

## 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.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control  
recommendations

Summary of  
misstatements

Value for Money

Appendices

# Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

# Appendix A: Draft management representation letter

Mazars LLP  
First floor,  
Two Chamberlain Square,  
Birmingham  
B3 3AX

Dear Sirs

## Lincolnshire County Council - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of Lincolnshire County 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 the 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 ourselves that I can properly make each of the following representations to you.

### My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements 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 we are 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 Executive Director of Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

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

### Accounting records

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

### Accounting policies

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

### 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 current or 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).

Executive summary

Status of audit

Audit approach

Significant findings

Internal control  
recommendations

Summary of  
misstatements

Value for Money

Appendices

# Appendix A: Draft management representation letter

## 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.

Page 96  
Other material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

## Laws and regulations

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

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

## Fraud and error

I acknowledge my responsibility as Executive Director of Resources 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 to you in accordance with the requirements of the Code and applicable law.

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

## Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment and intangible assets below their carrying value at the balance sheet date. I have considered the impact of Covid-19 on the Council's Investment Properties. An impairment review is therefore not considered necessary.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control  
recommendations

Summary of  
misstatements

Value for Money

Appendices

# 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 on-going 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 on-going Covid-19 pandemic. I continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

## Annual Governance Statement

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

## Narrative report

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

## Unadjusted misstatements and internal control recommendations

I confirm that the effects of the uncorrected misstatements and internal control recommendations set out at Appendix A are immaterial, both individually and in aggregate, to the financial statements as a whole.

Yours faithfully

**Executive Director of Resources**

Executive summary

Status of audit

Audit approach

Significant findings

Internal control  
recommendations

Summary of  
misstatements

Value for Money

Appendices

# Appendix B: Draft audit report

## Independent auditor's report to the members of Lincolnshire County Council

[SUBJECT TO CONSULTATION]

### Report on the audit of the financial statements

#### Opinion on the financial statements

We have audited the financial statements of Lincolnshire County 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 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of property, plant & equipment

We draw attention to Note 15 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land and building assets. As disclosed in Note 15 of the financial statements, the Council's valuers included a 'material valuation uncertainty' declaration within their report as a result of the Covid-19 pandemic. Our opinion is not modified in respect of this matter.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Executive Director of Resources of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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 Executive Director of Resources with respect to going concern are described in the relevant sections of this report.

#### Other information

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

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

We have nothing to report in this regard.

#### Responsibilities of the Executive Director of Resources for the financial statements

As explained more fully in the Statement of the Executive Director of Resources Responsibilities, the Executive Director of Resources ) 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 Executive Director of Resources is also responsible for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Executive Director of Resources 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 Executive Director of Resources 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.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices

# Appendix B: Draft audit report

## 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 Executive Director of Resources 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.

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.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Executive Director of Resources 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](http://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.

### Use of the audit report

This report is made solely to the members of Lincolnshire County 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, Key Audit Partner

For and on behalf of Mazars LLP

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Executive summary

Status of audit

Audit approach

Significant findings

Internal control  
recommendations

Summary of  
misstatements

Value for Money

Appendices

# 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.

Page 101



# 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> <ol style="list-style-type: none"> <li>they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and</li> <li>they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.</li> </ol>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Going Concern                        | <p>We have not identified any evidence to cause us to disagree with the Chief Financial Officer that Lincolnshire County 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>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Subsequent events                    | <p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Matters related to fraud             | <p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and Audit Committee, confirming that</p> <ol style="list-style-type: none"> <li>they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;</li> <li>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;</li> <li>they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ol style="list-style-type: none"> <li>Management;</li> <li>Employees who have significant roles in internal control; or</li> <li>Others where the fraud could have a material effect on the financial statements; and</li> </ol> </li> <li>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.</li> </ol> |

# Mark Surridge

## Mazars

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

\*where permitted under applicable country laws.

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8 November 2021

Dear Committee Members

**Conclusion of pending matters – Audit Completion Report for Lincolnshire County Council Pension Fund**

As required by International Standards on Auditing (UK), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report.

The outstanding matters identified and the current status of each are detailed below.

| Matter                                          | Conclusion reached                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Finalised financial statements                  | <p>We have completed our work with only one issue to note in relation to the disclosure of non-material Additional Voluntary Contributions (AVC) in Note 21.</p> <p>Whilst the value of AVC funds are not included in the Fund Account and Net Assets Statement they should be disclosed in Note 21.</p> <p>However, the Pension Fund has not yet received the required information to include in Note 21 from Prudential plc and consequently has been unable to make the required disclosure. The wording of Note 21 sets out the current position.</p> <p>We will seek a representation on this in our management representation letter.</p> |
| Audit quality control and completion procedures | <p>We have completed much of this work, subject to the need to finalise certain aspects, with no further issues to report.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

Please contact me if I can be of any further assistance.

Yours sincerely



**Cameron Waddell**

Key Audit Partner

For and on behalf of Mazars LLP