



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

Report to:	<b>Audit Committee</b>
Date:	<b>14 November 2022</b>
Subject:	<b>External Auditor's Annual Report and Audit Completion Reports 2021/22</b>

**Summary:**

The external audit of the Council's accounts by Mazars is nearing its conclusion.

The Pension Fund audit is largely complete, with some auditor checks and review processes in progress. The auditor has provided an Audit Completion Report for Lincolnshire Pension Fund, attached as Appendix A.

The Lincolnshire County Council audit is not yet complete, and the auditor has provided a Current Audit Findings Report for Lincolnshire County Council, attached as Appendix B. A Value for Money Progress Report is attached as Appendix C.

An Audit Completion Report for Lincolnshire County Council, including a final Value for Money report and commentary, and the Auditors Annual Report will be provided at the conclusion of the audit. This report should be seen in the context of the Statements of Accounts 2021/22 - Lincolnshire County Council & Pension Fund report, which is on the agenda for this meeting, and explains the delay in finalising the accounts and completing the audit.

Mazars representatives will be 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 Audit Completion Report and the Current Audit Findings Report and identifies any further information or actions that may be required.

## **Background**

- 1.1 The Audit Completion Report for Lincolnshire Pension Fund and the Current Audit Findings Report for Lincolnshire County Council provide updates on the findings of our external auditor arising from their audit work this year. Mazars representatives will be at this meeting to present their findings, allowing members of the Committee to ask questions and make comments following the presentation.
- 1.2 The audit of Lincolnshire County Council's accounts is not yet complete and cannot be concluded until the current Infrastructure Assets accounting and reporting issue is resolved. This matter is explained in the Statements of Accounts 2021/22 - Lincolnshire County Council & Pension Fund report, which is also on the agenda for this meeting. When the audit is concluded, the external auditor will provide an Audit Completion Report for Lincolnshire County Council, including a Value for Money report and commentary, and an Auditor's Annual Report. These will be shared with members of this committee in due course.
- 1.3 The Audit Completion Report 2021/22 for Lincolnshire Pension Fund (Appendix A) 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 by Officers.
- 1.4 The Current Audit Findings Report for Lincolnshire County Council (Appendix B) sets out the areas of the audit which are still in progress in section 1. There are two new medium priority internal control recommendations shown in section 3, and management responses will be provided for these in due course. The Summary of Misstatements section shows one unadjusted misstatement so far, the value of which is £132k (extrapolated to £811k). There is also one adjusted misstatement, which is the adjustment to the Pension Liability (net value £10,216k) following the receipt of a revised actuarial report which reflected the updated unquoted asset valuations referred to in paragraph 1.3.
- 1.5 The Value for Money Progress Report (Appendix C) includes a summary of findings to date on page 4, which indicates that no significant issues have been identified at this time.

## **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. 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.

## Consultation

### a) Have Risks and Impact Analysis been carried out?

No.

## Appendices

These are listed below and attached at the back of the report	
Appendix A	Audit Completion Report Lincolnshire Pension Fund 2021/22
Appendix B	Current Audit Findings Report Lincolnshire County Council 2021/22
Appendix C	Value for Money Progress Report 2021/22

## 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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# Audit Completion Report

Lincolnshire Pension Fund – Year ended  
31 March 2022

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October 2022



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Appendix D: Independence

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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the 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

28 October 2022

Dear Committee Members

## **Audit Completion Report – Year ended 31 March 2022**

We are pleased to present our Audit Completion Report for the year ended 31 March 2022. 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 28 March 2022. 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:

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 2021/22 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 2022. At this present time we envisage giving our opinion 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.

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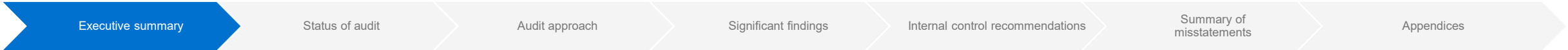
Appendices

# 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 presents some challenges, we have been able to work in liaison with the finance team to deliver the audit and wish to thank them for their support.

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# 02

Section 02:

**Status of the audit**

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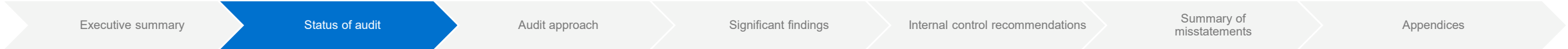
# 2. Status of the audit

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 Key Audit Partner. 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.

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# 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 March 2022. 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 £29.3 million using a benchmark of 1% of net assets available to pay benefits. We set a provisional specific materiality for the fund account of £11.4 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 £30.7 million.
- Fund account specific materiality £12.1 million.

# 04

## Section 04: **Significant findings**

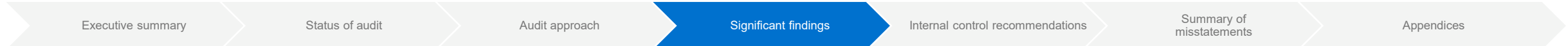
# 4. Significant findings

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.

## 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.
	<p><b>How we addressed this risk</b></p> <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>
	<p><b>Audit conclusion</b></p> <p>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.</p>





## 4. Significant findings

Valuation of investments within level 3 of the fair value hierarchy	Description of the risk
	<p>At 31 March 2022 the Pension Fund held investments which were not quoted on an active market with a fair value of £448.5 million, accounting for 14.7 per cent of the Fund's net investment assets. This included: Alternatives (£368.4 million), Property (£11.4 million), Infrastructure (£61.1 million) and Private Equity (£7.6 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 2021/22 due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.</p>
	<p><b>How we addressed this risk</b></p> <p>We addressed this risk by completing the following additional procedures:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• agreeing holdings from fund manager reports to the custodian's report;</li> <li>• agreeing the investment manager valuation to audited accounts or other independent supporting documentation, where available;</li> <li>• reviewing the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager, where required;</li> <li>• where audited accounts are available, checking that they are supported by a clear opinion; and</li> </ul>

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>
	<p><b>Audit conclusion</b></p> <p>Our work has provided the assurance we sought in the above areas. It has however highlighted a non-material difference of £21.7 million 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, these are proactively tracked by fund officers to ensure the final set of accounts reflect the most up to date information available. 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 2021/22 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 2022.

Draft accounts were received from the Fund on 30 June 2022 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

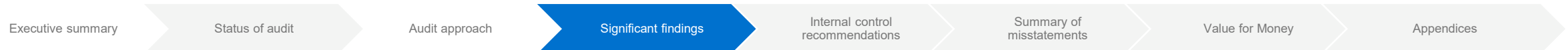
Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- 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 2021/22 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.

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# 05

## Section 05: **Internal control recommendations**

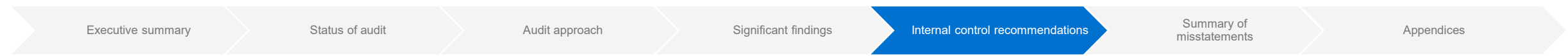
# 5. Internal control recommendations

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.

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# 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 £0.9 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 non-material change to the accounts detailed below was identified and proposed by officers from proactively tracking the asset changes from the information received. There are no unadjusted misstatements in relation to the Pension Fund's 2021/22 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 Cr: Change in Market Value Difference between valuation of unquoted investments per pension fund accounts and third party confirmations received after the year-end.	21.691	21.691	
<b>Total adjusted misstatements</b>		21.691	21.691	

### Disclosure amendments

A number of minor disclosure amendments regarding the wording used 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

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# Appendix A: Draft management representation letter

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

XX November 2022

Dear Cameron

## Lincolnshire Pension Fund - audit for year ended 31 March 2022

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 2022 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 2021/22 (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.

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# 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.

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# 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.

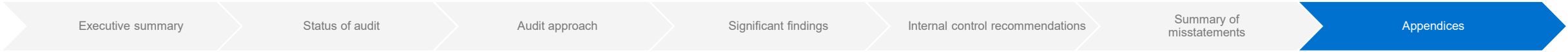
### Unadjusted misstatements

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

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# Appendix A: Draft management representation letter

## Impact of Russian Forces entering Ukraine

- We confirm that we have carried out an assessment of the potential impact of Russian Forces entering Ukraine on the business, including the impact of mitigation measures and uncertainties, and that the disclosure in the Statement of Accounts fairly reflects that assessment.

## Covid-19

We confirm that we have carried out an assessment of the on-going impact of the Covid-19 Virus pandemic on the Pension Fund, 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 impact of the Trade and Cooperation Agreement, and that the disclosure in the Statement of Accounts fairly reflects that assessment.

## Going concern

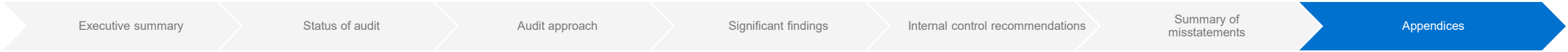
To the best of my knowledge there is nothing to indicate that the Pension Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date 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.....

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# 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 2022, 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 2021/22.

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 2022; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

### 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.

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# 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.

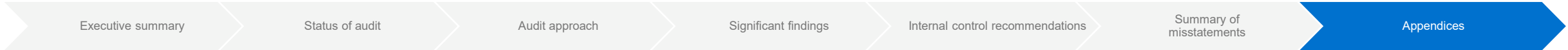
We have nothing to report in this regard.

### 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 2021/22, 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 2021/22 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.

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# 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.

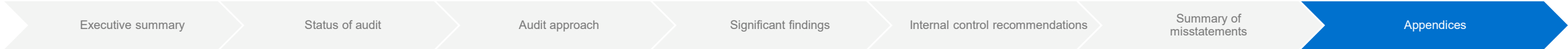
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Pension Fund, we identified that the principal risks of non-compliance with laws and regulations related to the Public Service Pensions Act 2013, the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, 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 Fund which were contrary to applicable laws and regulations, including fraud.

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# Appendix B: Draft audit report

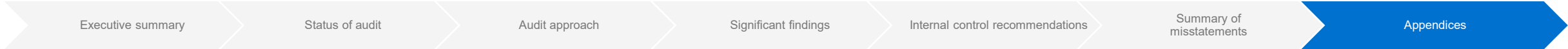
Our audit procedures in relation to fraud included but were not limited to:

- 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 September 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.

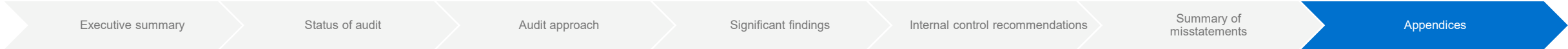
## Use of the audit report

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.

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

XX November 2022





# 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 2022 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 2022 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

### 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 2022

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

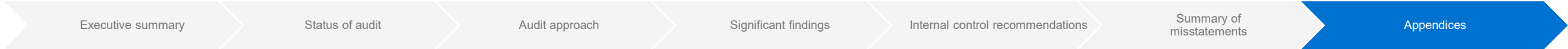
Summary of  
misstatements

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.

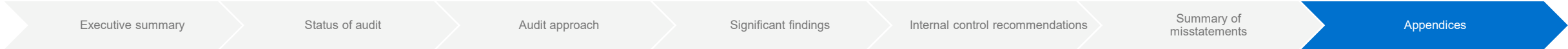
We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.



# 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>

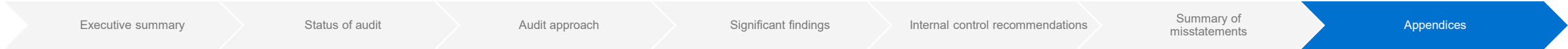
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# Appendix E: Other communications

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>

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# Cameron Waddell

## 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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# Current Audit Findings Report

Lincolnshire County Council - Year ended  
31 March 2022

November 2022  
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- 02 Significant findings to date
- 03 Internal control recommendations
- 04 Summary of misstatements to date
- 05 Value for Money

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










# 01

## Section 01: **Status of the audit**

# 1. 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
IT Control Environment	 [Green]	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 2021/22. This has been flagged as an area of difficulty within section 4.
Valuations of Land and Buildings	 [Amber]	We are awaiting evidence and response from the Council's Valuer to a number of queries to help support our testing.
Infrastructure Assets	 Red	A consultation is on-going in respect of the accounting treatment of infrastructure assets included on the Council's balance sheet. As infrastructure assets are material, this could create additional work and consideration, and in turn causes a delay with issuing our audit report. Further information has been provided in section 4 of this report.
Related Parties	 [Green]	We are awaiting evidence and response from our queries to help support our testing.
COVID19 Grants Testing	 [Green]	We are awaiting evidence and response from a number of queries to help support our testing and correct classification of sums included within both the CIES and Grant Note disclosures.
Payroll Transaction Testing of Residual balances	 [Green]	We are awaiting evidence and response from a number of queries to help support our testing of residual balances identified through the reconciliation of payroll and the general ledger.
Minimum Revenue Provision	 [Green]	We are in the process of finalising our workings.



[Red]  
Likely to result in material adjustment or significant change to disclosures within the financial statements.







[Amber]  
Potential to result in material adjustment or significant change to disclosures within the financial statements.



[Green]  
Not considered likely to result in material adjustment or change to disclosures within the financial statements.

# 1. Status of the audit

Audit area	Status	Description of the outstanding matters
Internal Quality Review	 [Amber]	We are in the process of finalising our internal quality review procedures with the Council and ensuring that all appropriate and relevant changes are reflect in the financial statements.
Whole of Government Accounts	 [Green]	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. This covers both 2020/21 and 2021/22.
Completion procedures	 [Green]	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	 [Green]	Our VFM work is substantially complete and we have not identified any significant weaknesses that require further work or reporting to members. Our commentary, included within our Annual Auditor's Report, remains open due to the Infrastructure Asset issue above.



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.



# 02

Section 02:

**Significant findings to date**

# 2. Significant findings to date

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

- our audit observations to date regarding the significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

## Significant risks

<p><b>Management override of controls</b></p>	<p><b>Description of the risk</b></p> <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>
	<p><b>How we are addressing this risk</b></p> <p>We are 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>
	<p><b>Audit observations to date</b></p> <p>We have not identified 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> <p>No issues have been identified that need to be brought to the attention of members.</p>

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## 2. Significant findings to date

### Defined benefit liability valuation

(Local Government Pension Scheme and Fire-Fighter's Pension Scheme)

#### Description of the risk

The defined benefit liability relating to the Local Government and Fire-Fighter's pension scheme represents significant balances on the Council's balance sheet. The Council uses two actuaries 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 2021/22 draft financial statements):

- £890.1m – Note 25 and 28 (Net pension liability), made up from:
  - Local Government Pension Scheme - £598.3m
  - Fire-Fighters Pension Scheme - £291.8m

#### How we are addressing this risk

Our work covers:

- critically assessing the competency, objectivity and independence of the Pension Funds' Actuaries;
- liaising with the auditors of the Lincolnshire Pension Fund to gain assurance that the controls in place at the Pension Fund are designed and implemented correctly;
- reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuaries, and the key assumptions included within the valuations. This included comparing them to expected ranges, utilising information by the consulting actuary engaged by the National Audit Office; and
- agreeing the data in the IAS 19 valuation report provided by the Fund 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 LGPS pension fund net liability (being a deficit position) of £598m has decreased from £773m 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 £1,427m to £1,575m; and a decrease in the value of pension liabilities from £2,200m to £2,174m. The Fire-fighters Pension Fund net liability has decreased from £311m to £292m.

A non-material £10.2m misstatement has been identified and adjusted for in relation to the movement on Local Government Net defined Pension Liability. Further details are in part 6 of this report.

There are no further issues noted from our testing to date that need to be brought to the attention of Members.

# 2. Significant findings to date

Valuation of land & buildings and investment properties

### Description of the risk

Land, Building and Investment Property assets are significant balances 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, we have determined there is a significant risk in this area.

At the planning stage of the audit, this risk covers (figures have been taken from the draft 2021/22 financial statements):

- Land & Buildings (£551m - Note 15)
- Investment Properties (£109m – Note 17)

### How we are addressing this risk

The work we are performing includes:

- 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;
- assessing whether valuation movements are in line with market expectations by using third party information to provide information on regional valuation trends;
- critically assessing the approach that the Council adopts to ensure assets that are not subject to revaluation in 2021/22 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council’s valuers; and
- testing a sample of individual valuations, back to source records to ensure appropriateness and to gain assurance over whether the correct accounting treatment has been applied.

### Audit observations

We identified some differences between the source records maintained by the Council and those used by the valuer relating to floor areas where we are clarifying the impact to the carrying value of land and buildings. This is consistent with a prior year finding and an internal control recommendation that remains open, as identified in section 5 of this report.

Aside from this, no significant issues have been identified from the work performed.

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## 2. Significant findings to date

### 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;
- How the current financial market, has impacted the Council's budget setting process, and assumptions made within the financial statements, alongside the impact of future funding.
- Earlier this year, the Government became aware of an issue relating to the reporting of infrastructure assets, which has led to delays in local authority audits. In response, CIPFA LASAAC Code Board agreed to try to assist in the resolution of the issue through changes to the Code of Practice on Local Authority Accounting (the Code). An accounting solution has not been found and a proposal has been made for an accounting statutory override under the Local Government Act 2003. Consultation via the Department for Levelling Up, Housing and Communities website closes on 7 November 2022. This means that our audit report will remain open until the issue has been rectified and the Council forms its own conclusion on the appropriateness of its accounting treatment.
- Through our year-end testing of asset existence, we identified a total of one asset (worth £13k), where the Council had disposed of the asset in the current financial year, however the asset itself remained on the fixed asset register. This meant that Property, Plant and Equipment balances included on the balance sheet were overstated. Additional testing was undertaken to determine the extent of the issue, with no further errors being identified. The amount is highly trivial, with no adjustment to the financial statements required however, an internal control recommendation has been raised within section 5 of this report.
- We are currently in discussion with the Council in respect of their financial instrument's disclosures and classification of Low Volatile Money Market Funds in relation to IFRS9.

### Significant difficulties during the audit

Similar to 2020/21, 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 a timely manner and some aspects remain unresolved. We continue to work with management to complete remaining audit work and resolve audit queries and are grateful for the co-operation and support provided. The item's outstanding are:

- User account and access rights management procedure;
- IT security policy;
- Change management procedure;
- Automated process management procedure;
- Incident management procedure; and
- Backup policy.

Once we have received and processed the information, we will revisit our assessment of the Council's control environment to ensure we are satisfied that it is consistent with our existing risk profile of the Council. This is in line with our continual planning procedures.



# 03

Section 03:

**Internal control recommendations**

# 3. 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:

In addition to the number of internal control recommendations identified in the current financial year (2021/22), we have considered the internal control recommendations from the prior year. There was a total of 5 recommendations identified in 2020/21. These were reported within our Audit Completion Report and Audit Follow Up letter.

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

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# 3. Internal control recommendations

## Other deficiencies in internal control – Level 2

### Matters arising

As part of our Related Parties testing and consistency check, we identified a total of 2 matters;

- a number of instances to where declarations made by Councillors were not consistent with the information held on Companies house.
- 1 Councillor where the necessary year-end declaration form had not been completed and submitted.

### Description of deficiency

Declaration forms are not being completed appropriately in line with the Council's processes.

### Potential effects

Disclosures within the financial statements could be incomplete and not correctly reflect said interests because there is a risk that the Council are not aware of transactions between the two parties.

### Recommendation

The Council need to ensure that all declarations are consistent and cross checked back to Companies House and where an undisclosed interest arises, the forms are updated alongside the financial statements.

### Management response

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

## Other deficiencies in internal control – Level 2

### Matters arising

Through our year-end testing of asset existence, in particular around vehicles, we identified a total of 1 asset (worth £13k), where the Council had disposed of the asset in the current financial year, however the asset itself remained on the fixed asset register. This meant that Property, Plant and Equipment balances included on the balance sheet were overstated. Additional testing was undertaken to determine the extent of the issue, with no further errors being identified.

### Description of deficiency

There is a risk that the Council are not undertaking timely monitoring of the fixed asset register.

### Potential effects

The Council's fixed asset register is not being monitored and updated to accurately reflect disposals. There is a risk that Property, Plant and Equipment, in particular vehicle related assets is overstated in the financial statements as the Council no longer has legal ownership of the asset.

### 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 deleted from the fixed asset register.

### Management response

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

# 3. Internal control recommendations

## Follow up on previous internal control points

### Matters 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 identified 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 need 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 update 2021/22

We have taken on board the auditor's recommendation and believe that all grant conditions have been met in 2021/22. We acknowledge that the pandemic resulted in a multitude of new grants in 2020/21 to cover various aspects of pandemic impacts and this was a lot of additional work for staff to manage in that year. Where grants have continued, processes to manage those grants are now embedded.

### Matter arising

Through our substantive testing of property, plant and equipment; in particular school disposals, we identified a total 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) assets 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 update 2021/22

The Academy disposal in question was from a prior year and one of the first schools to become an Academy. It had been initially identified and assessed through our processes however the interpretation of the Standard and policy for the treatment of Academy Leases with Tenancy at Will at that time was to treat the asset as on balance sheet. The policy has since been reviewed and amended. The school was identified by the valuers during the valuation process because the previous valuation did not meet the Valuers current instructions. Rather than wait for any further discrepancies to unfold during future revaluation we have ensured that all Tenancy at Will are now treated the same way and accounted for as disposals.

# 3. Internal control recommendations

## Follow up on previous internal control points (continued)

### 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 Surveyor's 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 as a long interval between the next detailed review.

### Management update 2021/22

We believe that this issue has been addressed, as described above.

### 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 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 update 2021/22

This issue was covered with the Financial Services Team in our training for closedown delivered in March 2022. We are satisfied that our team members understand the importance of using the best information they have at the time to close our accounts. It needs to be recognised that we have a timetable for closure which is designed to meet statutory reporting requirements, as well as our own internal management reporting of the outturn position. This means that we do need to close the accounts on estimates in some areas and we do our best to ensure that estimates are reasonable, given the information we have at that time. If we do receive additional information at a later date which demonstrates that our estimate is incorrect we will assess this to see if the difference is material. We would correct our accounts for material changes to estimates, but we have accepted that correcting every estimate regardless of size would likely impact on our ability to achieve the timetable and deadlines for closure. CIPFA promotes the concept of closing accounts on estimates in order to achieve tight timescales, so we believe that our approach is reasonable.

# 3. Internal control recommendations

## Follow up on previous internal control points (continued)

### Matter arising

We identified a difference between the source records maintained by the Council and the valuer relating to floor areas that has led to a misstatements (unadjusted) in the carrying value of land and buildings.

### Description of deficiency

Inaccurate property records being maintained.

### Potential effects

Increased risk of misstatement in the financial statements

### Recommendation

The Council needs to ensure that accurate records are maintained for all assets and undertake an annual reconciliation between base data and information provided/ used by the valuer.

### Management update 2021/22

Our process in 2021/22 did involve a “check and challenge” on valuations received, with anything identified as a potential issue followed up with the valuer. This can result in valuations being amended. We acknowledge that in 2021/22 we did not identify two floor area differences on valuations that the auditor later identified. These had differences in value of £76k and £11k.

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# 04

Section 04:

**Summary of misstatements to date**

# 4. Summary of misstatements to date

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £730k. The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

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

## Unadjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Cost of Services Income	811			
	Cr: General Fund				811
As part of our income cut off testing, we identified one transaction that related to 2020/21 and had been incorrectly recorded in the current financial year. This meant that income for 2021/22 is overstated. Because we apply a sampling methodology, where we cannot confirm the error is isolated we must extrapolate the impact of the error across the remainder of the population. This has led to an extrapolated error of £811k.					
<b>Total unadjusted misstatements</b>		<b>811</b>			<b>811</b>

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# 4. Summary of misstatements to date

## 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 0.72% difference (increased) between the estimated 2021/22 Fund investment asset value used by the Actuary to prepare the employers' IAS19 valuation reports and the 2021/22 Fund financial statements being audited.

The Council's share of the Fund's estimated pension scheme assets at 31/3/2022 was £1,575,474k. The 0.72% difference was estimated as £11,343k. Whilst this is below our headline and performance materiality threshold, and through discussion with the Council based on prior year findings and the volatility within the market, we recommended that the Council obtained an additional report to quantify the total impact.

Management chose, on the grounds of uncertainty and the volatility within the market, to obtain an updated IAS19 valuation report. The total adjustment identified was £10,216k which results in an increase in both Total Net Assets and Total Reserves.

## Disclosure amendments

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

- Note 35b was updated to correctly reflect the Chief Fire Officer's salary for 2021/22;
- A number of immaterial differences have been corrected to ensure consistency between primary statements and supporting notes; and
- A number of disclosures have been amended in line with our internal quality review to ensure compliance with the Code.

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### Balance Sheet

	Dr (£'000)	Cr (£'000)
1 Dr: LGPS Net Defined Pension Liability	10,216	
Cr: LGPS Pension Reserve		10,216
<b>Total adjusted misstatements</b>	<b>10,216</b>	<b>10,216</b>

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices

# 05

## Section 05: **Value for Money**

# 5. 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.

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

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report in January 2023.

## Status of our work

We have completed our work in respect of the Council's arrangements for the year ended 31 March 2022 and we have not identified any significant weaknesses in arrangements that have required us to make a recommendation. Our draft audit report at Appendix B confirms that we have no matters to report in respect of significant weaknesses. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report.

As reported in the Executive Summary and section 2 of this report, due to the on-going issue in relation to Infrastructure assets, our proposed audit report and value for money commentary will remain subject to finalisation once the issue has been rectified.



# Mark Surridge, Key Audit Partner

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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.

# Value for Money Progress Report

Lincolnshire County Council – Year  
ended 31 March 2022

November 2022  
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# Commentary on VFM arrangements

## Overall summary

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# VFM arrangements – Overall summary

## 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

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Our work is carried out in three main phases.

### Phase 1 - Planning and risk assessment

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.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

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.

### Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We have not identified any risks that require additional procedures.

### Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**

We make these recommendations for improvement where we have identified a significant weakness in the Council arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**




We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken

The table on the following page summarises the outcomes of our work to date against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

Our Value for Money commentary looks at the arrangements in place for the period from 1st April 2021 to 31st March 2022. We recognise that there are substantial changes in the economy and operating environment since then, including levels of inflation and an impending budget announcement and we will, therefore, be mindful of these as part of our final reporting.

# VFM arrangements – Overall summary

## Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness? *	Actual significant weaknesses identified? *
 <b>Financial sustainability</b>	5	No	No
 <b>Governance</b>	12	No	No
 <b>Improving economy, efficiency and effectiveness</b>	19	No	No

\* This table represents the work performed to date and therefore subject to change.



# Commentary on VFM arrangements

## Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services

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# VFM arrangements – Financial Sustainability

## Matters brought forward from 2020/21

As reported in our Annual Auditor's Report for 2020/21, we confirmed we had;

- Review the 2020/21 financial performance and forecasts during the year and considered the Council's financial outturn position as presented in the financial statements;
- Reviewed the 2021/22;
  - Revenue and Capital budgets and Medium Term Financial Plan;
  - Treasury Management Strategy, incorporating the Minimum Revenue Provision Policy and Capital and Investment Strategies; and
  - 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; and
- Considered the general findings from our audit work in other areas.

The following conclusions were reached, disclosed within our Annual Auditor's Report, dated December 2021:



### Value for Money arrangements

In our audit report issued we reported that we had completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the Council's arrangements.

We therefore, have no risks of a significant weakness in the Council's arrangements brought forward from 2020/21 into the current year.

## 2021/22 Draft 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 to date has not highlighted any risks of significant weakness in arrangements or indicators of a risk to the Council's financial sustainability.

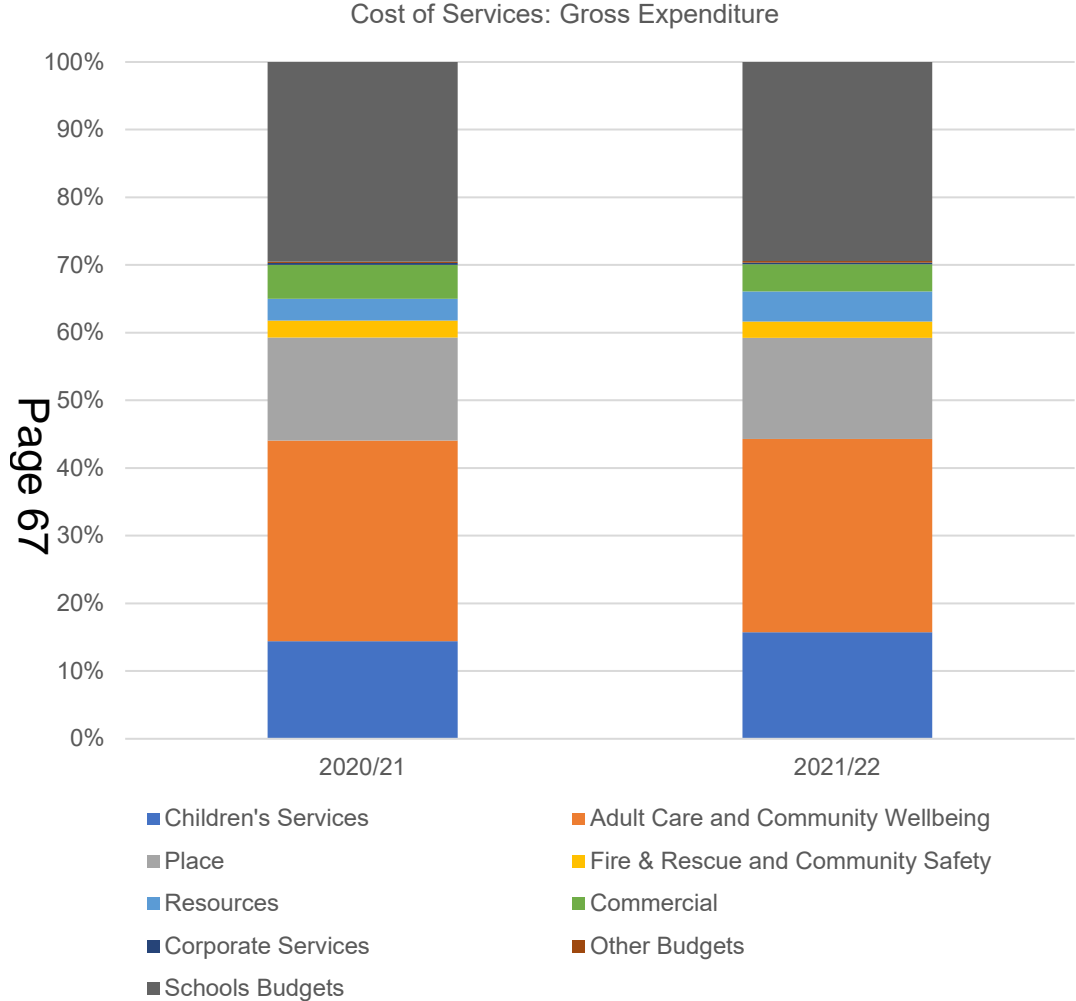
The Council's useable reserves have decreased from £366m to £332m in 2021/22 (as per Note 12 of the draft financial statements), with:

- General Fund & Earmarked Reserves of £234m, down from £247m in the prior year;
- School Reserves of £27m, up from £26m in 2020/21; and
- Capital Reserves of £72m, down from £93m in 2020/21.

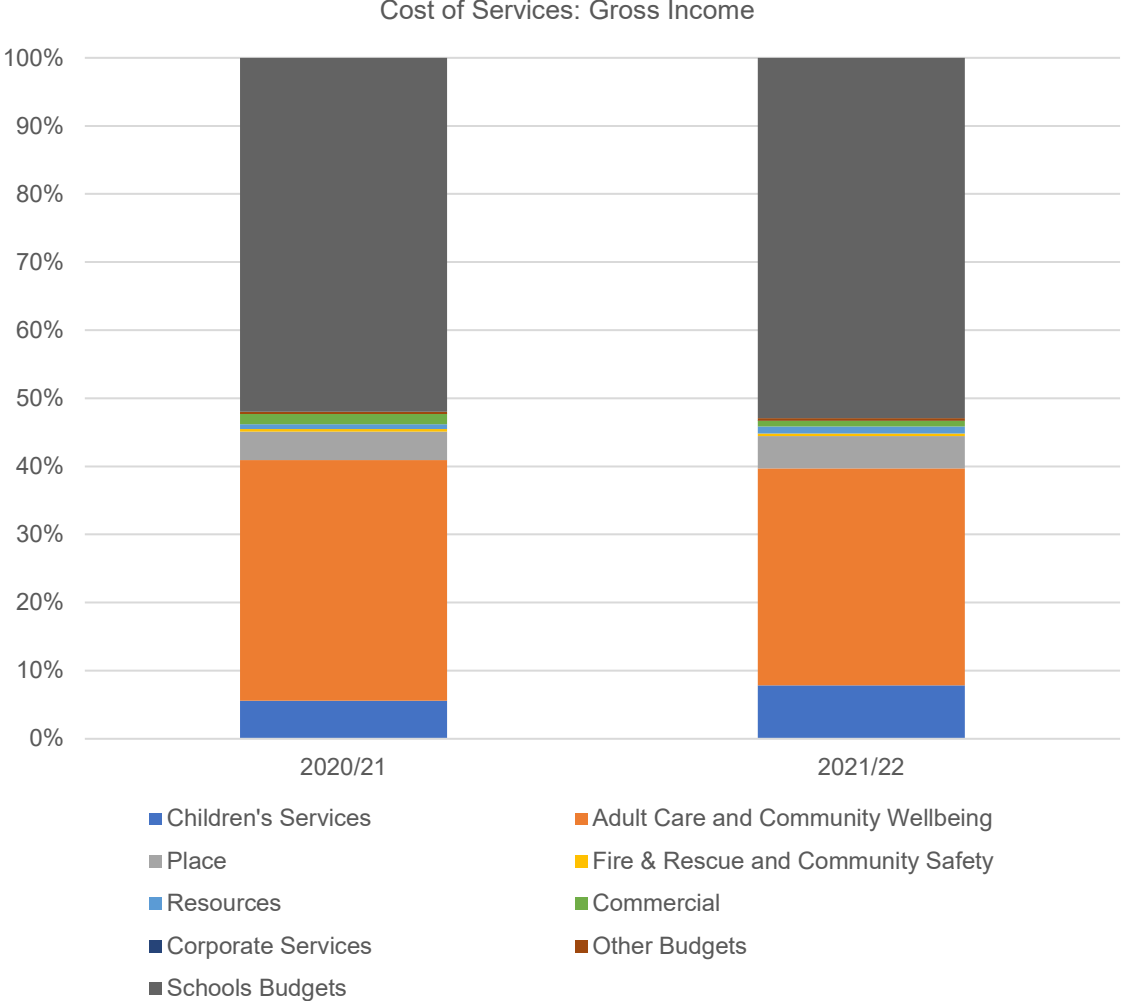
Although the Council's reserves position has decreased by 9% since the prior year, you can see from the two charts on the next slide that there has been no fundamental change in business purpose and the distribution of expenditure and income by service is sufficiently consistent with the prior year and therefore, does not indicate a risk of significant weakness in VFM arrangements under the financial sustainability criteria.

# VFM arrangements – Financial Sustainability

## Cost of Services – Gross expenditure



## Cost of Services – Gross income



# VFM arrangements – Financial Sustainability

## 2021/22 Draft Financial Statement Performance (continued)

The Council's balance sheet remains stable since the prior year, with material movements in Property, Plant and Equipment, Short Term Investments and Other Long Term Liabilities.

Adequate disclosures have been made in the Financial Statements (Note 15) and Narrative Report to support why these balances have moved.

Net current assets (being current assets less current liabilities) have decreased from £209m to £150m.

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 £890m. As shown in Note 29 of the draft financial statements, the main movements being:

- An increase in the value of pension assets from £1,427m to £1,575m; and

A decrease in the value of pension liabilities from £2,200m to £2,174m.

The Fire-fighters pension Fund net liability is £292m.

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.

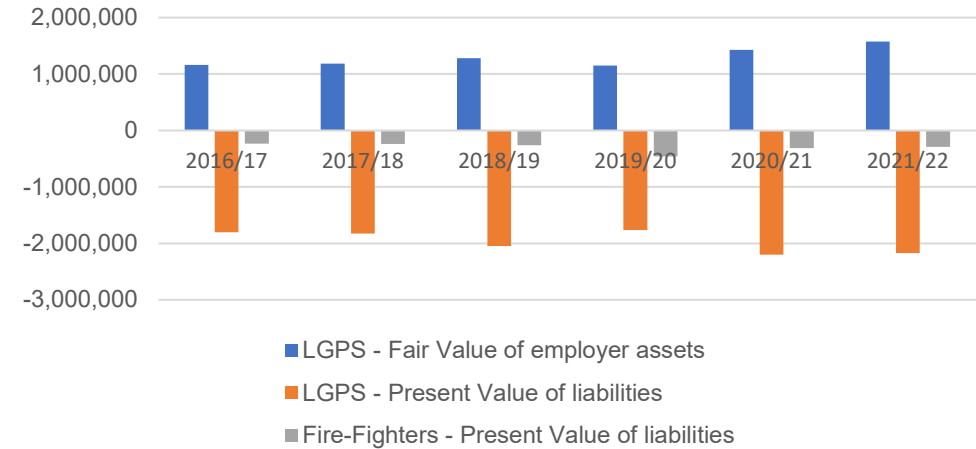
We have identified as part of our financial audit, a non-material adjustment of £11.4m being made to increase the Council's pension assets and reflect actual market changes. We do not believe this has an impact on our assessment of the financial sustainability of the Council.

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.

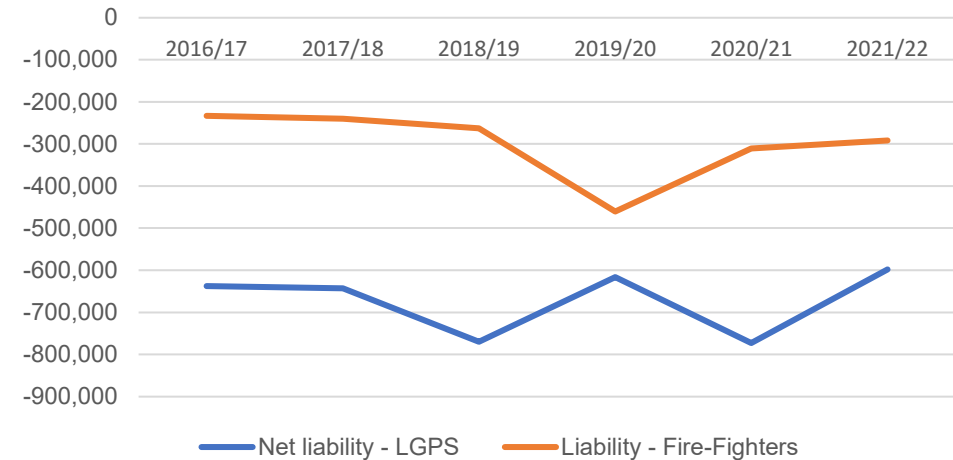
The deficit position is not unusual to Lincolnshire County Council and is a recognised area of financial challenge for local authorities.

	2017/18 (£'m)	2018/19 (£'m)	2019/20 (£'m)	2020/21 (£'m)	2021/22 (£'m)
Net Liability – LGPS	(643)	(770)	(617)	(773)	(598)
Liability_ Fire-Fighters	(240)	(263)	(461)	(311)	(292)

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



## Pension fund net liabilities over time (£m)



# VFM arrangements – Financial Sustainability

## 2021/22 Financial Statement Performance (continued)

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 COVID19.

Reports to Executive include the monitoring of planned savings of £11.4m for 2021/22 and £4.8m for 2022/23 as reported in the Revenue Budget Monitoring Report 2022/23 – Quarter 1, presented to the Executive in September 2022. 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.

We have 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 did not use any of this reserve in the year, instead it added £6.4m leaving a balance of £46.9m as at 31 March 2022.

In July 2022, the Executive were informed that there had been:

- A £5.8m underspend on Services (1.3%) and £6.5m underspend on other budgets (6.9%), and the Council received £1.4m (less than 0.5%) more general funding income that originally budgeted for (not considered to be a material variance between reported sums);
- £17.2m underspend via dedicated schools grant, of which £13.9m relates to balances from the prior year;
- Support paragraphs explains that these underspends are mainly the result of Covid-19 and the subsequent knock on effects this has caused alongside staff vacancies and Capital programme slippage.

Overall, the Council’s arrangements for reviewing revenue financial performance are adequate.

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Source	Short Heading	Total including schools			Total excluding schools		
		Budget	Forecast	Variance	Budget	Forecast	Variance
Revenue Budget Monitoring Report 2021/22 - Quarter 1 to 30 June 2021	Q1 2021/22	511,427	510,018	1,409	505,494	504,299	1,195
Revenue Budget Monitoring Report 2021/22 - Quarter 2 to 30 September 2021	Q2 2021/22	529,623	525,952	3,671	511,348	507,668	3,680
Revenue Budget Monitoring Report 2021/22 - Quarter 3	Q3 2021/22	533,890	527,720	6,170	512,775	507,432	5,343
Review of Financial Performance 2021/22	Outturn 2021/22	565,478	536,043	29,435 *	551,790	539,568	12,222
Revenue Budget Monitoring Report 2022/23 - Quarter 1	Q1 2022/23	552,280	553,807	-1,527	549,514	550,336	-822

\* Amount relates to underspends on Council and School budgets that were transferred to earmarked reserves post outturn reporting. The variance has been explained as part of the bullet points included above the table and reported to the Executive as part of the July 2022 meeting.

# VFM arrangements – Financial Sustainability

## 2021/22 Financial Performance: Capital Programme

We have reviewed capital expenditure as presented in the financial statements and tested capital additions and REFCUS (Revenue Expenditure Funded from Capital Under Statute), with no material issues arising over the £147m additions to Property, Plant & Equipment set out in Note 15 of the financial statements.

We also reviewed the “Review of Financial Performance 2021/22” presented to Executive on 5 July 2022. Paragraph 1.11 explains the Council spent £194m on the County's major assets, in particular on road schemes and schools. We have reconciled this to the financial statements which show a total of £195.7m (PPE Additions of £147.8m, Investment Properties of £0.5m and REFCUS of £47.4m), noting a non-material variance of £1.4m 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 2021/22 was 33% less than planned, with Highways being underspent by £19.6m mainly: the Lincoln Eastern Bypass, the Grantham Southern Relief Road, Spalding Western Relief Road 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:

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.

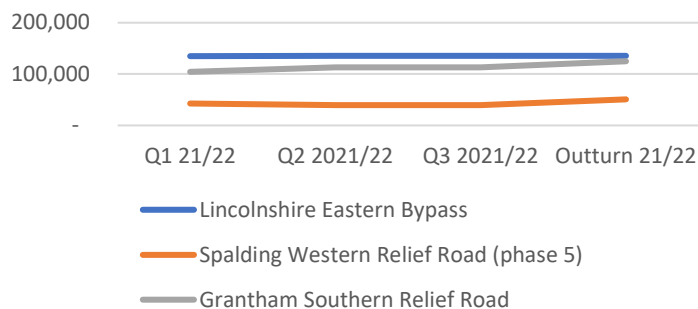
### Capital Monitoring

We reviewed a sample of capital budget monitoring reports for 2021/22, 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.

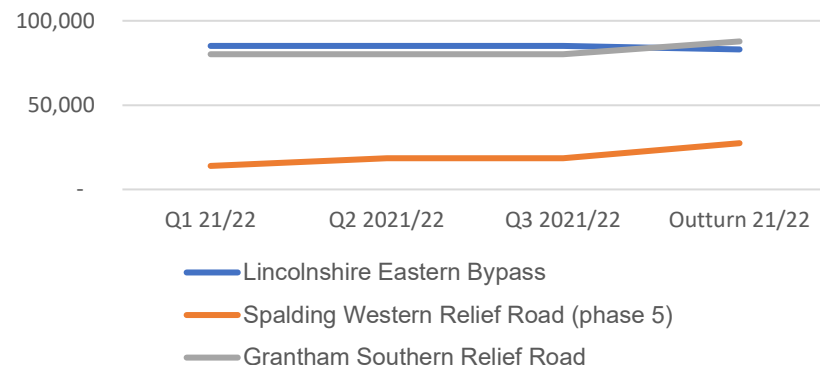
We also considered the consistency of capital programme monitoring, by reviewing a sample of reports to the Executive, reconciling inputs and considering the consistency of narrative. In our review of the capital programme, we considered the progress reports on three largest schemes: Lincolnshire Eastern Bypass, Grantham Southern Relief Road.

The reports provide sufficient detail to understand the programme as a whole, as well as the current position and any significant matters arising.

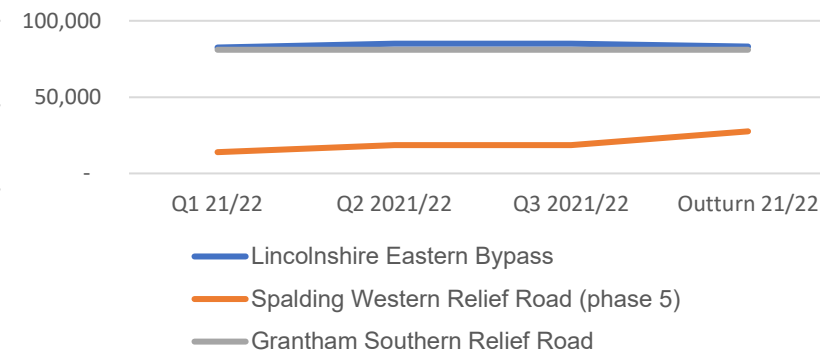
Gross Expenditure Budget



Net Expenditure Budget



Scheme total forecast





# Commentary on VFM arrangements

## Governance

How the body ensures that it makes informed decisions and properly manages its risks

Page 71



# VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### 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 2021/22:

- “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 2021/22 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 2022/23 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.

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 in additional expenditure and income loss during 2021/22, mostly covered by government grant. 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 “These budget proposals reflect the level of government funding available to the Council in 2022/23, as well as the proposal to increase Council Tax in 2022/23 by 3.00%, which is the Adult Social Care precept allowed to be charged in 2021/22 but which this Council deferred. Service areas

have been reviewed and the budget proposals aim to support the Council’s priorities within the financial resources available”.

We are satisfied that these reports adequately describe the risks and proposals for setting the 2022/23 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 2022 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 2022/23 Budget and Medium Term Financial Strategy, we have noted it adequately sets out the context and approach to delivering the financial strategy

It also sets out the expected cost pressures from 2022/23 to 2025/26.

	2022/23	2023/24	2024/25	2025/26	Total
Cost pressures (including inflation but net of savings and additional income)	48.8m	15m	12.3m	18.1m	£94.1m
Transfer from earmarked reserves	(£2.3m)	(£9.3m)	(£6.5m)	(£6.9)	(£25m)
<b>Total net amount</b>	<b>£46.5m</b>	<b>£5.6m</b>	<b>£5.8m</b>	<b>£11.2m</b>	<b>£69.1m</b>

Although the table above includes large sums of cost pressures and does not take into consideration potential other movements as highlighted in the report (circa £8m), this does not represent a material risk, particularly in light of c£160m Earmarked Reserves (+ the GF reserves) estimate at 31/3/2023. Also, as previously reported the Council have a Volatility reserve which as at 31<sup>st</sup> March 2022, has a balance of £46.9m.

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

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# VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### 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 2021/22.

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 arrangements – Governance

## Overall commentary on the Governance reporting criteria

### 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 2022. 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 2021. 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 2022 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 2022 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 arrangements – Governance

## Overall commentary on the Governance reporting criteria

### Audit Committee

The Council 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. 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 11 July 2022, where the overall opinion is split across four themes:

- Governance – “Performing Well” showing an improvement since the prior year.
- Risk – “Performing Well”, being a consistent rating as the prior year.
- Internal control – “Performing Adequately” being a consistent rating as the prior year.
- Financial control – “Performing Well” showing an improvement since the prior year.

In our view, the Head of Internal Audit Opinion is sufficiently detailed to explain how each rating was determined.

The facility to hold officers to account therefore exists and we attended the July 2022 Audit committee where this report was presented, where the responsible officers for the project were in attendance to respond to questions on this issue, where applicable.

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 2021/22.

### 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 2021 to March 2022. The number of whistleblowing referrals (26) raised around Lincolnshire County Council activity in 2021/22 represented a decrease on the previous period's activity (29).

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 2021/22. The level of fraud referrals (15) has decreased with those recorded in the previous year (20) and we identified that majority of cases are involving procurement fraud, which is consistent with the prior year.

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 arrangements – Governance

## Overall commentary on the Governance reporting criteria

### 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 September 2022 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 2021/22 there were 68 referrals to the Local Government and Social Care Ombudsman (LGO), up from 48 in 2020/21.

Standards Complaints: From 1 April 2021 to 31 March 2022 there were 29 complaints of breach of the Code of Conduct. This is 24 more than in 2020/21.

- 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 May 2022, Full Council received and approved the Annual Report for Overview and Scrutiny for 2021/22. 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 "During 2021/22, 54 formal scrutiny committee meetings were held, and 78% of all formal decisions were considered by a scrutiny committee prior to them being made, which is up from 65% last year".

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. Since the implementation of the Council's Local Outbreak Management Plan (LOMP) that was in place from June 2020, and since the easing of restrictions in February 2022, the plan has been amended to reflect these changes and is now called the 'Living Safely with Covid' Plan), which was approved by the Local Outbreak Engagement Board in March 2022.

# VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### 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”
  - A focussed visit was undertaken in March 2022, where inspectors looked at the Local Authority's arrangements for children in need and children subject to a protection plan. We have reviewed the findings report and letter issued by Her Majesty's Inspector with no issues that were identified that would indicate a significant weakness in the Council's arrangements; and
- The Care Quality Commission rate Lincolnshire County Council as a provider as “Good”
- Her Majesty's Inspector for Fire & Rescue Services inspection was published in December 2021 with a rating of “Requires Improvement”. This remains appropriate for 2021/22. in line with prior year findings, we are satisfied that the report does not suggest a significant weakness in the Council's arrangements.

# Commentary on VFM arrangements

## Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services

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# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

### 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 2021/22:

- “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 2021/22 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 2021/22 presented to Executive in July 2022.

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 arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

### Performance monitoring (continued)

We reviewed minutes and reports to Overview and Scrutiny Management Board during 2021/22 including the Quarter 4 People Management Information and Workforce Plan Update from the May 2022 meeting 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 2022.

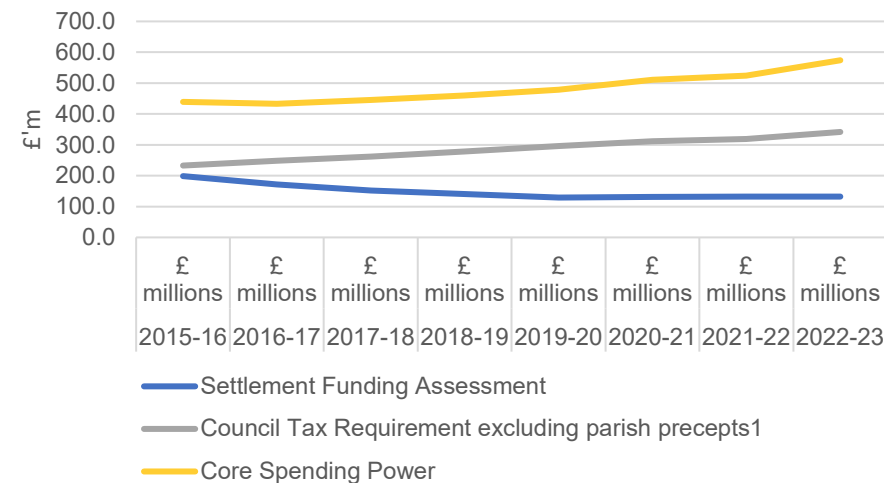
Overall spending power has increased year on year and in line with all English Councils. The increase in the council tax requirement compensates for the reduction in the settlement funding assessment, which is in line with Government Policy.

There is no indication of a significant weakness in arrangements.

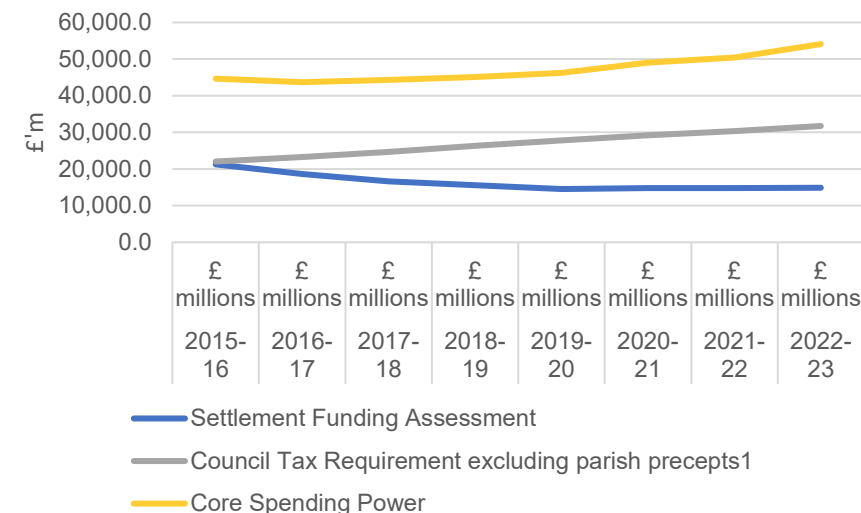
### Benchmarks

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 2021/22.

Lincolnshire County Council: Core Spending Power



England; Core Spending Power





# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

### 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.

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.

Due to Covid-19 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 April 22. 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 2021 to March 2022. The last report to the Overview and Scrutiny Management Board was on December 2021.

The report highlighted that the majority of Key Performance Indicators were either at and above the Target Service Level and the number in mitigation went from 3 in October 21 to 4 in March 22.

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.

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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.

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