

Audit Committee Progress Report – February 2020

Lincolnshire County Council
Lincolnshire Pension Fund
Year ending 31 March 2020





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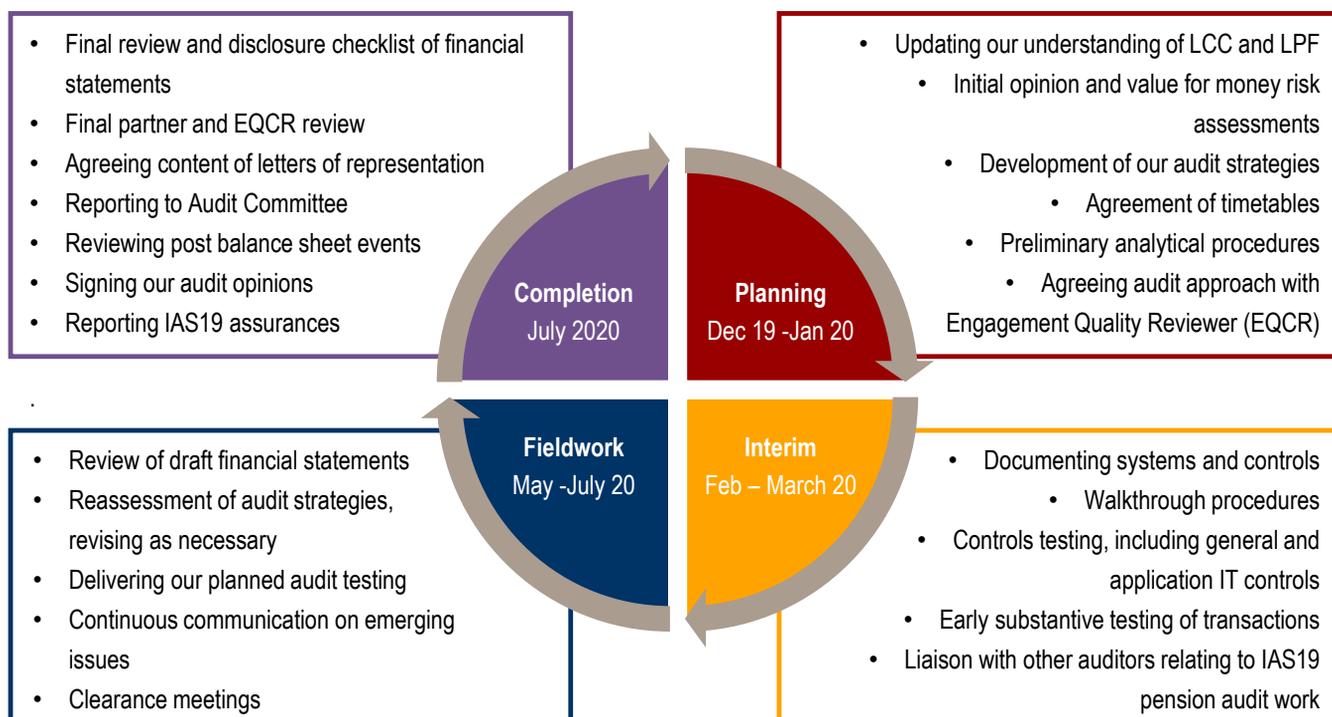
AUDIT PROGRESS

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditor for Lincolnshire County Council and the Lincolnshire County Pension Fund. We have also included at Appendix B our briefing for the Committee on recent publications which are relevant to your responsibilities.

Audit progress

Our key audit stages are summarised in the diagram shown below, together with the key tasks



We are currently at the Planning stage and this work is drawing to a close. We will bring our Audit Strategy Memorandum for both audits to the Audit Committee's March 2020 meeting. Based on our planning work to date we do not expect the profile of the accounts audit risks to be significantly different to that reported in our previous year's Audit Strategy Memorandum, with the audit risks and areas of management judgement likely to again include:

- Management override of controls
- Revenue and expenditure recognition
- Valuation of land and buildings (LCC only)
- Valuation of pension liabilities (LCC only)
- Valuation of unquoted investment assets (LPF only)

Our Value for Money risk assessment for the County Council audit is in progress has been focused on the Council's arrangements for sustainable resource deployment and its medium term budget pressures. At this stage, based on our findings to date, we do not expect to flag this as a significant risk area for the conclusion.

Our interim visits for both audits are scheduled for February 2020. We will update the Audit Committee at its March meeting on any matters arising from the interim work.

We have included at Appendix A a summary of the audit outputs we are required to share with you under auditing standards and our other reporting responsibilities, together with an indicative timeline for the audit.

AUDIT PROGRESS

Other matters

- Lincolnshire Pension Fund Engagement Lead – there has been a change in the Engagement Lead for the Fund’s 2019/20 audit, with Cameron Waddell taking over from Lucy Nutley. Cameron is also the Engagement Lead for the West Yorkshire Pension Fund and will continue to liaise with Mark SurrIDGE (Engagement Lead for the County Council audit) regarding the joint audit approach and our communications with the Audit Committee.
- Financial Reporting Workshops – these workshops have been scheduled for February 2020 and will provide our clients with an update on the latest developments as well as a forum for our clients to discuss emerging issues. Agenda items will include a revisit of 2018/19 issues including early close implications, changes in the 2019/20 Code and a forward look to future regulatory and policy changes. The East Midlands event is being held in Nottingham on 14 February 2020 and officers from the Council’s finance teams have been invited to attend. We will present a summary of the matters covered in the workshop to the broader finance team at its development session on 11 March 2020.
- Teachers’ Pensions return 2018/19 – We submitted our *Reporting Accountants’ Independent Reasonable Assurance Report* in connection with the return to Teachers’ Pensions in November 2019. This work was agreed with the Council as an engagement separate to the external audit. There are no matters that we need to bring to the Committee’s attention.
- Local Transport Plan Major Projects S31 AUD return 2018/19 – We submitted our *Reporting Accountants’ Independent Reasonable Assurance Report* in connection with the return to the Department for Transport in December 2020. This work was agreed with the Council as an engagement separate to the external audit. There are no matters that we need to bring to the Committee’s attention.

Technical Update

Appendix B includes, for the Committee’s information, summaries of recent technical and other sector publications (from NAO, CIPFA and Mazars) which we believe are relevant to your responsibilities. The reports covered in this appendix, and the key messages, are summarised below:

| | Publication/update | Key points |
|--|---|---|
| National Audit Office (NAO) | | |
| 1 | New Code of Audit Practice from 2020 | The final draft of the Code has been laid in Parliament and, subject to Parliamentary approval, will come into force on 1 April 2020. |
| Chartered Institute of Public Finance and Accountancy (CIPFA) | | |
| 2 | Local Government Financial Resilience index | The resilience index is an online data tool which measures local authorities against a range of indicators to assess their level of resilience against financial shocks and to support financial decision making. |
| 3 | CIPFA launches new Financial Management Code | The new Code is the first from the Institute in almost 15 years, and brings together many areas of local government financial management into one place. |
| 4 | Prudential Property Investments | Guidance issued by the CIPFA outlines what is expected of local authorities that are pursuing investments in property. |
| 5 | Council tax fraud represents 78% of local government fraud | New research released by CIPFA shows that local authorities have detected 22% more cases of council tax fraud compared to last year. |
| Mazars | | |
| 6 | Horizon Scanning – Challenges and Opportunities in 2020 | In December 2019 Mazars issued its annual Horizon Scanning document, which identifies the key topics which Councils’ Internal Audit teams should be considering in preparing their Audit Plans. |
| 7 | Response to the Bryon Review | Mazars has published its response to this review into the scope and quality of audit. |
| 9 | Transparency Report 2019 | Mazars produces an annual transparency report, setting out the steps we take to enhance the quality of our audit work and ensure that quality is consistent across the firm. |

APPENDIX A – COMMUNICATIONS AND TIMELINE

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specify the matters we are required to communicate to you. These matters, and the reports we will issue, are as follows:

| Required communication | Audit Strategy Memorandum Separate reports for the Council and the Pension Fund to March 2020 Audit Committee | Audit Completion Report Separate reports for the Council and the Pension Fund to July 2020 Audit Committee |
|--|--|---|
| Our responsibilities in relation to the audit of the financial statements and our wider responsibilities | ✓ | |
| Planned scope and timing of the audit | ✓ | |
| Significant audit risks and areas of management judgement | ✓ | |
| Our commitment to independence | ✓ | ✓ |
| Responsibilities for preventing and detecting errors | ✓ | |
| Materiality and misstatements | ✓ | ✓ |
| Fees for audit and other services | ✓ | |
| Significant deficiencies in internal control | | ✓ |
| Significant findings from the audit | | ✓ |
| Significant matters discussed with management | | ✓ |
| Our conclusions on the significant audit risks and areas of management judgement | | ✓ |
| Summary of misstatements | | ✓ |
| Management representation letter | | ✓ |
| Our proposed draft audit report | | ✓ |

Further outputs from our audit include:

- Audit Committee Progress Reports – January, March and June 2020
- Value for Money Conclusion – July 2020 (included within our Audit Completion Report and draft audit report)
- Audit Opinion on the Pension Fund Annual Report – August 2020
- Audit Report on the 2019/20 Whole of Government Accounts return – August 2020
- Annual Audit Letter – September 2020

APPENDIX B – TECHNICAL UPDATE (CONT.)

National Audit Office (NAO)

1. New Code of Audit Practice

The consultation on the draft text of the new Code of Audit Practice closed on 22 November 2019. The final draft of the Code has now (January 2020) been laid in Parliament and, subject to Parliamentary approval, will come into force on 1 April 2020. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards. A copy of the proposed new Code can be found via the following link:

[New Code of Audit Practice \[PDF – 262 KB\]](#)

NAO also published a document that sets out the issues they considered as a result of the feedback to the consultation on the exposure draft of the Code, and highlights the key changes made to the text of the final draft of the Code:

[Code of Audit Practice Consultation Stage 2 Response \[PDF – 130KB\]](#)

NAO is now developing the detailed statutory Auditor Guidance Notes (AGNs) that will support the new Code. The most significant changes will be made to the guidance on auditor's work on arrangements to secure value for money (AGN 03) and auditor reporting (AGN 07). NAO plans to engage with stakeholders to develop this guidance and will consult publicly in the summer/autumn of 2020. We will provide the Audit Committee with further briefings on the new Code and its impact on the work Mazars is required to do in the coming months.

APPENDIX B – TECHNICAL UPDATE (CONT.)

CIPFA

2. Local Government Financial Resilience index, CIPFA, December 2019

The resilience index is an online data tool which measures local authorities against a range of indicators to assess their level of resilience against financial shocks and to support financial decision making. Upper tier authorities are judged against nine indicators including social care.

The indicators measured include:

- levels of reserves;
- change in reserves;
- reserves sustainability;
- interest payable/net revenue expenditure;
- gross external debt;
- social care ratio;
- fees and charges to service expenditure ratio;
- council tax requirement/net expenditure ratio; and
- growth above baseline.

The tool allows for year on year comparisons of each authority's performance, as well as comparisons with similar and neighbouring authorities. Trend analysis is also available for some of the indicators outlined above.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-launches-local-government-financial-resilience-index>

3. New Financial Management Code, October 2019

CIPFA has launched its Financial Management (FM) Code, to drive improvement in financial management for councils across the United Kingdom. The new Code is the first from the Institute in almost 15 years, and brings together many areas of local government financial management into one place. It follows extensive engagement with senior leaders in public finance from across the country.

The FM Code is based on a set of standards and principles, including organisational leadership, transparency, assurance and sustainability. Its aim is to place financial management at the heart of policy and decision making in local government.

Although the FM Code comes into effect from April 2020, in recognition of the pressures facing local authorities, 2021/22 will be the first full compliance year for the Code. This allows authorities a shadow year to work towards full implementation.

CIPFA will be providing support and guidance over the next 12 months to aid this process.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-launches-new-financial-management-code>

4. Prudential Property Investments, November 2019

Guidance issued by the CIPFA outlines what is expected of local authorities that are pursuing investments in property. In recent years, local authorities have increasingly looked to commercial property investments, including hotels, farms and retail properties, to supplement the revenue they are able to generate. However, CIPFA's guidance makes clear that authorities must not borrow more than or in advance of their needs purely in the interest of profit. The guidance reflects circumstances where there is no specific or projected need to borrow, but an opportunity has been identified to make profit greater than the authority's cost of borrowing.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-provides-clarity-on-local-authority-property-investments>

5. Council tax fraud represents 78% of local government fraud, November 2019

New research released by CIPFA shows that local authorities have detected 22% more cases of council tax fraud compared to last year. The 2019 CIPFA Fraud and Corruption Tracker (CFaCT) reveals that UK local authorities identified and/or prevented 55,855 cases of council tax fraud in 2018/19, down from 57,894 cases in 2017/18. Valued at £30.6m, this included 44,051 cases of Single Person Discount (SPD) fraud and 8,973 cases of Council Tax Reduction (CTR) fraud. However, this year's report also showed that the estimated loss to councils from business rate fraud decreased to £8m from £10m the previous year. Overall, business rate fraud represented only 2% of the total number of fraud cases detected or prevented in 2018/19.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/council-tax-fraud-represents-78-of-local-government-fraud>

APPENDIX B – TECHNICAL UPDATE (CONT.)

MAZARS

6. Horizon Scanning – Challenges and Opportunities in 2020

In December 2019 Mazars issued its annual Horizon Scanning document, which identifies the key topics which Councils' Internal Audit teams should be considering in preparing their Audit Plans. Most of the key challenges highlighted in the document relate to budgets being squeezed and an increasing demand for services. The report summarises the difficulties faced from financial and services pressures and other technological and demographic changes. The pressures are summarised as:

Budget cuts, diminishing reserves & financial uncertainty:

A 49.1% real-terms reduction in central government funding from 2010-11 to 2017-18, slower than forecast increases in council tax and delays in the plans for business rate retention (now planned at 75%) and delayed spending and fair funding reviews.

Changing and increasing demand pressures:

With an increasing and aging population, increased and more complex child referrals, an increase in homelessness and a growing demand for services for children with special education needs or disabilities, there have been increasing cost pressures on local authorities.

Demographic and technological changes:

Millennials now make up much of the workforce and have different values and work expectations to preceding generations, while technological changes continue at pace and bring different challenges to the workplace. The Council of the future is a digital council that is more connected and integrated.

Other cost pressures:

Increased employer national insurance contributions, the national living wage and the apprenticeship levy have all put additional cost pressures on local authorities.

The report acknowledges the pressures on Internal Audit resources and the importance of organisations having assurance over the strength of key corporate and governance arrangements (for example ethics, governance, project management, change control and financial management). The report is not widely published outside of Mazars' Internal Audit clients but has been shared with the Council's Internal Audit team and can be provided separately to the Audit Committee members if requested.

7. Mazars' response to the Brydon Review, *Mazars*, December 2019

The Brydon Review is one of four key reviews into the scope and quality of audit, including:

- Competition and Market's Authority (CMA): resilience and competition in the audit market;
- Kingman's Review (review of the Financial Reporting Council and regulatory oversight);
- The Brydon Review (tone and aspirations for the future of the industry); and
- The Redmond Review (quality of local authority financial reporting and external audit).

The Brydon Review contains various recommendations and essentially recommends a major overhaul of audit which would see the creation of a separate 'corporate auditing profession', greater focus on fraud detection during audits, and the replacement of the 'true and fair' concept, with a greater focus on going concern.

Mazars' response to the latest Brydon Review report issued in December 2019 is detailed per the link below.

<https://www.mazars.co.uk/Home/News-Events/Latest-news/Mazars-response-to-the-Brydon-report>

Link to the Brydon Review

Published in December 2019, focusing on the quality and effectiveness of audit.

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

Link to the Kingman's Review

Published in December 2018, this review recommended the replacement of the Financial Reporting Council with a new independent statutory regulator, accountable to Parliament. The new regulator will be called the Audit, Reporting and Governance Authority (ARGA).

<https://www.gov.uk/government/news/independent-review-of-the-financial-reporting-council-frc-launches-report>

Link to the Redmond Review

At the time of writing this report, the outcome from the Redmond Review has not been published (consultation closed November 2019).

<https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views>

APPENDIX B – TECHNICAL UPDATE (CONT.)

MAZARS

8. Annual Transparency Report, *Mazars*, December 2019

Mazars produces an annual transparency report, setting out the steps we take to enhance the quality of our audit work and ensure that quality is consistent across the firm. The report includes:

- Public Interest Committee Report;
- UK Governance Council Report;
- Inspiring Stakeholder Confidence in Audit Quality (including quality monitoring and audit quality indicators);
- Our risks; and
- Structure, Leadership and Governance.

Link to the latest report issued in December 2019 is set out below.

<https://www.mazars.co.uk/Home/About-us/Corporate-publications/Transparency-reports/Mazars-UK-Transparency-Report-2018-2019>

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