

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

Report to:	Audit Committee
Date:	28 September 2020
Subject:	Statement of Accounts for Lincolnshire County Council & Lincolnshire Pension Fund for the year ending 31 March 2020

Summary:

This report presents the Statement of Accounts for Lincolnshire County Council and the Lincolnshire Pension Fund for the financial year 2019/20.

Actions Required:

The Executive Director for Resources recommends that the Audit Committee:

1. Considers the Audit Completion reports (**Appendices A1 and A2**) and verbal updates of the External Auditor regarding their audit work on the draft Statement of Accounts;
2. Approves the Letters of Representation (**Appendix B1 and B2**) on behalf of the Council to enable the Audit Opinion to be issued following the report of the External Auditor; and
3. Approves the Statement of Accounts for 2019/20 (**Appendix C**) taking into consideration that further changes may still take place that will be agreed between the External Auditor and Senior Officers to enable publication by this year's statutory deadline of 30 November 2020.

1. Background

1.1 The Audit Committee was presented with the draft Statements of Accounts for 2019/20 for scrutiny and comment at its meeting on 13 July 2020. Since then the Council's external auditors, Mazars, have largely completed their audit work on the draft Statements and will present their Audit Completion reports and provide a verbal update to this Committee at its meeting on 28 September 2020.

Update of the External Auditor

1.2 The External Auditor is required to report to the Audit Committee, in its role as "those charged with governance", on the key issues identified during their audit of

the Council's financial statements for the year ending 31 March 2020, and their assessment of our arrangements to secure value for money in the use of resources, see **Appendices A1 and A2**. In summary, the External Auditor has confirmed that the audits of the County Council and the Pension Fund are substantially complete with some work outstanding relating to the normal audit completion procedures. The External Auditor has not at this stage identified any material misstatements or any non-adjusted non-material misstatements in the financial statements for the County Council or the Pension Fund which they would need to report to the Audit Committee. The External Auditor has also confirmed that they expect, based on the work completed to date, to be able to give an unqualified audit opinion on the financial statements and an unqualified Value for Money Conclusion. As was the case last year, the work required to issue the Whole of Government Accounts Auditor's Assurance Report is not yet complete as National Audit Office instructions are awaited, but it is expected that this will be completed before the end of November and the Audit Certificate will be issued when that reporting requirement has been met. The External Auditor's reports and verbal updates will provide the Audit Committee with more information on their key findings and proposed audit opinions.

Letters of Representation

1.3 **Appendices B1 and B2** set out the draft Letters of Representation, one for the County Council and the other for the Pension Fund. The Audit Committee will be updated on any changes to the final Letters of Representation at its meeting. The Letters of Representation must be approved by the Audit Committee, on behalf of the Council and the Pension Fund, signed by the Chair of the Audit Committee and the Executive Director for Resources before the audit opinion can be given. The External Auditor will provide two audit opinions: one for the Lincolnshire County Council Financial Statements and another for the Pension Fund Financial Statements.

Statement of Accounts

1.4 The Council is required to make arrangements to prepare Statements of Accounts which give a 'true and fair' view of the financial position for the County Council and for the Pension Fund as at 31 March 2020 as well as of transactions in the 2019/20 financial year.

1.5 We have prepared the accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20. The format of the statements and the detailed disclosure notes are largely prescribed in the Code of Practice.

1.6 Councillors have little discretion to influence the detail and content of the statements however Councillors do have a responsibility for corporate governance, including robust scrutiny of the Council's accounts and financial position. For this reason, the Audit Committee was presented with the draft Statements of Accounts for 2019/20 at its meeting on 13 July 2020. At this meeting, Members scrutinised and made comment on the draft accounts.

Lincolnshire Pension Fund

1.7 The accounts presented to the Audit Committee in July included the asset valuations for illiquid assets that were available to the Fund at 31 March 2020. Some of these related to earlier accounting periods (e.g. 31 December 2019) rolled forward for cash flows. This is standard valuation practice for such assets and is the approach set out in accounting standards. Over the summer 31 March 2020 valuations for these holdings have been received by the Pension Fund, and after review, have been incorporated into the Pension Fund Accounts. The total impact of these updated valuations is a £7.647m reduction in asset values.

1.8 The Fund has also reviewed the classification of its assets within the Fair Value Hierarchy and has made a number of changes to this analysis, including re-classifying Property Unit Trust holdings in March 2020 from Level 2 to Level 3 to reflect the 'material uncertainty' clause issued by the Valuers of these funds.

1.9 The above amendments have been made to the Statement of Accounts 2019/20, plus a small number of items identified by the External Auditor during their presentational review of the accounts document. Details of these changes are set out at **Appendix D**.

Lincolnshire County Council

1.10 A number of amendments have been made to the Statement of Accounts 2019/20 since they were presented to this Committee on 13 July 2020 and these changes are detailed in **Appendix D**. They have arisen either in response to matters raised by the External Auditor, or because we identified an issue requiring alteration during the course of the audit.

1.11 The valuations of pension fund assets, as set out in paragraphs 1.7 and 1.9 above, potentially impacts upon the Council's main accounts. We have requested a further actuarial valuation report, but at the time of writing this report we had not received this valuation. The revised valuation will take account of the latest pension fund asset valuations, as well as two other issues: firstly, amendments to assumptions relating to the McCloud case from last year and the government's consultation on remedy arising from the McCloud judgement, and secondly the impact of the tribunal ruling on 30 June 2020 in the Goodwin case.

1.12 If the new valuation shows that the impacts of the above issues are material in the context of the Council's accounts then further changes will be made to the accounts to reflect these impacts. It should be noted that the pension liability is long term in nature and does not represent any significant short term call on the Council's financial resources.

1.13 The Audit Committee is now asked to approve the Statement of Accounts 2019/20 as amended and detailed in **Appendix C**, with the Committee Chair consulted on any further changes resulting from the matters set out at paragraphs 1.11 and 1.12 or from the remaining audit work required to enable publication by 30 November 2020.

Audit Fees

1.14 Mazars notified us in August that there was likely to be an increase in the audit fee this year. The indicative fee set out in the Audit Strategy memorandum was £82,640, and the letter received from Mazars sets out a possible fee increase ranging from £15,750 to £31,000. Any fee increase must be approved by Public Sector Audit Appointments Limited, so the final amount of the increase cannot be confirmed at this stage. We understand that increases will apply across the sector, regardless of which audit firm is engaged.

1.15 Part of this increase, if approved, is likely to be permanent as Mazars is increasing the level of work carried out on pension schemes and on the valuations of property, plant and equipment in response to independent quality reviews. The Financial Reporting Council has proposed that all firms need to improve the quality of audit with additional levels of scrutiny and review being put in place. We expect the increase relating to these permanent changes to be between £9,000 and £17,000.

1.16 The remainder of the proposed increase relates to additional work required for this year's accounts only. These are changes in audit scope arising from Covid-19 and from the pensions matters of McCloud and Goodwin referred to above. We expect the increase relating to these one-off matters to be between £6,750 and £14,000.

1.17 We are not aware of any increases to the Pension Fund fee for 2019/20.

Independent Review into the oversight of Local Audit and the Transparency of Local Authority Financial Reporting (the Redmond Review)

1.18 The Redmond Review was published on 8 September 2020, and a link to the report is included in Section 4 below. A number of recommendations have been made and the Secretary of State for Housing, Communities and Local Government will respond to these in due course. Once we know the government's view on the findings of the review and what action it intends to take, we will report on this to the Audit Committee.

1.19 Of particular interest to this Committee will be the recommendations around local authority governance. These include: consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; an annual report being submitted to Full Council by the external auditor.

2. Conclusion

2.1 The Audit Committee will consider the two Audit Completion reports presented by the Council's external auditor, together with their verbal update;

2.2 Following consideration of the External Auditor's feedback, the Audit Committee is asked to approve the draft Letter of Representation in order for the External Auditor to then give their opinion on the accounts; and

2.3 The Audit Committee is asked to approve the Statement of Accounts for Lincolnshire County Council and the Lincolnshire Pension Fund for the financial year ended 31 March 2020, with approval for any further changes arising to be made by management in consultation with the Committee Chair to enable publication by the deadline of 30 November 2020.

3. Consultation

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

No

b) Risks and Impact Analysis

N/A

4. Appendices

These are listed below and attached at the back of the report	
Appendix A1 (To Follow)	Audit Completion Report – Lincolnshire County Council (To Follow)
Appendix A2	Audit Completion Report – Lincolnshire Pension Fund
Appendix B1	Letter of Representation – Lincolnshire County Council
Appendix B2	Letter of Representation – Lincolnshire Pension Fund
Appendix C	Lincolnshire County Council Statement of Accounts 2019/20
Appendix D	List of Amendments to Statements of Accounts 2019/20
Link to the Redmond review	https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review

5. 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.

This page is intentionally left blank